Western Cape

Growth for Jobs Strategy

2035

Table of Contents

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Acronyms

4IR	Fourth Industrial Revolution
ACSA	Airports Company South Africa
AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
AI	Artificial Intelligence
AIMS	Asset Information Management Systems
BANI	Brittle, Anxious, Non-Linear, Incomprehensible
BER	Bureau for Economic Research
BERD	Business Enterprise Expenditure on R&D
BPO	Business Process Outsourcing
CA	Cognitive Automation
CAGR	Compound Annual Growth Rate
CBA	Carbon Border Adjustment
CCMA	Commission for Conciliation, Mediation and Arbitration
CHEC	Cape Higher Education Consortium
COMESA	Common Market for Eastern and Southern Africa
CSIR	Council for Scientific and Industrial Research
CTIA	Cape Town International Airport
CV	Curriculum Vitae
DFI	Direct Foreign Investment
DoM	Department of Mobility
E^3	Employability Entrepreneurship Education
EAC	East African Community
EAF	Energy Availability Factor
ECD	Early Childhood Development
EI	Economic Intelligence
EIU	Economist Intelligence Unit
EoDB	Ease of Doing Business
FTA	Free Trade Agreement
GERD	Gross Expenditure on Research and Development
FDI	Foreign Direct Investment
G4J	Growth for Jobs
GDA	Growth Diagnostic Analysis
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GFCF	Gross Fixed Capital Formation
GH2	Green Hydrogen
GIAMA	Government Immovable Asset Management Act
GII	Global Innovation Index

GIS	Geographic Information System
GPS	Growth Potential Research Study
GVA	Gross Value Added
HSRC	Human Sciences Research Council
ICT	Information and Communication Technology
IHS	Information Handling Services
IIO	Investment and Infrastructure Office
IPA	Investment Promotion Agencies
IPP	Independent Power Producer
IRC2022	African Infrastructure Report Card 2022
IRP	Integrated Resource Plan
JET IP	Just Energy Transition Investment Plan
KPMG	Klynveld Peat Marwick Goerdeler
KZN	KwaZulu-Natal
MBRCGI	Mohammed Bin Rashid Centre for Government Innovation
MER	Municipal Energy Resilience
MFMA	Municipal Finance Management Act
MFP	Multi-Factor Productivity
MTEF	Medium Term Expenditure Framework
NDP	National Development Plan
NECI	National Entrepreneurship Context Index
NEETs	Not in Education, Employment or Training
NGOs	Non-Governmental Organisation
NIP	National Infrastructure Plan
NPA	National Prosecuting Authority
OECD	Organization for Economic Cooperation and Development
OPSI	Observatory for Public Sector Innovation
PDIA	Problem Driven Iterative Adaption
PERO	Provincial Economic Review and Outlook
PFA	Priority Focus Area
PFMA	Public Finance Management Act
PICC	Presidential Infrastructure Coordinating Commission
PPP	Public-Private Partnership
PRASA	Passenger Rail Agency of South Africa
PSDF	Provincial Spatial Development Framework
QLFS	Quarterly Labour Force Survey
RTMC	Road Traffic Management Corporation
SADC	Southern Africa Development Community
SAICE	South African Institute of Civil Engineers
SANRAL	South African National Roads Agency SOC Ltd
SASRIA	South African Special Risk Insurance Association
SAT	South African Tourism
SCM	Supply Chain Management
SETA	Sector Education and Training Authority
SIDAFF	Sustainable Infrastructure Development and Finance Facility

SMMEs	Small Medium Micro-Enterprise
SOEs	State-Owned Enterprises
TCO	Total Cost of Ownership
TFDS	Total Foreign Direct Spend
TFP	Total Factor Productivity
THRIP	Technology and Human Resources for Industry Programme
TWH	Terawatt Hours
TOC	Theory of Change
TVET	Technical and Vocational Education and Training
UAE	United Arab Emirates
UK	United Kingdom
USA	United States of America
WCG	Western Cape Government
WCIDAWRP	Western Cape Integrated Drought and Water Response Plan
WCWS	Western Cape Water System
WEF	World Economic Forum
WSA	Water Service Authority

Foreword

If you are reading this now, I would like you to close your eyes, and picture where you will be in 2035. What state will our country and province be in? What will be happening in our economy? Will we have enough jobs for future generations? Will there be hope? I am sure this exercise will cause you some anxiety, given the challenging times we face today.

Now imagine a 2035 where our economy is growing at between 4% and 6%. Where we are creating hundreds of thousands of new jobs, lifting people out of poverty. Where businesses, big, small, and informal, have the energy, water, infrastructure, skills and technology to grow and succeed. Where a child, no matter where they are born, has the pathway to a better life.

I am sure what you are now feeling is hope. The sort of contagious hope that cannot be contained.

This is the future we want for the Western Cape, and for South Africa. This is the better future we want to build.

During this time of difficulty for our country, with stagnant growth, devastating load-shedding, the real prospect of recession, and high levels of unemployment and despair, the question can be fairly asked: is it realistic for the Western Cape to be setting out so audaciously to achieve 4% to 6% of break-out economic growth?

The real question, I believe, is rather why South Africa is not already achieving this growth? We have everything we need to succeed as a country, if we just get the fundamentals of growth right. What is clear to me today is that we will never achieve it, if we are limited in our ambition, constrained by the wrong policies, and lack the courage to adapt, reform and make the right choices.

Change requires a vision, and it requires action towards it – so, yes, we can realise a better future for our country, and we must work toward it with determination.

The Growth for Jobs Strategy is the Western Cape's bold step towards realising this better future. We know what the Western Cape, and South Africa is capable of, if we enable the private sector's success.

And so, this Strategy provides a courageous vision for our province, with clear targets for each key focus area that our economy needs to succeed. To be clear, this is not just a vision for our government. The targets are not ours alone. They are yours too: business, big and small, civil society, entrepreneurs, and every citizen in our province. This is what we can achieve if we work together and make the right choices, now, today.

I am reminded of President Nelson Mandela's wise words, which continue to hold so much truth today: "It seems impossible, until it is done". Let's get it done, so that a prosperous 2035 is not an imagination, but a new, real era of hope, opportunity and freedom.

Sincerely,
Mireille Wenger
Minister of Finance and Economic Opportunities

chapter

1

Executive Summary

Chapter 1: Executive Summary

1. Introduction

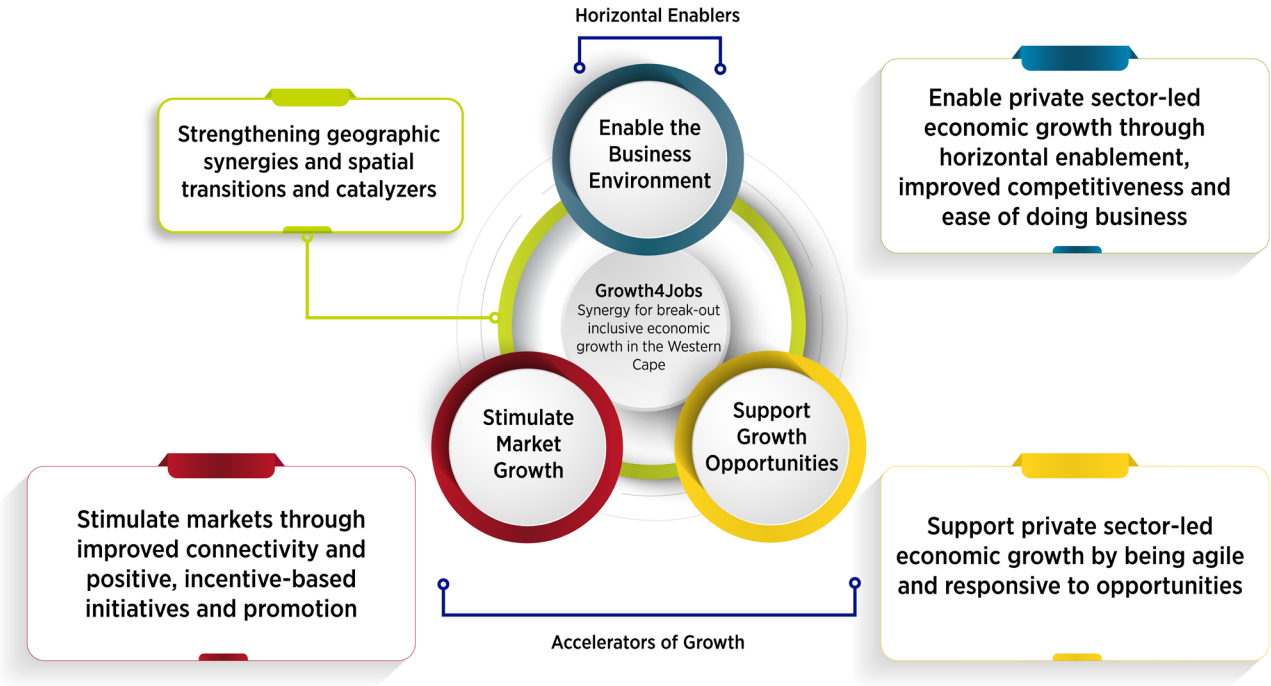
1.1 The context

The Western Cape confronts a range of deep, interconnected, mutually reinforcing socio-economic challenges that are in part driven by low gross domestic product (GDP) growth and high levels of unemployment. While there is no panacea for these deeply rooted challenges, which include poverty and crime, there is also no prospect of improving the future of the province's citizens without faster economic growth and employment. **Only economic growth can create opportunities at scale and uplift the material wellbeing of households.**

The critical outcome of the Growth Diagnostic that informed this strategy was that, while the Western Cape has the potential to grow more quickly, its growth is currently weighed down by risks and constraints driven by national factors. Therefore, the Western Cape's growth trajectory has to break loose from the historical trend of tracking national economy growth rates.

At its heart, the Growth for Jobs Strategy is premised on a recognition that **the private sector creates jobs**, and that the State needs to stimulate market growth and create an enabling environment in which people and businesses are enabled to create and exploit opportunities.

Figure 1.1: Key pillars of the Growth for Jobs Strategic Framework



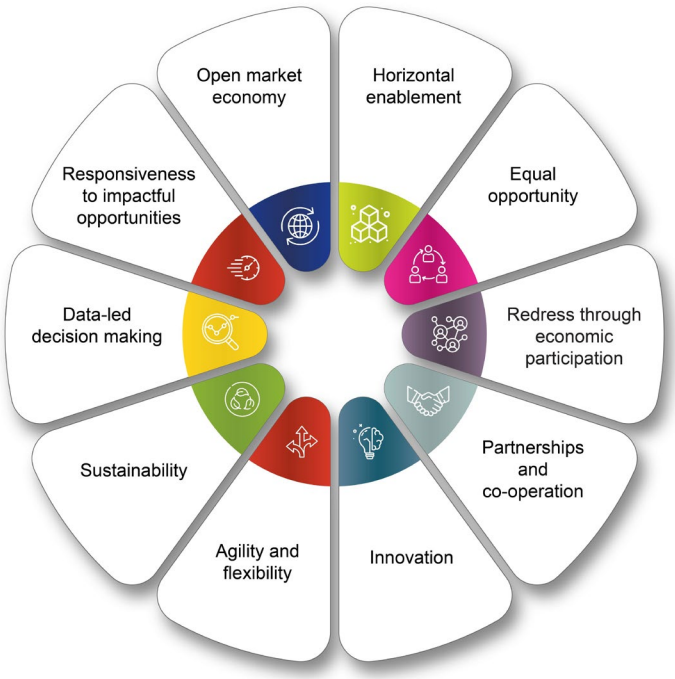
The Growth for Jobs Strategy is not the work of any one department. It is an all-of-government, all-of-society strategy whose success requires the energy, commitment and allocation of resources from across government, the private sector and civil society. It will also require a new mindset within the provincial government and a rethink of how government works. This is a challenge that must be embraced if the Western Cape is to flourish.

1.2 Strategic principles

The Growth for Jobs Strategy's **primary set of principles** govern the substantive content of the strategy and are reflected in ten statements (see Figure 1.2).

Figure 1.2: Principles underpinning the Growth for Jobs Strategic Framework.

The Growth for Jobs Strategic Framework supports economic growth for job creation that favours…



i. **An open-market economy.** An open-market economy makes possible an open-opportunity society for all. In embracing and supporting an open-market economy, positive interventions aimed at improving competitiveness and productivity will be deployed to enable businesses to grow and create jobs.

ii. **Horizontal enablement.** Government is an enabler of the economy, creating a conducive, enabling environment supportive of private-sector growth and providing support in the realisation of private-sector-led opportunities that ultimately generate jobs.

iii. **Equal opportunity.** A state that facilitates economic opportunity for citizens and expands choice and the independence of its residents without limiting individual freedom.

iv. **Redress through active economic participation.** Redress is achieved by pulling more people into the economy, stimulating competition, improving skills and productivity, raising investment, reducing poverty, increasing employment and broadening the tax base. There is also a specific need to invest in the economic empowerment of women and youth. Private-sector involvement includes entrepreneurs; small, medium and micro enterprises (SMMEs); and the informal and township economies.

v. **Partnerships and cooperation.** Strategic partnerships and cooperation with other spheres of government and the private sector to increase the speed and scale of change.

vi. **Innovation.** Embracing new ideas and pushing the boundaries of the Western Cape's constitutional mandate to enable private-sector-led economic growth and job creation in tourism, trade and industrial policy.

vii. **Agility and flexibility.** Government needs to be agile and responsive in pursuit of break-out growth. Support to identified opportunities and nascent industries needs to be time-bound with clear criteria for continued funding.

viii. **Sustainability.** Growth must be uncoupled from wasteful resource usage and fossil fuel dependency so that it can be sustainable over the long term and can meet present needs without further compromising the future. With our natural assets safeguarded, our economy and society will be shielded from the impacts of resource deterioration, climate change and other shocks, while our competitiveness and resilience will be enhanced.

ix. **Data-led decision-making.** Sound decision-making requires a data management and reporting capability that pulls together and utilises the excellent − if underutilised − data that the province already has. Establishing strong and agile economic and spatial data, analytical capabilities and intelligence is imperative.

x. **Responsiveness to impactful opportunities**. Government should be responsive to all private-sector-led opportunities, while being selective about which support levers are deployed based on the extent of private-sector involvement and participation, and evidence of the potential of the opportunity.

1.3 Vision and goal

Vision: **A provincial economy that achieves break-out economic growth,** resulting in sufficient employment and opportunity and an economy that is sustainable, resilient, diverse and thriving – generating confidence, hope and prosperity for all.

Goal: By 2035, the Western Cape will be a R1-trillion inclusive economy in real terms and growing at between 4% and 6% per annum.[1] This will be achieved through enabling a competitive business environment in which growth is driven through businesses exploiting opportunities.

1.4 Priority focus areas, levers and enablers

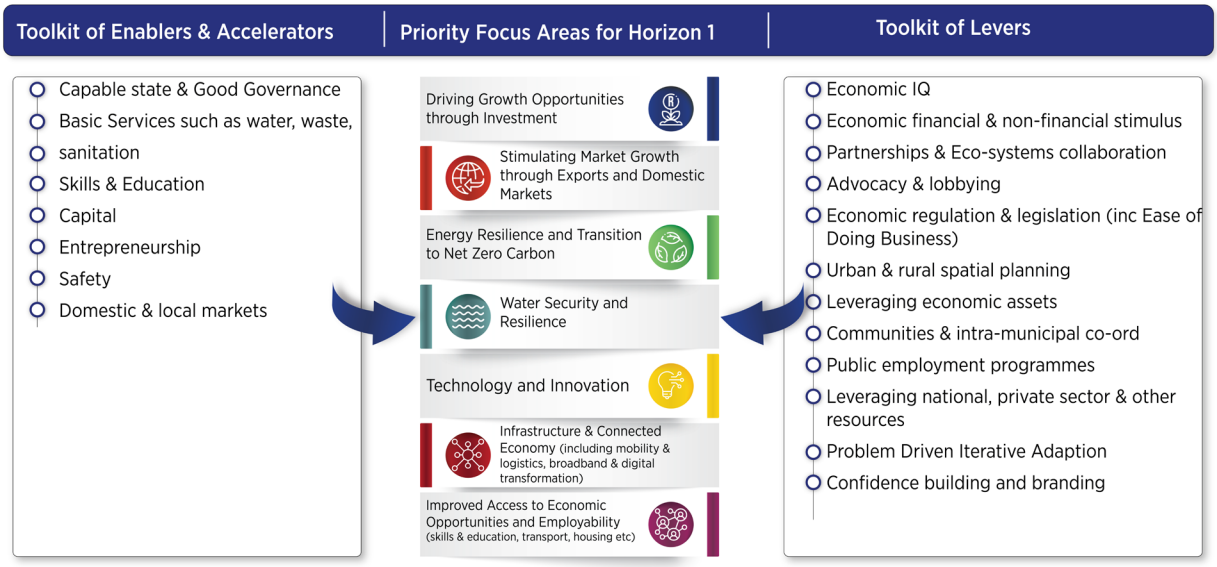
The vision will be achieved through concentrating on areas of the economy that are essential for growth. The Growth for Jobs Strategy has identified seven priority focus areas (PFAs) for its first horizon.

[1] In constant 2015 prices. Historically **a 1% increase in GDP has on raised employment by 0.6% in South Africa.** While it is uncertain if that ratio can be sustained over 12 years, even a conservative estimate is that achieving the R1 trillion target by 2035 will conservatively create over 600 000 new jobs.

Figure 1.3: Priority focus areas (up to 2026)

The Growth for Jobs Strategy has identified sets of enablers and accelerators and a suite of policy levers – or toolkits – to support economic growth through creating an enabling environment for all businesses and encouraging private-sector investment and market expansion (Figure 1.4).

Figure 1.4: Toolkits of enablers, accelerators and levers



Enabling conditions provide the foundation for economic growth. The policy interventions identified in this strategy are far more likely to achieve their goals when the fundamental preconditions for economic growth are in place.

2. Strategy

Through a process of analysis and engagement, seven **PFAs** for the Strategy have been identified, alongside targets and key actions.

PFA 1: Driving growth opportunities through investment

Investment raises domestic expenditure through contributing towards capital goods demand. It expands production capacity, improves competitiveness and productivity, and can introduce innovations and new technology. For this reason, the Growth for Jobs Strategy regards investment by foreign, trans-provincial and local businesses as a fundamental indicator of success.

Objective statement: The Western Cape is the investment destination of choice for local and international investors in a range of growth opportunities, providing an enabled environment and strong networks of ecosystems.

Goal statement: Private-sector investment will be 20% of regional GDP (translating to R200-billion) by 2035.

Opportunity statements:

- A cohesive investment support ecosystem in the Western Cape that attracts a pipeline of investment opportunities and has a high realisation rate.
- A strong and positive domestic and international brand that builds on existing and unique strengths such as rooibos and indigenous products, and capitalises on new growth opportunities such as financial services (fintech) and cannabis processing.
- A robust and wide network of overseas and local advocates and ambassadors who know the Western Cape's value proposition and help attract investment.
- A high degree of confidence among investors and businesses in the Western Cape and the Western Cape Government.
- Constraints to investment and specific opportunities are addressed by provincial and local government and where government assets and levers are used to provide competitive investment incentives and support.
- Strong partnerships between government and businesses allow for challenges to be addressed and opportunities to be pursued, with high degrees of trust among stakeholders.
- Domestic and foreign investment helps diversify the economy, increases inclusion, and facilitates spatial transformation and social cohesion, including investment in labour-intensive industries and townships.
- All necessary information is available and accessible to support sound investment decision-making, and where all investment (foreign and domestic) is tracked.
- An enabling ease-of-doing-business environment exists for South African and foreign investors where they can invest with certainty and assurance.
- Energy supply and distribution plans to build energy security unlock investment opportunities and providing assurances to investors.
- Environmental, social and governance (ESG) investors are attracted to the Western Cape and investors are assisted to improve their ESG portfolio through demonstrated commitment to low carbon, climate-resilient economic activity.

PFA 2: Stimulating market growth through exports and domestic markets

Exports play a significant role in economic growth, especially when they open new markets and opportunities that allow producers to diversify their customer base and increase sales. Exporting also increases know-how and makes economies of scale possible, which all help to raise productivity. Foreign direct investment (FDI) is an important mechanism for driving export

growth, enhancing knowledge and technology transfer opportunities and whilst embedding the Western Cape products and services into global supply chains.

However, the province must not lose sight of the fact that exports include services as well as goods. Tourism is the most obvious service export but there are other outward-bound trade opportunities that provide compelling grow prospecst for the province. These include professional and consulting expertise, business services and the creative and cultural industries, that also provide compelling growth prospects for the province.

Objective statement: The Western Cape, with a strong domestic market capability, is a leading global export region in a diversified basket of goods and services and a sought-after tourism destination known for its quality, reliability and cost-effective goods and service offerings.

Goal statement: The value of Western Cape exports of goods and services (inclusive of tourism) will triple by 2035.

Opportunity statements:

- Infrastructure and the enabling environment in the Western Cape are competitive, efficient, cost-effective and sustainable.
- Improved market access, lower trade barriers, and Western Cape interests are accommodated in national trade policies, agreements and incentives.
- Exporters have the necessary knowledge, capabilities, skills and support tools to export successfully.
- Vibrant and broad exporter ecosystems share intelligence and contacts and collectively address problems and opportunities.
- The Western Cape has an engaging brand, positive sentiment, a good reputation and strong sector brands and capabilities through which the province is seen as a desirable source of quality, reliable and cost-effective goods and services.
- Strong networks and support in targeted countries, including Africa, drive new exports and opportunities.
- Diversification of Western Cape exports and services allows for a wider range of specialisation and scaling of goods and services that input into a range of vertical sectors.

PFA 3: Energy resilience and transition to net zero carbon

South Africa is experiencing a deepening energy crisis caused by a 6 GW shortfall in electricity production, which had a serve impact on economic activity and employment levels. In addition, South Africa is one of the world's most carbon intensive economies, with dire implications for the climate, the environment and the economy. The increasing use of carbon border adjustment (CBA) mechanisms will reduce the competitiveness of exports from the Western Cape and the province's ability to attract investment. Therefore, all developmental choices must actively contribute to achieving the goal of net zero carbon (greenhouse gas emissions) by 2050.

The Western Cape has been a beneficiary of foreign direct investment in renewable energy projects but requires new capabilities in the project preparation, scaling and implementation to allow municipalities and the private sector to generate and procure clean energy. Therefore, one of the Western Cape's most important strategic goals is energy sustainability as a product of energy security, energy affordability and low-carbon energy.

Objective statement: Energy is low carbon, reliable, competitive, accessible, enabled supplied at scale, and meets the energy-efficient demands of the economy, using data, analytical tools and new models of delivery and contributing towards net zero carbon targets.

Goal: Reduce reliance of energy from Eskom of between 1 800 – 5 700 MW by 2035, estimated to attract between R21.6-billion and R68.4-billion in related investment.

Opportunity statements:

- The Western Cape has a clear energy plan that provides certainty and assurance to the private sector.
- The Western Cape has enabled the generation, procurement and trading of low-carbon energy by municipalities, the private sector and households.
- The Western Cape has a localised energy network, with supporting grid infrastructure.
- Abundant, reliable, low-carbon energy is available to meet the needs of the growing Western Cape economy.
- Businesses, citizens and government have adopted world-class energy-efficient production processes and operations and reduced the carbon intensity of their energy consumption.
- The province has a strong and well-informed energy ecosystem with international linkages to low carbon export products and services.
- The Western Cape has an export-ready green hydrogen hub in Saldanha Bay complimented by renewable energy value-chain manufacturing in Atlantis.

PFA 4: Water security and resilience

As populations and economies grow, the need for water increases. Indeed, given the importance of water to all production processes, constraints in water provision translate directly into slower economic growth and reduced economic opportunity. The Western Cape's experience with severe drought illustrated the impact that poor water security has on citizens and the economy. The key challenges facing the province are the distribution, management, and availability of water, with climate change deepening these challenges.

In the face of climate change, it is necessary to build a more resilient economy, which includes being more water secure (everyone has safe, affordable, clean water to live a healthy and productive life) and being water resilient (the ability of water systems to withstand a variety of water-related shocks without losing their ability to support key functions).

Objective statement: The province will have optimised and increased its water supply, integrated the management of water resources, and enhanced the adaptive capacity of business and citizens with respect to water usage to improve resilience, competitiveness, and quality of life for all its people, so that it has a sufficient water supply to achieve its economic growth aspirations.

Goal statement: Double the amount of water available for secondary and tertiary economic sectors (primarily from non-productive use) by 2035 and honour existing allocations to agriculture.

Opportunity statements:

- Economic water security and resilience are secured and give businesses confidence.
- Western Cape industries are efficient and waterwise with reliable, de-risked local supply chains.
- Western Cape companies and sectors uphold best practice water efficiency benchmarks.
- Water assurances mean that the Western Cape can expand and diversify sectors, such as agriculture, agri-processing and light manufacturing industries.
- People have ready access to clean, potable water resulting in improved productivity and quality of life.
- Investment in ecological infrastructure enables water release for productive use.
- The Western Cape has a thriving water technology sector with demonstrable proof of success and the potential to export innovative water solutions to other countries.
- The Western Cape develops and implements best practice, sustainable, innovative municipal business models with respect to water and water management.
- Investment is provided to meet future water demand, as well as for water efficiency, conservation, and environmental infrastructure.

PFA 5: Technology and innovation

Innovation and technology are interrelated in that technology embodies innovation, facilitating both its proliferation and continued innovation. This, in turn, drives improvements in productivity and increases economic output, reinforcing the critical role of research and development (R&D) in economic growth. The economic benefits from technology and innovation arise from the presence and growth of technologically and innovatively driven firms; the role of these firms in raising levels of productivity in other firms; economy-wide productivity gains obtained through resource efficiency; and and cooperation with universities, technical colleges, etc. to commercialise R&D and spur new economic activity. The strengths and depth of these processes are crucial for a region's competitiveness.

Compared to its peers, South Africa underperforms on a range of indicators relating to innovation and technological adoption, including the level of R&D spending as a percentage of GDP (which is about half the global average of 1.7%). Thus, a focus on technology and innovation is critical if the province is going to meet its growth goals.

Objective statement: The Western Cape is the tech, start-up and venture capital and innovation and design capital of Africa, through robust business, government and community innovation (supported by academia), with strong technology ecosystems and centres of excellence in a range of industries and opportunities, with a supportive enabling environment and where the adoption of appropriate technology and accessible innovation leads to an improvement in the Global Innovation Index and the productivity and competitiveness of the regional economy.

Goal statement: By 2035, research and development expenditure will increase by 300% in real terms, reaching R35-billion and venture capital deals will total R20-billion.

Opportunity statements:

- A digitally transformed and enabled Western Cape that creates jobs and economic value through establishing and developing digital businesses (from start-ups to corporates) and improved public sector efficiency.
- A strengthened technology and innovation ecosystem that significantly contributes to a strong virtuous cycle of growth.
- The right technology skills, which are available in the right place at the right time, coupled with the appropriate digital and hybrid infrastructure, enable enterprises to take advantage of the Western Cape's world-class financial infrastructure to invest and locate their technology and commercial businesses.
- The sustained emergence of a wide range of research-based innovation results in an extensive, diverse pipeline of commercialised opportunities that attracts a strong venture-capital base.
- Government becomes a catalyst for innovations in the province, helping to drive uptake through its embrace of innovative private-sector solutions to service delivery.
- Networks of local innovation hubs, ecosystems and centres of excellence have international standing and reputations, and attract foreign talent and financing.
- The private sector has an energised culture of R&D, innovation and technology adaptation, supported by an enabling environment.
- Citizens have positive feedback options to government through innovation/digital mechanisms, creating a positive experience for the citizen and providing immediate feedback to government on the effectiveness of its service delivery.

PFA 6: Infrastructure and connected economy

Economic growth requires economic infrastructure (i.e., infrastructure that supports productive activities) and social infrastructure (i.e., infrastructure that enables the functionality of communities). While all infrastructure is prioritised, particular attention is needed on infrastructure for connectivity which includes both the movement of goods and people and digital connectivity.

Cost-effective domestic and international **logistics** are a prerequisite of regional competitiveness and necessitates both hard infrastructure as well as a range of services that facilitate the efficient transportation of goods. The importance of this is underpinned by the fact that the Western Cape is far from many strategically important markets, and without the enabling infrastructure and systems, the region will struggle to meet the Growth for Jobs vision.

Improved mobility, through improving the public transport system and locating economic activities closer to where people live, raises total factor productivity (TFP). Currently, just 44% of workers use public transport and large numbers of people have commutes that are longer than an hour. Well-located, densifed and mixed-use housing plays a catalytic role, moderating housing costs (thereby easing upward pressures on wages), creating employment and stimulating commercial opportunities.

Cost-effective domestic and international logistics are a prerequisite of regional competitiveness and require hard infrastructure, as well as a range of services that facilitate the efficient transportation of goods. Its importance is underpinned by the fact that the Western Cape is far from many strategically important markets.

Safe, cost-effective and dependable **broadband** (with protection from viruses and hackers), **accompanied by digital transformation** is vital for both citizens and business. According to the World Bank, a 10% increase in broadband penetration results in a 1.3% increase in GDP by improving access to information, opportunities and markets. Access to broadband is constrained in South Africa by the high costs of data[2] and devices, an uneven geographic spread of broadband connectivity, as well as poor digital literacy. As a result, only one in five Western Cape households have access to internet in the home.[3]

The key strategic issue for the Growth for Jobs Strategy is how best to use infrastructure provision to promote economic growth and to ensure maximum impact on the quality of life in the Western Cape (including through the role that infrastructure provision and maintenance provides in creating jobs, transferring skills, empowering communities, etc.). In this regard there is compelling evidence about the catalytic role that well-located, densified, and mixed-use housing plays, including the moderation of housing costs (and therefore the easing of upward pressures on wages), whilst also creating employment and stimulating commercial opportunities.

Objective statement: To coordinate, prioritise, plan and implement the timeous delivery of relevant and smart infrastructural solutions (physical, digital and hybrid) to support break-out economic growth and a connected economy, providing flexible, resilient infrastructure that intelligently connects spaces, places, and people, transforms lives and delivers sustainable value to the economy and ecology of the Western Cape.

Goal statement: By 2035, the Western Cape economy will have the infrastructure required to support and enable a R1-trillion economy and public sector capital investment in the Western Cape will be 10% of regional GDP.

Opportunity statements:

- Intelligent, resilient infrastructure solutions contribute to accelerated, break-out economic growth, connecting people, communities, and businesses to opportunities.
- 'Futureproofed' infrastructure and total cost of ownership considerations are part of the solution/design approach and ecological, social and governance (ESG) opportunities are utilised to maximise project benefits.
- Relevant infrastructure solutions (physical, digital and hybrid) are coordinated, prioritised, innovated and planned for timeous delivery to support the achievement of break-out economic growth and a connected economy.
- Officials are enabled to be innovative, supportive and responsive to economic opportunities.
- Ease of doing business is embodied in the approach of officials with respect to infrastructure investment for the private sector.
- A collaborative ecosystem of infrastructure stakeholders is established and strengthened that identifies infrastructure challenges and opportunities, and works together to ensure that they are addressed timeously, efficiently and cost-effectively. This will be inclusive of collaboratively identifying and championing catalytic infrastructure solutions that will contribute to sustained economic growth and job creation.
- The transformative power of digital and hybrid infrastructure is harnessed to deliver greater value to inhabitants and the economy whilst simultaneously decreasing cost.

[2] Chinembiri, T. 2020. Research ICT Africa: Policy Brief No 2.
[3] Stats SA. 2020. General Household Survey.

- Government spending on infrastructure is used as a stimulus to encourage spatial transformation and broader ecosystem investment, benefitting the economy and communities accordingly.
- The competitiveness of the economy and its associated sectors is improved through targeted infrastructure investment and ease-of-doing-business response for development, identifying and delivering catalytic infrastructure that will contribute to the development of the economy.
- Current government assets (land, etc.) are identified and used as infrastructure catalysts for economic and/or social change.
- New freight corridors (intermodal logistics hubs) are developed that enable goods to move seamlessly and quickly to their destinations with minimal delays, in the process contributing to spatial transformation in the province. A portfolio of ports (sea, air and inland) is developed, serving the economy that have the necessary efficiency, focus and capacity to deliver goods to their destinations quickly and efficiently.
- Circular infrastructure is advanced, enabling circular economy activity (e.g., re-use, recycle or recover waste), and minimising the amount of material used across the infrastructure lifecycle or value chain.
- Infrastructure asset management is viewed as an important opportunity to improve the capacity of local and provincial government to systematically manage assets over entire lifecycles and within a broader asset portfolio.

PFA 7: Improved access to economic opportunities and employability

South Africa is one of the most unequal societies in the world, with a legacy of apartheid that is continuously reinforced by inherited settlement patterns which mean that communities do not live near their place of work, imposing time, distance, and cost burdens on low-income households. These burdens reduce access to economic opportunities and lower growth, which is a consequence of reduced human capital accumulation and greater macroeconomic instability. The greatess factor driving unemployment and underdevelopment is the human capability of citizens.

Disempowerment and social inequities also continue to disproportionately limit the economic participation and productivity of vulnerable groups such as women and youth, and contributes to gender-based violence prevalence.

Prioritising access to opportunities (including for employment and self-employment) and improving employability (individuals' knowledge, skills, experience and attitudes, as well as their personal circumstances, location and labour market environment) creates pathways for greater economic participation and inclusion. Apart from increased output due to increased employment, widening economic inclusion also boosts aggregate demand. This dampens the growth-inhibiting effects of inequality and improves productivity. The implication is that upskilling is critical to inclusive growth, with opportunities arising from the unmet demand in a range of skilled jobs, especially in the digital economy. In addition, a focus on supporting informal and township economies will increase economic participation and reduce unemployment.

Objective statement: A thriving society where capable, economically active citizens are able to access economic opportunities and employment, including the skills of the future, and where barriers to accessing information, to developing competencies and skills, and to finding work, have been reduced or removed.

Goal statement: All citizens who want to be economically active have improved access to economic opportunities and employability through at least one pathway, with pathways comprising improved employability assets (knowledge, skills, experience, and/or competencies), career management skills, workplace-ready capabilities and skills, economic opportunities more accessible to communities, and entrepreneurship.

Opportunity statements:

- Youth and the unemployed can make informed choices about their careers and future and are enabled to pursue their career pathways.
- Citizens have easier access to economic opportunities and pathways nearer to the places that they live.
- A strong pipeline of suitably qualified people who are employment-ready, able to access available jobs and be absorbed rapidly and sustainably into employment.
- Western Cape school leavers/graduates have a reputation for technical expertise coupled with innovation/creativity/problem-solving and collaboration skills and are highly sought after by employers.
- Entrepreneurship is considered a viable choice as an economic opportunity and citizens starting up a business – whether formal or informal – have access to the necessary support and enabling environment.
- Changing the view of township economies from latent informal business to potential value chain business or suppliers in specific sectors would open opportunities for township-based entrepreneurs to participate more favourably in industry value chains.
- Townships are vibrant and dynamic economic places contributing to and benefitting from break-out economic growth.

3. Implementation

At its core, the Growth for Jobs Strategy sets out a bold vision for the province, where in 2035, the Western Cape has a R1-trillion economy. To reach this vision, the Growth for Jobs Strategy is rooted in the understanding that government's role is not to create jobs but rather to deliver an enabling environment for entrepreneurs, business people and citizens to succeed. Therefore, the bedrock of the Growth for Jobs Strategy and its seven PFAs is the enablement of private-sector-led economic growth, through creating a conducive business environment and overcoming binding constraints.

To this end, each of the seven Priority Focus Areas have set ambitious objective and goal statements and identified packages of interventions required to achieve success. With the Growth for Jobs Strategy identifying and recommending a range of interventions for implementation, it is acknowledged that it will not be possible to implement all these activities immediately. Through a process of engagement within the Economic Cluster of the Western Cape Government, these interventions will be further refined and categorised according to the different time horizons for applicable sequencing and operationalisation and will, as appropriate, form the core of the Growth for Jobs implementation plan.

The implementation plan will see the spatial application of the Western Cape Growth for Jobs Strategy, consolidating investment, both to improve the places where people are living and to capitalise on spatially and economically vibrant growth points; clustering investment and government activities, including more affordable opportunities for people to live in these areas; and connecting places through better linkages between areas.

chapter

2

Introduction

Chapter 2: Introduction

Like the rest of South Africa, the Western Cape confronts a range of deep, interconnected, mutually reinforcing socio-economic challenges that include unemployment, poverty and crime. While there is no panacea for these challenges, which have deep roots in the country's history and social structure, there is also no prospect of addressing any of them without faster economic growth. Only economic growth can generate rapid and sustained job creation, faster growth in living standards and increased resources available to society.

Given South Africa's declining growth rates and rising unemployment, the Western Cape Government identified the need for a strategy to lift dramatically the provincial growth rate and, to the extent that growth continues to falter in South Africa at large, to decouple the province's growth trajectory from that of the rest of the country.

Therefore, this Growth for Jobs Strategy sets out a comprehensive, challenging and ambitious goal for the Western Cape to grow its economy by between **4 and 6%** by 2035. It is inspired by a vision of achieving an economy that is sustainable, diverse and thriving, and generating confidence, hope and prosperity for all.

It is also a strategy that clarifies that **how** we grow our economy is as important as the growth itself. In this way, the Growth for Jobs Strategy distinguishes itself from previous strategies, by providing a long-term perspective with clear targets, framed within defined principles. It is centred on systemic solutions that address key binding constraints and an enabling environment for the private sector that accelerates our economic growth.

The formulation of the Growth for Jobs Strategy has been data-driven, evidence-led and has involved extensive consultation. It draws on a provincial Growth Diagnostic completed in 2022 and involved a team of officials and independent experts who engaged with stakeholders from the private and public sectors, and representatives from across civil society and academia.

The Growth for Jobs Strategy process has taken cognisance of three surveys that were conducted and disseminated through private-sector organisations, civil society and academia, drawing in the views of over 540 stakeholders. Furthermore, during the strategy formulation process, the Western Cape Government reached **1522** additional people over the course of **160** engagements.

The 2022 Growth Diagnostic found that the Western Cape has the potential to grow more quickly, although its growth is currently weighed down by risks and uncertainties driven by national and macroeconomic factors. Therefore, an important priority for the province is to decouple from adverse national trends, leading to faster and more resilient provincial growth. The Growth Diagnostic also highlighted the need to pay attention to the fundamental processes that affect the accumulation of factors of production – especially physical and human capital that can benefit the whole economy of the province – and to address policies (and policy uncertainty) that reduce economic efficiency and stifle growth.

At its heart, the Growth for Jobs Strategy is premised on a recognition that the private sector creates jobs, while the State needs to create an environment in which people and businesses are enabled to create and exploit opportunities as they arise. This kind of 'horizontal' enablement empowers citizens and fosters independence, freedom, and self-reliance.

To give effect to this approach, the Growth for Jobs Strategy has several important anchors:

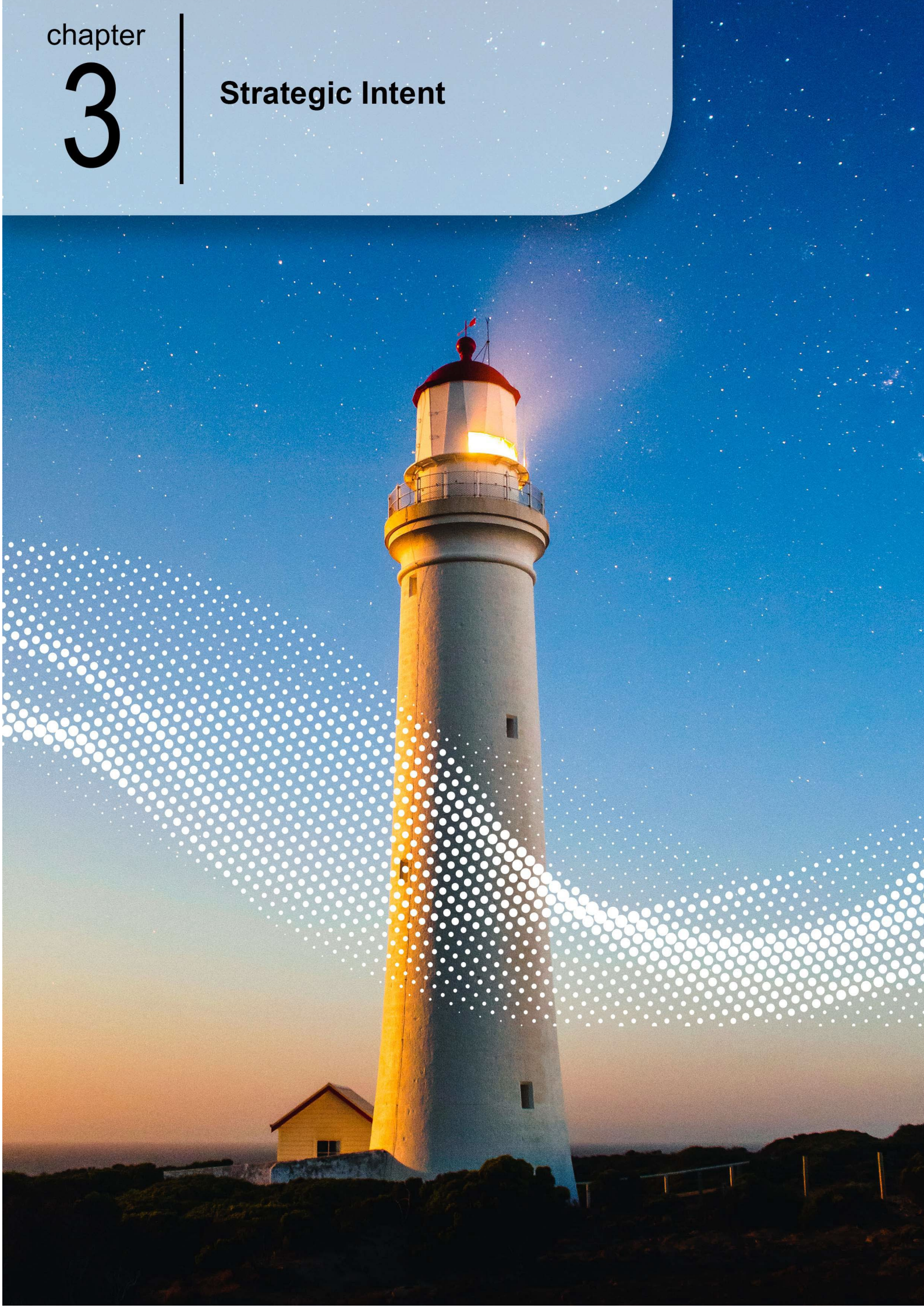
- Clear **principles** set out in a strategic framework that have guided thinking and decisions.
- Crucial **priority focus areas** (PFAs) that shape decisions around the nature of the interventions needed to maximise impact.
- **Key levers, enablers and accelerators** that facilitate the achievement of these goals.

Finally, the Growth for Jobs Strategy is not the work of any one department. It is an whole-of-government, all-of-society strategy whose success requires the energy, commitment and allocation of resources from across government, the private sector and civil society. It will also require a new mindset within the provincial government and a rethink of how government works. This approach must be embraced - for our citizens and for our economy.

chapter

3

Strategic Intent



Chapter 3: Strategic Intent

The Western Cape Government's Growth for Jobs Strategic Framework sets ambitious goals for growth, the pursuit of which will require reconfiguring the way in which government pursues and implements its policies. Given that the Growth for Jobs Strategy departs from the normally sectoral nature of prior growth strategies, a clear statement of the strategy's goals and intentions is needed to ensure strategic and operational coherence. This section summarises the Growth for Jobs Strategy's strategic intent (further details can be found in the Strategic Framework document).

1. Strategic principles

Guiding principles function as beacons that inform strategic and operational decisions because no strategy or strategic framework can provide a precise guide to every decision. The guiding principles underpin what should be included and excluded from the strategy and enable decision-makers to make choices informed by an understanding of broader goals and values.

The Growth for Jobs Strategy's **primary set of principles** govern the substantive content of the strategy and are reflected in ten statements (see Figure 3.1).

i. **An open market economy.** An open market economy, rather than a developmental state, makes possible an open opportunity society for all. In embracing and supporting an open-market economy, positive interventions aimed at improving competitiveness and productivity will be deployed to enable businesses to grow and create jobs.

ii. **Horizontal enablement.** Government is an enabler of the economy, creating a conducive, enabling environment supportive of private-sector growth and providing support in the realisation of private-sector-led opportunities that ultimately generate jobs.

iii. **Equality of opportunity.** A state that facilitates economic opportunity for citizens and expands choice and the independence of its residents without limiting individual freedom.

iv. **Redress through active economic participation.** Redress is achieved by pulling more people into the economy, stimulating competition, improving skills and productivity, raising investment, reducing poverty, increasing employment and broadening the tax base. There is also a specific need to invest in the economic empowerment of women and youth. Private-sector involvement includes entrepreneurs; small, medium and micro enterprises (SMMEs); and the informal and township economies.

v. **Partnerships and cooperation.** Strategic partnerships and cooperation with other spheres of government and the private sector to increase the speed and scale of change.

vi. **Innovation.** Embracing new ideas and pushing the boundaries of the Western Cape's constitutional mandate to enable private-sector-led economic growth and job creation in tourism, trade and industrial policy.

vii. **Agility and flexibility.** Government needs to be agile and responsive in pursuit of break-out growth. Support to identified opportunities and nascent industries needs to be time-bound with clear criteria for continued funding.

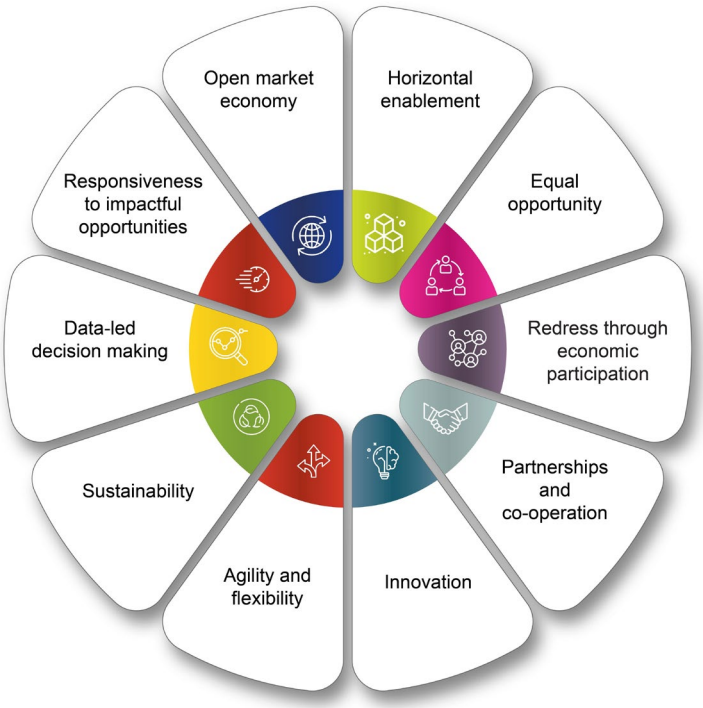
viii. **Sustainability.** Growth must be uncoupled from wasteful resource usage and fossil fuel dependency so that it can be sustainable over the long term and can meet present needs without further compromising the future. With our natural assets safeguarded, our economy and society will be shielded from the impacts of resource deterioration, climate change and other shocks, while our competitiveness and resilience will be enhanced.

ix. **Data-led decision-making.** Sound decision-making requires a data management and reporting capability that pulls together and utilises the excellent − if underutilised − data that the province already has. Establishing strong and agile economic and spatial data, analytical capabilities and intelligence is imperative.

x. **Responsiveness to impactful opportunities**. Government should be responsive to all private-sector-led opportunities, while being selective about which support levers are deployed based on the extent of private-sector involvement and participation, and evidence of the potential of the opportunity.

Figure 3.1 Principles underpinning the Growth for Jobs Strategic Framework

The Growth for Jobs Strategic Framework supports economic growth for job creation that favours…



2. Vision and goal

Vision: **A provincial economy that achieves break-out economic growth**, resulting sufficient employment and opportunity and an economy that is sustainable, resilient, diverse and thriving – generating confidence, hope and prosperity for all.

Goal: By 2035, the Western Cape will be a R1-trillion inclusive economy in real terms and growing at between 4% and 6% per annum. This will be achieved through enabling a competitive business environment in which growth is driven through businesses exploiting opportunities.

South Africa's GDP is currently growing at less than 2% per year, and the Western Cape's economy will not grow much more quickly than that of the country, unless a strategy for break-out growth is developed and executed. In 2021, the Western Cape's GDP was R648-billion, and so achieving the aspiration goal of R1-trillion in real terms would require an average annual growth of 3.8% until 2035. Historically, **a 1% increase in GDP has on average raised employment by 0.6% in South Africa**. This means that, even based on a conservative estimate, achieving the R1-trillion target by 2035 will create over 600 000 new jobs (with modelling indicating that many more jobs could be created), although it is uncertain if that ratio can be sustained over 12 years.

In determining a target growth rate, the Growth Diagnostic's Analysis report notes the following.

> Given the levels of immigration and underlying population growth, the minimum rate of growth, just to keep per capita income flat, would be 2%. Add in the buffer for upsides in immigration (0.5%) and the need for some real growth in per capita income…South Africa as a whole has averaged 1.3% real per capita growth since 1994…would give us a minimal threshold for the Western Cape of 3.8% in headline real growth terms.[4]

As annual growth of 3.8% in GDP growth would be insufficient to improve living standards rapidly, the Growth for Jobs Strategy has a twin goal: **annual growth rates of 4−6% and a provincial GDP of R1-trillion by 2035.**

The vision and goal statements craft the Western Cape Government's 2035 picture of success:

- **Break-out growth** of 4−6% per year.
- **Increasing inclusion**, driven by jobs-rich growth in the formal, informal and township sectors, benefitting all citizens, communities and enterprises – both urban and rural – and especially women and young people.
- A **competitive business environment**, that ensures total factor productivity growth through competition, productivity enhancing spatial policies, and investment in

[4] The full quote is, 'Given the levels of immigration and underlying population growth then the minimum rate of growth just to keep per capita income flat would be 2%. Add in the buffer for upsides in immigration (0.5%) and the need for some real growth in per capita income. What this real growth is can be contentious. South Africa as a whole has averaged 1.3% real per capita growth since 1994. This has clearly been inadequate in and of itself but would give us a minimal threshold for the Western Cape of 3.8% in headline real growth terms.'

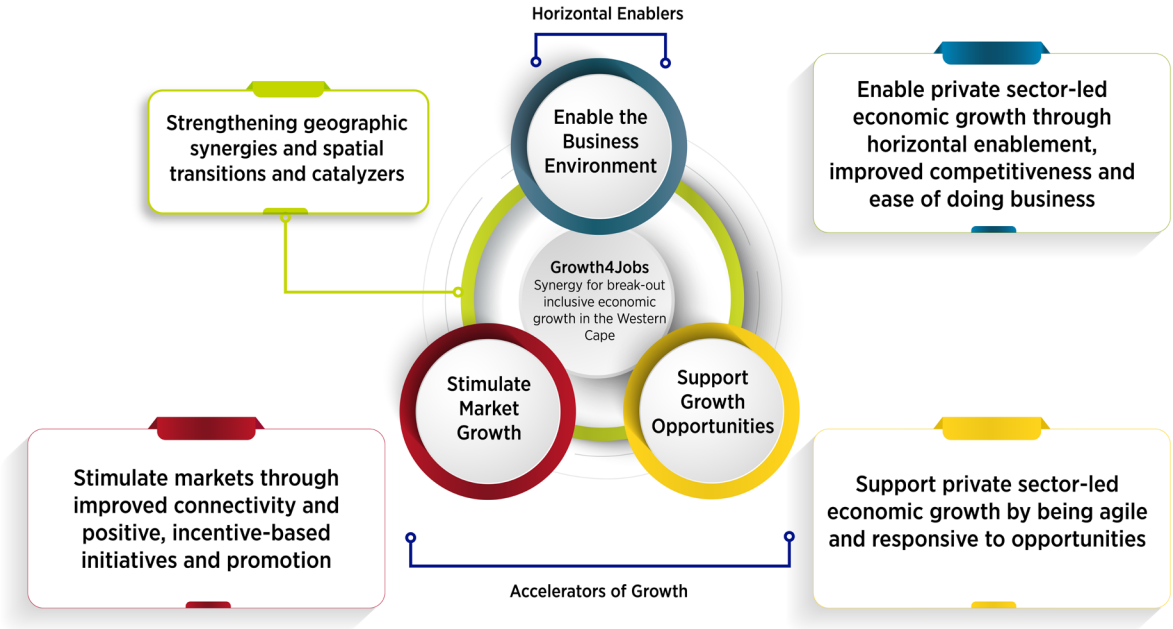
infrastructure, connectivity and skills, with government officials who all apply an ease-of-doing-business approach.

- **Increased sustainability**, as the Western Cape Government accelerates progress to a net zero carbon and resilient province, conserves the natural environment and mitigates the impact of climate change.
- **Resilience**, through diversifying economic activity and strengthening the Western Cape Government's ability to anticipate, prepare for and respond to exogenous shocks, including climate change, migration, adverse political/geopolitical events and the Fourth Industrial Revolution.
- **Thriving people and places** whose social and economic potential is being realised through improved access to opportunities, and where solutions to challenges build on a diversity of cultures and talents.
- **Confidence and hope**, with businesses and citizens that are positive about their economy and the Western Cape's future, and a high level of trust among the private sector, communities, residents and government, who work together to address challenges and realise opportunities.
- **Prosperity**, with everyone in the region having an improved quality of life, increased wealth and more opportunities.

3. Strategic approach

The Growth for Jobs Strategic Framework confirms that the Western Cape Government's primary focus is to enable a conducive business environment, support growth opportunities and stimulate market growth, as summarised in Figure 3.2.

Figure 3.2: Key pillars of the Growth for Jobs Strategic Framework



3.1 Enable the business environment

The Growth for Jobs Strategy's primary focus is to enable private-sector-led economic growth through creating a business environment that is conducive to growth. The prioritisation of

'horizontal enablers' is intended to overcome binding constraints on economic growth and to provide support across the economy.

Horizontal enablers have an impact on businesses across the economy. The objective is to optimise systems and structures in order to instil certainty and confidence for the private sector. Going forward, the Western Cape Government's role will be to build an enabling business environment to enhance competitiveness and accelerate economic and employment growth. This will be accomplished by pushing the boundaries of the constitutional mandate of the Western Cape, and by partnering with all spheres of government and the private sector to deliver enablers innovatively, efficiently and at scale.

3.2 Support growth opportunities

The Growth for Jobs approach recognises that the private sector is well positioned to assess and identify investment opportunities and can deploy capital and other scarce resources more efficiently than government, and that facilitating this will drive growth and job creation. Therefore government needs to be supportive and responsive to the economic opportunities identified by businesses, through nimble, nuanced policy-making and partnerships.

As the Growth for Jobs Strategy's goal is break-out economic growth that is job-rich and inclusive, the focus will include supporting opportunities that enhance labour-absorbing growth and on more skills-intensive opportunities. Furthermore, value chains (in both the formal and informal sectors) will be strengthened to enable specialisation as well as diversification.

When applied to the spatial economy, responsiveness to private-sector-led opportunities will include townships and address opportunities that arise from access and connectedness within and between different geographical areas and markets. The province must be adaptable to new opportunities that will be created domestically and internationally.

Unlike most past growth strategies produced in South Africa, the Growth for Jobs Strategy is sector agnostic (i.e., it does not seek to pick winning sectors and exclude other sectors). It is premised on a deep recognition that the private sector, driven by competitive pressures, will exploit existing and create new opportunities much more efficiently if given the space, confidence and enabling environment to do so. It will be responsive to the needs that arise from any emerging competitive industries and recognises that the informal sector plays a critical role in growth, inclusion and opportunity creation. However, this does not mean that in implementing the strategy, sectors would not play a role in determining how various factors of production are supported and where specific issues and blockages come to the fore.

3.3 Stimulate market growth

Economic growth requires and enables a growing market and increased domestic and foreign demand. Increased demand is generated from domestic and international consumption, local investment from within the province, and trans-provincial and international investment into the province. Therefore, stimulating markets through positive, incentive-based initiatives[5] and promotions is crucial to 'where to play'[6] set of choices, informing policy support. Local, trans-

[5] These are not necessarily financial incentives.
[6] Implies guidance on policy approaches in implementation. For example, the extent to which partnerships can occur given legislative limitations linked to the Public Finance Management Act.

provincial and foreign investment all respond to the growth in demand and increase demand through employment growth.

Market and demand growth is the primary driver of private-sector investment, providing opportunities to increase revenue, achieve economies of scale and expand the customer base. While there are prospects for domestic and local market optimisation, increasing exports (of both services and goods) presents the strongest pathway towards stimulating demand growth. Agencies responsible for attracting investment have a key role to play and, if done well, result in very large economic multipliers.

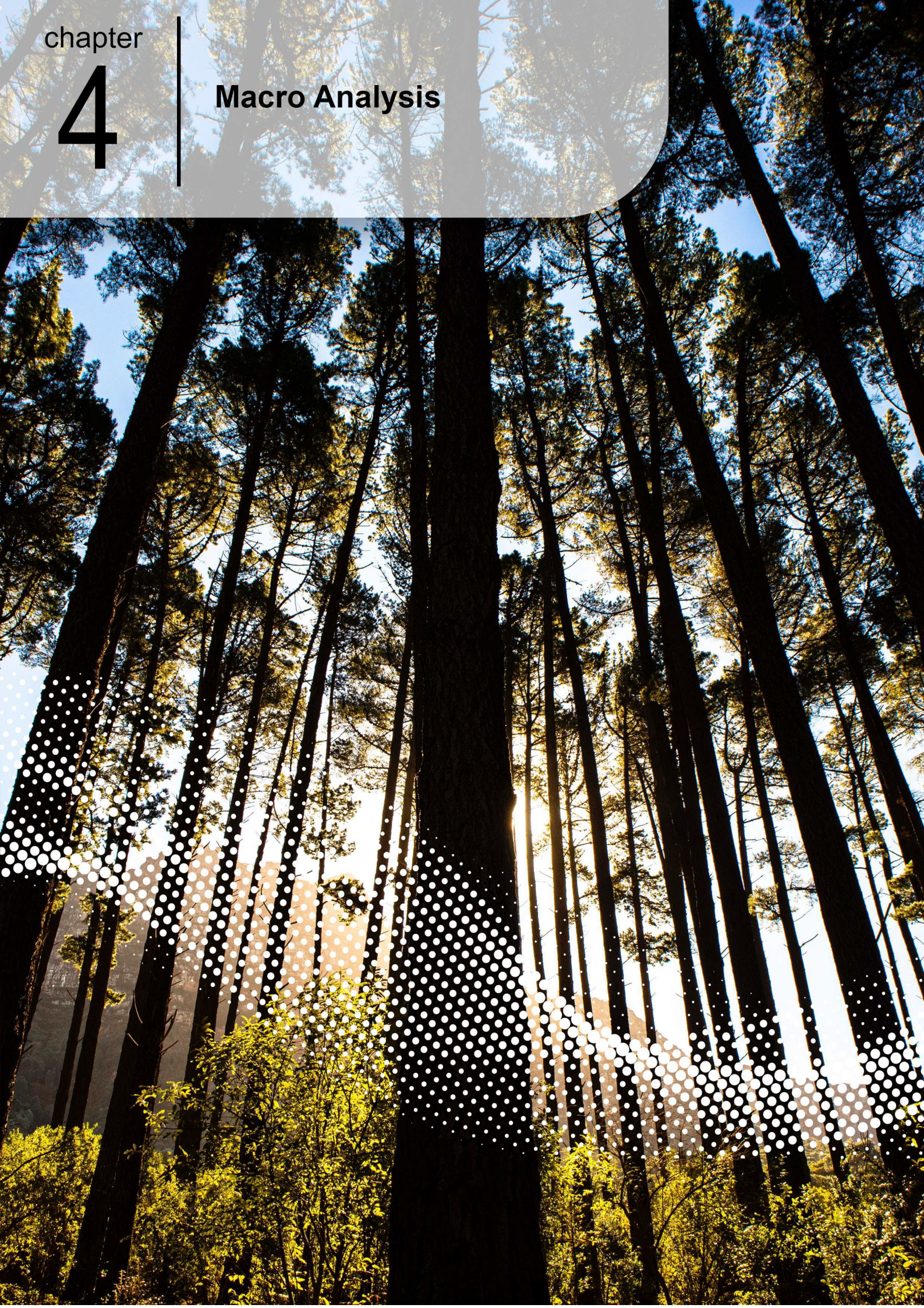
Conclusion

Achieving break-out growth will be impossible if a business-as-usual approach is followed. Having committed to achieving the twin goals of a R1- trillion economy with annual growth of between 4 and 6%, the Western Cape Government is also committing itself to a very different approach to governance – one that puts horizonal enablement at the forefront of the policy agenda to achieve private-sector-led growth. This will also mean rethinking how policy is pursued, and which policy levers and enablers are deployed against which timelines and to what effect.

chapter

4

Macro Analysis



Chapter 4: Macro Analysis[7]

1. Introduction

The Growth for Jobs Strategy is directed at achieving significant economic growth to create opportunities for jobs. It is grounded in an understanding of the Western Cape's economy and key socio-economic challenges; the amelioration of which requires faster economic growth as an imperative.

2. South Africa is not immune to global realities

As an open economy, global trends and events affect South Africa both directly and indirectly. The Covid-19 pandemic-induced[8] recession in 2020 highlighted the global interdependence of economic and social structures. The same is true of the conflict in Ukraine, which had an impact on domestic food, energy, and feedstock prices. Domestic growth will be harder to achieve in an environment of slowing global growth (see Table 4.1) and rising interest rates, while sluggish growth may be exacerbated by potentially weakening global commitments to free trade. Over time, the global economy may take the 'high road' of increased connectedness, trust and cooperation, leading to faster growth. But it may also take the 'low road', in which international institutions are undermined and countries become increasingly isolationist, protectionist, populist and nationalist. Furthermore, the Covid-19 pandemic is expected to have a significant and long-lasting effect on global supply chains which, in turn, will have an impact on the global economy, businesses and consumers alike.

Supply-chain bottlenecks and the impact of the Russia-Ukraine conflict had serious inflationary consequences, at a time when consumer incomes had been boosted by macroeconomic stimulus (including quantitative easing). Central banks were generally slow in responding with interest rate hikes and, when they eventually took action, did so aggressively. While the price-raising impacts of the Russian war remain a wild card, inflation is expected to return to target levels over the medium-term.

Table 4.1: GDP growth actual and forecast

Country / Grouping	2019	2020	2021	2022E	2023F
Global output	2.9	-3.1	6.0	3.2	2.7
Advanced economies	1.8	-4.5	5.2	2.4	1.1
United States	2.3	-3.4	5.7	1.6	1.0
United Kingdom	1.7	-9.3	7.4	3.6	0.3
Japan	-0.2	-4.5	1.7	1.7	1.6
Euro Area	1.6	-6.4	5.2	3.1	0.5
Emerging markets	3.7	-2.0	6.6	3.7	3.7
China	6	2.2	8.1	3.2	4.4
Brazil	1.2	-3.9	4.6	2.8	1.0
Russia	2.2	-2.7	4.7	-3.4	-2.3
India	3.7	-6.6	8.7	6.8	6.1

[7] Chapter 4 uses both IHS and Quantec sources with different estimations at times.
[8] Responses to the pandemic, such as lockdowns and other restrictions, led to the recession.

Country / Grouping	2019	2020	2021	2022E	2023F
Sub-Saharan Africa	3.1	-1.7	4.7	3.6	3.7
South Africa (IHS)	0.3	-6.3	4.9	1.9	1.4
Western Cape (IHS)	0.4	-5.6	4.9	2.1	1.5
Nigeria	2.2	-1.8	3.6	3.2	3.0

Source: IMF, IHS, DEDAT

3. South Africa's national economic performance

Over the next two years, South Africa's economic growth is likely to slow compared to 2021, to 2.1% or lower in 2022, and much lower in 2023 (Figure 4.1). This follows a long period in which annual growth rates have tended to fall. Covid-19 and electricity supply shortages have exacerbated this underlying trend. As a result, GDP per capita may only recover to its pre-pandemic levels by the end of 2024.

Figure 4.1: South Africa and Western Cape GDP growth rate (2019−2026)

Source: IHS

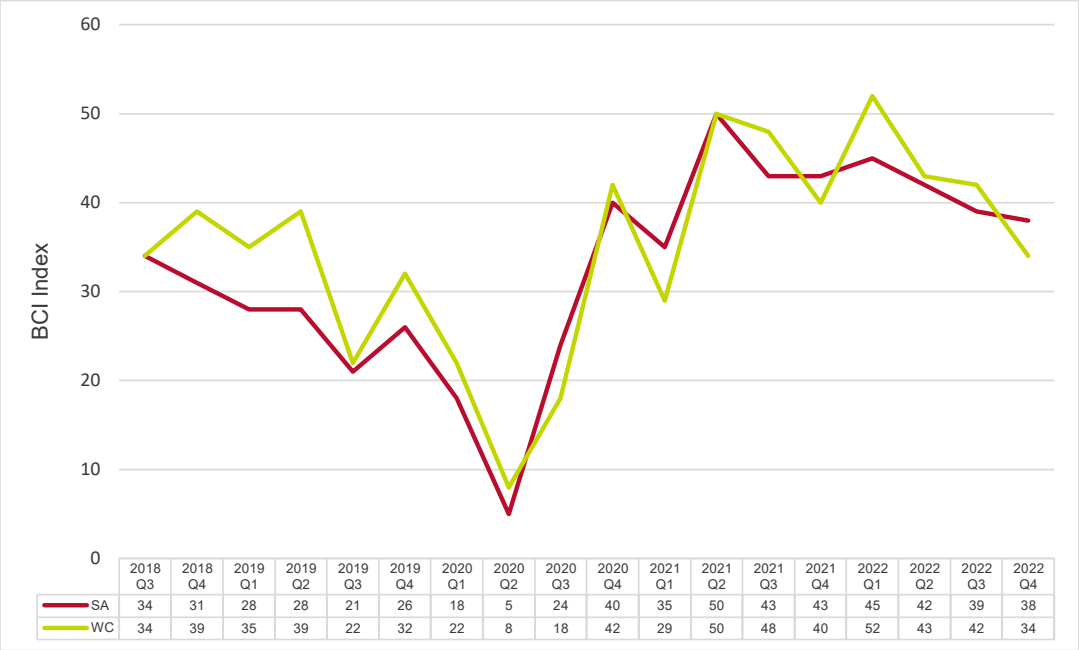
Economic, financial, and fiscal conditions remain stressed. The growth recovery is tepid and below the pathway required to make meaningful inroads into the chronic challenges of poverty, inequality and unemployment facing South Africa. For the best part of two decades, unemployment has been stubbornly high, recently reaching a record-high rate of 35% (excluding discouraged job seekers). Periodic and intrusive power shortages weigh heavily on the production capacity of all sectors in both the formal and informal economy.

Many reasons for South Africa's disappointing growth performance include poor policy choices,[9] declining governance (especially increased corruption) and increasingly unsound macroeconomic fundamentals (especially the rate at which public debt has been rising). The challenges at Eskom, manifested in increasing load-shedding, embody all these trends that are distinct and distinguishable causes of slowing growth. Between 1988 and 2022, Eskom's

[9] Examples of poor national polices include the delay in procuring renewables, extreme Covid restrictions, high salary increases for public servants and the minerals policy which has resulted in a decline in mining investment.

electricity prices increased by 653%, compared to 129% inflation.[10] Price increases have negatively affected firms, increasing their input costs and making them less competitive. These factors have an impact on business confidence, which is currently below 50 points (50 indicates potential growth), as shown in Figure 4.2.

Figure 4.2: BER Business Confidence Index – South Africa and Western Cape (2018Q1– 2022Q4)



	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4
SA	34	31	28	28	21	26	18	5	24	40	35	50	43	43	45	42	39	38
WC	34	39	35	39	22	32	22	8	18	42	29	50	48	40	52	43	42	34

Source: BER

Fundamentally, the country's economy is staggering under the weight of its deficits.[11] For nearly two decades, South Africa has been running significant and, at times, widening government and current account deficits. These deficits mean that South Africa's savings are not invested in fixed capital but are financing government consumption, while foreign savings are being used to finance the current account.

To meaningfully reduce unemployment and poverty, it is generally recognised that South Africa needs an annual growth rate approaching 6%. This will require significant fixed capital investments (i.e., in long-term assets, such as factories, buildings, land and equipment) that generate employment. These investments would, in turn, add to aggregate demand in the economy and stimulate further fixed investments. However, this cannot be achieved as long as local and foreign savings are used to finance consumption spending.

A key goal of the National Development Plan (NDP) – and indeed of all plausible growth strategies – is the raising of investment rates to 30% of GDP, which requires higher levels of savings and, therefore, lower 'dissaving'[12] by the government. In practice, the ratio of fixed capital formation (investments) to GDP (nationally and provincially) has been falling, reaching a historic low of less than 15% in 2022.

[10] Power Optimal. 2022 update: Eskom tariff increases vs inflation since 1988

[11] Trading Economics. South Africa's current account averaged a deficit of R75 billion from 2002 to 2022, on a quarterly basis. From 2019 to 2021 the fiscal deficit averaged 7.5% and the debt to GDP ratio averaged 67%.

[12] This refers to using savings for current expenses.

4. The national economy's impact on the Western Cape economy

It is important to note that the performance of the Western Cape economy is shaped and constrained by the broader national context (e.g., national fiscal and monetary policy, international trade protocols and agreements, policing, sovereign risk levels, policy uncertainty, etc.). To a greater or lesser extent, these exogenous or external factors define some of the parameters within which economic activity in the province occurs. This is reflected in the fact that the Western Cape's economy, although stronger in terms of employment growth, has been unable to fully break loose from the constraints imposed by the national economy.

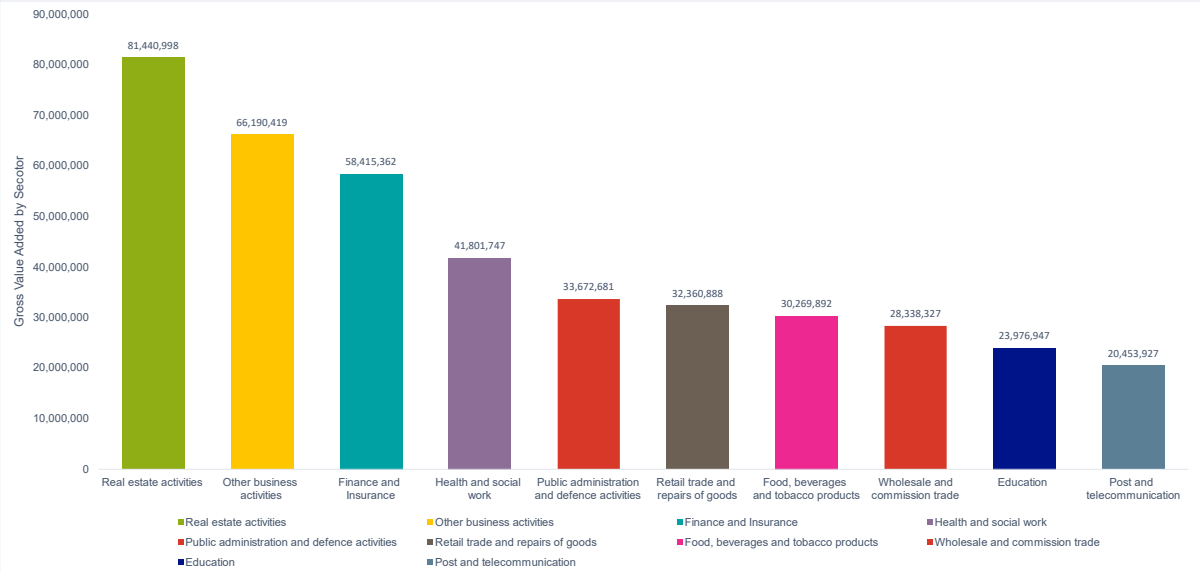
In short, the economic and developmental performance of the Western Cape is co-created by global and national levers over which the province has little or no influence and control. These are pivotal realities that all economic role-players in the province need to understand, consider, and accommodate in their decisions and actions.

5. The Western Cape economy

The structural features of the Western Cape economy have been well chronicled and well documented. A 'snapshot' view of the provincial economy is given below:

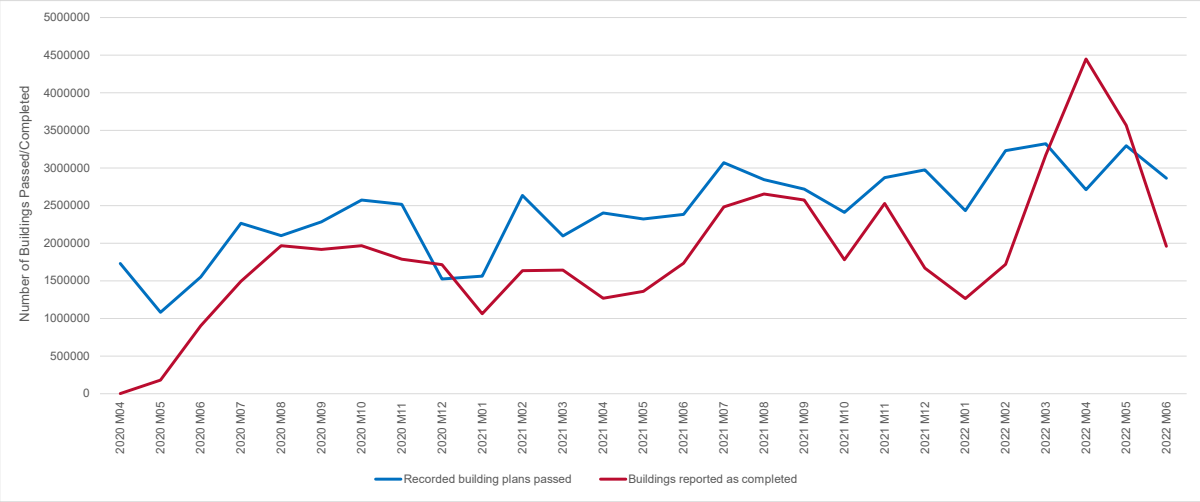
- It is the third-largest provincial economy, accounting for approximately 14% of the national GDP, after KwaZulu-Natal (approximately 15%) and Gauteng (approximately 30%).
- The primary sector constitutes less than 5%, the secondary sector just over 20%, and the tertiary sector almost 75% of gross value added (GVA). Figure 4.3 shows the top 10 sectors that contribute to the Western Cape's economy.
- The province's economy has a low level of diversification and a limited reliance on extractive industries.
- The construction sector, historically strong, is recovering from the Covid years (Figure 4.4).
- Agriculture constitutes only 4% of the Western Cape's economy but is a large contributor to employment, particularly outside the City of Cape Town and within rural areas. The province's contribution to the country's GVA in agriculture is above 20%, and over 50% of the province's exports originate in the agricultural sector.
- More than 40% of exports are destined for the European Union and North America.
- The province is relatively urbanised and the urban population is ageing more rapidly than in other provinces.
- Both the level of human capital and the quality of life (as measured by employment, life expectancy, literacy, etc.) are somewhat higher than national averages.
- Although above 20%, the province's unemployment rate is significantly lower than the national average.
- Income and wealth inequality in the Western Cape remains a challenge, as in the rest of the country.

Figure 4.3: Top 10 Western Cape contributing sectors (GVA in 2021)



Source: IHS

Figure 4.4: Western Cape building plans passed and completed



Source: Quantec

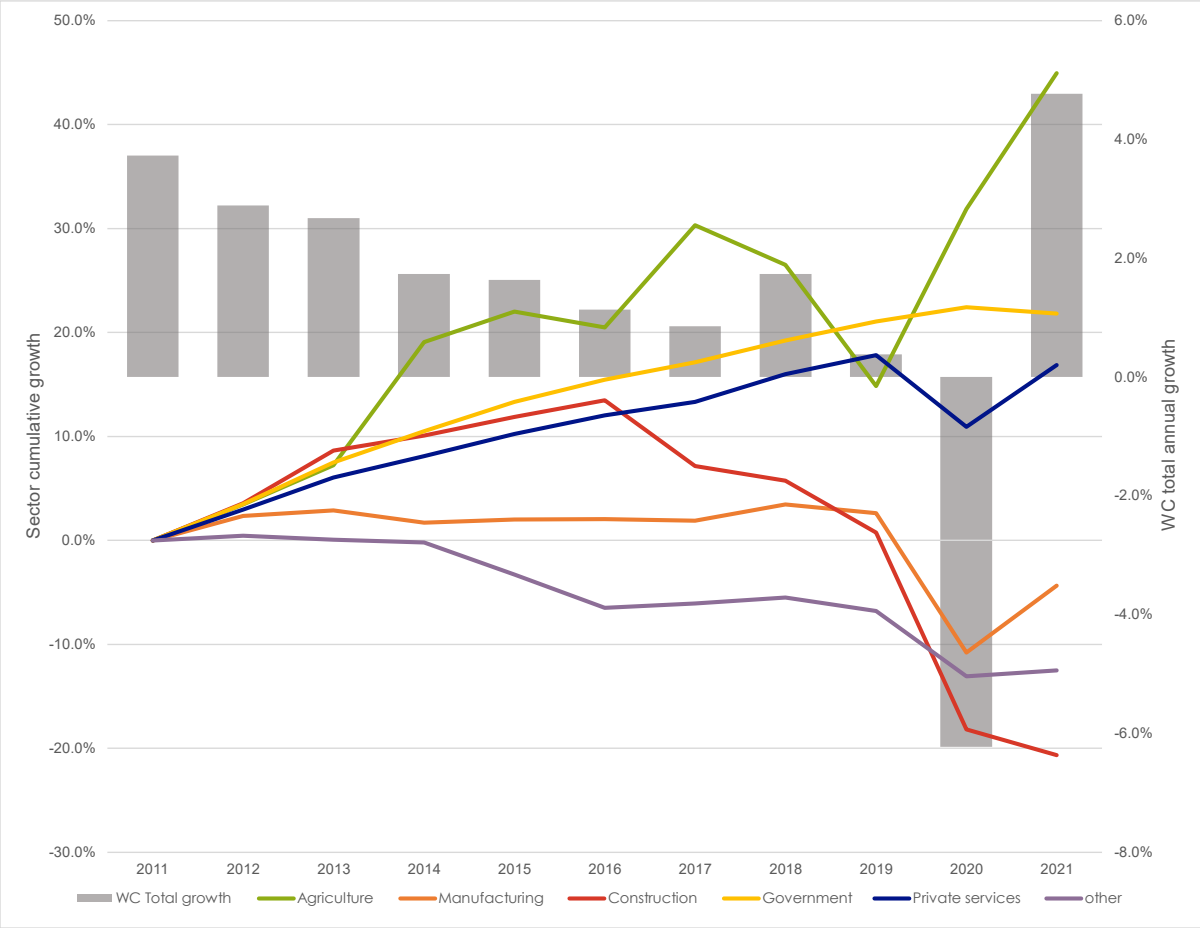
Over the past decade, growth rates in the Western Cape have disappointed, in line with the national economy which entered a protracted economic downturn at the end of 2013. Between 2014 and 2021, South Africa's real GDP dipped to below its trend level, averaging 1% per year. Although the Western Cape's real economic growth averaged slightly higher, at 1.2% per year, the province has tracked the country's growth trend. Successive years of below-trend growth have deepened many of the country's most pressing social challenges, largely due to high unemployment levels.

Between 2015 and 2019, the Western Cape region experienced a serious drought, which produced a water crisis in 2017 and 2018. This was followed by the Covid-19 pandemic, causing a 6.2% contraction in real GDP in 2020. In 2021, real GDP bounced back by only 4.8%.

Prior to the pandemic, the Western Cape's real GDP grew by an annual average of 1.6% between 2014 and 2019. The post-pandemic economic recovery has been hampered by a deepening crisis in electricity generation by Eskom. In 2022, there were 200 days of load-

shedding, the worst on record since 2008. The most worrying factor is the unpredictability of supply breakdowns and the steady accumulation of load-shedding hours as Eskom's energy availability factor (EAF) continues to shrink. This has had profound consequences for investment, since uncertainty about the availability and cost of electricity, combined with uncertainty about overall growth rates, has made businesses more reluctant to invest in expanded capacity.

Figure 4.5: Western Cape GDP growth rate by sectors (2011–2021)



Source: PERO 2022[13]

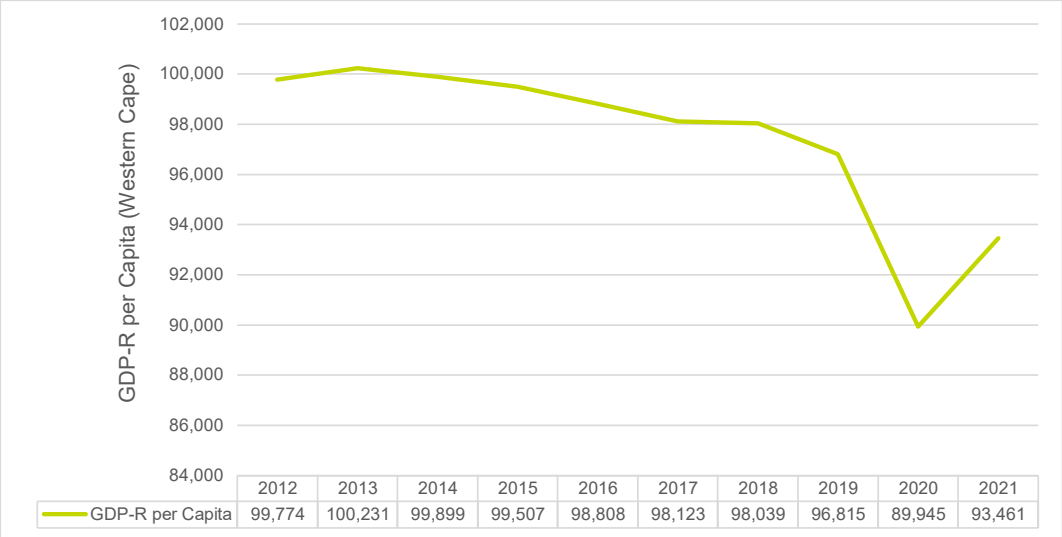
After the 2009 global financial crisis, global growth slowed, affecting the growth of exports. Global and domestic investment levels have also fallen, a trend that has been especially pronounced in South Africa. Serious infrastructure constraints (e.g., energy and logistics) intensified domestic economic policy uncertainty, as have declining levels of governance. Without satisfactory business conditions and confidence, fixed investment spending remains muted, which is the main factor behind the unsatisfactory real economic growth trend, the drop in living standards and the steep increase in unemployment.

Since 2013, real living standards have declined significantly (Figure 4.6), both in the region and nationally. In 2021, the Western Cape's real GDP per capita was 9.2% lower than in 2013 (compared to a national average of 6.9%), despite the province's real GDP growing faster than national GDP. This was due to the high rate of in-migration to the Western Cape that resulted in relatively fast population growth of 1.8%[14] on average per year from 2012 to 2021.

[13] Other: Mining and quarrying; and electricity, gas and water.
[14] Sourced from IHS population growth. Average growth between 2012 - 2021.

Declining GDP per capita is an important structural challenge for the provincial economy and will persist for as long as population growth exceeds economic growth. Given that faster growth will tend to attract increased numbers of migrants, getting ahead of the curve is a key goal of the Growth for Jobs Strategy.

Figure 4.6: Real GDP per capita in the Western Cape (2012–2021)



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
GDP-R per Capita	99,774	100,231	99,899	99,507	98,808	98,123	98,039	96,815	89,945	93,461

Source: IHS 2022

South Africa's macroeconomic imbalances and risks mean that interest rates have been high for a long period. Although lower during the Covid-19 period, interest rates have risen sharply since late 2021 in response to the global rise in inflation, driven first by global supply bottlenecks and then by excess aggregate demand generated by governments' attempts to stimulate their post-Covid economies. The sharp increase in energy, food and other prices (such as fertiliser) in response to the Russian invasion of Ukraine in February 2022 added further pressures, contributing to the peak in inflation rates. The tightening of monetary policies will cool economic growth rates, both locally and globally. This will also assist in bringing inflation down closer to desired levels, i.e., around 2% in the advanced economies and around 4.5% in South Africa.

The Western Cape's real GDP recovered from the 2020 pandemic shock, with the level of GDP surpassing the pre-Covid level in the first quarter of 2022.[15] However, the recovery in employment levels lagged GDP growth. In late 2022, employment was still 8.1% lower than pre-Covid levels. The post-Covid regional economic recovery is expected to continue, but will be under pressure from the anticipated global economic slowdown over the short-term.

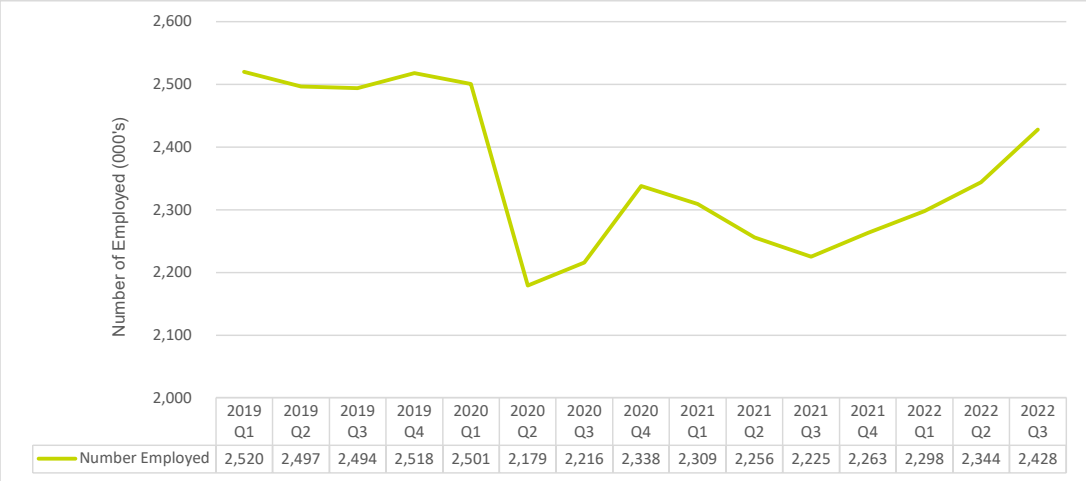
6. Economic growth: a necessary, but not sufficient condition

While GDP per capita does not fully measure quality of life, it is by far the most important determinant of living standards, reflecting levels of productivity in a society that will ultimately determine levels of consumption of goods and services by individuals and households. Notwithstanding its deficiencies – for example, the measurement of GDP does not accommodate unpaid work, leisure time and environmental degradation, and is agnostic about distributional questions – GDP levels and GDP growth are critical for improving living standards.

[15] South Africa's (and hence the Western Cape's) GDP recovery was much slow than other countries.

To fully overcome the challenges of unemployment and poverty will require sustained economic growth of 4−6% per year.

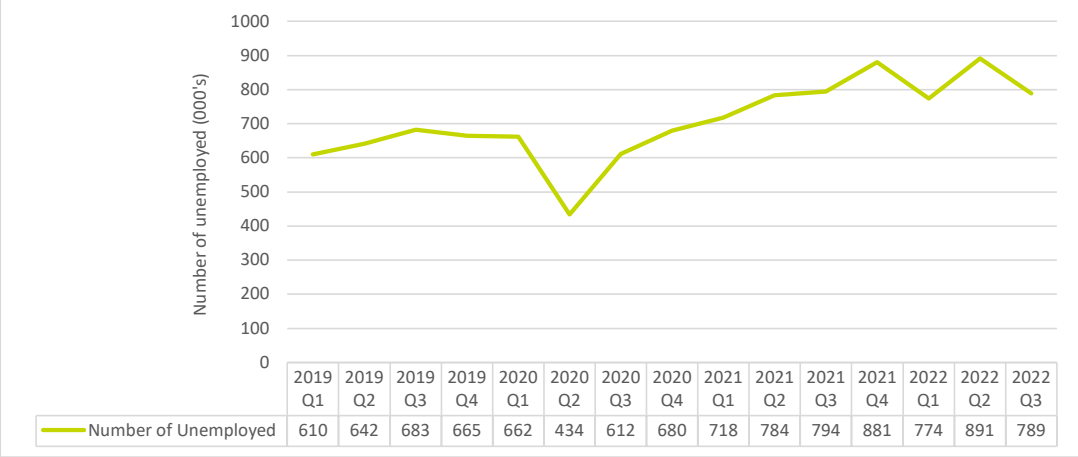
Figure: 4.7: Western Cape employment (2020Q2–2022Q3)



	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3
Number Employed	2,520	2,497	2,494	2,518	2,501	2,179	2,216	2,338	2,309	2,256	2,225	2,263	2,298	2,344	2,428

Source: Stats SA

Figure 4.8: Western Cape unemployment (2020Q2–2022Q3)



	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3
Number of Unemployed	610	642	683	665	662	434	612	680	718	784	794	881	774	891	789

Source: Stats SA

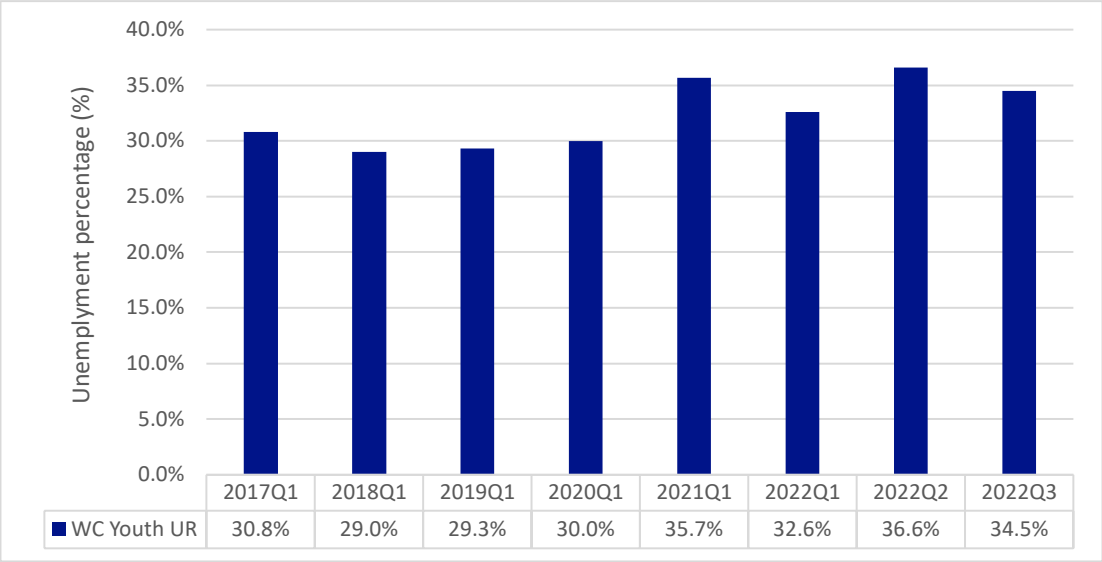
In the third quarter of 2022, the Western Cape had a working-age population of 4.92 million people[16] and an overall unemployment rate of 24.5%. Of the 1.7 million citizens who were not economically active, 121 000 people were discouraged job seekers, while of the 3.22 million people in the narrow labour force, 2.43 million were employed and 789 000 unemployed.

Over half[17] of the 789 000 unemployed people were aged between 15 and 34 years, and just over 800 000 people were NEETs (not in employment, education or training), as shown in Figure 4.10. Only 10.1% of those employed are in the informal sector, compared to the national average of 18.8%. As is true throughout South Africa, less educated people have a greater propensity for being informally employed compared to secondary and tertiary qualified workers. Over the past five years, the informal sector suffered serious job losses due to the impact of the pandemic. Employment losses and the subsequent recovery have been skewed from a gender

[16] Stats SA. 2022. QLFS 2022 Q3.
[17] Sourced from StatSA and DEDAT own calculations.

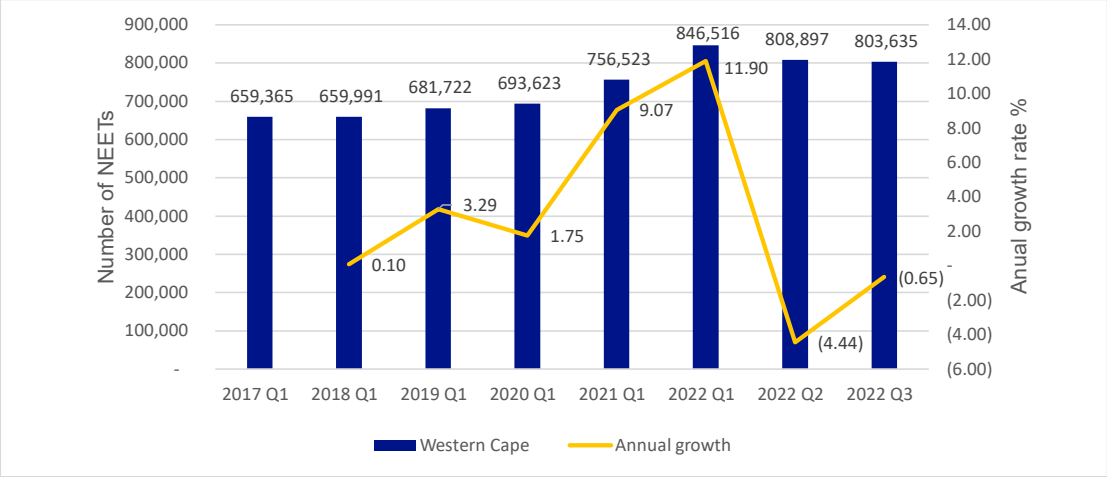
perspective. The recovery of employment and working hours has occurred more slowly for women than for men.[18]

Figure 4.9: Western Cape youth unemployment rate 15–34 (2017Q1–2022Q3)



Source: Stats SA

Figure 4.10: Western Cape NEETs 15–34 (2017Q1–2022Q3)



Source: Stats SA

Over the past five years, labour markets have been characterised by a significant worsening of outcomes, both nationally and (to a lesser extent) in the Western Cape. This is to be expected given the low (and even negative) economic growth experienced in the national and provincial economies. This deterioration is best captured in the severe and escalating unemployment crisis. In the first quarter of 2022, four provinces had an expanded unemployment rate of more than 50%, and between 2017 and 2022 the unemployment rate deteriorated for South Africa (by 6.8 percentage points to 34.5%) and the Western Cape (by 3.7 percentage points to 25.2%).

[18] Casale, D. and Shepherd, D. 2021. 2021. 'The gendered effects of the COVID-19 crisis and ongoing lockdown in South Africa: Evidence from NIDS-CRAM Waves 1–5'.

7. What is holding back inclusive economic growth?

Long-term growth is the result of an economy accumulating new sources of productive capacity (e.g., human and physical capital, new technologies, entrepreneurial capabilities) and increasing capabilities to deploy those productive capabilities in more efficient ways (e.g., through improved technologies and the building of social institutions that promote growth, such as efficient contract enforcement and sound property rights). The lack of growth in the South African economy is the consequence of the failure to accumulate productive capabilities and the erosion of some of the institutional underpinnings of efficient production. Thus, investment in fixed capital has been slow and in some areas – most notably energy – has failed to keep up with the rate of depreciation of existing assets, leading to a real decline in productive capacity with negative implications for the rest of the economy. Key institutions have also been undermined by an era of historically poor governance that has increased country risk, accelerated the 'brain drain', and made businesses increasingly reluctant to commit capital to new or expanded production capacity.

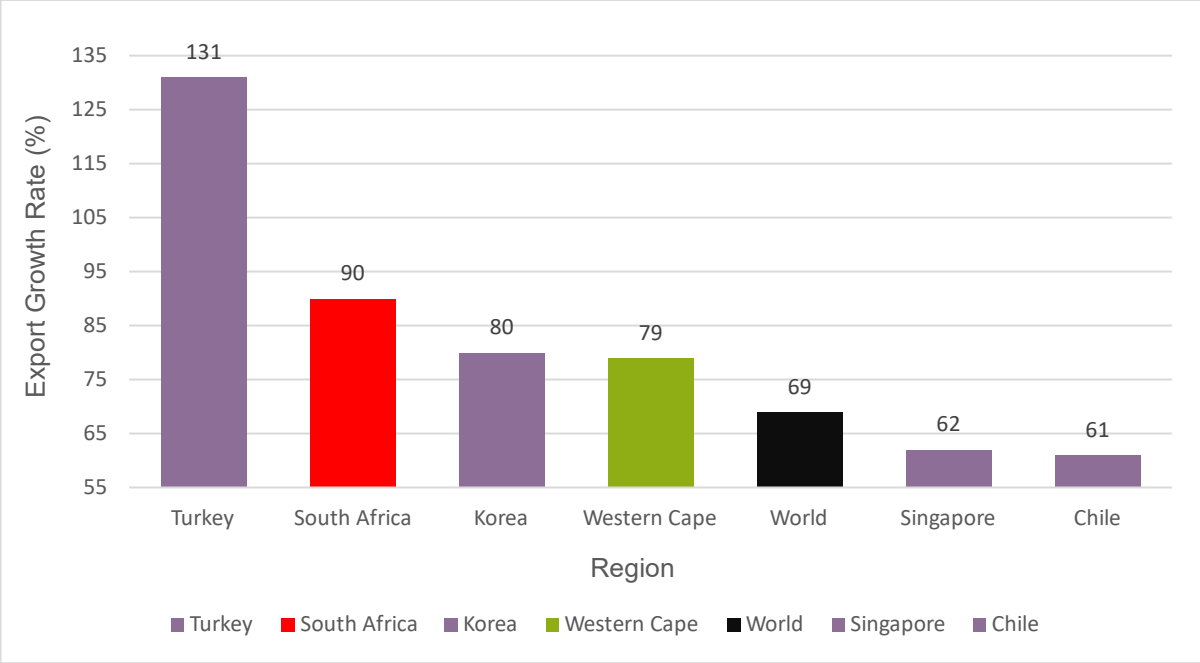
For South Africa as a whole, and the Western Cape in particular, a key challenge is the spatial legacy of apartheid that creates very significant economic inefficiencies. These manifest in high costs of accommodation located close to economic activities and high costs of transport for those who must commute over long distances. Both factors have negatively impacted the disposable income of households and created upward pressure on wages, thereby increasing the costs of doing business. The unreliability of some forms of public transport – notably commuter trains in Cape Town – has worsened pressures on disposable incomes and the consequences for business competitiveness are profound. There is also a degree of mismatch between settlement patterns and zones of economic opportunity in the Western Cape. Although it is inevitable and even desirable that the province's residents should continue to urbanise, this will create new challenges that need to be addressed.

Fundamentally, South Africa's growth has been inhibited by an approach to economic development that relies heavily on a conception of the 'developmental state', which is inappropriate for local conditions and at odds with the idea of a developmental state that emerged in East Asia in the last decades of the 20th century. The principal goal of the East Asian developmental state was to raise the level of savings and investment in the national economy, which required reducing the proportion of GDP accounted for by consumption. South Africa's version of the developmental state has raised levels of consumption and failed to provide the investment needed to support growth. Low levels of household asset wealth, combined with the apartheid legacy of spatial and opportunity inequity, mean that many households have limited choices in accessing finance and short-term asset insurance services, making them extremely vulnerable to common risks such as theft and fire. This contributes to the inability of those households to improve their condition, savings and asset base and, ultimately, their inter-generational wealth. The inability of traditional economic tools to consider the informal economy and unpaid care work as valuable socio-economic contributions have undermined previous economic strategies. Therefore, the Growth for Jobs Strategy makes an explicit effort to consider these aspects in building a more inclusive economy.

Growth is self-reinforcing in the sense that demand increases as an economy's productive capacity increases. As businesses employ more people, household spending increases. As revenues rise, businesses can spend more on investment. Growth can be accelerated by tapping into other, larger markets, so that demand for output can grow rapidly. Export growth is achievable if, and when, an economy has achieved a relatively high degree of competitiveness.

Growing exports can have a powerful impact on living standards through growing employment. The implication is that the Growth for Jobs Strategy should aim to increase export markets as well as optimise the domestic economy.

Figure 4.11: Benchmark comparison of Western Cape growth in exports (2005−2020)



Source: World Bank Open Data, IHS

There is some cause for optimism with regard to exports. Export growth in the Western Cape has exceeded world trade growth rates, offering the opportunity to leverage exports for sustainable growth off a strong base. This may be further accelerated by value addition and product diversification. However, over the last 20 years, the Western Cape's economy has become less diversified and is now less resilient to external economic shocks compared to the rest of South Africa and several other countries.

7.1 Productivity

Productivity is a prerequisite for international competitiveness and economic growth and development. Multi-factor productivity (MFP) or total factor productivity (TFP) reflects the overall efficiency with which labour and capital inputs are used together in production. For an average country, the TFP accounts for 60% of the growth in output per worker.[19] A key factor behind slow GDP growth is the 1.2% decline in the Western Cape's TFP between 2016 and 2020.

The Growth for Jobs Strategy is, therefore, committed to raising the overall productivity of the Western Cape economy, through horizontal enablement and supporting private-sector-led market stimulation and growth opportunities. The focus on sustainability offers opportunities to enhance productivity, as the circular economy will enable the region to derive greater use from each resource unit and require fewer resource inputs.

[19] Easterly, W. and Levine, R. 2002. *It's not factor accumulation: stylized facts and growth models.* Banco Central de Chile.

8. Towards a strategy for economic growth

The Western Cape punches above its weight[20] economically when compared to the rest of South Africa, but it needs to do even more.

Part of the province's growth challenge lies in the dichotomy of its labour-intensive exports competing against low-income countries and its high-value exports competing against high-income countries. In the former, competitiveness is affected by relatively high wage costs and, in the latter, by deficiencies in the availability of skills and advanced capital equipment. As a result, the Western Cape (like South Africa) has experienced 'premature deindustrialisation' with employment levels lower than expected for the level of development.

In South Africa and the Western Cape, the economy has benefitted in the past from diversification but has largely failed to specialise in production. The virtues of specialisation include increased productivity, more rapid innovation and greater resilience (which increases expected growth by reducing risk). In many countries, particularly in East Asia, various industrial policy tools (such as special economic zones) have been used to foster increased diversification. However, these tools have not been used as effectively in South Africa.

Once a certain level of economic development is attained, a country's competitive advantage increasingly relies on innovation. In this regard, the Western Cape is arguably too dependent on its natural resources for export growth and needs to foster growth in other domains, especially technology-intensive sectors. Based on indicators of potential for technological competitiveness, South Africa fares better than most countries in Africa but not when compared to other countries at a similar stage of development.

A knowledge and innovation economy requires major changes in the entire ambit of educational activities. Advanced secondary and tertiary education is needed to equip the workforce with the skills to generate ideas, think creatively and navigate complexity. However, at present, the education system does not produce enough learners capable of succeeding in relevant fields at tertiary levels and in vocational pathways. Almost two-thirds (64%) of businesses believe it is not easy to find critical skills needed to make their business more competitive.[21] Nevertheless, the province has a sound base of higher education institutions (including TVET colleges) which are well placed to contribute meaningfully to the supply of these critical skills, while the Western Cape Government has progressed from STEM (science, technology, engineering and mathematics) to STEAMAC (science, technology, engineering, arts, mathematics, agriculture and coding).

The future structure and fortunes of the Western Cape economy will be moulded, at least in part, by the inescapable reality and implications of the rapidly changing global economic landscape, as well as idiosyncratic national realities.

8.1 Spatial considerations

The challenges in the spatial economy are highlighted in the Western Cape Growth Potential Research Study (GPS) of 2018. A differentiated approach is needed to prioritise investment in regions with the highest economic development potential and growth. Municipal regions should promote their own growth by mobilising local assets and resources to capitalise on their

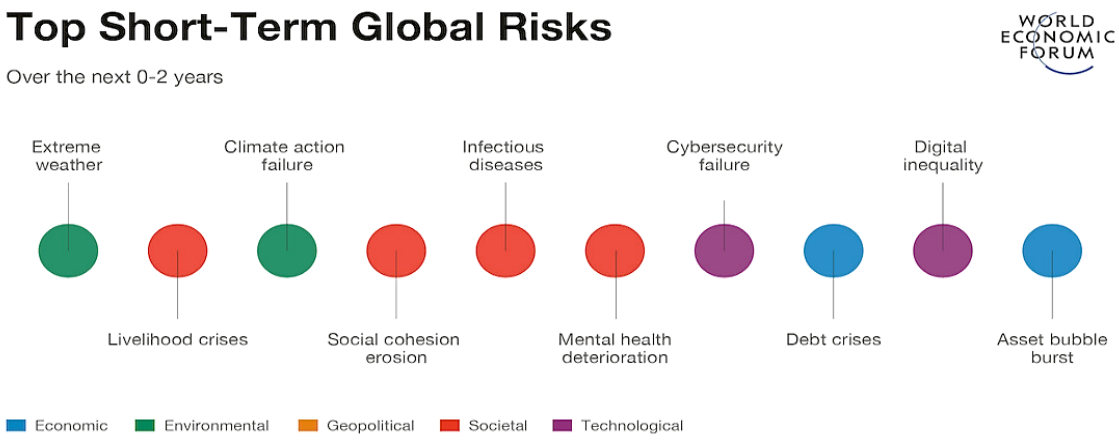
[20] In terms of employment growth and GDP contribution relative to its population size.
[21] Cape Chamber. 2022. Western Cape Business Environment Survey Findings Spring 2022.

competitive advantages. Traditional policies based on infrastructure provision alone are not sufficient, and a more comprehensive policy is called for that integrates innovation, business development factors and other growth determinants. To enable economic growth, it will be important to differentiate between fast- and slow-growing regions (informed by further suggestions in the GPS), and between rural and urban economies that have different contributors to growth. The main regional factors of growth are productivity in rural regions, and labour markets and productivity in urban regions.

9. Future analysis and risks

The key risks faced by the Western Cape arise from the political, macroeconomic and policy uncertainties facing the country. These inhibit investment by increasing risk, raising interest rates and the costs of doing business, and accelerating the 'brain drain'. While good governance and sound policies in the Western Cape can mitigate some of these risks, the province cannot entirely decouple from sovereign risks. At the same time, the province (and the country) faces challenges arising from global risks (Figure 4.12).

Figure 4.12: Top short-term global risks over next 0−2 years



Source: World Economic Forum Global Risks Report 2022

The Western Cape is no stranger to 'extreme weather' events, such as floods, fires, heatwaves and droughts, while basic dignity and inequality are at the heart of 'livelihood crises' and 'social cohesion erosion'. The Growth for Jobs Strategy recognises that many of these risks are directly attributable to the impact of fossil fuels and the focus needs to be on addressing the current energy crisis through transitioning to renewables and low-carbon energy. The province must prioritise climate mitigation and adaptation measures and accelerate its journey to becoming a net zero carbon economy, thereby increasing its climate resilience. In doing so, the province can mitigate the risk of punitive sanctions, which threaten the competitiveness of its exports in global markets. The establishment of a new, renewable and low-carbon energy sector could contribute significantly to economic growth and is an opportunity to enable a just transition which protects labour and livelihoods of those previously supported by fossil fuel-based sectors. Residents of the Western Cape must benefit from the fruits of growth, to mitigate the risks of 'livelihood crises' and 'social cohesion erosion'.

Apart from these risks, other important trends need to be factored into the Growth for Jobs Strategy planning and action.

Urbanisation and migration into the Western Cape from other parts of South Africa
In-migration is likely to accelerate, bringing to the province highly skilled, entrepreneurial and professional workers, as well as unskilled and semi-skilled workers who are mostly unemployed. Managing these migration trends will require the provision of necessary infrastructure (traditional, digital, and hybrid) to ensure an improved quality of life for all citizens. Equally important will be deliberate efforts to foster community cohesion and a sense of belonging because social division and fragmentation undermine long-term economic success. The evolution towards smart cities (i.e., cities that use ICT to improve the quality of their services to the public) also brings new opportunities to harness technology and innovation towards improved productivity and competitiveness. Growing cities will require efficient public transport and mobility systems to serve inhabitants, which should increasingly be fuelled by forms of renewable or low-carbon energy, providing scope for public and private partnerships to be developed. Addressing the needs and future infrastructure requirements of the rural economy may also mitigate urbanisation-related challenges.

Women's economic empowerment
A call has been growing internationally to respond to the systemic issues of the gender wage gap and gender inequality. In South Africa, the historic disempowerment of women has contributed, at least in part, to rampant gender-based violence. Active economic empowerment must be part of the collective response to addressing the gender imbalance in the economy.

Investment in logistics
Although the short-term focus will be on more localised supply chains, ongoing investments in logistics capacity, capability and efficiency are also important, as globalisation of trade is likely (and desirable) to continue.

The Growth for Jobs Strategy needs to ensure that dysfunctional and inefficient settlement patterns within the Western Cape are purposefully and intentionally reshaped over time. This must be factored into all interventions and attention, looking at how logistics may best serve the needs of commerce through enabling economic activity.

Demographic dividend
The number of young people leaving school and accessing the labour market will continue to grow. Large numbers of people entering the job market have the potential to generate a 'demographic dividend', which only materialises if employment creation accelerates. If not, the rising number of marginalised and disaffected young people will create risks of 'connected fragmentation'. Therefore, connecting people in the province to economic opportunities and finding ways to help them become more employable are key to addressing these challenges.

Digital inclusion
The acceleration of the Fourth Industrial Revolution, rapid formulation of Web3,[22] ubiquitous adoption of cognitive automation (AI), and connectivity of people and devices enabled by the internet of things (IoT) and 5/6G will have significant impacts on society and the economy in significant ways. Therefore reducing the digital divide and ensuring digital inclusion will need to be factored into the Growth for Jobs Strategy.

[22] Web3 is the proposed new iteration of the World Wide Web that incorporates concepts such as decentralization, blockchain technologies and token-based economics. Sourced from https://en.wikipedia.org/wiki/Web3

chapter

5

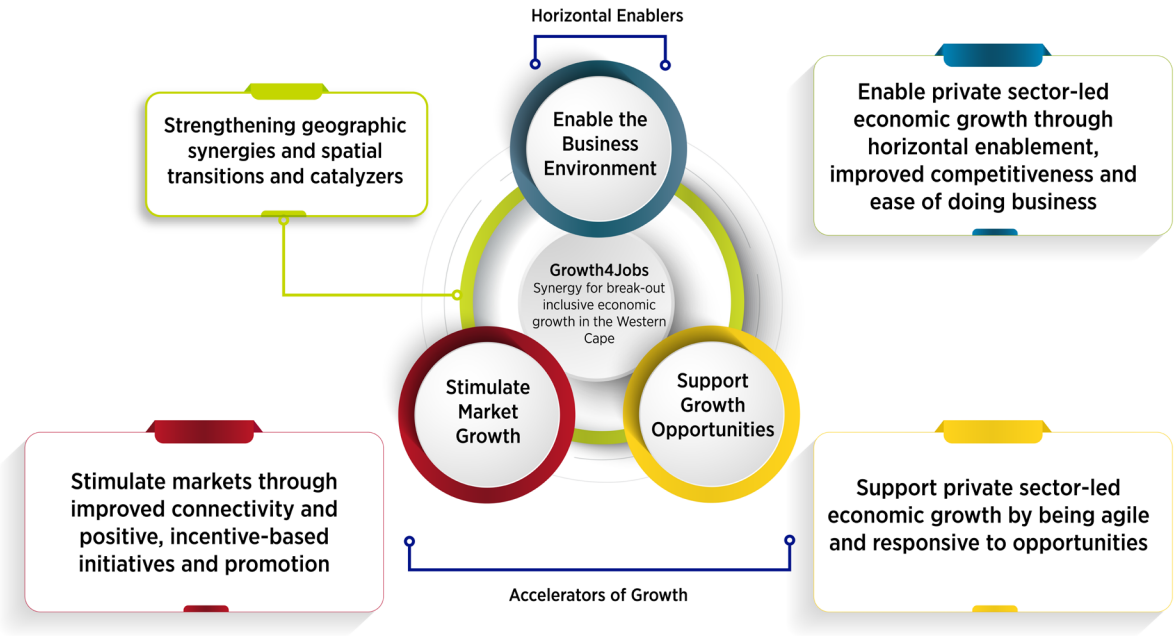
Priority Focus Areas Levers, and Enablers

Chapter 5: Priority Focus Areas, Levers, and Enablers

1. Introduction

An economy is a complex set of interacting elements, and, for this reason, synergies between individual components require and reinforce an **enabling business environment** that **stimulates market growth** and **supports growth opportunities**.

Figure 5.1: The Growth for Jobs Strategy synergies



Through a process of analysis and engagement, **seven priority focus areas (PFAs)** for the Strategy were identified for implementation over the short and medium term. Over time, these priority areas may change, as the Growth for Jobs Strategy will need to be agile in the face of changing circumstances and opportunities. The pursuit of these focus areas will be supported by a **suite of enablers and accelerators** as well as **a set or toolkit of levers** to crowd in and harness relevant provincial resources.

2. Priority Focus Areas

The seven PFAs concentrate on the key constraints in network industries and on the essential elements needed to raise total factor productivity and competitiveness (Figure 5.2). This, as noted above, is fundamental to **creating an enabling environment** and **accelerating economic growth** toward the R1-trillion goal.

Figure 5.2: Priority focus areas (up to 2026)

2.1 Priority Focus Area 1: Driving growth opportunities through investment

Investment raises domestic expenditure by increasing the demand for capital goods. It expands production capacity and improves competitiveness and productivity, and may introduce innovations and new technology. For this reason, the Growth for Jobs Strategy regards investments by foreign, trans-provincial and local businesses to be a fundamental indicator of success.

The main motives behind foreign investors deciding to locate in the Western Cape are proximity to market and customers, a positive regulatory environment and the availability of a skilled workforce relative to other developing countries and regions (despite the gap between the demand for and availability of skills in the Western Cape workforce).[23] To this end, policy certainty and an enabling environment, supported by a distinct Western Cape brand, need to be developed and sustained, as sentiment and confidence are key to attracting investment.

2.2 Priority Focus Area 2: Stimulating market growth through exports and domestic markets

Exports play a significant role in economic growth, especially when they open up new markets and opportunities that allow producers to diversify their customer base and increase sales. Exporting also increases know-how and makes economies of scale possible, which all help to raise productivity. Foreign direct investment (FDI) is an important mechanism for driving export growth, enhancing knowledge and technology transfer opportunities, and embedding the Western Cape products and services into global supply chains.

The province must not lose sight, however, of the fact that exports include services as well as goods. Tourism is the most obvious service export, but there are other outward-bound trade

[23] Wesgro. 2021. The Western Cape's Inward Foreign Direct Investment Plan.

opportunities that provide compelling growth prospects. These include professional and consulting expertise, business services and the creative and cultural industries.

2.3 Priority Focus Area 3: Energy resilience and transition to net zero carbon

South Africa is experiencing a deepening energy crisis caused by the 6 GW shortfall in electricity production, which has had a severe impact on economic activity and employment levels. In addition, South Africa is one of the world's most carbon-intensive economies, with dire implications for the climate, the environment and the economy. The increasing use of carbon border adjustment (CBA) mechanisms will reduce the competitiveness of exports from the Western Cape and the province's ability to attract investment. Therefore, all developmental choices must actively contribute to achieving the goal of net zero carbon (greenhouse gas emissions) by 2050.

The Western Cape has been a beneficiary of FDI for renewable energy projects but requires new capabilities in project preparation, scaling and implementation to allow municipalities and the private sector to generate and procure clean energy. Therefore, one of the Western Cape's most important strategic goals is energy sustainability as a product of energy security, energy affordability and low-carbon energy.

2.4 Priority Focus Area 4: Water security and resilience

As populations and economies grow, the need for water increases. Indeed, given the importance of water to all production processes, constraints in water provision translate directly into slower economic growth and reduced economic opportunities. The Western Cape's experience with severe drought illustrated the impact that poor water security has on citizens and the economy. The key challenges facing the province are the distribution, management and availability of water, with climate change deepening these challenges.

Building a more resilient economy includes being more water secure (everyone has safe, affordable, clean water to live a healthy and productive life) and being water resilient (water systems are able to withstand a variety of shocks without losing their ability to support key functions).

2.5 Priority Focus Area 5: Technology and innovation

Innovation and technology are interrelated in that technology embodies innovation, facilitating both its proliferation, and ongoing and continued innovation. This, in turn, drives improvements in productivity and increases economic output, reinforcing the critical role of research and development (R&D) in economic growth. The economic benefits from technology and innovation arise from the presence and growth of technologically and innovatively driven firms; the role of these firms in raising levels of productivity in other firms; economy-wide productivity gains obtained through resource efficiency; and cooperation with universities, technical colleges, etc. to commercialise R&D and spur new economic activity. The strength and depth of these processes are crucial for a region's competitiveness.

Compared to its peers, South Africa underperforms on a range of indicators relating to innovation and technological adoption, including the level of R&D spending as a percentage of GDP (which is about half the global average of 1.7%). Therefore, a focus on technology and innovation is critical if the province is going to meet its growth goals.

2.6 Priority Focus Area 6: Infrastructure and connected economy (including mobility and logistics, broadband and digital transformation)

Economic growth requires economic infrastructure (i.e., infrastructure that supports productive activities) and social infrastructure (i.e., infrastructure that enables the functionality of communities). While all infrastructure is prioritised, particular attention is needed on infrastructure for connectivity, which includes both the movement of goods and people and digital connectivity.

Improved mobility, through improving the public transport system and locating economic activities closer to where people live, raises total factor productivity (TFP). Currently, just 44% of workers use public transport and large numbers of people have commutes that are longer than an hour. Well-located, densified and mixed-use housing plays a catalytic role, moderating housing costs (thereby easing upward pressures on wages), creating employment and stimulating commercial opportunities.

Cost-effective domestic and international **logistics** are a prerequisite of regional competitiveness and require hard infrastructure, as well as a range of services that facilitate the efficient transportation of goods. Its importance is underpinned by the fact that the Western Cape is far from many strategically important markets.

Safe, cost-effective and dependable **broadband** (with protection from viruses and hackers), is vital for citizens and business. as a 10% increase in broadband penetration has been shown to result in a 1.3% increase in GDP.[24] In South Africa, constraints to access to broadband include the high costs of data[25] and devices, an uneven geographic spread of broadband connectivity and poor digital literacy − only one in five Western Cape households has access to internet in the home.[26]

2.7 Priority Focus Area 7: Improved access to economic opportunities and employability (including skills and education, transport, and housing)

As in the rest of the country, the Western Cape's unemployment rate is very high, with many of the unemployed having relatively low levels of education and few skills. Disempowerment and social inequities continue to disproportionately limit the economic participation and productivity of vulnerable groups such as women and youth, and contribute to the prevalence of gender-based violence. Therefore, these vulnerable groups need support to enable them to participate in the economy and to thrive economically.

Prioritising access to opportunities (including for employment and self-employment) and improving employability (individuals' knowledge, skills, experience and attitudes, as well as their personal circumstances, location and labour market environment) create pathways for greater economic participation and inclusion. Apart from increased output due to increased employment, widening economic inclusion also boosts aggregate demand. Upskilling is critical to inclusive growth, with opportunities in the unmet demand in a range of skilled jobs, especially in the digital economy. In addition, a focus on supporting informal and township economies will increase economic participation and reduce unemployment.

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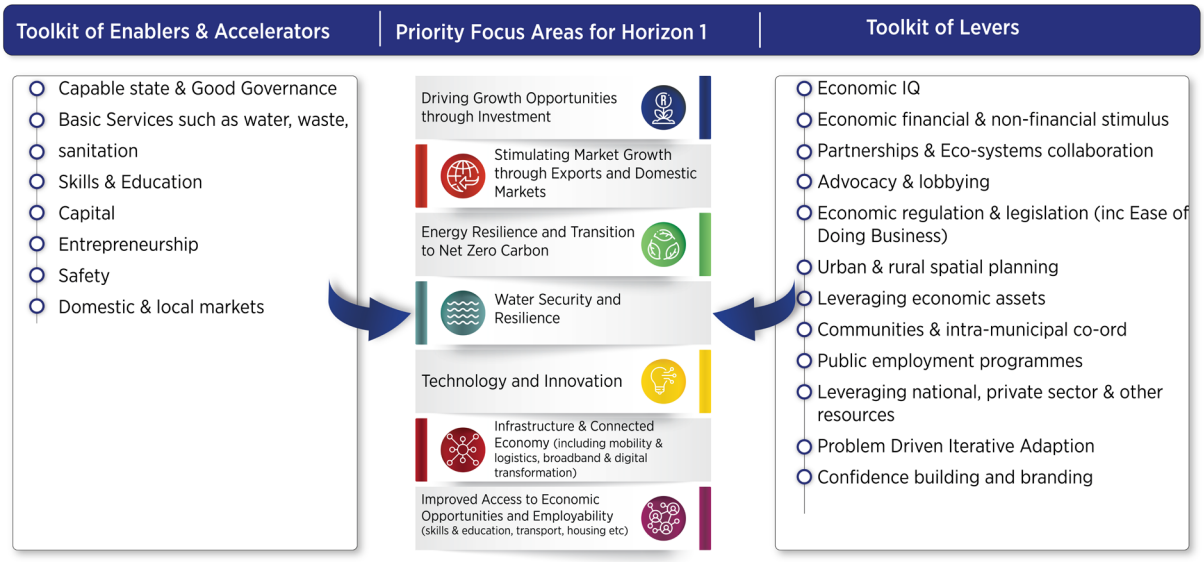
[24] World Bank. 2015. Exploring the Relationship between Broadband and Economic Growth.
[25] Chinembiri, T. 2020. Research ICT Africa: Policy Brief No 2.
[26] Stats SA. 2020. General Household Survey.

3. Toolkits of enablers, accelerators and policy levers

Apart from the seven **PFAs described above**, the Growth for Jobs Strategy has identified **sets of enablers and accelerators** and a suite of policy **levers** – or **toolkits** – to support economic growth (Figure 5.3).

Figure 5.3: Toolkits of enablers, accelerators and levers



4. Suite (or toolkit) of enablers and accelerators

Horizontal enablers, including those in the PFAs, provide a foundation for economic growth, creating an enabling environment for all businesses, while accelerators support private-sector investment and market expansion. Used well, these will support the Growth for Jobs Strategy.

4.1 Capable state and good governance

A capable state, characterised by good governance and policy certainty, is a prerequisite for economic growth. A capable provincial government operates in a coordinated manner to attain its clearly defined objectives, fulfils its obligations, and delivers services efficiently and effectively. It is responsive, transparent and accountable, and has the culture and systems needed to prevent corruption.

The Western Cape was ranked the best performing province in South Africa, according to the 2021 Governance Performance Index, which measures the quality of governance based on financial compliance, accountability, financial soundness and adequate performance in human resources management, as well as audit outcomes.[27] In the 2021/22 financial year, the Western Cape was the only province in which all departments received unqualified audits. However, a compliant state is not synonymous with a capable state. The Western Cape needs to maintain its reputation of good governance, but also apply an **ease-of-doing-government approach** that creates an enabling environment for officials to adopt innovative models and methodologies to achieve the ambitious targets of the Growth for Jobs Strategy. In time, this will ensure that the conduct of capable officials is regulated less by sets of rules prohibiting some kinds of action

[27] Good Governance Africa. 2021. Governance Performance Index – South Africa 2021.

and more by a supportive framework that facilitates effective, nimble action. Such an environment will be shaped by the goals of faster growth and more effective and efficient governance, rather than 'mere' compliance with existing rules and regulations.

4.2 Basic services inclusive of water, waste and sanitation

The provision of basic services – housing, water, sanitation, hygiene, waste collection, health care and education – accelerates economic growth and development. These services are essential for the wellbeing of citizens and, as core inputs for production, are required for the operations of businesses – failure to provide these services has a material impact on productivity. Therefore, providing sustainable and sufficient infrastructure is important for business confidence and for enabling private-sector investment.

4.3 Capital

The growth of firms drives national and regional economic growth, especially through the growth of capital stock, and so accessible and affordable finance is a critical enabler of investment and growth. In South Africa, small, medium and micro enterprises (SMMEs) are often financed primarily through their owner's equity contribution or by borrowing from friends and family.[28] Accessing capital from financial institutions, particularly banks, would de-risk and accelerate business establishment and expansion.

4.4 Entrepreneurship

Entrepreneurship is key to unlocking economic growth, but in 2019 the Global Entrepreneurship Monitor (GEM) ranked South Africa 49 out of 54 economies.[29] In practice, these rankings reflect less an absence of entrepreneurial spirit, and more the extent to which the physical, governance, economic and spatial environment inhibits entrepreneurialism. Therefore, the key to improving competitiveness and broadening competition in the private sector is to stimulate an entrepreneurial culture, create an enabling environment for new ventures and address systemic challenges that constrain growth for scale-ups.

4.5 Skills and education

A key enabler and accelerator of economic growth is skills, whether formal or informal, certified through qualification or obtained from on-the-job training. Growth cannot be accomplished without the necessary supply of skills required by private sector, while the quality and reputation of tertiary institutions can also stimulate FDI. The province has many successful skills programmes, but these need scaling to satisfy the implied demands of the Strategy's growth targets and to ensure that growth is labour absorptive, not just capital intensive.

4.6 Safety

A lack of safety not only reduces the quality of life but also raises the cost of doing business, undermines business confidence and lessens entrepreneurial activity. In 2014, gender-based violence alone was (conservatively) estimated to have reduced the country's GDP by 0.9−1.3%

[28] OECD. 2020. Financing SMEs and Entrepreneurs: An OECD Scoreboard.
[29] GEM. Is there a change in attitude towards the small and medium business sector in South Africa 2017/18.

annually.[30] Small businesses are particularly exposed and vulnerable, but even for bigger businesses, the actual costs (direct and indirect) are disturbingly high.[31] Furthermore, safety perceptions affect consumers' daily choices and have significant implications for the economic development of communities.[32] The provision of law and order is a prerequisite for growth, as business can thrive only in a stable environment.

4.7 Local and domestic markets

The domestic market offers an accessible and familar demand opportunity for local manufacturers and SMMEs. Domestic demand within the province will be leveraged as appropriate, to accelerate growth and employment by ensuring local producers are more competitive. The wider national domestic market can smooth seasonal demand and bolster sectors such as the Western Cape tourism industry from global shocks. Similarly, local markets in townships provide a potential source of opportunity and growth for their local entrepreneurs.

5. Toolkit (or suite) of levers

The toolkit of policy levers includes behaviours, systems and tools that can be deployed to improve the business environment and accelerate growth. The list of levers is not exhaustive and will be harnessed as appropriate and relevant in the planning and execution of the Growth for Jobs interventions. These should be considered holistically, i.e., both their direct impact on a business and their impact on broader supply chains and employees.

5.1 Economic intelligence (IQ)

Economic intelligence and data help identify market gaps, economic and socio-economic opportunities, and spatial trends. Data – drawn from a wide range of sources and stakeholders – is critical to the quality of decision-making in business and government and must be easily accessible. This will require developing a data management and reporting capability, inclusive of a Growth and Jobs dashboard to support all-of-government decision-making, as well as building strong and analytical capabilities and intelligence.

5.2 Economic financial and non-financial stimulus

Financial support to business includes grants, subsidies, direct and indirect investments, and public-private partnerships. Providing financial and non-financial stimulus helps reduce uncertainty and risk for the private sector and, when used appropriately, facilitates physical urban development, market development and business growth. Public financial support can be provided directly, as well as through public procurement mechanisms and co-financing schemes. Public-private partnership financing models will be important for enabling infrastructure development and may be with the private sector and with other spheres of government. Non-financial support can enhance the 'doing business' environment, through providing policy certainty, better coordination and access to information, and an improved and more efficient regulatory environment.

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[30] KPMG. 2014. Too costly to ignore – the economic impact of gender-based violence in South Africa.
[31] SBP. 2008. The Impact of Crime on Small Businesses in South Africa. A study commissioned by the South African Presidency.
[32] Fe,H and Sanfelice, V. 2022. How bad is crime for business? Evidence from consumer behaviour. Journal of Urban Economics. Volume 129.

5.3 Ecosystems collaboration

Achieving faster growth generally requires stronger and more efficient interactions between stakeholders in an ecosystem and is most effective when stakeholders collaborate. Many of South Africa's challenges stem from the large trust deficit between economic stakeholders, which reduces the efficiency of interaction between them and weakens the network of interconnected firms, households and institutions that constitute the economic ecosystem. A lack of trust affects everything – from the rules that govern economic interaction and the way in which information diffuses, to the relationships between firms and their suppliers, and between employers and workers.

Building long-term relationships and cooperation with other government spheres, among economic stakeholders (including communities and labour) and with the private sector is very important. Partnerships leverage pooled resources, expertise and efforts, while collaboration can build confidence in the provincial economy and help attract interested investors.

5.4 Advocacy and lobbying

As mentioned, national political and macroeconomic trends and risks directly affect economic growth in the province. Therefore, it is critical that the Western Cape Government intensify its efforts to ensure that decisions taken elsewhere in government support growth, especially related to safety, energy and transport. This can only be achieved through advocating and lobbying for positive outcomes, policy changes or the enactment of untapped policies and powers.

Advocacy and lobbying refer to the deliberate process of seeking to influence decision-makers and stakeholders to support and implement actions which contribute towards economic growth in the Western Cape. They are important tools of the Western Cape Government and particularly crucial considering the limits to a province's powers. If these fail, the Western Cape Government reserves the right to litigate for better outcomes.

5.5 Economic regulation and legislation (including ease of doing business)

Economic regulation is indispensable for a properly functioning economy, as it encourages competition, levels the playing field and promotes vibrant markets. In contrast, inappropriate regulations (or good regulations that are badly implemented) can be a major source of economic inefficiency, raise the costs of doing business and slow economic growth. Therefore, regulations (and their enforcement) must be designed and redesigned with the aim of facilitating (not inhibiting) greater economic activity by the private sector. An ease-of-doing-business agenda across the Western Cape Government is critical to unlock growth.

5.6 Urban and rural spatial planning

Developing the spatial economy through urban and rural planning can unlock growth, by reducing existing inefficiencies and creating new sources of economic dynamism (the rate and direction of change in an economy) and opportunity. Urban and rural planning is one of the key constitutional levers available to the Western Cape Government and local government to solve a range of structural economic challenges, through improving the flow of people and goods and addressing housing needs. Factors such as urban size, configuration, density and compactness play a role and can support agglomeration economies, reduce resource and energy demands,

and lead to savings in capital and operating expenditure. Urban mobility plans can design public transit systems that both contribute to lowering carbon emissions and improve the movement of people and goods in the Western Cape.

5.7 Leveraging national, private sector and other resources

Working with other spheres of government and institutions as well as with private sector, would enable resources to be pooled and key project success or hurdle rates to be improved, helping to secure growth opportunities and access to international markets. The Western Cape Government needs to strengthen its relationship with key stakeholders and explore new models for cooperation with the private sector, while leveraging its strengths through the effective use of its constitutional powers.

5.8 Leveraging economic assets

The Western Cape Government can promote economic growth by mobilising its local assets and resources to catalyse growth. Its portfolio of assets includes under-utilised land and buildings, which could be leveraged to improve the ease of doing business, stimulate investment and foster economies of agglomeration.

5.9 Communities and intra-municipal coordination

The mandates of municipalities cover many services required by businesses, and the delivery of these services sometimes needs to be coordinated across municipal borders because value chains generally spill over political boundaries and demarcations. This means that municipalities may need to coordinate and align their services in order to realise growth opportunities.

Community participation and coordination, particularly in the design and implementation of township economic strategies, is critical for identifying needs and priorities, and ensuring sustainability.

5.10 Public employment programmes

Although under this strategy the private sector will drive most of employment creation, the role of public sector employment should not be discarded and is currently underutilised. Provincial and municipal public employment programmes can effectively and quickly absorb the unemployed and provide relief to households in distress, thereby reducing stability risks in the province and supporting improvements in the business environment. Such programmes can also complement core growth strategies, including water resilience, food security and infrastructure delivery, and programmes aimed at achieving energy security and reducing carbon emissions. Indeed, public employment programmes can provide more than emergency employment and can deliver skills acquisition and work exposure to improve employability. However, this will require changes to the current model, including bringing in the private sector to achieve greater scale and scope.

5.11 Problem Driven Iterative Adaption

Problem Driven Iterative Adaption (PDIA) is a facilitated process for identifying problems and resolutions to these challenges. It breaks down problems into component parts, identifies entry points, searches for possible solutions, reflects on lessons learned, adapts and retries. The

PDIA methodology is particularly effective when the challenges are complex in environments that are characterised by uncertainties and multiple role-players. To be effective, the PDIA process requires cooperation and the necessary 'authority' from the leadership, but has been deployed successfully locally and internationally to achieve economic growth.

5.12 Confidence-building and branding

Confidence relates to the degree of optimism regarding the current economic climate and expected future economic conditions. Investment rates depend on expectations about the future, and so confidence levels and economic growth are strongly linked because firms pause hiring and investment when faced with uncertainty or pessimism about the future.

Communication is a key driver of confidence levels. A multitude of private and public sector organisations and institutions interface with businesses and citizens on a regular basis, and the province has a role to play in supporting business confidence through branding and aligned messaging. Consequently, marketing and communications of the economic actors within the region will need to be coordinated.

6. Strengthening geographic synergies

At the heart of the Growth for Jobs Strategy is a bold vision for the Western Cape to achieve break-out economic growth. Achieving this goal requires spatial intelligence and an effective and efficient system of governance implementing a deliberate spatial approach that seeks to exploit the province's endowments and competitive advantages. The approach's basic tenet is the recognition that land is a finite resource, yet a crucial factor for productive growth in any dynamic economy; mobility of goods and people must be much more efficient; and access to opportunity needs to be made more equitable.

A clear spatial policy creates predictability in public planning which is needed to ensure efficient interactions between the private sector and the state. It should also ensure coordinated government action that supports regional and local economic growth objectives, especially during times of constrained public spending, when care must be taken in investing scarce resources to maximise regional socio-economic returns.

The Growth for Jobs Strategy's spatial goals are aligned with, and informed by, the goals of the Provincial Spatial Development Framework (PSDF) and are guided by two questions:

- Where should government efforts related to enabling the business environment, supporting growth opportunities, and stimulating (domestic) market growth be prioritised, to ensure maximum regional economic and socio-economic impact?
- What kind of spatial arrangement is most conducive to the objective of a jobs-rich provincial economy, rolling back poverty and improving citizens' wellbeing?

At a strategic level, the goals of the Western Cape Government's spatial plans are to **consolidate** investment, both to improve the places where people are living and to **capitalise** on spatially and economically vibrant growth points; to **cluster** investment and government activities, including more affordable opportunities for people to live in these areas; and to **connect** places through better linkages between areas with an emphasis on public transport.

The consolidate, capitalise, cluster and connect spatial logic identifies four focus areas for spatial transformation:

- Improving the places where people live.
- Creating more opportunities for people to live in better locations.
- Creating better linkages between places.
- Creating spatially and economically vibrant growth points.

6.1 The rural spatial economy and regional economic infrastructure

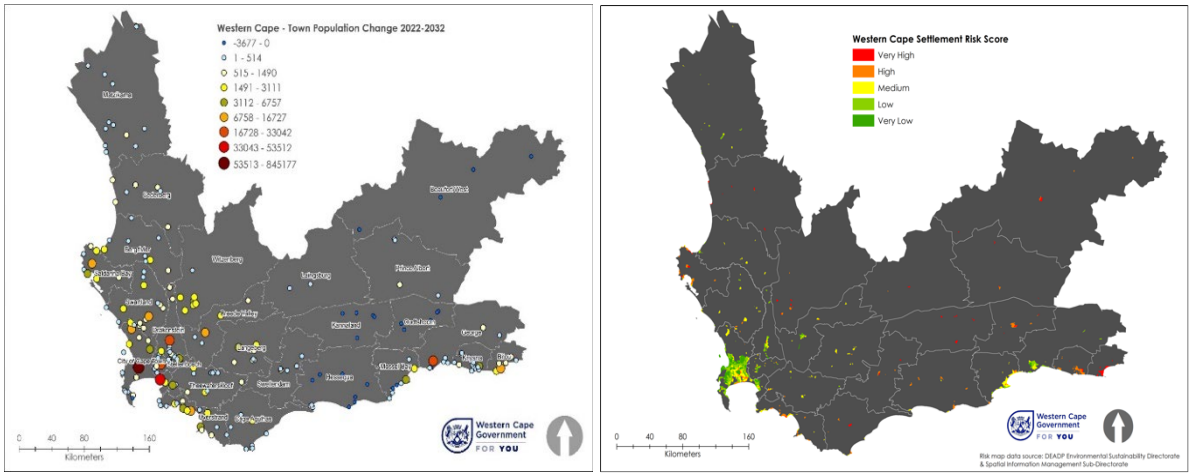
The Western Cape accounts for 20% of South Africa's agricultural GVA, and the agriculture sector accounts for more than 50% of province's exports. Although small relative to the rest of the province's economy, agriculture accounts for a large share of rural incomes and has been growing strongly, lifted by rapid growth in exports. This may be further accelerated by value addition and further product diversification. Mining activity is also growing on the West Coast, but its sustainability is uncertain, while the Karoo has potential for mining and renewable energy activities. A vibrant nature-based economy exists and is especially strong along the province's extensive coastline.

These activities are heavily dependent on networks of ports and harbours, national and provincial roads, freight and passenger rail, and water supply and electrical distribution systems.

The Growth for Jobs Strategy will play a key role in driving the implementation of the PSDF, which aims to leverage regional infrastructure for economic growth and diversify the rural economy in order to secure rural economic resilience. The PSDF identifies the Olifants and Breede River Valleys as priority rural development corridors to target for intensifying agriculture. This is supported by the identification of the Berg and Breede River catchment as a national strategic water resource area.

Parts of the Western Cape are becoming less populated, in particular the rural areas and in the band stretching between the Hessequa and Oudtshoorn municipalities and the Central Karoo district.

Figure 5.4: Population growth and settlement risk in the Western Cape



Source: Western Cape Government

6.2 The urban spatial economy

The Greater Cape Town Urban Region is home to the majority of people and economic activities in the province, with significant growth in surrounding towns, and forms an increasingly dominant economic and settlement system in the province. Population growth and settlement pressures are found along the Garden Route Coastal Corridor, in the Saldanha-Vredenburg area and in the towns serving the agricultural economy in the West Coast (along the N7) and Cape Winelands Districts (along the N1 and R62).

Smaller towns across the province often serve as home for agricultural labour, many of which will likely need to transition to urban labour over time. The Western Cape Government's Differential Urbanisation Study also suggests that cyclical shifts in population growth rates are occurring in Cape Town, intermediate cities (Paarl, Stellenbosch, George) and smaller towns.

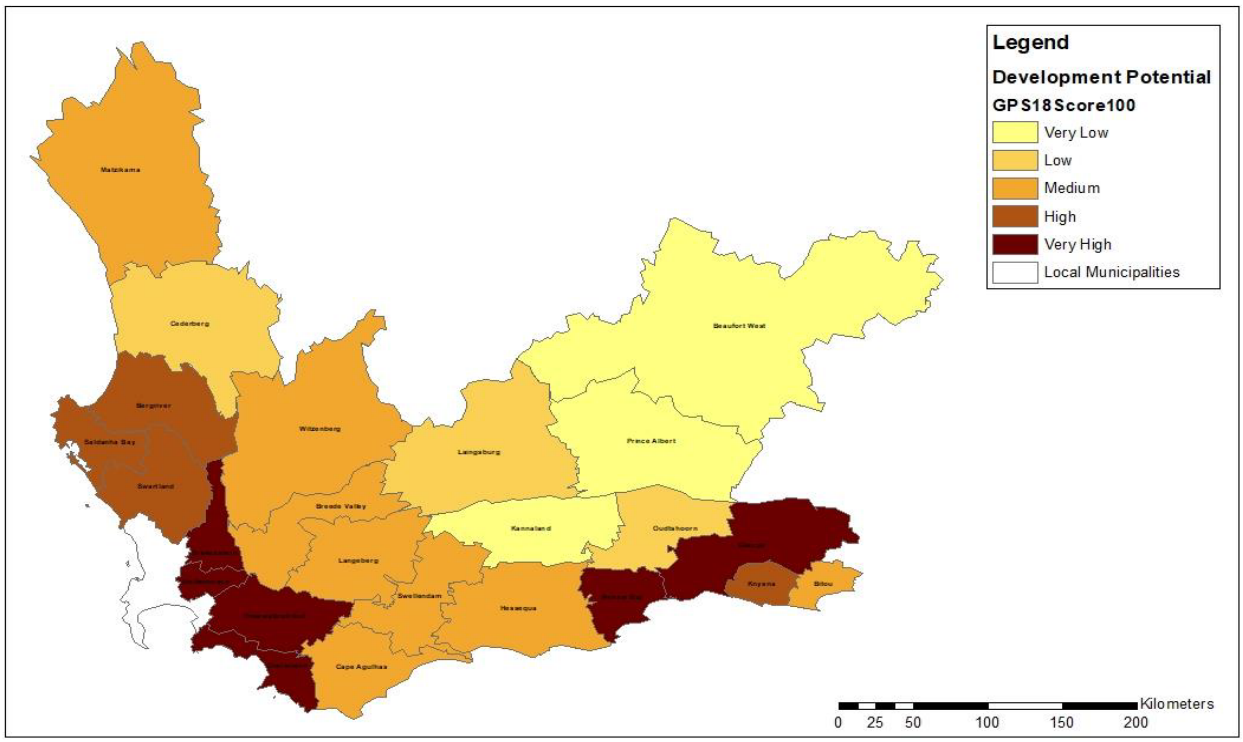
Innovation and other economic growth determinants have strong geographic/spatial dimensions, and investment decisions must be made with spatial differentiations in mind. The Western Cape Government's Growth Potential Study models growth potential across space by assessing key drivers (Figure 5.5).

Figure 5.5: Growth Potential Study Indices (2018)

Source: Western Cape Government

The results of this work suggest that growth potential is unevenly spread across the province (Figure 5.6).

Figure 5.6: Development potential of towns (excluding Cape Town) (2018)

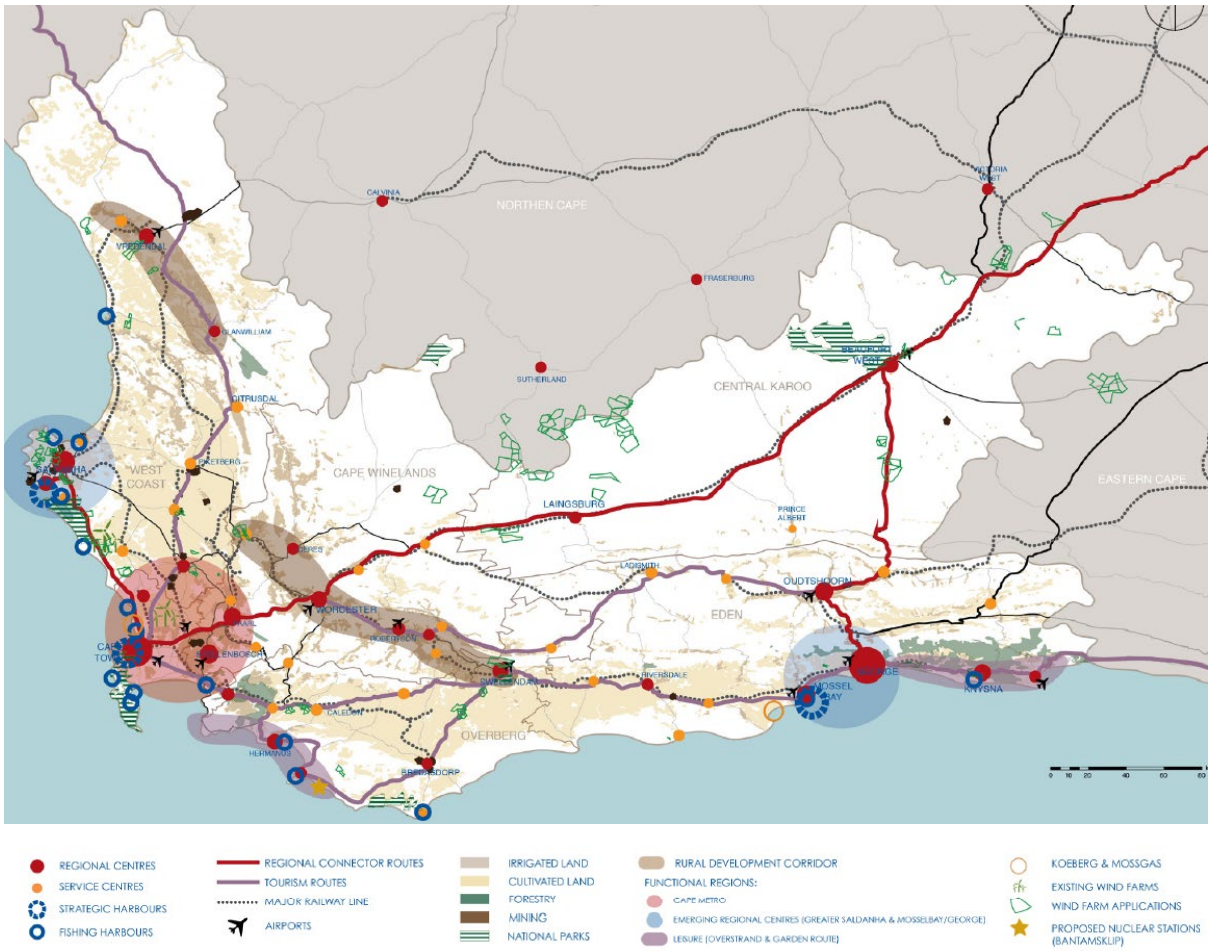


Source: Western Cape Government

There is strong population demand to move to the Greater Cape Town Urban Region and the other coastal cities and towns, whether it be to seek employment, education or a better lifestyle. This has grown in momentum due to Covid-19 and other national dynamics. Public investment (education, health and housing) has followed (and is following) these spatial concentrations of population growth.

Capturing the urban growth dividend depends on energy and water security; access to education and training; good governance; and the creation of efficient, well-connected and liveable settlements. These are reflected in the Growth for Jobs Strategy PFAs, which will drive the strengthening of urban spatial economies as the engines of growth. In this regard, the three spatial priorities are the Greater Cape Town Urban Region, the size and scale of which suggest greater resilience into the future; the Greater Saldanha Area, which can play a key role in the green energy economy; and the George/Mossel Bay Region.

Figure 5.7: Regional priority areas and infrastructure in the PSDF



Source: Western Cape Government

6.3 Enabling, supporting and stimulating the economy within cities

To capture the growth dividend from urbanisation, the Growth for Jobs Strategy must address the factors that entrench and perpetuate inefficiencies, inequality and exclusion. These include distorted and fragmented urban forms, congestion, the sterilisation of well-located land for development, affordable housing supply and skills gaps, which all impose significant costs on households, business and the state.

Local and international experiences suggest the need for caution with respect to using spatial policy for redirecting growth and locating jobs where people live, compared to effectively linking people to areas with job opportunities. That said, areas weighed down by the legacy of apartheid (having been designed in a way that inhibits economic potential) should receive preferential attention in the development of an enabling business environment, inclusive of appropriate business infrastructure.

chapter

6

Priority Focus Area 1: Driving Growth Opportunities through Investment

Chapter 6: Priority Focus Area 1: Driving Growth Opportunities through Investment

1. Introduction

Domestic and foreign investment is key to driving economic growth. The accumulation of fixed capital raises productive capacity, increases productivity and raises business confidence. In addition, the resultant increased economic output leads to GDP growth, increases opportunities for raising the number and quality of jobs, and diversifies the economy, making it more resilient to current and future shocks. Capital investment is typically financed through household and corporate savings, general government savings and inward capital flows. Without foreign direct investment (FDI), economies are entirely dependent on local savings to fund capital formation, which effectively imposes a hard limit to long-term economic growth and job creation.

Direct investment by foreign companies plays an important role in fostering skills and technology transfer from offshore to onshore. Attracting FDI helps to link a country's economy to global value chains and facilitates economic upgrading, bringing increased exports, supply chain spill-overs, new technologies and innovative business practices. Attracting FDI is often seen as a critical component of growth plans, given the linkages to globally competitive environments.

Similarly, domestic direct investment can be stimulated through harnessing growth opportunities within the Western Cape and by helping businesses outside of the Western Cape expand into the province. To support domestic firms located within the Western Cape, as well as attract trans-provincial investment from across the country, the Western Cape must compete based on the competitiveness of its business environment and unique characteristics of its growth opportunities. In this, levels of domestic and foreign investment depend on local conditions, especially the availability of skills, trade policies, macroeconomic policies and the quality of governance.

1.1 The role of the Western Cape Government in unlocking investment

While it is acknowledged that the Western Cape Government has limited control or influence over macroeconomic factors, it does have the tools to help create an enabling environment that favours investment. These include establishing sound infrastructure, providing solid logistics platforms, promoting social cohesion and easing regulatory burdens. In doing so, the Western Cape Government can contribute meaningfully towards realising a business operating environment that is more stable, connected and enabling, and thus richer in opportunities than its regional counterparts.

1.2 The Western Cape as a regional investment destination of choice

The Western Cape, because of its natural beauty, favourable climatic conditions, excellent schools and universities, and diverse people, has attracted both economic and lifestyle investments. Good governance, demonstrated by the provincial government, has also contributed to the province's attractiveness as an investment destination. The attractiveness of the Western Cape relative to its provincial counterparts is expected to continue in coming years. Therefore, the Western Cape Government needs to closely monitor this dynamic, which is likely

to create opportunities to be harnessed (e.g., increase in skilled workers) and risks to be managed (e.g., decline in domestic demand for local goods and services).

2. Situational analysis

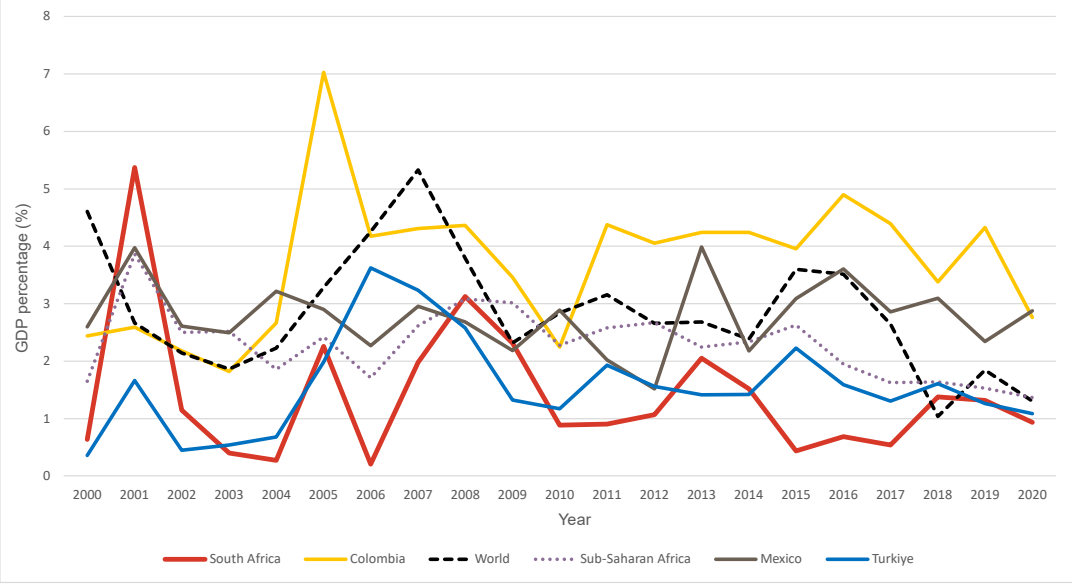
2.1 Provincial foreign direct investment performance

The Western Cape has consistently been rated as one of Africa's top investment destinations. Over the past two decades, the Western Cape has attracted 434 FDI projects, of which over 90% were greenfield investments. They have injected an estimated R157-billion in capital and resulted in the creation of 31 371 jobs. Between 2003 and 2021, the Western Cape was the destination for the second-highest number of inward FDI projects among the nine provinces of South Africa, and Cape Town and Stellenbosch were ranked among the top 20 South African cities for inward FDI projects (FDI Markets, 2021).

2.2 Global factors

Global factors such as Covid-19, the Ukraine war, rising interest rates and a rising risk of global stagflation have impacted on global growth and on investment flows. Similarly, the effects of global developments including increased fuel prices, rising inflation, civil unrest and food security concerns have had an impact at a domestic level. According to UNCTAD, global FDI recovered from $962-billion in 2020 to $1.6-trillion in 2021.[33] It is in this context that the Western Cape Government is seeking to optimise investment promotion activities to foster growth, facilitate greater resilience and seize new opportunities.

Figure 6.1: Foreign direct investment net inflows – South Africa compared to peers



Source: World Bank[34]

As Figure 6.1 shows, South Africa has underperformed compared to its peers, indicating an opportunity to increase investment if barriers are addressed.

[33] UNCTAD. 2022. Global foreign direct investment rebounded strongly in 2021, but the recovery is highly uneven.
[34] Sourced from World Bank. 2023. World Development Indicators [Foreign direct investment, net inflows (% of GDP)]. World Bank Open Data.

2.3 Western Cape investment offerings

The Western Cape's strengths include its current infrastructure, the quality of local tertiary institutions and considerable lifestyle-related attractions. Recent research by the Western Cape Government and Wesgro into the strengths and weaknesses of the Western Cape's offering to investors yielded the following results.

Table 6.1: Strengths and weaknesses of the Western Cape offering

Quality of life (pros)	Quality of life (cons)
• A mild Mediterranean climate, the natural landscape, rich biodiversity, diverse outdoor activities, cultural diversity (including an existing ex-pat community). • Excellent private health care system. • Top tier K-12 education, technical training and higher education. • Affordability of and access to top tier retail and dining experiences.	• Limited and expensive housing options. • Sharp socio-economic divisions. • Traffic congestion. • Security concerns. • Unreliable rail access.

Labour market (pros)	Labour market (cons)
• Four global universities, with over 40% of graduates majoring in STEM. • More than 10 TVET colleges, some offering partnerships with the private sector. • 5% of all enrolled students are international.	• High levels of youth unemployment. • Low wages for entry positions. • High costs of living for low- and middle-income households. • Absence of training for advanced manufacturing. • Long commutes.

Infrastructure (pros)	Infrastructure (cons)
• Substantial global and regional air-route connections. • Diverse logistics offerings from three major ports. • Large and expanding broadband network and 400 free Wi-Fi zones. • Preferential trade agreements with major trade partners.	• Poor quality of unpaved roads. • Poor rail connectivity, especially commuter rail. • Traffic congestion. • Limited landfill capacity. • Limited housing options. • Constrained power availability. • Increasing risk of water scarcity. • Congested ports and weather-related disruption.

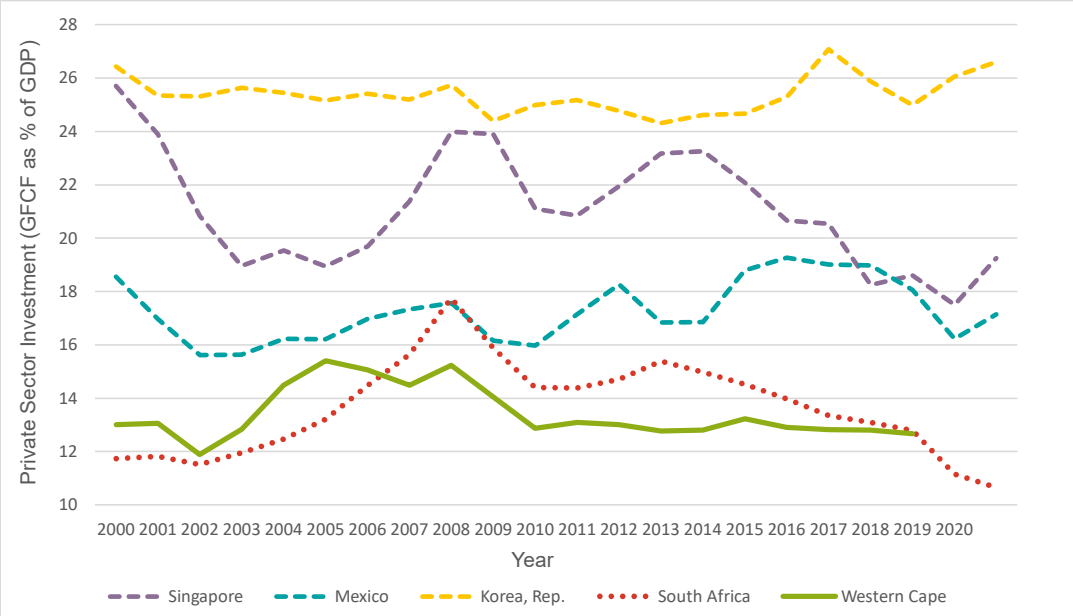
Ease of doing business (pros)	Ease of doing business (cons)
• Very low costs of starting a business, and no minimum capital requirements. • Highest ease of doing business metrics in South Africa. • Availability of high-quality office rental premises. • Preferential trade agreements with major trade partners. • Greenfield land opportunities in two SEZs. • Rising number of mixed-use developments.	• Slow, complex process for setting up a business with significant paperwork demands. • High vacancy rates in office/commercial property. • Complexity in obtaining work visas, especially for employers seeking foreign skills and spousal visas. • Room to improve on consistency in speed of service to business needs and to improve 'after care' processes.

Ease of doing business (pros)	Ease of doing business (cons)
• InvestSA's One Stop Shop. • Sound provincial governance, and good government-to-business relations at provincial and local government levels.	• Need for better coordination between municipal governments and between municipalities and province.

2.4 Private-sector investment at provincial level

The National Development Plan (NDP) targets 20% private sector investment, as measured by gross fixed capital formation (GFCF) to GDP ratio. After tracking lower since 2008, it is estimated that the Western Cape converged with the national trend at 13% in 2019. Although the Western Cape's trend appears more stable than the declining national trend, it remains markedly lower than ratios observed for benchmark economies.

Figure 6.2: Private-sector investment (GFCF as a percentage of GDP)



Source: World Bank[35]; SARB / Quantec (Western Cape)[36]

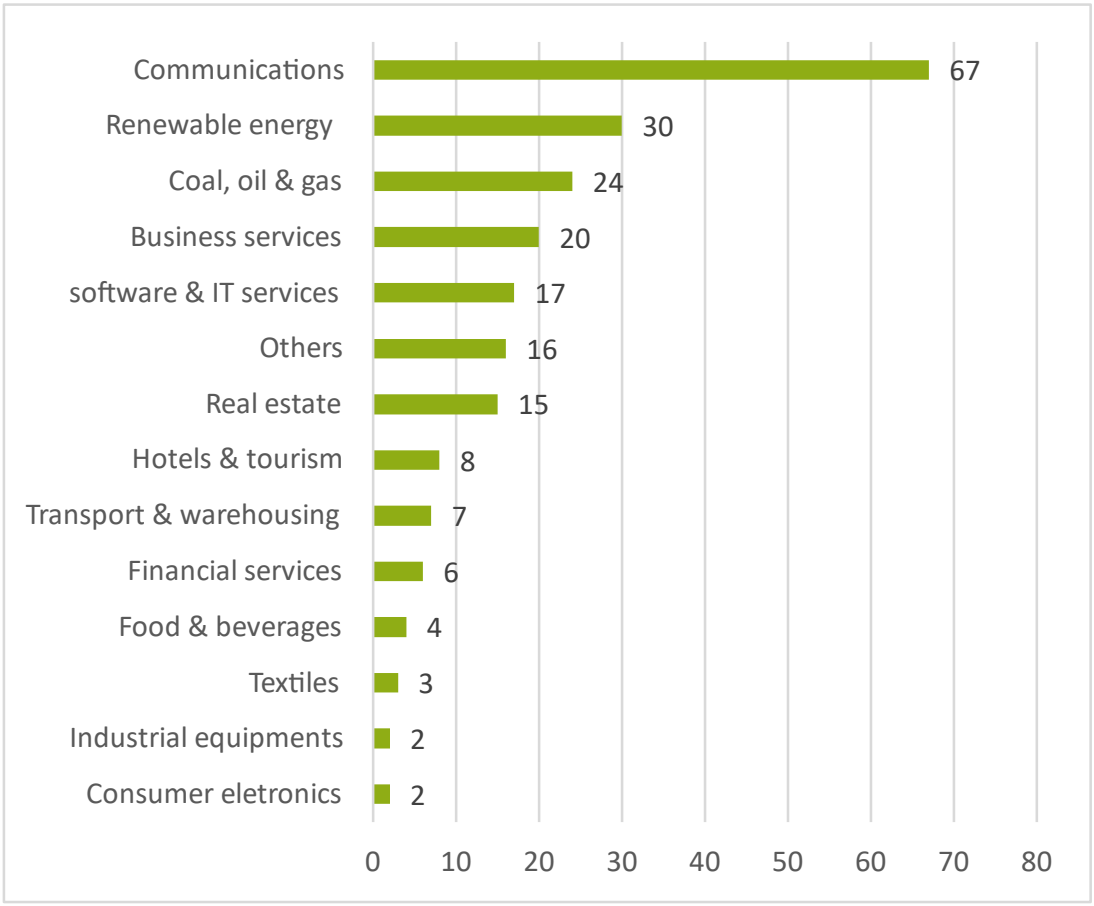
Between 2012 and 2021, total gross fixed capital formation was around R1.3-trillion (adjusted to 2021 prices)[37] while total FDI was R122.3-billion.[38] As Figure 6.3 shows, the private sector financed 12−15% of fixed investment in the Western Cape. These statistics underscore the important role played by local and domestic investors in achieving provincial growth objectives, although there is significant potential for FDI-oriented interventions to increase overall investment demand in the Western Cape.

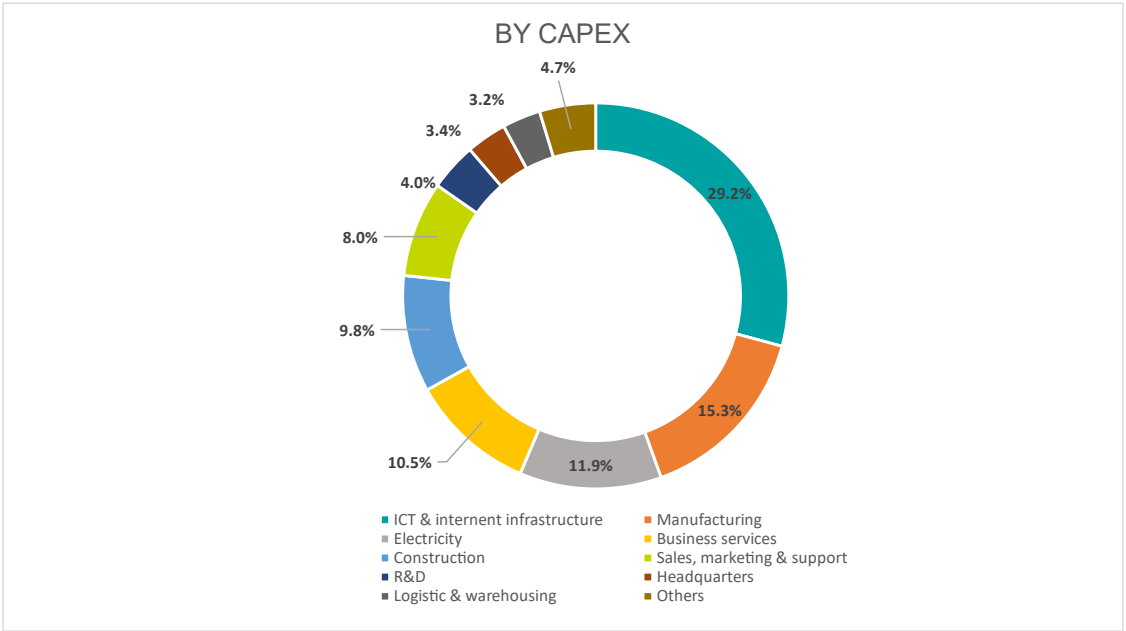
Since 2003, the business services and IT sectors have attracted the greatest interest, whereas communication and renewable energy sectors have attracted the most capital investment.

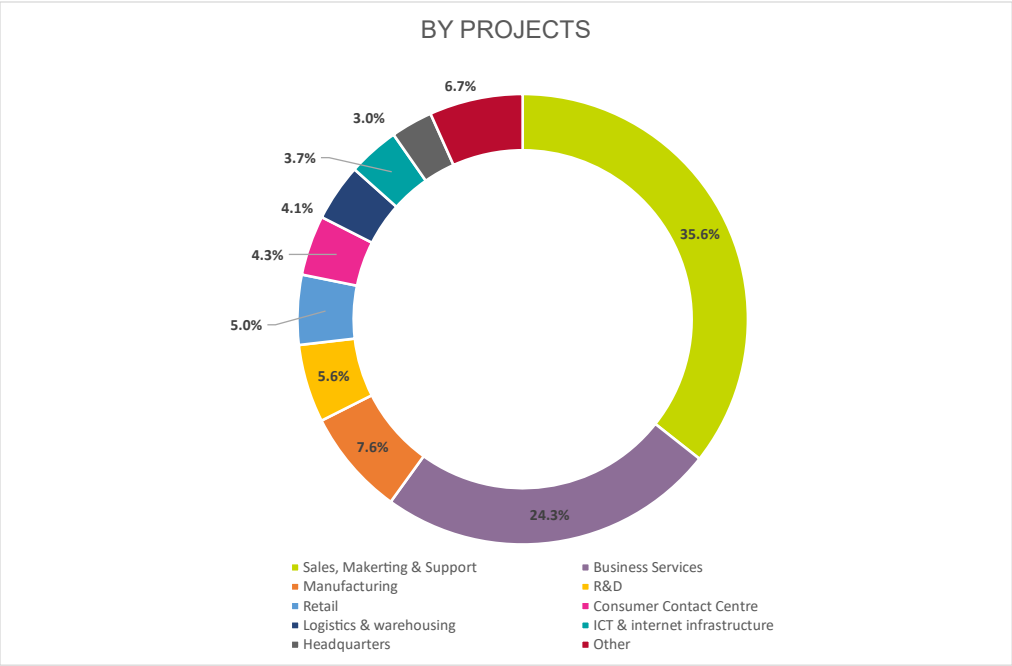
[35] Sourced from World Bank. 2023. World Development Indicators [Gross fixed capital formation, private sector (% of GDP)]. World Bank Open Data.
[36] Sourced from Quantec. 2023. Standardised regional [fixed capital formation and capital stock]. Note: Data for all SIC sectors except SIC4, SIC9 and SIC10 used to represent private sector. It is noted that personal and community services (SIC9) includes private sector as well, but only accounts for 4% of overall GFCF.
[37] Sourced from Quantec
[38] FDI markets

According to Department of Economic Development and Tourism (DEDAT) data, business services and retail accounted for over 50% of FDI projects over the past two decades.

Figure 6.3: FDI by capex and projects (2003–2021)







Source: DEDAT, Wesgro

As Table 6.2 shows, over the past two decades, the most important source countries for FDI inflow into the Western Cape were the United Kingdom and the United States, followed closely by other European countries such as Germany, the Netherlands, France and Italy. China and India were the only large investors from the Asia-Pacific that ranked in the top 15 source countries.

Table 6.2: Countries investing in the Western Cape between 2003 and 2021

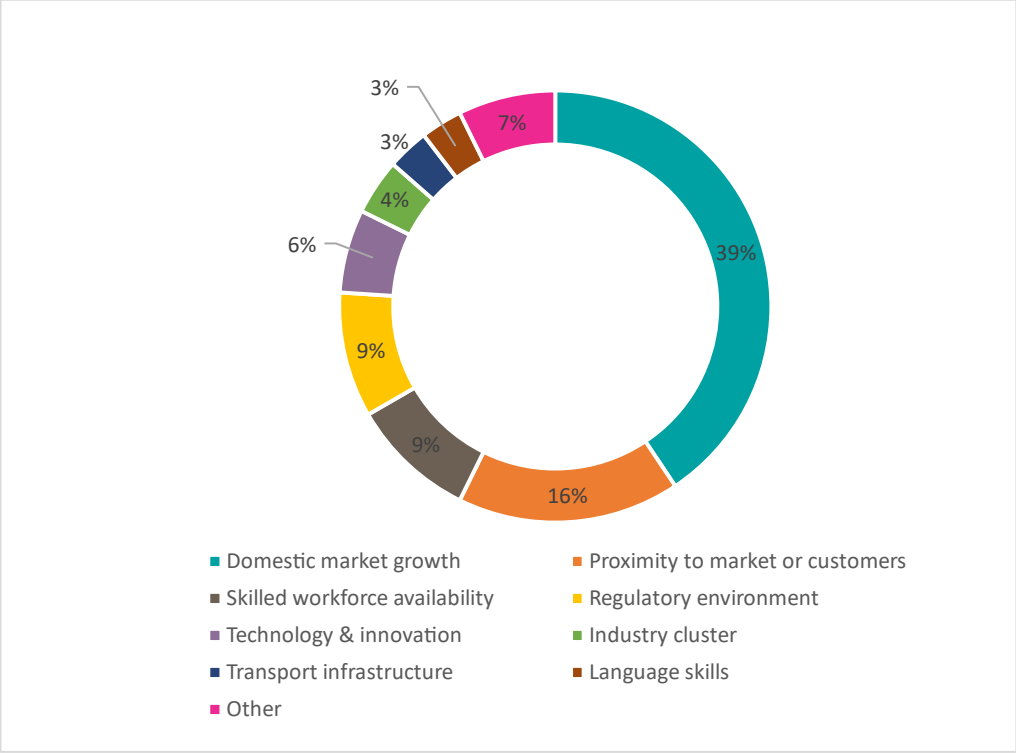
BY PROJECT							
Rank	Source country	Projects	%	Rank	Source country	Capex	%
1	United Kingdom	112	24%	1	United States	66.5	30%
2	United States	103	22%	2	United Kingdom	26.9	12%
3	Germany	33	7%	3	Norway	22.9	10%
4	Netherlands	23	5%	4	Germany	12.0	5%
5	Switzerland	20	4%	5	France	11.5	5%
6	China	19	4%	6	Namibia	9.4	4%
7	France	19	4%	7	Italy	8.5	4%
8	Italy	12	3%	8	China	8.1	4%
9	India	10	2%	9	Netherlands	6.9	3%
10	Ireland	10	2%	10	Ireland	6.7	3%

Source: Western Cape IPS (2022)

Figure 6.4 provides the motivating factors for investing in the Western Cape. The main factors are domestic market growth (26%), proximity to markets or customers (16%), the regulatory environment (9%) and skilled workforce (9%).[39]

[39] Western Cape. 2022. Investment Promotion Strategy.

Figure 6.4: FDI Projects into the Western Cape between 2003 and 2021



Source: Western Cape IPS 2022

Although the survey cited above sheds some light on the main motivating factors driving investment, the investment decision cannot be reduced to a single factor. Many considerations inform investment decisions, including locational advantages, constraints and perceived risks. Examples of locational advantages are the overall quality of the business environment and its national competitiveness, macroeconomic stability, development of the financial system, market size, rule of law and the quality of the labour force. These benefits are balanced against known and perceived downsides to investing in a particular region (Table 6.3).

Table 6.3: Policy gaps and barriers that affect investment decisions

Policy areas	Barriers and gaps
Investment policy	• Inadequate investment coordination in practice. • Insufficient policy certainty and confidence. • Gaps in coordination and resourcing of one-stop-shop mechanism. • Inconsistent special economic zones (SEZs) policy and regulation, uncertainties about incentives, and institutional structures not well suited for private participation in SEZs.
Trade policy	• Slow rollout of the African Continental Free Trade Area (AfCFTA) aimed at enabling market integration and access.
Electricity supply	• Ongoing generation problems. • Decentralisation framework that few municipalities have been able to use.
Transport, logistics and digital communications	• Congested and inefficient ports. • Ineffective user forums/strategy and planning forums. • Gaps in regional coordination for state-owned enterprises (SOEs) troubleshooting and advocacy – the need for an end-to-end logistics mindset.

Policy areas	Barriers and gaps
	• Limited effectiveness of provincial input into Operation Vulindlela, Presidential Infrastructure Coordinating Commission (PICC) and the Investment and Infrastructure Office (IIO).
Immigration, skills, and labour marketplace	• Significant gaps relating to skilled migration and inefficient visa regime for FDI. • Gaps in alignment of processes and key performance indicators (KPIs) between skills institutions and investor needs.
Availability of bulk infrastructure and industrial and commercial space	• Gaps in budget availability/financing mechanism and timely project preparation for bulk infrastructure expansion at the municipal level. • Inconsistency in costing development contributions between municipalities. • Siloed operations in municipalities between economic, planning and infrastructure functions, resulting in delays in infrastructure provision. • Lack of human resource capacity in smaller municipalities.
Safety and security	• Gaps in coordination and rapid response with local police, national police, security, criminal intelligence and local communities.
Dealing with water scarcity, climate change mitigation and sustainability	• Inadequate awareness and lack of preparedness for carbon tax. • Insufficient integration between the Climate Change Response Strategy and investment facilitation.
Anti-corruption policy	• Gaps in awareness and enforcement of anti-corruption policies.

2.5 Responsive provincial policy

In terms of the Growth for Jobs Strategy, the Western Cape Government must be responsive to evolving growth opportunities available to local, national and offshore investors. In this, the Western Cape Government needs to reinforce its attractiveness as an investment location by addressing barriers and amplifying its strengths and value propositions. This will include leveraging a comprehensive approach that addresses the competitiveness of relevant factors of production, legal, regulatory, procedural, and institutional barriers affecting all phases of the investment lifecycle.[40]

Over 90% of firms in developing countries report gaps between formal policies and what happens in practice.[41] Therefore, regional competitiveness requires that investment support ecosystems be set up to assist in providing positive investor experiences. Investors in the Western Cape already have a facilitation ecosystem that provides a range of direct and indirect services and regulatory functions. It is well positioned to serve existing economic actors and new investors. Direct services available within the province include:

- Information and research to evaluate the Western Cape as an investment destination.[42]
- Location assessment and support to select and secure a specific site.
- Support with registration and regulatory set-up involving local, provincial and national government entities.

[40] World Bank. 2022. Investment Climate.
[41] World Development Report. 2005. A Better Investment Climate for Everyone.
[42] Investment generation encompasses intelligence gathering (raw data analyses and market studies), sector and investor-specific events (such as roadshows and missions, abroad and incoming) and direct targeting of investors (one-to-one meetings, proactive campaigns and inquiry and request handling).

- Access to infrastructure and utilities.
- Support for economic networking and value-chain linkages, including finding suppliers, financial service providers, workforce/skills, partners, and markets.

Given the centrality of investment promotion agencies in attracting investment, it is important to continuously benchmark the province's facilitation ecosystem's performance against international counterparts. Measured against other investment promotion agencies (IPAs) in Africa and the Middle East, the Western Cape's institutions perform well, except in relation to investment retention and after-care support services, where performance is similar to other IPAs. Compared with European and North American IPAs, the Western Cape performs largely equally in aspects of digitalisation of investment promotion activities and FDI capex. However, in the areas of FDI regulations and overall IPA performance, the Western Cape is notably weaker, especially when positioned against IPAs in the United Kingdom, the United States, Switzerland, and Germany.[43] These results indicate scope for further improvement.

3. Challenge and opportunity statements

Drawing from the situational analysis, as well as stakeholder inputs, the following are the key challenge and opportunity statements for the PFA.

3.1 Challenge statements include:

- Negative perceptions of South Africa, globally and locally. Western Cape brand and value propositions are not strongly known or are affected by unfavourable views of South Africa.
- A fragmented ecosystem of investment promotion, support and facilitation, leading to gaps in the offerings, poor response rates and unrealised opportunities.
- Gaps in information and intelligence about investment opportunities and trends in the province that lead to lost opportunities or a lack of adequate preparedness.
- The lack of an enabling investment environment, including the restricted and uncertain supply of electricity, infrastructure and efficient logistics, significant uncertainty about getting visas for investors and critical staff, and foreign exchange controls restricting the repatriation of capital.
- Policy uncertainty and a negative perception about political commitment.
- Macroeconomic challenges, including low GDP growth and a relatively small local market.
- An absence of investment incentives, which are used globally to reduce risk and overcome uncompetitive factors within the economy.
- Weak and fragmented industry and value-chain ecosystems, leading to an inability to identify and harness opportunities, networks, and know-how.

3.2 Opportunity statements include:

- A cohesive investment support ecosystem in the Western Cape that attracts a pipeline of investment opportunities and has a high realisation rate.
- A strong and positive domestic and international brand that builds on existing and unique strengths such as rooibos and indigenous products, and capitalises on new growth opportunities such as financial services (fintech) and cannabis processing.

[43] OCED. 2018. Mapping of Investment Promotion Agencies in OECD countries.

- A robust and wide network of overseas and local advocates and ambassadors who know the Western Cape value proposition and help to attract investment.
- A high degree of confidence among investors and businesses in the Western Cape and the Western Cape Government.
- Constraints to investment and specific opportunities are addressed by provincial and local government and where government assets and levers are used to provide competitive investment incentives and support.
- Strong partnerships between government and businesses allow for challenges to be addressed and opportunities to be pursued, with high degrees of trust among stakeholders.
- Domestic and foreign investment helps diversify the economy, increases inclusion, and facilitates spatial transformation and social cohesion, including investment in labour-intensive industries and townships.
- All necessary information is available and accessible to support sound investment decision-making, and where all investment (foreign and domestic) is tracked.
- An enabling ease-of-doing-business environment exists for South African and foreign investors where they can invest with certainty and assurance.
- Energy supply and distribution plans to build energy security unlock investment opportunities and providing assurances to investors.
- Environmental, social and governance (ESG) investors are attracted to the Western Cape and investors are assisted to improve their ESG portfolio through demonstrated commitment to low carbon, climate-resilient economic activity.

4. Objective and goal statements

4.1 Objective statement

The Western Cape is the investment destination of choice for local and international investors in a range of growth opportunities, providing an enabled environment and strong networks of ecosystems.

4.2 Goal statement

Private-sector investment will be 20% of regional GDP (translating to R200-billion) by 2035.[44]

GDP is a macroeconomic measure of the value of economic output, and investment is a key component of the GDP formula. Therefore, this PFA forms a core building block of the overall Growth for Jobs Strategy and focuses on private-sector investment as a component of GFCF as a percentage of GDP. It is understood that achieving the 20% target occurs from a low base and that, by 2035, the economic benefits of the goal statement will make an annual contribution of R200-billion to provincial GDP and support 210 620 jobs.[45]

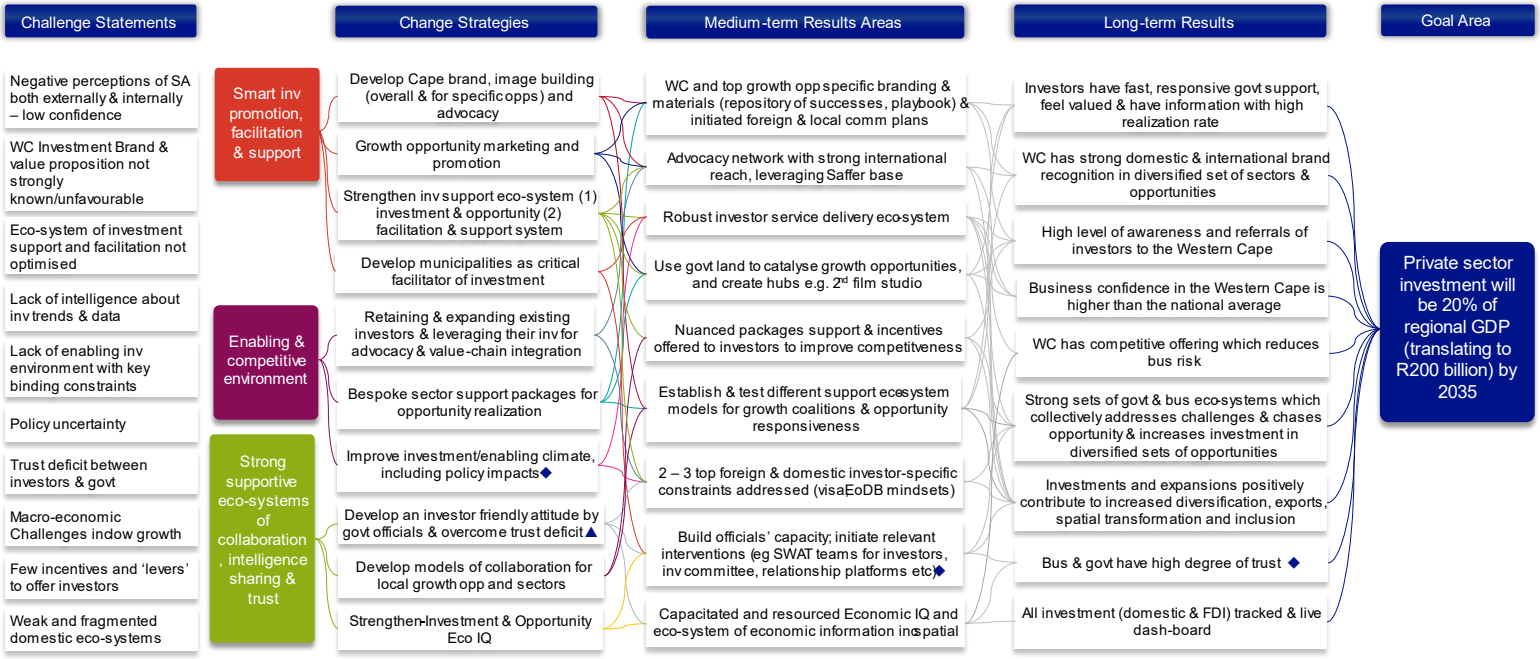
[44] The target refers to overall private sector investment into the Western Cape as the 20% private sector component of GFCF. The specific target for investments directly supported by the Western Cape Government is R100-billion by 2035.

[45] DEDAT and Conningarth Consulting Economists used a Western Cape Social Accounting Matrix for economic benefit calculations.

5. Strategic-level theory of change for the PFA

The objective statement, the goal statement and several change strategies were identified in a collaborative co-design process as part of the development of a high-level theory of change for the PFA (Figure 6.5).

Figure 6.5: Theory of change for PFA 1: Driving Growth Opportunities through Investment



6. Change strategies and interventions

Based on the theory of change, to achieve the goal statement, the PFA will need to institute various change strategies, including smart investment promotion, facilitation and support; an enabling and competitive environment; and strong, supportive ecosystems of collaboration, intelligence sharing and trust.

6.1 Smart investment promotion, facilitation, and support

The change interventions to be effected include:

- **Developing an overall Cape brand,** as well as sets of brands, for specific 'foundation' and emerging industry and place-based opportunities. This brand, along with supporting marketing material, will be used for international, regional and local businesses; school learners and tertiary education students (to inform career choices); as well as officials, so that civil servants understand the importance and relevance of the support that they provide. The initial set of foundation opportunities identified, based on private-sector activity, are renewable energy, tech and digital, agriculture and agro-processing, life sciences, and business and financial services. As new opportunities emerge, additional brands will be developed, as this is important for diversifying the economy.
- **Undertaking aggressive programmes to market and promote** the growth opportunities to targeted countries and investors, using all entities and relevant officials, leveraging the provincial and local government political leadership, as well as South African networks and

international influencers. These include establishing an international advocacy and brand ambassadors' network, using the influence and support of South Africans based abroad to assist with the marketing and promotion of investment into the Western Cape, expanding the points of entry and number of people 'selling' the Western Cape value proposition.

- **Strengthening the overall investment facilitation ecosystem** to support, enable and advocate for investment in identified opportunities, making sure the Western Cape optimises all chances to land the possible investments. An agile team of institutions and specialists will be necessary to land investment. To increase responsiveness to individual investors will require bringing together all the necessary stakeholders to ensure a proactive ease-of-doing-business environment for international and domestic investors, through measures such as anticipatory rezoning or environmental impact assessments (EIAs). It is therefore imperative that municipalities are part of the ecosystem and are sufficiently capacitated to be responsive to the needs of investors.
- **Developing a platform to seamlessly link investors with opportunities** with all intelligence readily available, capable of interacting and transacting to give effect to all investment requirements. The province already uses social media and digital platforms smartly, and needs to continue to embrace the efficiencies and effectiveness that technology offers.

6.2 Enabling and competitive environment

The change interventions to be achieved include:

- **Addressing visa challenges** through conducting research with respect to the value that foreign investors and professionals bring to the local economy (including local jobs), using this research to change local perceptions, and advocate for the amendment of visa regulations to provide transparency, speed and certainty to foreign investors. Furthermore, in the interim, provide an investment concierge service to support and fast-track visa/residence applications. Additionally, implement programmes to attract back the skills lost due to the brain drain.
- **Identifying the top three investor constraints** and ensure a constant stream of communication and advice about how investors can navigate these challenges and what the Western Cape Government is doing to improve the investor environment. Leverage private-sector ecosystems to gather evidence to assist in overcoming the challenges.
- **Developing nuanced packages of support and incentives (especially non-financial)** to help overcome the challenges faced by individual growth opportunities, and simultaneously address the systemic competitiveness issues. This will include drawing from the suite of enablers and levers to enable sustainable investment and facilitate the province's exit from its incentive support efforts.
- **Ensuring that the necessary infrastructure for investment** is provided, including working closely with the PFA 6 (infrastructure and connected economy) and the use of government land and assets to catalyse growth opportunities, reduce risk and costs, and work with the municipalities to provide the appropriate incentive support packages. For example, offer government land or stimulatory support to establish growth opportunity hubs in the Western Cape to help catalyse opportunities and improve ease of doing business, following models such as Silicon Valley and replicating the successes of the Cape Town International Convention Centre and the Cape Town Film Studios. This will include re-examining the current SEZ model and determining the most effective mechanisms to bring private-sector developers on board for tracts of current or additional SEZ land parcels.

- **Radically increasing supply of affordable housing** by unlocking opportunities for municipalities to support township developers and engaging with financers to scale up, as well as promoting land value capture (including, but not limited to, inclusionary housing) in the south-east peninsula. Develop financing models to bring on board private finance and developers (including micro builders) to accelerate development and de-risk investment.
- **Increasing policy and regulatory certainty,** through engaging with all spheres of government and corroborating engagement efforts with evidence-based research. These engagements are, among others, aimed at enhancing policy-makers' appreciation of the importance of investors for the economy and assisting in the creation of a regulatory and policy environment that gives investors the necessary confidence to make a positive investment or expansion decision.

6.3 Strong and supportive ecosystems of collaboration, intelligence sharing and trust

The change interventions to be achieved include:

- **Supporting growth opportunity ecosystems** and fostering linkages between different ecosystems and/or along the value chain (including the informal sector players) to create opportunities for knowledge transfer, expansion and diversification. For growth opportunities, develop and test various support models and coordination platforms to strengthen ecosystem collaboration, address information asymmetries and realise growth opportunities and cluster support, where the private sector can self-coordinate, but where government is also able to engage with relevant stakeholders.
- **Strengthening the investment and opportunity economic IQ**, partnering with all spheres of government, state institutions and the private sector to enhance information collection and availability of investment intelligence. The focus is not only to collate the investments where the Western Cape Government had a direct causal role to play, but also to track all investment – local, domestic, and international – taking place in the province. This information will be used to create a live platform so that success can be measured, new and emerging opportunities can be identified, and insights can be obtained into the spatial dynamics of investments. This intelligence will allow for government to make the necessary preparations and evidence-based decisions to support an enabling environment for investors, as well as serve as input into the marketing of the Western Cape as an investment destination.

7. Considerations with respect to the PFA and its change strategies

7.1 Assumptions

To achieve success, the following explicit assumptions have been made:

- Political leadership is accessible to investors and local businesses and builds confidence and policy certainty.
- Economic change requires investment strategies to be agile and that there will be political support for pivoting when required.
- Economic IQ and evidence-based information will address negative public sentiment that has been based on a skewed understanding of evidence and guide policy decision-making.
- Economic IQ will be properly resourced and the necessary memoranda of understanding and relationships with the holders of the data will be in place.

- The support of private-sector-led growth opportunities will be accompanied by coalition models that enable government to partner with the private sector.

7.2 Risks

- Some interventions have a heavy dependence on other enablers and levers for successful implementation, and success may be compromised should this support not be forthcoming (e.g., Eskom and Transnet not making their strategic changes quickly enough, national policy or implementation not evolving, e.g., on visas).
- Even as municipal capacity is built, high local government staff turnover will erode capacity gains, undermining municipalities' ability to be responsive to investors.
- Negative developments may affect the economy internationally (Ukraine war, etc.) or locally (e.g., a repeat of July 2021 or new corruption scandals), compromising the drive to increase investment.
- Socio-economic challenges such as inequality and crime undermine promotional efforts.

7.3 Research

The following research needs have been identified:

- Research into the sources of mistrust between the private sector and government and what is needed to shift attitudes.
- Research into the impact of locally based foreign professionals and investors on the domestic economy and local employment.
- Research, as appropriate, into the top inhibitors to investment, benchmarking the key constraints against international best practice, with the intention to use this research as a point of departure for advocacy and change.
- Research into different models that bring the private sector more strongly into the development of SEZs, benchmarking against best practice.
- Research into different ecosystem models including, if required, compliant but efficient financial support or investment.
- Research into emerging growth opportunities, such as cannabis and hemp downstream processing opportunities and the space economy.
- Research into accelerating land release for the development of housing and into models of providing government land and under-utilised buildings for development hubs.

chapter

7

Priority Focus Area 2: Stimulating Market Growth through Exports and Domestic Markets

Chapter 7: Priority Focus Area 2: Stimulating Market Growth through Exports and Domestic Markets

1. Introduction

Expanding exports of products and services (including international tourism) and enabling access to global markets (larger and faster growing than that of South Africa), are key to enabling break-out economic growth for the Western Cape economy. Exports create opportunities for domestic producers to expand and diversify their customer bases and products and to grow their businesses. Increasing exports from the Western Cape has a positive multiplier effect on economic output and gross domestic product (GDP), as it bolsters demand for products and services, enabling the region to overcome extrinsic factors at the national level that might hold back domestic demand. Evidence[46] shows that successful growth strategies in developing countries, such as South Korea, have included prioritising the development of local production through 'export-led' approaches.

The domestic market nonetheless remains crucial, given the Western Cape's size, geographic proximity and (comparatively) reasonable growth rates. In the case of South Africa and the Western Cape, high domestic consumption offers prospects for additional growth, resilience and job creation, particularly if local suppliers are able to out-compete importers. Future shocks, such as climate change-related extreme weather, will play out in different ways around the country and provide some degree of diversification in domestic demand. The Western Cape's Growth for Jobs Strategy will therefore prioritise exports while leveraging and optimising domestic markets. This will be achieved by expanding current activities and implementing new initiatives that enhance support to current and potential exporters.

An enabling environment is fundamental for maintaining and growing domestic demand and exports. Therefore, the Growth for Jobs Strategy aims to boost production and productivity factors that enhance regional and international competitiveness and advance those conditions that enable private-sector export growth, such as logistics to facilitate the mobility of products destined for export and domestic markets.

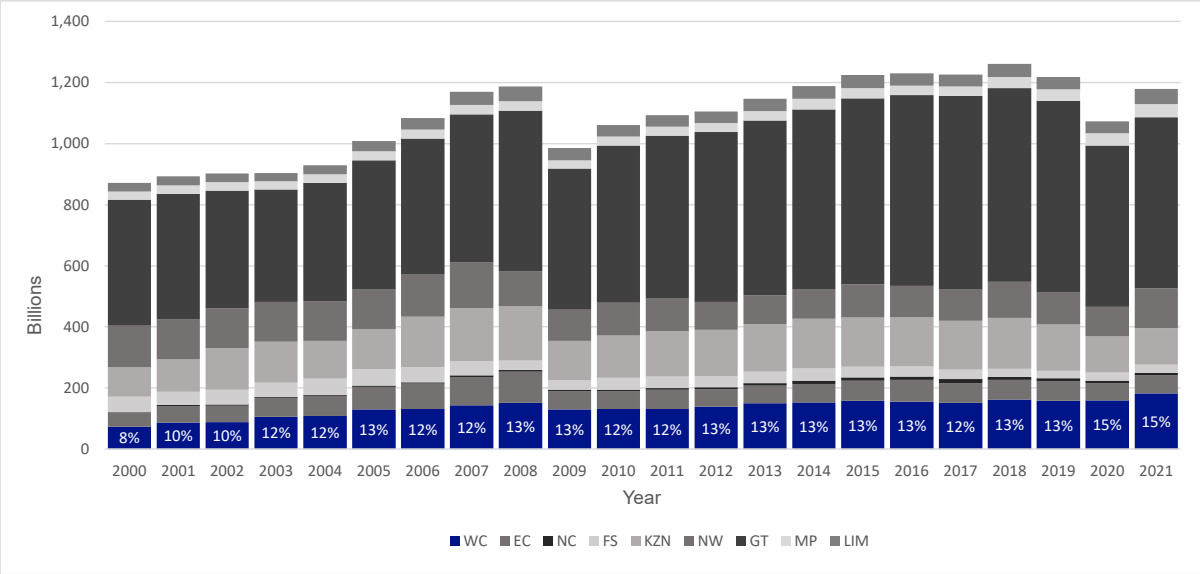
Enhancing the competitiveness of service-based exports may require different enablers, including strengthened skills capabilities and access to cost-effective high-speed broadband. Service industries represent a large component of domestic demand and offer substantial growth prospects in a post-Covid world. In this respect, the Western Cape can capitalise on its brand as the leading location for domestic tourism, tech start-ups, asset management, retail headquarters, cultural and creative industries and, to a lesser extent, for banking and insurance.

2. Situational analysis

Over the past 20 years, the province has performed relatively well in growing its exports, almost doubling its share of national exports (by value), from 8% in 2000 to 15% by 2021.

[46] Numerous World Bank reports

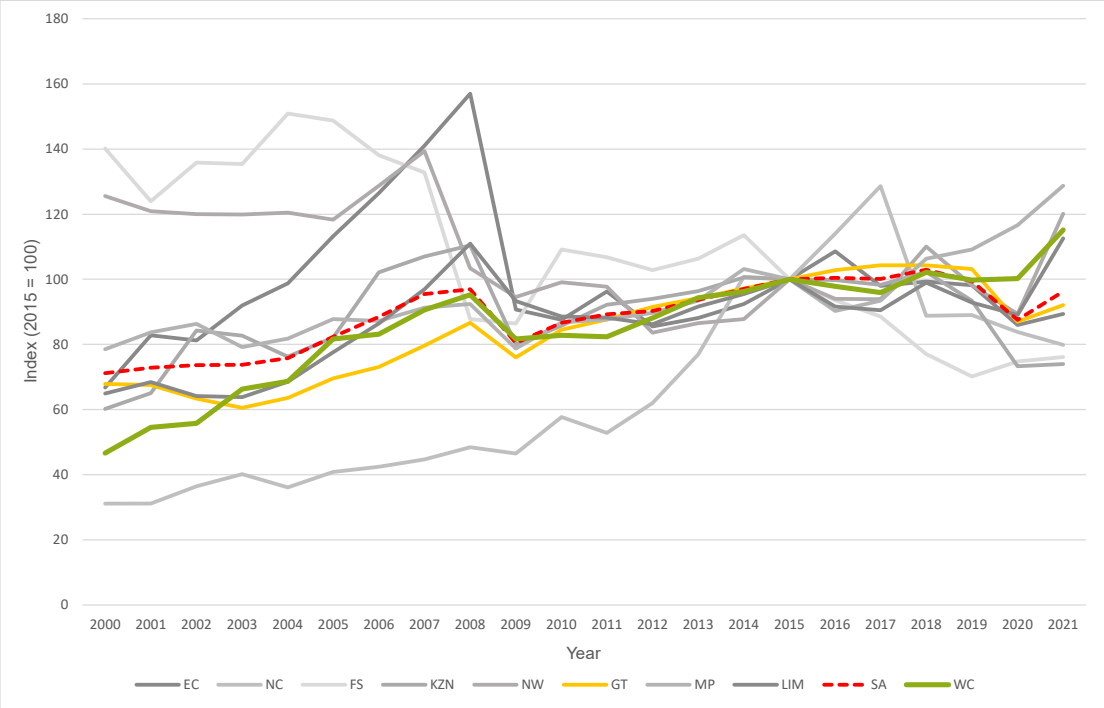
Figure 7.1: Long-term provincial export performance, growth and values (2015 Rands)



Source: Quantec[47]

Between 2000 and 2021, provincial exports grew by 146% in real terms, compared to 35% for South Africa's exports. The Western Cape has largely managed to track export performance against that of other provinces and benchmark countries, while national exports appear to have fallen behind since 2015 (see Figures 7.2 and 7.3).

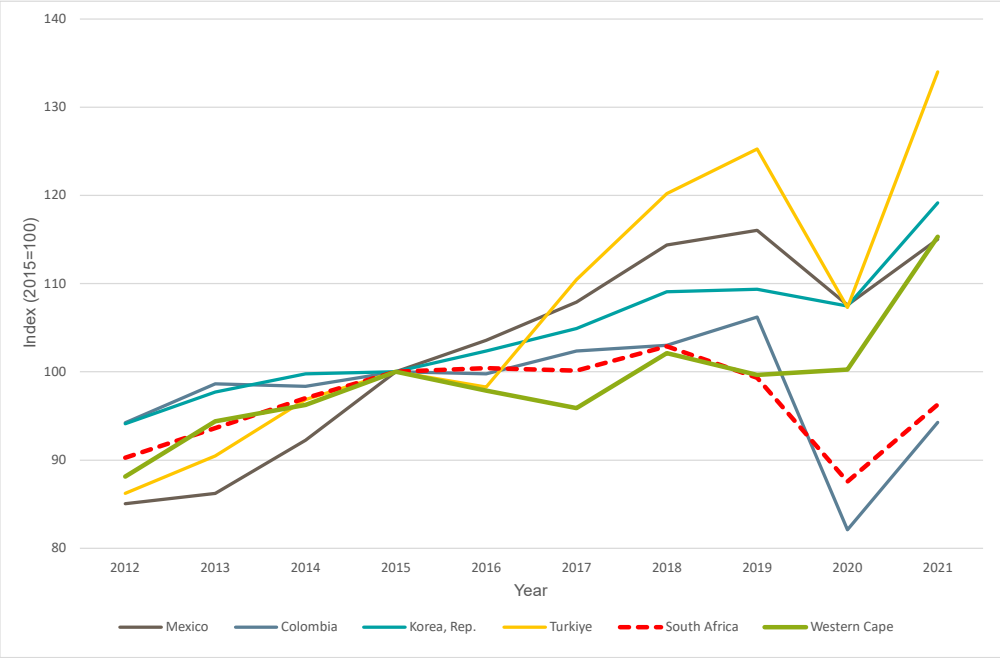
Figure 7.2: Long-term provincial export performance, indexed (2015 Rands)



Source: Quantec[48]

[47] Sourced from Quantec EasyData. 2023. RSA Standardised Regional [International Trade].
[48] Ibid

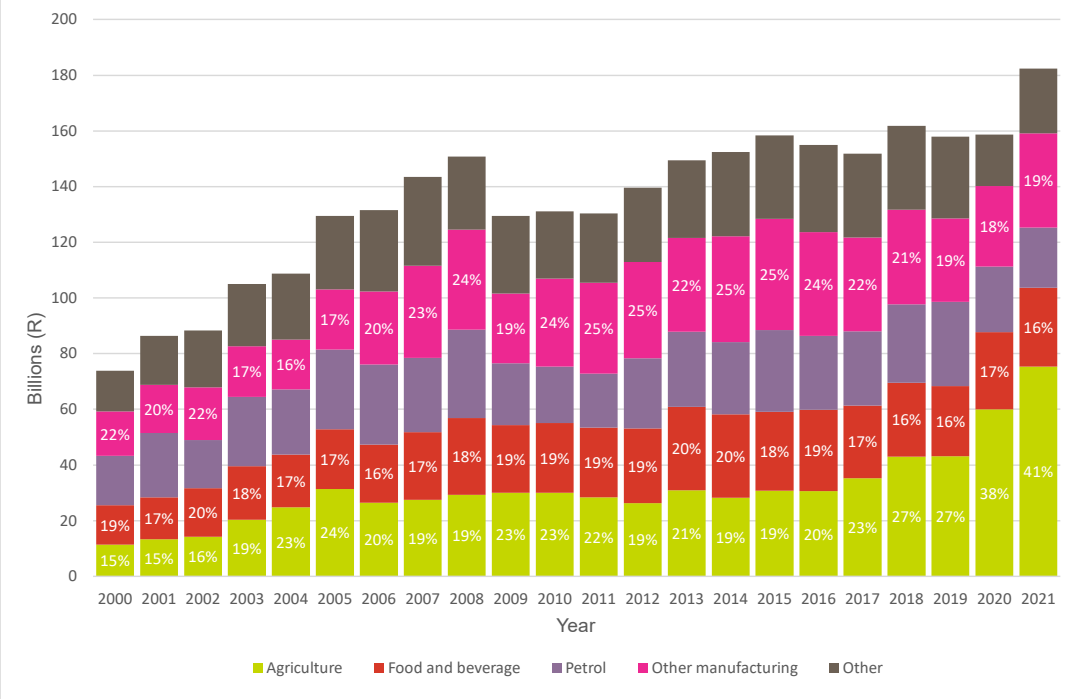
Figure 7.3: Benchmark export performance, constant 2015 US$ (2012–2021)



Source: World Bank,[49] Quantec[50]

Notably, provincial exports have remained resilient over the Covid period, growing in 2020 and 2021 (Figure 7.4).

Figure 7.4: Export performance by sector

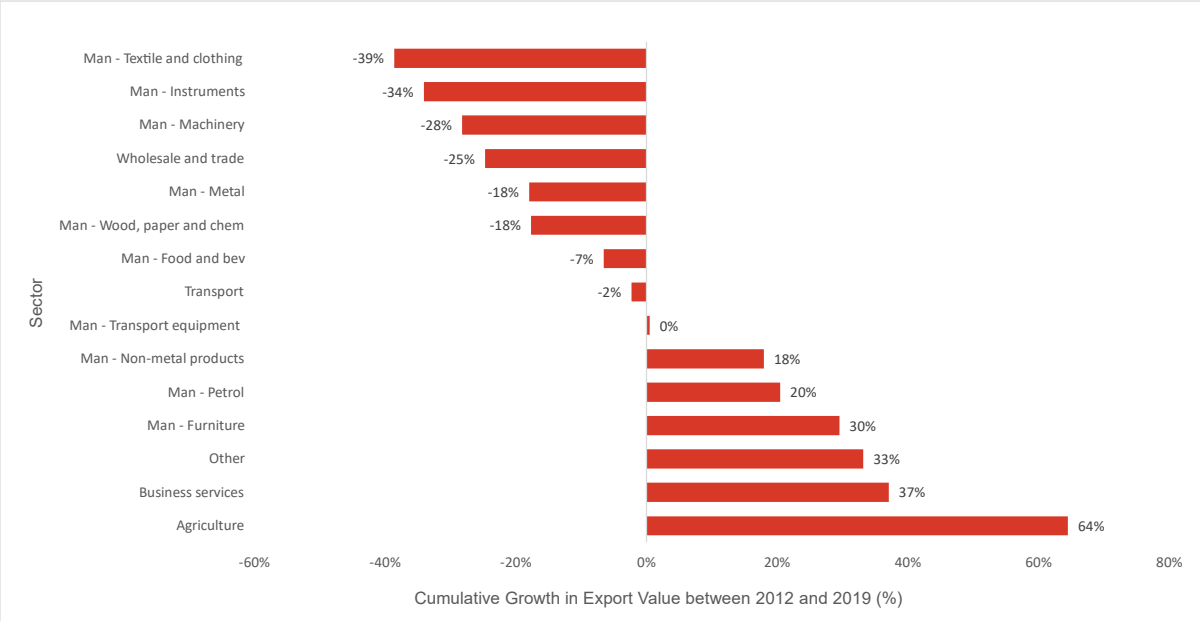


Source: Quantec[51]

[49] Sourced from World Bank. 2023. World Development Indicators [Exports of goods and services (constant 2015 US$)]. World Bank Open Data.
[50] Sourced from Quantec EasyData. 2023. RSA Standardised Regional [International Trade].
[51] Ibid

As Figure 7.4 shows, between 2016 and 2021, Western Cape agricultural exports doubled (from 20% to 41%), whereas manufactured goods (excluding agri-processing) declined from 24% to 19%. In 2021, agricultural products accounted for 57% of exports (up from 34% in 2000), highlighting the importance of this sector to the Western Cape's overall trade, development, and employment.

Figure 7.5: Export performance by sector, cumulative growth in export value (2012–2019)



Source: Quantec[52]

Comparing sector performance between 2012 and 2019 (to control for the impact of the Covid-19 pandemic), the sectors that have demonstrated growth were agriculture, business services, furniture, petrol, and non-metal products (Figure 7.5). According to the Department of Economic Development and Tourism (DEDAT), in 2021, business process outsourcing (BPO) and IT-related services contributed R7-billion to the province's GVA, averaging 22% growth since 2018.[53] Textiles and clothing, advanced machinery, wholesale and trade, metal products and wood, paper and chemicals have declined. An exception to this trend is the furniture sector, where exports have doubled in value in real terms from R6.3-billion in 2015 to R12.7-billion in 2021 (in constant 2015 Rands).

2.1 The Western Cape's tourism performance

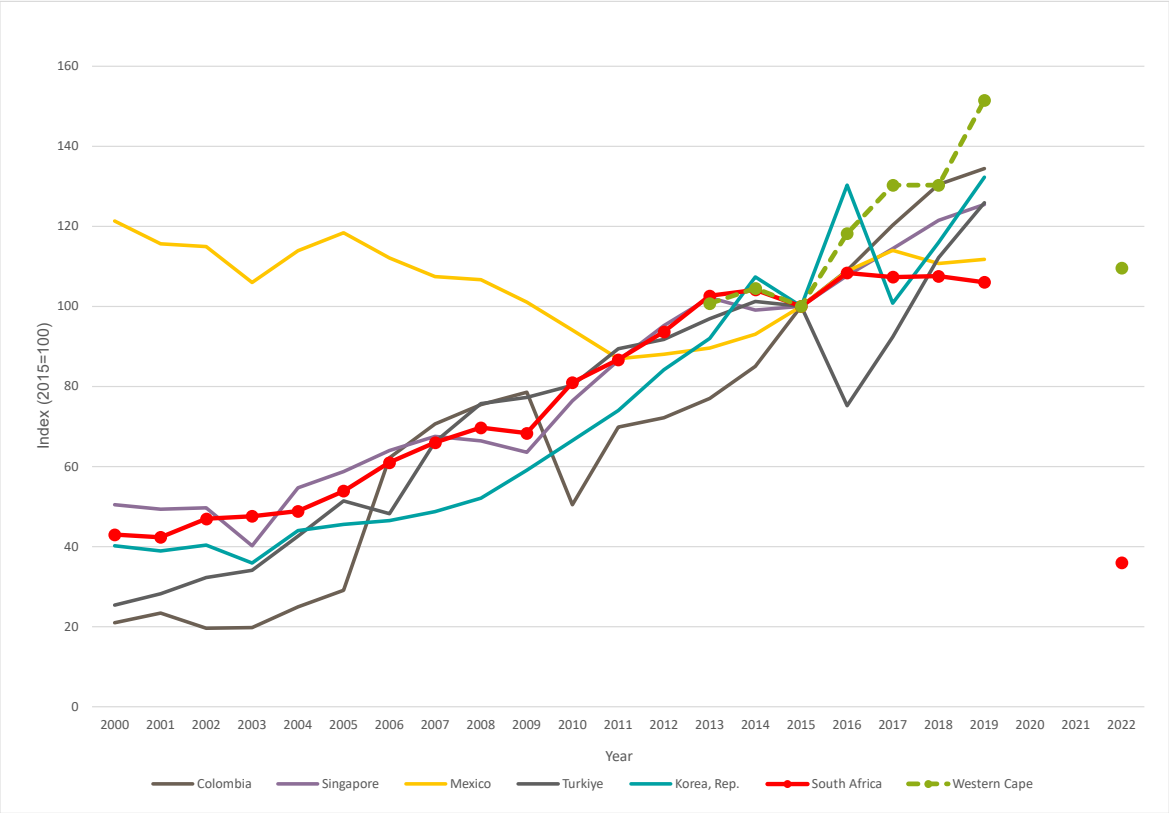
The Western Cape has exhibited sustained tourism growth and, consequently, has experienced a relatively rapid recovery from the economic downturn that coincided with the onset of the Covid-19 pandemic. Overall international visitor arrivals to the Western Cape have tracked and exceeded comparable countries. Between 2000 and 2016, arrivals to South Africa increased steadily and then began falling behind comparable economies (Figure 7.6). However, from 2016 to 2019, arrivals to the Western Cape continued to grow, as the region outperformed South Africa and benchmarked countries.

In 2019, the Western Cape welcomed two million international arrivals, a 16% increase compared to 2018. These arrivals accounted for 19.6% of all international visitor arrivals to

[52] Ibid
[53] DEDAT, Cape BPO

South Africa and brought in R18.6-billion foreign direct spend to the Western Cape. In 2019, the top source markets remained the United Kingdom, Germany and the United States, showing marginal growth since 2018.[54]

Figure 7.6: International visitor arrivals, benchmark economies (2000 – 2019)



Source: World Bank,[55] SA Tourism[56]

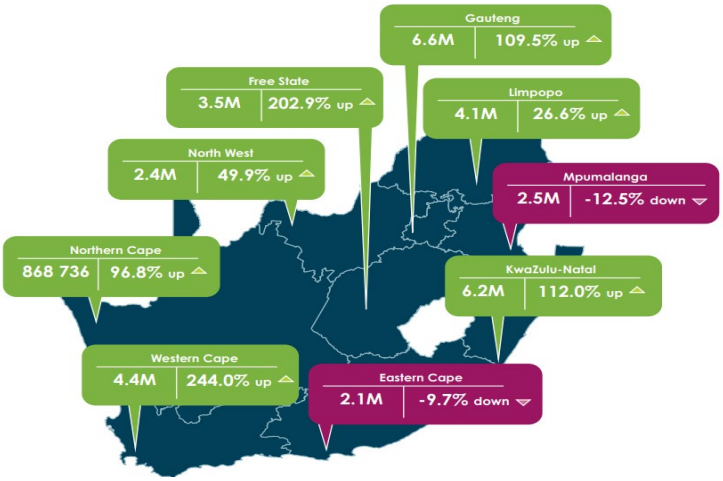
In addition, the Western Cape has a significant domestic tourism market which adds to the region's resilience and enables the tourism industry to smooth seasonally induced fluctuations. In 2019, the region experienced strong growth in the number of domestic trips taken to the province, welcoming 4.4 million South Africans (Figure 7.7).

[54] DEDAT/Wesgro. 2021. Western Cape Tourism Blueprint.

[55] Sourced from World Bank. 2023. World Development Indicators [International tourism, number of arrivals]. World Bank Open Data.

[56] Country-level data from 2000 to 2019 is from the World Bank's data catalogue, indexed to 2015. Provincial data from 2013 to 2019 is from SA Tourism's online dashboard. South Africa 2022 value is from SA Tourism website. Data includes overseas and SADC arrivals. Provincial data for 2022 is estimated by extrapolating January to March 2022 international arrivals reported in the WC Tourism's Performance Recovery report Q1 (2022).

Figure 7.7: Domestic tourism performance (2019)

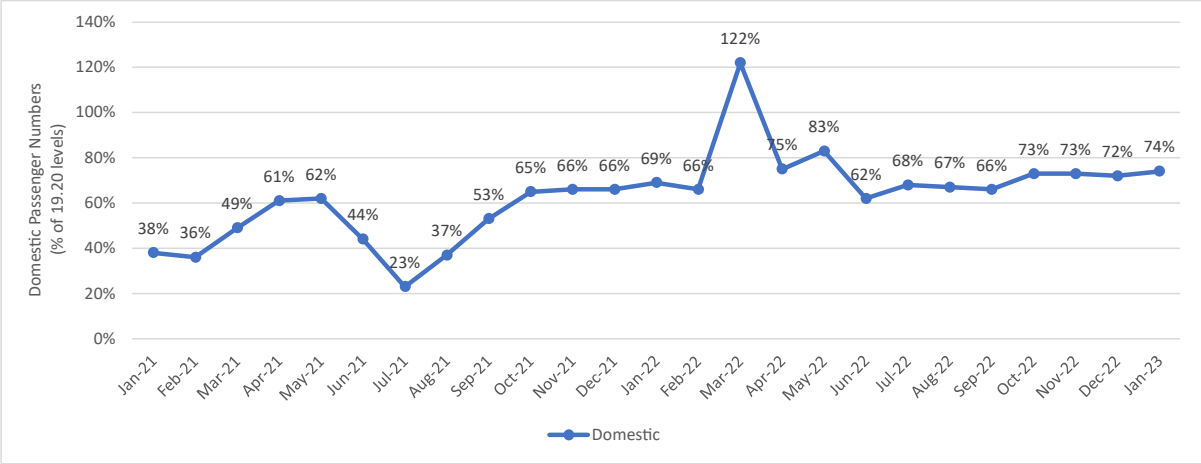


Source: SA Tourism, Wesgro, DEDAT: Western Cape Tourism Blueprint

The hotel industry is performing well, and the Western Cape's recovery in international tourism arrivals from Covid-19 has been much faster than that experienced nationally. Between December 2021 and December 2022, hotel occupancy increased by 16.8 points from 53.2% to 72.0%, while revenue per available room increased by 74.2% from R951.24 to R1,657.17. Between 2021 and 2022, the Western Cape's revenue per available room increased by 124.8% (from R431.25 to R969.64), compared to 81.2% for South Africa (from R397.29 to R719.95).

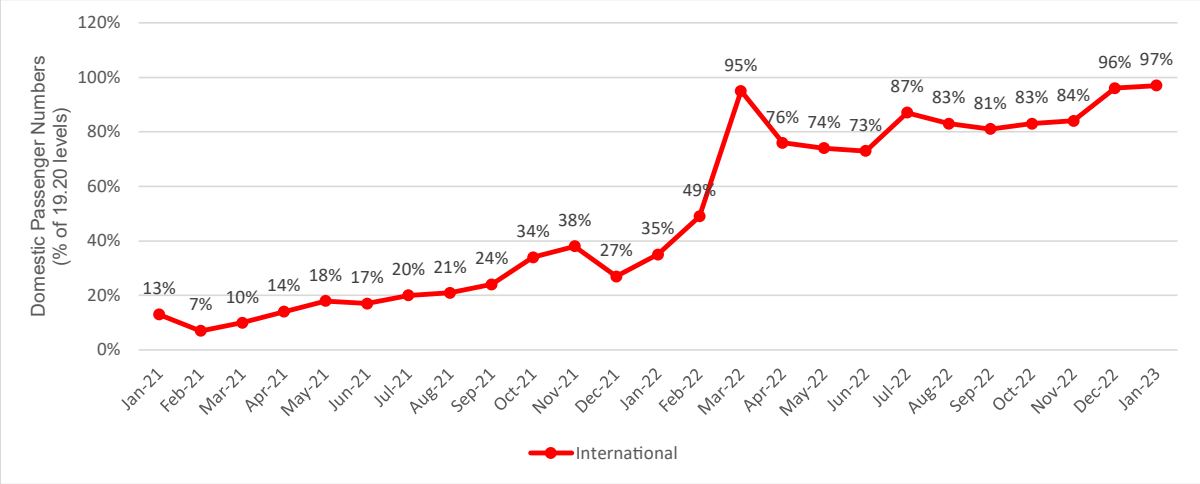
Throughout 2022, domestic passenger numbers at Cape Town International Airport (CTIA) recovered steadily and, in January 2023, increased slightly by two percentage points to 74%. In January 2021, international passenger numbers increased by one percentage point (to 97%) compared to January 2019 (Figure 7.8).

Figure 7.8a: CTIA Domestic passenger numbers (percentage of 2019/20 levels)



Source: ACSA, DEDAT

Figure 7.8b: CTIA International passenger numbers (percentage of 2019/20 levels)



Source: ACSA, DEDAT

2.2 Export market challenges and opportunities

Western Cape exports are concentrated within a limited number of industry categories and markets. Approximately half of the province's exports consist of a small group of largely primary products: fresh or dried citrus fruit (12%); wine (6%); crude oil (6%); grapes (6%); fresh apples, pears and quinces (6%); refined petroleum oils (5%); flat-rolled iron or alloy steel products (2%); strawberries, raspberries and cranberries (2%); fruit juices and vegetable juices (2%); and apricots, cherries, peaches and plums (1%). Other exports make up the remaining 52%.

Given the relatively small size of the domestic market, the Western Cape's future economic growth and development rests largely on the province's ability to expand its existing exports and diversify its export base.

A SWOT analysis, undertaken in partnership with public- and private-sector stakeholders, identified the following challenges to export development in the Western Cape.

- **Cost and inefficiency of trade infrastructure and logistics.** Transport delays and costs are particularly high in South Africa, largely because of rail and port inefficiencies, ageing infrastructure and the widespread use of road freight. Shipping containers to and from the Western Cape is problematic, due to availability and cost, while limited air access affects cargo transport capacity from Cape Town and tourism markets. For the services industry, high costs and availability of high-speed broadband connectivity have a negative impact on service-based exports.
- **Insufficient knowledge and experience in supplying and accessing international markets.** Although known for its ability to supply world-class agriculture-related products, the Western Cape will need to diversify into a wider range of products, services and markets to increase exports and deepen industrialisation. This will require increasing the province's production capabilities and developing a new tier of exporters.
- **Difficulties in navigating tariffs, standards and other regulatory barriers**. Exporters encounter significant regulatory obstacles and costs when accessing foreign markets and experience a lack of coordinated support across provincial and national government departments and agencies in navigating trade-related regulations.
- **Securing Western Cape representation in national programmes and policies**. The Western Cape's export basket differs from that at the national level. Consequently, national

policies may not always take cognisance of Western Cape priorities. In other cases, such as within the agricultural sector, the Western Cape has a more fully developed ecosystem and may find that producers' experiences differ from those in other provinces.

- **Resource constraints.** Accessing international markets is a complex undertaking. Exporters must source information on market demand, trends and regulatory requirements, and will usually need to provide samples or undertake sales visits to secure leads and contracts. They must also comply with quality, health, technical and packaging standards, which can differ significantly by country. Many companies, especially small enterprises, tend to underestimate the difficulties of entry into export markets and are overwhelmed by the intricacies, laws and regulations that apply in foreign territories. For intangible products within the services sector, reputation and references from networks play a pivotal role in securing overseas contracts. Governments have an important role to play in reducing the cost of these information and marketing gaps.

The following opportunities were identified:

- **Strong linkages to the growing African economy.** The African continent offers a myriad of opportunities, as Western Cape companies seek to grow their global footprint beyond traditional markets in the United States and Europe. Several lucrative tourism niche markets, such as health and education tourism, could also diversify and deepen the Western Cape's tourism base on the continent.
- **Preferential access to most major markets.** Based on national trade agreements, South African exporters enjoy strong preferential access in Africa, Europe, the United Kingdom and the United States and, to a lesser extent, in Asia, the Middle East and South America.
- **A globally competitive services sector**. The Western Cape tourism sector is well-developed and is supported by a growing entertainment industry. More recently, the province has become home to emerging BPO, tech and green economy hubs.
- **An established, competitive and active exporter and investor base**. The private sector in the province is well-capacitated to explore new markets and, through the export councils, well-placed to collaborate with the government to unlock further product and market opportunities. There are also increasing possibilities for the private sector to work with the state in addressing existing infrastructure constraints.
- **Diversification of exports**. As mentioned, the province needs to increase the number of products and services that it exports into existing and new markets and grow the number of active exporters in the Western Cape. Therefore, the Western Cape Government has commissioned research into economic diversification opportunities or frontier products, and invested in a product complexity mapping tool that assists in identifying potential products for export expansion. The mapping analysis found that, in the short term, industries presenting the greatest opportunities are food processing, agriculture, basic iron and steel, wine and others (specifically the manufacturing of jewellery and related goods). This 'untapped' potential (in nominal annual value terms) could amount to more than R500-billion. In the medium term, the Western Cape could grow exports by raising the number of exporters (or exports) in sectors where some export capability exists, but exports of these products are still relatively 'immature'. In the longer-term, investment into new export capabilities may add R14.7-billion to the economy on an annual basis.

2.3 Market access and trade barriers

Trading across borders requires added layers of certification and compliance with different levels of standards. These standards are needed to assure importers and consumers that products meet acceptable safety requirements. In most instances, exporters depend on national and regional government departments and agencies to ensure that the necessary standards, safety and certification mechanisms are in place to meet the general and specific market standards imposed by South Africa's trade partners. There is also an increasing demand for producers and exporters themselves to meet international quality standards, resource and carbon efficiency expectations, and production methods.

These hurdles are particularly challenging for emerging exporters who are unable to meet complex and overlapping compliance standards, such as ethical trade standards, environmental standards, carbon and emissions standards, voluntary 'good agricultural practice' standards, and quality management systems. The difficulties associated with exporting require an immense commitment from owner-managers of enterprises, many of whom have limited financial and managerial resources, as well as administrative and control systems needed when venturing into international markets. Many of these issues are cross-sector challenges, requiring horizontal enablement to support across the exporter base.

2.4 Western Cape's interests in national trade policies, programmes and negotiations

South Africa has signed several regional and bilateral Free and Preferential Trade Agreements, aimed at removing barriers and assisting exporters to gain access to international markets. South Africa is also currently engaged in a limited number of trade negotiations, most notably at the continental level with the ongoing discussions around the rules of origin and final tariff preferences related to the African Continental Free Trade Area (AfCFTA) and the SADC-EAC-COMESA Tripartite Free Trade Agreement (FTA).

Leveraging ongoing negotiations and trade agreements concluded by South Africa are important for enabling export growth. Where agreements are in place, exporters in the Western Cape need to be aware of the preferences available and how to access them.

2.5 The importance of infrastructure

Infrastructure and related services play a crucial role in the flow of international trade. In South Africa, transport contributes roughly 60% to overall logistics costs, with road transport accounting for 83% of total freight transport costs.

In 2020, border closures, due to lockdowns to curb the spread of Covid-19, led to significant disruptions in global value chains. As the world reopened, and the South African economy began its recovery, the country's integration into global value chains has been disrupted by capacity constraints at the ports and airports, ongoing inefficiencies in the rail system, inadequate road infrastructure and changes in road transport regulations.

3. Challenge and opportunity statements

Drawing from the situation analysis, as well as the inputs from the stakeholders, the following are the key challenge and opportunity statements for the PFA:

3.1 Challenge statements include:

- Costs and inefficiencies associated with export and freight infrastructure compromise competitiveness and productivity, as exporters are unable to deliver timeously to their customers.
- Exporters experience difficulties in navigating tariffs, standards and other regulatory barriers in target markets.
- A lack of coordination across government and limited input by the Western Cape Government at a national level lead to Western Cape products and services not benefitting from trade agreements.
- Local businesses are not aware of export opportunities and the support provided by the government.
- The lack of information about Western Cape products and services in target markets for buyers to include the Western Cape as a potential source destination.
- Business-specific challenges such as resource constraints and lack of adequate support to assist exporters in ensuring that Western Cape products are compliant with standards required by export destinations.
- Weak ecosystem coordination among exporters within certain industries, leading to information asymmetry and lost opportunities in mentorship support and advice.
- Climate change and the deterioration in natural resource quality will have an impact on productivity and competitiveness through increased resource treatment requirements, extreme temperatures, heatwaves, droughts, floods, fires and carbon penalties.

3.2 Opportunity statements include:

- Infrastructure and the enabling environment in the Western Cape are competitive, efficient, cost-effective and sustainable.
- Improved market access, lower trade barriers, and Western Cape interests are accommodated in national trade policies, agreements and incentives.
- Exporters have the necessary knowledge, capabilities, skills and support tools to export successfully.
- Vibrant and broad exporter ecosystems share intelligence and contacts and collectively address problems and opportunities.
- The Western Cape has an engaging brand, positive sentiment, a good reputation and strong sector brands and capabilities through which the province is seen as a desirable source of quality, reliable and cost-effective goods and services.
- Strong networks and support in targeted countries, including Africa, drive new exports and opportunities.
- Diversification of Western Cape exports and services allows for a wider range of specialisation and scaling of goods and services that input into a range of vertical sectors.

4. Objective and goal statements

4.1 Objective statement

The Western Cape, with a strong domestic market capability, is a leading global export region in a diversified basket of goods and services and a sought-after tourism destination known for its quality, reliability and cost-effective goods and service offerings.

4.2 Goal statement

The value of Western Cape exports of goods and services (inclusive of tourism) will triple by 2035.

Economic growth is strengthened by a positive and increasing difference between export demand and imports. Export demand enables businesses to have a market reach that is larger than the domestic need (and obtain economies of scale), while imports signify domestic consumption of products that local businesses are not able to supply competitively.

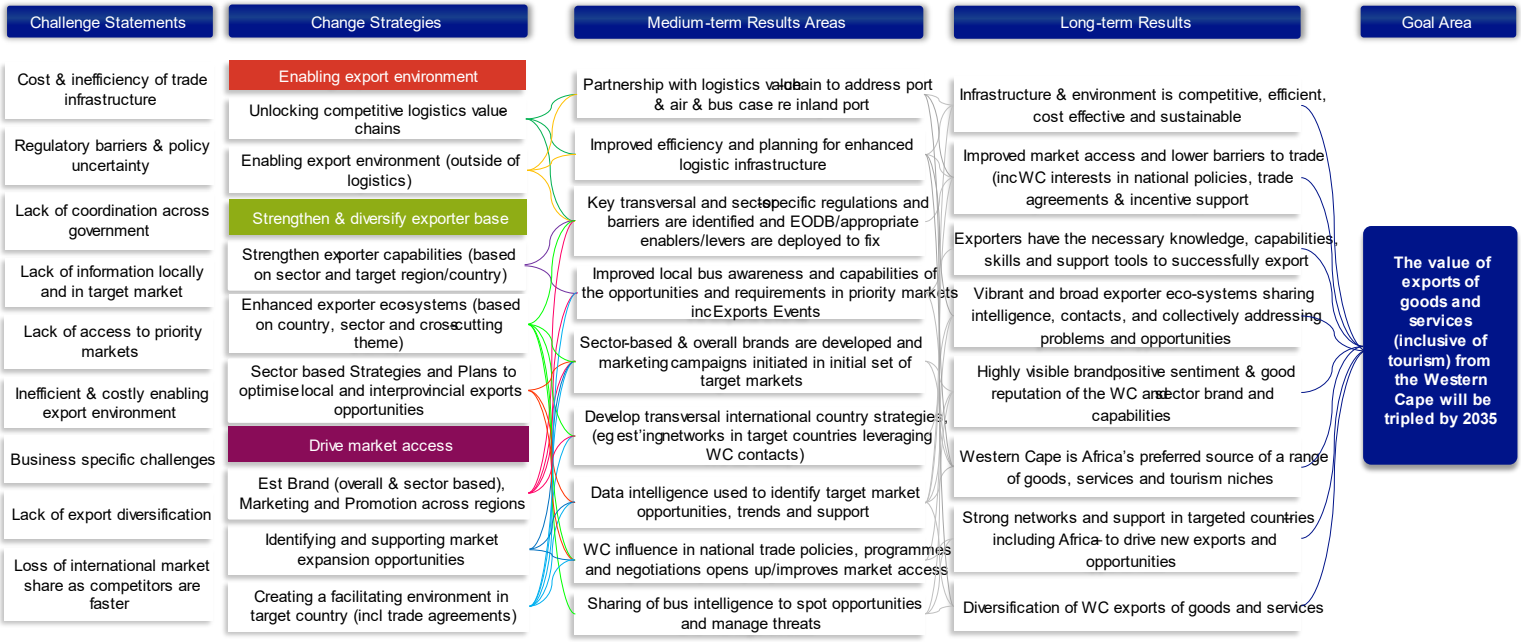
Based on the current value of the Western Cape's exports, by 2035 exports will reach R498-billion, adding R99.154-billion to GDP and the employment of 366 596 people.[57]

5. Strategic-level theory of change for the PFA

The objective statement, the goal statement and several change strategies were identified in a collaborative, co-design process as part of the development of a high-level theory of change for the PFA.

[57] Data modelled from Western Cape Export Strategy by DEDAT and Conningarth Consulting Economists using a Western Cape Social Accounting Matrix.

Figure 7.9: Theory of change for PFA 2: Stimulating Market Growth through Exports and Domestic Markets



6. Change strategies and interventions

Based on the theory of change, the PFA will need to institute various change strategies to achieve the goal statement, including enabling a competitive export environment, driving market access and diversifying the province's exporter base.

6.1 Unlocking an enabling and competitive export environment

The following interventions would need to be considered and implemented:

- **Improving freight logistics.** The effectiveness, efficiency and competitiveness of the Western Cape logistics value chain must be unlocked and further developed. This will require working with Transnet and the private sector to establish the necessary infrastructure at the ports and at least one inland port and freight village to relieve the congestion at the Port of Cape Town. To accommodate the anticipated growth in exports, the province will need to develop and implement a holistic freight plan, inclusive of infrastructure. Such a plan should explore increasing cold-storage capacity at ports and possibly diversifying container-port infrastructure in Mossel Bay to introduce resilience and additional accessibility for exporters; and enhancing Saldanha Bay Port as a logistics hub beyond the export of bulk commodities. Furthermore, the province will seek an agreement with Transnet and the logistics industry to expand the 24-hour value-chain operation at the Port of Cape Town, so that port assets are fully optimised – the port operates 24/7 throughout the year, but its depots and packing houses feeding the port do not. In addition, the province will continue to strengthen the logistics value-chain ecosystem to facilitate joint planning and execution to attract more ships to the port and to encourage more efficient utilisation and sharing of containers (enhanced with technological solutions).
- **Expanding the Air Access Initiative.** This initiative allows for better connectivity to Africa and other parts of the world. In partnership with ACSA and the private sector, the province will seek to expand the airlift and cargo facilities to meet the anticipated growth of products

and people flowing through CTIA. Moreover, working with willing municipalities, a strengthened network of airports will be established in collaboration with the private sector, to enhance connectivity and access for goods and tourists within the region and to unlock a variety of new potential services, such as aircraft maintenance, pilot training, and drone hubs and testing.

- **Enhancing supportive compliance infrastructure and regulations.** The Western Cape Government will adopt an ease-of-doing-business approach to compliance with overseas market regulations, working with regulatory and certification bodies to make sure that certification is efficient and accessible. To this end, regulatory processes and procedures will be internationally benchmarked. While the aim is to make current processes efficient, the relevant legislation, regulations, and municipal bylaws must be appropriate and consistent. Regulatory ease of doing business and leveraging economic assets need to include clear and enhanced access to government assets. The Western Cape Government will also enhance testing and phytosanitary capabilities to meet certification requirements, and ensure linkages with the energy and resilience PFA to reduce the province's carbon footprint and address anticipated carbon border adjustment (CBA) barriers in target export countries.

6.2 Strengthen and diversify the Western Cape export base

The following interventions have been identified for consideration:

- **Producing and using economic IQ.** Economic IQ will enable the potential export opportunities within the provincial economy in terms of products, services (including digital), e-commerce and tourism. It will be produced and used smartly and will include the promotion of research, and the use of supply and demand data for making decisions about accessing international markets. The data intelligence will be used to identify target country opportunities, trends and support, while business intelligence will be shared to spot opportunities and manage threats, and increase the share of trade by SMEs and micro businesses. As part of the focus on economic IQ, together with the national government and the South African Reserve Bank, a system will be developed to better capture, unpack and track activities and data trends within the services sector, which are currently 'under-served' in the harmonised system codes.
- **Coordinating and leveraging the activities of other provincial departments.** Other departments can assist in broadening and strengthening the private-sector-driven export base, through initiatives such as sports events, eco-tourism offerings, cultural offerings for the tourism industry, education as an export service, health tourism and other creative activities that stimulate demand and feed into growth opportunities.
- **Enhancing and developing exporter ecosystems.** This includes supporting the export councils for Western Cape export products and services (based on country and sectors) and building export coalitions where export councils do not exist. It will also mean proactively engaging with the national government concerning their export councils' compacts and providing support and input into relevant export councils' business plans. It will be important to share business intelligence to identify export opportunities and manage potential threats to exports, and to harness existing knowledge. The latter could be achieved by engaging with the top 100 exporters to gain their key insights to determine opportunities and challenges and, where feasible, leverage their international networks to improve access to international markets. To better understand the ecosystem, stakeholders for growth opportunity value chains will be mapped to enhance purposeful collaboration. To address information asymmetry, intelligence emerging from economic IQ on export

markets and potential export opportunities will be made available to all exporters and potential exporters.

- **Developing and implementing export strategies and plans.** These strategies and plans will be developed and implemented with the relevant ecosystem. They will cover tourism and growth opportunities in the export services and export manufacturing industries. Each export plan will need to have a clear brand and value proposition, which will ultimately feed into the overall Western Cape brand.
- **Strengthening export capabilities in identified industries.** This includes improving factors of production and competitiveness to diversify export markets, products, services and tourism sources, as well as the understanding of export processes and in-country requirements among exporters. Partnerships will be sought with development finance institutions to reduce risks and uncertainty facing exporters when entering new markets.

6.3 Drive market access

The following interventions have been identified for consideration:

- **Developing and implementing country plans.** Country plans will be developed to include the import growth potential and needs of the target country, to expand on what the Western Cape currently exports to the market.
- **Creating an enabling and facilitating environment in target countries.** Strong export-support networks will be developed in target countries and will include local business chambers and South African associations. Local networks will be leveraged to strengthen government, cultural, academic and business relationships in target markets.
- **Identifying and pursuing export opportunities in Africa.** The focus will be on building commercial relationships on the continent and harnessing the opportunities presented by the AfCFTA.
- **Strengthening intergovernmental coordination and advocacy.** The Western Cape Government will leverage its constitutional mandate of tourism and trade to support exporters and private-sector tourism players in the province. Intergovernmental coordination and advocacy will focus on providing input and influencing national trade agreements to enhance export opportunities to the European Union, the United States through the African Growth and Opportunity Act (AGOA), and Africa through the AfCFTA. This will enable better representation of Western Cape export priorities in trade agreements. In addition, the Western Cape's bilateral cooperation footprint will be expanded, accompanied by an action plan comprising a range of cultural, economic and (where possible) academic themes.
- **Establishing and promoting a Western Cape brand.** The Western Cape brand, together with the network of ecosystems, will be informed and strengthened by foundational place-based and sector-based brands. This brand will be accompanied by marketing campaigns in target markets and will also deploy brand ambassadors for wide diffusion.
- **Using technology for enhanced matchmaking.** The 'Cape-Able' export platform/portal will continue to evolve, enabling access to export intelligence and facilitating trade between exporters and destination markets (including intelligence on consumer preferences in destination markets). This platform will also be used to develop a platform that supports the export of professional and online services.
- **Leveraging cross-selling opportunities.** Leveraging cross-selling opportunities will involve identifying key places of visitor convergence (for example the Cape Town International Conference Centre and hotels) and ensuring that these places and their staff

are empowered with marketing information to play a promotional role on all aspects of the Western Cape brand and value proposition. When leveraging these opportunities appropriately, a person may arrive in the Western Cape as a tourist and depart as an investor in or buyer of Western Cape products, for example.

7. Considerations with respect to the PFA and its change strategies

7.1 Assumptions

To achieve success, the following explicit assumptions have been made:

- The export PFA will draw on the work undertaken in the current export promotion and export development strategy, and Wesgro (the official Western Cape trade, tourism, and investment promotion agency) will continue to coordinate and play a leadership role among private-sector stakeholders and government institutions.
- External export demand will continue because the plan assumes no disruptive geopolitical events.
- The economic IQ lever is established and sufficiently resourced.
- The 'brand' will consist of a range of elements (e.g., promotional, production) and will be informed and shaped by industry and regional brands to create a collective holistic value proposition.
- The Western Cape Government recognises the need to harness the collective influence and networks of all stakeholders rather than centralising all activities into one institution.
- Municipalities and the Western Cape Government work closely and collaboratively to develop a strong, coherent brand and implement promotional activities.

7.2 Risks

- An inability to resolve regulatory barriers and policy uncertainty, which stifles potential export activity.
- An inability to resolve inefficient and costly export enablers, including logistics and infrastructure, given that the mandate for addressing these challenges falls outside the Western Cape Government's control.
- A loss of market share as competitor regions access markets more easily and at a lower cost.
- Increasing nationalism and protectionism among international competitors may raise formal and informal barriers to the entry of South African goods, while subsidising their exports.
- The implementation of some export interventions depends heavily on the support and success of other interventions.
- The overall South African brand may overshadow and dilute the Western Cape brand reputation.
- The Western Cape does not reduce its carbon intensity, resulting in climate regulations and carbon tariffs that will slow down exports to our biggest markets.

7.3 Research

The following research needs have been identified:

- Green hydrogen production and export opportunities, e-commerce and the export of digital services.
- Coalition models to strengthen the overall ecosystem that supports and enables businesses to build commercial relationships and access export markets.
- Domestic (inter-provincial) diagnostic of the services sector and the tourism sector to identify additional export opportunities.
- Analysis of the impact of CBAs on relevant Western Cape export products and possible adaptation approaches that would reduce the carbon footprint of those products.
- Data-informed freight plans and related project preparation work required for the proposed infrastructure expansions and upgrades for improved logistics efficiency and reliability of the ports and airport.
- The development of a business case for increasing the number of ships calling into the Western Cape ports.
- The development of business cases to benchmark relevant regulations and to be used in advocacy campaigns.
- Scoping and developing business on testing facilities, to ensure that exporters are easily able to comply with international certification requirements.

chapter

8

Priority Focus Area 3: Energy Resilience and Transition to Net Zero Carbon

Chapter 8: Priority Focus Area 3: Energy Resilience and Transition to Net Zero Carbon

1. Introduction

Economic growth is dependent on a reliable and affordable energy supply. The challenges experienced by South Africa in producing and distributing the quantity of energy required by citizens, businesses and the economy at large, are well known, with energy security currently being the single largest constraint to economic growth. Renewable energy may have grown rapidly and has the potential to contribute significantly to socio-economic development, but still represents a small share of the total amount of energy produced.

1.1 Electricity is the number one binding constraint to economic growth and job creation

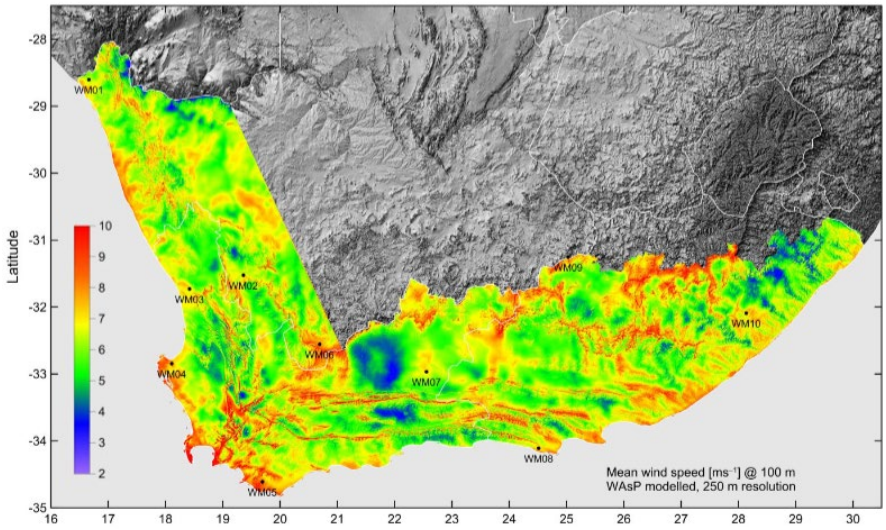
Nationally, the impact of escalating load-shedding is compromising economic growth and has led to an estimated one million fewer jobs. In the Western Cape, load-shedding is estimated to cost the economy more than R 8-billion in GDP in 2022 [58]. "The impact of the rolling blackouts is devastating to businesses, especially small businesses, hitting them the hardest because they do not have the resources to buffer the shock that these interruptions create."[59]

1.2 Western Cape has tremendous renewable-energy generation potential

South Africa has extremely good conditions for both wind and solar energy. Solar power is generated during the day, while wind energy is generated mostly at night, with a 7% overlap according to international experience. Over 80% of the country, including the Western Cape, has enough wind potential to achieve a 30% average annual load factor,[60] which is high compared to other countries.[61] The Western Cape has been the largest provincial beneficiary of direct foreign investment (FDI) in renewable energy projects but requires new capabilities in preparing and fast-tracking projects, establishing project pipelines, and capacity to access, build, run and enable projects successfully.

[58] DEDAT modelling using NESA's Cost of Unservered Energy model.
[59] Statement by the MEC for Finance and Economic Opportunities at the tabling of the 2022/2023 Provincial Economic Review and Outlook report.
[60] The Annual Load Factor is the ratio of total energy (kWh) used over a year to the total possible energy available within that period (i.e., peak demand over that specific time period) (Source: Electrical4U.com).
[61] CSIR 2016. "Wind and Solar PV Resource Aggregation Study for South Africa." Pretoria, 3 March 2016.

Figure 8.1: Wind atlas for Western Cape



Source: SANEDI[62]

1.3 Transmission network constraints prevent rapid utility-scale investment

Limited transmission capacity in the Western Cape is a constraint on the rate at which Independent Power Producers (IPPs) in the renewable energy sector are able to ramp up utility-scale generation. Eskom is in the process of providing a transparent queueing system for grid access. This will ensure that private-sector projects, in future Renewable Energy Independent Power Producer Procurement (REIPPPP) bid windows, can be awarded if there is sufficient network capacity. Eskom has also produced a Transmission Development Plan that recognises the transmission capacity constraints and proposes accelerated transformer projects to unlock grid capacity.[63] This emphasises the need, and increases the urgency, for the Western Cape to advocate and enable decentralised energy supply markets including investigating the use of Eskom Distribution and municipal networks to connect IPPs.

1.4 Decentralised energy markets will (eventually) fill the vacuum

Achieving energy resilience in the Western Cape will require a move towards decentralised and diversified energy resources, which will have implications for infrastructure. However, the Western Cape Government is constrained in its ability to influence energy markets, as it is unable to directly affect the price of fossil fuels through increasing tax or excise components or passing enabling legislation. The good news is that the required national regulatory and other changes to enable this reconfiguration of the energy sector are happening at an unprecedented rate. Furthermore, the Western Cape Government can use its limited policy and incentive levers to influence and enable change at a local government level, through supporting the creation of an enabling environment and affordable pricing schemes. It can help disseminate best practices related to demand- and supply-side municipal interventions, such as the ambitious energy programme spearheaded by the City of Cape Town that incentivises businesses and households to install rooftop solar and sell excess back to the grid by means of feed-in tariffs, including enabling the sale of more electricity than is consumed, contracted aggregated demand reduction and businesses to engage in wheeling contracts.

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[62] South African National Energy Development Institute. 2017. WASA High-resolution Wind Resource Map 2020.
[63] Eskom Transmission Development Plan 2023-2032. https://www.eskom.co.za/wp-content/uploads/2023/01/Transmission_Development_Plan_2023%E2%80%932032_Rev1.pdf

1.5 Just Energy Transition is critical for future regional competitiveness

The growing dominance of carbon border adjustment (CBA) mechanisms, which have the potential to increase the price of imports from carbon-intensive nations such as South Africa, is expected to have a negative impact on the competitiveness of these exporting countries.

The renewable energy value chain has the potential to create 1.2 million jobs, even as jobs in sunset industries such as coal mining decline.[64] South Africa committed itself to net zero targets through its Low Emissions Development Strategy (2018). In 2022, as signatory to the Under2 Coalition[65] global network of states, regions, provinces and other sub-national governments, the Western Cape Government reiterated its regional commitment to net zero greenhouse gas (GHG) emissions by the year 2050.

2. Situational analysis

The key energy thrusts that the Growth for Jobs Strategy seeks to address are:

- ensuring the availability of affordable, reliable electricity supply
- creating an enabling environment for the transition from fossil fuels to renewable sources of energy
- leveraging the energy transition as a source of competitive advantage for the Western Cape's economy.

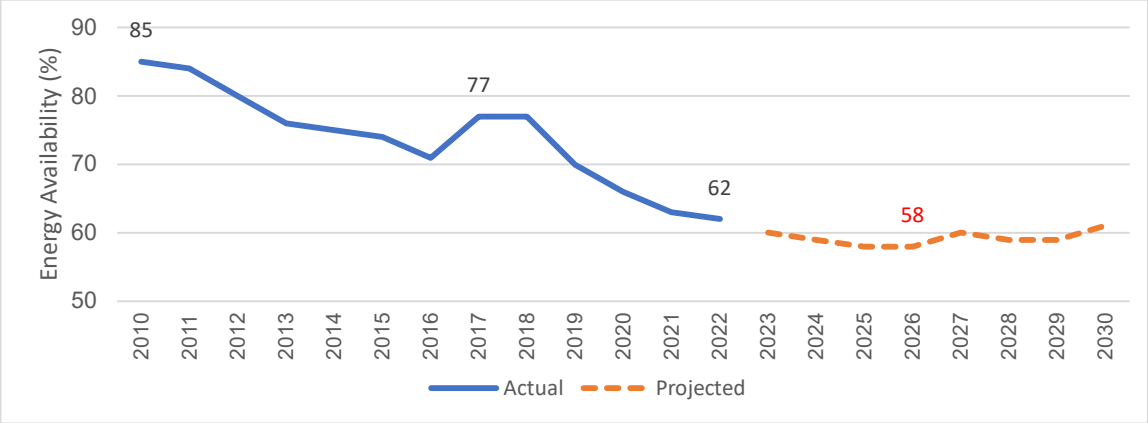
2.1 National electricity crisis

It has been conservatively estimated that the South African economy is 8−10% smaller as a direct consequence of load-shedding, while Stage 6 load-shedding costs the national economy R4-billion per day.[66] South Africa's energy supply shortfall is approximately 6 GW, which results in intensive and frequent load-shedding that affects business productivity and confidence. This, together with the impact on exports of a carbon-intensive economy, indicate the need for significant amounts of new and low carbon energy outputs.[67]

Accessing alternative sources of reliable energy will be an economic imperative, given that Eskom's performance is unlikely to improve for the remainder of the decade (Figure 8.2). The Energy Availability Factor (EAF) will continue to decline primarily due to plant breakdowns, sabotage and the decommissioning of Eskom coal plants by 2035.

[64] CSIR. 2019. Long-term electricity sector expansion planning outcomes: A unique opportunity for a least cost energy transition in South Africa.
[65] The climate group. Global Climate Leadership Under2 Memorandum of Understanding (MoU).
[66] Weekend Argus. "Load-shedding: We lost over R12bn in one year, says Western Cape Government". 26 September 2022.
[67] Ibid

Figure 8.2: Actual and projected energy availability trajectory (2010−2030)



Source: Eskom 2022[68]

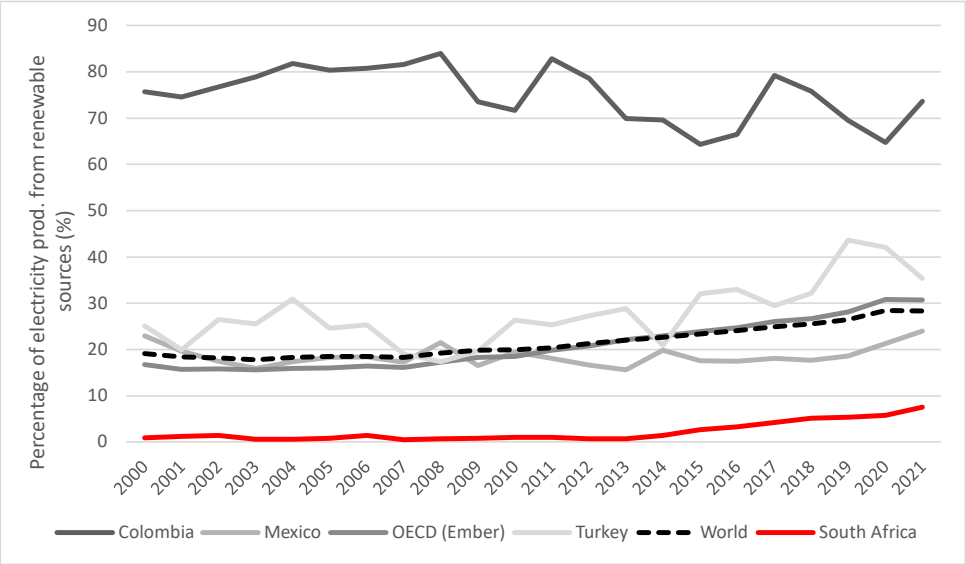
2.2 Renewable energy landscape

The global energy supply crunch (exacerbated by the Ukraine-Russia conflict) means that, going forward, energy prices are likely to remain high and volatile. The costs of renewables have risen recently, as supply chains struggle to adjust to post-pandemic global tensions and conflicts and the demand for renewable energy systems increases. However, the global renewable energy technology average prices have been dropping steadily since 2010.[69] The adoption of renewables in the energy mix, as well as policy-maker and investor attention on clean technologies, are expected to continue to grow.

The opening up of generation through South Africa's REIPPPP has attracted over R200-billion in private-sector investment, of which R42-billion is international investment.[70] Despite rapid growth, renewable energy still represents a small share of the total amount of energy produced in South Africa. Currently renewable energy provides less than 10% of installed national capacity, far below benchmark economies, such as Mexico (24%) and Türkiye (35%) (Figure 8.3). Moreover, compared to benchmark economies, in 2018 South Africa had the lowest GDP per capita and was the most energy-inefficient economy (Figure 8.4).

[68] ESKOM. 2022. Medium-Term System Adequacy Outlook. October 2022.
[69] Green Cape. 2022. Energy Services Market Intelligence Report.
[70] Ramokgopa, K. S, 2023. "South Africa's Infrastructure Emergency: An Urgent and Collaborative Intervention".

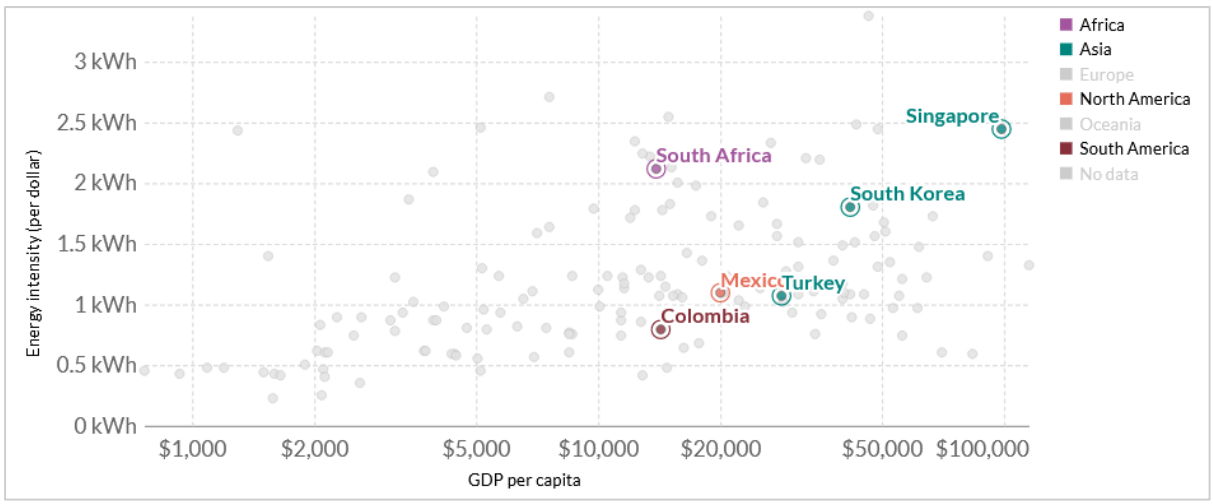
Figure 8.3: Share of electricity production from renewable sources



Source: Our World in Data[71]

Moreover, compared to benchmark economies, in 2018 South Africa had the lowest GDP per capita and was the most energy-inefficient economy (Figure 8.4).

Figure 8.4: Energy intensity vs GDP per capita[72] **(2018)**



Source: Our World in Data[73]

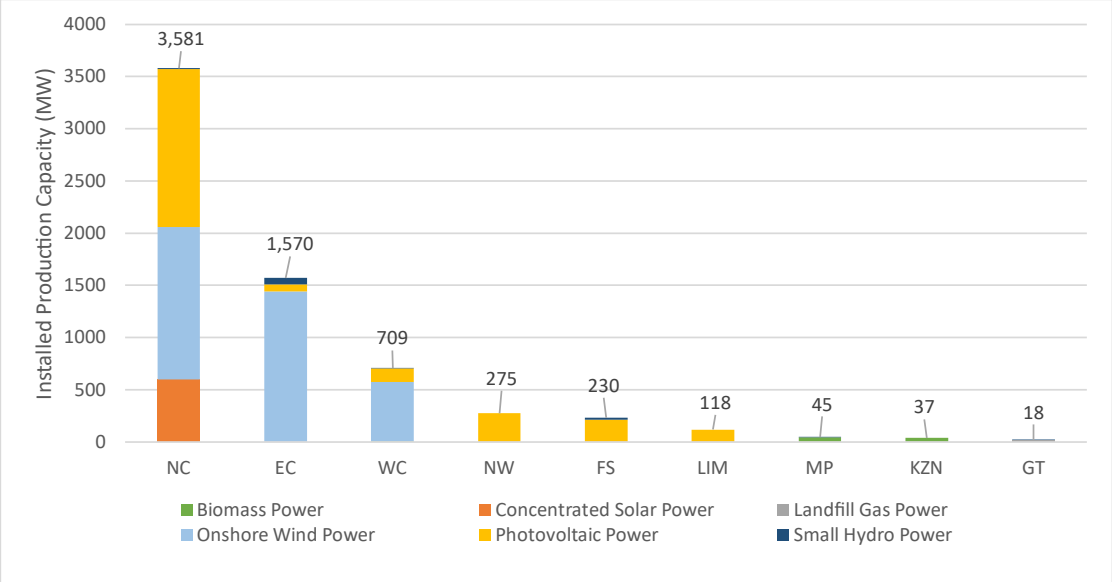
Going forward, the renewable energy sector has the potential to contribute significantly to economic growth, not only through providing energy for industries and households but also through creating jobs.

[71] Sourced from Our World in Data. 2023. Note: Based on BP Statistical Review of World Energy. 2022.
[72] GDP per capita is measured in constant international dollars which corrects for inflation and cross-country price differences.
[73] Sourced from Our World in Data 2022. Note: Based on BP Statistical Review of World Energy. Includes EIA International Energy Data (2022), Maddison Project Database (2020).

2.3 Provincial renewable energy landscape

The Western Cape, with its sound infrastructural base and conducive climate, has attracted – and continues to attract – investment in the renewable sector. To date, the province has attracted 1008 MW of commissioned utility-scale renewable energy production capacity out of 2241 MW of IPP generation under procurement in the Western Cape.[74] Notable projects include wind farms in Gouda (at 138 MW, one of the largest wind-farms in Southern Africa operating since August 2015), Perdekraal East (107 MW) operating since October 2020, Karusa (140 MW), Roggeveld (140 MW) and Soetwater (139 MW) operating since July 2022, May 2022 and July 2022 respectively.

Figure 8.5: Installed renewable energy production capacity (IPPs)



Source: DOE 2022[75]

2.4 National energy policy and planning

National electricity planning is outdated and has lacked speed in implementation – the last Integrated Resource Plan (IRP) dates from 2019. Unfortunately, the Western Cape does not have an IRP to counter the national planning gap. While the regulatory space has changed significantly, the future form of the market (i.e., how the market will transition away from the Eskom monopoly to multi-buyer models) and how the power sector will need to respond to market changes are not yet known. Furthermore, the energy sector has been hampered by a lack of clarity on the recent legislation governing renewable energy projects at a local and national level. Other constraints include information deficits relating to the financial feasibility of projects, municipal capacity constraints, and the lack of expertise to implement enabling legislation and novel solutions such as wheeling.

2.5 Electricity transmission network

While the Western Cape has significant renewable energy resources, large-scale energy generation sites are generally remote and need to be connected to the electricity grid, so that

[74] Eskom 2022 Medium Term System Adequacy Outlook. Additional PV and CSP projects are expected to increase the capacity of commercial operations from 6105 MW to 6280 MW by end of 2023.
[75] Sourced from DOE. 2022. Renewable Energy Data and Information Service (REDIS)

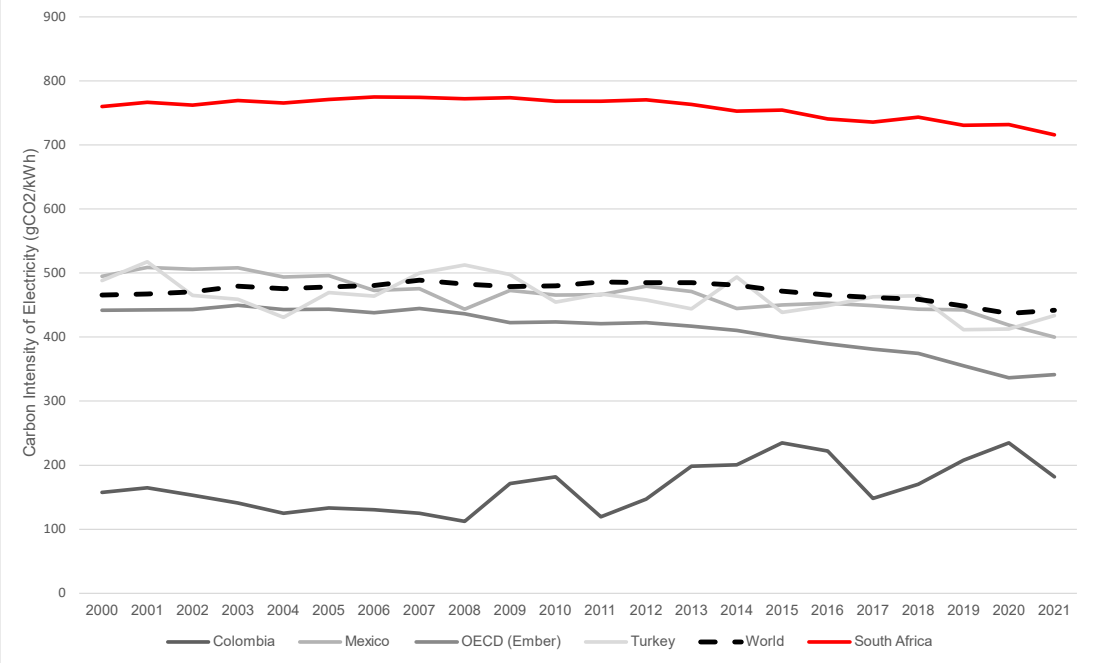
the power can be delivered to where demand is located. Unfortunately, grid infrastructure issues are constraining markets and dominate policy discussions. The grid infrastructure is almost entirely owned and operated by Eskom and needs to be appropriately engineered and upgraded to cater for additional electricity generation capacity. Building this type of infrastructure is extremely capital intensive and has long lead times, due to issues that include access to servitudes and approvals processes, such as environmental impact assessments (EIAs) and access to construction skills. The rate at which IPPs in the renewable energy sector are able to ramp up utility-scale generation is constrained by limited transmission capacity of the Western Cape supply area.

In the bid window 6 of the REIPPPP, only 860 MW in projects were given the go-ahead, despite the bid window calling for new generation capacity of 4200 MW. According to the Minister of Mineral Resources and Energy, this was because there was 'no grid capacity' in the Western Cape, which affects the province's ability to wheel power and limits the development of more projects. Eskom admitted that the connection points reflected in the transmission grid capacity estimates were not reserved for bidders, and they had not updated the access data regularly. Projects aimed at power generation for unidentified private clients took up all the available capacity and preceded the bidders that were in the public procurement process. No projects from bid window 6 were approved for the Western Cape, leading to widespread disappointment among wind and solar energy developers. This policy uncertainty has had a negative impact on investor confidence, just as investor confidence was on the rise after the damagingly long delay in the REIPPPP programme. The Western Cape Government is, therefore, focusing its network development plan primarily on strengthening and expanding municipal distribution infrastructure.

2.6 Decarbonation and economic growth

Carbon border adjustment (CBA) mechanisms will increase the price of imports from carbon-intensive countries such as South Africa, reducing the competitiveness of exports from the Western Cape. Four of the Western Cape's top six export markets, which represent 53% of exports, already have at least two carbon pricing tools in place.

Figure 8.6: Carbon intensity of electricity (South Africa vs benchmark economies)



Source: Our World in Data[76]

To support the goals of energy resilience, the just energy transition and economic growth, South Africa has developed a Just Energy Transition Investment Plan (JET IP) to clarify investment requirements over the next five years (2023–2027). The JET IP identified the need for investment in three priority sectors:

- The electricity sector, aimed at focusing on decarbonising of the whole coal belt (and in particular the resultant job losses).
- New energy vehicles, with the focus on transitioning the automotive sector value chains as the global shift to electric vehicle production gains momentum.
- Green hydrogen (GH_2) focusing on key interventions to set South Africa up to become a world-leading exporter of GH_2.

With 93 countries committing to net zero targets by 2050, GH_2 is critical to the global energy and decarbonisation drive – and made more viable by a decrease in renewable energy costs and global economic shocks. While GH_2 has the potential to transform the growth trajectory of South Africa, as an emerging industry, it faces multiple challenges, including ecosystem cohesion, funding, policy, government alignment, supply-demand mismatches, and the lack of a strategy or funds for distribution and storage infrastructure.[77]

In addition, the JEP IP identified two cross-cutting factors: skills development and municipal capacity building, both of which aim to ensure that skills are in place to match the growth in new clean sectors and support worker transition.

[76] Sourced from Our World in Data 2023. Note: Based on BP Statistical Review of World Energy. 2022.
[77] The climate group. Global Climate Leadership Under2 Memorandum of Understanding (MoU).

2.7 Implications for the Western Cape

There is no simple solution to the energy crisis in South Africa. A total overhaul of the power sector, including the unbundling of Eskom and increasing diversification and decentralisation of the energy supply is required. Recognising the extent of the energy crisis, the Western Cape Government's approach is to develop new capabilities in the preparation and fast-tracking of projects, the establishment of project pipelines and the capacity to access, build, run and enable projects successfully.

The Western Cape Energy Resilience Programme is made up of six components, of which the first aims to reduce the impacts of load-shedding on businesses and citizens in the Western Cape and the other five aim to lower the level of reliance on Eskom. These include a Provincial Integrated Resource Plan, a Demand-Side Management Programme, a New Energy Generation Programme, and a Network Development Programme, all of which are supported by work aimed at increasing investment in the energy sector.

The demand-side management programme will inform businesses and citizens of their options to reduce energy usage, enabling businesses and households to right-size and reduce their investments in alternative energy systems. Efforts include enabling negotiations with national government regarding load-shedding buffering for the province.

The new energy generation programme advances the work of the Municipal Energy Resilience initiative (MER). This is achieved through supporting municipal IPP procurement with transaction advisory services to advance projects towards implementation, while exploring and implementing a pooled buying mechanism that should enable projects at lower risk and cost. Support for private sector utility-scale projects, wheeling and small-scale embedded generation (SSEG) will continue but at a bigger scale and more urgently than previously; as well as enabling households to implement alternative energy systems.

The network development programme will enable the WCG to understand, quantify, cost, strategise and ultimately implement (collectively enabling) the infrastructure and associated technical systems needed to support the growth in energy generation and load / demand in the Western Cape.

The financing work will include the development and implementation of an investment plan for the required energy projects and infrastructure that will be used to attract investment and create new industries and jobs. It will also help the WC to achieve energy resilience, which is critical to the financing of specific energy infrastructure over horizons 1, 2 and 3. The work includes developing and implementing new and innovative financing and other mechanisms.

Led by the Premier, the different elements of the Western Cape Energy Resilience Programme will be run by several provincal departments.

3. Challenge and opportunity statements

Drawing from the situation analysis, as well as the inputs from the stakeholders, the following are the key challenge and opportunity statements for the PFA:

3.1 Challenge statements include:

- Energy insecurity and the need for a reliable supply of energy/electricity to the Western Cape.
- The Western Cape's extensive dependency on Eskom as an electricity supplier to the province.
- High energy consumption patterns in the Western Cape, which are a mismatch to available supply, and a lack of efficient energy usage.
- Insufficient long-term planning for energy requirements jeopardises energy resilience in the Western Cape.
- The need to strengthen the local grid to support the transmission of additional renewable/low carbon energy.
- Municipalities are not easily able to purchase electricity from IPPs, as they do not have established processes and capacity to enable accelerated energy procurement.
- The financial reliance of municipalities on revenue from electricity sales places municipal financial sustainability under threat.
- The need to transition the energy used in the Western Cape from high carbon, fossil fuel sources to low carbon, renewable alternatives, including through leveraging private-sector investment to the greatest extent possible.
- The need to gather and make available information and intelligence to inform effective energy decision-making in the Western Cape (economic IQ).
- Weak energy ecosystem in the Western Cape that requires greater collaboration by private-sector stakeholders and government, without which information would not be shared, actions would be misaligned, and resources would be used in a fragmented manner.
- The need to accelerate the access to finance and energy-related investment opportunities (where appropriate).

3.2 Opportunity statements include:

- The Western Cape has a clear energy plan that provides certainty and assurance to the private sector.
- The Western Cape has enabled the generation, procurement and trading of low-carbon energy by municipalities, the private sector and households.
- The Western Cape has a localised energy network, with supporting grid infrastructure.
- Abundant, reliable, low-carbon energy is available to meet the needs of the growing Western Cape economy.
- Businesses, citizens and government have adopted world-class energy-efficient production processes and operations and reduced the carbon intensity of their energy consumption.
- The province has a strong and well-informed energy ecosystem with international linkages to low carbon export products and services.
- The Western Cape has an export-ready green hydrogen hub in Saldanha Bay complimented by renewable energy value-chain manufacturing in Atlantis.

4. Objective and goal statements

The Growth for Jobs Strategy workshops, addressing the energy resilience and transition to net zero carbon focus area, brought together a cross-section of stakeholders to debate and contribute to addressing this key strategic imperative.

4.1 Objective statement

Energy is low carbon, reliable, competitive, accessible, enabled and supplied at scale, and meets the energy-efficient demands of the economy, using data, analytical tools and new models of delivery and contributing towards net zero carbon targets.

4.2 Goal statement

Reduce reliance of energy from Eskom of between 1 800 – 5700 MW by 2035, estimated to attract between R21.6-billion and R68.4-billion in related investment.[78]

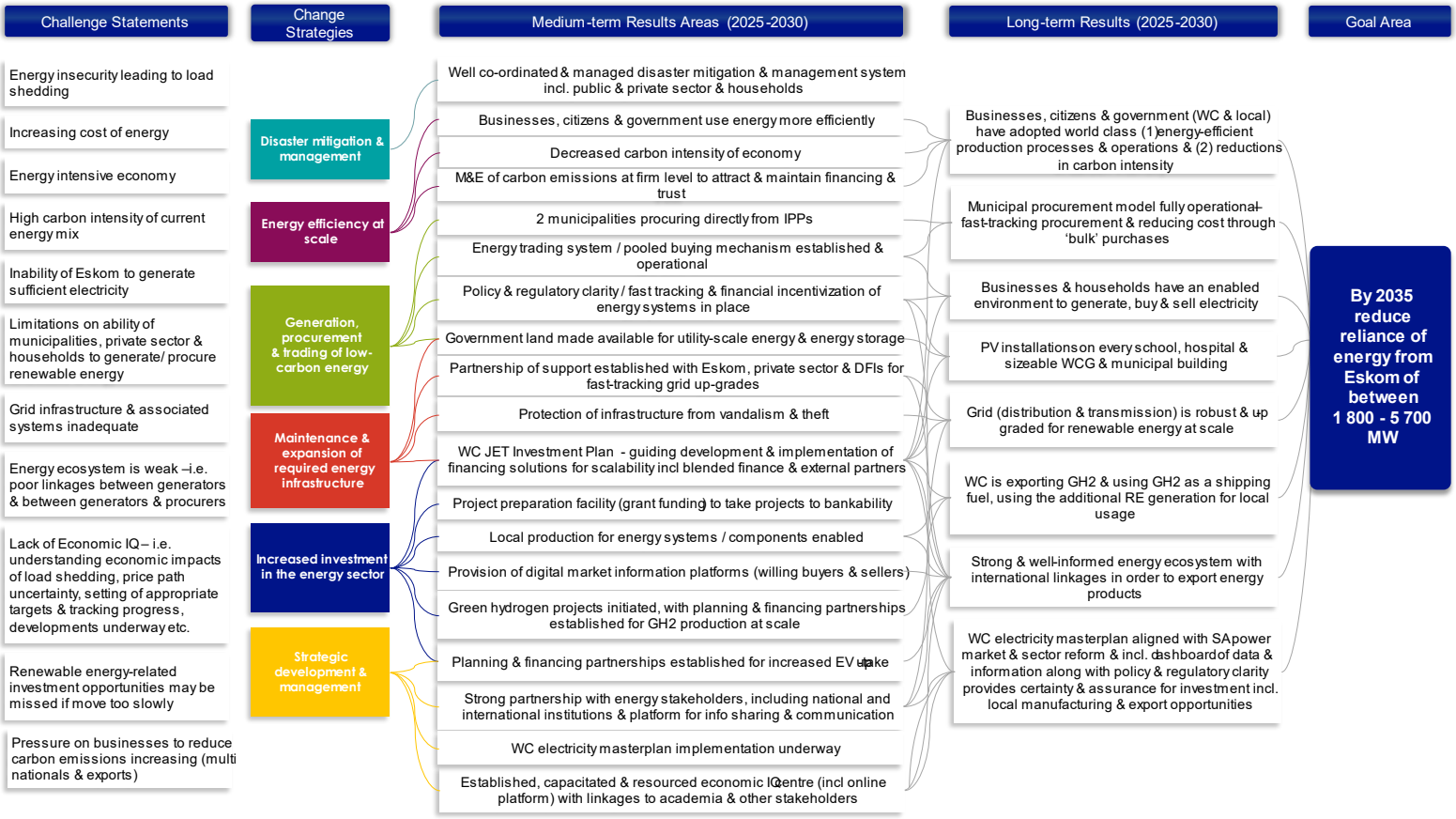
Energy resilience is a binding constraint of the regional economy. The provision of sufficient energy supply is a critical horizontal enabler to meet the R1-trillion goal, while energy itself can also contribute to the overall target.

5. Strategic-level theory of change for the PFA

The objective statement, the goal statement and several change strategies were identified in a collaborative co-design process as part of the development of a high-level theory of change for the PFA (Figure 8.9).

[78] Indicative costs based on GreenCape's 2022 Energy Market Intelligence Report (MIR): R16.5m/MW for utility scale energy and R12m/MW for SSEG – calculations based on the lower value of R12m/MW conservatively. 5700 MW of renewable energy by 2035 in WC would be 46% of electricity used in WC by 2035 (based on national figures – inclusive of 51% growth in the economy). The figures are based on current energy intensity. These values are also yet to be aligned with the Western Cape Greenhouse Gas Emissions Mitigation Pathways currently being developed in support of the Net Zero by 2050 ambition. Additional approx. 57 000 MW would be needed for GH_2 production projections. These figures would need to be confirmed through long-term electricity planning i.e., proper energy modelling.

Figure 8.7: Theory of change for PFA 3



6. Change strategies and interventions

Based on the theory of change, to achieve the goal statement, the PFA will need to institute various change strategies, including disaster mitigation and management; energy efficiency at scale; generation, procurement, and trading of low-carbon energy; maintenance and expansion of required energy infrastructure; increased investment in the energy sector; and strategic development and management.

6.1 Disaster mitigation and management (load-shedding impact reduction)

The following intervention will be required:

- **Strengthening and co-ordinating the disaster mitigation and management system**, which will involve ensuring that private sector and households have essential services.

6.2 Energy efficiency at scale (demand management)

The following interventions are required:

- **Conducting provincial energy efficiency surveys,**[79] which will serve as a baseline for the private sector, government and households to assess and monitor their energy efficiency and benchmark for energy efficiency improvements.
- **Developing a provincial energy efficiency programme,**[80] coupled with developing and implementing financing mechanisms and access financing for energy efficiency programmes; rolling out public and business awareness campaigns focused on energy efficiency; and developing and supporting contract demand management initiatives and other demand response interventions.

6.3 Generation, procurement, and trading of low carbon energy

The following interventions are required:

- **Streamlining processes** for SSEG registration and creating an enabling and cost-effective wheeling framework, which includes developing wheeling and SSEG feed-in tariffs for Western Cape municipalities and ensuring that municipalities fully understand the opportunity costs of not providing a conducive environment for improved energy resilience. Parallel to the finalisation of the wheeling and SSEG frameworks, investigating and, if viable, implementing innovative models of decentralised electricity generation, with households feeding into the grid and every rooftop being an opportunity to generate electricity. Together with the necessary distribution infrastructure capacity and appropriate smart meter technology, this could effectively create a **virtual power station**.
- **Testing of** individual municipal **IPP procurement projects** while working on establishing and operationalising an energy trading system/pooled buying mechanism to enable municipal procurement of renewable energy at scale and with speed.
- **Making government land available** for utility-scale energy generation and energy storage, including pre-approvals of regulatory and EIA requirements.
- Stimulating the green energy market by developing a **digital platform** for sharing energy data, enabling transactions between accredited vendors and customers for green energy solutions, and encouraging financial institutions and the property sector to incentivise renewable energy adoption and energy storage at household level.
- **Considering the adoption of natural gas alternatives** as a transitional energy source, using sound evidence-based and least-cost decision-making.
- **Providing alternative energy support for SMMEs** to help them reduce the impacts of load-shedding and add MW to the grid.
- **Implementing renewable energy solutions in municipalities** to help them reduce the impacts of load-shedding and relying less on diesel generators.
- **Implementing** a programme for **Solar PV in schools and Western Cape Government buildings / facilities** to reduce electricity costs, reduce impacts of load-shedding, add MW to the grid and provide a revenue source.

[79] Baseline survey: private sector (focused on energy intensive sectors and sectors collectively using the most energy), Western Cape Government facilities and municipal facilities. Household data based on municipal and Eskom electricity sales to residential sector.

[80] Electricity optimisation programme: private sector, households, Western Cape Government and municipalities (including technical, financial, etc. information, audits and intervention plans and costing, access to finance/financial mechanism for implementation).

6.4 Maintenance and expansion of required energy infrastructure

The following interventions are required:

- **Mapping out infrastructure requirements,** including scaled penetration of renewable energies and projected economic growth for the short-, medium- and long-term.
- **Protecting energy infrastructure** from vandalism and theft.
- **Planning and implementing the required upgraded transmission and distribution infrastructure** through a partnership approach, that enables the renewable energy generation and transmission at scale, including developing independent, private-sector transmission grids to evacuate renewable energy for hydrogen production (among others).
- **Examining the feasibility of** developing nano or localised **micro grids** to build additional resilience and flexibility in communities and industrial parks.

6.5 Increased investment in the energy sector

The following interventions will be required:

- **Developing a Western Cape Just Energy Transition (JET) Investment Plan**, removing any regulatory constraints to investment in low-carbon energy; and accessing global climate finance for the transition while improving energy security.
- **Establishing a project preparation facility to take identified projects to bankability.**
- **Planning and forming partnerships to enable green hydrogen production** at scale, including facilitating the necessary infrastructure and enabling environment for exports.
- **Planning for an enabling environment for electric vehicles**, including phasing in the electric vehicle replacement of provincial government vehicles, rolling out electric vehicle charging points, and establishing financing and other partnerships for increased electric vehicle uptake.
- **Working with liquid fuels companies to encourage biofuel blending** and the production of green energy from gas, with a particular focus on using, as a feedstock, the vegetation generated from the alien clearance initiative within the existing water programmes. Simultaneously explore off-take linkages with the airline industry, as security of aviation fuel is vital for continued air access growth into the Western Cape.
- **Encouraging local production of key renewable energy components** and/or systems, which should include supporting SMME renewable energy opportunities, especially for women, and developing key skills and competencies in renewable/low carbon energy.

6.6 Strategic development and management

The following interventions are required:

- **Developing a Western Cape IRP** for a reliable, decentralised, distributed energy system for the Western Cape that can deliver the required energy capacity to 2035 in a cost-optimal manner, providing clear policy direction to stimulate business confidence and investment.
- **Developing strong partnerships and a strengthened ecosystem** with energy stakeholders, including national and international institutions and establish, capacitate, **and resourcing economic IQ capabilities** (including an online platform) with linkages to academia and other stakeholders.

7. Considerations with respect to the PFA and its change strategies

7.1 Assumptions

To achieve success the following explicit assumptions have been made:

- An effective structure is in place that enables officials from different departments and spheres of government to work transversally. This needs to be developed and implemented.
- An effective and PFMA-compliant model is in place that allows the private sector, the public sector and academia to collaborate and partner. This needs to be developed and implemented.
- Municipalities are convinced of the need for change and that they are partners in delivering change.
- It is understood and accepted that there is no magic bullet and that, while a singular intervention can be successful, greater impact will be achieved if done in conjunction with other interventions.
- Time and resources are spent on establishing and maintaining positive relationships with Eskom, national government and other partners, as well as ongoing communication of positive narratives to ensure sustained interest among partners, who may lose interest or motivation due to the long lead times of projects or changes in political leadership.

7.2 Risks

- Interdependencies for the successful implementation of interventions, with some interventions depending heavily on others for successful implementation.
- A change in policy and leadership compromises commitment and results in a loss of investor confidence because many interventions are long-term in realisation or have extended implementation timeframes. A change in policy and leadership may compromise commitment and result in a loss of investor confidence.
- The reconfigured Eskom (under a more competitive market structure) offers better pricing and supply, which could undermine the investments made by the private sector, the provincial and local governments.
- Continued reliance on national policy and national guidelines to move forward, including the required upgrading of the transmission and distribution grid.

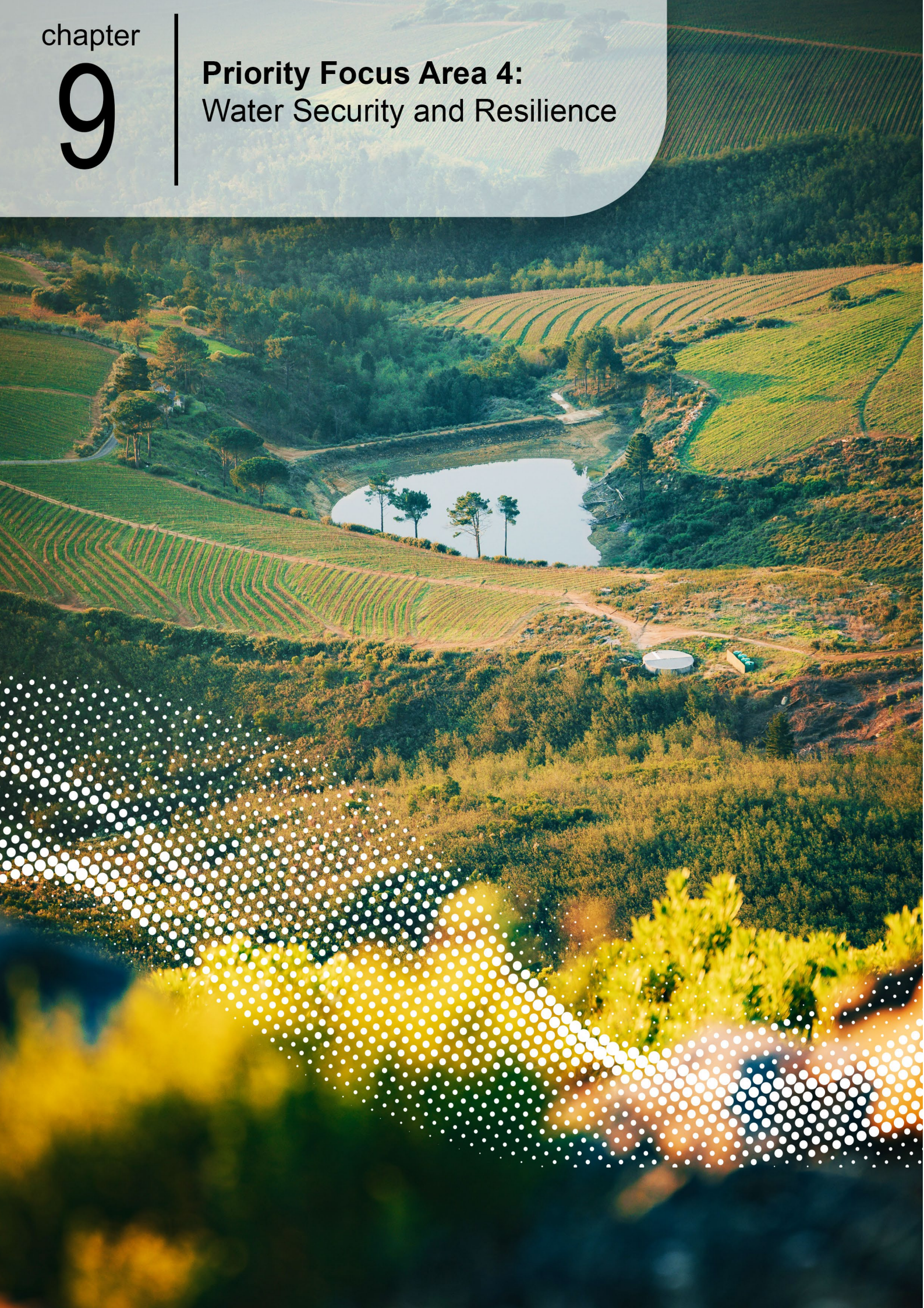
7.3 Research

- Project preparation studies and transactional support will be required to reduce private and public sector risk, particularly given that considerable capex will be required to address the massive energy shortfalls.
- Benchmarking surveys and studies will need to be conducted to determine energy-efficiencies levels, so that the private sector is able to benchmark their energy-efficiency performance and take informed measures to reduce energy utilisation, if relevant.
- A Western Cape IRP needs to be developed that is informed by modelling and forecasting and the chosen Western Cape emissions pathway. This will provide policy certainty to investors.

chapter

9

Priority Focus Area 4:
Water Security and Resilience



Chapter 9: Priority Focus Area 4: Water Security and Resilience

1. Introduction

Rising incomes, growing populations and expanding cities all place added stresses on the demand for water, at a time when supply is erratic and uncertain due to climate change. Water shortages can result in slower growth, which may decline by up to 6% of gross domestic product (GDP) by 2050 in certain regions, largely because of losses in the property and agriculture sectors.[81]

The Western Cape is a relatively water-stressed province with winter rainfall along the western Atlantic Zone, which poses a unique problem of having to store winter rain for the summer growing season. This means that dams are a critical part of water supply across the region. However, 98% of available water surface water is already allocated, and additional water will come at a higher cost. At the same time, demand for water is increasing, with an anticipated 17% deficit in water available for the industrial sector by 2030. As the reliable supply and quality of water decreases, productivity decreases, input costs increase, livelihoods are lost and, ultimately, the economy itself is affected.

The experience of recent droughts underscores the importance of water availability to the economy. The province is highly vulnerable to water shortages, as up to 52% of the region's GDP is grounded in agri-related industries. The recent drought is estimated to have resulted in the loss of between 36 000 and 63 000 jobs.[82] The drought and water supply crisis had the greatest impact on two sectors: the agriculture and agri-processing sector (which suffered a R14-billion loss[83]) and the visitor and tourism sector (which recorded a 13% decline in international arrivals around Day Zero).

2. Situational Analysis

2.1 Role of the provincial government in securing water resources

Supplying water to provincial value chains is the key to economic growth.[84] Surety of supply brings significant benefits, boosting both the capacity of the overall economy and economic confidence in the province, which is an important precursor to investment. While the relationship between water availability, climate change and economic growth remains poorly understood, studies suggest that prudent water management can do much to secure future growth and build resilience to climate stress.[85] Managing water resources as a valuable economic resource brings considerable benefits. Based on evidence and experience accumulated during the drought, the Western Cape Government's role in securing water for growth includes:

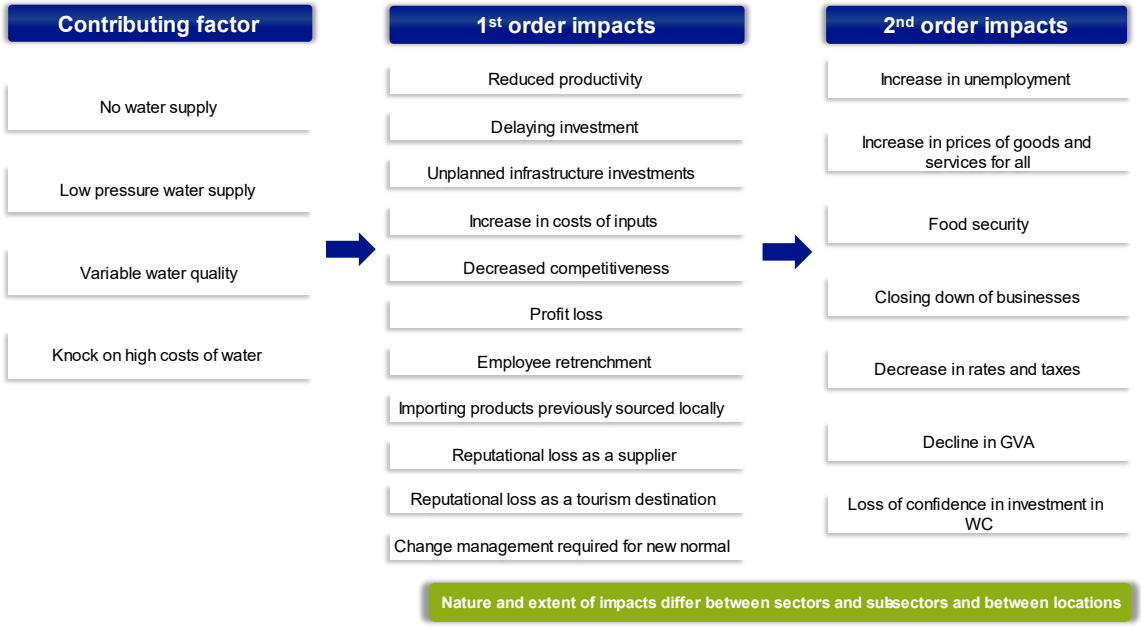
[81] The World Bank Group. 2016. "High and Dry: Climate change, water and the economy". World Bank Group. Washington
[82] DEDAT, 2018
[83] Business Day, 'Farmers Lose R14bn as Cape Drought Bites', BusinessLIVE, 2018.
[84] WCG. 2021. WCWSS Hydro-economic Study
[85] World Bank 2016. "High and Dry: Climate change, water and the economy". World Bank Group. Washington.

- **Being a neutral aggregator of market information and learning.** Communication and knowledge-sharing are a crucial part of effective risk management. The Western Cape Government should coordinate and complement the efforts of firms in sharing their data and learnings, building an evidence base that supports coordinated forward planning and decision-making.
- **Augmenting conventional supply-side interventions** with ecological rehabilitation and alien vegetation removal.
- **Promoting decentralised supply options,** while supporting the financial sustainability of the municipal water sector through developing alternative costing models and monitoring ground water abstraction.

2.2 Water, economic growth and climate change

In the coming years, water scarcity will increasingly hamper economic growth in most countries (Figure 9.1).[86]

Figure 9.1: Economic impacts of uncertain and reduced water availability



Source: DEDAT

Modelling the economic impact of a water crisis found that a few months of heavy restrictions on water use would reduce the Western Cape's GDP by 2.3% and result in approximately 49 000 job losses. Should severe restrictions last for more than a year, then GDP would reduce by 9.3% and approximately 215 000 jobs would be affected.[87]

In South Africa, climate change impacts will be felt in agriculture, ocean fisheries, access to fresh water, migration and tourism. Extreme events erode physical infrastructure, all of which affect economic activities both directly and indirectly.[88] For instance, in April 2022, the KwaZulu-

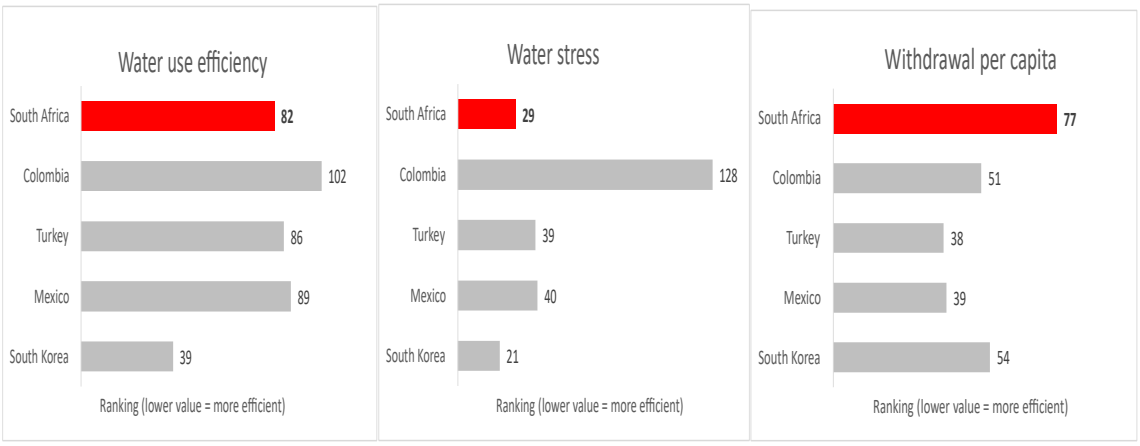
[86] World Bank. 2016. "Climate-Driven Water Scarcity Could Hit Economic Growth by Up to 6 Percent in Some Regions".
[87] WCG. 2018. Water Crisis Impact Study
[88] Nicholas Ngepah, Charles Raoul Tchuinkam Djemo, and Charles Shaaba Saba. 2022. "Forecasting the Economic Growth Impacts of Climate Change in South Africa in the 2030 and 2050 Horizons"

Natal floods – one of the deadliest disasters in the country – resulted in infrastructure damage of over R17-billion. Most of South Africa's productive sectors have significant exposure to climate risks, and by 2030, the Western Cape is expected to experience a 3% loss in GDP due to climate change, with an 8% loss in the manufacturing sector.[89]

2.3 The national water landscape

Despite being among the top 30 most water-stressed countries in the world (ranked 29), South Africa consumes about 233 litres per person/day compared to the international benchmark of 180 litres per person/day. The country is ranked 82 in terms of water-use efficiency, although withdrawal per capita (approximately 338 litres per person) is lower than benchmark economies (Figure 9.2). However, between 2012 and 2019, average consumption increased by 17%, while the proportion of freshwater resources being extracted for consumption[90] increased from 46% in 2012 to 64% in 2019 (Figure 9.3).[91]

Figure 9.2: Water-use stress and efficiency rankings (2019)[92]



Source: Rankings by author, using data from AquaStat[93]

[89] Ngepah, N., Tchuinkam Djemo, C. R., & Saba, C. S. 2022. Forecasting the Economic Growth Impacts of Climate Change in South Africa in the 2030 and 2050 Horizons. Sustainability, 14(14), 8299.

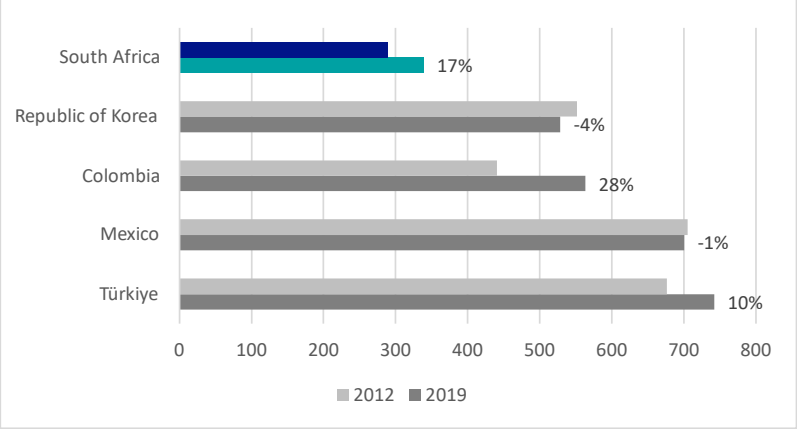
[90] Water withdrawal refers to the water diverted from the source for its use. Consumption is the amount that does not return, not even as waste.

[91] Food and Agriculture Organization. 2017. The future of food and agriculture trends and challenges.

[92] Data extracted from AquaStat uses the SDG 6.4.1 definition of Water Use Efficiency (expressed as US$ per cubic meter), the SDG 6.4.2 definition of Water Stress (withdrawal as % of available freshwater resources), and withdrawal per capita.

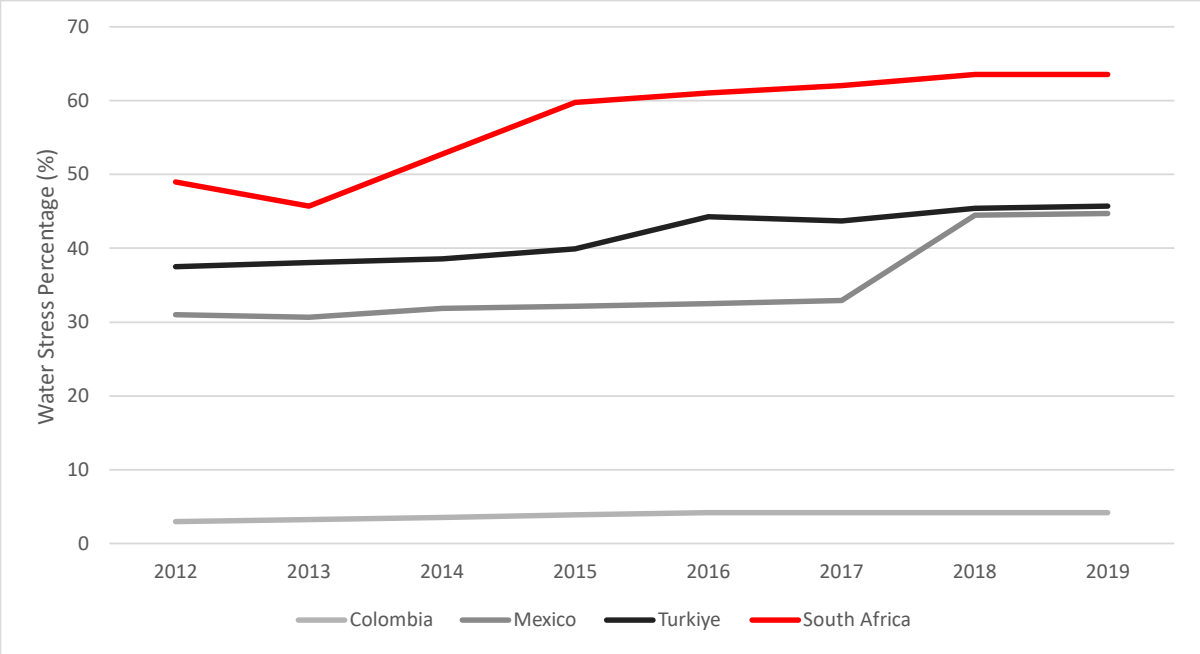
[93] Sourced from FAO. 2023. AquaStat – Global Information System on Water and Agriculture. See footnote 94.

Figure 9.3: Water withdrawal per person



Source: AquaStat[94] (2023)

Figure 9.4: Withdrawal of freshwater resources



Source: World Bank Indicators[95]

At a national level, policy and regulatory paralysis, poor water governance and the creeping incapacity of national departments (who traditionally played an important role in the water economy) all affect the prospects for a water secure future.[96] The Department of Water and Sanitation (DWS) acknowledges a R33-billion annual funding gap in the investment required to secure water availability beyond 2040. Examples of state incapacity include delays in the establishment of catchment management agencies (CMAs) by the DWS, disputes in the operating rules on the implementation of the Western Cape water supply system and, perhaps most consequentially, the lack of provision and maintenance of infrastructure (as demonstrated by the chronically delayed projects such as the raising of the Clanwilliam Dam, the Berg River Voelvlei Augmentation Scheme and the raising of the Brandvlei Canal).

[94] Data sourced from FAO. 2023. AquaStat – Global Information System on Water and Agriculture.
[95] Data sourced from World Bank. 2023. World Development Indicators. Note: WDI sources data from FAO AquaStat
[96]Water Research Commission. 2020. "The Reluctant Roll-out of CMAs". April 2020.

2.4 The provincial water landscape

The Western Cape has already started to experience the negative impacts of climate change, which undermine social and economic development gains. By 2100, the province's average temperatures are expected to increase by 1.5 ºC, under a 'middle-of-the-road' scenario[97]. More extreme climate patterns will make activities that depend on a secure supply of water more difficult, with certain agricultural activities becoming increasingly marginal or unviable.

Although the Western Cape has limited control over its global impacts, climate change can serve as a driver for proactive investment in climate adaptation. If the Western Cape were to become a national leader in water and climate resilience, by 2040, the province's economy would avoid a 17% contraction and grow by up to 15%, with a commensurate 12.4% increase in jobs and 6.4% increase in regional exports, and the overall cost of living would decrease.[98.]

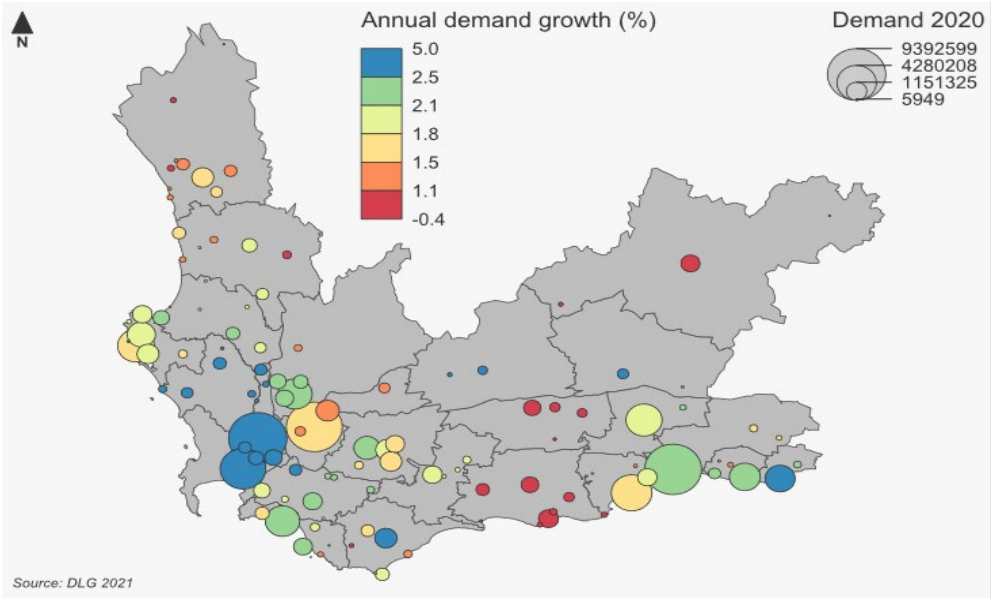
2.5 Long-term prospects for provincial water security

Looking forward to 2030, the **2014 Provincial Spatial Development Framework** (PSDF) identified three distinct urban priority regions that are responsible for driving considerable economic growth and development in the province: the Greater Cape Functional Region, the Greater Saldanha Region and the Southern Cape Region.

The Western Cape Water Resilience Plan[99] contains probable economic and population trajectories per settlement. Most new economic growth is projected to occur in municipalities adjoining the City of Cape Town (Theewaterskloof, Stellenbosch and Drakenstein), with relatively strong growth in the George, Witzenberg and Bergrivier areas, albeit from a smaller base.[100] Growth in water demand is predicted to be highest in Stellenbosch (4.1%) and Drakenstein (3.9%), while the Breede Valley District is identified as a priority for water infrastructure investment (Figure 9.5). However, conservative scenarios modelled limited economic and population growth and assumed a degree of user behaviour change to halve demand to 2.7% and 2.3% respectively.

[97] WCG. 2021. Western Cape Climate Change Response Strategy
[98] WCG. 2022. Economic Water resilience and Opportunities of Climate Resilience in the Western Cape quoted in the Western Cape Integrated Drought and Water Response Plan
[99] Following the 2016−2019 drought, the Western Cape Government commissioned a 15-year Western Cape Integrated Drought and Water Response Plan known as the Western Cape Water Resilience Plan.
[100] DEA&DP. 2022 "Growth Potential Study (GPS)".

Figure 9.5: Water demand outlook per settlement, excluding Cape Town (2020−2035)



Source: DLG (2022)

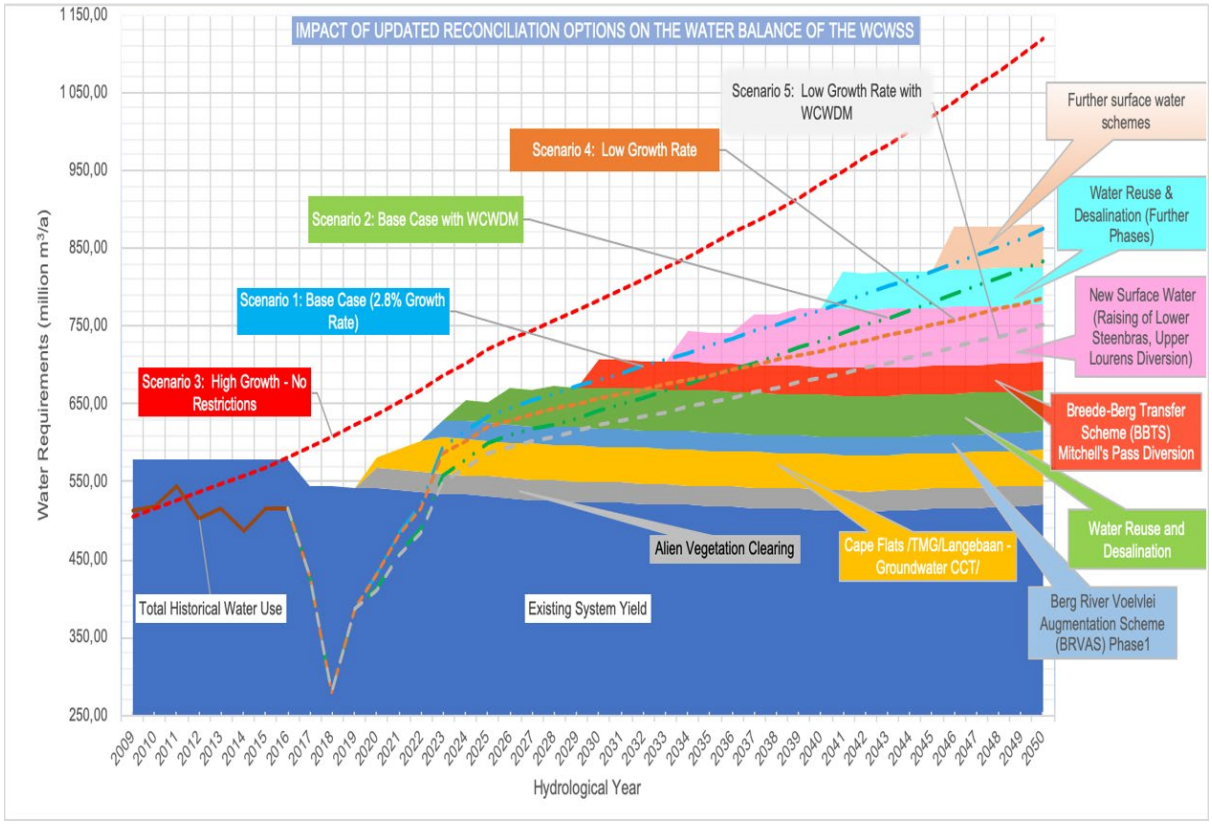
Another conservative scenario that was modelled shows that, if the top 10% of large business water users were to switch to non-grid/alternative water supplies, demand predictions would reduce by 0.1–0.4%. Government needs the capabilities to deal with water reconciliation and fiscal impacts, especially as future demand and development projections appear to be driven by the domestic sector rather than productive (non-domestic) sectors. Municipalities have varying capacity and resources to respond to challenges in water demand, supply and governance, and so a common base needs to be developed for projecting and responding to future demand.

It should be noted that the modelling is based on historical economic growth, driven largely by population shifts and growth of the Cape Town Functional Region, and does not consider break-out economic growth.

A study in 2021[101] found that supplying water to provincial value chains is key to economic progress. Given its current and future economic dominance, the Greater Cape Functional Region's water supply infrastructure needs specific consideration. The **Western Cape Water Supply System (WCWSS)** consists of six dams, pump stations, pipelines, and tunnels. The WCWSS water demand modelling undertaken by the DWS allows for high-, medium- and low-growth assumptions, but the water availability will be limited by the pace of bulk infrastructure delivery. Figure 9.6 indicates five demand growth scenarios and the committed supply interventions.

[101] WCWSS Hydro-economic study (2021)

Figure 9.6: Water balance scenarios of the WCWSS



Source: DWS 2022[102]

While Cape Town is a major user, surrounding municipalities also draw from this system. According to the DWS, the water requirements currently exceed available water resources, and there is an urgent need for augmenting the system.

2.6 Implications for the agricultural sector

By 2035, droughts will be twice as likely as they have been up to now in most areas. Decreasing rainfall should be expected in most areas and even when rainfall decreases are not projected, or do not manifest, increasing temperatures will almost certainly bring significant water balance challenges to agriculture."[103]

Farmers in the Western Cape depend on either rainfall or allocated water. However, under South Africa's water legislation, the agricultural sector has a relatively low surety of supply − the water allocation regimes are broadly unfavourable for farmers, with the agricultural sector having lower assurance of supply than urban and industrial users.

In the Western Cape, agriculture is the sector with the highest water demand. For every rand of demand for agricultural output from the Western Cape, R2.50 is added to the provincial GDP.[104] Moreover, over half (55−60%) of South Africa's agricultural export earnings come from irrigated agriculture in the Western Cape (predominantly fruit and wine). In 2005, irrigation was responsible for 42% of the water used in the Berg Water Management Area (WMA), 68% in the

[102] DWS. 2022. "Briefing to the Portfolio Committee on Water and Sanitation". 22 March 2022.
[103] DoA.2022. SmartAgri: Updated Climate Change Trends and Projections for the Western Cape, 2022.
[104] Ibid.

Breede WMA, 87% in the Olifants WMA, and 61% in the Gouritz WMA, and irrigation farmers are heavily dependent on water stored in dams.

Between 2017 and 2018, the agricultural sector had to cut its water use by 60% due to the drought. This resulted in 30 000 jobs lost and 13−20% decrease in exports.[105] However, Western Cape farmers have always had to cope with variable weather, fluctuating levels of political support and mixed fortunes in global market integration. As a matter of necessity, most farmers in the province are proactive, adaptive and resilient;[106] attributes that have served the agricultural sector well in recent years.

Manufacturing and agri-processing

The manufacturing sector is one of the largest sectors in the Western Cape economy. It is capital intensive, with many long-life fixed assets, long supply chains and significant water requirements, which are negatively affected by floods, droughts, and extreme weather events. Within manufacturing, the largest two sub-sectors are food (21% of sector GVA in 2019), followed by beverages (8.5%).[107]

Agricultural service town interface

Agricultural service towns have the potential to develop their own 'circular' and off-grid water, electricity, and solid waste services. Farmers are at the forefront of this process, due to their inability to secure basic services, which disrupts their operations and connectivity to markets.[108]

2.7 Role of province in securing our water future

The provincial Economic Water Resilience Strategic Framework maps out the various steps to support business in reducing overall water consumption and use, through audits, targets and risks, water efficiency interventions, onsite re-use of water and alternative water supply.[109] Guided by the strategic framework, the 2021 Western Cape Water Resilience Plan, which comprises a set of inter-disciplinary and comprehensive reports, provides the most recent situation analysis and guides all economic water resilience interventions[110]. It identifies interventions required to secure sufficient water (Table 9.1).

Table 9.1: Key interventions to secure water future

• Diversifying water sources and water quality streams per water user needs. • Minimising water losses. • Enhancing effective metering and billing. • Minimising water consumption. • Water re-use. • Water cascading. • Innovation in water treatment.	• Decentralisation of water supply and wastewater treatment. • Rainwater harvesting. • Stormwater harvesting. • Wastewater reclamation. • Alien vegetation clearing. • Protection of wetlands and ecosystem. • Investment in ecological infrastructure.

Source: Western Cape Water Resilience Plan, 2021

[105] WWF. 2018. "Agricultural water file: Farming for a drier future".
[106] Vink, N. and Tregurtha, N. 2004. Agriculture and Mariculture. Overview final paper agriculture.
[107] Quantec 2023. RSA Standardised Regional [Income and Production].
[108] Oelofse et al. 2021. The Future of Farming in Dryland Areas of the Western Cape. 2021. a recent study by the Department of Agriculture.
[109] Department of Economic Development and Tourism (DEDAT). 2019
[110] WCG .2021. Western Cape Integrated Drought and Water Response Plan

2.8 Enabling alternative water use and services provision while supporting the water service authorities

In the Western Cape Province, 24 Local Municipalities and the Metropolitan Municipality of Cape Town act both as the Water Services Authority (WSA) and Water Services Provider (WSP) as defined in the Water Services Act (No. 108 of 1997). Strict duties and responsibilities accompany these roles, including developing a Water Service Development Plan as part of the municipal integrated development planning process. This legal and operational situation means that funding for water infrastructure and maintenance of the distribution networks and water and wastewater treatment come out of municipal revenue and is, therefore, tied to the financial sustainability of local government.

Drought and increasing water scarcity directly affect municipal finances in two ways: additional capital is needed to augment the water supply, and reduced water consumption during drought means that municipalities could receive less money from tariffs on water supply. Municipalities can make use of various funding mechanisms from internal sources, such as restructuring of tariffs and introducing conservation tariffs, rebates and incentives, although introducing new tariffs has several challenges, including the reliability of municipal data, e.g., meter information, customer base, cost allocation, etc.[111]

Municipalities have experienced additional pressure due to the increase in electricity load-shedding, which has resulted in having to use generators to continue treating sufficient water and wastewater. This emergency power is expensive and has a dramatic impact on municipal operational and capital expenditure. Water source quality is another factor that drives treatment cost – the poorer the quality of the water source, the more treatment required to make it potable. There is mounting pressure for the development of new and alternative municipal financing models to address these issues.

3. Challenge and opportunity statements

Drawing from the situation analysis, as well as the inputs from the stakeholders, the following are the key challenge and opportunity statements for the PFA:

3.1 Challenge statements include:

- Water supply is constrained, with 98% of available surface water already allocated. Any additional water will come at a higher cost.
- Climate change will lead to droughts that are twice as likely to occur by 2035.
- Ecological infrastructure is fragmented and catchment management is inefficient (uncleared invasive alien vegetation compromises the quality and quantity of water available for use) .
- Water demand is increasing – by 2030, the industrial water gap is projected to be 17% (based on low economic growth). As Growth for Jobs Strategy projections target 4−6% economic growth, the demand gap is expected to be substantially higher.
- Infrastructure maintenance is poor, leading to water wastage and leakages. The emphasis tends to be on expanding new services at the expense of maintaining the existing infrastructure.

[111] Western Cape Water Resilience Plan. 2021.

- Water usage is inefficient, with South Africans using 237 litres per person/day compared to a global average of 173 litres per person/day.
- Water quality issues threaten the achievement of agricultural export standards and drive up the costs of water treatment.
- There are unequal service levels, water distribution and quality of supply across the economy and the province.
- The lack of water security significantly reduces investor confidence.

3.2 Opportunity statements include:

- Economic water security and resilience are secured and give businesses confidence
- Western Cape industries are efficient and waterwise with reliable, de-risked local supply chains.
- Western Cape companies and sectors uphold best practice water efficiency benchmarks.
- Water assurances mean that the Western Cape can expand and diversify sectors, such as agriculture, agri processing and light manufacturing industries.
- People have ready access to clean, potable water resulting in improved productivity and quality of life.
- Investment in ecological infrastructure enables water release for productive use.
- The Western Cape has a thriving water technology sector with demonstrable proof of success and the potential to export innovative water solutions to other countries.
- The Western Cape develops and implements best practice, sustainable, innovative municipal business models with respect to water and water management.
- Investment is provided to meet future water demand, as well as for water efficiency, conservation, and environmental infrastructure.

4. Objective and goal statements

4.1 Objective statement

The province will have optimised and increased water supply, integrated the management of water resources, and enhanced the adaptive capacity of business and citizens with respect to water usage to improve resilience, competitiveness, and quality of life for all its people, so that it has sufficient water supply to achieve its economic growth aspirations.

4.2 Goal statement

Double the amount of water available for secondary and tertiary economic sectors (primarily from non-productive use) by 2035 and honour existing allocations to agriculture.

Water is a fundamental requirement for citizens and businesses, without which the economy and society will collapse. This goal assumes that the wide range of supply and demand interventions, as documented above, will be deployed collectively in order to increase the overall quantity of water and to redirect water use away from non-productive uses (e.g., urban domestic users, system losses, etc.), thereby increasing water already available within the system for

productive use. Achieving this goal will contribute R82-billion to GDP and create 112 884 jobs.[112]

5. Strategic-level theory of change for the PFA

A theory of change workshop was held for this PFA. Using the inputs from the workshop and subsequent engagements, a high-level theory of change was developed.

Figure 9.7: Theory of change for PFA 4

6. Change strategies and interventions

Based on the theory of change, to achieve the goal statement, the PFA will need to institute various change strategies that include increasing the supply of water, maintaining the infrastructure, managing the demand for water, coordinating water infrastructure oversight and investment, and developing alternative water costing models.

6.1 Supply-side management

The following interventions have been identified for consideration:

[112] Data and models from past Water Impact studies by DEDAT and Conningarth Consulting Economists using a Western Cape Social Accounting Matrix.

- **Conducting a study of the water supply value chain**, aimed at identifying and assessing the most impactful points of leverage, including investing in water re-use, stormwater utilisation, groundwater as well as the feasibility of new supply schemes.
- **Optimising water supply at source**, including the up-scaling of ecological rehabilitation and alien vegetation removal. This could be coupled with measures to leverage biomass and biofuel economic opportunities to incentivise alien vegetation removal and legislation about alien vegetation removal on private property (where legislation includes support provided to private property owners to assist in compliance).
- **Reviewing and revising municipal water bylaws**, to enable safe, alternative, and decentralised supply options, including encouraging the use of rainwater tanks.
- **Monitoring groundwater quality** and abstraction levels, to ensure adequate aquifer recharge.

6.2 Infrastructure maintenance

The following interventions have been identified for consideration:

- **Expanding 'smart' water systems**, which enhance the monitoring of water usage and data collection in every municipality.
- **Improving supply-chain management processes**, so that there are no delays in repairing water infrastructure. To this end, strong consideration will also be given to the use of technologies, such as sensors and artificial intelligence (AI) to monitor water infrastructure and allow for real-time alerts of infrastructure breakdowns and leakages.
- **Prioritising the maintenance of the waterways and canals**, to maximise the supply to catchment areas and minimise leakage.

6.3 Demand-side management

The following interventions are recommended for consideration:

- **Collecting accurate, real-time data and intelligence** on water usage and making this visible and public.
- **Developing, resourcing, and implementing a sustained provincial economic water resilience programme,** to provide ecosystem and business support so that sectors fully understand their water usage against international benchmarks and undertake measures to improve water-use efficiency. This would include supporting agricultural solutions to produce 'twice the crop per drop', focusing on water-intensive industries, and enabling wise water usage for economic sectors in which women dominate, e.g., childcare facilities and personal care industries.
- **Targeting industrial areas** to implement water re-use strategies.
- **Developing a behavioural change programme** to foster a culture of valuing and conserving water, including encouraging and incentivising shared facilities, such as pools, gardens, and parks; and incentivising household use of grey water.
- **Identifying and addressing regulatory challenges** that impede water system efficiencies and sensitising municipal bylaws and tariff structures, for example by standardising bylaws to encourage water re-use, addressing business constraints in water pressure management (which has a material impact on business insurance costs) and the administration of contaminated alternative water sources.

- **Incorporating water sensitive design** into urban development that considers biomimicry, passive design and natural techniques for stormwater and wastewater management.

6.4 Coordinated water infrastructure oversight and investment

The following interventions have been identified for consideration:

- **Undertaking appropriate and coordinated water governance planning** (including forecasting of economic growth and climatic changes) and decision-making (focused on improving supply options and diversification of sources), allowing for improved transparency with respect to water governance and decisions. Also exploring alternative models with respect to water oversight and governance.
- **Collaborating and coordinating with respect to water infrastructure investment**, including infrastructure funding allocations to smaller municipalities, project preparation to take Sustainable Infrastructure Development and Finance Facility (SIDAFF) projects to bankability, and pooled fund/blended funding with a view to public-private collaboration for economic water resilience.
- **Providing clear policies to businesses** with respect to decentralised systems, including the enablement of private sector to become WSPs.
- **Funding regional water innovation hubs** for development and incubation of water solutions.

6.5 Alternative water costing models for municipalities

The following interventions have been identified for consideration:

- **De-coupling water service charges from sanitation charges** to encourage grey water reticulation.
- **Innovating around a shift in the municipal revenue model** to incentivise sound maintenance of water infrastructure and the adoption of ‘smart’ water systems, which will enhance the monitoring of water usage and data collection.
- **Exploring risk-sharing and co-financing arrangements** with innovative funding models and revenue systems.

7. Considerations with respect to the PFA and its change strategies

7.1 Assumptions

To achieve success, the following explicit assumptions have been made:

- There is agreement among national, provincial and local government on roles and responsibilities with respect to water governance and management.
- Collaboration around ecological infrastructure management will be strengthened.
- Resources will be made available for water efficiency to be measured per sector, so that the relevant benchmarks can be established.
- The 15-year Water Resilience Plan developed by the Department of Local Government will be the key informant to the development and implementation of this PFA’s plans.

- The Ecological Infrastructure Investment Framework will be resourced to enable the required financing of the various plans and projects via innovative funding models, partnerships and leveraging of suitable investment.
- There is a strengthened and constructive relationship between Western Cape Government, local government and the national DWS, where the latter – which has the legislative mandate to provide bulk water supply – is open to innovative and decentralised systems of water supply, allocation and management.

7.2 Risks

- There are insufficient funds for the initiation of the required work and for project preparation.
- There is a heavy reliance on other enablers and levers for effective implementation.
- Not identifying and pursuing more cost-effective and/or faster measures to increase supply of water resources will materially affect the ability of the Western Cape Government to realise its targets.
- The historical challenges at the national DWS, which had an impact on the reliable supply of water, are not adequately addressed and the proposed new national Water SOE – if implemented – creates new uncertainty.

7.3 Research

The following research needs have been identified:

- Land-use modelling with respect to water supply and water usage in the province, to allow for evidence-based decision-making.
- Research into global leading practices in demand management of water.
- The updating of the water supply and demand projections to include projected Growth for Jobs GDP growth and climate change.
- Benchmarking studies for water-intensive sectors, so the private sector can understand how their water efficiencies compare to international best practices.

chapter

10

Priority Focus Area 5: Technology and Innovation

Chapter 10: Priority Focus Area 5: Technology and Innovation

1. Introduction

Human capital, machinery, buildings, water, and energy are all inputs needed for the Western Cape to produce and export goods and services. As technology allows firms to use labour and capital more efficiently, advances in technology (as a result of innovation) are the driving force behind leaps in efficiency, and thus technology and innovation are essential for break-out growth.

Total factor productivity (TFP) is dependent on the intensity and efficiency of input in production, measuring essentially technological change in the production process. In addition to efficiency, technology growth is generally regarded as the one of the biggest sub-sections of TFP, and a body of research asserts that technological change is the factor that most determines the rate of economic growth. Changes in technology are the only source of permanent increases in productivity, while research and development (R&D) investment causes 50% of output growth and 75% of productivity growth.[113] Therefore, technology and innovation play a vital role in improving firm competitiveness, creating value and generating income in an economy, as well as being a vital component of increasing TFP growth and thereby long-term economic growth.

Innovation can be understood as "the multi-stage process whereby organisations transform ideas into new/improved products, service or processes, in order to compete and differentiate themselves successfully in their marketplace". Technology, inclusive of digital technology, is the creation, usage and knowledge of tools, techniques, crafts, systems or methods to solve a problem or serve a purpose or end. Innovation and technology are therefore not synonymous but are inter-related in that technology is often a driver and enabler of the proliferation and evolution of innovation.

South Africa and the Western Cape do not have a good track record of optimising business productivity. Productivity levels are low compared to developed nations and even to BRICS counterparts. For the past 12 years, productivity growth in South Africa and the Western Cape has been slow, averaging 0.37% per year.

1.1 South Africa is falling behind in innovation

In 2021, the Global Innovation Index (GII) ranked South Africa as 61st out of 130 countries, 14th among 34 upper middle-income economies and 2nd among Sub-Saharan Africa countries.[114]

Despite the body of evidence pointing to the need for South Africa to place greater emphasis on technology and innovation, the country underperforms compared to its counterparts on a range of indicators. In 2017, gross expenditure on R&D as a percentage of gross domestic product (GDP) was 1.72% globally but just 0.83% in South Africa. If the Western Cape is to meet its R1-trillion goal, a focus on technology and innovation will be essential, given its catalysing impact on overall competitiveness and productivity.

[113] Basu, Fernald and Shapiro. 2001; Griliches .1995
[114] World Intellectual Property Organization. 2021. Global Innovation Index.

1.2 The Western Cape must embrace its role as Africa's innovation hub

Over the next decade, more than R5-trillion of value could be created in South Africa through the use of digital technologies in key sectors, including agriculture, public infrastructure and administration, financial services and manufacturing.[115] The main factors impeding the growth and development of the digital economy are poor digital infrastructure and a lack of digital skills among both employees and consumers.

About 450 tech firms are found along the Cape Town−Stellenbosch corridor and employ more than 40 000 people.[116] Despite a higher R&D spend than that of other provinces, the Western Cape is capturing only a fraction of the growth in the digital economy and needs to strategically invest in its foundational elements to keep pace with global counterparts. [117],[118] The Western Cape needs to advance digital value creation through focused initiatives that build these foundational elements and address impediments to the growth of the digital economy, including connectivity and digital skills.

2. Situational analysis

2.1 The role of innovation and economic growth

There is a **positive relationship between innovation and development**, i.e., the relationship between a country's income levels (GDP per capita) and innovation performance (GII score).[119] In the simplest terms, innovative ideas and better technologies increase productivity and generate greater output and value with the same input, which leads to **greater efficiencies** and **productivity**. As productivity rises, more goods and services are produced – in other words, the economy grows. Productivity also feeds into **wage growth**.

Investment in R&D is necessary to enhance technological innovation, thereby contributing to provincial economic development. Government, as the enabler, can reduce private-sector risk and uncertainty by investing significantly in R&D and in the institutional platforms that drive innovation.

2.2 The role of technology and economic growth

Technology adoption and innovation lead to improved **competitiveness, create value and generate income in the economy**. Technological innovation contributes to the development and modernisation of production methods and, therefore, is the main driver for economic growth and human progress. The **competitive advantage** of nations is also rooted in innovation. However, South Africa still relies heavily on its natural resources for generating wealth, and the technology content in products or processes is relatively low, with technological knowledge often acquired instead of being generated domestically.

[115] Accenture strategy. 2019. Unlocking digital value for business and society in South Africa.
[116] Endeavour Insight. 2018. Evaluation and Network Analysis of the Cape Town-Stellenbosch Tech Sector.
[117] ITWeb, SA's innovation, R&D investment misses targets, 1 August 2022
[118] Research Professional News, South Africa drops among Africa's top R&D spenders, 9 June 2022
[119] World Intellectual Property Organization. 2021. Global Innovation Index.

2.3 The role of the digital economy and economic growth

The digital economy, as a component of technological innovation, is regarded as the **main driver of economic growth** in developed and developing countries. It can provide competitiveness and sustained growth to Western Cape businesses. The Western Cape can harness the power of the digital economy, its associated technologies and innovation not only to contribute significantly to economic growth and job creation, but also to **narrow the 'digital divide'** to ensure a more inclusive society, as the digital economy grows in importance.

The overall value of the digital economy ranges between 4.5% and 22.5% of global GDP, depending on which definitions and measures are used. Globally, according to the definition used by the World Bank, the size of the digital economy has increased significantly and is expected to be the **fastest-growing component of most economies.**[120] In 2016, the global digital economy was worth about $11.5-trillion, equivalent to 15.5% of global GDP, and is expected to reach 25% by 2026 and continue to grow thereafter.[121]

The digital economy is not just about the **networking of technology** to create networked intelligence but, more importantly, about the **networking of people through technology**. The OECD defines the digital economy as:

> the digital transformation of economic and social development [incorporating a] broad range of economic activities that include using digitised information and knowledge as the key factor of production, modern information networks as an important activity space, and the effective use of ICT as an important driver of productivity growth and economic structural optimisation.[122]

2.4 The national innovation skills landscape

Various indicators of technological competitiveness show that South Africa may perform better than most countries in Africa but not when compared to other countries at a similar stage of development. For instance, in 2019, the gross tertiary enrolment rate was 53.8% in China, 55.1% in Brazil, 42.8% in Mexico but just 23.9% in South Africa.[123] The lack of adequate digital skills constrains technical competitiveness – according to a 2022 Cape Chamber Business survey,[124] 63% of respondents believe that the population does not possess sufficient digital skills to meet the needs of the economy.

2.5 South Africa's digital economy

In 2020, South Africa's 'internet economy' was valued at $21.55-billion, or about 6.51% of GDP, and is expected to grow to more than $125-billion, or 12.92% of GDP by 2050.[125] After improving slightly between 2016 and 2018, South Africa's digital competitiveness ranking declined sharply in 2020, to 60 out of 63 countries – the largest decline by a country in that year's ranking.[126] In

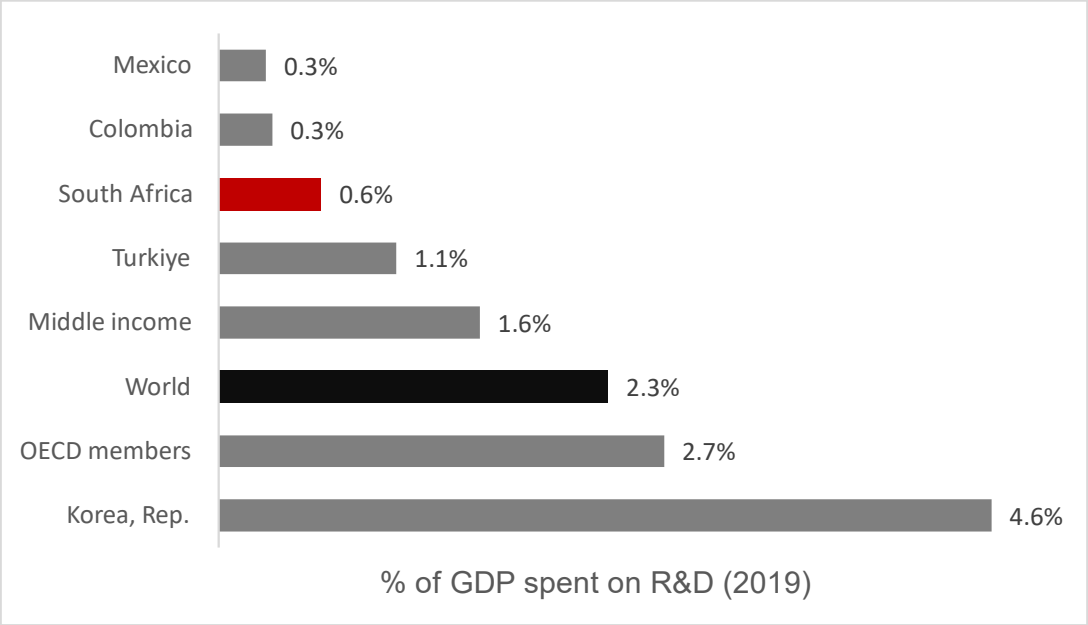
[120] World Bank, 2019. South Africa: Digital Economy Diagnostic. Value creation and capture: implications for developing countries, Digital Economy Report 2019
[121] World Bank Group. 2019. Ghana Digital Economy Diagnostic; Ghana Digital Economy Diagnostic. World Bank, Washington, DC.
[122] OECD (2020). OECD Digital Economy Outlook 2020. Paris: OECD Publishing
[123] Khuluvhe, M. and Ganyaupfu, E. 2022. Access to Tertiary Education in South Africa: Country Comparison using Gross Enrolments Ratio. Department of Higher Education and Training, Pretoria.
[124] Cape Chamber of Commerce and Industry. 2022. Western Cape Business Environment Survey Findings.
[125] Herbert, G. & Loudon, L. 2020. The size and growth potential of the digital economy in ODA-eligible countries. K4D Helpdesk Report. Brighton, UK: Institute of Development Studies.
[126] IMD World Digital Competitiveness Ranking 2022. World Competitiveness Center—IMD

2020, 74.1% of individuals had access to the internet, 70% of firms in manufacturing and services used email for conducting business, while only 36% of firms had websites[127]. The implication is that South African businesses are not fully utilising the productivity and competitiveness improvements offered by technology.

2.6 South Africa's research & development spend

In 2019, instead of moving towards its 1.5% target, South Africa's gross expenditure on R&D declined for the second consecutive year, to 0.62% of GDP compared to 0.75% in 2018. Furthermore, the private sector should ideally contribute over 50% of gross expenditure on R&D but only contributed 31% in 2019.[128]

Figure 10.1: Share of GDP spent on R&D (2019)



Source: World Bank Development Indicators[129]

South Africa's current R&D spend as a percentage of GDP is less than Türkiye and South Korea, and less than half compared to the average expenditure of middle-income countries. The gulf between the country's R&D targets and its performance is stark and widening, with expenditure just 62% of the targeted 1.1% of GDP. If the target of 1.1% of GDP is met, this could translate into R54-billion growth by 2024. At the same time, the Western Cape has growing tech and start-up enterprises that can be further expanded with a greater focus on enabling R&D.

Higher education institutions are key actors in the regional innovation system. Universities provide regions with access to knowledge assets and technological knowledge. Knowledge can be transferred to local businesses, or start-ups can be created. Data shows that expenditure in R&D in the Western Cape (R4.7-billion) is the highest. Gauteng has the second highest expenditure in R&D by higher education (R4.2-billion). The rest of the provinces are far behind. South Africa also has a low number of inventions. Despite being home to world-class

[127] DEDAT Covid business survey, 2020
[128] Herbert, G. & Loudon, L. (2020). The size and growth potential of the digital economy in ODA-eligible countries. K4D Helpdesk Report. Brighton, UK: Institute of Development Studies
[129] Sourced from World Bank. 2023. World Development Indicators [Research and development expenditure (% of GDP)]. World Bank Open Data. Note: WDI sources data from UNESCO Institute for Statistics (UIS).

innovations, such as the CAT scan, Kreepy Krauly and the dolosse, in 2020, the country had 25 patent applications per million population, compared to the average of 641 for upper middle-income countries.[130] South Africa has the potential and talent for further ground-breaking R&D that can be commercialised, but this needs to be unlocked by additional and more synchronised investment.

2.7 South Africa's entrepreneurial ecosystem

In 2019, the Global Entrepreneurship Monitor (GEM) introduced the NECI, a single composite index that expresses the average state and quality of the entrepreneurial ecosystem of a country. South Africa had the lowest NECI score of the BRICS countries, meaning that the environment is not sufficiently supportive of entrepreneurship. In 2018/19, South Africa had one of the lowest NECI indices of the 54 economies and was ranked ahead of only Croatia, Guatemala, Paraguay, Puerto Rico, and Iran.[131]

2.8 The Western Cape innovation system

Gauteng, the Western Cape and KwaZulu-Natal are the three provinces where most R&D expenditure in South Africa is concentrated and where most innovation support initiatives are found (e.g., incubators and technology stations that are intended to improve the capacity of innovators and entrepreneurs).[132] Furthermore, with the notable exception of the agricultural industry, linkages between the private sector and universities are weak, signalling that the economy is not sufficiently leveraging existing R&D capacity within the tertiary institutions.[133]

With a growing number of tech start-ups, hubs, accelerators and other innovation facilitators, in Africa, important innovation ecosystems are found in Lagos (54+ hubs), Nairobi (51 hubs), Tunis (42 hubs), and **Cape Town** and Cairo (39 hubs each). Between 2018 and 2021, the number of tech hubs in Cape Town grew by 33%, thanks in part to interventions from government, private-sector industry bodies and wider policy support.

2.9 Start-up ecosystem of Cape Town

The Western Cape has the highest number of venture capital firms in Africa and, in 2020, a total of $88-million was invested into tech start-ups in Cape Town. In 2022, the start-up ecosystem in Cape Town ranked number one in the South Africa and Southern Africa, but was ranked only 147 globally, having decreased two positions since 2021.[134] In 2018, the greater Cape Town technology start-up ecosystem was found to be larger than that of Nairobi and Lagos,[135] although more recent research suggests that the Western Cape may have lost its initial momentum and status.

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[130] National Advisory Council on Innovation. 2022. The South African Science, Technology and Innovation Indicators Report 2022.
[131] Global Entrepreneurship Research Association. 2019. Global Entrepreneurship Monitor 2019/2020 Global Report. London Business School: London.
[132] Ibid.
[133] HSRC. 2022. Gearing for R&D and Innovation in South African State-Owned Enterprises: Findings from Case Studies of SANEDI, ATNS and SAFCOL.
[134] StartupBlink. 2022. The Ecosystem of Cape Town Startups.
[135] Endeavour Insight. 2018. Evaluation and Network Analysis of the Cape Town-Stellenbosch Tech Sector.

2.10 Global trends embracing innovation in government

Governments are grappling with how to make the most of technology and how to rapidly test new approaches to working in a fast-changing world. Various trends identified by the OECD are relevant to South African context:[136]

- **Human and machine pairing.** Governments are finding new and creative ways to combine the knowledge and experience of humans with innovative machine-generated data and tools.
- **Zoom in or zoom out.** Advances in processes and technology are enabling government to conceive new ways to scale services for the public, to revolutionise what scale means and to bring innovative practices more effectively into government.
- **Citizens as experts.** Citizen-government boundaries are being redefined, as countries increasingly recognise that good ideas may come from outside the walls of government. By supporting citizen-driven innovation, governments can learn about innovative ideas and approaches, while promoting trust and inclusiveness in society.
- **Experimental government.** To keep up with the rapid pace of change, governments are realising that they need to experiment with new possibilities and quickly establish which approaches work and which do not. This requires creating a culture that allows experimentation to become second nature.
- **Mass or personalised services.** The world is changing at a remarkable pace and each new advance is accompanied by expectations on the part of its citizens. Governments that are at the forefront of innovation are reinventing their operations. They aim to better meet these expectations by providing services more attuned to the lives of their citizens, and getting immediate feedback and responses from citizens, e.g., logging faults to the municipality with a picture & GPS location.
- **Breaking the norms and rethinking the machinery of government.** Major innovations that have had a real impact include changes to the structure, people and funding of government itself.
- **New models for innovation.** These include mission-oriented innovation (setting a clear outcome and overarching objective for achieving a specific mission); enhancement-oriented innovation (upgrading practices, achieving efficiencies and better results, and building on existing structures); adaptive innovation (testing and trying new approaches to respond to a changing operating environment); and anticipatory innovation (exploring and engaging with emergent issues that might shape future priorities and future commitments).
- **Invisible to visible.** In recent years, governments have made transparency and openness a focus, but the insights, perspectives and opinions of citizens and residents remain largely invisible. Governments may also struggle to see the different paths they can take to design successful policies and services. Governments are taking innovative steps to make these invisible factors visible.
- **Opening doors.** The complexity of government has traditionally limited participation and minimised public value for underserved populations. But modern technologies, open data, and the emergence of new business models have created space for governments to explore new opportunities that open doors to the public value of government.
- **Machine-readable world.** The world is being translated into bits and bytes that can be read by machines and fed into algorithms. Governments are innovating to reconceive the way policy and legislation is created by making them machine-readable. They have also begun

[136] OCED. 2017. Embracing Innovation in Government Global Trends February 2017.

to digitise human characteristics, senses and surroundings to deliver innovative services and interventions.

2.11 Industry trends

Aside from innovation within government, there are some industry trends for harnessing technology for growth.

- **Rethinking business strategy.** This requires companies to go beyond using technology merely to cut costs, but also to adapt their business models and use technology to develop more innovative products and services that give them a competitive edge.
- **Focusing on future skills.** Companies need to upgrade their strategic workforce planning to become much more data- and business-led, and to reskill and upskill existing employees at scale.
- **Embracing new ways of working.** To future-proof reskilling and hiring investments and maximise the productivity of their workforces, companies have to adapt to evolving employee expectations and ways of working. Companies can build greater agility into their organisations and use people analytics to understand what drives employee engagement (e.g., meaningful work, flexibility, autonomy, continuous growth, and connection).

There are also indirect economic benefits of technology and innovation, for example the ICT sector, which is at the heart of the 4IR.

3. Challenge and opportunity statements

Drawing from the situation analysis as well as the inputs from the stakeholders, the following are the key challenge and opportunity statements for the priority focus area:

3.1 Challenge statements

- The Western Cape's competitiveness in a digitally transformed and enabled future world will depend on the ability of the technology and innovation sector to contribute significantly to the transformation of enterprises and the public sector.
- The mismatch between supply and demand for suitably qualified and experienced technology/digital technologists and professionals lead to investors, start-ups and entrepreneurs choosing locations other than the Western Cape.
- Demand is significantly higher than supply, resulting in the offshoring of work and opportunities (economic leakage) and a reduced capability to implement and sustain technology innovation/digital transformation.
- The technology ecosystems in the Western Cape are fragmented with little real coordination to ensure that synergies are achieved and opportunities optimised, including a less visible profile and weakened reputation as a world-class technology hub.
- Ease-of-doing-business inhibitors, which include the visa regime and exchange controls and an insufficient pipeline of scale-ups, reduce the attractiveness of the Western Cape for venture capitalist funders.
- Several legislative and regulatory constraints, which tend to be industry specific, prevent the uptake of innovation and technology. For example, innovation in the health sector is hindered by challenges related to the South African Health Products Regulatory Authority's certification processes, while regulations governing drones constrain innovative applications of the technology across several sectors.

- Inconsistent policy support creates uncertainty about government's commitment to technology and innovation.
- Insufficient R&D in the Western Cape at commercial, public sector and tertiary educational levels results in fewer new products, services and solutions emerging to compete in local and export markets and reduced opportunities to commercialise innovation.
- Inhibiting factors within the university environment lead to sub-optimal commercialisation of intellectual property and R&D, including weak university incentivisation policies for R&D.
- Government systems do not encourage – and may stifle – the adoption of new technology and innovation within government due to rigid hierarchies (difficulty in working transversally), lack of digital leadership skills, coupled with compliance-focused systems and a fear-of-failure culture.
- South African capital is risk-averse and wary of venture capital, given that it is a relatively new asset class in South Africa and inherently high risk, and South Africa does not attract sufficient international development financing funding to address this issue. This also ties in with the earlier constraint associated with rigid exchange controls.

3.2 Opportunity statements

- A digitally transformed and enabled Western Cape that creates jobs and economic value through establishing and developing digital businesses (from start-ups to corporates) and improved public sector efficiency.
- A strengthened technology and innovation ecosystem that significantly contributes to a strong virtuous cycle of growth.
- The right technology skills which are available in the right place at the right time, coupled with the appropriate digital and hybrid infrastructure, enable enterprises to take advantage of the Western Cape's world-class financial infrastructure to invest and locate their technology and commercial businesses.
- The sustained emergence of a wide range of research-based innovation results in an extensive, diverse pipeline of commercialised opportunities that attracts a strong venture capital base.
- Government becomes a catalyst for innovations in the province, helping to drive uptake through its embrace of innovative private-sector solutions to service delivery.
- Networks of local innovation hubs, ecosystems and centres of excellence have international standing and reputations, and attract foreign talent and financing.
- The private sector has an energised culture of R&D, innovation and technology adaptation, supported by an enabling environment.
- Citizens have positive feedback options to government through innovation/digital mechanisms, creating a positive experience for the citizen and providing immediate feedback to government on the effectiveness of its service delivery.

4. Objective and goal statements

4.1 Objective statement

The Western Cape is the tech, start-up and venture capital and innovation and design capital of Africa, through robust business, government and community innovation (supported by academia), with strong technology ecosystems and centres of excellence in a range of industries and opportunities, with a supportive enabling environment, and where the adoption of appropriate technology and accessible innovation leads to an improvement in the Global Innovation Index and the productivity and competitiveness of the regional economy.

4.2 Goal statement

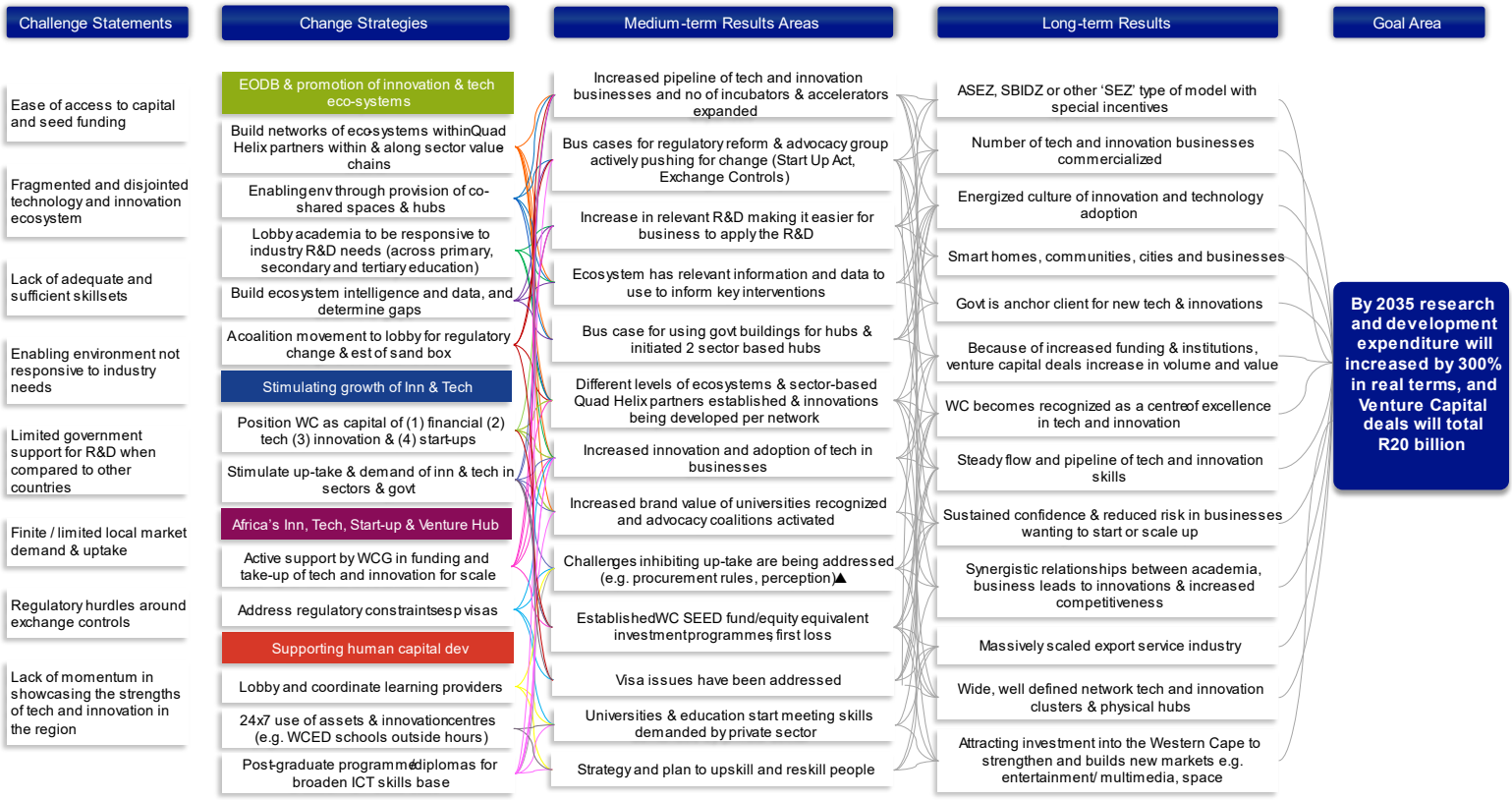
By 2035, research and development expenditure will increase by 300% in real terms, reaching R35-billion and venture capital deals will total R20-billion

Innovation and technology are the critical components of TFP and fundamental for catalysing the targeted 4−6% overall growth rate. Increasing R&D expenditure by 300% (in real terms) will result in R35-billion being spent and bring economic benefits of an additional R27 -billion, growing the economy and adding 32 869 jobs. The inclusion of venture capital in the goal demonstrates that R&D has been commercialised and is ready for scaling.

5. Strategic-level theory of change for the PFA

A theory of change workshop was held for this PFA. Using the inputs from the workshop and subsequent engagements, a high-level theory of change was developed.

Figure 10.2: Theory of change for PFA 5



6. Change strategies and interventions

Based on the theory of change, to achieve the goal statement, the PFA will need to institute various change strategies, including strengthening the ease of doing business, promoting technology and innovation, establishing the Western Cape as a venture capital hub, stimulating the growth of and demand for innovation and technology start-ups and scale-ups, and supporting human capital development.

6.1 Strengthen ease of doing business and promote ecosystems of technology and innovation

The following interventions have been identified for consideration:

- **Addressing regulatory and legal reform**, with the immediate priority being investor and investment-related visas, so that South Africa's immigration regime supports the dynamic flow of talent and know-how to support innovation and tech-related businesses. To this end, an evidence-based and advocacy approach, informed by research, will leverage a coalition movement between provincial government and the private sector, with the aim of achieving a systematic shift in societal attitudes towards foreign investors and foreign professionals. Furthermore, regulatory challenges affecting specific growth opportunities will be addressed in a manner that ensures systemic resolution. [See Chapter 6]
- **Building and supporting networks in the technology and innovation ecosystems** to strengthen the ecosystems of quadruple helix partners within and along sector value-chains; establishing platforms and systems that facilitate R&D collaboration between academia and industry, and improve the exchange of information and knowledge between the public sector, private sector, academia and citizens/communities in the Western Cape. Linked to

this would be encouraging the exchange of ecosystem intelligence and data and taking a solution-focused innovation approach to address challenges and opportunities.

- **Establishing a sandbox for emerging technologies and innovation**, allowing businesses and entrepreneurs to test, prototype and commercialise their innovations, with rapid enabling regulatory shifts if required.
- **Investigating the establishment of a challenge fund** to improve government-private-sector collaboration and stimulate collaboration in R&D and innovation among the private sector, government, academia and the public.
- **Strengthening the catalytic role of universities** in the economy, through among others, leveraging private-sector financial **support for research chairs at universities** in specific growth opportunities, both to build the R&D pipeline and to develop skills-sets within university centres of excellence. This would include developing multi-disciplinary R&D capability to stimulate easy access to R&D opportunities for academics and communities. Also, exploring and assisting the four Western Cape universities to share patents that could potentially be commercialised, collaborating with the universities Technology Transfer Offices to improve the uptake of their intellectual property and helping the four Western Cape Universities share 300 patents that could potentially be commercialised.
- **Developing a single, comprehensive entrepreneurial/innovation portal** that addresses the market need. The portal would create linkages and networks (between regional, national and international innovators, industry and public and private technology developers, commercialisation funding partners, and other relevant innovation players); foster collaboration between start-ups, innovators, investors, innovation hubs and development partners in the Western Cape; and provide avenues for support (knowledge, skills, funding, etc.), especially in disconnected economies such as the rural areas and townships. As part of this intervention, enhance the reach with on-demand learning platforms for SMEs, offering an opportunity to invest in skills development.

6.2 Establish the Western Cape as a venture capital hub for start-ups and scale-ups

The following interventions have been identified for consideration:

- **Improving ease of doing business** with respect to funding and venture capital accessibility, especially considering regulatory and legislation constraints in **exchange control and intellectual property**. Together with the Reserve Bank and other stakeholders, solutions will be explored around the repatriation of capital and ability to service international markets from South Africa, especially in digital services. The innovation and digital sector's regulatory challenges will need to be understood and additional interventions put in place to remove or mitigate regulatory hurdles.
- **Investigating incentives** or creating a physical hub that may be put in place to attract investment in digital, technology and innovation start-ups.
- **Facilitating the growth of venture capital funds** available in the Western Cape through partnerships with institutional investors to expand the venture capital proportion of their investment allocations, and investigating setting up new or ramping up existing funding vehicles. Funding from the private sector and international DFI and donor country institutions will be leveraged. As domiciles outside South Africa have proven to be extremely effective at attracting funding, a support campaign will be undertaken to complement their efforts. A component of this intervention would be to assist in **strengthening the finance and funding ecosystem**; building partnerships with philanthropists, financial institutions, angel investors and/or venture capitalists to grow a venture capital pipeline for $1-billion of investments in digital and innovative businesses with significant growth potential.

- **Providing support particularly for growth-orientated business** to access and maximise national incentive programmes with respect to R&D and innovation. For example, the current THRIP programme and other national R&D funds will be mapped with a view to lobbying national government to make the funding more accessible to non-corporates.

6.3 Stimulate growth of and demand for innovation and technology start-ups and scale-ups

The following interventions have been identified for consideration:

- **Positioning and marketing the Western Cape as Africa's hub of venture capital, digital, tech, innovation and start-ups.** The marketing and brand awareness will highlight the Western Cape's strong networks of ecosystems and promote the Western Cape's centres of excellence for specific cross-cutting themes (e.g., finance, design and digital technologies) that can be applied horizontally across all segments of the economy and verticals (e.g., finance, education, and health) where innovative solutions can be incubated before expanding into other industries. The marketing will be directed at the local economy as well as to an international audience.
- **Promoting the uptake of technology and innovation within the private sector.** One element of this will be **tech within local verticals and industries** to stimulate local market demand, leading to reach and scale, including networking to showcase the region's strengths in technology and innovation. Examples include how technology and innovation has transformed the financial (fin-tech) and agricultural (agri-tech) industries. The second element will be **enabling SMMEs to take up technology** into their business practices, so that they are digitally competitive. This can be achieved by networks in the ecosystem collaborating to raise greater awareness, digitalising government procurement systems to act as a stimulant to the market, and creating a digital army of promoters (e.g., using the Expanded Public Works Programme) to sign up businesses to platforms such as Google. Good practices could be taken from successful international interventions, such as in Ireland where government reduces business risk by making a financial contribution towards the digital uptake by businesses, or in France where the Campus Région du Numérique in the Auvergne-Rhône-Alpes region offers digital adoption support to businesses and matchmaking with local digital companies/service providers.
- **Driving the Western Cape Government to be more outward-facing** with respect to innovation, promoting active support by government in the uptake of local tech, digital and innovation.
- **Establishing a regulatory sandbox for government,** as a controlled and safe space for officials to develop and test novel and innovative models of service delivery. This will need to be enabled by relevant support units (inclusive of new procurement solutions). The principles of agile product development to partnership building will be deployed – adopting a 'learn fast' method – which makes for better allocation of scarce resources to the most lucrative partnerships.

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6.4 Supporting human capital development

- **Introducing practical postgraduate ICT and tech conversion programmes** at Western Cape universities and TVETs, targeting unemployed or under-employed graduates, and in partnership with the private sector and academia, producing digital and tech skills at scale and with speed. Enhance this intervention through facilitating the coordination between

learning providers and institutions to match skills that are delivered and skills that industry requires.

- **Strengthening the digital skills foundation at school level** to ensure that all learners have basic digital skills and enhanced career guidance with respect to ICT/tech specialisation so that digital and tech is a career of choice.
- **Using the Western Cape Education Department (WCED) schools** and other Western Cape Government assets outside 'normal' hours for digital education, skills development and for accessing the digital economy, e.g., 24x7 use of assets and innovation centres.
- **Assisting the WCED to adapt the education system,** to increase the focus on innovation and creativity and to develop the required pipeline of digital and other related skills, such as coding and robotics – education and tertiary-level learning would include digital, tech and innovation capabilities as part of the subject matter.
- Targeting specialist skills programmes for sector-specific skills-sets and developing capabilities in key growth sectors.
- **Building and strengthening public service innovation** capabilities towards improving service delivery within the provincial government.

7. Considerations with respect to the PFA and its change strategies

7.1 Assumptions

To achieve success, the following explicit assumptions have been made:

- Stakeholders are committed to working together.
- Business is committed to exploring new ways of recruiting and accepting new personnel who may not have the traditional qualifications but have the competencies and raw talent.
- Innovative and compliant models of procurement are identified that enable partnerships and collaboration, and behaviours in the civil service shift from merely being compliance-orientated towards being more service delivery-orientated.
- Global business sentiment on tech and innovations remains strong.
- There is an acknowledgement and acceptance that there are risks of failure when supporting innovation and that officials and businesses are not punitively treated because of this.

7.2 Risks

- Some interventions have a heavy dependence on others for successful implementation.
- Recent years have seen dramatic increases in cybercrime, ransomware, and security breaches, resulting in the integrity of personal information being compromised. The Growth for Jobs Strategy is mindful of the threat posed by digital infrastructure outages and breaches and will work to ensure that digital infrastructure is secured as much as is practically possible, that redundancies are established to create ways of bypassing compromised systems, and that information is encrypted and safeguarded wherever possible.

7.3 Research

Some of the research needs that have been identified include:

- Research into why there is little uptake of innovation and tech in the public sector and assess the risk appetite/aversion in the public and private sector for funding of innovation.
- Regulatory review of procurement rules and their impact on innovation uptake within government.
- The development of business cases to understand the feasibility of a venture capital fund that is supported by the Western Cape Government.
- Benchmarking of exchange control and intellection property legislation, against the country's peers, with a view to using the evidence to advocate for a more enabling regulatory environment.
- Mapping of the current THRIP programme and other national R&D funds, with a view to lobbying national government to make the funding more accessible to non-corporates.
- A business case on practical postgraduate ICT and tech conversion programmes at tertiary institutions, together with universities and TVET colleges.

chapter

11

Priority Focus Area 6: Infrastructure and Connected Economy (mobility, logistics, broadband and digital transformation)

Chapter 11: Priority Focus Area 6: Infrastructure and Connected Economy (mobility, logistics, broadband and digital transformation)

1. Introduction

The Western Cape's Growth for Jobs Strategy is predicated on break-out economic growth spurred by accelerated private-sector investment, gains in human capital productivity and regional competitiveness, none of which is possible without a well-functioning network of economic infrastructure.[137] The volume and quality of economic infrastructure is the foundation of the economy. At the same time, social infrastructure (e.g., hospitals, schools) ensures a healthy, skilled (and thus productive) labour force.

This strategy will be implemented in alignment with plans such as the Western Cape Infrastructure Plan 2050 (WCIP 2050), the City of Cape Town's Infrastructure Delivery Plan and its recently released Infrastructure Report as well as plans of other municipalities. Taking these plans into account, the province will think more innovatively about project preparation, management, and funding. There is a key competitive advantage to be gained if the province can break out of the doldrums that infrastructure currently finds itself in nationally – where risks from shocks such as climate change and unrest are not properly engaged with.

1.1 Economic infrastructure has deteriorated nationally due to underinvestment

Although the Western Cape's social infrastructure performs relatively well under the custodianship of provincial health and education departments, economic infrastructure – under direct control of national departments and SOEs – has deteriorated nationally and represents the most immediate and binding constraint on provincial economic growth prospects.

Natural resources supported and enabled by critical **ecological infrastructure**, are recognised as a part of the infrastructure portfolio, ensuring that nature-based goods and services are maintained in a condition that provides sufficient, safe and healthy functioning. This is also where the province can differentiate itself from other regions and gain a comparative advantage.

The provision of public infrastructure is a constitutional responsibility of a capable state but requires adequate on- and off-balance sheet funding and a conducive national policy environment. However, the overall condition of South Africa's existing infrastructure is generally unsatisfactory and risks failing to serve its purpose. The condition of public infrastructure is a function of the appropriate allocation of budgets and the coordinated planning, development and implementation of sound maintenance systems, policies and processes. Over the last five years, the Western Cape province has seen how this can be derailed by external factors, such as the drought and the Covid-19 pandemic, which were outside the State's direct influence and resulted in the compelled redirection of funding.

[137] Note: Economic infrastructure refers to the facilities for conducting economic activity. These are often in the form of physical capital such as long-lasting engineering structures, facilities, equipment, and services used in economic production. Economic infrastructure includes energy, water, transport, and digital infrastructure. In contrast, social infrastructure are facilities aimed at improving the quality of human life, such as education and health care. While housing can be categorised as social infrastructure, it is at times designated as economic infrastructure.

Therefore, infrastructure in its broadest sense is a key factor of growth for the Strategy, and new infrastructure will be required to deal with future shocks, changes, and opportunities. Smart metering for wheeled electricity and feed-in tariffs, smart roads and similar innovations will all become part of an increasingly connected economy. The infrastructure behind these (as mentioned elsewhere in this Strategy) will require their own backbone, while access to network industries, which include broadband, is increasingly recognised as an essential prerequisite for economic growth.

1.2 The Western Cape Government's role in shoring up economic infrastructure and the spatial economy

The public sector, including state-owned enterprises (SOE) capital spend is about half that of the private sector.[138] Although provincial governments only control 16% of public sector budgets, the Western Cape Government[139] has several tools available with respect to shoring up the quality and quantity of growth-enabling infrastructure:

- Direct custodianship over a R1.75-billion annual capital budget for social infrastructure (i.e., health and education), and over a R3-billion capital budget for economic infrastructure (i.e., transport and public works), of which the bulk is directed at maintenance, repairs, upgrades and refurbishment of existing infrastructure assets.[140]
- A coordinating function to build partnerships with both private sector and local government to facilitate, fund and implement discretionary projects aimed at unblocking binding constraints to economic growth.
- An advocacy role to influence policy and demonstrate best practice to national government and SOEs.

The spatial economy is interlinked with infrastructure and the connected economy. The Growth for Jobs Strategy seeks to assist municipalities in the implementation of their spatial plans and to support these plans by prioritising the implementation of infrastructure in spatially targeted areas of each municipality (as identified in their spatial plans).

2. Situational analysis

2.1 Infrastructure and economic growth

Economic infrastructure

The relationship between economic infrastructure and economic growth is well-established.[141] Inadequate investment in infrastructure creates bottlenecks, and results in missed opportunities for promoting economic growth. In contrast, well-designed economic and social infrastructure investments contribute both directly to gross domestic product (GDP) by boosting economic output through the spending on capital goods and employing of workers on projects, and indirectly, by providing longer-term economic benefits. These benefits include improved total factor productivity, reduced transaction costs, increased land values, more efficient use of

[138] Quantec, DEDAT calculations.
[139] Stats SA, Palmer Development Group calculations.
[140] In the 2022/23 financial year.
[141] See Perkins et al. 2005. "An analysis of economic infrastructure investment in South Africa". South African Journal of Economics. Vol. 73:2. June 2005.

productive inputs and higher output per worker, increased product complexity, and greater overall economic growth.

However, spending alone does not necessarily translate into the quality infrastructure necessary for improving economic productivity. For example, it is estimated that one-third of infrastructure expenditure is lost as a result of inefficiency due to governance-related challenges.[142] Policymakers need to focus on choosing or encouraging the right type of infrastructure at the right time. In addition to funding, other critical conditions for ensuring that infrastructure investment has a positive impact on economic growth include credible and independent project appraisal systems, and strong governance systems overseeing implementation.

The need for investment in economic infrastructure never goes away, but funding priorities and technologies deployed must be responsive to the impact of future shocks, changes and opportunities. Hybrid infrastructure has the potential to significantly transform the efficiencies and effectiveness of both the private and public sectors. In mobility, vehicles will increasingly communicate with infrastructure, other vehicles and networks through built-in sensors; and water will be conserved through pipes that 'self-detect' and communicate leaks. Predictive analytics will automatically re-route traffic as congestion builds, and manufacturers will increasingly operate highly precise, automated operations using low latency commercial and private networks. To remain relevant and competitive in a dynamic global environment, the Western Cape must position the province's infrastructure programmes at the cutting edge of technological possibility.

Digital infrastructure

Universal access to network industries (including broadband) is increasingly recognised as an essential prerequisite for economic growth. An absence of ubiquitous and affordable digital infrastructure increases digital inequality and discourages both domestic and foreign investment.

The role of social infrastructure

Long-term growth is also dependent on social infrastructure[143], which can drive a healthier and more productive workforce and opportunities for social mobility, while improving the length and quality of citizen's lives. As with economic infrastructure, social infrastructure is an area where the province can differentiate itself from others and gain a comparative advantage.

2.2 National infrastructure landscape

African nations collectively spend $45-billion per year on infrastructure but need to spend $93-billion – of which one-third is needed for maintenance − in order to secure a prosperous and stable future continent.[144] In many African countries, the poor state of infrastructure reduces national economic growth by two percentage points every year and reduces business productivity by as much as 40%, making Africa the region with the lowest productivity levels in the world.[145]

[142] This section draws heavily from Ramokgopa, K. S, 2023. "South Africa's Infrastructure Emergency: An Urgent and Collaborative Intervention".
[143] Includes health, education as well as other infrustructure that supports citizens and communities such as sports and recreation.
[144] United Nations Economic Commission for Africa. 2016. 16 Infrastructure projects for African Integration. Addis Ababa: Ethiopia.
[145] Ibrahim, M. 2019. "Why infrastructure development in Africa matters" United Nation Africa Renewal.

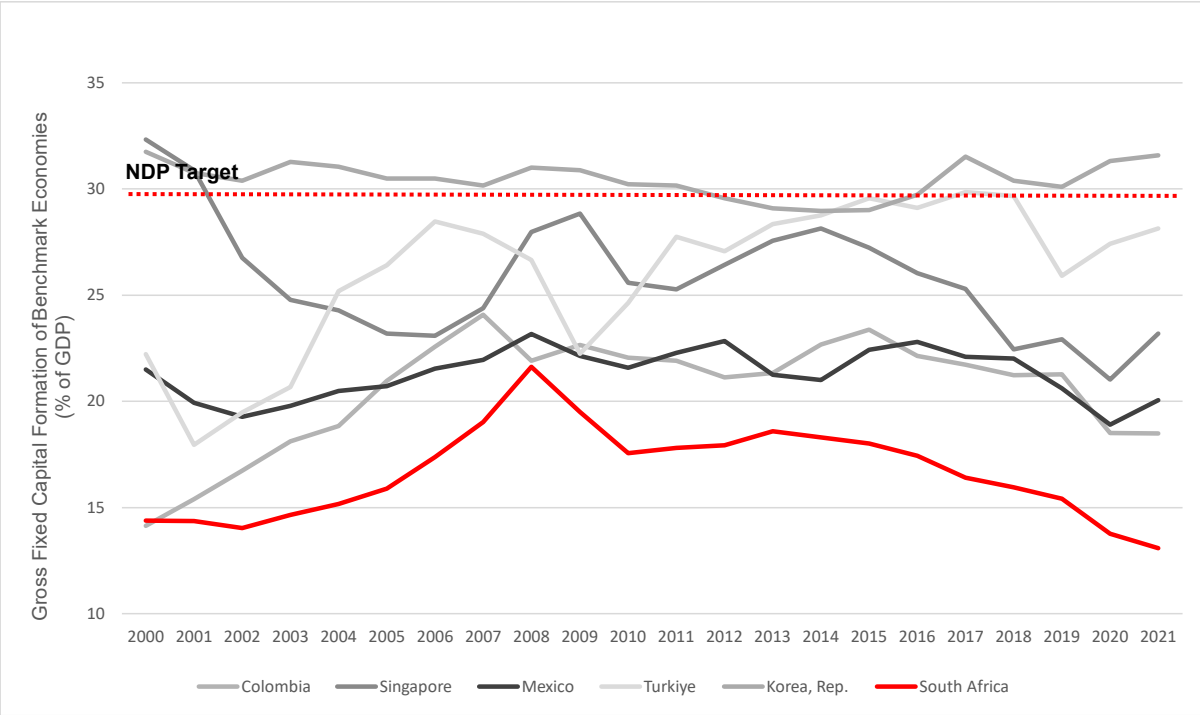
South Africa's economic infrastructure is currently at risk of failure, with infrastructure not coping with normal demand. In 2022, the South African Institute of Civil Engineers (SAICE) gave South Africa's public infrastructure a 'D', the lowest grade ever recorded over the last 16-years of assessment, which is a continuation of a downward trend since the 2010 Soccer World Cup. The neglect of maintenance is the most persistent problem, with most municipalities (and some provinces) managing assets reactively rather than through a system of scheduled, or preventative, maintenance.

Social infrastructure also continues to deteriorate, with crime, non-payment for services and weak institutions that lack appropriate skills and accurate data contributing towards a further decline in the condition of infrastructure. To achieve developmental targets, South Africa will need to close an infrastructure funding gap estimated at R2.15-trillion.[146]

Economy-wide investment in fixed capital

At 13% of GDP, the value of fixed investment (gross fixed capital formation or GFCG) in South Africa is far below the National Development Plan (NDP) target of 30% and far below benchmark economies (ranging between 18% and 32%), as illustrated in Figure 11.1.[147]

Figure 11.1: GFCF comparison with NDP target and other countries

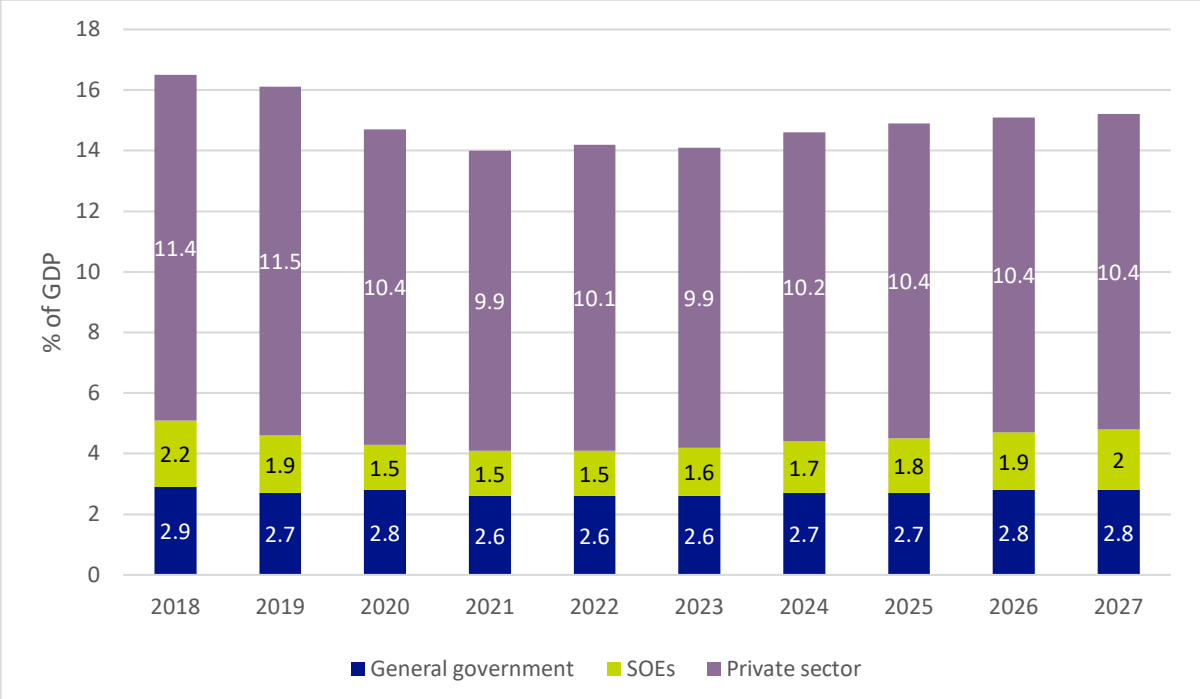


Source: World Bank

In South Africa, between 2014 and 2019, infrastructure investment by general government declined by an average of 0.8% in real terms, while investment by SOEs was down by 4.9% on average.[148]

[146] Ramokgopa, K. S. 2023. "South Africa's Infrastructure Emergency: An Urgent and Collaborative Intervention".
[147] World Bank data.
[148] National Infrastructure Investment Plan. 2020. "Select Committee on Transport, Public Service and Administration and Public Works and Infrastructure".

Figure 11.2: Actual and budgeted national GFCF as % of GDP



Source: Quantec / SARB

Public-sector investment

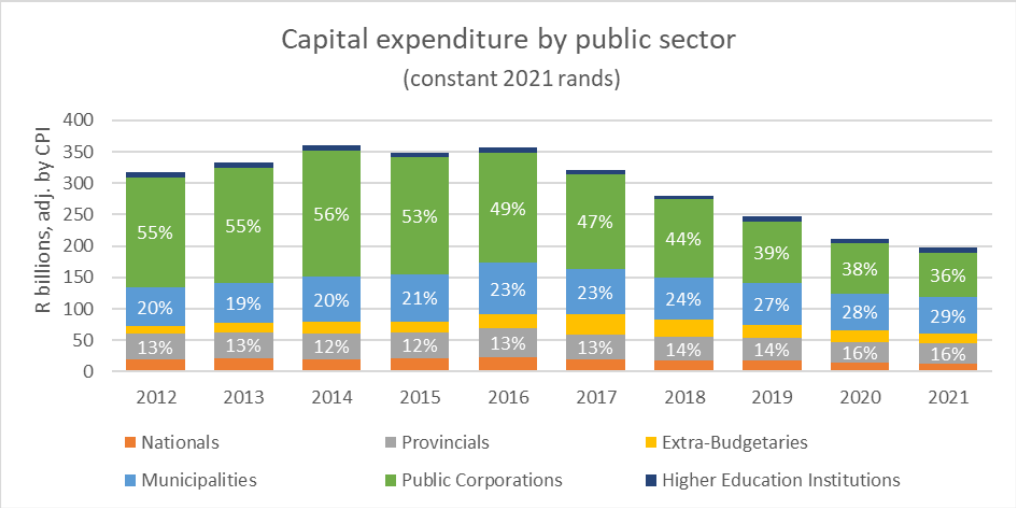
Over the last 15 years, investment trends have declined steadily. After peaking at 22% of GDP in 2008, in the build up to the 2010 Soccer World Cup, by 2020, overall capital investment had substantially dropped to 13.7% – of which one third is attributed to the public sector with the other two-thirds going to the private sector. The lack of overall domestic investment is in part due to the public sector's under-investment in infrastructure, which has been compromised significantly by corruption. This environment of high uncertainty, stagnant growth and a lack of business confidence, has had adverse ramifications for the local private sector's investment into infrastructure, which has provided a negative cue to foreign investors.

Between 2016 and 2021, capital expenditure by the public sector declined from R350-billion to R200-billion (in constant 2021 Rands). SOEs were responsible for the sharpest real decline in expenditure (-60% since 2012), followed by national government (-32%). Due to the unenviable state of their governance, SOEs have struggled to allocate and deliver infrastructure efficiently and effectively, undermining the country's macroeconomic stability. In addition, cost overruns on infrastructure projects are far too frequent, creating major spending inefficiencies.[149]

Municipalities have also continuously underspent on conditional grants and increasingly, have not collected sufficient revenue to finance capital infrastructure. This situation is exacerbated by national government decreasing conditional grants to provinces and municipalities due to rising debt and an increasing budget deficit. [150]

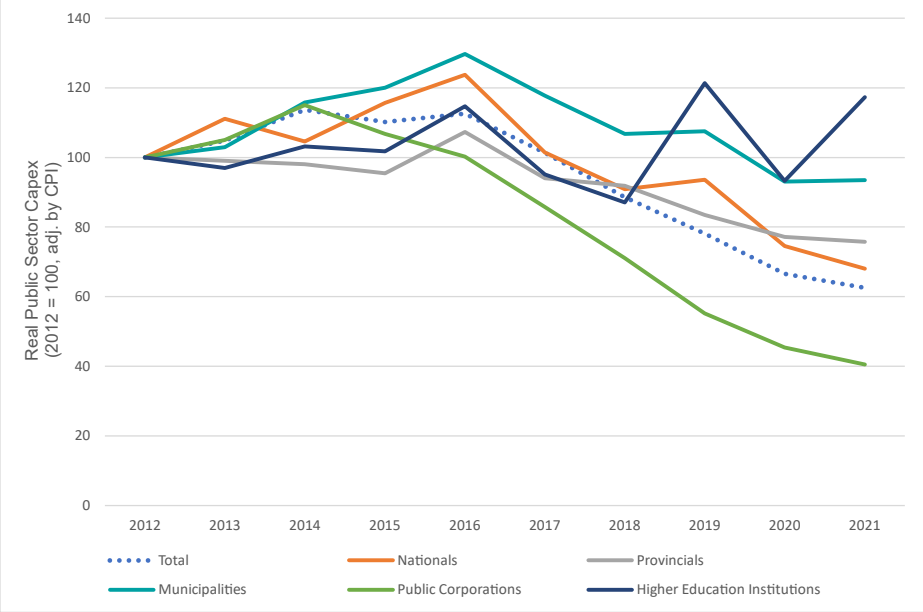
[149] Ramokgopa, K. S. 2023. "South Africa's Infrastructure Emergency: An Urgent and Collaborative Intervention".
[150] Ibid.

Figure 11.3: Capital expenditure by public sector (constant 2021 rands)



Source: Quantec[151]

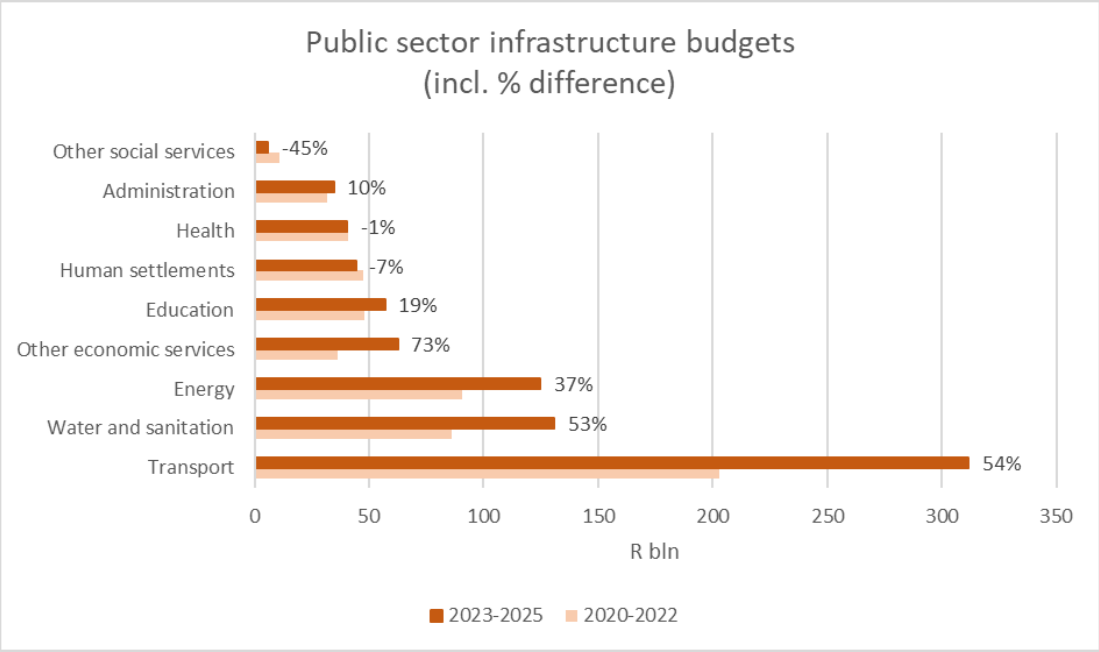
Figure 11.4: Real public sector capex (excl. extra-budgetary)



Source: Quantec[152]

[151] Sourced from Quantec 2023. Capital Expenditure by Public Sector. Original source: Statistics South Africa – P9101.
[152] Ibid.

Figure 11.5: Public sector infrastructure budgets (actual estimates)



Source: National Treasury 2022

National infrastructure plans[153]

The National Infrastructure Plan 2050 (NIP 2050) envisages infrastructure as an enabler for investment, through providing physical and digital infrastructure including energy, water, commercial transport and telecommunications. Despite the Medium Term Expenditure Framework (MTEF) projecting a significant increase in public-sector infrastructure budgets between 2023 and 2027 (+54% for transport, +53% for water and sanitation, and +37% for energy), overall public-sector spending on infrastructure remains insufficient to reach the NDP goal of 10% capital investment by the public sector.

Funding in search of bankable projects and expertise

To support the implementation of the plan, government has committed R100-billion to the Infrastructure Fund, including R10-billion over the next three years. Government's aim is to leverage R1-trillion worth of infrastructure investment over the next 10 years. However, the Infrastructure Fund relies heavily on National Treasury's Budget Facility for Infrastructure (BFI), which hampers the speed and scale of its operations. Established in 2016, the BFI evaluates large-scale project proposals before committing resources. However, most proposals submitted to the BFI are poorly planned and packaged, mainly due to insufficient technical expertise and institutional capacity to develop bankable projects. The challenge of poorly packaged projects also affects National Treasury's Neighbourhood Development Programme, which is aimed at assisting municipalities.

Unintended consequence of preferential procurement policy

As its industrial and microeconomic policies have failed to generate bottom-up employment and economic growth, the State is increasingly resorting to populist regulations that constrain entrepreneurship and innovation, stifle business and create fertile ground for extortion rackets and a 'procurement mafia'. Indeed, there is mounting evidence that key economic sectors, including but not limited to construction, energy, and transport, are being held hostage by crime

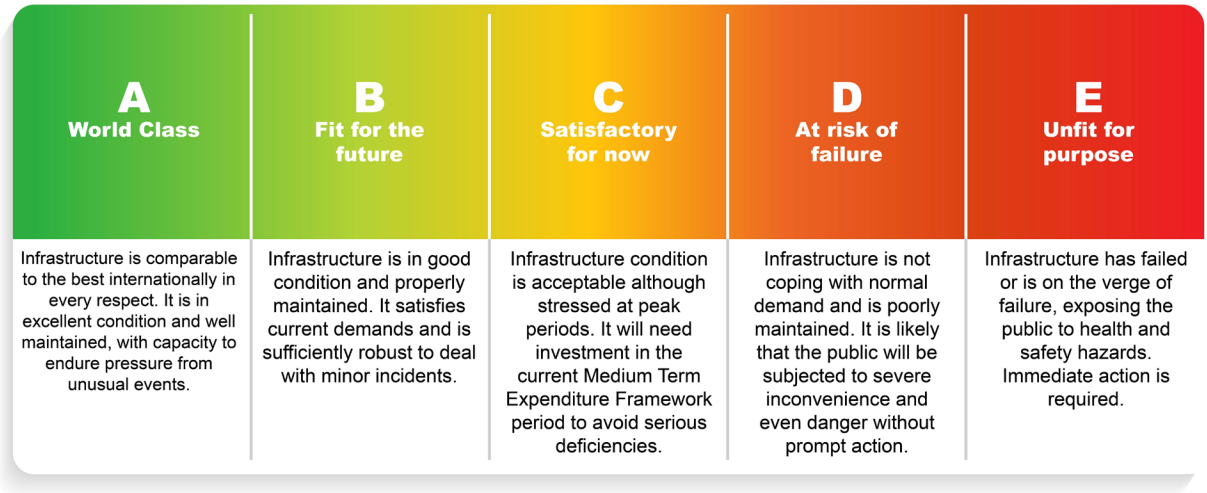
[153] This section draws heavily from Ramokgopa, K. S, 2023. "South Africa's Infrastructure Emergency: An Urgent and Collaborative Intervention".

syndicates and business mafia. Under the guise of transformation, gangs posing as 'business forums' disrupt construction projects and demand to be included despite adding little or no economic value. National Treasury has acknowledged that the way in which preferential procurement has been applied produced unintended outcomes that are costing the economy. The price and time taken to complete infrastructure projects increase, as under local procurement requirements, tenders are sub-contracted and supplier contracts split into several smaller entities, with each player needing to make a margin. As a result state procurement, which has become one of the few tools left to drive economic inclusion, carries a heavy price for the economy and citizens.

2.3 The state of national economic infrastructure

As mentioned earlier, in 2022, South Africa's public infrastructure received the lowest grade ever from the SAICE – a 'D' signifies that overall it is at risk of failure (Figure 11.6), although the grades vary across sectors (Table 11.1).

Figure 11.6: South African Infrastructure Report Card



Source: SAICE, 2022

Table 11.1: Economic infrastructure (national)

Sub-sector	Grade	Description
Quality of air transport infrastructure	A	Infrastructure is comparable to the best internationally in every respect.
Gautrain lines	A-	
National roads	B+	Infrastructure is in good condition and property maintained. It satisfies current demands and is sufficiently robust to deal with minor incidents.
Oil and gas pipelines	B	
Electricity transmission	B	
ICT	B	
ACSA-owned airports	B-	
Commercial ports	B-	
Fishing harbours	B-	
Heavy haul freight lines	B-	
Water supply to major urban areas	C+	Infrastructure condition is acceptable although stressed at peak periods. It will need investment in the current MTEF period to avoid serious deficiencies.
Logistics infrastructure	C	
Waste collection to major urban areas	C-	
Waste disposal in metros	C-	

Sub-sector	Grade	Description
General freight lines	C-	
Water supply to all other areas	D+	Infrastructure is not coping with normal demand and is poorly maintained. It is likely that the public will be subjected to severe inconvenience and even danger without prompt action.
Paved provincial roads	D	
Paved metro roads	D	
Quality of roads	D	
Quality of port infrastructure	D	
Bulk water	D-	
Waste collection to all other areas	D-	
Waste disposal in other areas	D-	
Other paved municipal roads	D-	
Electricity generation	D-	
Gravel roads	E+	Infrastructure has failed or is on verge of failure, exposing the public to health and safety hazards. Immediate action is required.
Branch lines	E	
Commuter rail lines	E	
Quality of rail infrastructure	E	
Logistics cross-border	F	

Source: SAICE, 2022

Roads

At 750 000 km, South Africa's roads network is the tenth longest in the world and includes about 160 000 km of paved roads managed by SANRAL (of which 21 403 km or 13% are toll roads), provinces and municipalities. Less than 7% of the national road system is in poor or very poor condition thanks to SANRAL's strong maintenance and expansion regimen. However, the secondary and tertiary road network is deteriorating at accelerated rates. With the exception of the Western Cape, the condition of most paved provincial and municipal roads is substandard. There is a risk of further deterioration due to vehicle overloading, poor maintenance and the steady reduction of skilled personnel in roads departments. The unpaved road network, which requires urgent attention, is a critical agricultural enabler and connector.

Rail

Over the last 70 years, freight rail traffic has grown by a factor of five (driven by the export of coal and iron ore), while passenger rail transport has largely disappeared. The condition of the coal line (graded C+) has deteriorated, primarily due to management capacity shortcomings, maintenance practice deterioration, ageing signalling infrastructure, vandalism and theft. The iron ore line (graded B+) is prone to similar challenges but is currently in better condition. The existing general freight network is in a fair condition, but challenges in freight train transport services persist, with 62% of businesses rating it as inefficient.[154] The most important corridor, between Durban and Gauteng, was severely damaged by floods in April 2022 and is still a long way from being fully repaired. The general condition of the commuter rail network is very poor. The Gautrain system is in good condition, although track geometry has deteriorated since the line was built, but sound maintenance practices are in place and the system is still deemed world-class.

Ports

Transnet owns nine commercial ports, including Saldanha Bay, Cape Town and Mossel Bay in the Western Cape. Port infrastructure is regressing rapidly and is in the need of higher levels of

[154] Sourced from results of Cape Chamber of Commerce Survey 2022

investment. Cape Town was ranked 364 out of 370 global container ports for performance, below all other ports in the country.[155] The importance of the port sector to the Western Cape economy cannot be overestimated. In 2021, the Port of Cape Town alone processed R210-billion worth of exports and imports. Over half (52%) of Western Cape exports (valued at R86-billion) were exported via the port of Cape Town. In the formal sector, 127 000 people are employed directly because of products manufactured and exports from the Port of Cape Town. A high-growth scenario would result in another R6-billion in exports and about 20 000 more direct and indirect jobs at the port, and add 0.7% to the Western Cape GDP by 2026.[156]

Airports

The nine major airports owned by ACSA enable more than 80% of South Africa's international and domestic commercial air travel. Overall, aviation infrastructure remains in good condition. However, demand-led expansion plans for Cape Town International Airport, which had been deferred in part because of Covid-19, need to be revived in line with the revived increase in cargo and passenger flows.

Energy generation

Eskom owns and operates 15 thermal coal power stations. Some of them are more than 50 years old and operate without sufficient maintenance and refurbishment. The consequent decline in energy availability has increased the severity of national grid load-shedding. [See Chapter 8.]

Water

South Africa's national bulk water resources infrastructure system includes dams, abstraction works and water transfer schemes. Although ageing and in need of more maintenance, the system has been reasonably effective in meeting demand. There have been no major structural, mechanical or electrical failures. But the quality and reliability of water supply systems continue to decline in small towns and rural areas. [See Chapter 9.]

Oil and gas pipelines

About 50 large-diameter oil and gas pipelines link strategic centres in the country and short-distance offshore facilities, such as between the Durban single buoy mooring and the shore. Of the approximately 4600 km of onshore pipelines, Transnet Pipelines has the largest network and carries the largest volume of product.

ICT

Most businesses and households depend on information and communication technology (ICT) infrastructure. In 2020, 74.1% of households had access to the internet. The ICT infrastructure is almost exclusively owned by the private sector, although it is dependent on some public infrastructure sector services (particularly electricity supply).

The World Bank, 2022. The Container Port Performance Index 2021: A Comparable Assessment of Container Port Performance. World Bank, Washington, DC.

[156] Mireille Wenger 2023. "Port of Cape Town cries out for private sector investment". BusinessLive. 1 February 2023.

2.4 The state of national social infrastructure

Table 11.2: Social infrastructure (national)

Sub-sector	Grade	Description
Household access to electricity	B	Infrastructure is in good condition and property maintained.
Universities	C+	Infrastructure condition is acceptable although stressed at peak periods. It will need investment in the current MTEF period to avoid serious deficiencies.
Sanitation to major urban areas	C-	
Hospitals	D+	Infrastructure is not coping with normal demand and is poorly maintained. It is likely that the public will be subjected to severe inconvenience and even danger without prompt action.
TVET colleges	D+	
Local electricity distribution	D	
Public ordinary schools	D	
Quality of overall infrastructure	D	
Overall grade	D	
Flush toilets	D-	
Schools	D-	
Education levels	D-	
Piped water in dwelling	E+	Infrastructure has failed or is on verge of failure, exposing the public to health and safety hazards. Immediate action is required.
Sanitation to other areas	E+	
Quality of electricity supply	E	

Source: SAICE, 2022

Sanitation

Between 2002 and 2021, households with access to improved sanitation increased from 61.7% to 84%. However, the quality of wastewater treatment declined, and standards are dropping due to slackened regulatory supervision, as revealed in 2022, when (for the first time in nearly a decade) the Department of Water and Sanitation (DWS) published its Green Drop report which assesses every wastewater system (excluding on-site sanitation).[157] Of greatest concern is the extent to which substandard final effluent is discharged, raising the risk of disease transmission to communities downstream. Out of 995 sanitation systems, only 22 Green Drops were awarded in 2022, compared to 60 in 2013.

Solid waste

There has been a slight reduction in the provision of refuse collection services in metropolitan and larger urban areas, while rural and smaller municipal areas have experienced a large increase in indiscriminate dumping. Significant differences in service levels were also noted between the nine provinces. Less than 45% of general landfill sites for disposal of solid waste are estimated to be licensed. The situation with hazardous waste landfill sites is somewhat better – these are mainly operated by the private sector.

Health care

There are nearly 4200 health facilities, including 394 hospitals, in the country. In response to the outbreak of Covid-19, a significant amount of funds was diverted to related emergency infrastructure. Data on the condition of health infrastructure is difficult to obtain. However, it

[157] Department of Public Works. 2022. Green Drop assessment

appears that most provincial health departments and their associated public works departments do not place enough emphasis on maintenance.

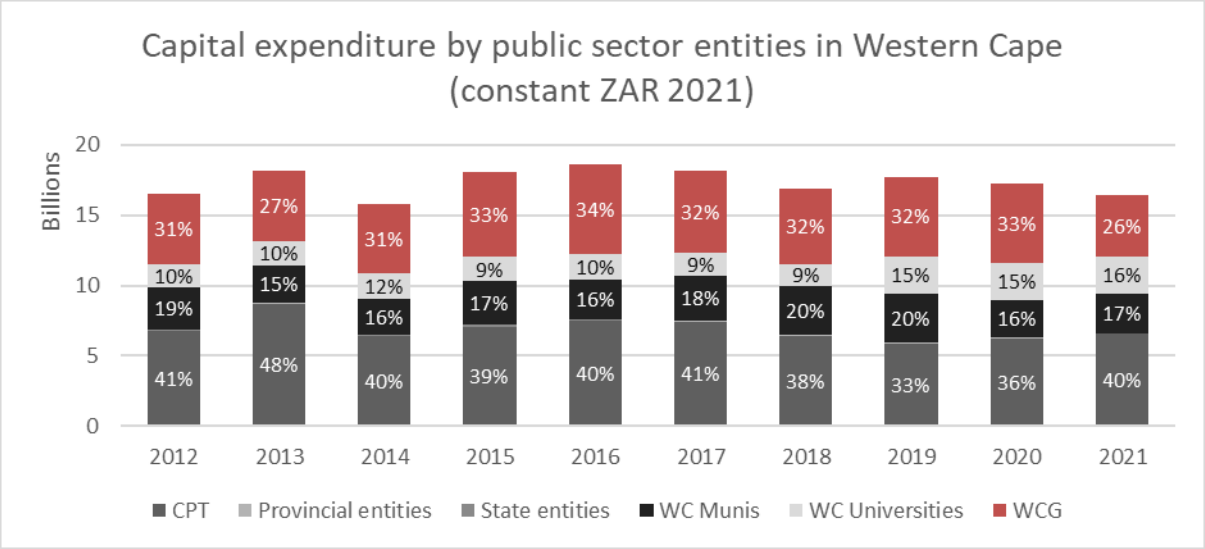
Education

There are 22 740 public schools with infrastructure that varies from very good in the more affluent locations to barely fit for purpose in impoverished communities. The 26 public universities, mostly located in major urban areas, host 1.1 million students, while the 50 public TVET colleges have 700 000 students on 364 campuses spread across various towns and cities.

2.5 Provincial infrastructure landscape

Since 2012, capital expenditure by public sector entities within the Western Cape has been fairly stagnant, fluctuating between R16-billion and R18-billion in real terms. The Western Cape Government is directly responsible for about one-third of the overall capital budget, although this dropped sharply from R5.6-billion in 2020 (33%) to R4.3-billion in 2021 (26%) due to Covid. The City of Cape Town's capital budget is larger than the Western Cape Government's budget, at 40% of the total. The remaining budget is split between the tertiary education sector and other municipalities. As Figure 11.7 illustrates, since 2012, provincial government spending has remained fairly stable in real terms, while spending by universities has risen sharply.

Figure 11.7: Capital expenditure by public entities in Western Cape (constant 2021 rands)



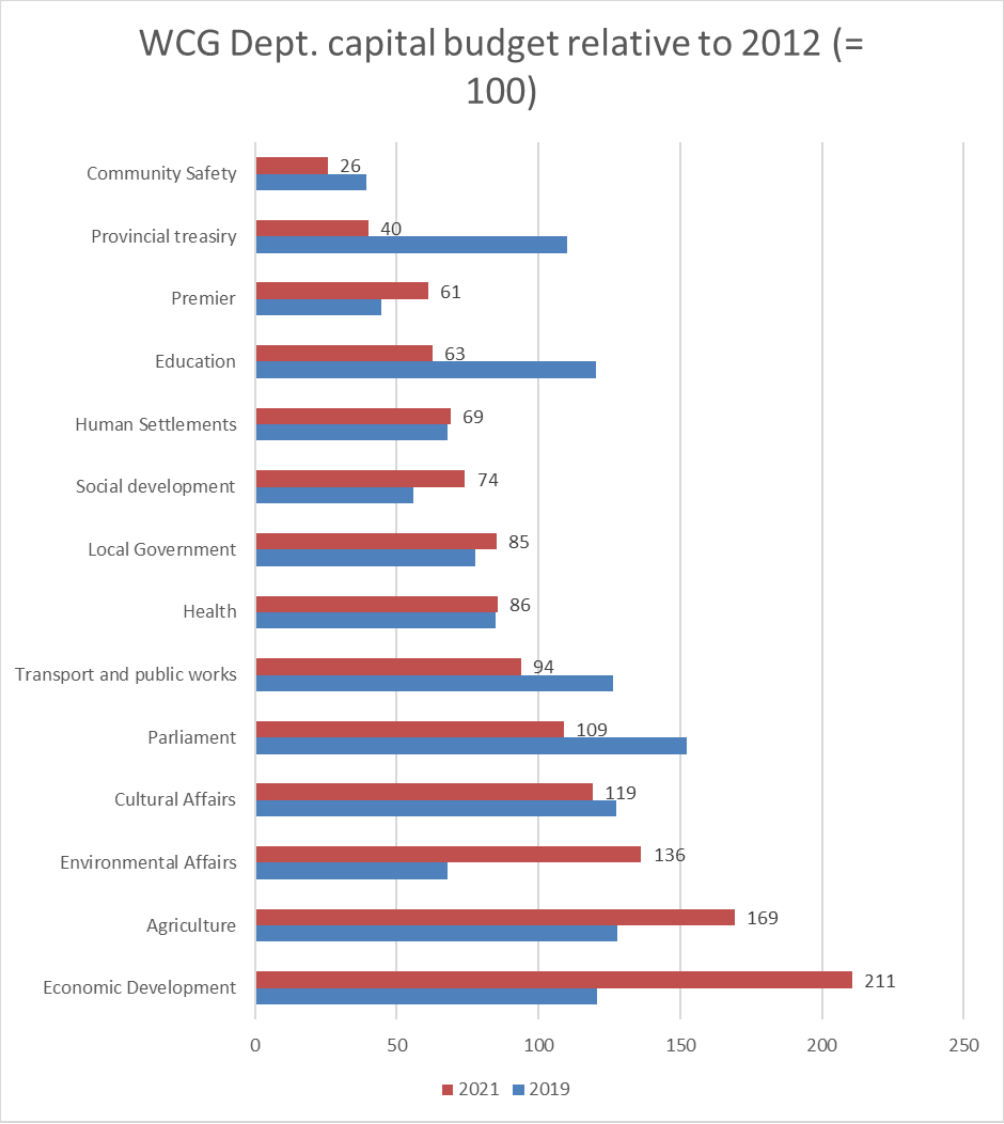
Source: Quantec[158]

[158] Sourced from Quantec 2023. Capital Expenditure by Public Sector. Original source: Statistics South Africa – P9101: Capital Expenditure by the Public Sector. The WCG's Overview of Provincial and Municipal Infrastructure Investment 2023 report states that total infrastructure spend for the WCG was R 8.5 billion in 2021/22 and R 10.1.billion for 2022/23. It is estimated to be R 11.5 billion in 2023/24. These figures differ from Stat SA's figure due to the economic classification and adjustments Stats SA uses. The City of Cape Town's Annual Financial Statements state that Capital Expenditure for 2020/21 was R 6.528 billion, when maintenance is added to this R 9.2 billion was spent in infrastructure. According to the City of Cape Town's 2022 Infrastructure report, the 10-year infrastructure pipeline amounts to R120 billion in Capital expenditure going into 2032. This means on average capital expenditure will be about R 12 billion per annum.

Three provincial departments are responsible for 97% of capital spend: education (22% in 2019, pre-Covid), health (19% in 2019) and transport and public works (56% in 2019). The bulk of these budgets is allocated to maintaining and refurbishing existing assets.

The diversion of funding in response to the Covid pandemic has significantly disrupted long-term capital programmes, in particular education (decreased from R1.15-billion in 2019 to R655-million in 2021) and transport and public works (decreased from R5.7-billion in 2019 to R4.3-billion in 2021).

Figure 11.8: Western Cape Government's capital budget relative to 2012



Source: Quantec[159]

2.6 People, mandates, and data

Infrastructure plays a critical role in any meaningful recovery plan agenda of South Africa. Over the last five years, the Western Cape province has seen how the National Infrastructure Plan was derailed by external factors, such as the drought and the Covid-19 pandemic. Given the 'D' overall rating of the nation's infrastructure, a critical challenge is the dysfunction that exists

[159] Sourced from Quantec 2023. Capital Expenditure by Public Sector. Original source: Statistics South Africa – P9101: Capital Expenditure by the Public Sector.

across most of the sectors. Three factors that influence the delivery and condition of infrastructure are people and relationships, institutional robustness, and data and information.

People and relationships

South Africa, and especially its public service, faces a debilitating shortage in engineering skills. It is rare to find a municipality with a full complement of qualified and experienced personnel in its technical organogram. Many programmes to increase the capability of the public sector have failed. Reasons for the reluctance to work in the public service include political interference with the core work of infrastructure departments, and the lack of systems, processes and structures for efficient administration.[160]

Institutional robustness

A major blight on the public service is the scale of corruption, much of it related to infrastructure procurement. The Commission on State Capture exposed the massive amounts devoted to infrastructure provision that were wasted, meaning that the amount of spending is not reflective of the scope or quality of assets obtained by the State. This also dealt a credibility blow to the public perception of SOEs and government procurement generally, which will have a lingering impact on behaviour, for example on demand-side management of electricity and water usage or on the non-payment for services. The Western Cape has a key opportunity to differentiate itself and be seen as a low corruption node within the country and, therefore, lower risk to do business in, especially for offshore firms.

Data management and infrastructure monitoring

Most municipalities, as well as many provincial and national departments and SOEs, do not collect or analyse data that is crucial to their core functions, while some may not have the ability to integrate and interpret the data that is collected. Reasons range from bureaucratic inertia, reluctance, obfuscation and even concealment of data by prominent infrastructure agencies to avoid embarrassment. Some owners or operators of assets revealed that they do not collect condition and performance data. In addition, when datasets are updated, there is a lack of consistency across institutions, which makes data comparison or aggregation difficult.

2.7 User behaviour: rights and responsibilities

South Africa's Constitution enshrines the progressive socio-economic rights of free access to infrastructure and basic services. However, the unequal provision of infrastructure and a lack of service delivery often manifests, and understandably so, in community anger which leads to vandalism and associated destruction of the very infrastructure and public property that aim to serve communities. Government is charged with creating and operating infrastructure for the benefit of society but often fails to do so. However, users of infrastructure and the services they deliver are also duty-bound to use them with care – failure to do so results in disproportionate costs to the fiscus and disadvantages other users.

In 2018, Cape Town became the world's first major metro to face the reality of running out of drinking water due to an extended drought. The City of Cape Town, together with its citizens and businesses, collaborated in a powerful campaign to lower water consumption, which resulted in the City of Cape Town being able to continue to provide drinking water until improved rainfall ended the drought. This demonstrated how responsible behaviour can avert even the most serious crises.

[160] SAICE. 2022. "Infrastructure Report Card for South Africa".

2.8 Climate change and environmental factors

The Western Cape and South Africa are already experiencing the impact of changing weather patterns with respect to fires, droughts, and excessive rainfall events, causing flooding and geohazards such as sinkholes and mudslides. The risk is aggravated by town planning that does not account for high rates of urbanisation, coastal retreat, poor air quality, poorly managed surface water drainage and the drawdown of groundwater caused by the rapid increase in the number of boreholes to alleviate drought conditions. Poor air quality is not only a major contributor of greenhouse gases driving climate change but also drives up health costs. The Western Cape Human Health Risk Assessment estimated the economic impact of human exposure to poor air quality to be R8.2-billion per annum.[161] When placing infrastructure, consideration must be given to building in resilience, in order that the infrastructure is better suited to a changing climate and risk profile for communities, landscapes and economic sectors of the Western Cape. Resilience building also requires an enhanced understanding of near and long-term adaptation measures that avoid maladaptation.[162]

2.9 Mandates and co-ordination

Across the provincial infrastructure ecosystem, critical infrastructure is at risk of either failure or being categorised as incapable of sustaining further economic development. Of particular concern is critical bulk infrastructure, such as roads; water and water catchments; sanitation, freight, rail and port infrastructure; solid waste and electricity. The province clearly has data and an understanding of the issue but now, as part of a whole-of-government approach, needs to empower civil servants to act on such signals.

Inherent in the resolution of some of these challenges is the fact that bulk infrastructure provision is vested across the various mandates of the three spheres of government, while the consequences of failure are felt by all citizens.

With continual increases in population growth, through in- and out-migration, the ability of the state to respond appropriately with enabling infrastructure within its existing funding regime is severely curtailed. The inherent trade-off between maintaining the existing infrastructure base and building new infrastructure to meet the increase in service delivery need, necessitates the fostering of a new collaborative partnership across all three spheres of government, state-owned enterprises, the private sector and citizens.

2.10 Legal mandates

There is significant contestation around legal mandates in the infrastructure space, which is complex and entangled in contradiction around roles, responsibilities and accountability. From a constitutional point of view, this is an area of concurrent authority, as it relates to the issuing of legislation. Glaring lacunae in the legislative frameworks also complicate matters, such as the Government Immovable Asset Management Act (GIAMA) without regulations, and other key pieces of legislation intended to regulate services for which infrastructure is used but which inadvertently, or intentionally, contradict the power and functions of the custodian.

[161] HHRA. 2020. The Western Cape Human Health Risk Assessment.
[162] WCCCRS. 2022.

The Western Cape Government is mandated to coordinate provincial planning under Schedule 5A of the Constitution. Through the Western Cape Infrastructure Framework, it aims to align the planning, delivery, and management of infrastructure, provided by all stakeholders (national government, provincial government, local government, parastatals, and the private sector), to the strategic agenda and vision for the province, as set out in the Growth for Jobs Strategy.

In addition, to bring about meaningful change within the infrastructure ecosystem requires a broader articulation of an infrastructure mandate to include economic infrastructure (rail, ports and logistics infrastructure), ecological infrastructure (water, sanitation catchments, coast and estuaries, biodiversity, land and landscapes, airsheds, rivers and wetlands), energy infrastructure (electricity, renewables), social infrastructure, as well as technological infrastructure (connectivity and data).

Infrastructure in the Western Cape risks a future crisis without change and enhanced resilience but, if addressed appropriately, can become a platform for sustainable low-carbon growth. The condition of some infrastructure has deteriorated across the province, while spatial inequality and disparate access to opportunity confine generations of citizens to poverty.

Traditional sources of funding are insufficient to address the multiple challenges of the need to build new infrastructure and to maintain existing infrastructure, while current infrastructure regulatory frameworks and budgetary timeframes limit the ability of government to leverage effectively the private sector in a manner that ultimately benefits the state.

2.11 Commuter rail infrastructure

The mobility sector's challenges relate to increased service delivery protests in the Western Cape, combined with escalating violence and destruction of government and private property. The commuter rail system is in crisis and on the brink of collapse. This has a devastating impact on the access and affordability of impoverished transport users. The economic, financial and societal cost of damage and destruction of public transport facilities is high, while there are risks to the safety of officials entering areas where protests are taking place.

Disruptive behaviour, frequently under the guise of civil unrest, has seen further destruction of valuable public transportation infrastructure, accounting for increased reliance on the use of single occupancy vehicles. Vandalism of the rail system has resulted in half the trainsets being lost and approximately 400 000 passengers moving away from using rail services to passenger vehicles, resulting in high traffic volumes and increased fuel use and vehicle emissions. Taxi violence is another matter that requires the continual attention of the Western Cape Government, which participates, with the South African Police Service and the National Prosecuting Authority (NPA), in a joint task team that investigates taxi-related crimes. These include murders and attempted murders, route invasions, illegal operations, fraud, extortion, racketeering and other elements of organised crime.

The Western Cape's economy depends on effective and efficient transport networks and services for the movement of people and goods. This should include safe, reliable and affordable transport for accessing opportunities, such as work, education and services. Reduced traffic congestion is vital to ensure that vehicular emissions are reduced.

The Western Cape rail network consists of 4994 km of Transnet and 610 km of Passenger Rail Agency of South Africa (PRASA) railway lines. A combination of freight and passenger (long

distance and commuter) services operate on these lines, with PRASA operating the passenger services and Transnet operating the freight services.

One of the challenges facing commuter rail in the province is old rolling stock, as the coaches are 35−50 years old but have a maximum lifespan of 46 years. Available trainsets have reduced to 91 (compared to 110 in 1995). Another challenge is operational performance, as poor performance and availability of rolling stock cause services to be delayed or cancelled, negatively affecting the commuter experience. Additional challenges include overcrowding, poor track quality, and outdated signalling and ticketing systems.

2.12 Freight infrastructure

The rail freight network comprises the export core system from the Northern Cape to Saldanha and the Gauteng to Cape Town system, which deals with containers, domestic coal (including Saldanha) and other general freight. Both systems have sufficient capacity, but the Cape Town to Gauteng system suffers from poor performance because of constraints in the signalling system and power supply. Rail infrastructure has suffered heavily from historical underinvestment, and the rehabilitation and upgrading of existing passenger and freight rail systems is a priority. An end-to-end view of logistics is the opportunity that needs to be grasped and would differentiate the province from other areas in the country.

Port expansion is required in Cape Town and Saldanha in response to local and international markets and as economic catalysts – but equally there are low-hanging fruit such as solving land-side transport bottlenecks to allow the better flow of goods, and better planning and tracking.

Furthermore, throughout the Covid-19 lockdown period, the Transnet Freight Rail and PRASA networks were exposed to widespread and severe theft, vandalism, encroachment and the erection of illegal dwellings in the rail reserve, thus rendering normal train services for both networks difficult.

Freight is most suited to rail when transporting large volumes of non-time-sensitive goods over large distances, which is efficient and cost-effective. As such, it is necessary to consider rail freight in the Western Cape. Rail freight is able to transport large volumes with low marginal cost – as most of the costs associated with rail are fixed, the cost to transport each additional tonne of freight decreases.

2.13 Information and communication technology (ICT)

The NIP 2050 makes the point that communications are the lifeblood of a market economy and that digital communications are increasingly central to that. The foundational role of digital transformation means that the benefits of becoming a fully digitally enabled society and economy outweigh the costs.

Provincially, access to mobile communication has increased dramatically whereas internet access has been stagnant. New technologies have the potential to improve the rate of access and investment in fibre. Optic cabling is essential to provide the backbone for mobile networks and to enable faster, cheaper, and more reliable communication networks.

2.14 Economic leakages requiring urgent stemming strategies

Traffic injury is hugely expensive to the economy. The Road Traffic Management Corporation (RTMC) reported an estimated cost to the economy of R176-billion in 2019 – specific interventions are required to plug these types of economic leakages. The same applies to the economic losses due to the drop-out rates at schools, stunting, food waste, road freight versus rail freight, etc. Traffic congestion accounts for approximately R2.8-billion per year in economic losses. Moreover, it is estimated that every day lost to Stage 1 load-shedding (loss of 1000 MW) costs the country R235-million. Spending on infrastructure requires a **long-term view** for several reasons.

- Infrastructure is not a once-off cost but requires ongoing monitoring and maintenance to ensure that it can perform the job for which it has been developed. One way of doing this could be to create a group within the province that can take this kind of view, through a provincial infrastructure fund.
- The **true cost of infrastructure**, **or total cost of ownership (TCO)** must be understood. It may not be limited to the financial investments required but extends to environmental, social, and other costs that may be hidden or were not fully considered when the infrastructure was commissioned.
- Many types of infrastructure also require investments of capital over extended time periods to completion. These time periods often do not fall within the normal parameters of governmental budget or political cycles.

The Growth for Jobs Strategy creates an ideal opportunity to reinvent government by **doing government differently**. This means driving public purpose in a manner that is aimed at creating real value in the economy in an inclusive manner that benefits the citizens. This requires setting goals that matter to people as well as the environment – and it means that government becomes a **value creator** in the process and by the same token a **risk taker**.

2.15 Maintenance or sustainable job creation

Most infrastructure assets have a design life of 30 years or more and require maintenance across their entire lifetime. The time taken to construct new infrastructure is but a fraction of its maintenance duration, inferring that the job opportunities created during operation and maintenance are more sustainable than the initial construction. Considering the various options across the lifecycle of infrastructure means that specific outcomes can be targeted for greater socio-economic benefits. Actively targeting environmental, social and governance outcomes or benefits may fundamentally alter the choice of scale, location, technology, construction and materials. For example, decentralised systems provide significantly more opportunity for medium- to long-term local jobs and local economic benefits,[163] whereas large centralised systems may benefit from operational economies of scale but require maintenance from highly skilled and remotely located contractors. Infrastructure is, therefore, more than just a means to an end but a socio-economic tool that diffuses opportunities across the region and builds resilience.

[163] DEA&DP.2014. Feasibility Study for Alternative and Sustainable Infrastructure for Settlements: Economic Impact Assessment, Cost-Benefit Analysis.

3. Challenge and opportunity statements

Drawing from the situation analysis, as well as the inputs from the stakeholders, the following are the key challenge and opportunity statements for the PFA:

3.1 Challenge statements include:

- The way infrastructure is planned, delivered and managed over time is not optimised, and the economic growth projections are not being strongly incorporated in the forecasting models of infrastructure plans.
- Current infrastructure backlogs prevail with massive constraints in adequate and structured long-term funding streams.
- Spatial inequities in infrastructure increase the costs and ease of access to economic and other opportunities for disadvantaged communities and marginalised groups (women and youth).
- There is a lack of coordinated planning, across the public and private sectors, to identify, plan and deliver the appropriate infrastructure to meet the needs of society and the economy, now and into the future.
- There is a lack of appropriate balance between expenditure on maintenance of infrastructure and new build, resulting in more frequent replacements rather than more cost-effective maintenance and extending the design lifespans of existing infrastructure.
- The lack of enabling government processes and regulation prevents officials from developing new, innovative and cross-cutting ways of planning and delivering infrastructure, which would help to overcome current challenges of fiscal constraints, misaligned budget cycles, siloed planning, lack of data sharing and disenabling regulations.
- Infrastructure is not designed in a way that considers the challenges and future impact of climate change and the transition to net zero.
- As a result of congestion, inspections or other bottlenecks, freight movement is inefficient, costly, unreliable and carbon intensive.
- A lack of organisational capacity and skills hinder efficient design, planning and implementation of infrastructure projects.

3.2 Opportunity statements include:

- Intelligent, resilient infrastructure solutions contribute to accelerated, break-out economic growth, connecting people, communities, and businesses to opportunities.
- ‘Futureproofed’ infrastructure and total cost of ownership considerations are part of the solution/design approach and ecological, social and governance (ESG) opportunities are utilised to maximise project benefits.
- Relevant infrastructure solutions (physical, digital and hybrid) are coordinated, prioritised, innovated and planned for timeous delivery to support the achievement of break-out economic growth and a connected economy.
- Officials are enabled to be innovative, supportive and responsive to economic opportunities.
- Ease of doing business is embodied in the approach of officials with respect to infrastructure investment for the private sector.
- A collaborative ecosystem of infrastructure stakeholders is established and strengthened that identifies infrastructure challenges and opportunities, and works together to ensure that they are addressed timeously, efficiently and cost-effectively. This will be inclusive of

collaboratively identifying and championing catalytic infrastructure solutions that will contribute to sustained economic growth and job creation.

- The transformative power of digital and hybrid infrastructure is harnessed to deliver greater value to inhabitants and the economy whilst simultaneously decreasing cost.
- Government spending on infrastructure is used as a stimulus to encourage spatial transformation and broader ecosystem investment, benefitting the economy and communities accordingly.
- The competitiveness of the economy and its associated sectors is improved through targeted infrastructure investment and ease-of-doing-business response for development, identifying and delivering catalytic infrastructure that will contribute to the development of the economy.
- Current government assets (land, etc.) are identified and used as infrastructure catalysts for economic and/or social change.
- New freight corridors (intermodal logistics hubs) are developed that enable goods to move seamlessly and quickly to their destinations with minimal delays, in the process contributing to spatial transformation in the province. A portfolio of ports (sea, air and inland) is developed, serving the economy that have the necessary efficiency, focus and capacity to deliver goods to their destinations quickly and efficiently.
- Circular infrastructure is advanced, enabling circular economy activity (e.g., re-use, recycle or recover waste), and minimising the amount of material used across the infrastructure lifecycle or value chain.
- Infrastructure asset management is viewed as an important opportunity to improve the capacity of local and provincial government to systematically manage assets over entire lifecycles and within a broader asset portfolio.

4. Objective and goal statements

4.1 Objective statement

To coordinate, prioritise, plan and implement the timeous delivery of relevant and smart infrastructural solutions (physical, digital and hybrid) to support break-out economic growth and a connected economy, providing flexible, resilient infrastructure that intelligently connects spaces, places, and people, transforms lives and delivers sustainable value to the economy of the Western Cape.

4.2 Goal statement

By 2035, the Western Cape economy will have the infrastructure required to support and enable a R1-trillion economy and public sector capital investment in the Western Cape will be 10% of regional GDP.

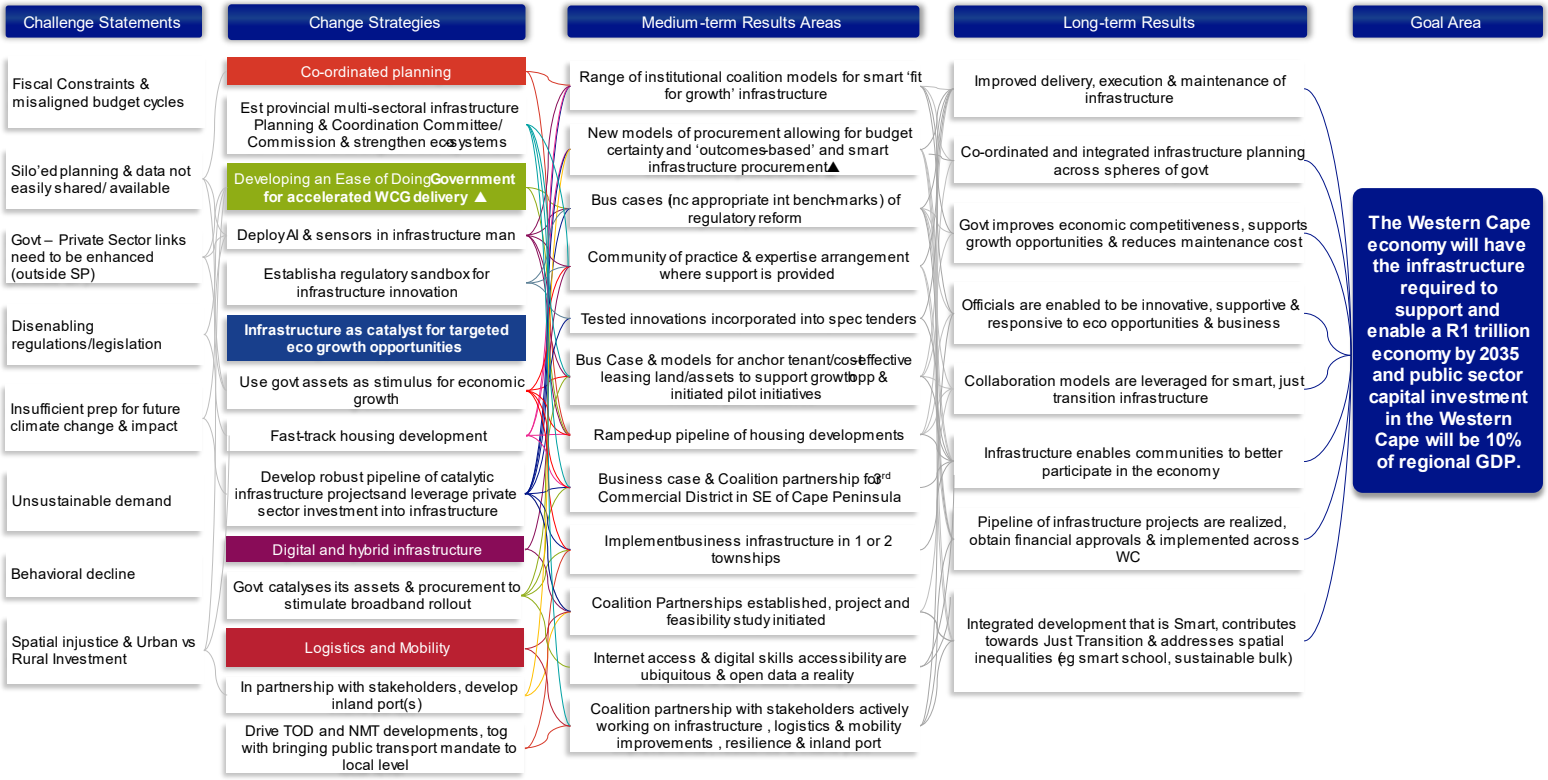
A competitive economy cannot materialise without the necessary infrastructure, which is the facilitator and enabler for the mobility of labour, capital and other inputs to production. It provides for efficient resource allocation and economies of scale, with research showing that a 10% increase in infrastructure assets increases GDP per capita by 0.7−1%. The Infrastructure and the Connected Economy Priority Focus Area is, therefore, a critical contributor towards realising the Growth for Jobs target of 4−6% GDP growth. In fulfilling this goal, government's GFCF contribution to GDP will increase from 4% to 10% by 2035, with infrastructure investment

generating annual economic benefits[164] of R100-billion in GDP growth and an additional 105 310 jobs in 2035.

5. Strategic-level theory of change for the PFA

A theory of change workshop was held for this priority focus area. Using the inputs from the workshop and subsequent engagements, a high-level theory of change was developed.

Figure 11.9: Theory of change for PFA 6



6. Change strategies and interventions

Based on the theory of change, to achieve the goal statement, the PFA will need to institute various change strategies, including coordinated planning, ease-of-doing government for infrastructure, accelerated infrastructure delivery for economic growth, harnessed opportunities in digital and hybrid infrastructure, as well as logistics and mobility.

6.1 Coordinated planning and strengthened ecosystem

- **Developing a Western Cape infrastructure framework incorporating 50% economic growth of the economy by 2035** into the modelling of the economic growth projections and understand its implications for infrastructure expansion.
- **Better aligning** planning units of economic cluster departments, municipalities and infrastructure implementors, and establishing a **provincial multi-sectoral infrastructure planning** and coordination committee or commission to guide and direct infrastructure investment and roll-out consistent with the Growth for Jobs Strategy and spatial plan. This

[164] Modeling by DEDAT and Conningarth Consulting Economists, using a Social Accounting Matrix and data from Quantec.

planning body will assist in the identification of a long-term portfolio and prioritised pipeline of infrastructure projects across all spheres of government.

- Establishing a well-capacitated data management and infrastructure monitoring system and economic intelligence capability (**economic IQ**) that serves the Western Cape Government and municipalities, providing data and information on the demand, demographics, technologies, age, condition and performance of current assets, backlogs, future needs, and innovative solutions. Added to this capability will be Treasury's role in monitoring and tracking infrastructure spend and progress at provincial and local levels as well as through a spatial lens as this is important for accountability.
- Strengthening the **ecosystems between government and the private secto**r along and across various infrastructure verticals or themes, such as public transport and housing.

6.2 Ease-of-doing government for accelerated delivery and management of infrastructure

- **Overcoming PFMA and MFMA constraints** with respect to infrastructure and developing bespoke governance and supply-chain management (SCM) models sanctioned by National Treasury and the Auditor-General of South Africa as well as developing innovative, sustainable funding models and instruments for infrastructure, such as blended funding, institutional coalition models, private-public partnerships and outcome-based procurement.
- **Developing an AI and predictive analytics enabled technology platform** to model the optimal supply and demand for infrastructure, making planning, implementation and management visible in real time. This will include the use of sensors and drone technologies to monitor the performance of infrastructure. Together with local government, create a mega-maintenance programme for the Western Cape Government and municipalities, enabled and enhanced by the use of a digital dashboard that has GIS and photo links.
- **Reviewing infrastructure-related legislation and regulations** (including international benchmarking) with the aim of providing evidence-based advocacy for legislative and regulatory change to align better to South Africa's context and circumstances. Establish a **regulatory sandbox** to allow for the exploration of innovative techniques, models, testing materials and infrastructure solutions.
- **Building the capacity and capability of municipal officials,** but also exploring additional short-term and systemic solutions to the ongoing capacity problem in local government.

6.3 Infrastructure as a catalyst for targeted economic growth opportunities

- **Driving spatial transformation and economic accessibility** by identifying private-sector and community-led models for business infrastructure (commercial, retail, and light industrial) in townships, which includes community-intensive, women-sensitive build and operations, **and initiating one or two pilot project township initiatives using all-of-society** approaches and principles in planning and implementation. From lessons learnt from the two pilot projects, identify new nodes for additional roll-out. Linked to this, **explore the development of high street models** or hybrid centralised and decentralised models for townships, leveraging off existing business activities and in cooperation with the communities. Work with national government to **support** and **address the lack of tenure and title deeds** within township communities, as solutions to this challenge will have a transformative impact on households.
- **Identifying under-utilised Western Cape Government buildings and land that can be deployed as an accelerator** for targeted growth opportunities. These can facilitate the provision of shared services to reduce business costs and strengthen ecosystems of support

and collaboration. These 'business hubs' will be responsive to private-sector-led needs and will be driven by the private sector. Consider using under-utilised buildings in city centres and railway stations in line with residential densification along the corridors. Leverage under-utilised assets such as small harbours that can be better utilised and optimised to catalyse growth in specific industries with relevant municipalities.

- **Strengthening the regional pipeline of apprenticeships and semi-skilled labour** through expanding contracted in-house capacity, coupled with intensive in-house skills training, within the Department of Infrastructure to address maintenance management and infrastructure backlogs and, more importantly, to broaden the skills pool for the private sector.
- **Supporting and strengthening approaches to urban planning**, design and development (together with the municipality of Stellenbosch and the Cape Town metro) in order to support economic activity and growth that is inclusive of the principles of the Growth for Jobs Strategy. As a component of this development, identify key Western Cape Government or government services and utilities that can serve as anchor tenants and include digitally enabled spaces that allows for 'work-near-home' options for the surrounding communities.
- Driving spatial transformation through enabling and **fast-tracking housing development** for mixed use and mixed income through land release mechanisms for well-located land near economic activities as well as through the support of economic growth opportunities closer to where communities are located.

6.4 Harness the opportunities in digital and hybrid infrastructure

- **Rolling out the next phase of the Western Cape Government's broadband programme**, which has seen the provincial government stimulating broadband infrastructure development across the province. As part of this initiative, intensify wireless hotspot connectivity in communities.
- **Addressing ease-of-doing business with respect to access to way leaves**, [165] with a view to proactively incorporating the necessary fibre ducts to maintain road infrastructure integrity but also as a possible revenue source for municipalities.
- **Accelerating the rollout of Digital Access Centres**. As part of this intervention, review digital skills initiatives across the Western Cape Government, local government, NGOs, and the private sector with a view to sharing lessons learnt, consolidating or improving coordination, and supporting the roll-out of a radically scaled-up model of digital skills accessibility. This includes making more effective use of Western Cape Government and municipal infrastructure such as libraries, and refreshing Cape Access centres (including leveraging NEET programmes and YearBeyond) to align better with new Fourth Industrial Revolution (4IR) developments and skills acquisition trends.
- **Providing laptops to all Grade 8s in two rural towns** (with the private-sector support), as a pilot project to determine the impact of improved accessibility to devices and the internet on learning outcomes and on the households of the learners.
- **Driving business and citizen uptake through the digitisation of government services and procurement processes**, coupled with ensuring that citizens have access to the internet and devices through, for example, Wi-Fi at libraries and the provision of Wi-Fi hotspots in communities.
- Making government data open and accessible to businesses and academia.

[165] Means official permission to access state property.

6.5 Logistics and mobility

- **Championing catalytic logistics initiatives** that stimulate economic growth, deliver infrastructure solutions and positively impact spatial patterns, and leverage partnerships with the World Bank and other development finance institutions for the preparation and implementation of these initiatives.
- **Working collaboratively with Transnet and partners to address the current challenges at the Cape Town port/container terminal**. Working with Transnet and the logistics value chain, advocate to ensure that the full value chain is operating on a 24/7 basis at the Cape Town port, engaging with the bargaining council with respect to renumeration (see also Chapter 7). Strengthen the trucking industry coordination, with a view to the better synchronisation of movement within the Cape Town port and to assist trucking companies to improve compliance.
- **Establishing a task team to explore, among others, the introduction of a cashless payment system to be used in taxis and buses** to promote productivity, safety and an improved commuter experience.
- **Seeking devolution of the PRASA Metrorail function** and the development of PPP concession approaches to public transport development using innovative value capture mechanisms and mixed-use densification to enhance the viability of transport corridors and reduce transport costs.
- **Introducing new mobility solutions and/or positively impacting spatial patterns to reduce time spent commuting**, including transit-orientated developments as well as non-motorised transport models. Within this, coordinate the development and provision of an expanded, private-sector-driven railway capability that is 'fit for purpose' for the Western Cape economy. As part of the mobility priority, consider a transport voucher programme to enhance accessibility (see linkage to PFA7 in Chapter 12).

7. Considerations with respect to the PFA and its change strategies

7.1 Assumptions

To achieve success the following explicit assumptions have been made:

- The infrastructural requirements/implications of 50% growth in GDP will be incorporated into the Western Cape Infrastructure 2050 projections.
- There will be support for incorporating future digital and hybrid infrastructure (connectivity) requirements in line with the evolution of the 4IR.
- There will be engagement platforms with stakeholders to plan and facilitate the delivery of infrastructure solutions that sustainably meet the infrastructural requirements of the Western Cape's current and future economy.
- Predicable and consistent funding is made available for the infrastructure roll-out and maintenance to provide certainty and assurance to the private sector, including the construction industry.
- The causes of infrastructure underspending in municipalities will be identified and remedied.
- Catalytic infrastructure initiatives will be implemented with speed and urgency to ensure timeous delivery of benefits.
- The Western Cape Government can secure a solid and cooperative partnership framework with the relevant national SOEs and departments to effect changes and infrastructure improvements to transport and mobility network systems in the province.

7.2 Risks

- Some interventions have a heavy dependence on other initiatives for successful implementation and the misalignment in prioritisation and delivery of the inter-dependant projects may compromise delivery.
- Necessary partnerships and institutional arrangements will not be in place to facilitate system integration and implementation of the infrastructure projects, and changes in political and top administrative leadership may result in a loss of momentum in partnerships required to deliver.
- Increased prevalence of extortion at construction sites and land invasions impede delivery and push up the costs and risks of infrastructure roll-out and maintenance.
- Fiscal constraints lead to an inability to invest in the necessary project preparation of the portfolio pipeline.
- Risk-averse mindsets mute the ability to embark on new, innovative methodologies, models, and infrastructure projects.

7.3 Research

- Infrastructure forecasting that incorporates the Growth for Jobs GDP projections needs to be undertaken. Modelling for future infrastructure should also assess intangible costs and benefits such as impacts on wellbeing, safety, and quality of life and include equity indicators that clearly identify how access to infrastructure is distributed across income groups and across other socio-economic indicators such as age, gender, and geographic location.
- Project preparation studies for the appropriate infrastructure investments (and maintenance) will need to take place to ensure viability and feasibility of projects.
- Review and internationally benchmark infrastructure-related legislation and regulations to ensure that South African legislation is fit-for-purpose.
- Research the feasibility of establishing regulatory sandboxes, including an assessment of how these have been implemented internationally.
- Conduct a cross-section impact analysis or assessment of the Western Cape Government and local government digital skills initiatives and centres and develop a business case for improved scaling and reach.
- Map uncertainties and risks to inform infrastructure planning and budgeting in the future.
- Model and derive insights from tools assessing changing demand for infrastructure as migration and settlement patterns evolve and diversify.

chapter

12

Priority Focus Area 7: Improved Access to Economic Opportunities and Employability (skills and education, transport, housing, etc.)

Chapter 12: Priority Focus Area 7: Improved Access to Economic Opportunities and Employability (skills and education, transport, housing, etc.)

1. Introduction

South Africa is one of the most unequal societies in the world. This is a legacy of apartheid that is continuously reinforced by inherited settlement patterns, which ensure that many communities do not live near their place of work. As a result, low-income households face time, distance and cost burdens that reduce access to economic opportunities. These burdens also lower growth because households are unable to accumulate land and human capital. Greater inequality hinders economic growth and macroeconomic stability, and land and human capital inequality reduces growth more than inequality of income. Therefore, human capital development needs to be at the core of growth strategies.

1.1 Inequality, education, and neighbourhoods

Economic growth reduces poverty while quality education and more liveable neighbourhoods reduce inequality. Economic growth has considerable poverty-reducing potential, for example, between 2004 and 2012, South Africa's black middle class grew from 1.7 million to 4.2 million.[166] Indirect economic growth support, through the social grant system, has made a large contribution to reducing extreme poverty (albeit operating at the limits of its poverty alleviation capacity). At the same time, however, the direction of the impact of economic growth on income inequality is uncertain[167] because the root cause of income inequality is not the rate of job creation but rather inequality in the productive potential of individuals, which are impacted by educational and psycho-social outcomes across society, neighbourhood factors such as distance to work, community social norms governing gender roles, and perceived vulnerability to violent crime.[168]

Against this backdrop, the Western Cape Government seeks to improve access to economic opportunities and contribute to employability through a range of interventions, including enabling people to access opportunities through developing skills and productivity, nurturing local expertise and entrepreneurship, enabling micro- and small-sized enterprises to participate in industry value chains, and supporting self-employment. This is particularly relevant, as sustainably improving the quality of life of citizens requires residents from different walks of life being able to harness opportunities created by investment-driven economic growth.

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[166] University of Cape Town Unilever Institute. 2013. Black middle class doubles in eight years.
[167] Van der Berg, S. Burger, R. Burger, R. Louw, M. and Yu, D. 2006. Trends in poverty and inequality since the political transition.
[168] Why the relationship between productive potential and wages? For a firm to sustain and grow, it cannot set an employee's wage level above the productive potential of that individual. Indeed, Van der Berg (2006) demonstrates how – hypothetically – were every unemployed South African given a job tomorrow at a wage level commensurate with their productive potential, aggregate inequality would increase.

To achieve the goal of improving the **economic mobility** of citizens, the Growth for Jobs Strategy adopts a holistic approach that addresses the supply of – and demand for – human capital through measures that are focused, practical and have reach and scale. Demand-side measures target employability by focusing on basic education and workplace training, while supply-side measures include working with municipalities to create enabling environments for growth-oriented entrepreneurs, with a special emphasis on township-based businesses.

2. Situation analysis

In a country that has the highest level of unemployment in the world,[169] improving access to economic opportunities and employability is crucial. For the individual, employability depends on four elements:

- human capital assets (knowledge, skills, experience, attitudes)
- deployment (career management skills)
- presentation (job acquisition skills, CV, interview techniques, etc.)
- personal circumstances (who you are, who you know, where you live, responsibility, labour market, etc.).[170]

To these, might be added the skills, know-how and resources needed to exploit opportunities for entrepreneurship, be it within a formal or informal business.

2.1 South Africa's labour market: a familiar and wicked problem

The structure of the Western Cape's labour market closely resembles that of South Africa. With a formal economy that is being held back by a critical shortage of skilled workers, and yet 2.6 million working-age residents[171] are not in gainful employment.

Critical shortage of skilled workers stifling growth

South Africa's economic growth is constrained in part by shortages of skilled labour[172]. Since 2012, skilled employment has increased by 17% nationally and 19% in the Western Cape (Figure 12.1). Whereas unemployment levels among citizens with advanced qualifications are broadly in line with benchmark economies, unemployment amongst unskilled and semi-skilled job seekers is exceptionally high.

There is a particularly acute skills shortage of individuals with science engineering & technology qualifications, as well as for managers and professionals. Sectors that experience the most intense shortage are education, financial services, the public sector, utilities and the ICT sector[173]. Due to increasing competition among employers over these scarce skills, highly skilled workers have experienced the sharpest increase in wages over the last 10 years. In 2021, highly skilled workers accounted for 62% of the top wage decile compared to 48% in 2011.

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[169] https://worldpopulationreview.com/country-rankings/unemployment-by-countryWorld population review. 2020. Top 10 countries with highest unemployment.

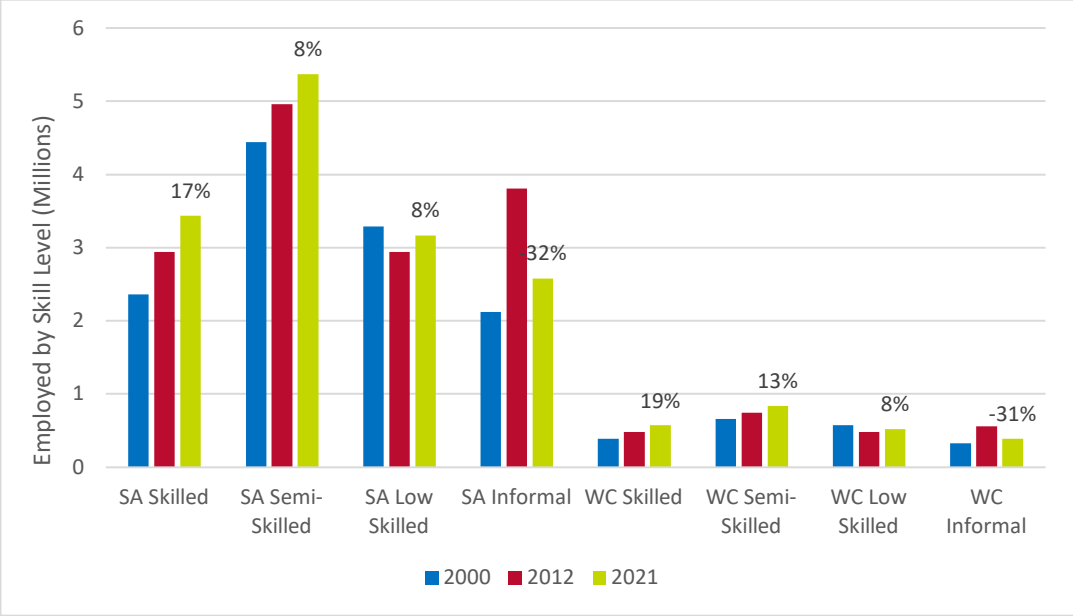
[170] Hillage, J and Pollard, E. 1998. Employability: Developing a framework for policy analysis. Department for Education and Employment, London.

[171] 2021 estimate by Quantec EasyData 2023.

[172] Davies, R and Seventer, D. 2020. "Labour Market Polarization in South Africa: A Decomposition Analysis," Working Paper, WIDER Working Paper, 2020.

[173] DHET. 2022. Skills and Supply and Demand in South Africa. Labour Market Intelligence research programme.

Figure 12.1: Employment by skill level (2000-2021)

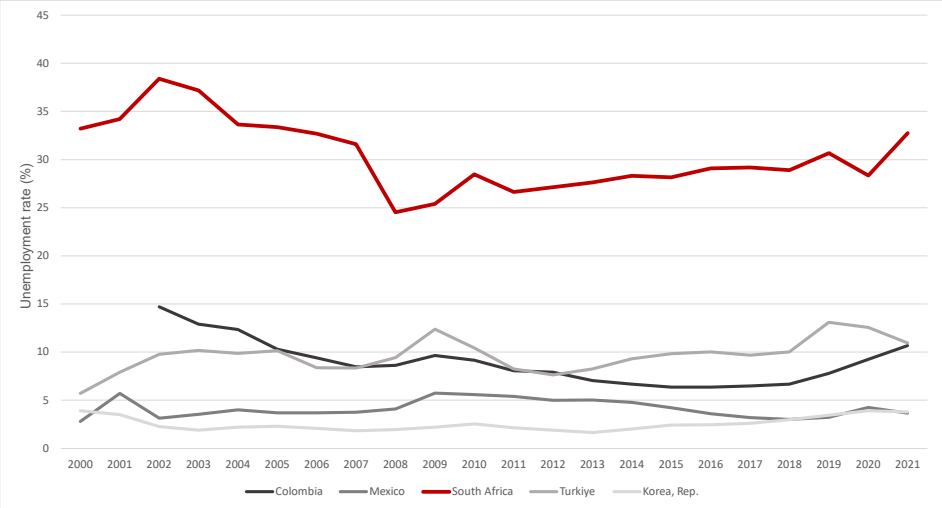


Source: Quantec[174]

Growing number of job seekers

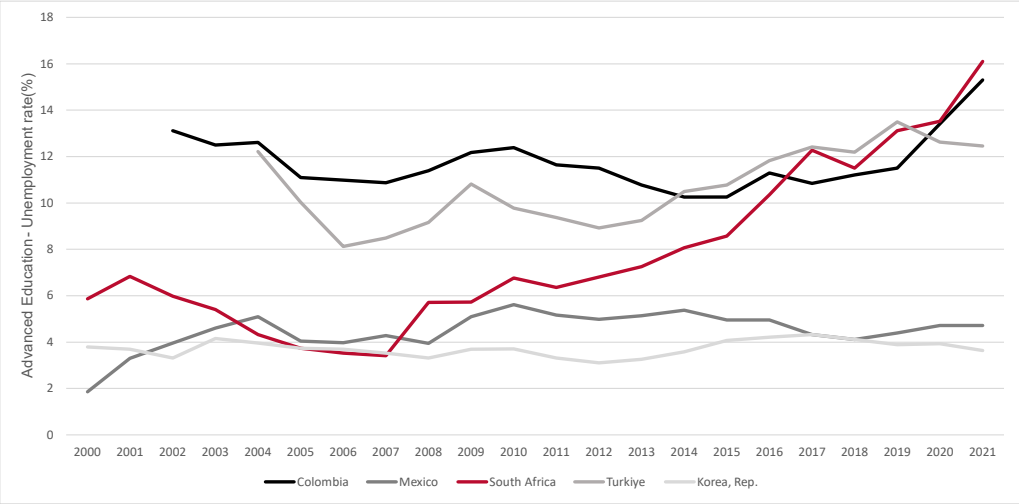
Various structural shifts in the economy have changed the labour market and labour requirements. These include the mechanisation and consolidation of agricultural production, the decline of legacy mining, the near collapse of the local textile industry in the face of globalisation, and the modernisation of industrial processes. In particular, industrial modernisation has led to a decline in demand for unskilled and semi-skilled workers, while growth in the technology-intensive parts of the manufacturing sector has absorbed skilled labour. A changing economy, combined with questionable educational outcomes, rapidly increasing wages and high levels of labour market rigidity, have conspired to result in 774 000 aspirant job seekers in the Western Cape being unable to find work.[175] As Figure 12.2 shows, unemployment rates among those with only a basic education are significantly higher in South Africa than benchmark economies.

Figure 12.2a: Unemployment rates of people with basic education



[174] Sourced from Quantec EasyData. 2023. Standardised Regional [Labour – Employment and compensation by skill level].
[175] Stats SA. 2022. QLFS 2022 Q1.

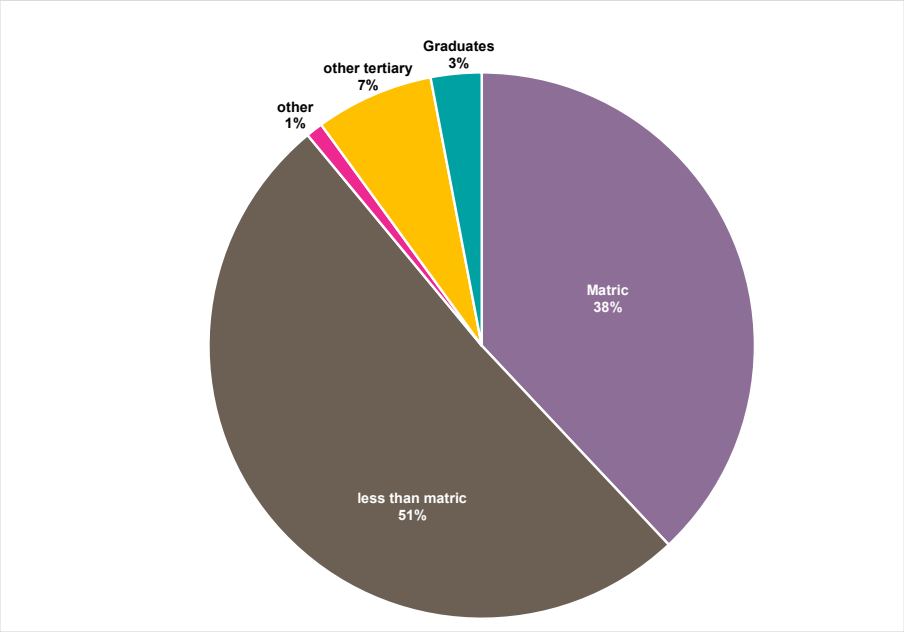
Figure 12.2a: Unemployment rates of people with 'advanced' education



Source: World Bank[176]

Despite increasing unemployment levels among South Africans with tertiary education (from 10% to 15% since 2006), levels of joblessness among graduates remains largely comparable to benchmark economies. The growing unemployment rates of graduates is due to misalignment with the skills needs of employers. The demand for science engineering & technology graduates is high but the number of qualified graduates has decreased. Demand for humanities graduates is low but, despite the lack of demand, the number of these graduates have increased.[177]

Figure 12.3: Total unemployed, by education level (Q3 2022)



Source: QLFS

[176] Sourced from World Bank. 2023. World Development Indicators [Unemployment with basic. Intermediate and advanced education (% of total labor)]. World Bank Open Data. Note: WDI sources data from International Labour Organization. "Education and Mismatch Indicators database (EMI)" ILOSTAT.
[177] DHET. 2022. Skills and Supply and Demand in South Africa. Labour Market Intelligence research programme.

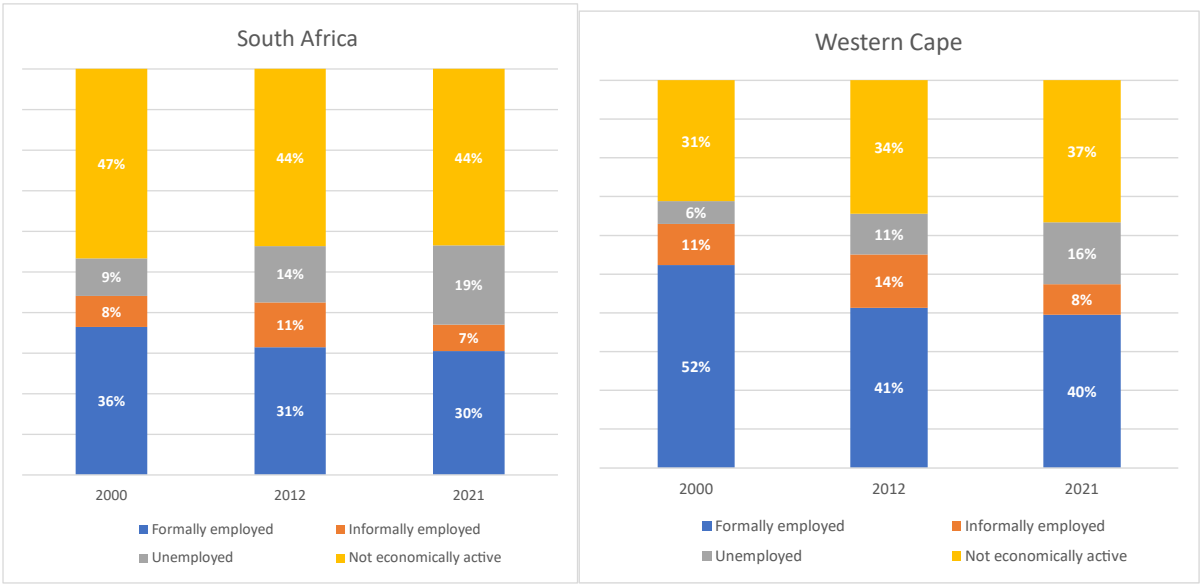
Figure 12.3 illustrates the misalignment between the supply of mostly low-level skills and the demand for high-level skills. Citizens with higher levels of education and relevant skills have a higher likelihood of being employed.[178]

Furthermore, in 2020, only 15% of people aged 25–34 years old had a tertiary qualification in South Africa compared to 47% on average across OECD countries.[179] A contributing factor to this low level of tertiary qualification graduates is the insufficient number or capacity of universities in South Africa (26 public universities, including four in the Western Cape[180]) compared to benchmark countries, such as South Korea (202 universities) and Türkiye (129 state universities).[181] In addition, South African universities are not managing sufficient throughput of their student cohort, with about half of all first year intakes dropping out of university. This is primarily due to an inability to adapt academically and socially to university, as well as poor career choices and inadequate funding.[182]

Chronically low rates of labour force participation

For every aspirant job seeker in the Western Cape, there are 2.3 residents of working age who have permanently disengaged from the world of work.[183] In many cases, this may be because of personal circumstances that have little to do with the employment landscape. However, historically, South Africa's labour force participation has been between 55% and 60%, which has been significantly lower than benchmark economies. However, labour force participation has been somewhat higher in the Western Cape (65–70%).

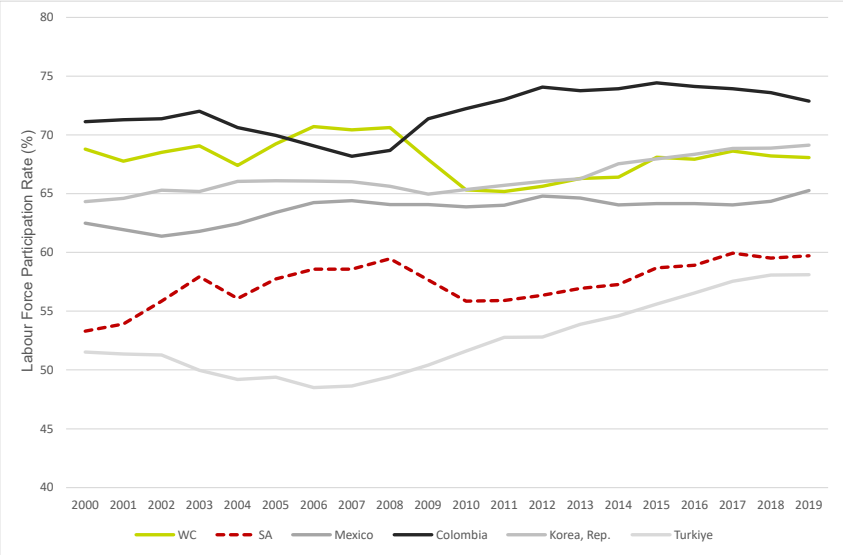
Figure 12.4: State of the labour market-percentage of working age population (2021)



Source: Quantec[184]

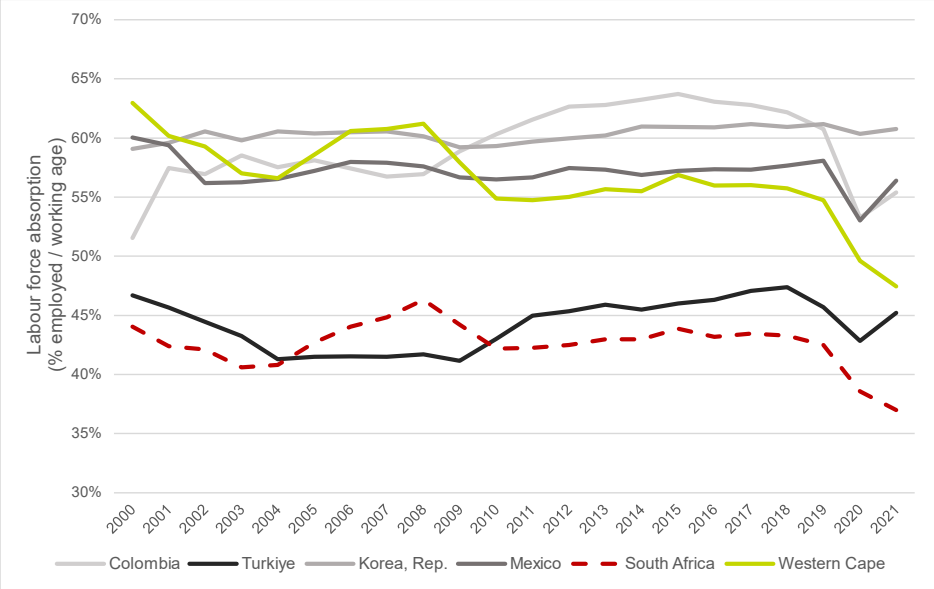
[178] Stats SA. 2022. QLFS 2022 Q3.
[179] OECD. 2022. Education at a Glance 2022.
[180] Department of Higher Education and Training, 2020, Statistics on post-school education and training In south africa
[181] Statista. 2021. Total number of universities in Turkey in 2021.
[182] Moodley, P. and Singh, R. J. 2015. Addressing student dropout rates at South African universities. Alternation. Special Edition No 17: 91–115
[183] Quantec EasyData. 2023. Estimate for 2021
[184] Sourced from Quantec EasyData. 2023. Standardised Regional [Labour – Employment and unemployment].

Figure 12.5: Labour force participation (employed + unemployed/working age population)



Source: World Bank[185], Quantec[186]

Figure 12.6: Labour force absorption (employed/working age population)



Source: World Bank[187], Quantec[188]

The Growth for Jobs Strategy recognises that the national (and provincial) labour market is profoundly dysfunctional. Addressing this dysfunction will require structural reforms, augmented by targeted interventions, for it to even begin to resemble a normal and healthy labour market that works for most, if not all, citizens.

[185] Sourced from World Bank. 2023. World Development Indicators [Labor force participation rate, total (% of total population ages 15-64). World Bank Open Data. Note: Modelled ILO estimate.
[186] Sourced from Quantec EasyData. 2023. Standardised Regional [Labour – Employment and unemployment].
[187] Sourced from World Bank. 2023. World Development Indicators [Labor force participation rate, total (% of total population ages 15-64). World Bank Open Data. Note: Modelled ILO estimate.
[188] Sourced from Quantec EasyData. 2023. Standardised Regional [Labour – Employment and unemployment].

The Western Cape economy is creating formal jobs at scale…

Despite the enormity of the challenge, the Western Cape Government recognises that, underlying the aggregate data, pockets of success give cause for cautious optimism. The economy of the Western Cape is creating jobs despite the drought, Covid and a challenging national economy. Between 2012 and 2021, the province added 230 000 new formal jobs. This is an exceptional rate of increase compared to other provinces and benchmark economies, given the size of the economy as well as adverse macroeconomic circumstances.

...but in-migration outweighs formal job creation

Since 2012, formal businesses have successfully created new jobs in the Western Cape. However, this has not been sufficient to absorb the growing working-age population, which grew by 765 000 people. This growth was in large part due to the in-migration of aspirant job seekers drawn to the Western Cape by the perception of better employment prospects and public services. At the current rate of in-migration, even a large increase in the rate of job creation will not match the anticipated increase in job seekers. Indeed, improved employment prospects – particularly relative to other parts of the country – will likely induce an upward shift in labour force participation and an increase in in-migration.

2.2 Enabling growth-oriented entrepreneurs

In developing countries, informal self-employment (in urban areas) and subsistence agriculture (in rural and peri-rural areas) often offset the gap between the formal economy's capacity to generate new jobs (especially for unskilled workers) and the growth in the number of aspirant job seekers. Not all forms of informal self-employment are the same. Although rarely acknowledged in national policy, the nature, prospects and appropriate response to survivalist activities is very different to growth-oriented entrepreneurs. Survivalist activities provides a brief respite from extreme poverty and requires a social rather than economic response (or a combination at the very least). Whereas growth-oriented businesses are characterised by responsiveness to demand, risk appetite, and propensity to reinvest profits and offer a critical augment to job creation by large formal employers.

However, questions remain about the extent to which South Africa and the Western Cape can claim to have a broad-based entrepreneurial culture, and whether the environment in which entrepreneurs operate is truly enabling. Compared to benchmark economies, South Africans appear to be exceptionally dependent on salaried positions and not particularly successful at self-employment, whether formal or informal (see Figure 12.7).

Figure 12.7: Self-employment levels, South Africa compared to peers

Source: ILO estimate from World Bank

In South Africa, the informal sector's contribution to economic activity or employment is small compared to benchmark and even developed country economies. Any strategy seeking to increase employment opportunities (especially for low- and semi-skilled workers) needs to identify and interrogate the role that the Western Cape Government can play in addressing the binding constraints inhibiting the success of growth-oriented entrepreneurs and the improved sustainability of survivalist micro-businesses.

Figure 12.7: Self-employment levels, South Africa compared to peers

Source: ILO estimate from World Bank

2.3 Western Cape Government's role in supporting economic mobility

Given the challenges and opportunities described above, it is the task of the strategy to focus on the following levers:

- Improve the employment prospects of school leavers and the productive potential of job seekers by aligning basic education and workplace training opportunities more closely with the needs of the economy.
- Reduce the binding constraints impeding formal job-rich growth, particularly by reducing the burden of regulation, infrastructure provision and investment facilitation.
- Support municipalities in creating an enabling environment for entrepreneurs, particularly those in economically marginal locations.
- Support initiatives that invest in open ICT infrastructure supportive of online training, digital education, and labour market information (i.e., job-matching).

Preparing learners for the workplace

The Western Cape spends 36% of its budget on education, but weak labour market outcomes suggest a need to align education/skills provided with the needs of employers, especially around jobs for the future. As research in the OECD shows, countries with the least youth disadvantage have education systems that are more integrated with the labour market[189].

[189] Pastore, F. 2018. "Why is youth unemployment so high and different across countries?" IZA World of Labor 2018: 420.

The WCED curriculum and learning needs to link education to employment more effectively. Life orientation content on careers, work preparation and competency development needs to be improved, while attention must also be paid to workforce preparation skills to enable students to make better informed subject choices at school and tertiary levels (including at graduate level) to reduce the skills mismatch. The knowledge, skills, and abilities that enable people to find or keep a job or advance in the workforce are known as workforce preparation skills. These include interpersonal and communication skills, cooperation, teamwork, and customer service, professionalism, critical thinking, and systems thinking.[190] Teachers need exposure to the realities of the workplace so that their teaching may be more relevant (more vocational and occupational).

Action on this has already begun with the Three Streams pilot project (academic, vocational, and occupational) being proposed to be adopted as policy. The first stream, academic, prepares learners for general post-school education and training, the second, vocational, prepares learners for professional learning, while the third, occupational, prepares learners for trade and artisanal workplaces.

Additionally, curriculum for a E3 (Employability Entrepreneurship, Education) programme has been developed. This uses non-traditional teaching and learning so that learners are better prepared for the modern economy. The E3 programme seeks to create the building blocks of a more entrepreneurial nation. It has selected three core competencies on which to focus: character (citizenship, curiosity, resilience), thinking (creativity, critical thinking, reasoning), and connection (collaboration, communication, empathy).

The revision of the curriculum to develop competencies for character and connection is an acknowledgement of the need to develop softer skills to improve access to economic opportunities and employment. However, the school curriculum requires support to link youth into the private education providers of services such as extra maths lessons (to which few poor learners have access).

Apart from learners, attention must also be paid to providing opportunities to the nearly 460 000 unemployed people who have not completed their matric and who need to be provided with a second chance to complete their education or to obtain another form of training.

Demand-led vocational training

A more coherent training and development ecosystem is needed that guides learners and work seekers to the skills that emerging sectors of the economy require. This will require repurposing existing schools and the establishing of new schools and post-school training that provide more specialised offerings. Training programmes that combine classroom and workplace learning are also needed. A broader knowledge ecosystem will also enable role-players to identify their ‘niche’ and strengths. As noted in the EDP et al. 2022 study, this will enable entrepreneurs to identify and understand opportunities.

The World Bank Group has developed the Skills Towards Employment and Productivity programme framework encompassing five steps:

- Develop technical, cognitive, behavioural, and digital skills early in life to create a framework for later success.

[190] KayLynn Hamilton, K. 2022. What Does It Mean to Have Workforce Preparation Skills?

- Build stronger education systems with clear learning standards, good teachers, adequate resources, and a proper regulatory environment.
- Build job-relevant skills by developing the right incentives for both pre-employment and on the job training programmes.
- Encourage entrepreneurship and innovation by creating an environment that encourages investment in knowledge and creativity.
- Facilitate labour mobility and jobs matching by moving towards more flexible, efficient, and secure labour markets.

Critical to the success of these initiatives is an understanding that governments do not create jobs – businesses create jobs, and people with a sense of personal agency create economic opportunities.

2.4 A differentiated approach to growth-oriented entrepreneurs and survivalists

To realise the greatest return-on-investment in terms of job and apprenticeship opportunities, support to entrepreneurs needs to move beyond a generalised approach to a differentiated approach which targets entrepreneurs based on their intention and aptitude.

Growth-oriented entrepreneurs are key to creating economic opportunities and employment. The binary distinction between formal and informal business inhibits the identification of high potential sectors and nodes. When focusing on labour-absorbent entrepreneurial survival and growth, this distinction is somewhat arbitrary and less significant than the motivation, aptitude and level of embeddedness of the owner of the small business.

Local and international studies have shown that there is little difference in survival prospects and job creation potential between formal and informal entrepreneurs who are motivated by growth, but that there is a qualitative difference between growth-oriented informal entrepreneurs and survivalist traders. Business formations motivated by unemployment are far less likely to succeed than those motivated by the seizure of a business opportunity. Survivalist businesses – who tend to operate from their homes – are far removed from formal sector business practices and do not create jobs. Instead, they are principally motivated by a need to prevent themselves from sliding deeper into poverty. Their strategy is premised on maximising security, diversifying across multiple income streams with interruptions, and are embedded in social obligations.

Household businesses are particularly embedded in their neighbourhood communities. The owners often define their goals in terms of taking care of basic household needs and preserving community solidarity. Accepted social seniority and authority appear to dictate the level of financial success. Therefore, household businesses avoid the implicit radius of existing businesses run by another household. These businesses tend to have high markups, expensive pricing structures, and thin customer bases. These fragile, tenuous compacts between South African businesses and their customers do not hold up against the cheaper pricing introduced by foreign migrants. A key factor in the growth of a firm is its location: home-based enterprises exhibit higher hazards and greater closure rates than enterprises located in local business districts or points of high accessibility. However, urban planning for human settlements does not accommodate key design principles and factors of spatial design that have a material impact on the success and sustainability of businesses.

In contrast, growth-oriented entrepreneurs operate by choice, are willing to take risks, specialise in a particular market, and are fairly removed from social relations. Businesses not embedded

at the community level flourish at strategic locations. Proximity to growing markets appear to be a significant determinant of an enterprise's growth prospects. For service activities, determinants include the inclusion in a larger firm's network, access to material and infrastructure, and opportunity to interact with other entrepreneurs. These businesses entail more substantial fixed costs and are larger and more entrepreneurial on average than the neighbourhood businesses and less constrained by the social equalisation norms affecting household businesses.

Accordingly, the Western Cape Government should encourage municipalities to target support at businesses with embedded entrepreneurial acumen. A five-year longitudinal study of 300 informal microbusinesses in Soweto found that the principal reasons for business survival are (1) entrepreneurial endowment and (2) small business management skills. Markers of entrepreneurial acumen include: (a) completion of a business plan prior to starting a business, (b) regular analysis of competitors, (c) regular investigation of alternative business investments and, (d) motivation for starting the business. A high proportion of 'active entrepreneurs' are in processing activities or in construction, welding and furniture making. These growth-oriented firms exhibit relatively high rates of return to fixed capital and attract more technically skilled entrepreneurs relative to retail trade or household services.

Consequently, government and private-sector policies aimed at stimulating survivalist traders are ineffective if their strategy assumes that survivalist and growth-oriented entrepreneurs are at different stages of the trajectory, rather than acknowledge their qualitative difference and develop appropriate policy responses for each. To this end, formal and informal entrepreneurs tend to be treated as a single group subject to a particular set of constraints, whereas survivalist traders face different constraints meriting a more socially oriented set of interventions.

Private investment and entrepreneurship are typically inhibited by a regular set of potential constraints, each affecting economic growth to varying degrees. However, a constraint is considered binding when, if addressed, it would produce the largest gains in private investment and entrepreneurship relative to other, non-binding constraints. A focused area-based strategy will thus prioritise interventions which seek to address those binding constraints, recognising that – should the local economy grow, or external conditions change – other constraints may become binding, necessitating an adjustment to the strategy.

2.5 Addressing binding spatial constraints impeding entrepreneurship

To thrive, township economic development depends firstly on the capabilities and resilience of township business and an enabling regulatory environment, and secondly on a spatial environment conducive for businesses to flourish and connect[191]. In townships, the material welfare of local households is constrained by declining levels of inward private investment (including disinvestment in township industrial areas), and insufficient levels of bottom-up business establishment and growth (i.e., entrepreneurship).

How should government respond, given the patchy track record of area-based economic development strategies in South African cities over the last few decades? Presented with a laundry list of projects, policymakers often pursue area-based strategies with a 'scatter gun' approach (lacking prioritisation of mechanisms) and a 'watering can' approach (lacking spatial prioritisation). These strategies often lack a coherent theory of change, which maps out causal

[191] SACN. 2020. Township economic development in the Gauteng province.

mechanisms, identifies and harnesses complementarities, and links inputs to measurable outcomes.

There is broad and growing consensus that strategies that focus on one or two bottlenecks or nodes are far more likely to achieve success than spreading effort thinly across multiple, potentially competing objectives.

Low investment and entrepreneurship in marginal urban locations are due to distortions that limit the incentive for the individual to establish and grow a business in a particular neighbourhood, even though the societal benefit of local entrepreneurs growing their businesses and employing additional workers may be significant. The main potential reasons why the benefit of investment might not accrue to the individual are:

- Corruption and crime.
- Excessive or inappropriate regulation of businesses, space and labour.
- Poor bulk and economic infrastructure, including load-shedding.[192]
- Poor geography/distance to markets.
- A shortage of necessary skills residing near the business.
- The cost of securing capital to fund business growth given perceived risk of investment in particular neighbourhoods.
- Limited access to technology.

The Western Cape Government should identify which of these binding constraints should realistically be prioritised by the province directly, or support provided to municipalities.

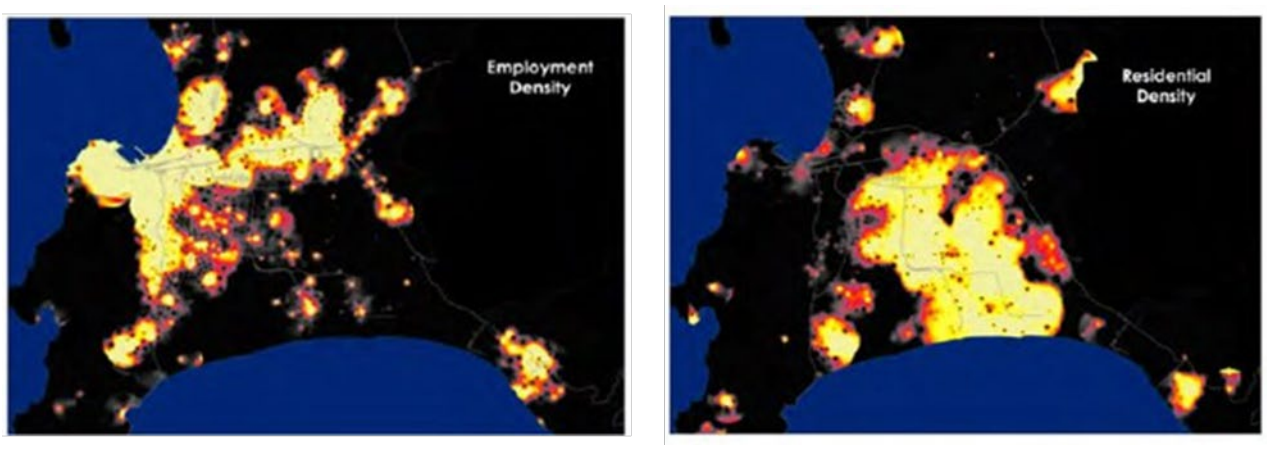
2.6 The spatial factors driving poor labour market outcomes

Economic growth, improved basic and vocational training and targeted support to growth entrepreneurs, are all key to improving the economic mobility of aspirant job seekers. However, a final factor which plays a significant role in preventing millions of South Africans from participating in the labour market is the cost of transport borne by poor households.

As reflected in the City of Cape Town's residential and employment density heat maps for Cape Town, the distances between where people live and work are significant, imposing time and out-of-pocket costs that can amount to a large portion of poor households' income, while increasing exposure to crime. Andrew Kerr's Research shows that South Africans spend almost double the time commuting as people in the United States and Hungary, the European Union country with the longest commute times.[193] The inefficiencies of this spatial form are deepened in South African cities because poor households often live in 'poverty traps' – areas in which social dysfunctionality has a profound impact on the performance of education and health services.

[192] Herrington, M. Kew, J. & Kew, P. 2018. Global Entrepreneurship Monitor, University of Cape Town, Cape Town.
[193] Kerr, A. 2015. "Taxing the poor? Commuting costs in South Africa." SALDRU Working Paper Number 156.

Figure 12.8: Cape Metro employment density compared to residential density



Source: City of Cape Town

Beyond transport costs, two other factors help entrench structural unemployment in the Western Cape:

- **Contextually inappropriate building regulations:** High costs of accommodation affect households' living standards and place upward pressure on employees' salary expectations. The absence of a 'fit for purpose' housing market means that housing-related economic activities (for home and personal services, construction, and household goods) are stifled even as households are 'stuck' in housing because they cannot afford to move up to the next rung on the housing ladder.
- **Exposure to violence:** Research[194] captures the significant negative impacts that exposure to violence has on the behaviour and mental health of adolescents, suggesting an important role for social services for young people who are exposed to violence. The need for support structures is an important factor to consider given that, for example, in 2014 KPMG estimated that gender-based violence cost the South African economy between R28- and R42-billion a year and reduced GDP by between 0.9 and 1.3% annually.[195] The scope of the challenge is stark since there is a shortage of some 52 000 social workers.[196]

3. Challenge and opportunity statements

Drawing from the situation analysis, as well as the inputs from the stakeholders, the following are the key challenge and opportunity statements for the PFA:

3.1 Challenge statements include:

- School leavers and graduates have poor career management skills and cannot make informed decisions about their work/career options, prepare poorly for jobs, and lack the workplace skills that employers expect, resulting in missed opportunities.
- School leavers/graduates lack key literacies (numeracy, digital, etc.) and competencies (critical thinking, problem-solving, creativity, communication, and collaboration) required for the workplace, impacting on productivity.

[194] Hoosen, A, Tiliouine and Savahl. 2022. "Youth and Adolescents' perceptions of violence in post-apartheid South Africa: A systematic review of the literature." Child Indicators Research 15: 885-911.
[195] KPMG. 2017. Too costly to ignore – the economic impact of gender-based violence in South Africa.
[196] Opperman, G. 2022. South Africa faces shocking shortage of thousands of social workers.

- School leavers/graduates lack skills and qualifications required by businesses, resulting in shortage of skills required by businesses – a skills mismatch.
- School leavers/graduates cannot get a job to obtain experience that is required by employers, and where SMME employers require experience, they do not have the capacity to train staff, in part because SETA funding is not easily accessible or because SETAs direct funding towards reducing unemployment rather than workplace upskilling.
- Weak ecosystem between training and education providers and private sector, resulting in curricula not aligned with the needs of businesses, and there are few mechanisms through which to change or adapt the curriculum at schools and tertiary institutions to meet the evolving needs of the workplace (digital skills, etc.).
- School leavers/graduates live far away from employment, economic opportunities and training institutions and transport costs are unaffordable, a challenge that impacts their access to information and their ability to even attend job interviews.
- Social and cultural norms do not encourage entrepreneurship, and the environment is not supportive of entrepreneurship.
- A lack of appropriate and relevant support is provided to growth-orientated entrepreneurs and to businesses.

3.2 Opportunity statements include:

- Youth and the unemployed can make informed choices about their careers and future and are enabled to pursue their career pathways.
- Citizens have easier access to economic opportunities and pathways nearer to the places that they live.
- A strong pipeline of suitably qualified people who are employment-ready, able to access available jobs and be absorbed rapidly and sustainably into employment.
- Western Cape school leavers/graduates have a reputation for technical expertise coupled with innovation/creativity/problem-solving and collaboration skills and are highly sought after by employers.
- Entrepreneurship is considered a viable choice as an economic opportunity and citizens starting up a business – whether formal or informal – have access to the necessary support and enabling environment.
- Changing the view of township economies from latent informal business to potential value chain business or suppliers in specific sectors would open opportunities for township-based entrepreneurs to participate more favourably in industry value chains.
- Townships are vibrant and dynamic economic places contributing to and benefitting from break-out economic growth.

4. Objective and goal statements

4.1 Objective statement

A thriving society where capable, economically active citizens are able to access economic opportunities and employment, including the skills of the future, and where barriers to accessing information, to developing competencies and skills, and to finding work have been reduced or removed.

4.2 Goal statement

All citizens who want to be economically active have improved access to economic opportunities and employability through at least one pathway, with pathways comprising improved employability assets (knowledge, skills, experience, and/or competencies), career management skills, workplace-ready capabilities and skills, economic opportunities more accessible to communities, and entrepreneurship.[197]

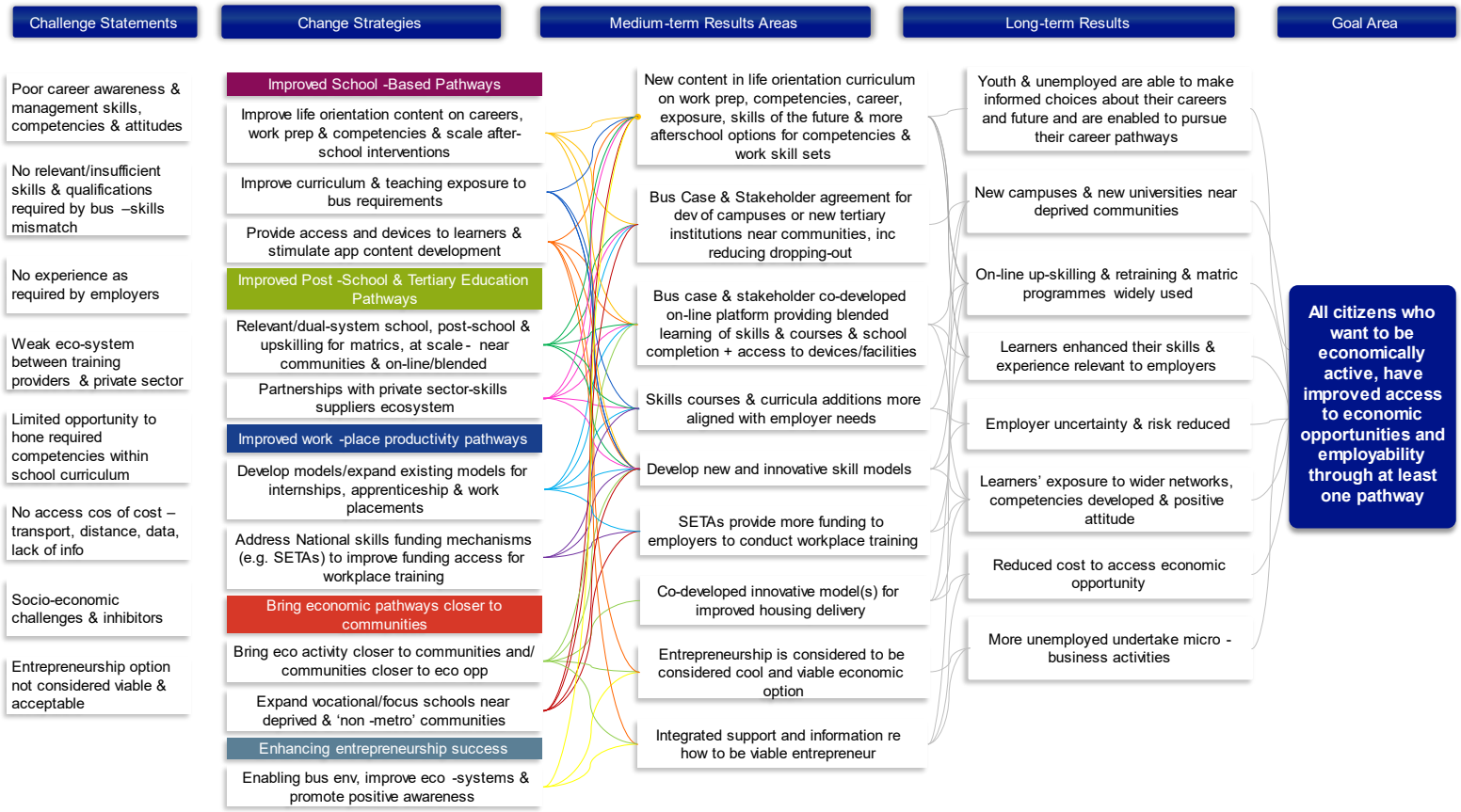
Improved accessibility to economic activity, skills, and competency upskilling to meet business requirements, together with stimulating entrepreneurship, will underpin improved productivity, enhanced earnings and facilitate inclusive growth within the Growth for Jobs Strategy. The economic benefits of achieving this goal would result in additional GDP Growth of R35-billion and additional employment of 110 252[198] people. In addition, this will considerably improve the lives of citizens, especially youth, women and the unemployed.

5. Theory of change for the focus area

A theory of change workshop was held for this PFA. Participants workshopped the objective statement, identified the goal and discussed several change interventions to realise the goal and objectives. Using the inputs from the workshop, a high-level theory of change was developed, which was subjected to further economic analysis as well as consultation with a series of relevant stakeholders to sense-check and refine. The result is depicted in Figure 12.9.

[198]There are different ways to access entry points into economic opportunities and employment, and a pathway within this context is understood as a particular set of programmes and elements along each entry point. IHS data modelled by DEDAT and Conningarth Consulting Economists using a Western Cape Social Accounting Matrix. It is assumed 489 000 beneficiaries will benefit from interventions.

Figure 12.9: Theory of change for PFA 7



6. Change strategies

Based on the theory of change, to achieve the goal statement, the PFA will need to institute various change strategies, including improved education-based and competency-based pathways; improved post-school and tertiary education pathways; improved workplace skills and productivity pathways; bringing economic pathways and opportunities closer to citizens and communities (and visa versa); enhancing entrepreneuship pathways; and strategic coordination and strengthened ecosystems.

6.1 Improved education-based and competency-based pathways

- Improving life orientation content on careers, work-readiness, and competencies, where learners obtain greater support to career development at school and where learners are exposed to the world of work and workplaces, particularly in professions where there is a shortage of skills. As part of developing work-readiness skills, explore the introduction of sports back into the school curriculum as this strengthens competencies such as self-discipline, teamwork, and communication. Consideration will be given to partnering schools with sector associations or the private sector to enhance learner exposure to the world of work, and to provide guidance to learners and future graduates about business' expectations. Strengthen the short-term job-shadowing scheme, particularly for Quintile 1 and Quintile 2 schools (poorest 40% of schools) and rural schools so that learners have better access to explore careers that interest them.
- Expanding after-school programme to develop competencies, roll out the after-school programme to more schools and investigate having community-based support programmes to discourage dropping out and encourage learning.

- Revising curriculum and modes of learning to maximise relevance to the workplace, including partnering with the private sector to co-design the school curriculum. Offer short work placements or engagements between teachers and the private sector to increase the exposure of teachers to the workplace, so that teachers are more in tune with the requirements of the workplace and can appropriately interpret curriculum content and guide learners.
- Accelerating the roll-out of focus schools (catering for learners with special talents and aptitudes across a range of scholastic endeavours) and increase scale and geographic coverage of these schools. Strengthen partnerships with the private sector in the roll-out, exploring 'Adopt a school or community' concepts. A focus school is an ordinary public school that provides specialised education and curricula, such as sport or creative industries, to better prepare learners to have the necessary skills and aptitude for higher education studies, entrepreneurial opportunities and the world of work.
- In partnership with the private sector, roll out an online blended school for those who have not completed their schooling, those who want to improve their marks, and for citizens based in rural areas.

6.2 Improved post-school and tertiary education pathways

- Investigating the feasibility and developing a strategy to expand the number of universities (private sector and public sector) and TVET colleges in the Western Cape and/or, in partnership with CHEC, expand the capacity of existing universities and colleges near communities. As a key aspect of this intervention, also support the establishment of dual-system tertiary education institutions/universities in/near dense settlements.
- Together with the tertiary institutions, enhancing the through-put rates of enrolled tertiary students.

6.3 Improved work-place skills and productivity pathways

- Through the improved understanding of businesses' skills needs, developing initiatives to enhance experiential learning, as well as knowledge exchange, including matchmaking initiatives, e.g., to connect microbusiness with opportunities.
- Exploring how the DEDAT's BPO work placement model can be replicated for growth opportunities that are currently constrained by skills shortages, essentially de-risking the private sector's recruitment while simultaneously giving previously unemployed or graduates an opportunity to gain work experience.
- Developing innovative models for recognising emerging trends of training – micro-certification of modules from credible tertiary institutions rather than long-term accredited skills programmes.
- Working with the private sector with respect to their hiring practices, as their recruitment criteria tend to be proxies for identifying certain competencies and skill sets. There may be alternative ways in which to assess whether prospective employees have the necessary competencies and skills required by business. An example of this is how the tech companies are currently working as a collective to reassess their hiring criteria which are understood to be not effectively identifying talent and potential.
- Strengthening dialogue between SMMEs and SETAs to increase funding to non-corporate businesses, with a view to streamlining the administrative compliance requirements to access SETA funding or support intermediaries that help SMMEs manage the administration requirements.

- Forging closer relationships with the Presidential Employment Stimulus team and the private sector YES initiative to better leverage these support packages, but also to help influence the objectives of its programmes so that it facilitates improved productivity for businesses (as opposed to just job creation). The current national skills incentive support programmes, such as the Jobs Fund, have significant administrative compliance requirements. This makes the programmes inaccessible for smaller businesses who, without the support of intermediaries to help navigate and manage, cannot access or optimise success. In the short-term, provide financial support to intermediaries so that the Western Cape is better able to leverage and scale these national programmes, while advocating for more streamlined national compliance systems.
- Championing and investing in programmes to deliver digital skills relevant to the workplace at scale (see PFA in Chapter 10).

6.4 Bringing economic pathways and opportunities closer to citizens and communities and visa versa

- Overcoming the digital divide by making devices, connectivity, and relevant learning content available and accessible to all learners, e.g., by refreshing the PPP feasibility study for providing digital devices and data to learners and consider pilot roll-out (see PFA 5).
- Creating the enabling environment for private sector to develop mixed-use, high density and compact settlements that promote sustainability and competitiveness through agglomeration economies.
- Developing a vibrant, functional housing market as well as a land assembly pipeline to promote affordable, better located, more integrated housing opportunities and access to progression throughout the housing ladder (see the link to PFA 6 in Chapter 11).
- Work with municipalities to support homeowner-driven small scale development, which would involve a range of regulatory, technical, legal and financial training instruments, which assist township homeowners (who are predominantly female), to develop good quality additional dwellings. This would assist in addressing the unmet demand for higher quality affordable rental housing in well-located townships.
- Collaborating with the PFA 6 with respect to improving public transport to reduce commuting times and investigate models in which job seekers could access public transport at a subsidised rate (see Chapter 11).
- Developing an overall Western Cape township strategy as well as township action plans within targeted communities, drawing in all relevant departments, the relevant municipality and the community and armed with the suite of levers and enablers to be deployed as appropriate. This will include a process in which growth opportunities are identified within the township (ECD and the care economy, waste, energy, etc.), key needs of the community are prioritised (digital access centres, Wi-Fi, clinics, parks, etc.) which is also mindful of the needs of people with disabilities, the infirm and gender-based violence preventive measures, and implement innovative plans to address the top set of opportunities and needs (soft infrastructure – skills, business support and hard infrastructure – structures). As a systemic aspect of this, improve urban management in townships to support investment so that economic opportunities are enabled closer to communities.
- Considering whether programmes such as the Western Cape Government's Year Beyond Programme and the Expanded Public Works Programme can be used to assist skills transfer into township-based growth opportunities such as ECD and ensure that there is a strong sense of shared value and community ownership for the interventions that are implemented (see PFA 6 in Chapter 11).

- Improving urban management in townships to support investment, enabling the development of economic nodes and commercial activities by private sector and the community in a manner that is responsive to and enabling of business needs and requirements.

6.5 Enhancing entrepreneurship pathways

- Understanding the impact of compliance enforcement on local businesses, and develop more incremental, affordable, and empowering systems where necessary.
- Leveraging existing digital entrepreneurial platforms to provide support to entrepreneurs, providing information and a community of guidance to start-ups and those who want to expand.
- Supporting opportunities for microbusiness support for women, including ECD and its associated economy to increase employment, optimise early learning and enable people to work with a sense of confidence that their children are safe and well cared for.
- Identifying and address challenges and ease of doing business, including the concerns about crime and safety, within the environment for entrepreneurs/microbusiness and together with municipalities and relevant business associations/chambers, consider establishing business support centres in communities.
- Developing campaigns to promote entrepreneurship and microbusiness.
- Conducting an international benchmarking of South Africa's labour legislation and regulations, and developing a process work-flow tool to assist business compliance with respect to labour relations regulations. As part of this, assess the existing labour regulations with a view to streamlining compliance to reduce the administrative burden on SMMEs. Also forge a relationship with CCMA to introduce an on-line vetting process to improve compliance and reduce time taken to resolve CCMA cases.
- Supporting the entrepreneurship pathway from skills (business skills) to SMME support, to SMME development through supplier development in the public and private sector.
- Developing school-based collaborative programmes with private sector that supports youth start-up businesses.

6.6 Strategic coordination and strengthened ecosystems

- Increasing economic IQ about learning, schools, entrepreneurship, and microbusiness, providing open data so that trends about throughput rates of learners and students are transparent, providing intelligence about the skills pipeline and success rates, as well as developing a system of capturing entrepreneurship activities spatially so that economic trends can be identified and, if relevant, suitable support systems be put in place.
- Working with the private sector, including training institutions, to enhance the relevance of skills and education training and to reduce the skills mismatch. Strengthen the learning ecosystem and forums of learning institutions to support relevant learning, getting the education and tertiary institutions and skills providers within the training development environment to better coordinate so that throughput along the skills pipeline is increased and there is better curriculum alignment between the different levels.

7. Considerations with respect to the PFA and its change strategies

7.1 Assumptions

To achieve success the following explicit assumptions have been made:

- Learners will be supported with access to the internet and devices.
- Officials involved in the PFA can work transversally across departments.
- The necessary ecosystem partnerships between skills providers and the private sector will be established and strengthened.
- An economic IQ centre will be established and data in various departments will be made available and shared to generate evidence-based decision-making and monitoring of progress.
- Ways will be found to enable interventions to be co-implemented with the private sector in ways that are PFMA-compliant.
- Impact is increased if interventions are aligned and reinforce each other.
- Joint planning will be implemented between DCAS, WCED, DEDAT, and the DTPW for infrastructure, spaces, and community support.

7.2 Risks

- Citizens equate improved access to economic opportunities to government guaranteeing them a job, leading to expectations that government is not able to fulfil.
- The trust deficit, as one of the core challenges, is not overcome through the ecosystem collaborations because the stakeholders are entrenched in their perspectives.
- Curriculum changes are too slow to be adequately responsive to the changing needs of businesses, resulting in a continued mismatch of skills.
- Municipalities are reluctant to shift towards integrated and mixed-use communities and away from the current human settlement models, resulting in the continuation of the spatial inequalities where economic opportunities are located far from where people live.
- Universities and TVET colleges are unable, or reluctant, to expand into communities, resulting in the continued inaccessibility of learning and upskilling opportunities to learners and unemployed.

7.3 Research

- Growth opportunities are invariably constrained by skills shortages. Research of skills requirements, in collaboration with that specific industry ecosystem, will be the most efficient way to meet demand at scale.
- Conduct a business case for the establishment or expansion of new tertiary institutions (public and/or private).
- Refresh previous feasibility studies with respect to making devices, connectivity and relevant learning content available and accessible to learners.
- Investigate administrative requirements to access SETA funding or support intermediaries with a view to streamlining and reducing the administrative burden for SMMEs. As part of this investigation, ensure that international benchmarking is also conducted.
- Conduct an international benchmarking of South Africa's labour legislation and regulations, including compliance processes.
- Investigate models in which job seekers could access public transport at a subsidised rat

chapter

13

Transversality and the way forward

Chapter 13: Transversality and the Way Forward

1. Introduction

The purpose of the Growth for Jobs Strategy is to set out the approach that ensures the achievement of the ambitious 2035 objective and goal statements as articulated in the Growth for Jobs Strategic Framework. The Western Cape Government's aim is to achieve break-out economic growth, resulting in sufficient employment and opportunity and an economy that is sustainable, resilient, diverse and thriving – generating confidence, hope and prosperity for all.

In the development of the Growth for Jobs Strategy, the Western Cape Government has been mindful that its role is to be purposeful, choiceful, realistic and impactful in crafting and executing the strategy.

- **Purposeful:** being very clear about the outcomes to be achieved. The strategy needs to align all of government around a common purpose, in a concerted, transversal effort to achieve meaningful outcomes that will make a difference in the lives of the residents of the province. This is what the overall Growth for Strategy intends to accomplish.
- **Choiceful:** in the way it selects the appropriate focus areas and accelerators, to increase the probability of success, provide results timeously and optimise the overall impact of the outcomes it focuses on delivering. This is what the Growth for Jobs Strategy has attempted to do, as it adds substance and direction to the strategic choices made in the Growth for Jobs Strategic Framework.
- **Realistic:** in that more government intervention through increased spending is not always the appropriate approach. And realistic in that during fiscally constrained times, government does not have the financial wherewithal to deliver wide-ranging forms of fiscal stimulus or to invest across the board in infrastructure or capital projects. Creating an enabling environment, through supporting initiatives that already have private-sector involvement and dedicated resources, rather than reinventing the wheel usually has a better chance of success. A shotgun approach involving increased across-the-board spending, the cost of which will be picked up by subsequent generations, is neither possible, desirable nor effective. The Growth for Jobs Strategy attempts to provide guidance and identify ways in which spending may best be leveraged, and provide clarity on the key stakeholders who need to be engaged with, to ensure that broader impact is delivered.
- **Impactful:** by combining sequencing, and prioritising enablers, accelerators and levers across focus areas in ways that leverage collaboration, optimisation of resources and potential synergies to deliver results. The Growth for Jobs Strategy implementation process will leverage collaboration across the Western Cape Government, among all spheres of government and include the private sector, academia and society wherever possible, to ensure that the key strategic issues are addressed in a transversal, integrated and collaborative manner.

2. Synopsis of the Priority Focus Areas

Drawing from research and expert input, purposeful, choiceful, realistic and impactful choices were made in determining what and how the Western Cape Government will accomplish the overall targets set out by the Growth for Jobs Strategic Framework. Seven PFAs were identified, each with clear and ambitious objective and goal statements (summarised in Table 13.1). The

achievement of these statements will synergistically contribute towards the overall Growth for Jobs objective and goal target.

Table 13.1: Priority focus areas with their objective and goal statements

Priority Focus Areas	Objective Statement	Goal Statement
Driving growth opportunities through investment	The Western Cape is the investment destination of choice for local and international investors in a range of growth opportunities, providing an enabled environment and strong networks of ecosystems.	Private-sector investment will be 20% of regional GDP (translating to R200-billion) by 2035.
Stimulating market growth through exports and domestic markets	The Western Cape, with a strong domestic market capability, is a leading global export region in a diversified basket of goods and services and a sought-after tourism destination known for its quality, reliability and cost-effective goods and service offerings.	The value of Western Cape exports of goods and services (inclusive of tourism) will triple by 2035.
Energy resilience and transition to net zero carbon	Energy is low carbon, reliable, competitive, accessible, enabled, supplied at scale, and meets the energy-efficient demands of the economy, using data, analytic tools and new models of delivery and contributing towards net zero carbon targets.	Reduce reliance of energy from Eskom of between 1800 – 5700 MW by 2035, estimated to attract between R21.6 billion and R68.4 billion in related investment.
Water security and resilience	The province will have optimised and increased water supply, integrated the management of water resources, and enhanced the adaptive capacity of business and citizens with respect to water usage to improve resilience, competitiveness, and quality of life for all its people, so that it has sufficient water supply to achieve its economic growth aspirations.	Double the amount of water available for secondary and tertiary economic sectors (primarily from non-productive use) by 2035 and honour existing allocations to agriculture.
Technology and innovation	The Western Cape is the tech, start-up and venture capital and innovation and design capital of Africa, through robust business, government, and community innovation (supported by academia), with strong technology ecosystems and centres of excellence in a range of industries and opportunities, with a supportive enabling environment and where the adoption of appropriate technology and accessible innovation leads to an improvement in the Global Innovation Index and the productivity and competitiveness of the regional economy.	By 2035, research and development expenditure will increase by 300% in real terms, reaching R35-billion and venture capital deals will total R20-billion.
Infrastructure and connected economy	To coordinate, prioritise, plan and implement the timeous delivery of relevant and smart infrastructural solutions (physical, digital and	By 2035, the Western Cape economy will have the infrastructure required

Priority Focus Areas	Objective Statement	Goal Statement
	hybrid) to support break-out economic growth and a connected economy, providing flexible, resilient infrastructure that intelligently connects spaces, places and people, transforms lives and delivers sustainable value to the economy and ecology of the Western Cape.	to support and enable a R1-trillion economy and public sector capital investment in the Western Cape will be 10% of regional GDP.
Improved access to economic opportunities and employability	A thriving society where capable, economically active citizens are able to access economic opportunities and employment, including the skills of the future, and where barriers to accessing information, to developing competencies and skills, and to finding work, have been reduced or removed.	All citizens who want to be economically active have improved access to economic opportunities and employability through at least one pathway, with pathways comprising improved employability assets (knowledge, skills, experience, and/or competencies), career management skills, workplace-ready capabilities and skills, economic opportunities more accessible to communities, and entrepreneurship.

Collectively these seven **PFAs** will have a direct GDP impact of **R395-billion**, and the economic modelling shows that this can result in the generation of between 600 000 and over one million jobs. Accomplishing the objectives and targets set out by these PFAs is an imperative and will synergistically and meaningfully contribute towards the Western Cape having an enabled, competitive and inclusive economy.

3. Transversal themes across the Priority Focus Areas

Within the theories of change in each of the PFAs, several mutual and transversal policy levers and themes emerged. Going forward, these common levers and themes will need to be elevated for transversal strengthening within the Growth for Jobs implementation plan to better coordinate capacity and resources for impact. Reinforcing these policy levers will be key differentiators in redefining 'how' the Western Cape Government will implement the Growth for Jobs Strategy.

Several themes and policy levers emerged in more than one PFA and will be further explored in the implementation plan. However, the almost universal and most critical policy levers for immediate attention are the following:

- Private-public sector coalition coordination
- Economic intelligence (IQ)
- Ease of doing government
- Regulatory and legislative ease of doing business

- Enabling procurement systems

3.1 Private-public sector coalition coordination

Building partnerships
In all the PFAs, the situation analysis highlighted the need to address fragmented ecosystems, and the change strategies included establishing and reinforcing partnerships as a key intervention. In building trust, pooled resources and shared intelligence, ecosystems and partnerships are critical.

A strengthened ecosystem allows the private sector to come together to exchange intelligence, critical linkages and opportunities with each other. It creates platforms for informal mentorship and advice among firms and includes the private sector as a collective to address and/or articulate their challenges. It provides a coherent and unified voice about what support is required when in dialogue with government. The implementation plan for this strategy will lay out clearly how regular dialogue and partnership with the private sector will occur and become institutionalised.

Establishing an overall coordination platform
Although each PFA will focus on their respective private-sector partnerships, an overall coordination platform between government and the private sector needs to be developed, with some consideration being given to including labour institutions and academia. Relationships and trust do not crystalise through ad-hoc or infrequent interactions but are built through an ongoing system of engagement and dialogue. The need to establish structured and more formalised private sector−government interactions is a key recommendation flowing from the Growth Diagnostic and was echoed in the stakeholder inputs obtained during the Growth for Jobs Strategy consultations. Such a platform is a key transversal lever that needs to be addressed, particularly as the collaboration will better inform the Growth for Jobs Strategy interventions and provide the platform to leverage resources for implementing solutions.

Developing different models for enabling private-sector collaboration:
The Western Cape Government will have to explore and develop different models for enabling private-sector collaboration, including the conditions and criteria for co-funding and implementing joint initiatives. Currently no mechanism exists for co-funding initiatives in the way that the PFMA is applied, and so provincial treasury will be a key partner in the development of models to ensure good governance and compliance. In each PFA, these models can be used, where applicable and relevant, to implement the planned interventions.

3.2 Economic intelligence

Within all PFAs, a huge focus was placed on data and economic intelligence, emphasising not only research and gathering evidence, but also generating and collecting primary data and using technology to provide real-time data and dashboards.

A knowledge management approach requires a theory of change for economic IQ. The nature and complexity of economic IQ challenges and opportunities require more than the development of a single solution system, more than isolated or ad-hoc training or capacity-building. Therefore, a data competency model or hub will be considered, where partnerships across provincial departments, academia, other government organisations (e.g., National Treasury) and private sector are essential.

3.3 Ease of doing government

In developing the Growth for Jobs Strategy, the need for government officials to be empowered and enabled to deliver innovatively was highlighted. This points to transforming the environment within which officials work, to one where internal systems and processes are compliant but streamlined (eliminating duplication and redundancy); where procedures and reporting are efficient, easy to navigate and digitally optimised; and where the administrative approach focuses on helping officials find solutions and resolve problems. A focus on ease-of-doing government will increase the ability of officials to be responsive to private sector and allow personnel to be expeditious in their delivery of the Growth for Jobs Strategy. Streamlined administrative and reporting requirements will also increase the capacity and time of officials to concentrate on delivering the Growth for Jobs Strategy.

3.4 Regulatory and legislative ease of doing business

A clear need that emerged from the PFAs was for government to improve the legislative and regulatory environment in which businesses operate. Interventions identified range from making it easier or faster for business to comply, to bringing about systemic change in addressing and (where appropriate) challenging the legislative and regulatory framework upon which the compliance requirements are founded.

Therefore, the overall approach of the Western Cape Government is that all government officials need to drive and embrace a business-friendly mindset within their mandates and in the execution of their responsibilities. Tools, skills and methodologies will need to be provided to capacitate government officials to adopt an ease-of-doing-business approach.

3.5 Enabling procurement systems

The Western Cape Growth Diagnostic notes:

> compliance with supply chain management prescripts has become a material barrier to progress in infrastructure maintenance and investment over the past decade, as National Treasury's regulatory framework has tightened and the scope for intelligent management of procurement processes has narrowed. Multi-year concession or build-and-maintain contracts and more complex public-private partnerships, despite their potential for contributing to better value for money, have seldom been seen in recent years, partly because the preparatory processes required are so demanding.

The Diagnostic recommendation relates specifically to the Infrastructure PFA but is echoed among many of the PFA interventions.

Therefore, the Western Cape Government will develop funding mechanisms that allow for private-public coalitions – including community-based coalitions – and for officials to operate with the necessary assurance that they are compliant but with the flexibility that enables partnerships with stakeholders and innovative procurement, such as outcome-based tenders and blended funding models. To this end, the Western Cape Government will lead the charge on providing compliant solutions that provide officials with the agility to partner with the private sector and other economic stakeholders.

4. Transversal management and governance of the Growth for Jobs approach

A risk for success is the extent to which all PFAs are fundamentally dependent on other enablers and levers. The Western Cape Government will identify various models of transversal management, delivery and coordination that can deployed, as appropriate, to make sure that the PFAs get the necessary support from those departments responsible for implementing the identified levers and enablers. Critically, success and progress will significantly be undermined if one of those required levers/enablers is not delivering as needed. The successful implementation of the Growth for Jobs Strategy will rest on this.

4.2 Transversal coordination, governance, and accountability

Among the Growth for Jobs Strategy's key principles is a transversal approach to all-of-government coordination and implementation. The foregrounding of this principle in practice will draw on the institutional knowledge and capabilities built over successive provincial administrations towards more effective transversal coordination and integrated management within and between spheres of government and society. Transversal management has become part of the regular work of the provincial administration. Platforms such as Provincial Top Management (PTM) and the Medium-Term Expenditure Committee (MTEC) provincial strategic meetings as well as the Joint District and Metro Approach (JDMA) are now institutionalised, with provincial transversal management commonly acknowledged across strategy, evaluations and innovations.

These lessons and the good practices are helpful when evolving the provincial model for transversal management but needs to move towards the next maturity phase. However, moving beyond a set of historic approaches and models to that of a transversal system that catalyses change for rapid and shared economic growth will require more from provincial management, including disrupting existing ways of working and a shift towards collective problem-solving and collaboration rather than just reporting (with systems to support this).

Governance and accountability for the Growth for Jobs Strategy will require using an array of tools, technologies and methodologies, over and above perfunctory quarterly reports and accountability for isolated key performance indicators. This will entail balancing scrutiny of the more easily reported quantifiable outcome and output measures, with periodic and structured research, assessment and evaluation of strategic interventions, collaborations and their systems-level results.

Oversight and accountability will be required that embrace duality and complexity, foregoing strict hierarchies and tightly prescribed mandates in relation to the Growth for Jobs Strategy, and leveraging the existing governance and oversight platforms already in place within the Western Cape Government. As part of the implementation of the Growth for Jobs Strategy 2024–2035, the PFA goals will be periodically monitored, evaluated and communicated to the public.

4.2 Transversal performance management and indicators

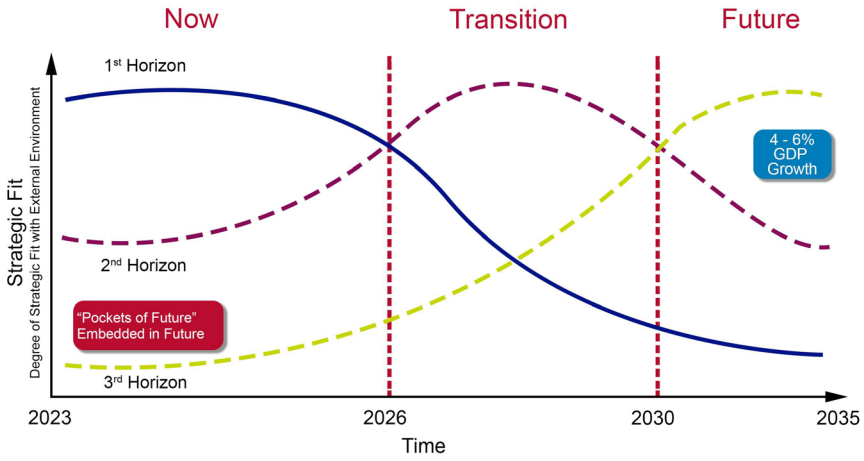
The Growth Diagnostic recommends that the Western Cape Government "would do well to focus its performance management system on a more limited set of strategic goals linked to

broader development dynamics that reflect growth, investment, living conditions and employment across the whole of society". To this end, the Growth for Jobs Strategy shifts away from activity-based indicators towards more strategic programmatic outcomes and objectives using the theory of change approach and methodologies.

A theory of change is "a tool that describes the process of planned change, from the assumptions that guide its design, the planned outputs and outcomes to the long-term impacts it seeks to achieve".[199] Simply put "[t]he purpose of a TOC is to understand how a programme, a project or a policy is intended to work".[200] It can be developed for any level of intervention, from an event to a project, programme, policy, strategy or organisation.

As part of the strategy development, a series of theory of change workshops were conducted at the meso-level for each of the seven PFAs. These workshops provided insight into the overarching logic and intended causality of the Growth for Jobs Strategy in relation to its overarching vision. Framed within the three sets of horizons (Figure 13.1), interventions were prioritised and sequenced along different timelines.[201]

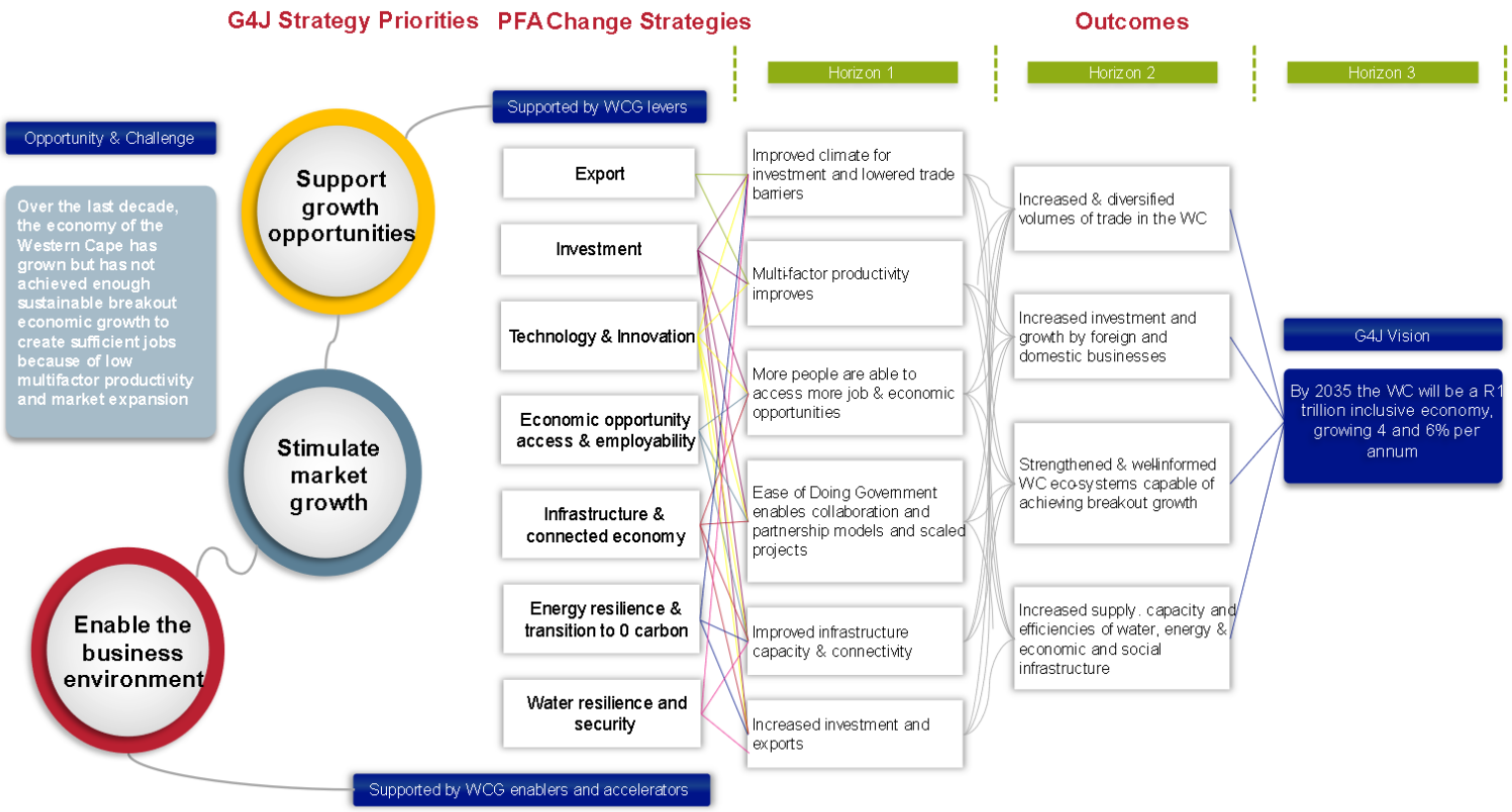
Figure 13.1: Three horizons for the interventions



The sequencing includes preparing for Horizon 2 high-impact opportunities that will be realised during the transition period (2026–2030) and the enablement of disruptive, break-through catalytic Horizon 3 interventions during 2031−2035. On this basis an overarching theory of change for the Growth for Jobs Strategy was developed (Figure 13.2).

[199] DPME, National Evaluation Policy Framework, 2011
[200] Western Cape Government, DOTP, 2019
[201] Adapted from Curry and Hudson.2008. Seeing on multiple horizons: Connecting Futures to Strategy. Journal of Future Studies.

Figure 13.2: Overarching theory of change for the Growth for Jobs Strategy



As the bold vision and goal statement signals, the Western Cape Government must do things differently and so needs to change the way that it manages, coordinates, reports and determines success. Over the last decade of increasing governance maturity, the Western Cape Government has used a wide range of indicators to determine outputs, outcomes and impact. However, emergent practice within the provincial government has begun to point to a risk, where projects and interventions are being shaped by the indicators instead of the indicators signalling whether or not projects are reaching their desired milestones. This is likely to result in unintended consequences, particularly if the provincial government is aiming for systemic change, and if success is dependent on harnessing the synergistic work of an array of enablers, accelerators and levers. Success will not be achieved through a mere summation of different projects, but through the mutually reinforcing effect of the interacting and inter-dependent PFAs and interventions.

Nonetheless, if used appropriately, a standardised set of transversal indicators can be used as a mechanism to facilitate integration and transversal management, to foster cooperation and to be accountable to citizens and businesses. As a result, the Economic Cluster will use a set of transversal indicators for the delivery of Growth for Jobs Strategy that seek to better reflect the collective and synergistic actions of individual projects towards higher-level strategic outcomes.

During the first year of the Growth for Jobs Strategy implementation, the indicators will be refined and relevant benchmarks for particularly the outcome indicators will be established. Moreover, a transversal dashboard will be piloted to coordinate results, to simplify reporting and to support progress.

5. Spatial coordination of the Growth for Jobs Strategy

The Growth for Jobs Strategy and its implementation plan lands spatially. As mentioned previously, each place – be it a community, municipality or district – has different attributes, growth opportunities and dynamics. This means that because the Growth for Jobs approach is agile and responsive, its implementation may land differently in municipalities and townships, depending on the unique needs and prospects of the geographic area. The implication is that stakeholders will need to engage collectively with the Growth for Jobs strategy and translate its implications for the economic implementation plans of their geographic area. To this end, support and assistance will be provided by the Western Cape Government.

6. Next steps

At its core, the Growth for Jobs Strategy sets out to achieve a bold vision for the province, where, in 2035, the Western Cape has a R1-trillion inclusive economy, growing at 4−6% per year. To reach this vision, the Growth for Jobs Strategy is rooted in the understanding that government's role is not to create jobs but rather to deliver an enabling environment for entrepreneurs, business people and citizens to succeed. Therefore, the bedrock of the Growth for Jobs Strategy and its seven PFAs is the horizontal enablement of private-sector-led economic growth, through creating a conducive business environment and overcoming binding constraints.

To this end, each of the seven PFAs have set ambitious objective and goal statements and identified packages of interventions required to achieve success. However, more fundamentally, this strategy has laid out a different approach that focuses on a broader view of the whole provincial government supporting private-sector-led growth.

The drafting of the Growth for Jobs Strategy has been **evidence-based**, drawing from the Growth Diagnostic work conducted in early 2022 as well as surveys and research conducted by the Economic Cluster departments, academia and business-led institutions. It is intended that the strategy may be periodically reviewed to ensure that the approach is still relevant, in particular as further shocks (positive and negative) happen to the economy, as new opportunities arise for the province and as we learn from implementation how the provincial government and stakeholders adapt to the whole-of-government approach to growth. However, this strategy should be robust enough for these types of issues, meaning that it will mainly be shifts and refinements in the implementation more than the strategy itself.

The development of the strategy has also been **consultative**, with a series of workshops and bilateral meetings hosted to obtain inputs from a variety of stakeholders, businesses, experts, and practitioners. Going forward, it is intended that the consultation will continue after the finalisation of the Growth for Jobs Strategy and into the development and operationalisation of the Implementation Plan.

With the Growth for Jobs Strategy identifying and **recommending a range of interventions** for implementation, it is acknowledged that implementing all these activities immediately will not be possible. Through a process of engagement within the Economic Cluster of the Western Cape Government, these interventions will be further refined and categorised according to the different time horizons for applicable sequencing and operationalisation, and will, as appropriate, form the core of the Growth for Jobs first implementation plan.

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