Western Cape Government

FOR YOU

Western Cape

GROWTH FOR JOBS

Strategy

Final draft for Stakeholder Consultation
14 February 2023

Table of Contents

Contributors and Economic Advisory Forum

Western Cape Government

Western Cape Department of the Premier (DOTP)

Western Cape Department of Agriculture (DOA)

Western Cape Department of Cultural Affairs and Sport (DCAS)

Western Cape Department of Education (WCED)

Western Cape Department of Economic Development and Tourism (DEDAT)

Western Cape Department of Environmental Affairs and Development Planning (DEADP)

Western Cape Department of Health and Wellness (DHW)

Western Cape Department of Human Settlements (DHS)

Western Cape Department of Local Government (DLG)

Western Cape Department of Police Oversight and Community Safety (DPOCS)

Western Cape Department of Transport and Public Works (DTPW)

Western Cape Department of Social Development (DSD)

Provincial Treasury (PT)

External Economists

Professor André Roux (Economist, University of Stellenbosch Business School)

Professor Mike Morris (Economist, University of Cape Town)

Johann Els (Chief Economist, Old Mutual)

Pieter Laubscher (Former Chief Economist, Bureau for Economic Research (BER), University of Stellenbosch)

Andrew Donaldson (Former Deputy Director General, National Treasury)

Peter Attard Montalto (Head of Capital Markets, Intellidex)

Professor Barry Standish (Economist, University of Cape Town)

Hugo Pienaar (Chief Economist, Bureau for Economic Research, University of Stellenbosch)

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 Boarder 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
EoBD	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
HRSC	Human Science 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
JET IP	Just Energy Transition Implementation Plan
KPMG	Klynveld Peat Marwick Goerdeler
KZN	KwaZulu-Natal

LTEP	Long Term Electricity Plan
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 Co-ordinating 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
THW	Terawatt Hours
TOC	Theories 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’s
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 per cent. 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 per cent 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

1 Executive Summary

Photo by @Tobias Reich

Chapter 1. Executive Summary

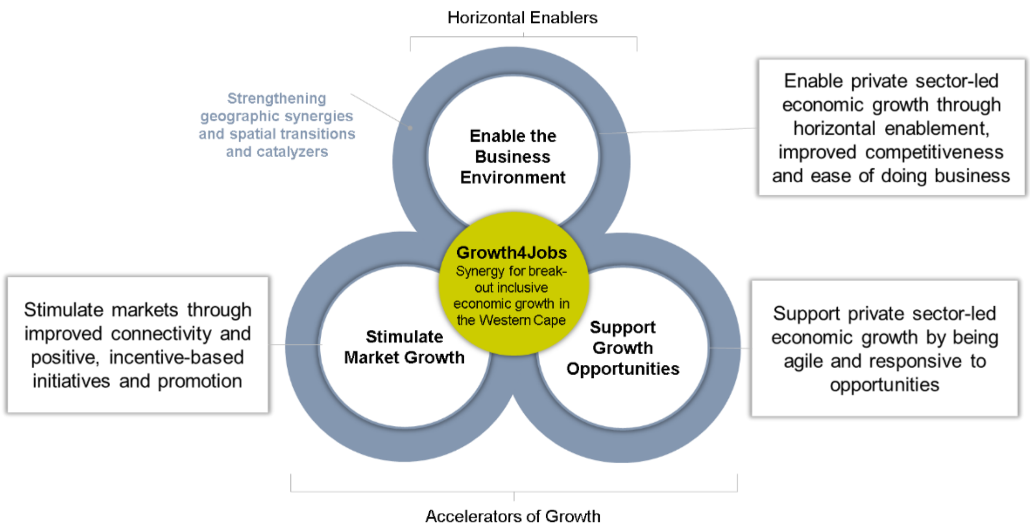
1. Introduction

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 levels of Gross Domestic Product (GDP) growth and high levels of unemployment. While there is no panacea for deeply rooted socio-economic 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 preceded 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 its national context. The Western Cape's growth trajectory therefore has to be decoupled from the historical trend of tracking national economy growth rates.

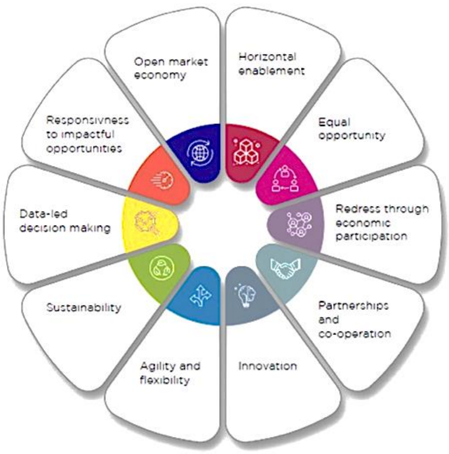
At its heart, the Growth for Jobs Strategy is premised on a recognition that **the private sector creates jobs**, and that the Western Cape Government needs to stimulate market growth and create an enabling environment in which people and businesses can create and exploit opportunities.



The Growth for Jobs Strategy is not the work of any one department. It is an 'all-of-government', all-of-society strategy, requiring energy, commitment and the allocation of resources from across government, the private sector and civil society to be successful. 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

To give effect to this approach, the Growth for Jobs Strategy has a set of primary principles. The ten strategic principles are:



a. **An open-market economy**. An open-market economy, rather than a developmental state, makes possible an open opportunity society for all.

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

c. **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.

d. **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 are ultimately jobs generative.

e. **Innovation**. Embrace new ideas and push 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.

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

g. **Data-led decision making**. Establishing strong and agile economic and spatial economic data, analytical capabilities and intelligence is an imperative.

h. **Sustainability**. Growth must also be decoupled from wasteful resource usage and fossil-fuel dependency so it can be sustainable over the long term to meet present needs without further compromising the future.

i. **Agility and flexibility**. Government needs to be agile and responsive in pursuit of break-out growth.

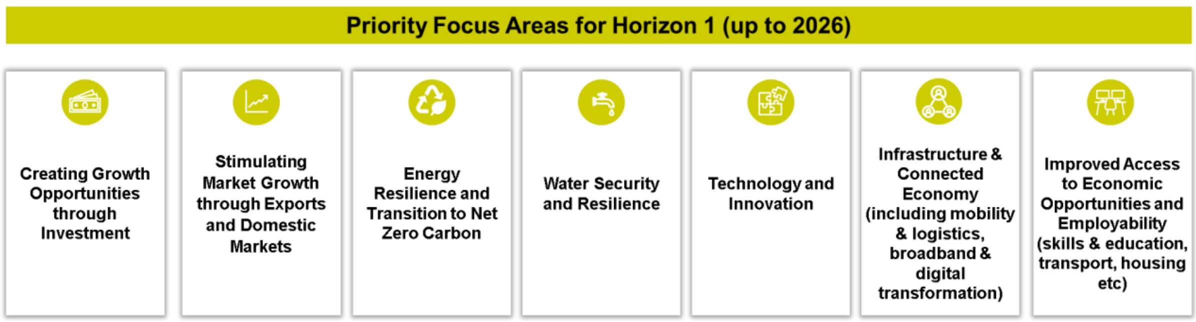
j. **Responsiveness to impactful opportunities**. Government should be responsive to all opportunities.

1.3 Strategic vision and goal

The vision for the provincial economy is one that achieves the level of break-out economic growth necessary to meaningfully lift the material wellbeing for citizens from all walks of life. Concretely, the goal is that the **size of the provincial economy will reach R1 trillion in 2035**[1], with a GDP growth rate of between 4% and 6% until 2035. Such an economy will be inclusive, sustainable, resilient, diverse, and thriving.

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 7 priority focus areas for its first horizon.



Horizontal enablers, inclusive of those in the priority focus areas, provide a foundation for economic growth, creating an enabling environment for all businesses, whilst accelerators support private sector investment and market expansion. Used well, these will support the Growth for Jobs strategy. The sets of enablers and accelerators as well as a suite of policy levers – otherwise referred to as toolkits - is reflected in the diagram below.

[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.

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 **Priority Focus Areas** (PFA) for the Strategy have been identified, alongside targets and key actions.

PFA 1: Creating growth opportunities through investment

Investment raises domestic expenditure through contributing towards capital goods demand. It expands production capacity and improves competitiveness and productivity. It can also 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: Private sector investment will be 20% of regional GDP (translating to R200 billion) by 2035.

Opportunity statements:

- Create a cohesive investment support ecosystem in the Western Cape that attracts a pipeline of investment opportunities, and which has a high realisation rate.
- Strategically build a strong and positive domestic and international brand, building on existing and unique strengths such as rooibos and indigenous products, and capitalising on new growth opportunities such as financial services (fin-tech) and cannabis processing.
- Establish a strong and wide network of overseas and local advocates and ambassadors to attract investment.
- Establish a high degree of confidence in the Western Cape and the Western Cape Government among investors.
- Provincial and local government address the constraints to investment and specific opportunities and use their assets and levers to provide competitive investment incentives and support.
- Build strong partnerships between government and businesses to address challenges and pursue opportunities, with high degrees of trust amongst stakeholders.
- Attract and support domestic and foreign investment that helps diversify the economy, increases inclusion, and facilitates spatial transformation and social cohesion, including investment in labour intensive industries and townships.
- Ensure that all necessary information is available and accessible to support sound investment decision making, and where all investment (foreign and domestic) is tracked.
- Create an enabling ease of doing business environment for South African and foreign investors where they can invest with certainty and assurance.
- Support the coordination of energy supply and distribution plans to build energy security, unlocking investment opportunities and providing assurances to investors.

- Attract Environmental, Social and Governance (ESG) investors or assist investors 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 possible the achievement of economies of scale, all of which helps to raise productivity. Foreign direct investment is an important mechanism for driving export growth, enhancing knowledge and technology transfer opportunities, whilst embedding the Western Cape products and services into global supply chains.

The province, however, 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 such as professional and consulting expertise, business services as well as 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: The value of Western Cape exports of goods and services (inclusive of tourism) will triple by 2035.

Opportunity statements:

- Infrastructure and the enabling environment are competitive, efficient, cost effective and sustainable.
- Improved market access and lower barriers to trade, including that Western Cape interests are accommodated in national policies, trade agreements and incentive support.
- Exporters have the necessary knowledge, capabilities, skills and support tools to export successfully.
- Vibrant and broad exporter ecosystems that share intelligence, contacts and collectively address problems and opportunities.
- Highly visible brand, positive sentiment and good reputation of the Western Cape and sector brands and capabilities, which is seen as a desirable source of quality, reliable and cost-effective goods and services.
- Strong networks and support in targeted countries – including Africa – to drive new exports and opportunities.
- Diversification of Western Cape exports and services, which allows for a wider range of specialisation and scaling of goods and services inputting 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 6GW shortfall in electricity production. This has severely impacted 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. Both the increasing use of carbon border adjustment (CBA) mechanisms that reduce the competitiveness of exports from the Western Cape, and the province's ability to attract investment, will increasingly depend on the ability to support the province's commitment to net zero carbon (greenhouse gas emissions) by 2050. Ultimately, the transition towards a much less carbon intensive economy has been too slow and, therefore, all developmental choices must actively contribute to this outcome.

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. Energy sustainability as a product of energy security, energy affordability and low-carbon energy is, therefore, one of the Western Cape's most important strategic goals.

Objective statement: 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.

Goal: 15 Terawatt hours (~5,700MW) of renewable energy generation will be developed in the Western Cape by 2035, attracting R96 billion in related investment.

.

Opportunity statements:

- To optimise the availability and affordability of reliable, low carbon energy to meet the needs of the growing Western Cape economy, inspire business confidence, secure export competitiveness, and attract investment.
- To make investment opportunities for the generation of low carbon and renewable energy in the Western Cape visible and attractive to potential investors, including the development of an export-ready green hydrogen hub in Saldanha Bay and the development of the value chain manufacturing opportunities in Atlantis SEZ.
- To enable the generation, procurement, and trading of low carbon energy by municipalities, the private sector and households.
- Businesses, citizens, and government adopt world-class energy-efficient production processes and operations and have reduced the carbon intensity of their energy consumption.
- Strong and well-informed energy ecosystem with international linkages to low carbon export products and services.

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 the province faces 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) as well as 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: Double 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 is secured and gives 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.
- The Western Cape has the ability to expand and diversify sectors such as agriculture, agri-processing and light manufacturing industries, based on water assurances.
- 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 its proliferation, while also facilitating 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. Thus, the economic benefits from technology and innovation arise from (a) the presence and growth of technologically and innovatively driven firms, (b) the role of these firms in raising levels of productivity in other firms, and (c) economy-wide productivity gains obtained through resource efficiency. The strength and depth of these processes are critical to ensuring a region's competitiveness.

South Africa underperforms when compared to its peers 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: Research and Development expenditure will quadruple to R35 billion[2] and the value of venture capital deals will reach R20 billion by 2035.

Opportunity statements:

- A strengthened technology and innovation ecosystem that significantly contributes to a strong virtuous cycle of growth.
- Having the right technology skills available in the right place at the right time, coupled with the appropriate digital and hybrid infrastructure enables 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 attract a strong venture capital base.
- Government becomes a catalyst for innovations in the province, helping to drive take up through its embrace of innovative private-sector solutions to service delivery.
- There are networks of local innovation hubs, ecosystems and centres of excellence that have international standing and reputations, attracting foreign talent and financing.
- The private sector has an energised culture of 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 regarding the effectiveness of its service delivery.

PFA 6: Infrastructure and connected economy

Economic growth requires both 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 focused on infrastructure needed for connectivity, including the movement of goods and people, as well as 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 of people raises Total Factor Productivity, especially since the poor functioning of the current system results in just 44% of workers using public transport and condemns large numbers of people to commutes of longer than an hour. Improvements can be achieved by improving the public transport system and by locating economic activities closer to where people live.

[2] In real terms.

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[3] 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.[4]

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

Opportunity statements:

- To identify and champion intelligent, resilient infrastructure solutions that contribute to accelerated, break-out economic growth, connecting people, communities and businesses to opportunities.
- Ensure options for 'futureproofing' infrastructure and that Total Cost of Ownership (TCO) considerations are part of the solution/design approach and Ecological, Social and Governance (ESG) opportunities are utilised to maximise project benefits.
- To coordinate, prioritise, innovate, and plan the timeous delivery of relevant infrastructure solutions (physical, digital and hybrid) 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.
- To improve the ease of doing business with respect to infrastructure investment for the private sector.
- To develop and strengthen a collaborative ecosystem of infrastructure stakeholders that will identify infrastructure challenges and opportunities and work 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.

[3] Chinembiri, T. (2020) Research ICT Africa: Policy Brief No 2
[4] Stats SA (2020)

- To harness the transformative power of digital and hybrid infrastructure to deliver greater value to inhabitants and the economy whilst simultaneously decreasing cost.
- To utilise catalytic government spending on infrastructure as a stimulus to encourage spatial transformation and broader ecosystem investment, benefitting the economy and communities accordingly.
- To improve the competitiveness of the economy and its associated sectors through targeted infrastructure investment and ease of doing business responses for development, permitting it to identify and deliver catalytic infrastructure that will contribute to the development of the rural economy.
- To identify and utilise current government assets (land, etc.) as infrastructure catalysts for economic and/or social change.
- To develop new freight corridors (intermodal logistics hubs) that enable goods to move seamlessly and quickly to their destinations with minimal delays, in the process contributing to spatial transformation in the province. Develop a portfolio of ports (sea, air and inland) serving the economy that have the necessary efficiency, focus and capacity to deliver goods to their destinations quickly and efficiently.
- To develop circular infrastructure that enables circular economy activity (e.g., re-use, recycling, or recovery of waste) and minimises the amount of material used across the infrastructure lifecycle or value chain.
- Infrastructure asset management presents and important opportunity to improve the capacity of local and provincial government to employ a systematic approach to managing assets over entire life cycles and within a broader asset portfolio.

PFA 7: Improved Aaccess 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.

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 the increase in output associated with 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 key 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 can access economic opportunities and employment, including the skills of the future, and where barriers to accessing information, to developing of competencies and skills and to finding work have been reduced or removed.

Goal: All citizens who want to be economically active have improved access to economic opportunities through at least one pathway.

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.
- To have 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 an 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 benefiting 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 it is not government's role to create jobs but rather to deliver an enabling environment for entrepreneurs, business-people and citizens to succeed. The bedrock of the Growth for Jobs Strategy and its seven Priority Focus Areas is therefore the enablement of private sector-led economic growth – 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.

Introduction

2

Photo under licensing @Jan Zeppenfeld

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 our 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 more 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 the provincial growth rate dramatically 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.

This Growth for Jobs Strategy therefore sets out a comprehensive, challenging, and ambitious goal for the Western Cape to grow the provincial economy by between **4 and 6%** by 2035. It is inspired by a vision of achieving an economy that is sustainable, diverse, and thriving, 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, providing a long-term perspective that has clear targets, framed within defined principles, and 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 engaging with stakeholders in the private and public sectors, as well as 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 industry leaders. Furthermore, during the strategy formulation process the Western Cape Government reached over **1 522** people over the course of **160** engagements.

The critical outcome of the Growth Diagnostic that preceded this strategy was 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. Decoupling from adverse national trends is, therefore, an important priority for the Western Cape – leading to decorrelated and resilient provincial growth. The Growth Diagnostic also insists that attention needs to be paid to fundamental processes affecting the accumulation of factors of production – especially physical and human capital, which can benefit the whole economy of the province – as well as to addressing policies (and policy uncertainty) that reduce economic efficiency and stifle growth.

At its heart, the Growth for Jobs Strategy is therefore premised on a recognition that the private sector creates jobs, and that 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. These include clear **principles** set out in a strategic framework (which have guided thinking and decisions), crucial **Priority Focus Areas** (which shape decisions around the nature of the interventions needed to maximise impact), and **key levers, enablers and accelerators** (to facilitate the achievement of these goals). The chapters that follow will set out these focus areas in more detail.

Finally, the Growth for Jobs Strategy is not the work of any one department. It is an all of government, all of society strategy, requiring energy, commitment and the allocation of resources from across government, the private sector and civil society to be successful. It will also require a new mindset within the provincial government and a rethink of how government works. But it is a challenge that must be embraced as the global and national economies continue to suffer from adverse shocks.

Strategic Intent

3

Photo under licensing @Freepik

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 a reconfiguration of 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; more detail can be found in the Strategic Framework document.

1. Strategic principles

No strategy or strategic framework can provide a precise guide to every decision that is made in its execution. Guiding principles function as beacons that inform strategic and operational decisions. The guiding principles will 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 basic orientation of the substantive content of the strategy and are reflected in ten statements of the strategic principles.

1. **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.

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

3. **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, SMMEs and the informal and township economies.

4. **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.

5. **Innovation.** Embrace new ideas and push 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.

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

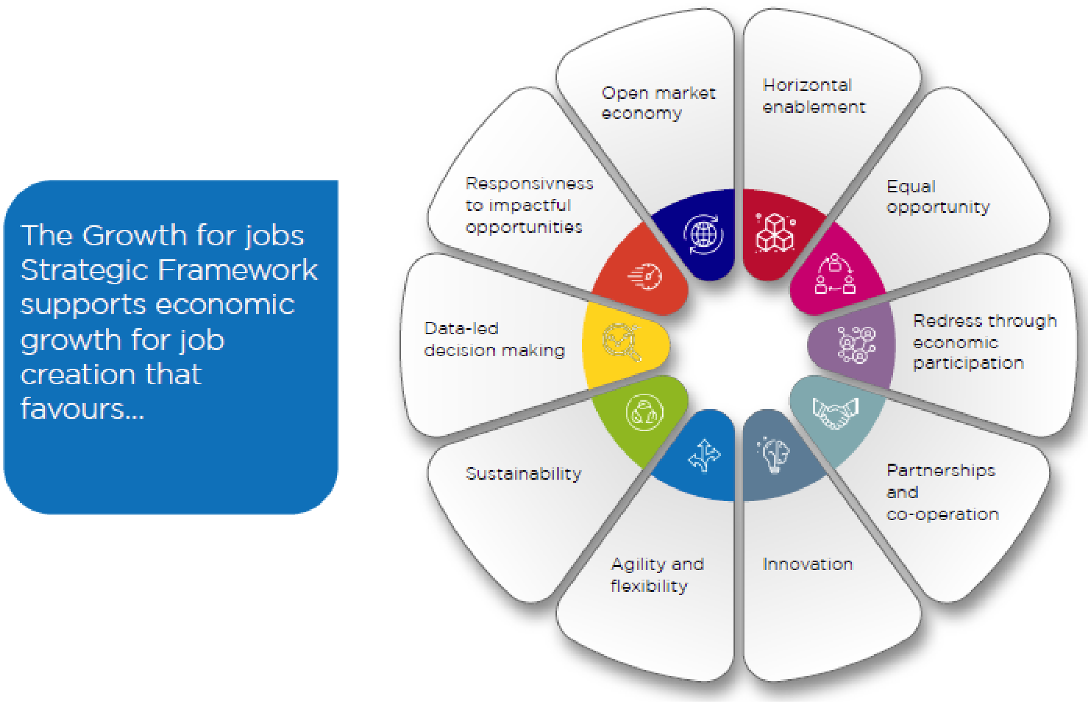
7. **Data-led decision making.** Sound decision making requires the development of a data management and reporting capability – pulling together and utilising excellent, if underutilised, data that the province already has. Establishing strong and agile economic and spatial economic data, analytical capabilities and intelligence is imperative.

8. **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.

9. **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.

10. **Responsiveness to impactful opportunities.** Government should be responsive to all private sector-led opportunities. It should, however, be 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.



2. Vision and goal

The vision for the provincial economy is one that **achieves break-out economic growth to achieve sufficient employment and opportunity**. Such an economy will be inclusive, sustainable, resilient, diverse, and thriving – generating confidence, hope and prosperity for all. Concretely, the goal is that **provincial GDP will be R1 trillion**[5] **in 2035 (measured in 2015 real rands), and that the economy will be growing at between 4 and 6% per year in real terms**. This will be achieved through enabling a competitive business environment in which businesses exploiting opportunities drive growth.

South Africa's GDP is currently growing at less than 2% per annum, 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. With the Western Cape's GDP currently at R648 billion, a R1 trillion economy in real terms is an aspirational goal that would require annual average growth of 3.8% until 2035. Historically, **a 1% increase in GDP has 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. Modelling indicates that many more jobs could be created.

In determining a target growth rate, the Growth Diagnostic's Analysis report points out that,

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.*

Thus, annual growth of 3.8% in GDP growth would be insufficient to improve living standards rapidly. It is for this reason that the Growth for Jobs Strategy has twin targets: **provincial GDP of R1 trillion by 2035 and annual growth rates by then of between 4 and 6%**.

In unpacking the vision and goal statements, our Picture of Success for 2035 is as follows:

- **Break-out growth** of between 4 and 6% per annum.
- **Increasing inclusion** which implies that growth is jobs-rich and is driven by growth in the formal, informal and township sectors, benefiting all citizens, communities, and enterprises – both urban and rural – and is especially beneficial for women and young people.
- A **competitive business environment** that ensures total factor productivity growth through competition, productivity enhancing spatial policies, and investment in infrastructure, connectivity and skills, while all officials in government apply an 'ease of doing business' policy agenda.
- **Sustainability is increased** as the Western Cape Government accelerates progress to a net zero carbon and resilient province, conserves our natural environment and mitigates the impact of climate change.
- **Resilience** is achieved through the diversification of economic activity and the strengthening of our ability to anticipate, prepare for, and respond to exogenous shocks, including climate change, migration, adverse political/geopolitical shocks and the Fourth Industrial Revolution.
- People and places are **thriving** in that their 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** have been created in that businesses and citizens are positive about their economy and about the future of the Western Cape, and there is a high level

[5] The base year is 2022.

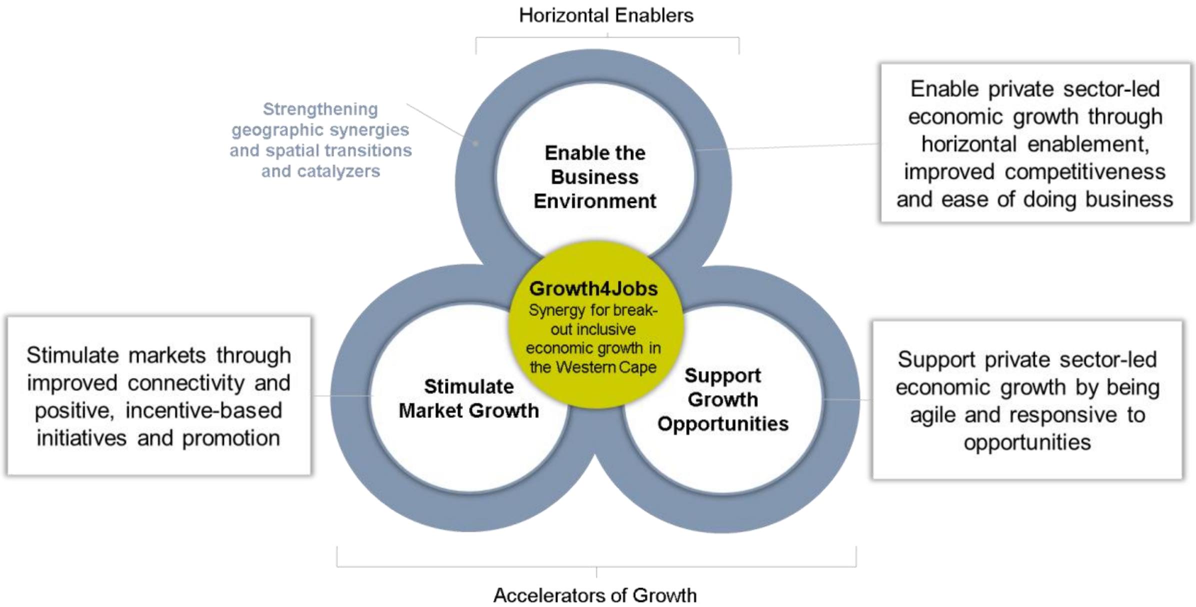
of trust amongst and between the private sector, communities, residents and government, who work together to address challenges and realise opportunities.

- **Prosperity** is being achieved in that everyone in the region has an improved quality of life, and they have 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. This is 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 the enablement of private sector-led economic growth through the creation of a business environment that is conducive to growth. The prioritisation of 'horizontal enablers' is intended to overcome binding constraints on economic growth and to ensure enablers provide support across the economy.

Horizontal enablers have an impact on businesses **across** the economy. The objective is to ensure systemic and structural optimisation as this instils 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 levels of government as well as the private sector to deliver enablers innovatively, efficiently and at scale.

3.2. Support growth opportunities

As a strategy, 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. Thus, in addition to creating an enabling business environment, government needs to be supportive and responsive to the economic opportunities identified by businesses, including 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 on supporting opportunities must also include opportunities that enhance labour-absorbing growth as well as more skills-intensive opportunities. Furthermore, there will be a focus on strengthening value chains (in both formal and informal sectors) that enable specialisation as well as diversification.

When applied to the spatial economy, responsiveness to private sector-led opportunities will include townships. It will also address opportunities that arise from access and connectedness within and between different geographical areas and markets.

New opportunities will be created domestically and internationally, which the province must be adaptable to in the extended duration of this strategy. Therefore, creating a conducive environment for such new opportunities to thrive is key, and a responsive provincial and local government is also crucial to ensure known or uncertain future opportunities can thrive. This is in alignment with the findings of the Growth Diagnostic.

Unlike most growth strategies produced in South Africa in the past, the Growth for Jobs approach, as a strategy, is first and foremost sector agnostic (i.e., does not seek to pick winning sectors and exclude focus on other sectors) and is premised on a deep recognition that the private sector, driven by competitive pressures, will exploit existing opportunities and create new ones much more efficiently if given the space, confidence and enabling environment to do so. It also recognises that the informal sector plays a critical role in growth, inclusion and opportunity creation. This does not mean that in the implementation of 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. At a strategic policy level, sectors are not 'chosen', but at the implementation plan stage, specific industries of focus will emerge.

3.3. Stimulate market growth

Economic growth requires and enables a growing market and increased demand – domestic and foreign. 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[6] and promotion is a key 'where to play'[7] set of choices, informing policy support. Local, trans-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, as it represents 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. A key role falls to agencies responsible for attracting investment, an activity that has very large economic multipliers if done well.

[6] These are not necessarily financial incentives.
[7] 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.

4. 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 what timelines and to what effect.

Photo by @John O'Nolan

Chapter 4. Macro Analysis[8]

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 economy and the key socio-economic challenges, the amelioration of which requires faster economic growth as an imperative requirement.

2. South Africa is not immune to global realities

By virtue of being an open economy, South Africa is impacted directly and indirectly by global trends and events. Thus, the pandemic-induced[9] recession of 2020 highlighted the global interdependence of economic and social structures. The same is true of events in Ukraine, where the conflict has impacted on the price of energy, feedstock and food. Slowing global growth (as seen in the figure below) and rising interest rates will make domestic growth harder to achieve, an outcome that might be exacerbated if the global commitment to free trade weakens. There are grounds for thinking that, over time, the global economy may take a 'high road' of increased connectedness, trust and cooperation, leading to faster growth. But a 'low road' in which international institutions are undermined and countries become increasingly isolationist, protectionist, populist and nationalist, is also possible. The Covid-19 pandemic is expected to have a significant and long-lasting effect on global supply chains, which in turn will have a significant impact on the global economy, businesses and consumers alike.

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

Figure 4.1 GDP growth actual and forecast.

Country /Grouping	2019	2020	2021	2022F	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

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

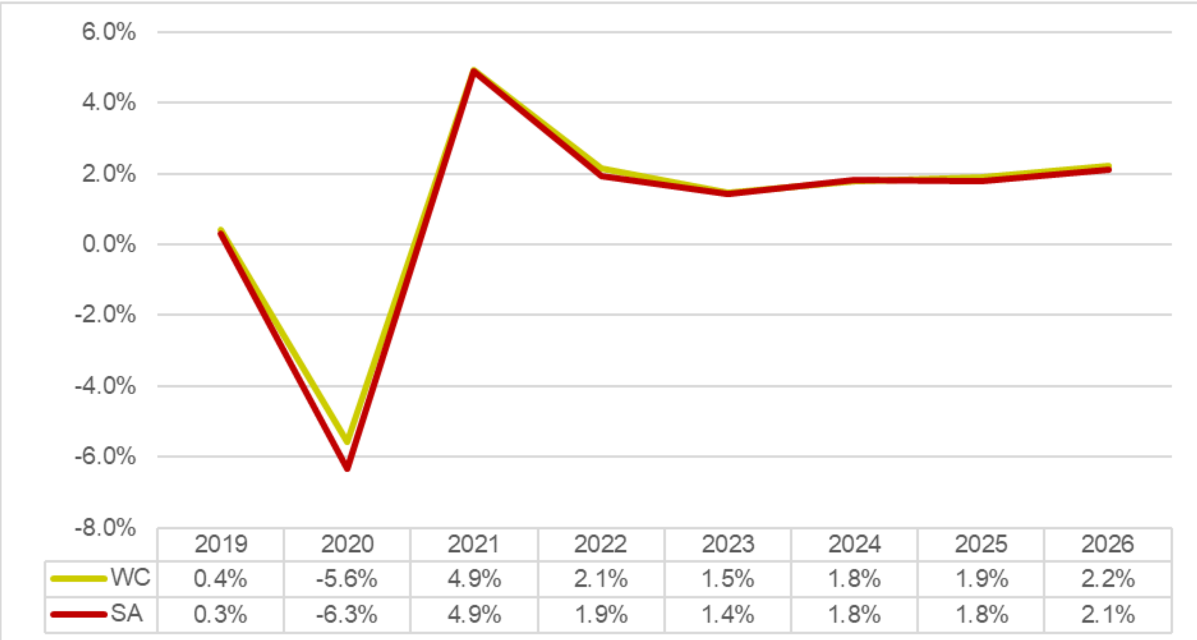
Country /Grouping	2019	2020	2021	2022F	2023F
Russia	2.2	-2.7	4.7	-3.4	-2.3
India	3.7	-6.6	8.7	6.8	6.1
Sub-Saharan Africa	3.1	-1.7	4.7	3.6	3.7
South Africa (IHS)	**0.3**	**-6.3**	**4.9**	**1.8**	**1.4**
Western Cape (IHS)	**0.4**	**-5.6**	**5.2**	**1.9**	**1.5**
Nigeria	2.2	-1.8	3.6	3.2	3.0

Source: IMF, IHS, DEDAT

3. South Africa's national economic performance

South Africa's growth estimates for 2022 and 2023 suggest a slowing in the rate of expansion compared to 2021, as seen in the figure below. Locally, a resumption of a low growth trajectory of 2% or lower is projected for 2022, while 2023 is expected to be significantly lower. This follows a long period in which annual growth rates have tended to fall. Covid-19 and the electricity supply shortages have exacerbated this underlying trend. As a result, per capita GDP might recover to its pre-pandemic GDP per capita only by the end of 2024.

Figure 4.2 South Africa and Western Cape GDP growth rate.

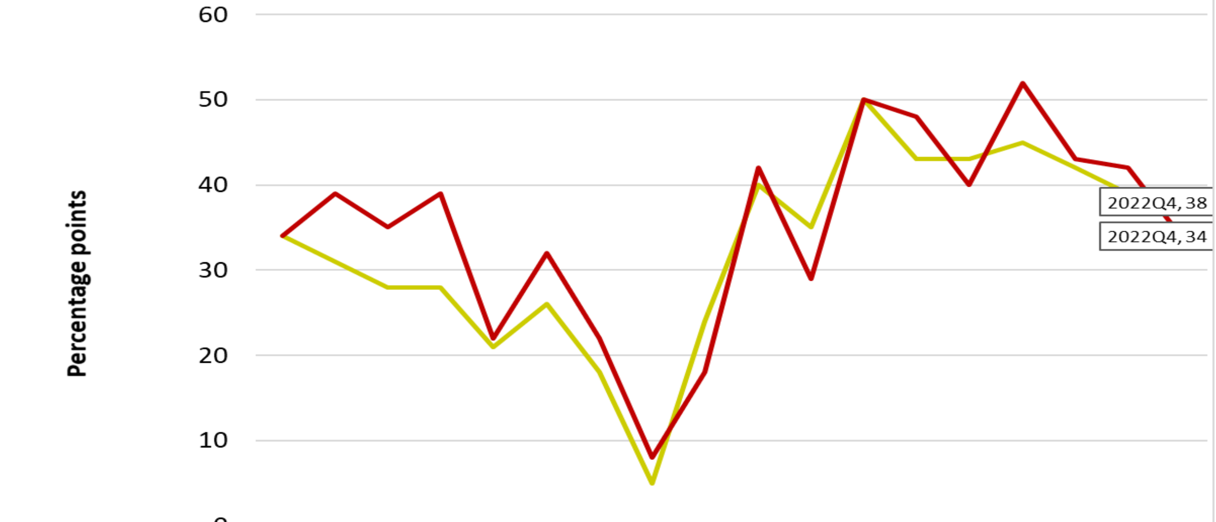


Source: IHS

Economic, financial, and fiscal conditions remain stressed. The growth recovery is tepid and below the pathway required to make meaningful inroads into the triple challenge of poverty, inequality and unemployment. The latter, which has been chronically high for the best part of two decades, recently reached a record high rate of 35% (excluding discouraged job seekers). Periodic and intrusive power shortages weigh heavily on the production capacity of all sectors of the formal and informal economy.

There are many reasons for South Africa’s disappointing growth performance, key amongst them being poor policy choices[10], declining governance (especially increased corruption) and increasingly unsound macroeconomic fundamentals, especially the rate at which public debt has been rising. The challenges of Eskom, manifested in increasing load shedding, are an embodiment of all these trends, while also being distinct and distinguishable causes of slowing growth. Between 1988 and 2022, Eskom's electricity prices have increased by 653%, compared to 129% inflation. The price increases have negatively affected firms by increasing their input costs, impacting their competitiveness[11]. These factors impact business confidence, which currently sits largely being below the 50 points mark (with the 50-point mark indicating potential growth), as seen in the figure below.

Figure 4.3 BER Business Confidence Index – SA & WC, 2018Q1– 2022Q4.



	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4
South Africa	34	31	28	28	21	26	18	5	24	40	35	50	43	43	45	42	39	38
Western Cape	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[12]. For close to 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 being channelled into investment in fixed capital and are financing government consumption, while foreign savings are being used to finance the current account deficit rather than being driven by high levels of fixed investment. Ultimately, however, if South Africa is to approach the 6% per annum rate of growth that is generally recognised as being needed to meaningfully reduce unemployment and poverty, significant investment in fixed capital is going to be needed. However, this cannot be achieved while local and foreign savings are being used to finance consumption spending. A key goal of the National Development Plan – and indeed of all plausible growth strategies – is the raising of investment rates to 30% of GDP, a figure that requires higher levels of savings and, therefore, lower ‘dissaving’ by government. In practice,

[10] Poor national policy examples: Delaying the procurement of renewables. extreme Covid restrictions, labour legislation restricting new entrants, high increases for public servants, BEE policy, education policy, minerals policy, local content policy.
[11] https://poweroptimal.com/2021-update-eskom-tariff-increases-vs-inflation-since-1988/
[12] According to 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%.

however, the ratio of fixed capital formation to GDP (nationally and provincially) has been falling, reaching a historic low of less than 15% in 2022.

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 of policy making (e.g., national fiscal policy, monetary policy, international trade protocols and agreements, policing, sovereign risk levels, policy uncertainty, etc). To a greater or lesser extent, these 'givens', or exogenous 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, though stronger than the national economy in terms of employment growth, has been unable to fully decouple from the constraints imposed by the latter.

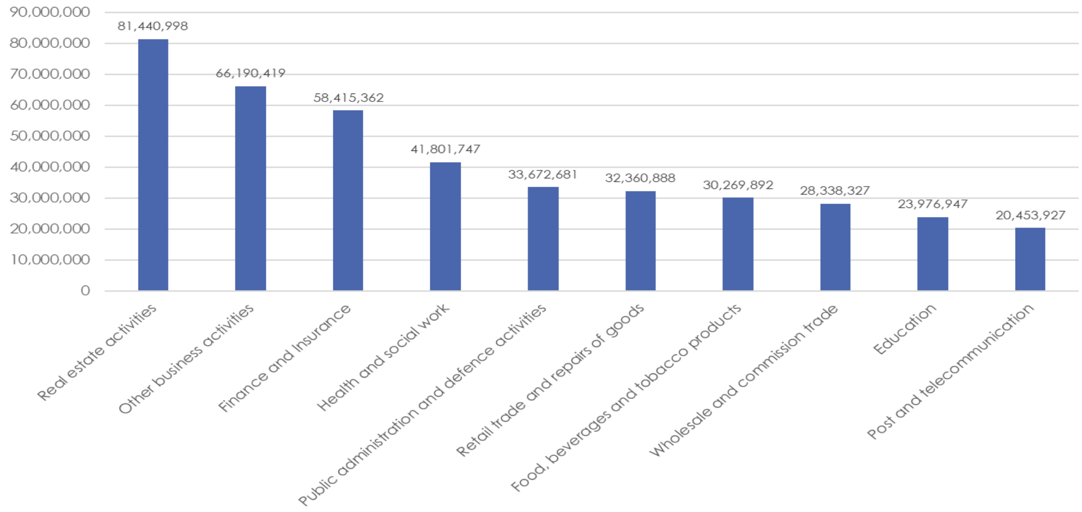
In short, the economic and developmental performance of the Western Cape is co-created by global and national levers over which the province has little or no influence and control. These are pivotal realities which all economic role-players in the province need to understand, consider, and accommodate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

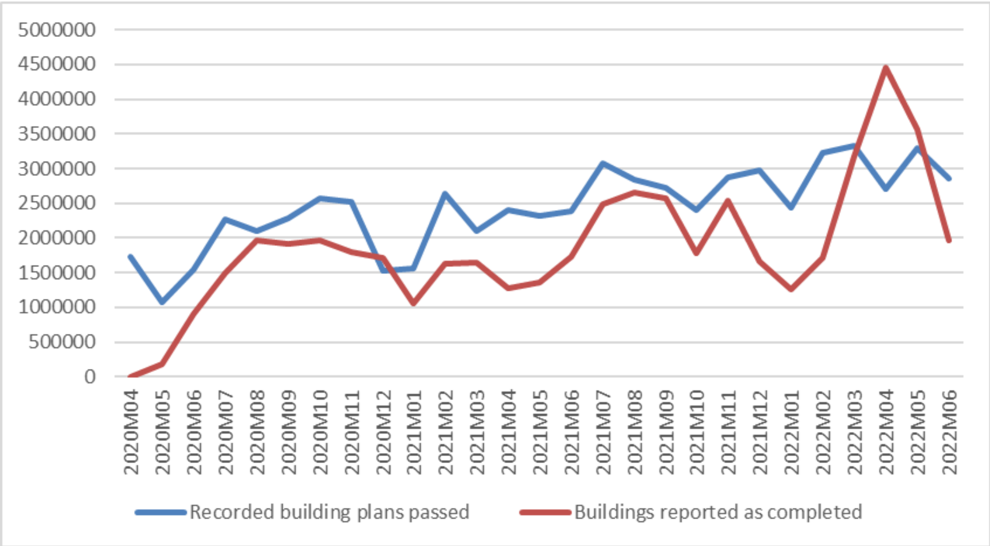
- It is the third largest provincial economy, accounting for some 14% of national GDP, compared to KwaZulu-Natal (just over 15%) and Gauteng (approximately 30%). The primary sector of the Western Cape economy constitutes less than 5% of gross value added (GVA); the secondary sector just over 20% and the tertiary sector almost 75%. (See the top 10 Western Cape sectors in figure 4.4 below).
- The province's economy has a low level of diversification, albeit with a limited reliance on extractive industries.
- A relatively strong construction sector, with a recent uptake as seen in the figure 4.5 below.
- Although agriculture makes up 4% of the Western Cape's economy, its employment contribution, particularly outside the metro (and within rural areas) is key, and the province's contribution to the country's GVA in agriculture is above 20%.
- More than 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.
- It is a relatively urbanised province, and the urban population is ageing more rapidly than other provinces.
- Both the level of human capital in the province and the quality of life (as measured by employment, life expectancy, literacy, etc.) is 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 4.4 Top 10 Western Cape contributing sectors, GVA, 2021.



Source: IHS

Figure 4.5 Western Cape building plans passed and completed.

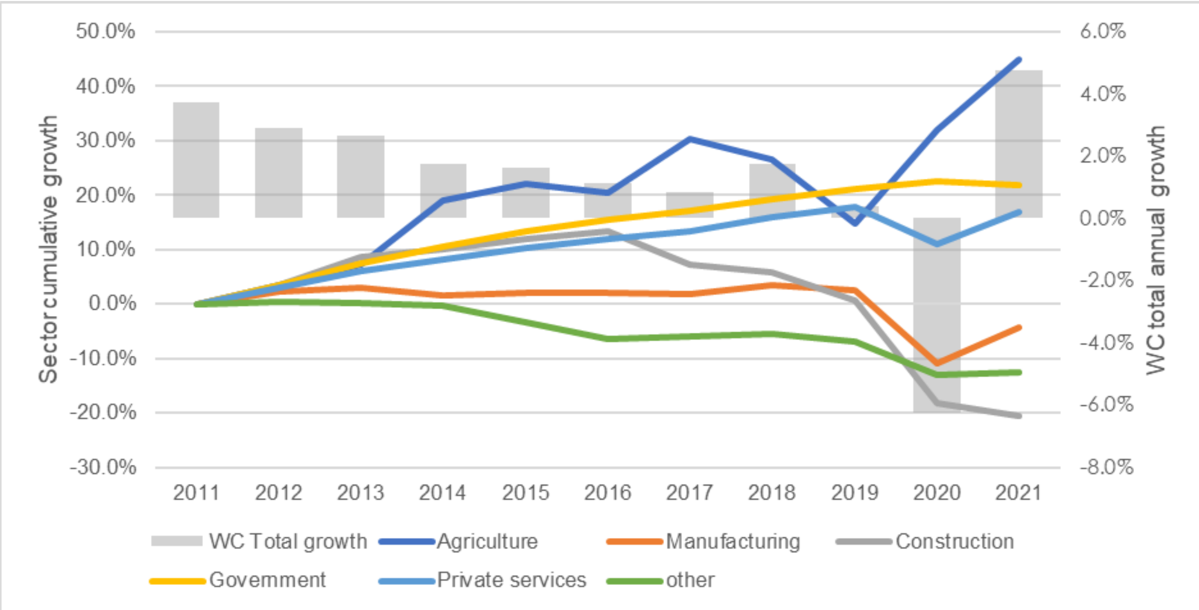


Source: BER

In line with the national economy, growth rates in the Western Cape have disappointed over the past decade. The national economy entered a protracted economic downturn at the end of 2013. South Africa's real GDP dipped to below its trend level, averaging 1% per annum between 2014 and 2021. The Western Cape's real economic growth averaged slightly higher at 1.2% per annum. Successive years of below-trend growth has deepened many of the country's most pressing social challenges, largely because unemployment has risen to record levels, with the narrow definition for South Africa peaking at 35% in the first quarter of 2022.

The Western Cape shared this recessionary trend. The region witnessed a serious drought between 2015 and 2019, which produced a water crisis in 2017 and 2018. This was followed by Covid-19, causing a contraction of 6.2% in real GDP in 2020. In the following year, real GDP bounced back by only 4.8%. Before the impact of the pandemic, the Western Cape's real GDP growth averaged 1.6% per annum between 2014 and 2019. Recovery from Covid-19 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.

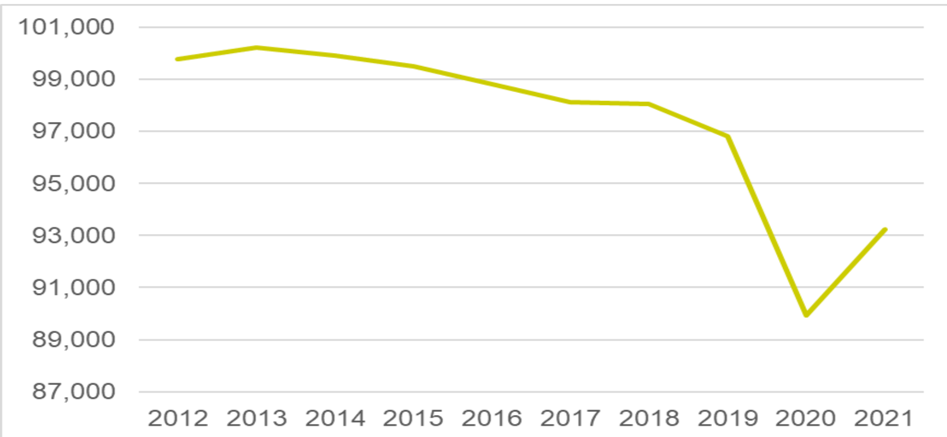
Figure 4.6 Western Cape GDP growth rate by sectors, 2011–2021.



Source: PERO 2022

Global growth slowed after the 2009 global financial crisis, impacting on the growth of exports. Since the global financial crisis 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 has declining levels of governance. Without satisfactory business conditions and confidence, fixed investment spending remains muted. This has been identified as the most prominent factor behind the unsatisfactory real economic growth trend, the drop in living standards and the steep increase in unemployment over the past decade.

Figure 4.7 Real GDP per capita in the Western Cape, 2012–2021.



Source: IHS 2022

The Western Cape economy is strongly affected by global and national economic drivers. The regional business cycle and the national business cycle overlap. The precipitous decline in real living standards from 2013 has been significant (figure 4.2), both in the region and nationally. In 2021, real per capita GDP measured 9.2% below that of 2013 in the Western Cape. However, while the Western Cape's real GDP grew faster than national GDP over this period, the per capita contraction was worse than the national average of 6.9% because of the high rate of in-migration to the Western Cape that resulted in relatively fast population growth of 1.6% per annum over the period. 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.

South Africa's macroeconomic imbalances and risks mean that interest rates have been high for a long period (although lower in the Covid period). These have, nevertheless, 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[13]. However, the recovery in employment levels lagged GDP growth, and, in late 2022, was still 8.1% lower than pre-Covid levels. The post-Covid regional economic recovery is expected to continue. However, it will be under pressure from the global economic slowdown anticipated over the short-term.

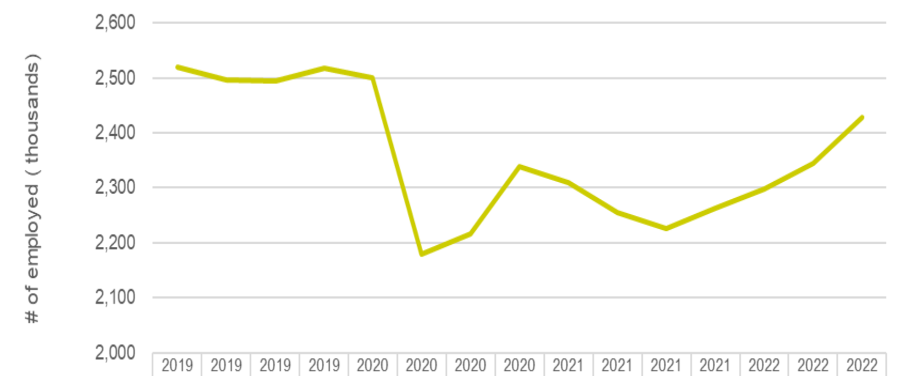
6. Economic growth: a necessary, but not sufficient condition

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 – the measurement of GDP does not accommodate unpaid work, leisure time and environmental degradation, for example, and is agnostic about distributional questions – GDP levels and GDP growth are critical for improving living standards. While it is critical that the distribution of incomes and assets improves, and that growth is made much more inclusive and less carbon intensive than it has been historically, a sustained (i.e., 20 years) economic growth rate in the vicinity of 4 to 6% will be required if we are ever to fully overcome the challenges of unemployment and poverty.

The fact that sustained growth rates have not come anywhere near to this level has meant that the economy has not been able to absorb labour market entrants and has, therefore, resulted in rising unemployment rates.

[13] South Africa's (and hence the Western Cape's) GDP recovery was much slow than other countries. See: https://www.statssa.gov.za/?p=15690.

Figure: 4.8 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
# 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 4.9 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
# 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[14] the working age population of the Western Cape was 4.92 million people. There were 1.7 million citizens who were not economically active, including 121 000 people who were discouraged job seekers. Of the 3.22 million people in the narrow labour force, 2.43 million were employed and 789 000 unemployed, resulting in an overall unemployment rate of 24.5%.

Nearly 35% of the 789 000 Western Cape's unemployed were aged between 15 and 34. Overall there were just over 800 000 people who were not in employment, education, or training (the so-called NEETs). Compared to the national average of 29.8%, informal employment comprised only 19.1% of Western Cape employment. As is true throughout South Africa, less educated people have a greater propensity of being informally employed compared to secondary and tertiary qualified workers. The informal sector also suffered serious job losses over the past five years when the impact of the pandemic is accounted for. Further to this, the NIDS-CRAM (2021) data showed that employment losses and the recovery pace were also skewed from a gender perspective, with women's employment and working hours recovering slower than that of men[15].

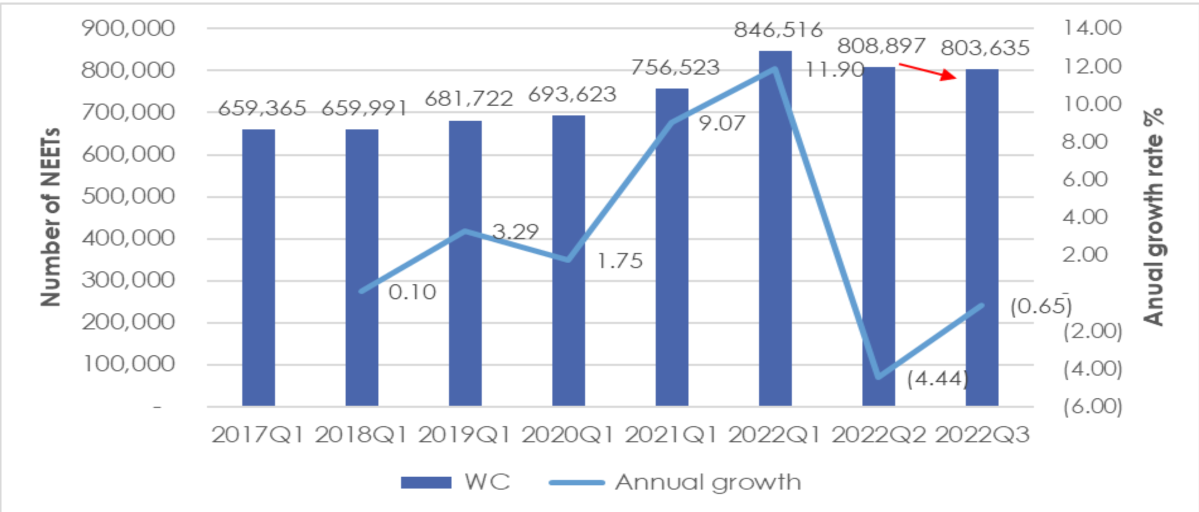
[14] Stats SA QLFS 2022 Q3.
[15] Casale, D. and Shepherd, D. (2021) 'The gendered effects of the COVID-19 crisis and ongoing lockdown in South Africa: Evidence from NIDS-CRAM Waves 1–5'.

Figure 4.10 Western Cape Youth Unemployment Rate (15–34), 2017Q1–2022Q3.

Source: Stats SA

In all, both nationally, and to a lesser extent in the Western Cape, labour markets have been characterised by a significant worsening of outcomes over the past five years (please see figures below). This was to be expected, given low (and even negative) economic growth. The deteriorating trends in the national and regional labour markets are best captured in the severe and escalating unemployment crisis. Four provinces had an expanded unemployment rate of more than 50% in the first quarter of 2022. Between the first quarters of 2017 and 2022 the unemployment rate deteriorated for South Africa (6.8 percentage points to 34.5%) and the Western Cape (3.7 percentage points to 25.2%). As seen in the figure above, youth unemployment is at 34.5%, the lowest in South Africa, but it has increased in recent years.

Figure 4.11 Western Cape NEETs (15–34), 2017Q1–2022Q3.



Source: Stats SA

7. What is holding back inclusive economic growth?

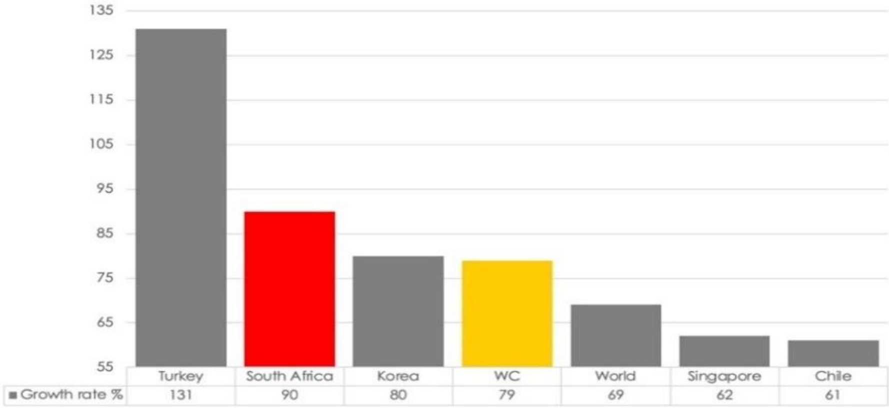
Long-term growth is the result of an economy's accumulation of new sources of productive capacity (e.g., human and physical capital, new technologies, entrepreneurial capabilities) and the increasing capabilities to deploy those productive capabilities in increasingly efficient ways (e.g., through improved technologies and the building of social institutions that promote growth like 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, it has failed to keep up even with the rate of depreciation of existing assets, leading to a real decline in productive capacity, with 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.

A key challenge for South Africa as a whole, and the Western Cape in particular, is that the spatial legacy of apartheid creates very significant economic inefficiencies. These are manifest in high costs of accommodation near economic activity and high costs of transport for those who must commute over long distances. Both factors impact on households' disposable incomes and create upward pressure on wages, therefore increasing the costs of doing business. Added to this is the unreliability of some forms of public transport – notably commuter trains in Cape Town – 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. It is inevitable and desirable that the province's residents should continue to urbanise. This, however, will create other kinds of challenges that need to be addressed.

More fundamentally, growth has been inhibited in South Africa by an approach to economic development that has been too heavily reliant on a conception of the 'developmental state' that 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, a goal that required, of necessity, a reduction in the proportion of GDP accounted for by consumption. South Africa's version of the developmental state has raised levels of consumption and has failed to provide the investment needed to support growth. Low levels of household asset wealth, in combination with apartheid legacy spatial and opportunity inequity, means 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 reflect on the informal economy and unpaid care work as valuable socio-economic contributions has undermined previous economic strategies. An explicit effort is made in this strategy to reflect on these aspects to build a more inclusive economy.

Growth is self-reinforcing in the sense that, as an economy's productive capacity increases, so too does demand. As businesses employ more people, household spending increases. As revenues rise, businesses can spend more on investment. One way to accelerate the process of growth, however, is to tap into other, larger markets so that demand for output can grow even more quickly. That is why a common feature of every successful growth experience since the 1950s has been the rapid growth of exports. Export growth is achievable if, and when, an economy has achieved a relatively high degree of competitiveness and has enormous powers to impact on living standards through the growth of employment. The implication is that the Growth for Jobs Strategy should aim to increase export markets as well as optimise the domestic economy.

Figure 4.12 Western Cape growth in exports.



Source: World Bank Open Data, IHS

In this regard, there is some cause for optimism in considering the Western Cape's propensity to increase exports. Export growth rates indicate that the Western Cape has exceeded the world trade growth rates, offering up the opportunity to leverage exports off a strong base for sustainable growth. This may be further accelerated by value addition and further product diversification. The same data, however, also indicate that the Western Cape's economy has become less diversified over the last 20 years. Arguably this suggests it is now less resilient to external economic shocks in comparison to the rest of South Africa and several other countries.

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 the production process. Easterly and Levine estimated that for an average country, the TFP accounts for 60% of growth of output per worker. A key factor behind slow GDP growth is the fact that the Western Cape's TFP declined by 1.2% from 2016 to 2020 (DEDAT, EIU). The development of the Growth for Jobs Strategy, focusing on horizontal enablement and on supporting private sector-led growth and market stimulation, is exactly about raising the overall productivity of the Western Cape economy. Within this it is also understood that there are opportunities to enhance productivity through our focus on sustainability. Through the circular economy, the region will derive greater use from each resource unit and require fewer resource inputs.

8. Towards a strategy for economic growth

While the Western Cape punches above its weight[16] economically when compared to the rest of South Africa, it needs to do even more.

Part of Western Cape's growth challenge lies in the dichotomy of having to compete against low-income countries in the export of labour-intensive goods while also having to compete with high-income countries in the export of high value goods. 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. The result is that the Western Cape, like South Africa

[16] In terms of employment growth and GDP contribution relative to its population size.

as a whole, has experienced 'premature de-industrialisation' as the level of employment is lower than one would expect given our level of development.

In the context of South Africa and the Western Cape, whilst the economy has benefited in the past from diversification, it 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 the risk). In many countries, particularly in East Asia, various industrial policy tools (such as special economic zones) have been used to foster increased diversification. These tools have not, however, been used as effectively in South Africa.

After a level of economic development has been attained, the competitive advantage of nations 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. Various indicators of technological competitiveness potential show that, while South Africa fares better than most countries in Africa, the country does not hold up well to countries elsewhere at a similar stage of development.

This also requires major changes in the entire ambit of educational activities. In a knowledge and innovation economy (Industry 4.0) basic skills are no longer sufficient in a context that is BANI – Brittle, Anxious, Non-Linear and Incomprehensible[17]. Advanced secondary and tertiary education needs to equip the workforce with the skills to generate ideas, think creatively and navigate complexity. The Western Cape Government has progressed from STEM (Science, Technology, Engineering and Mathematics) to STEAMAC (Science, Technology, Engineering, **Arts**, Mathematics, **Agriculture**, and **Coding**). At present, however, the education system does not produce enough learners who are able to succeed in the relevant fields at tertiary levels and in vocational pathways. A 2022 Cape Chamber Business survey found that 64% of businesses believe it is not easy to find critical skills needed to make their business more competitive. The province does, however, have a sound base of higher education institutions (including TVET colleges) which are well placed to contribute meaningfully to the supply of these critical skills (which relates to national visa policy in part, but also a key issue related to our provincial skills and education system).

There can be little doubt that 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.

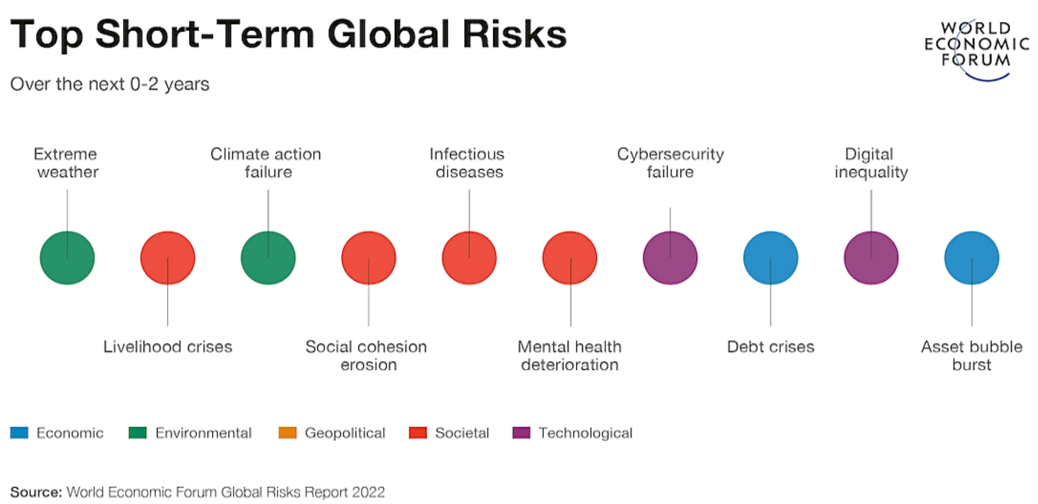
Spatial considerations

[17] Volatility, Uncertainty, Complexity and Ambiguity (VUCA) describes the present day, while Brittle, Anxious, Nonlinear and Incomprehensible (BANI) describes the world of the future. Herein brittle is understood as sudden and unforeseen shocks or even destruction of seemingly stable systems; anxious means the sense of powerlessness as well as anxiety caused by misinformation; non-linear refers to the norms of cause and effect not easily been deciphered; and incomprehensible refers to people not been able to grasp the complexity of information and events in their entirety. Adapted from Professor Stottinger, B. (2023). https://executiveacademy.at

There are challenges in the spatial economy, as highlighted in the Western Cape Growth Potential Research Study (GPS) of 2018. There is a need for a differentiated approach towards prioritising investment in regions that have the highest economic development potential and growth. Municipal regions should promote their own growth by mobilising local assets and resources to capitalise on their competitive advantages. Traditional policies based on infrastructure provision alone are not sufficient, and a more comprehensive policy is called for that integrates innovation, factors of business development 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 which have differing contributors to growth. Rural regions have productivity as their main regional factor of growth, while labour markets and productivity are the main regional factors of growth 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 and raising interest rates, raising the costs of doing business and accelerating the 'brain drain'. While good governance and sound policies in the Western Cape can mitigate some of this, the province cannot entirely decouple from sovereign risks. At the same time, the province (and the country) faces challenges arising from global risks summarised in the illustration from the World Economic Forum's 2022 Global Risk Report.



Over the next two years, these risks include extreme weather, livelihood crises, climate action failure, social cohesion erosion, infectious diseases, mental health deterioration, cybersecurity failure, debt crises, digital inequality and asset bubbles. The Growth for Jobs Strategy recognises that many of these risks are directly attributable to the impact of fossil fuels and that there is, therefore, a need to focus on what can be done to address the **current energy crisis** and the transition to renewables and **low carbon** energy. This may also become a significant contributor to economic growth through the establishment of a new, renewables/low carbon focused energy sector.

Furthermore, the Western Cape is no stranger to extreme weather events, and the province will only be able to achieve its vision of increasing the size of its economy by 50% in 2035 if there is access to sufficient water. More generally, **climate change, resource scarcity and**

the effects of extreme weather events such as floods, fires, heatwaves, and droughts mean that the province must prioritise climate mitigation adaptation measures and accelerate its journey to becoming a net zero carbon economy, thereby increasing its climate resilience and ensuring that its global markets do not place punitive sanctions impacting the competitiveness of its exports. This is also an opportunity to enable a just transition for labour and livelihoods which were previously supported by fossil fuel-based sectors.

The Growth for Jobs Strategy needs to address the real potential economic risk of both the World Economic Forum's (WEF) 'livelihood crises' and 'social cohesion erosion' at the heart of which is lack of basic dignity and inequality. It is crucial that residents of the Western Cape benefit from the fruits of growth. Other key WEF risks such as '**cybersecurity failure**' and '**digital inequality**' should also be managed within the Growth for Jobs Strategy.

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

- It is highly likely that ongoing **urbanisation** and **migration into the Western Cape** from other parts of South Africa will continue to accelerate, with the in-migration of highly skilled, entrepreneurial and professional workers as well as unskilled and semi-skilled workers, most of whom are unemployed. This will require the provision of relevant infrastructure (traditional, digital and hybrid). This will also require a proactive focus on where infrastructure will be required so that it can be developed in ways that contribute to 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., those 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. Increasingly these should be fuelled by new forms of renewable or low carbon energy, providing scope for public and private partnerships to be developed.
- The call for a specific focus on **women's economic empowerment** has been growing internationally to respond to the systemic issues of the gender wage gap and gender inequality still being very dominant in all global economies. It has been acknowledged that women's historic disempowerment has contributed to rampant gender-based violence in South Africa. It is also recognised that active economic empowerment must be part of the collective response to addressing the gender imbalance in the economy.
- There is real potential economic risk of the World Economic Forum's (WEF) **'livelihood crises' and 'social cohesion erosion'**. It is crucial that residents of the Western Cape benefit from the fruits of growth.
- Whilst there will be a focus on more localised supply chains in the short-term, it is likely (and desirable) that the globalisation of trade will continue, reinforcing the importance of ongoing investments in logistics capacity, capability and efficiency.

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

Urbanisation related challenges can also be mitigated by addressing the rural economy, its needs and future infrastructural requirements. The number of **young people leaving school and accessing the labour market** will continue to grow. This has the potential to generate a 'demographic dividend' as large numbers of people enter the job market, but this will only materialise if employment creation accelerates. If not, the rising number of marginalised and disaffected young people creates risks of its own as a variety of forces contribute to '**connected fragmentation**'. Connecting people in the province to economic opportunity and finding ways to help them become more employable are key to addressing these challenges.

The **acceleration of the Fourth Industrial Revolution**, the rapid formulation of Web3, the ubiquitous adoption of cognitive automation (AI) and connectivity of people and devices enabled by the Internet of Things (IoT) and 5/6G will impact society and the economy in significant ways. Reducing the digital divide and ensuring **digital inclusion** will need to be factored into the Growth for Jobs Strategy.

In the development of the Growth for Jobs Strategy, the macroeconomic context, the futures analysis and ensuring risks need to be managed and opportunities addressed.

Priority Focus Area: Levers and Enablers

5

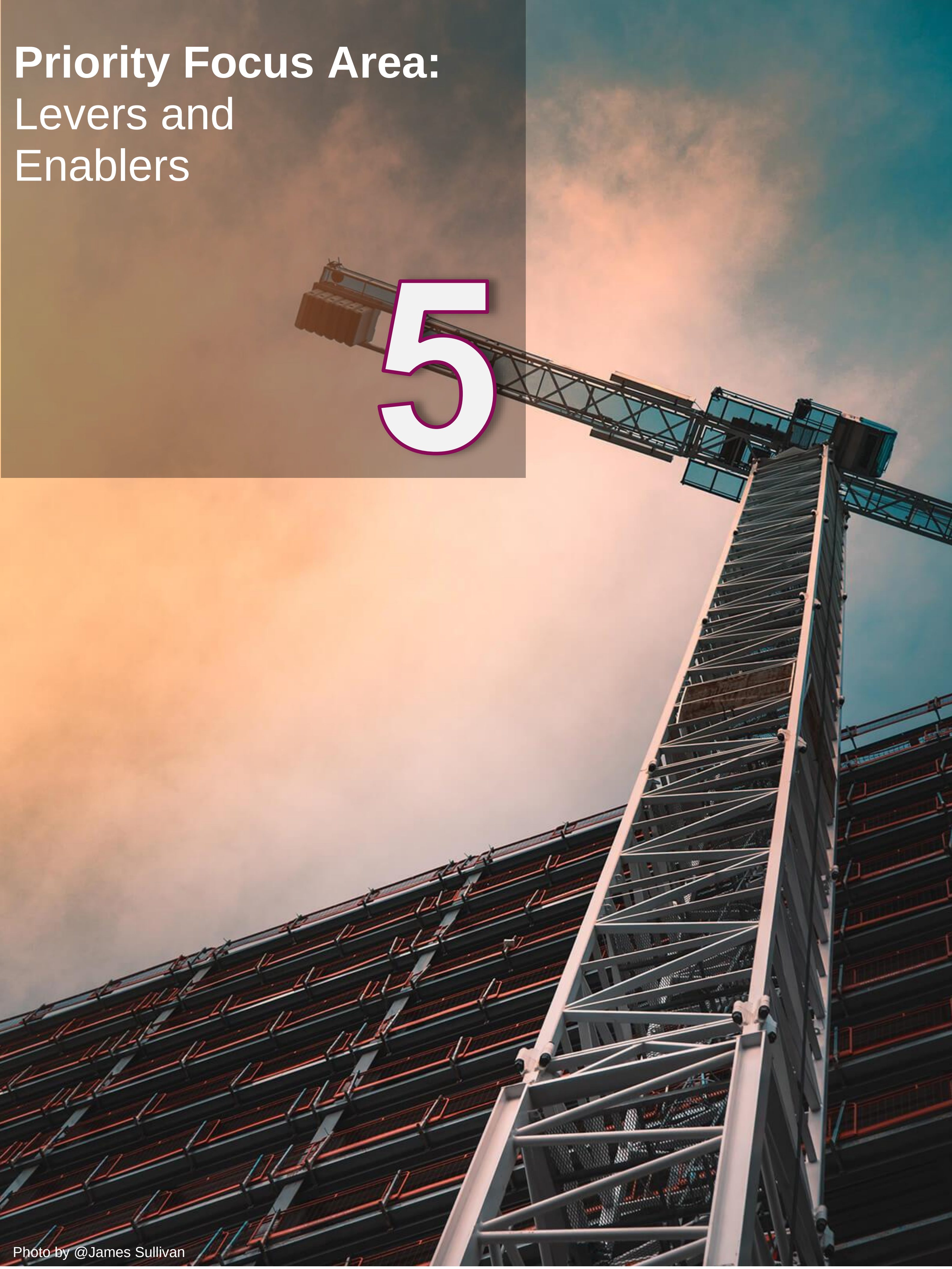
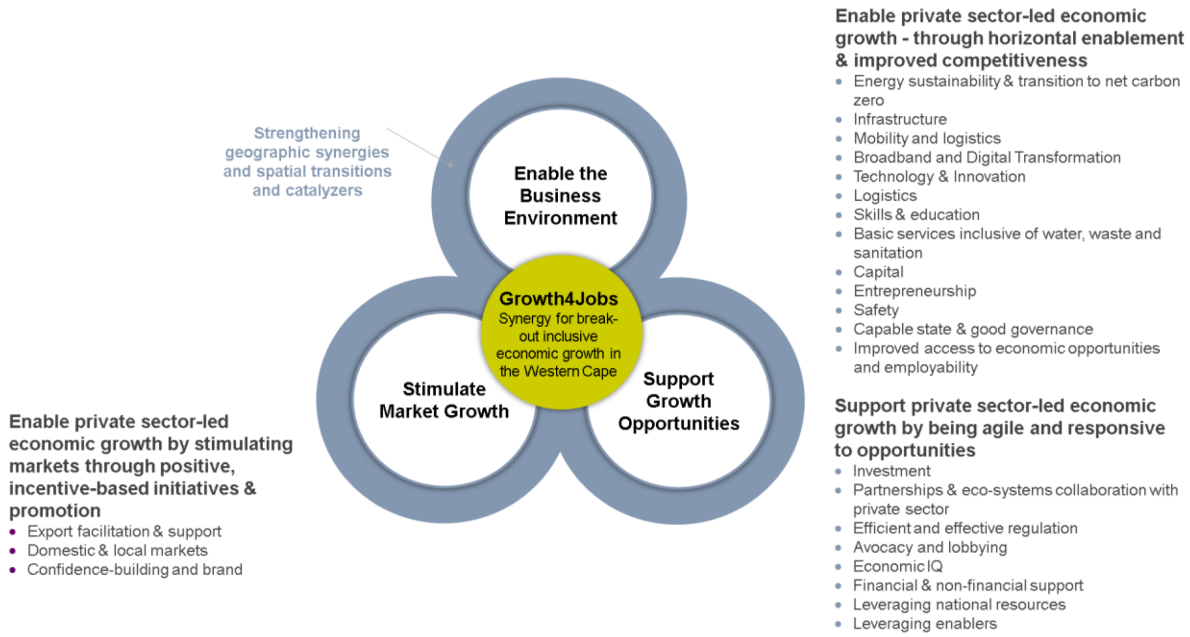


Photo by @James Sullivan

Chapter 5. Priority Focus Areas, Levers, and Enablers

1. Introduction

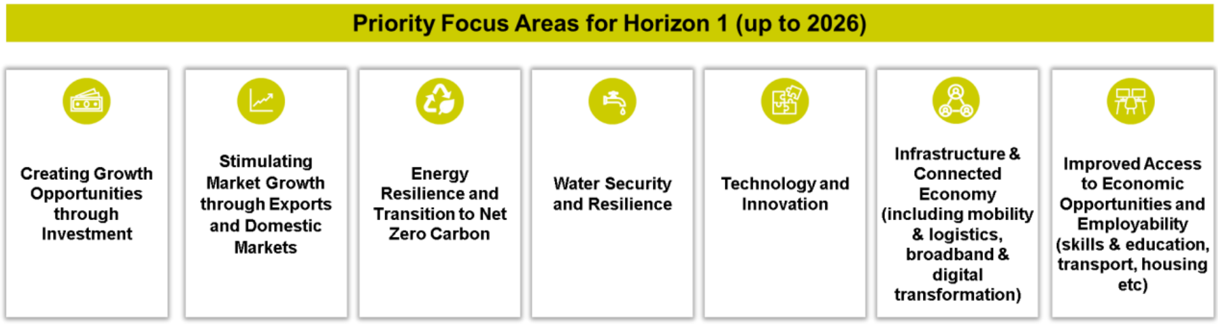
An economy is a complex set of interacting elements, and, for this reason, synergies between individual components require and reinforce an **enabling business environment** that **stimulates market growth** and **supports growth opportunities**.



Through a process of analysis and engagement, **seven Priority Focus Areas** for the Strategy have been identified for implementation over the short and medium term. These seven priority areas may change over time as the Growth for Jobs strategy will need to be agile in the face of changing circumstances and opportunities. Pursuit of these focus areas will also 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 Growth for Jobs' seven Priority Focus Areas concentrate on the key constraints in network industries as well as on the essential elements needed for raising total factor productivity and competitiveness. This, as noted above, is fundamental to **creating an enabling environment** and **accelerating economic growth** toward the R1 trillion goal**.** The seven Horizon 1 Priority Focus Areas are:



2.1 Priority Focus Area 1: Creating growth opportunities through investment

Investment raises domestic expenditure through contributing towards capital goods demand. It expands production capacity and improves competitiveness and productivity. It can also 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.

According to research conducted by Wesgro, the main motive behind foreign investors' decisions to locate in the Western Cape is the proximity to market and customers, followed by a positive regulatory environment as well as the availability of a skilled workforce relative to other developing countries and regions, despite the gap between the demand for some skills and their availability in the Western Cape workforce. To this end, policy certainty and an enabling environment, supported by a distinct Western Cape brand, needs to be developed and sustained. 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 new markets and opportunities that allow producers to diversify their customer base and increase sales. Exporting also increases know-how and makes possible the achievement of economies of scale, all of which helps to raise productivity. Foreign direct investment is an important mechanism for driving export growth, enhancing knowledge and technology transfer opportunities, whilst embedding the Western Cape products and services into global supply chains.

The province, however, 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 such as professional and consulting expertise, business services as well as the creative and cultural industries, that also provide compelling growth prospects for the province.

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

South Africa is experiencing a deepening energy crisis caused by a 6GW shortfall in electricity production. This has severely impacted 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. Increasing use of carbon border adjustment (CBA) mechanisms that reduce the competitiveness of exports from the Western Cape and the province's ability to attract investment will increasingly depend on the ability to support the province's commitment to net zero carbon (greenhouse gas emissions) by 2050. Ultimately the transition towards a much less carbon intensive economy has been too slow and, therefore, all developmental choices must actively contribute to this outcome.

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. Energy sustainability as a product of energy security, energy affordability and low carbon energy is, therefore, one of the Western Cape's most important strategic goals.

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 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 the province faces 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) as well as being water resilient (the ability of water systems to withstand a variety of water-related 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 its proliferation, while also facilitating 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. Thus, the economic benefits from technology and innovation arise from (a) the presence and growth of technologically and innovatively driven firms, (b) the role of these firms in raising levels of productivity in other firms, and (c) economy-wide productivity gains obtained through resource efficiency. The strength and depth of these processes are critical to ensuring a region's competitiveness.

South Africa underperforms when compared to its peers 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.

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 focused on infrastructure needed for connectivity, including both the movement of goods and people, as well as digital connectivity.

Cost-effective domestic and international **logistics** are a prerequisite of regional competitiveness and necessitates 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 of people raises Total Factor Productivity, especially since the poor functioning of the current system results in just 44% of workers using public transport and condemns large numbers of people to commutes of longer than an hour. Improvements can be achieved by improving the public transport system and by locating economic activities closer to where people live.

Safe, cost-effective and dependable **broadband** (with protection from viruses and hackers), **accompanied by digital transformation** is vital for 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[18] 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.[19]

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.

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 contributes to gender-based violence prevalence. These vulnerable groups, therefore, 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) creates pathways for greater economic participation and inclusion. Apart from the increase in output associated with 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 key opportunities arising from the unmet demand in a range of skilled jobs, especially in the digital economy. In addition, a focus on

---

[18] Chinembiri, T. (2020) Research ICT Africa: Policy Brief No 2.
[19] Stats SA (2020)

supporting informal and township economies will increase economic participation and reduce unemployment.

3. Toolkits of enablers, accelerators, and policy levers

Apart from the seven **Priority Focus Areas described above**, the Growth for Jobs Strategy has identified **sets of enablers and accelerators** as well as a suite of policy **levers** – otherwise referred to as **toolkits** to support economic growth, as reflected in the diagram below and explained in the following sections.

4. Suite (or toolkit) of enablers and accelerators

Horizontal enablers, inclusive of those in the Priority Focus Areas, provide a foundation for economic growth, creating an enabling environment for all businesses, whilst 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, fulfil its obligations, and deliver services efficiently and effectively. A capable provincial government is responsive, transparent and accountable, and has the culture and systems needed to prevent corruption.

The 2021 Governance Performance Index measures the quality of governance by ranking financial compliance, accountability, financial soundness and adequate performance in human resources management as well as audit outcomes. It shows that the Western Cape, which is the only province in which all departments received unqualified audits in the 2021/22 financial year, is the best performing province in the country. 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 Vision and Goal. In time, this will ensure that capable officials' conduct is regulated less by sets of rules prohibiting some kinds of action and more by a supportive framework that facilitates effective, nimble action that is 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 well-being of citizens, but as core inputs for production, are also required for the operations of businesses, materially impacting on productivity if there are failures in provision. Providing infrastructure sustainably and sufficiently is therefore critical to enable private sector investment and important for business confidence.

4.3 Capital

It is firms’ growth that drives national and regional economic growth, especially through the growth of capital stock. This, in turn, requires accessible and affordable finance, which is a critical enabler of investment and growth. South Africa’s small, medium, and micro enterprises, however, are often financed primarily through their owner’s equity contribution or by borrowing from friends and family.[20] Accessing capital from financial institutions, particularly banks, would de-risk and accelerate business establishment and expansion.

4.4 Entrepreneurship

Entrepreneurship is also key to unlocking economic growth. In 2019, however, South Africa ranked 49 out of 54 economies on GEM’s National Entrepreneurship Context Index. Stimulating an entrepreneurial culture and creating an enabling environment for new ventures, as well as addressing systemic challenges that constrain growth for scale-ups, is key to improving competitiveness and broadening competition in the private sector. In practice, these rankings are less a reflection of an absence of entrepreneurial spirit, and more a reflection of the extent to which the physical, governance, economic and spatial environment inhibits entrepreneurialism. This needs to be addressed.

4.5 Skills and education

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

[20] OECD (2020) Financing SMEs and Entrepreneurs: An OECD Scoreboard.

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. The cost of gender-based violence alone to the country's GDP has been conservatively costed in 2014 as being between 0.9 and 1.3% annually[21]. Small businesses are particularly exposed and vulnerable, but even for bigger businesses, the actual costs (direct and indirect) are disturbingly high[22]. Furthermore, safety perceptions affect consumers' daily choices and have significant implications for economic development of communities[23]. The provision of law and order is seen as a prerequisite for growth since business can thrive only in a stable environment.

4.7 Local and domestic markets

The Growth for Jobs Strategy is predicated on providing an enabling environment for private sector-led growth as well as stimulating markets and investment to expand the economy. The domestic market offers a huge 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. It also means the wider national domestic market can bolster sectors such as the Western Cape tourism industry from global shocks, smoothing seasonal demand. In a similar vein, local markets in townships provide a potential source of opportunity and growth for their local entrepreneurs.

5. Suite (or toolkit) of levers

Levers are policy tools that can enhance the impact of work on **Priority Focus Areas**, as well as of **enablers and accelerators**. The toolkit – or suite – of policy levers includes key behaviours, systems and tools that can be deployed to improve the business environment and accelerate growth. The list of levers in this toolkit is not considered to be 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 and not just where they directly affect a business but also where they affect 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 the development of a data management and reporting capability, inclusive of a Growth and Jobs dashboard to support 'all of government' decision making. Building strong and analytical capabilities and intelligence is imperative for the strategy.

5.2 Economic financial and non-financial stimulus

Financial support to business can come in the form of grants, subsidies, direct and indirect investments, and public-private partnerships, through which the Western Cape Government

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

can encourage innovation in products and services. Providing financial and non-financial stimulus helps reduce uncertainty and risk for the private sector. Appropriately used, financial support to business can also facilitate physical urban development, market development and business growth. Public financial support can be provided via direct provision, public procurement mechanisms and co-financing schemes. To enable infrastructure development, public-private partnership financing models will be important, with the private sector and with other spheres of government, and at times in conjunction with each other. Enhancement of the doing business environment by the provincial government in non-financial ways can also support improved growth through the provision of policy certainty, improved coordination and access to information, as well as an improved and more efficient regulatory environment.

5.3 Ecosystems collaboration

Achieving faster growth generally requires strengthened and more efficient interactions between stakeholders in an ecosystem and is most effective when those stakeholders collaborate. Many of South Africa's challenges stem from the large trust deficit between economic stakeholders, reducing the efficiency of interaction between them, and weakening the network of interconnected firms, households and institutions that constitute the economic ecosystem. A lack of trust affects everything – from what rules 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 levels of government, amongst economic stakeholders (including communities and labour) and with the private sector are critically important because it builds trust and fosters partnerships. Partnerships also leverage pooled resources, expertise and efforts, and collaboration can build confidence in the provincial economy and help attract investor interest.

5.4 Advocacy and lobbying

The fact that economic growth in the province is directly impacted by national political and macroeconomic trends and risks means that it is critically important for the Western Cape Government to intensify its efforts to ensure that decisions taken elsewhere in government are supportive of growth. This can only be achieved through advocating and lobbying for positive outcomes, policy changes or the enactment of untapped policies and powers. This is particularly important in the safety, energy, and transport spheres.

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 proper functioning economy, especially when it encourages competition, levels the playing field and promotes vibrant markets. At the same time, bad regulations (or good regulations that are badly implemented) can be a major source of economic inefficiency, raise the costs of doing business and can slow economic growth. It is therefore critical that regulations (and their enforcement) are designed and redesigned with a view to facilitating greater economic activity by the private sector rather than inhibiting it. An ease of doing business agenda across the Western Cape Government is critical to unlock growth.

5.6 Urban and rural spatial planning

The spatial economy and its development 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 to improve the flow of people and goods and address housing needs. Factors such as urban size, configuration, density and compactness each play a role, and can support agglomeration economies, reduce resource and energy demands and provide annual savings in capital and operating expenditure. Urban mobility plans can design public transit systems that help to lower carbon emissions as well as improve the movement of people and goods in the Western Cape.

5.7 Leveraging national, private sector and other resources

Working with other levels of government and institutions as well as with private sector, resources may be pooled and key project success or hurdle rates may be reduced, 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. The Western Cape Government's 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

A high proportion of the services required by businesses fall in the mandates of municipalities, and the delivery of these sometimes needs to be coordinated across municipal boundaries because value chains generally spill over political boundaries and demarcations. This means municipalities may need to coordinate and align 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, as well as ensuring sustainability.

5.10 Public employment programmes

Whilst the private sector will drive most of employment creation under this strategy, the role of public sector employment should not be discarded and is currently underutilised. The provincial and municipal public employment programmes can effectively and quickly absorb the unemployed and provide relief to households in distress. The use of such programmes can reduce stability risks in the province and support improvements in the business environment that rely on the province and lower levels of government. They also can complement core growth strategies, including water resilience, food security and infrastructure delivery, as well as programmes aimed at achieving energy security and the reduction of carbon emissions. Public employment programmes can provide more than just emergency employment and can deliver skills acquisition and work exposure to improve employability, but this will require changes to improve and enhance 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 step-by-step process of facilitated emergence of challenges and solutions. It focuses on identifying problems and seeking resolution to these challenges. As an approach, it helps to break down problems into component parts, identify entry points, search for possible solutions, reflect on lessons learned, adapt and retry. The PDIA approach is particularly effective as a methodological lever when the challenges are complex in environments where there are range of uncertainties and several role-players. It requires cooperation and the necessary ‘authority’ from the leadership to be effective, but the lever 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. Because investment rates depend on expectations about the future, there is a strong link between the confidence levels and economic growth because, when faced with uncertainty or pessimism about the future, firms pause hiring and investment.

Communication is a key driver of confidence levels. There are a multitude of private and public sector organisations and institutions which interface with businesses and citizens on a regular basis, and there is a role for the province to play with respect to 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 economy of the Western Cape to achieve break-out economic growth. Achieving this goal requires spatial intelligence, as well as an effective and efficient system of governance implementing a deliberate spatial approach that seeks to exploit the endowments and competitive advantages of the province. The basic tenet of the approach is the recognition that land is a finite resource, yet a crucial factor for productive growth in any dynamic economy; the availability and capacity of the public goods that enable the use of land differ across space; mobility of goods and people must be much more efficient; and access to opportunity needs to be made more equitable.

Clear spatial policy creates predictability in public planning which is needed to ensure the private sector’s interactions with the state on special issues are efficient and predictable. Spatial policy should also ensure coordinated government action in support of regional and local economic growth objectives. In an era of constrained public spending, 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 and are guided by two key 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' well-being?

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

The capitalise, consolidate, connect and cluster spatial logic approach 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

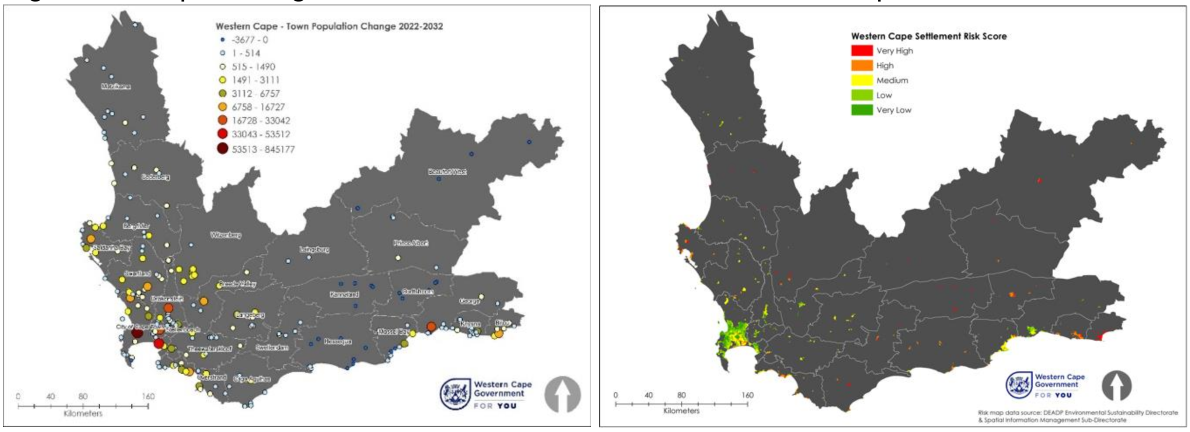
The Western Cape accounts for 20% of South Africa's agricultural GVA and the sector accounts for more than 50% of exports originating in the province. Though small relative to the rest of the province's economy, agriculture accounts for a large share of rural incomes and has been growing strongly, lifted 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, the sustainability of which 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 Provincial Spatial Development Framework's policies to leverage regional infrastructure for economic growth and to diversify the rural economy, both of which are critical to securing 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.

There are parts of the Western Cape that are becoming less populated, especially in the rural areas and in the band stretching between the Hessequa and Oudtshoorn municipalities and the Central Karoo district.

Figure 5.1 Population growth and settlement risk in the Western Cape.



Source: Western Cape Government

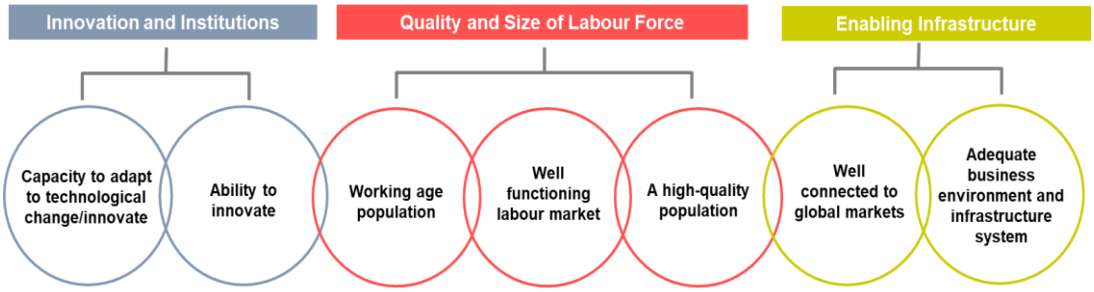
6.2 The urban spatial economy

The Greater Cape Town Urban Region is home to the majority of people and economic activities in the province, and there is significant growth in surrounding towns, forming an increasingly dominant economic and settlement system in the province. There are also population growth and settlement pressures 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 in time. The Western Cape Government's Differential Urbanisation Study also suggests that there are cyclical shifts in population growth rates for 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 (see figure 5.2).

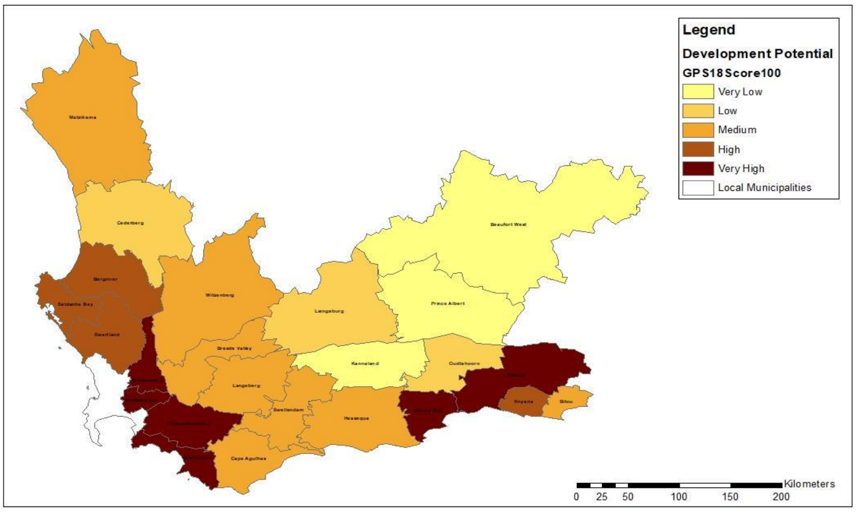
Figure 5.2 Growth Potential Study Indices, 2018.



Source: Western Cape Government

The results of this work suggest that growth potential is unevenly spread across the province (see figure 5.3).

Figure 5.3 Development potential of towns, 2018.

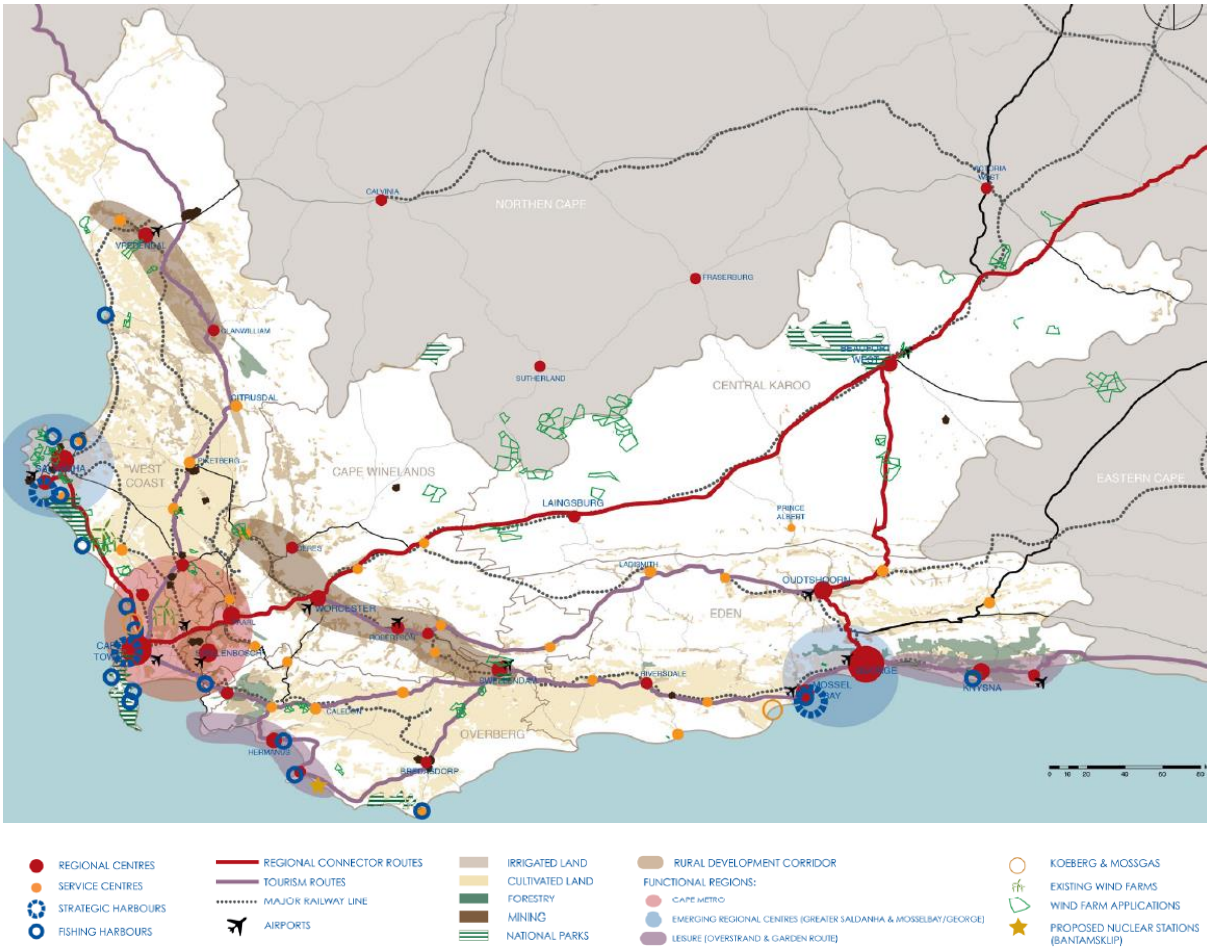


Source: Western Cape Government

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 and is following these spatial concentrations of population growth.

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

Figure 5.4 Regional priority areas and infrastructure, provincial spatial framework.



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 processes of urbanisation that entrench and perpetuate inefficiencies, inequality, and exclusion such as distorted and fragmented urban forms, congestion, the sterilisation of well-located land for development, affordable housing supply and skills gaps. These dynamics impose significant costs on households, business and the state. If addressed, the benefits of agglomeration can take hold.

Local and international experience suggest the need for caution with respect to spatial policy aimed at 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 having been designed in such a way as to inhibit economic potential, should receive preferential attention in the development of an enabling business environment, inclusive of appropriate business infrastructure.

Priority Focus Area: Creating Growth Opportunities through Investment

6

Photo under licensing @Freepik

Chapter 6. Priority Focus Area: Creating Growth Opportunities through Investment

1. Introduction

Domestic and foreign investment is key to driving economic growth as the accumulation of fixed capital raises productive capacity, increases productivity, and raises business confidence. In addition, economic output is increased, leading to GDP growth. It also increases opportunities for raising the number and quality of jobs, diversifies the economy, and makes 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, effectively imposing 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 to countries. Levels of domestic and foreign investment, however, depend on local conditions, especially the availability of skills, trade policies, macroeconomic policies, and the quality of governance. Attracting FDI is often seen as 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.

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 the realisation of a business operating environment which is more stable, more connected, more enabling, and thus more opportunity-rich than its regional counterparts.

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.

It is expected that the attractiveness of the Western Cape relative to its provincial counterparts is likely to continue in coming years. It is thus incumbent upon the Western Cape Government to closely monitor this dynamic since it 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

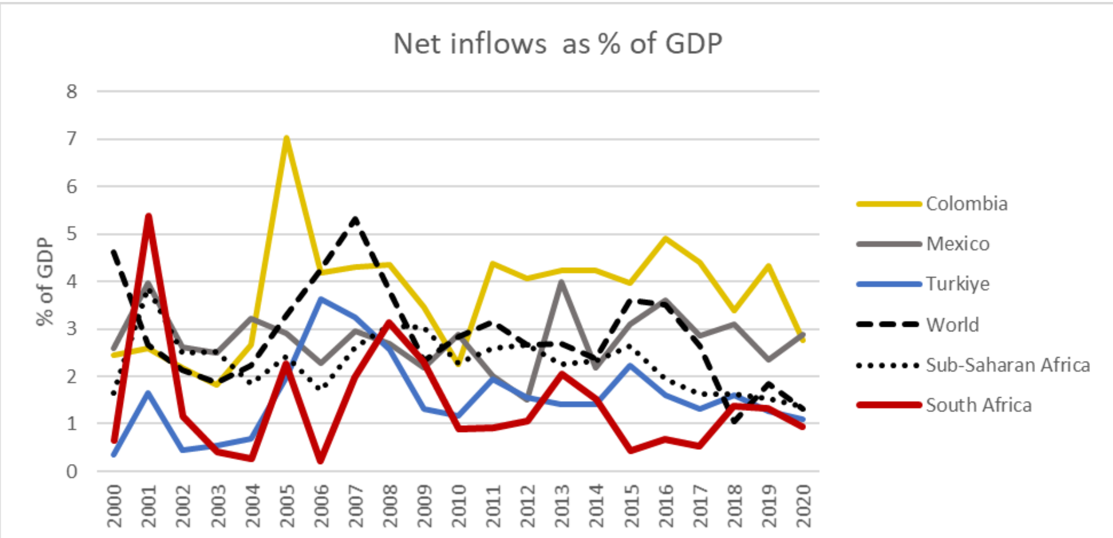
Provincial Foreign Direct Investment performance

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 that have brought about a capital injection of R157 billion and resulted in the creation of 31 371 jobs (FDI Intelligence, 2021). Over 90% of these projects were greenfield investments. The Western Cape attracted the second highest number of inward FDI projects among the nine provinces of South Africa between 2003 and 2021, with Cape Town and Stellenbosch ranked in the top 20 South African cities for inward FDI projects (FDI Markets, 2021).

Global factors

Global factors such as Covid-19, the Ukraine war, rising interest rates, and mounting debt distress in the developing world, 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 has recovered from $962 billion in 2020 to $1.6 trillion in 2021. 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: South Africa compared to peers.



Source: World Bank

As seen in figure 6.1, South Africa has underperformed compared to its peers. This indicates an opportunity that can be captured if key investment barriers are addressed.

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.

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 healthcare 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.

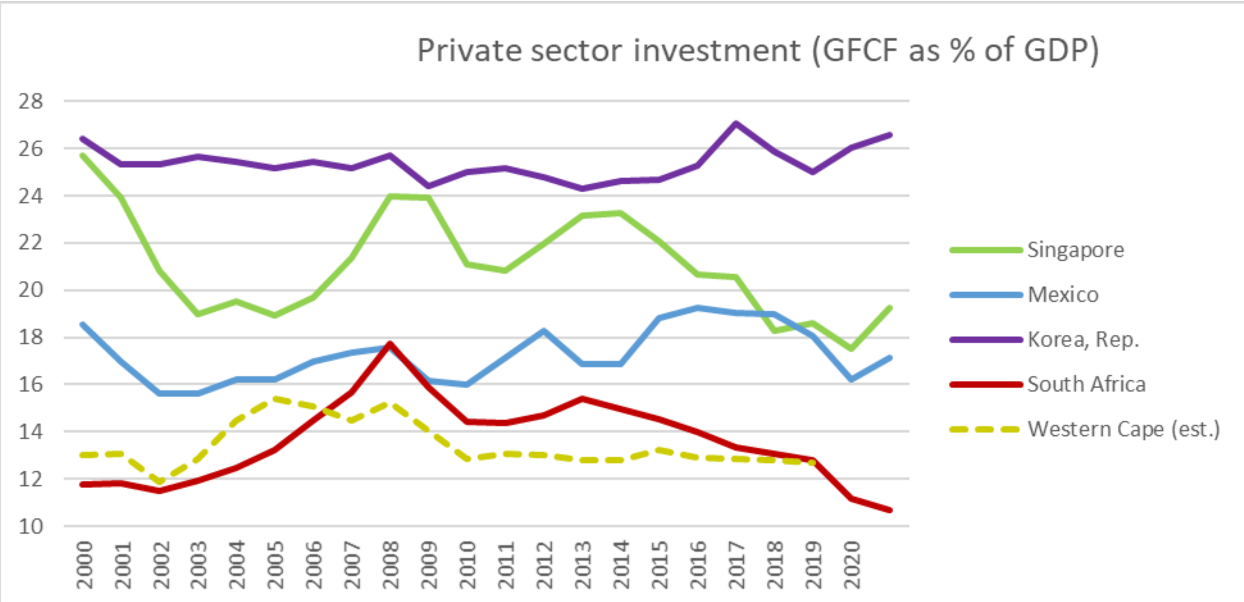
Ease of doing business (pros)	Ease of doing business (cons)
• Very low costs of starting a business, and no minimum capital requirements. • Highest ease of doing business metrics in South Africa.	• Slow, complex process for setting up a business with significant paperwork demands. • High vacancy rates in office/commercial property.

Ease of doing business (pros)	Ease of doing business (cons)
• High quality office rental premises available. • Preferential trade agreements with major trade partners. • Greenfield land opportunities in two SEZs. • Rising number of mixed-use developments. • InvestSA's One Stop Shop. • Sound provincial governance, and good government-to-business relations at both provincial and local government levels.	• 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. • Better coordination required between municipal governments and between municipalities and province.

Private sector investment at provincial level

The National Development Plan (NDP) targets a private sector investment GFCF to GDP ratio of 20%. 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).

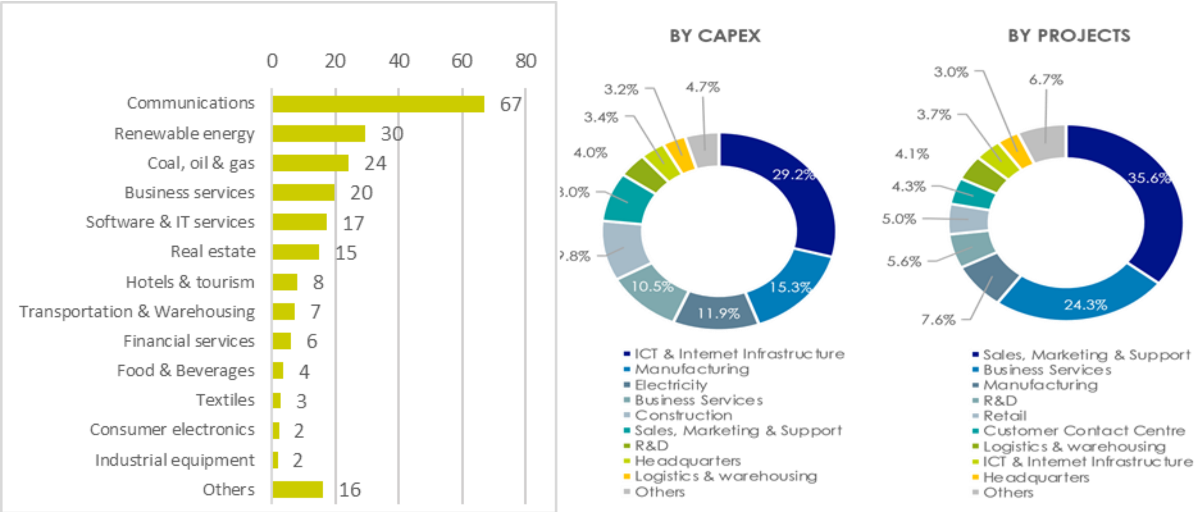


Source: SARB /Quantec

Total gross fixed capital formation in the Western Cape between 2012 and 2021 was around R1.3 trillion (adjusted to 2021) prices (Quantec), whilst total FDI was R122.3 billion (FDI Markets) over this period. Figure 6.2 shows private sector investment as financing 12 to 15% of fixed investment in the Western Cape. While there is significant potential for FDI-oriented interventions to increase overall investment demand in the Western Cape, these statistics underscore the important role played by local and domestic investors in achieving provincial growth objectives.

Based on FDI inflow data, sectors such as business services and IT have attracted the greatest interest since 2003, whereas communication and renewable energy sectors have attracted the most capital investment. In terms of number of projects (rather than value), DEDAT's data indicates that business services and retail account for over 50% of FDI projects over the past two decades.

Figure 6.3: FDI by Capex and projects, 2003–2021.



Source: DEDAT, Wesgro

The data suggests that the United Kingdom and the United States are the most important source countries for FDI inflow into the Western Cape, 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 fifteen source countries.

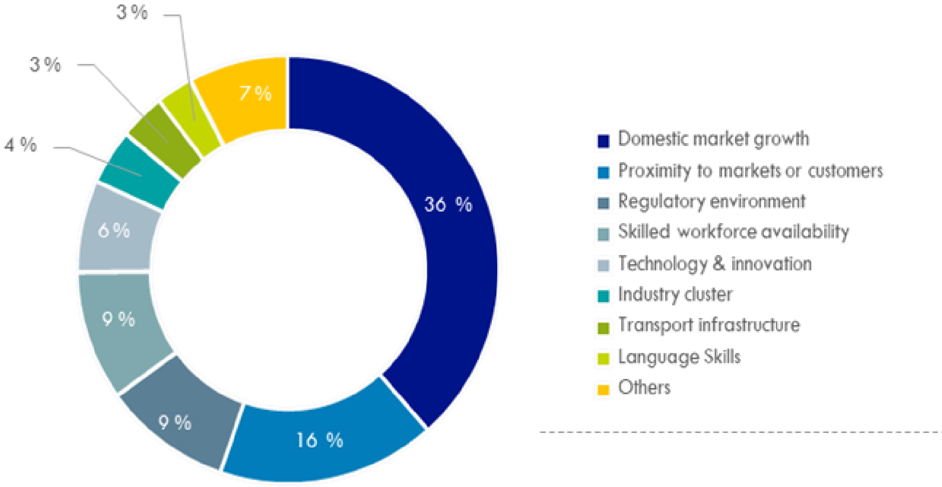
Table 6.1 Countries investing in the Western Cape between 2003 and 2021.

BY PROJECT				**BY CAPEX**			
Rank	**Source Country**	**Projects**	**%**	**Rank**	**Source Country**	**Capex (R billions)**	**%**
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

What are the motivating factors driving investment in the Western Cape? According to the Western Cape 2022 Investment Promotion Strategy, 36% of respondents cited domestic market growth as their main motivation (36%), followed by proximity to markets (16%) and the regulatory environment (9%) and skilled workforce (9%).

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



Source: Western Cape IPS 2022

While the FDI survey cited above does shed some light on the main motivating factors driving investment, the investment decision cannot be reduced to a single factor. The decision to invest in a particular location is informed by a wide range of considerations in terms of locational advantages, known locational constraints, and in perceived risks. Locational advantages may include 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, as reflected in table 6.2 below.

Table 6.2 Policy gaps and barriers.

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. • Special Economic Zones policy and regulation are inconsistent and there are uncertainties about incentives, while institutional structures are not well suited for private participation in SEZs.
Trade policy	• Slow AfCFTA roll-out to enable market integration and access.
Electricity supply	• Ongoing generation problems. • Decentralisation framework that few municipalities have been able to use.
Transport, logistics and digital communications	• Ports are congested and inefficient. • Ineffective user forums/strategy and planning forums. • Gaps in regional coordination for SOE troubleshooting and advocacy – the need for an end-to-end logistics mindset. • 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	• Immigration – significant gaps relating to skilled migration; inefficient visa regime for FDI. • Gaps in alignment of processes and KPIs between skills institutions and investor needs.

Policy areas	Barriers and gaps
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 of costing of 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.

Provincial policy must be responsive to investors and growth opportunities.

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 for growth opportunities by addressing barriers to the specific growth prospects and amplifying its strengthens and value propositions. This will include leveraging a comprehensive approach that addresses the competitiveness of relevant factors of production, as well as legal, regulatory, procedural, and institutional barriers affecting all phases of the investment lifecycle[24].

Over 90% of firms in developing countries report gaps between formal policies and what happens in practice[25]. Regional competitiveness thus requires that investment support ecosystems are 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[26].
- 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.
- Access to infrastructure and utilities.
- Support for economic networking and value chain linkages, including finding suppliers, financial service providers, workforce/skills, partners, and markets.

[24] World Bank (2022) Investment Climate.
[25] World Development Report (2005) A Better Investment Climate for Everyone.
[26] 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).

Given the centrality of investment promotion agencies in attracting investment, it is important to continuously benchmark our 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.[27] These results indicate scope for further improvement.

3. Challenge and opportunity statements

Drawing from the situational 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 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 lead to lost opportunities or a lack of adequate preparedness.
- 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 globally used 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:

- Create a cohesive investment support ecosystem in the Western Cape that attracts a pipeline of investment opportunities, and which has a high realisation rate.
- Strategically build a strong and positive domestic and international brand, building on existing and unique strengths such as rooibos and indigenous products, and capitalising on new growth opportunities such as financial services (fintech) and cannabis processing.
- Establish a strong and wide network of overseas and local advocates and ambassadors to attract investment.

[27] OCED (2018) Mapping of Investment Promotion Agencies in OECD countries.

- Establish a high degree of confidence in the Western Cape and the Western Cape Government among investors.
- Provincial and local government address the constraints to investment and specific opportunities and use their assets and levers to provide competitive investment incentives and support.
- Build strong partnerships between government and businesses to address challenges and pursue opportunities, with high degrees of trust amongst stakeholders.
- Attract and support domestic and foreign investment that helps diversify the economy, increases inclusion, and facilitates spatial transformation and social cohesion, including investment in labour-intensive industries and townships.
- Ensure that all necessary information is available and accessible to support sound investment decision making, and where all investment (foreign and domestic) is tracked.
- Create an enabling ease of doing business environment for South African and foreign investors where they can invest with certainty and assurance.
- Support the coordination of energy supply and distribution plans to build energy security, unlocking investment opportunities and providing assurances to investors.
- Attract Environmental, Social and Governance (ESG) investors or assist investors 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

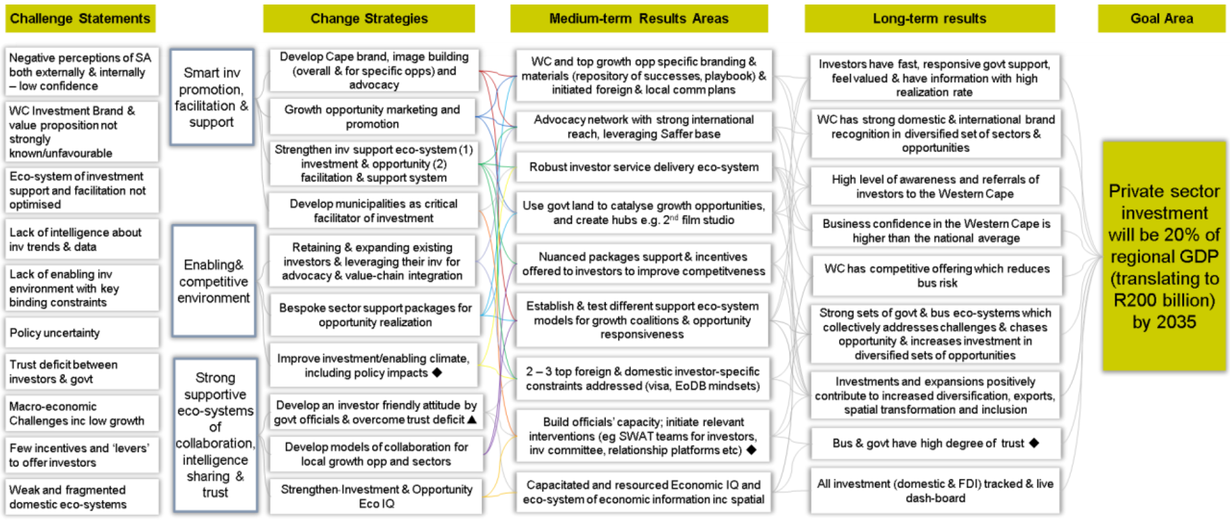
Private sector investment will be 20% of regional GDP (translating to R200 billion) by 2035.[28]

Gross Domestic Product is a macroeconomic measure of the value of economic output and **investment** is a key component of the Gross Domestic Product formula. This Priority Focus Area therefore forms a core building block of the overall Growth for Jobs Strategy and focuses on private sector investment as a component of Gross Fixed Capital Formation as a percentage of GDP. It is understood that achieving the 20% target occurs from a low base and will increase in GDP percentage contribution towards 2035. It is estimated that the economic benefits of the goal statement will make an annual contribution of R200 billion to provincial GDP and support 210 620 jobs by 2035.[29]

5. Strategic level theory of change for the focus area

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 Priority Focus Area.

[28] 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 will R100 billion by 2035.
[29] DEDAT and Conningarth Consulting Economists used a Western Cape Social Accounting Matrix for economic benefit calculations.



6. Change strategies and interventions

Given the goals articulated above, the Western Cape Government envisages that the Investment Priority Focus Area will need to institute the following change strategies falling under three broad themes, namely (a) smart investment promotion, facilitation, and support; (b) an enabling and competitive environment; (c) strong and supportive ecosystems of collaboration, intelligence sharing and trust.

6.1 Smart investment promotion, facilitation, and support

The change interventions to be affected include:

- **Develop 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 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 the diversification of the economy.
- **Undertake 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. This includes **establishing an international advocacy and brand ambassadors' network**, including using the influence and support of South Africans based abroad, to assist with the marketing and promotion of investment into the Western Cape. This ensures that the Western Cape expands the points of entry and number of people 'selling' the Western Cape value proposition.
- **Strengthen 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. This recognises that it takes an agile team of institutions and specialists to land investment. To increase responsiveness to individual investors we need to bring all the necessary stakeholders together to ensure

a **proactive ease of doing environment**, such as anticipatory rezoning or environmental impact assessments. This is relevant for international and domestic investors as investment lands in a municipality. It is therefore imperative that **municipalities** are part of the ecosystem and are sufficiently **capacitated to be responsive** to the needs of investors.

- **Develop 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 we need to continue to embrace the efficiencies and effectiveness that technology offers.

6.2 Enabling and competitive environment

The change interventions to be achieved include:

- **Address visa challenges** through conducting research with respect to the value that foreign investors and professionals bring to the local economy (including local jobs) and use this research to change local perceptions and advocate for the visa regulations to change 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.
- Over and above the visa challenges, **identify the top three investor constraints** and ensure that there is a constant stream of communication and advice about how investors can navigate these challenges and about what we are doing to improve the investor environment. Leverage private sector ecosystems to gather evidence to assist in overcoming the challenges.
- **Develop nuanced packages of support and incentives (especially non-financial)** to help to overcome the challenges faced by individual growth opportunities, whilst simultaneously addressing 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.
- **Ensure that the necessary infrastructure for investment** is provided, including working closely with the Infrastructure **Priority Focus Area** 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 like Silicon Valley, and replicating the successes of the Cape Town International Convention Centre and the Cape Town Film Studio. 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 increase supply of affordable housing** by unlocking release opportunities for municipalities to support township developers and exploring 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 aboard private finance and developers (including micro builders) to accelerate development and de-risk investment.

- Engage with all levels of government to **increase policy and regulatory certainty** as it impacts on investment and ease of doing business, corroborating engagement efforts with evidence-based research. These engagements are, amongst others, aimed at enhancing policy makers' appreciation of the importance of investors for our 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:

- **Support growth opportunity ecosystems** and foster linkages between different ecosystems and/or along the value chain to create opportunities for knowledge transfer. 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.
- Strengthen 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 to only collate the investments where the Western Cape Government had a direct causal role to play, but 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, where new and emerging opportunities can be identified, and where 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 Priority Focus Area 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 that the necessary MOUs and relationships with the holders of the data will be in place.
- The support of private sector-led growth opportunities will be accompanied with 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 this support may not be forthcoming, compromising success (e.g., Eskom and Transnet 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 international economy (Ukraine war, etc.) or South Africa (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 Additional research required

The following research needs have been identified:

- Research into the sources of mistrust between the private sector and government and what will facilitate a shift in attitudes.
- Research into the impact of locally based foreign professionals and investors on the domestic economy and local employment.
- Research as appropriate the top inhibitors to investment, benchmarking the key constraints against international best practice where the intention is to utilise this research as a point of departure for advocacy and change.
- Research different models to bring the private sector more strongly into the development of Special Economic Zones, 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 development of housing and into models of providing government land and under-utilised buildings for development hubs.

Note: Linkages to other Growth for Jobs enablers, accelerators, and levers, arising from the Priority Focus Area, as well as linkages to the safety VIP and well-being VIP, have been captured in the annexure.

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

7

Photo under licensing @Freepik

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

1. Introduction

Export growth of products and services is key to the achievement of break-out growth by enabling the Western Cape economy to access global markets that are larger and faster growing than the South African market. Exports in this context includes international tourism, bringing foreign customers and trade to our shores. Exports presents opportunities for domestic producers to expand, diversify their customer and product base, and grow their businesses. Significantly, export growth has a higher multiplier effect on economic output and Gross Domestic Product (GDP), supplementing additional demand to overcome other national factors that might be holding back domestic demand. Consequently, given the importance of exports, the Western Cape's Growth for Jobs strategy must have an export-prioritising approach to expanding current activities and implement new initiatives to enhance the support already provided to the province's current and potential exporters.

Nonetheless, evidence shows that developing country growth strategies, such as that of South Korea, prioritised the development of local production, initially driven by 'export-led' approaches. In the case of South Africa and the Western Cape, a high level of domestic consumption offers prospects for additional growth, resilience, and job creation. This can be realised if local suppliers are able to out-compete importers. As such, the domestic market remains crucial – given the size, geographic proximity and reasonable (comparatively to the Western Cape) growth rates. Similarly, future shocks such as climate change related extreme weather will play out in different ways around the country, providing some degree of diversification in domestic demand.

Consequently, whilst leveraging and optimising domestic markets, the Western Cape will be expanding current activities and implementing new initiatives to enhance existing support provided to the province's current and potential exporters.

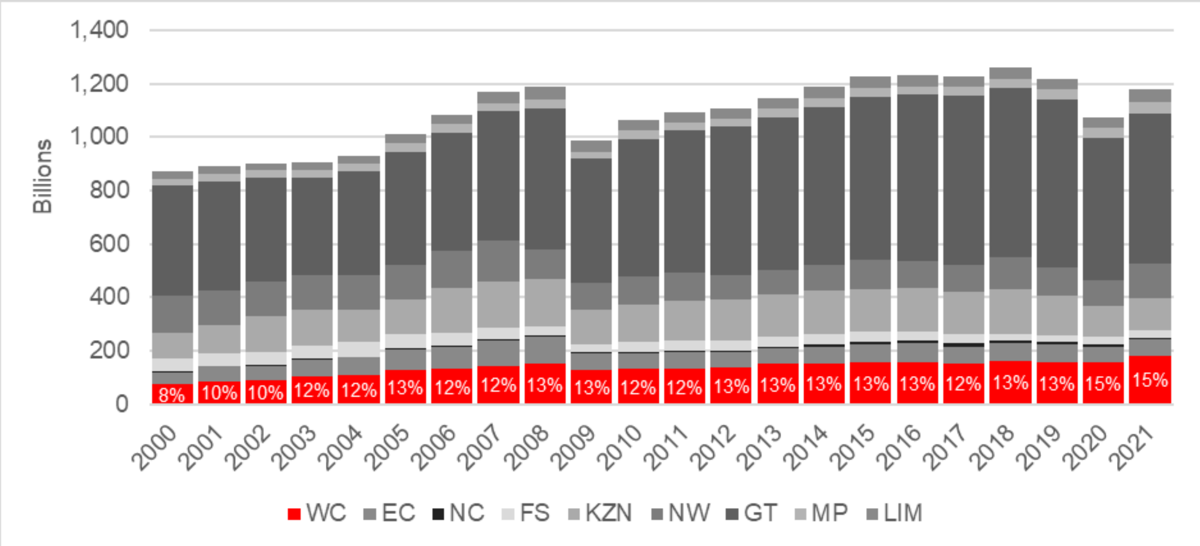
An enabling environment is key to growing and maintaining domestic demand and exports, similar in importance as with investment. The Growth for Jobs Strategy will need to boost factors of production and productivity that will enhance regional and international competitiveness to support private sector export growth. This critically includes improvements to enabling factors such as logistics that benefit products destined for export and domestic markets.

Services-based exports may require different enablers to be competitive, including strengthened skills capabilities and access to cost-effective high-speed broadband. As a large component of domestic demand, the service industries 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: long-term export performance

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

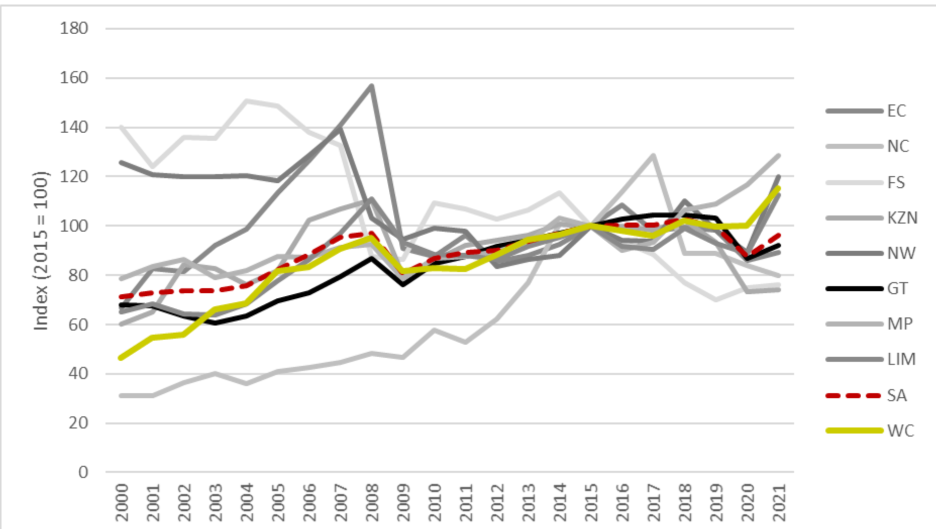
Figure 7.1 Long-term provincial export performance, growth and values, ZAR 2015.



Source: Quantec

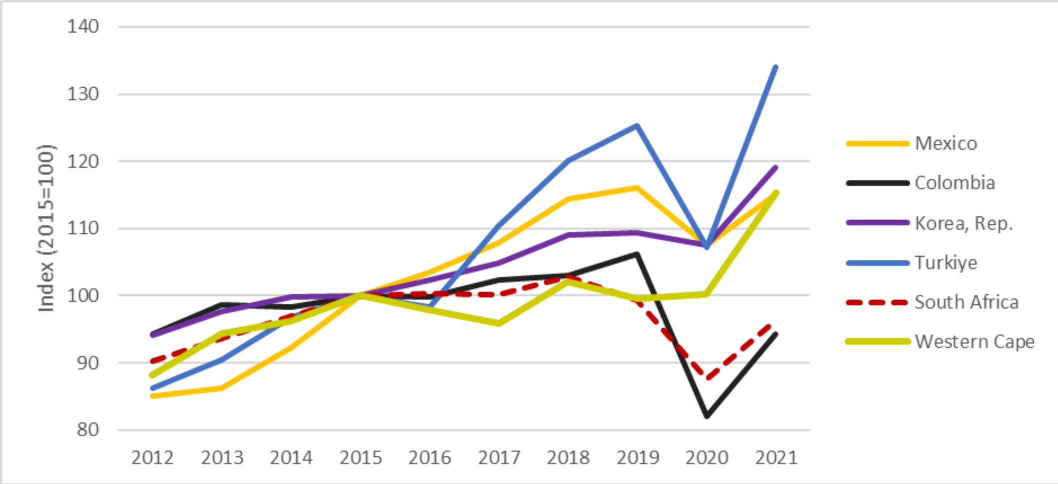
In real terms, provincial export growth has increased by 146% between 2000 and 2021, whereas South Africa's exports grew by a mere 35% over this period. Compared to other provinces and benchmark countries, the Western Cape has largely managed to track export performance, whereas South Africa appears to have fallen behind since 2015 (see figure 7.2 and figure 7.3).

Figure 7.2 Long-term provincial export performance, indexed, ZAR 2015.



Source: Quantec

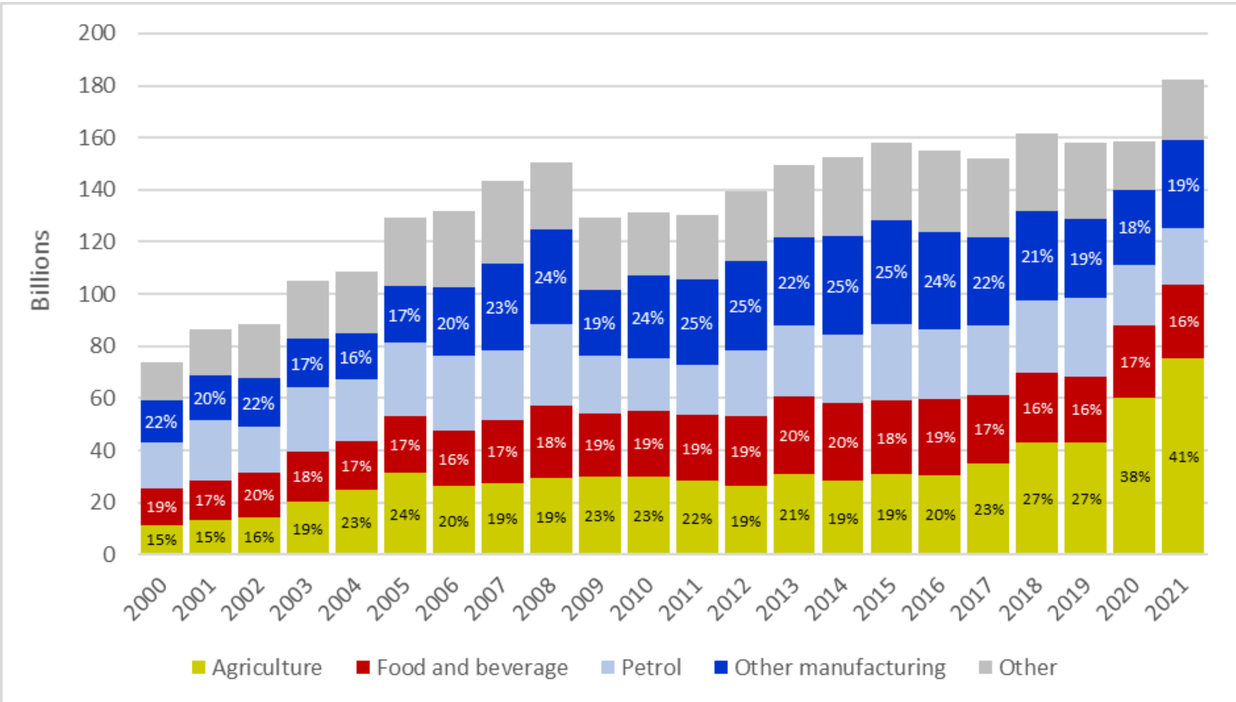
Figure 7.3 Benchmark export performance, constant 2015 US$, 2012–2021.



Source: World Bank

Commendably, provincial exports have remained resilient over the Covid period, exhibiting growth in 2020 and 2021.

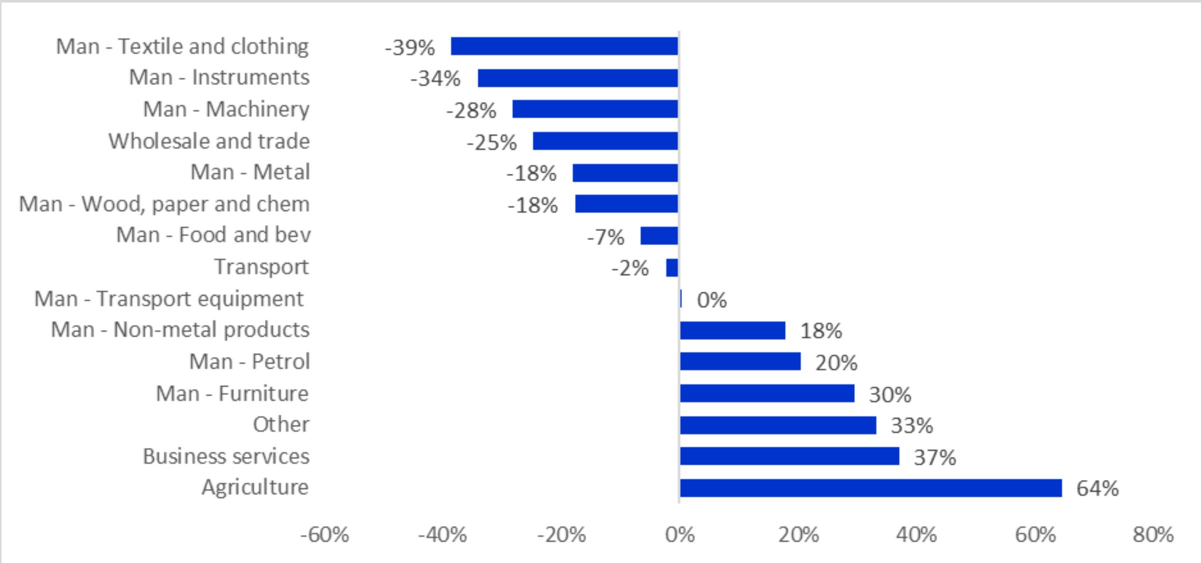
Figure. 7.4 Export performance by sector.



Source: Quantec

After rapid growth between 2000 and 2008, the growth and composition of provincial exports remained relatively unchanged until 2017. Since 2017, the composition of exports has changed in favour of agricultural goods (from 20% in 2016 to 41% in 2021), whereas manufactured goods (besides agri-processing) have declined in significance from 24% to 19% over the same period. Overall, agriculture-related products accounted for 57% of the Western Cape's exports in 2021 compared to 34% in 2000, highlighting the ongoing importance of this sector to overall trade, development, and employment in the province. 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 ZAR 2015).

Figure. 7.5 Export performance by sector, cumulative growth in export value between 2012 and 2019.



Source: Quantec

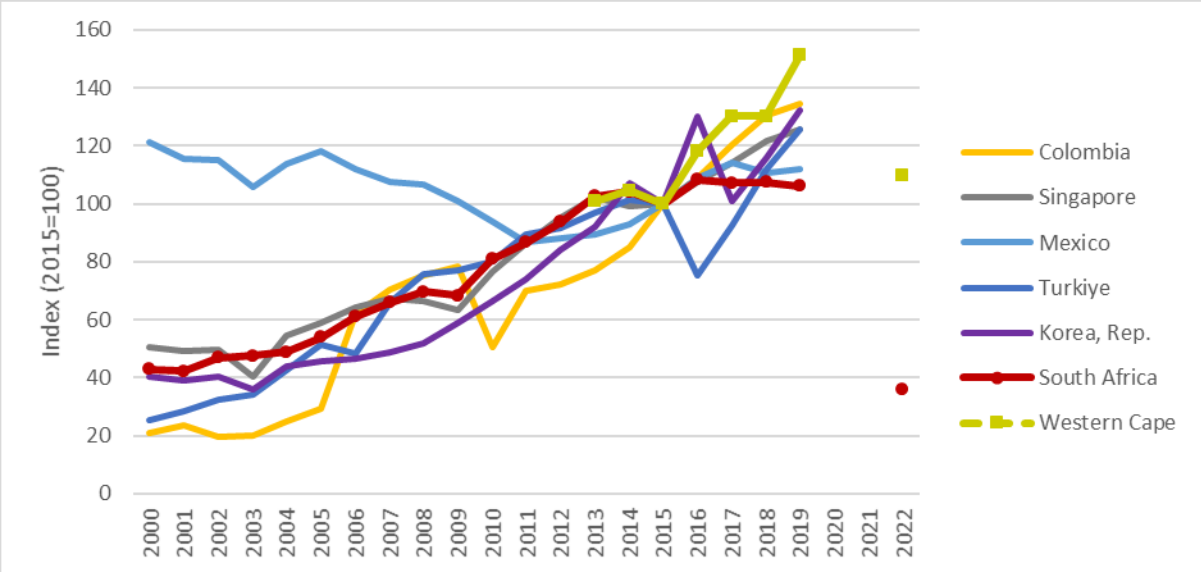
Comparing sector performance between 2012 and 2019 (to control for the impact of Covid-19) (see figure 7.5), agriculture, business services, furniture, petrol, and non-metal products exhibited growth. According to DEDAT, BPO and IT-related services contributed R7 billion to GVA in 2021, averaging 22% growth since 2018 (DEDAT, Cape BPO). Textiles and clothing, advanced machinery, wholesale and trade, metal products and wood, paper and chemicals showed decline.

The Western Cape's tourism performance

The Western Cape has continued to exhibit sustained growth in tourism and a relatively rapid recovery from Covid. In terms of overall international arrivals, South Africa has largely tracked comparable countries with demonstrated sustained growth between 2000 and 2016, after which it started falling behind its peers (see figure 7.6)[30]. The Western Cape, however, continued to perform well from 2016 onwards, outperforming South Africa and benchmarked countries from 2016 to 2019. In 2019, the Western Cape welcomed two million international arrivals, a 16% increase from 2018. These arrivals accounted for 19.6% of all international arrivals to South Africa and brought in R18.6 billion total foreign direct spend (TFDS) to the Western Cape. The United Kingdom, Germany and the United States remained the top source markets in 2019, but these markets have shown marginal growth when compared with 2018[31].

[30] Historical country-level data from 2000 to 2019 is extracted from World Bank data catalogue, indexed to 2015. Provincial data from 2013 to 2019 is drawn from SA Tourism's online dashboard. South Africa 2022 values is based on SA Tourism website. Data includes both overseas and SADC arrivals. Provincial estimate for 2022 is estimated by extrapolating January to March 2022 international arrivals as reported in the Western Cape Tourism's Performance Recovery report Q1 (2022).
[31] DEDAT/Wesgro (2021), Western Cape Tourism Blueprint.

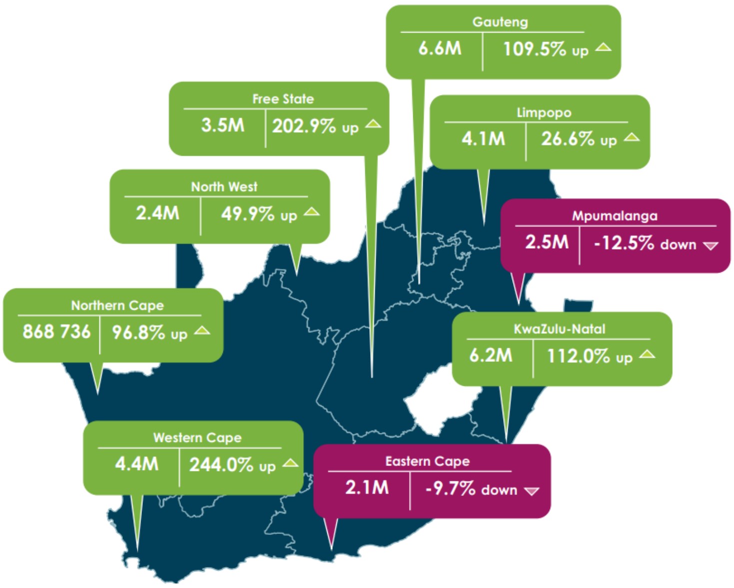
Figure 7.6 International visitor arrivals, benchmark economies.



Source: World Bank, SA Tourism

Complementing demand stimulated by international tourists, the Western Cape has a significant domestic tourism market which adds to the region's resilience and enables the tourism industry to better 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 (see figure 7.7).

Figure 7.7 Domestic tourism performance in 2019.

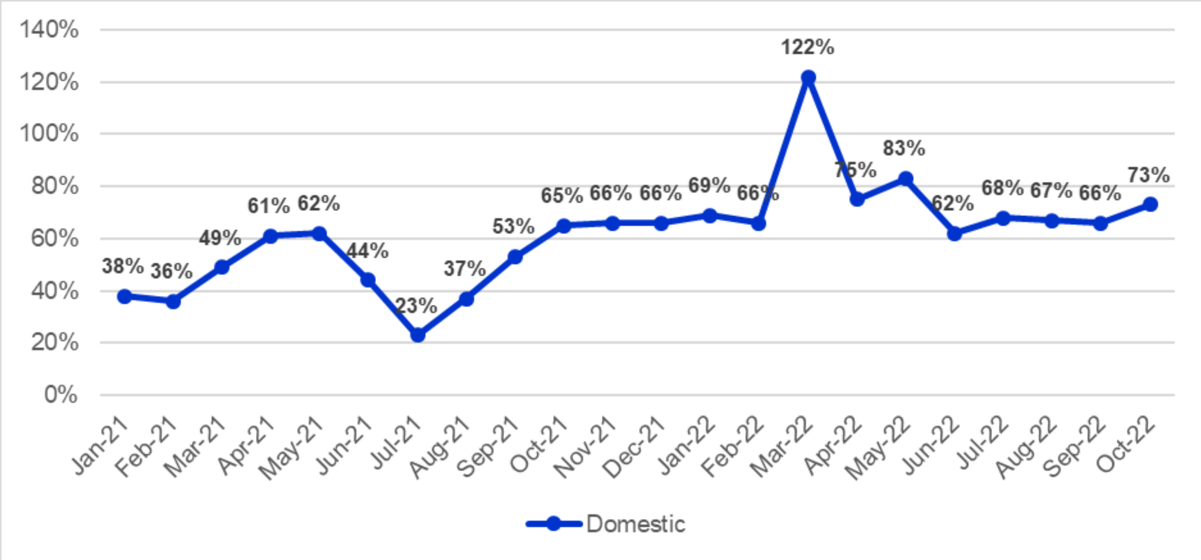


Source: SA Tourism, Wesgro, DEDAT: Western Cape Tourism Blueprint

The figure below (see figure 7.8) indicates that two-way domestic flights at Cape Town International Airport (CTIA) had a steady recovery over 2022, with a recovery to 73% of 2019 levels by October 2022. ACSA reported a 100% recovery by December 2022[32].

[32] IOL (2023), [ACSA stats show almost 100% recovery at Cape Town International Airport.]()

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



Source: ACSA, DEDAT

Subsequently, the Western Cape's recovery in international tourism arrivals from Covid-19 has been much faster than in South Africa. The continued recovery of tourism must be cognisant of factors affecting tourists such as crime, deteriorating public transport services, privatisation of water bodies and beaches etc.

2.2 Export market challenges and opportunities

The Western Cape's exports are concentrated within a limited number of industry categories and markets. 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 to diversify its export base.

As part of the recent Western Cape Government and Wesgro export strategy development process, a SWOT analysis was undertaken in partnership with public and private sector stakeholders, to describe the main internal and external factors affecting export development in the Western Cape. Some of the main challenges identified through the SWOT analysis that will need to be addressed include:

- **Cost and inefficiency of trade infrastructure.** Logistics and infrastructure costs are one of the key impediments to realising the region's trade potential. The available evidence suggests that transport delays and costs are particularly high in South Africa, and this is largely because of rail and port inefficiencies and aging infrastructure, as well as the widespread use of road freight. The availability and cost of shipping containers to and from the Western Cape is problematic; and there is limited air access which impacts cargo transport capacity from Cape Town as well as on the tourism markets. For the services industry, the high cost and availability of high-speed broadband connectivity can negatively impact on service-based exports.
- **Insufficient knowledge, experience, and supply when it comes to accessing international markets.** The Western Cape is traditionally known for its ability to supply world-class agriculture-related products. To raise exports and to deepen industrialisation, the province will need to diversify into a wider range of products,

services, and markets. This will require an increase in the province's production capabilities and the development of a new tier of exporters.

- **Difficulties in navigating tariffs, standards, and other regulatory barriers.** Engagements with stakeholders point to the significant regulatory obstacles and costs encountered by exporters in accessing foreign markets, and 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 often differs from the national norm. This means that national policies may not always take cognisance of Western Cape priorities. In other cases, like agriculture, the Western Cape has a more fully developed ecosystem than other provinces and may also find its experiences differ.
- **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. For the 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 are a few of the key opportunities emerging for the Export and Domestic Market Stimulation Priority Focus Area:

- **Strong linkages to the growing African economy.** The African continent presents a myriad of opportunities as local companies seek to grow their global footprint beyond the traditional United States and European markets. There are also several lucrative tourism niche markets which could diversify and deepen the Western Cape's tourism base, such as global health and education tourism.
- **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 Business Process Outsourcing (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 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.** Exports are currently concentrated in a relatively small number of largely agricultural products. To achieve the export growth target in difficult economic conditions the province will need 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. This will be a crucial component of the strategy implementation plan. To assess how exports can grow, an independent study was commissioned by Wesgro and DEDAT in 2021 to identify economic diversification opportunities or frontier products, for the Western Cape province. The province has also

invested in a Product Complexity Mapping tool, pioneered by Professor Hausmann at Harvard University's Growth Lab. The Product Complexity Mapping research and model that was developed for the Western Cape serves to identify immediate opportunities to explore new markets for 'existing' products produced and exported from the Western Cape, while also highlighting longer-term opportunities for new untapped export products.

It should be noted, however, that while the product complexity is a useful tool to determine potential products for export expansion, it provides fewer insights for the tourism and services sector as it uses HS codes to determine potential. Consequently, the Product Complexity Mapping instrument needs to be complemented by other methodologies to assess tourism and services export potential.

2.3 Export solutions: highlighting the importance of exports

The Western Cape's exports are highly concentrated within a small group of largely primary products: citrus fruit fresh or dried (12%), wine (6%), crude oil (6%), grapes (6%), apples, pears and quinces, fresh (6%), refined petroleum oils (5%), flat rolled products of iron or alloy steel (2%), strawberries, raspberries and cranberries (2%), fruit juices and vegetable juice (2%), apricots, cherries, peaches and plums (1%) and the rest (52%).

The Product Complexity Mapping analysis identifies significant opportunities to grow the export base of the Western Cape. In the short term, the food processing, agricultural, basic iron and steel, wine, and other (specifically the manufacturing of jewellery and related goods) industries present the greatest overnight opportunities. This 'untapped' potential (in nominal annual value terms) amounts to more than R500 billion.

Enhanced competitiveness, sustainability, and capabilities of exporters. The difficulties associated with exporting requires an immense commitment on the part of owner-managers of enterprises, many of which have limited financial and managerial resources as well as administrative and control systems, which are important for venturing into international markets. Many of these issues are cross-sector challenges, requiring horizontal enablement to support across the exporter base.

While many small firms export, they tend to be more reactive and let opportunities come to them. Many companies, especially small enterprises, tend to underestimate the difficulties of export market entry, and are overwhelmed by the intricacies, laws, and regulations that apply in foreign markets. The Product Complexity Mapping analysis highlights the significant medium- and long-term benefits that may emerge from unlocking the province's untapped export potential. In the medium-term, the Western Cape could grow exports by raising the number of exporters (or exports) where the Western Cape has some export capability – but the province's 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.

2.4 Challenges unpacked

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, which includes ethical trade standards, environmental standards, carbon foot-printing, voluntary 'good agricultural practice' standards and quality management systems.

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.

Leveraging trade agreements that South Africa has concluded and negotiations that are ongoing are important to growing exports. For the agreements that are in place, the focus of the strategy will be to ensure that exporters in the Western Cape are aware of the preferences provided, and that they can access them when exporting to these countries.

Currently South Africa is engaged in a limited number of trade negotiations – most notably at continental level – where 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) are ongoing.

More efficient, cost-effective, and sustainable 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.

The closing of borders due to lockdowns to curb the spread of the Corona virus in 2020 led to significant disruptions in global value chains. As the world reopened and the South African economy recovered, further disruptions have been experienced because of capacity constraints at South Africa's ports and airports, ongoing inefficiencies in the rail system, inadequate road infrastructure and changes in road transport regulations.

3. Challenge and opportunity statements

3.1 Challenge statements include:

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:

- Cost and inefficiency of export and freight infrastructure compromises competitiveness and productivity, resulting in exporters being unable to deliver timeously to their customers.
- Difficulties of exporters in navigating tariffs, standards and other regulatory barriers in target markets.
- Lack of coordination across government and limited WCG input at a national level, leading to Western Cape products and services not benefitting from trade agreements. Local businesses are not aware of export opportunities and the support provided by government.

- Lack of information about Western Cape products and services in target markets so that buyers can include the Western Cape as a potential source destination.
- Business-specific challenges such as resource constraints and lack of adequate support to assist exporters to ensure that Western Cape products are compliant with standards required by export destinations.
- Weak ecosystem coordination amongst exporters within certain industries, leading to information asymmetry and lost opportunities in mentorship support and advice.
- Natural resource quality deterioration and climate change will 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 are competitive, efficient, cost effective and sustainable.
- Improved market access and lower barriers to trade, including that Western Cape interests are accommodated in national policies, trade agreements and incentive support.
- Exporters have the necessary knowledge, capabilities, skills and support tools to export successfully.
- Vibrant and broad exporter ecosystems that share intelligence, contacts and collectively address problems and opportunities.
- Highly visible brand, positive sentiment and good reputation of the Western Cape and sector brands and capabilities, which is seen as a desirable source of quality, reliable and cost-effective goods and services.
- Strong networks and support in targeted countries – including Africa – to drive new exports and opportunities.
- Diversification of Western Cape exports and services, which allows for a wider range of specialisation and scaling of goods and services inputting 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.

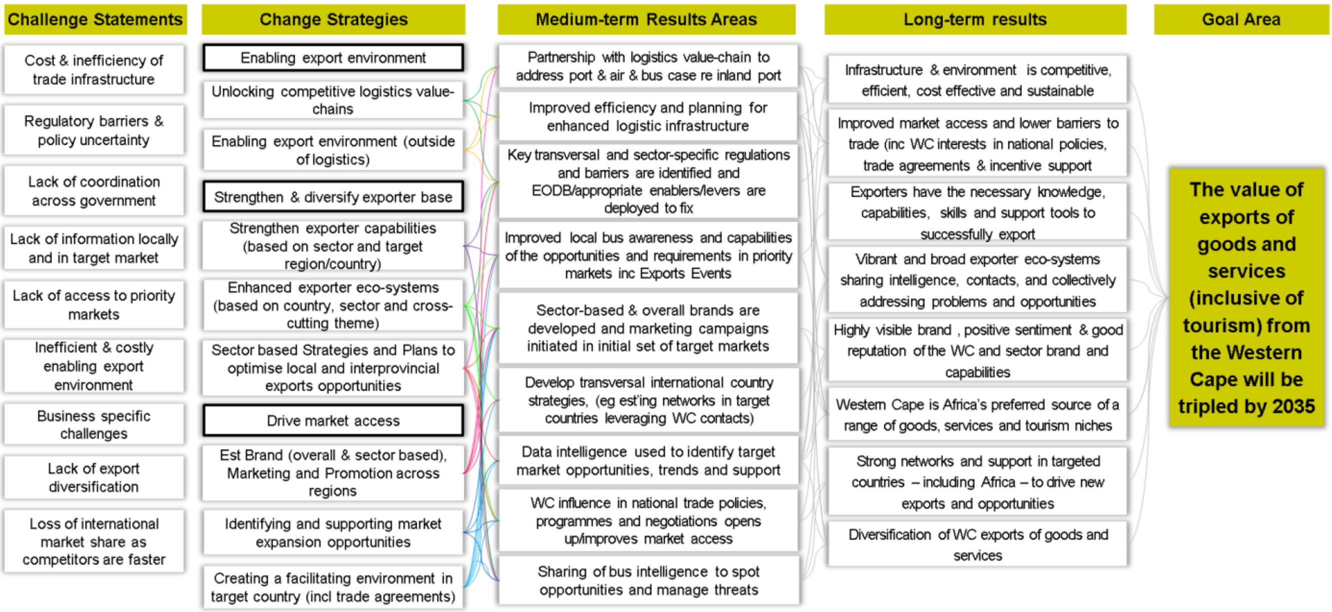
4.2 Goal statement

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

As part of the GDP formula, economic growth is strengthened by a positive and increasing difference between export demand and imports, where the former enables the private sector to have a market reach larger than the domestic need (i.e., obtain economies of scale) and the latter is a signifier of domestic consumption of products that local businesses are not able to supply competitively. Given the current value of the Western Cape's exports, the goal statement means that exports would have reached R498 billion by 2035, with economic benefits resulting in additional GDP Growth of R99.154 billion and additional employment of 366 596 people[33].

5. Strategic level theory of change for the Priority Focus Area

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 **Priority Focus Area**.



6. Change strategies and interventions

The Stimulating Exports and Domestic Markets Priority Focus Area will need to institute various change strategies, conducive to achieving the overall goal of tripling the value of exports of goods and services (including tourism) from the Western Cape by 2035. These change strategies include 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:

- **Improved freight logistics.** Unlocking and further developing the effectiveness, efficiency, and competitiveness of the Western Cape's logistics value chain. This needs to include 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 systemically relieve the congestion at the Port of Cape Town, but also to develop and implement a holistic freight plan, inclusive of infrastructure, for the province to accommodate for the anticipated export growth. This freight plan should include exploring an increase in cold storage capacity at ports and possibly the diversification of container port infrastructure in Mossel Bay to introduce resilience and additional accessibility for

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

exporters and enhancement of Saldanha Bay Port as a logistics hub beyond the export of bulk commodities. Additionally, we will seek a Transnet and logistics industry agreement to expand their **24-hour value chain operation** at the Port of Cape Town so that port assets are fully optimised. The port does operate 24 hours daily throughout the year but its depots and packing houses feeding the port do not operate 24 hours a day. Part of the effort is to get the entire value chain running 24 hours a day. We 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).

- The **Air Access Initiative** will continue to grow to allow for better connectivity to Africa and other parts of the world, and in partnership with ACSA and the private sector, we will seek to expand the airlift and cargo facilities to meet the anticipated growth of products and people flowing through Cape Town Airport. Moreover, working with willing municipalities and the private sector, we intend to establish **a strengthened network of airports**, collaborating with the private sector to enhance connectivity and access for goods and tourists within our region and to unlock a variety of new potential services such as aircraft maintenance, pilot training, and drone hubs and testing.
- **Supportive compliance infrastructure and regulations.** We will adopt an ease of doing business approach for 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**, and while we aim to make our current processes efficient, we also want relevant legislation, regulations, and municipal by-laws to be appropriate and consistent. Regulatory EoDB and leveraging economic assets need to include clear and enhanced access to government assets. The aim for EoDB is about systemic change (i.e., at legislative or regulatory level) rather than just making processes efficient. By way of illustration, to meet large export contracts, our businesses appear to be unable to collaborate with one another without transgressing the Competition Commission regulations. As part of the drive, we will address the root of the problem rather than just trying to navigate the symptomatic results of the problems. Complementing this we also aim to **enhance testing and phytosanitary capabilities** to meet certification requirements, and work closely with the Energy Priority Focus Area team in reducing our carbon footprint to address the anticipated carbon border adjustment barriers in our target export countries that will impact on our exports.

6.2 Strengthen and diversify the Western Cape export base

The following interventions would need to be considered and implemented:

- **Economic IQ.** Unpack the potential export opportunities within the provincial economy in terms of (a) products; (b) services (including digital); (c) e-commerce; and (d) tourism. Economic IQ will be produced and used smartly, and will include the promotion of research, the use of supply and demand data for decision making to accessing international markets; data intelligence used to identify target country opportunities, trends and support; sharing of business intelligence to spot opportunities and manage threats, and to increase the share of trade by SMEs and micro businesses. As part of the focus on Economic IQ, and together with 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.

- **Coordinate and leverage the activities of other Western Cape Government departments** that can assist in broadening and strengthening the private sector-driven export base, such as sports events, eco-tourism offerings, cultural offerings for the tourism industry, education as an export service, health tourism, and creative activities to feed into growth opportunities etc.
- **Enhance and develop exporter ecosystems**, including support for the Export Councils for the Western Cape export products and services (based on country and sectors) and build export coalitions where Export Councils do not exist. Proactively engage with national government with respect to their export Councils Compacts and complement this through providing support and input into the relevant Export Council's business plans. The sharing of business intelligence to identify export opportunities and manage potential threats to exports will be important, and this can include harnessing existing knowledge through engagement with the top 100 exporters to gain their key insights to determine opportunities and challenges, and where feasible, leverage off their international networks to improve access to international markets. To better understand the ecosystem, stakeholder mapping for growth opportunity value chains will be conducted to enhance purposeful collaboration. To address information asymmetry, intelligence emerging from the Economic IQ regarding export markets and potential export opportunities will be made available to all exporters and potential exporters.
- Together with the relevant ecosystem, **export strategies and plans** will be developed and implemented for 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.
- The **export capabilities** in identified industries will need to be strengthened, including improving factors of production and competitiveness to diversify export markets, products, services and tourism sources, and the exporter understanding of export processes and in-country requirements. In understanding the increased risks and uncertainty facing exporters when entering new markets, **partnerships with development finance institutions** will be sought to reduce risk.

6.2 Drive market access

The following interventions would need to be considered and implemented:

- **Country plans** will be developed and implemented, based not only on what the Western Cape currently sells to the importing market, but inclusive of the growth potential and needs of the target country.
- An **enabling and facilitating environment in target countries** will be created, developing strong support export networks in target countries that include local business chambers and South African associations, and leveraging off our local networks to strengthen government, cultural, academic, and business relationships in target markets.
- **Export opportunities into Africa** will be identified and pursued, building commercial relationships on the continent, and harnessing the opportunities presented by the AfCfTA.
- **Inter-governmental coordination** and advocacy will be strengthened, particularly in terms of inputting into and influencing national trade agreements to enhance export opportunities to the European Union, to the United State through the African Growth and Opportunity Act (AGOA), and into Africa through the African Continental Free Trade Agreement (AfCFTA). This will allow for Western Cape export priorities to be better incorporated into trade agreements. In addition, the **Western Cape's bilateral**

cooperation footprint will be expanded, accompanied by a plan of action comprising of a range of cultural, economic, and where possible, academic themes. In this, the Western Cape Government will leverage its constitutional mandate of tourism and trade to support exporters and tourism private sector players in the Western Cape.

- Together with the network of ecosystem, a **Western Cape brand** will be established and promoted, informed, and strengthened with 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.
- Technology will be used for enhanced **matchmaking**, and in this respect, the **'Cape-Able' export platform/portal** will continue to evolve, enabling access to export intelligence and to facilitate trade between exporters and destination markets (including intelligence on consumer preferences in destination markets). This platform will also be used to develop a professional services platform to support the export of professional and online services.
- The province needs to better leverage cross-selling opportunities, e.g., arrive as a tourist, depart as an investor or buyer of Western Cape products. This 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.

7. Considerations with respect to the Priority Focus Area and its change strategies

7.1 Assumptions

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

- The export Priority Focus Area 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 amongst private sector stakeholders and government institutions.
- There will be continued external export demand because the plan assumes no disruptive geo-political events.
- The Economic IQ lever is established and sufficiently resourced.
- It is understood that 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.
- There is a recognition that the Western Cape Government needs to harness the collective influence and networks of all stakeholders rather than try to centralise all activities into one institution.
- Municipalities and WCG work closely and collaboratively to successfully develop a strong, coherent brand and implement promotional activities.

7.2 Risks

- Inability to resolve regulatory barriers and policy uncertainty, which stifles potential export activity.
- The inability of the Western Cape Government to resolve inefficient and costly export-enablement, including logistics and infrastructure, given that the mandate falls outside the Western Cape Government's control.

- A loss of market share as competitors can access markets faster and at less cost.
- Increasing nationalism and protectionism of international competitors who will raise formal and informal barriers to the entry of South African goods and subsidise their exports.
- Some interventions have heavy dependence on others for successful implementation.
- Western Cape brand reputation may be overshadowed and diluted by the overall South African brand.
- If the Western Cape does not reduce its carbon intensity, climate regulations and carbon tariffs will slow down exports to our biggest markets.

7.3 Research

The following research needs have been identified:

- Additional areas identified as worthy of further exploration include green hydrogen production and export opportunities, e-commerce, and growth in export of digital services as well as the need to strengthen the overall ecosystem that supports and enables businesses to build commercial relationships and to access export markets.
- Domestic (inter-provincial) diagnostic of the services sector and the tourism sector to identify additional export opportunities.
- Analyse the impact of carbon border adjustments on relevant Western Cape export products and possible adaptation approaches which would reduce the carbon footprint of those products.
- Data-informed freight plan and related project preparation work will be required for the proposed infrastructure expansions and upgrades as it relates to logistic efficiency and reliability in ports and airport.
- The development of a business case for being able to present an evidence-based proposal for increasing the number of ships calling into the Western Cape ports.
- Business cases will need to be developed to benchmark relevant regulations and to be used in advocacy campaigns.
- Scoping and business cases will have to be conducted regarding testing facilities to ensure that exporters are easily able to comply to international certification requirements.

> Note: Linkages to other Growth for Jobs enablers, accelerators, and levers, arising from the Priority Focus Area, as well as linkages to the safety VIP and well-being VIP, have been captured in the annexure.

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

8

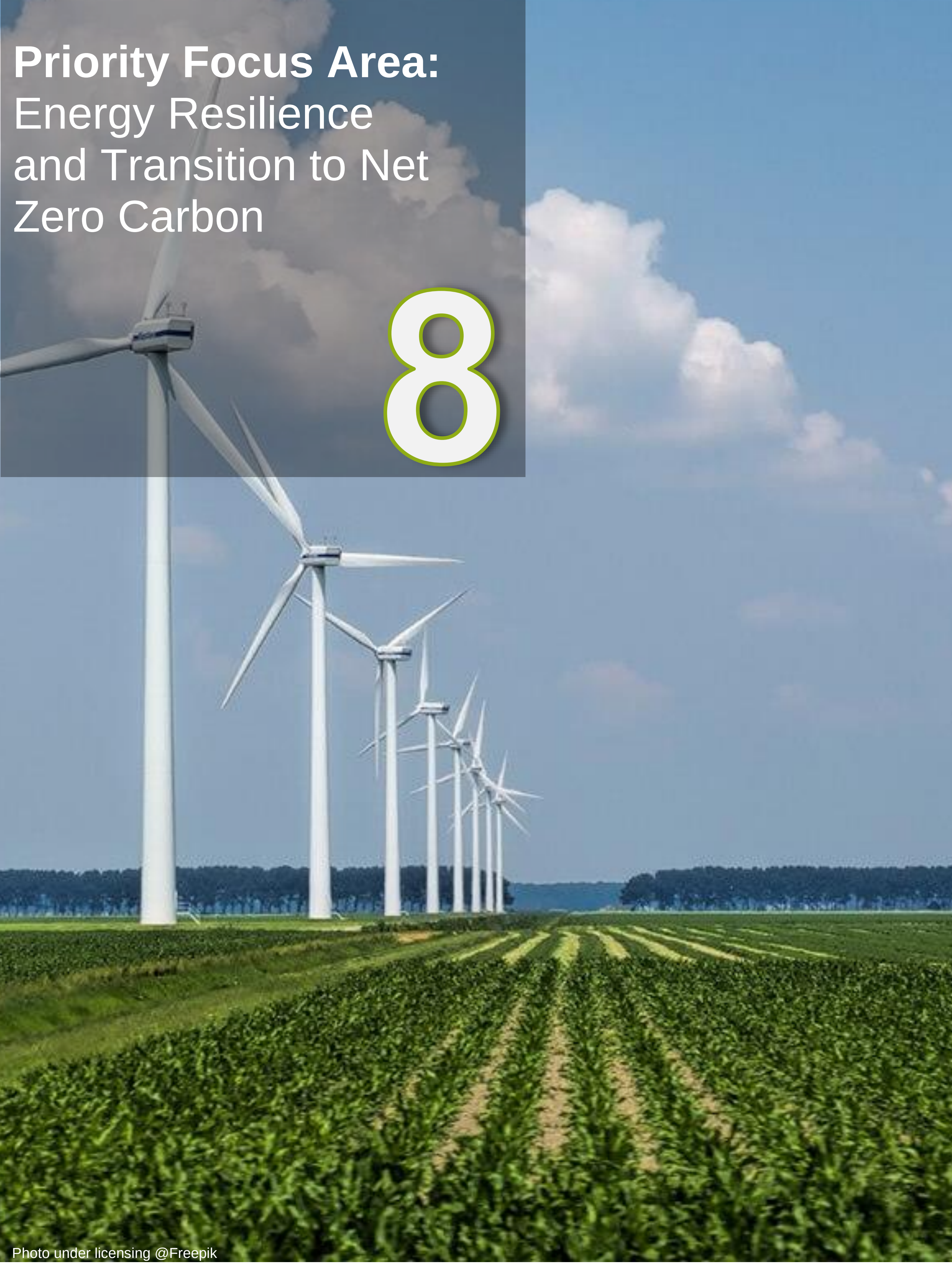


Photo under licensing @Freepik

Chapter 8. Priority Focus Area: Energy Resilience and Transition to net zero carbon

1. Introduction

Energy is a critical enabling factor for economic growth. 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.

The dual imperatives of a transition from fossil fuels to a more balanced mix of renewables in the energy mix, coupled with the need to ensure the security of affordable electricity supply, sets the stage for one of the most significant challenges inherent in the Western Cape Government's Growth for Jobs Strategy. Whilst renewable energy has grown rapidly and has the potential to contribute significantly to socio-economic development, it still represents a small share of the total amount of energy produced.

The Western Cape, with its sound infrastructural base and conducive climate for renewable energy generation, has attracted and continues to attract investment in the renewable energy sector. This has the promise of contributing significantly to economic growth going forward, not only through providing energy for industries and households, but also through job creation within the renewable energy sector itself.

The Council for Scientific and Industrial Research's (CSIR) least cost pathways have shown that 1.2 million jobs could be created in South Africa along the renewable energy value chain, even as jobs in sunset industries such as coal mining decline. South Africa committed to net zero targets through its Low Emissions Development Strategy (2018). In 2022, as signatory to the Under2 Coalition[34] global network of states, regions, provinces and other sub-national governments, the Western Cape Government reiterated its regional commitment to become a net zero greenhouse gas emissions province by the year 2050.

The Western Cape Government, with its sound infrastructural base and conducive climate, has attracted, and continues to attract, investment in the renewable energy sector but is constrained in its ability to influence energy markets. It cannot directly impact the price of fossil fuels by increasing the tax or excise components or through passing enabling legislation. It can, however, use its limited policy and incentive levers to make an important difference by influencing and enabling change at a local level through regulations, an enabling environment and pricing.

The key energy issues that the Growth for Jobs Strategy seeks to address include ensuring the availability of affordable, reliable electricity supply, creating an enabling environment for the transition from fossil fuels to renewable sources of energy and leveraging the energy transition as a source of competitive advantage for the Western Cape's economy.

[34] https://www.theclimategroup.org/under2-coalition.

2. Situational analysis

South Africa's energy supply shortfall of approximately 6 Gigawatts (GW), resulting in intensive and frequent load shedding that impacts on business productivity and confidence, together with the export impacts of a carbon intensive economy, indicate the need for significant amounts of new and low carbon energy (Meridian Economics, 2022). The energy sector has been hampered previously by a lack of access to clear, concise information regarding the legislation governing renewable energy projects at a local and national level. Added to this, information required about the financial feasibility of projects, municipal capacity constraints and a lack of expertise in implementing enabling legislation and novel solutions such as wheeling, further confound implementation efforts. The implementation of green technologies, products, and services in businesses across all sectors of the economy, is required to improve resource resilience and reduce the environmental externalities of businesses (demand side).

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 to evacuate the power and deliver where the demand is located. 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, with issues that include access to servitude, permissions, cumbersome Environmental Impact Assessment (EIAs) processes and access to construction skills. Energy storage solutions, while coming down in costs, are still very expensive.

National electricity planning is outdated and has lacked implementation, and unfortunately there is no Long-Term Electricity Plan (LTEP) for the Western Cape to counter the national 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.

With 93 countries committing to net zero targets by 2050, green hydrogen (GH2) is critical to the global energy and decarbonisation drive (made more viable by a decrease in renewable energy costs and global economic shocks). While GH2 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 no strategy or funds for distribution and storage infrastructure[35].

The growing dominance of carbon border adjustment (CBA) mechanisms, which have the potential to increase the price of imports from carbon intensive countries such as South Africa, is projected to reduce the competitiveness of exports from the Western Cape, thus negatively affecting exports from the region. Four of the Western Cape's top six export markets, representing 53% of exports, already have at least two carbon pricing tools in place. The Western Cape has, in recent years, been the largest provincial beneficiary of direct foreign investment (FDI) in renewable energy projects, but the region requires 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.

[35] https://www.theclimategroup.org/under2-coalition

To support the goals of energy security, the just 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 context of the JET IP identified the scale of need for investment in the priority sectors of electricity, aimed at focusing on decarbonisation of the whole coal belt (and in particular the resultant job losses), new energy vehicles focusing on transitioning the automotive sector value chains (as the global shift to Electric Vehicle production gains momentum), and green hydrogen focusing on key interventions to set South Africa up to become a world-leading exporter of GH2.

Additionally, two Just Transition cross-cutting priorities have been identified, namely skills development and municipal capacity building, as key components of the JET IP. This is mainly to ensure that skills are in place to match the growth in new clean sectors and support worker transition, navigate the energy transition and play a dynamic and responsive role in the energy system for the benefit of communities.

Eskom's Energy Availability Factor (EAF) continues to decline and, in addition, plant breakdowns, sabotage and the decommissioning of Eskom coal plants by 2035 will mean that accessing alternative sources of reliable energy will be an economic imperative.

The global energy supply crunch, exacerbated by the Ukraine-Russia conflict, means that energy prices are likely to remain high and volatile. The costs of renewables have risen as supply chains struggle to adjust to post-pandemic global tensions and conflicts and as the demand for renewable energy systems increases. Despite this, the global renewable energy technology average prices have been dropping steadily since 2010[36] , thus the adoption of renewables in the energy mix is expected to continue to grow alongside increasing attention being paid to the mix of clean technologies by policy makers and investors.

Infrastructure and grid reliability issues will continue to impact markets and dominate policy discussions. In the sixth bid window (BW6) of the Renewable Energy Independent Power Producer Procurement Programme [REIPPPP] only 860MW in projects were given the go-ahead, despite the bid window calling for new generation capacity of 4 200MW as, according to the Minister of Mineral Resources and Energy, there was 'no grid capacity', which impacts the province's ability to wheel power and limits the development of more projects. No wind projects were awarded in BW6, and this has led to widespread disappointment among wind energy developers. This has negatively impacted investor confidence in the energy space due to policy uncertainty (just as investor confidence was on the rise after the damagingly long delay in the REIPPPP programme).

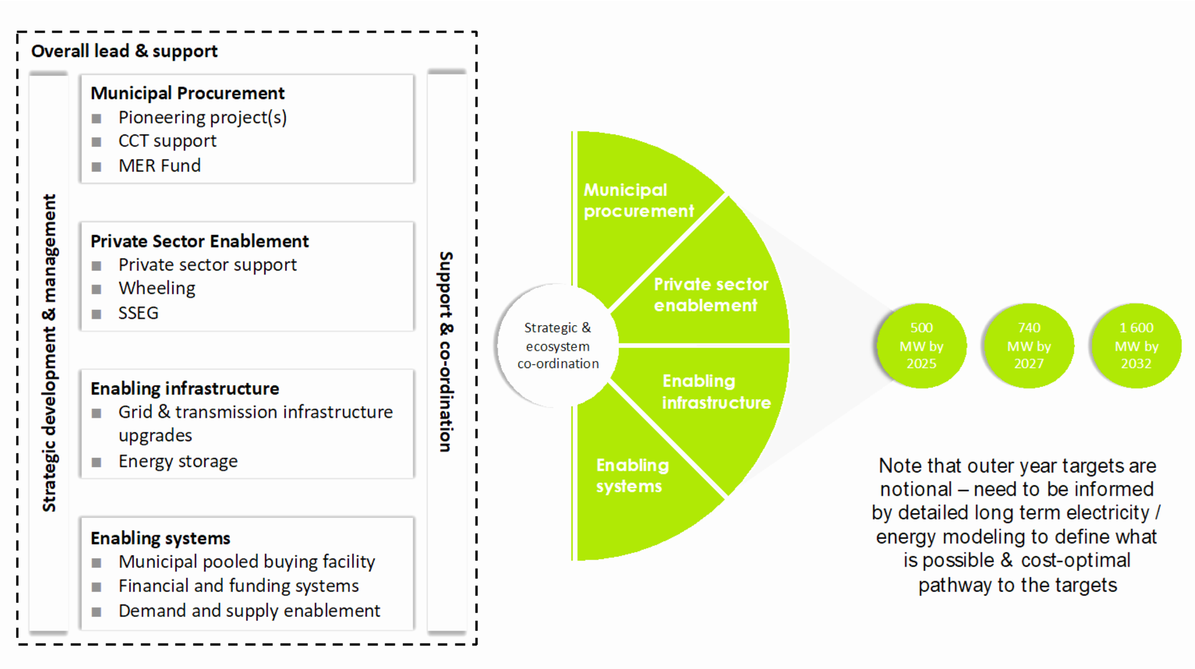
The energy crisis in South Africa does not have any simple solutions but will require a total overhaul of the power sector, including the unbundling of Eskom and increasing diversification and decentralisation of the energy supply. An important move towards achieving energy resilience in the Western Cape will be a move towards distributed energy resources at a decentralised level, which will have several infrastructure-related implications. The good news is that the required national regulatory and other changes to enable this overhaul and reconfiguration of the energy sector are happening at an unprecedented rate.

The Western Cape Government has recognised the extent of the energy crisis facing the country and the Western Cape and, therefore, the region's approach is to develop new

[36] Green Cape, 2022 Energy Services Market Intelligence Report.

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. On the municipal Independent Power Production procurement front, transaction advisory services need to be provided to advance projects towards implementation, while exploring and implementing a pooled buying mechanism that should enable lower risk and cost projects and enable the inclusion of more municipalities. On the private sector side, support needs to be provided to advance utility scale projects, wheeling and Small-Scale Embedded Generation (SSEG) at a bigger scale and more urgently, requiring the development and implementation of new and innovative financing and other mechanisms. The Municipal Energy Resilience Initiative (MER)[37] was developed to meet a target of producing an additional 500 MW of energy in the Western Cape by 2025, with further notional targets for outlying years. The structure of this initiative is illustrated below.

Figure 8.1 Municipal Energy Resilience initiative.



Source: Western Cape Government

Through its leadership, the Western Cape Government continues to support the overall energy stakeholder ecosystem, including all spheres of government and the private sector. It also provides direct strategic support and direction through the MER initiative, including communications, the establishment of appropriate governance structures as well as data tracking services.

3. Challenge and opportunity statements

Drawing from the situation analysis as well as the inputs from participants in the stakeholder engagement workshops, several challenges and opportunity statements have been identified.

3.1 Challenge statements include:

- To end energy insecurity through increasing the reliable supply of energy/electricity to the Western Cape.

[37] Western Cape Government (2021), Municipal Energy Resilience Initiative.

- To reduce the Western Cape's dependency on Eskom as an electricity supplier to the province.
- To enable and incentivise efficient energy usage, thereby reducing demand to match available supply.
- To plan for, facilitate and develop a localised energy network, with supporting grid infrastructure, that ensures energy security and resilience in the Western Cape.
- To strengthen the local grid to support the transmission of additional renewable/low carbon energy.
- Municipalities are not easily able to purchase electricity from Independent Power Producers as this has not traditionally being undertaken, and as a result, they do not have the established processes and capacity to enable accelerated energy procurement.
- 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 extent possible.
- To gather and make available information and intelligence to inform effective energy decision making in the Western Cape (economic IQ).
- To strengthen the energy ecosystem in the Western Cape to ensure greater collaboration amongst and between private sector stakeholders and government, which will result in shared information, aligned action, and synchronous utilisation of resources.
- To increase the speed with which energy related investment opportunities are assessed and incentivised (where appropriate).

3.2 Opportunity statements include:

- To optimise the availability and affordability of reliable, low carbon energy to meet the needs of the growing Western Cape economy, inspire business confidence, secure export competitiveness, and attract investment.
- To make investment opportunities for the generation of low carbon and renewable energy in the Western Cape visible and attractive to potential investors, including the development of an export-ready green hydrogen hub in Saldanha Bay and the development of the value chain manufacturing opportunities in Atlantis SEZ.
- To enable the generation, procurement, and trading of low carbon energy by municipalities, the private sector and households.
- Businesses, citizens, and government adopt world-class energy-efficient production processes and operations and have reduced the carbon intensity of their energy consumption.
- Strong and well-informed energy ecosystem with international linkages to low carbon export products and services.

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, 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.

4.2 Goal statement

Fifteen Terawatt hours (TWh) (approximately 5 700MW installed capacity) of renewable energy generation in the Western Cape and R96 billion in related investment by 2035[38].

Energy resilience is a binding constraint of the regional economy. The provision of sufficient energy supply is a critical horizontal enabler for meeting the R1 trillion goal target. Over and above this, energy can be, in and of itself, a contributor towards the goal target. Economic modelling has projected that the economic benefits[39] of achieving the Energy **Priority Focus Area** goal, over and above the projected R96 billion required for energy generation investment, would result in additional GDP growth of R38 billion as well as an additional employment of 95171 jobs.

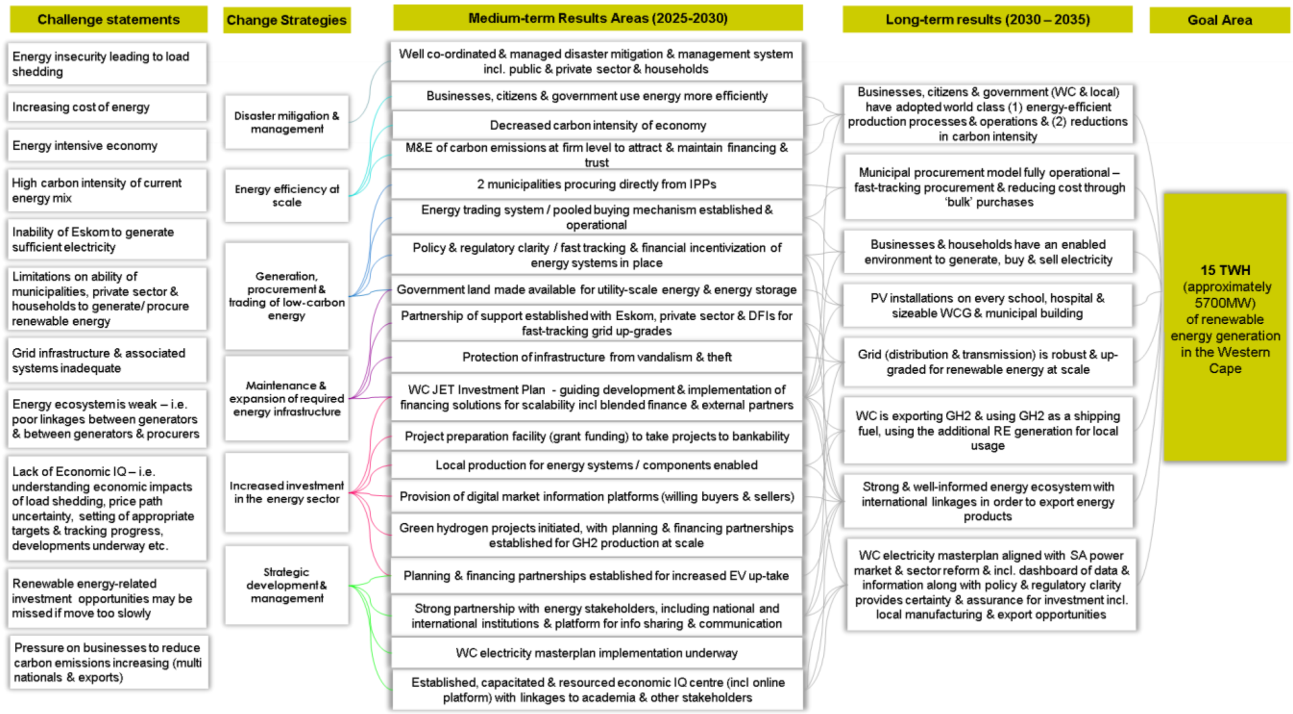
5. Strategic level theory of change for the Priority Focus Area

A theory of change workshop was held for this Priority Focus Area. This workshop was designed to be a collaborative, interactive session involving the Growth for Jobs Strategy development team and workshop stakeholders. The participants workshopped the Priority Focus Area's objective statement, identified the goal and discussed several change interventions to realise the goal and objectives. Using the inputs from the workshop and subsequent stakeholder discussions, a high-level theory of change was developed.

---

[38] 15 TWh 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. 150 TWh would be needed for GH2 production projections. These figures would need to be confirmed through long term electricity planning i.e., proper energy modelling.

[39] Load shedding models and data from Nersa and IHS. DEDAT and Conningarth Consulting Economists used a Western Cape Social Accounting Matrix for economic benefit calculations. Energy investment-based WC share of IRP 2019.



6. Change strategies and interventions

Based on the theory of change, to achieve the goal statement, the energy resilience and transition to net zero carbon Priority Focus Area will need to institute various change strategies, conducive to reaching the goals and objectives identified. These include, amongst others, (a) energy efficiency at scale; (b) generation, procurement, and trading of low carbon energy; (c) increased investment in the energy sector; and (d) strategic development and management.

6.1 Energy efficiency at scale

The following interventions are required:

- Conducting **provincial energy efficiency surveys**[40] which will serve as a baseline for the private sector as well as for government and households to assess and monitor their energy efficiency and benchmark for energy efficiency improvements.
- Developing a **provincial energy efficiency programme**[41], which will be coupled with developing and implementing financing mechanisms and access financing for implementation of the 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.

6.2 Generation, procurement, and trading of low carbon energy

The following interventions are required:

[40] 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.

[41] 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).

- Streamlining processes for SSEG registration and creating an **enabling and cost-effective wheeling framework**, which includes the development and publication of 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 security. Parallel to the finalisation of the wheeling and SSEG frameworks, investigate and, if viable, implement the innovative model of decentralised electricity generation of households feeding into the grid, where every rooftop is an opportunity to generate electricity. Coupled with the necessary distribution infrastructure capacity and appropriate smart meter technology, this would effectively create a **virtual power station**.
- Testing of individual municipal IPP procurement projects whilst working on establishing and operationalising an **energy trading system/pooled buying mechanism** to enable municipal procurement of renewable energy at scale and with speed.
- **Make government land** available for utility scale energy generation and energy storage, including pre-approvals of regulatory and EIA requirements.
- Stimulate the green energy market by developing a **digital platform** for the sharing of energy data and to enable transactions between accredited vendors and customers for green energy solutions and encourage financial institutions and the property sector to incentivise renewable energy adoption and energy storage at household level.
- **Consider the adoption of natural gas alternatives** as a transitional energy source, using sound evidence-based and least regret cost decision making.

6.3 Maintenance and expansion of required energy infrastructure

Interventions required include:

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

6.4 Increased investment in the energy sector

The following interventions will be required:

- Develop a **Western Cape Just Energy Transition (JET) Investment Plan**, which could include establishing a project preparation facility (grant funding) to take identified projects to bankability; removing any regulatory constraints to investment in low carbon energy; and accessing global climate finance for the transition while improving energy security.
- Planning and forming partnerships to enable **green hydrogen production** at scale, including the facilitation of necessary infrastructure and enabling environment for exports.

- Plan for an enabling environment for **electric vehicles (EV)**, including phasing in the EV replacement of provincial government ICE vehicles, the roll-out of EV charging points, and establishing financing and other partnerships for increased EV uptake.
- Work 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, and 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.
- Support and incentivise tertiary and 'citizen scientist' research into renewable energy relevant to the Western Cape.
- Encourage local production of key renewable energy components and/or systems, which should include supporting SMME renewable energy opportunities, especially for women, and develop key skills and competencies in renewable/low carbon energy.

6.5 Strategic development and management

The following interventions are required:

- Working with Eskom, to develop a **long-term electricity/energy master plan** for a reliable, decentralised, distributed energy system for the Western Cape to deliver the required energy capacity to 2035 in a cost-optimal manner, providing clear policy direction to stimulate business confidence and investment.
- Develop strong partnerships and a **strengthened ecosystem** with energy stakeholders, including national and international institutions and establish, capacitate, and resource **economic IQ capabilities** (including an online platform) with linkages to academia and other stakeholders.

7. Considerations with respect to the Priority Focus Area and its change strategies

7.1 Assumptions

Some of the assumptions that need to be borne in mind for achieving **Priority Focus Area** success include:

- An effective model that enables officials from different departments and spheres of government to work transversally should be in place. This needs to be developed and implemented.
- An effective and PFMA-compliant model that allows the private sector, the public sector, and academia to collaborate, and partner needs to be in place. This needs to be developed and implemented.
- Municipalities will be convinced of the need for change and being partners in delivering change.
- Whilst a singular intervention can be successful, greater impact will be achieved if done in conjunction with other interventions. In other words, there is no magic bullet, and it is assumed that this will be understood and accepted.
- Time and resources will need to be 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 amongst partners, who may lose interest or motivation due to the long-term impacts or changes in political leadership.

7.2 Risks

- Some interventions have heavy dependence on others for successful implementation.
- As 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.
- Decentralised electricity generation mitigates the risk of a lack of adequate electricity supply. However, should better pricing and supply emerge in the reconfigured Eskom, this could undermine the private sector, the Western Cape and local government investments.
- Continued reliance on national policy and national guidelines to move forward, including the required upgrading of the transmission and distribution grid.

7.3 Research

- Given that considerable capex will be required to address the massive energy shortfalls, project preparation studies and transactional support will be required to reduce private and public sector risk.
- Benchmarking surveys and studies will need to be conducted to determine levels of energy efficiencies so that, particularly the private sector, is able to benchmark their energy efficiency performance and take informed measures to reduce energy utilisation, if relevant.
- Develop a Western Cape Energy Master Plan that is informed by modelling and forecasting and the chosen Western Cape emissions pathway to provide policy certainty to investors.

Note: Linkages to other Growth for Jobs enablers, accelerators and levers, arising from the Priority Focus Area, as well as linkages to the Safety VIP and Well-being VIP, have been captured in the annexure.

Priority Focus Area: Water Security and Resilience

9

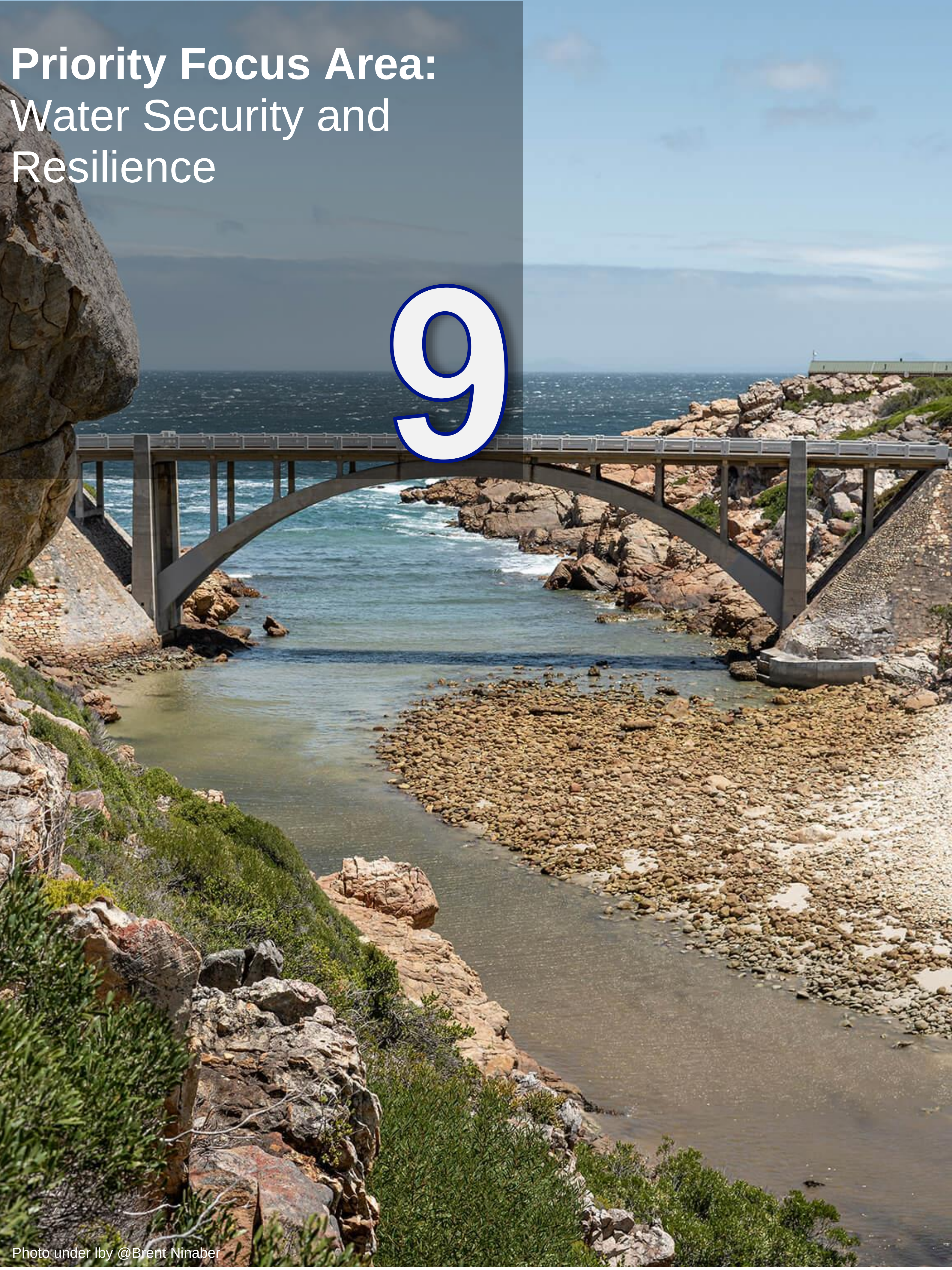


Photo under lby @Brent Ninaber

Chapter 9. Priority Focus Area: Water Security and Resilience

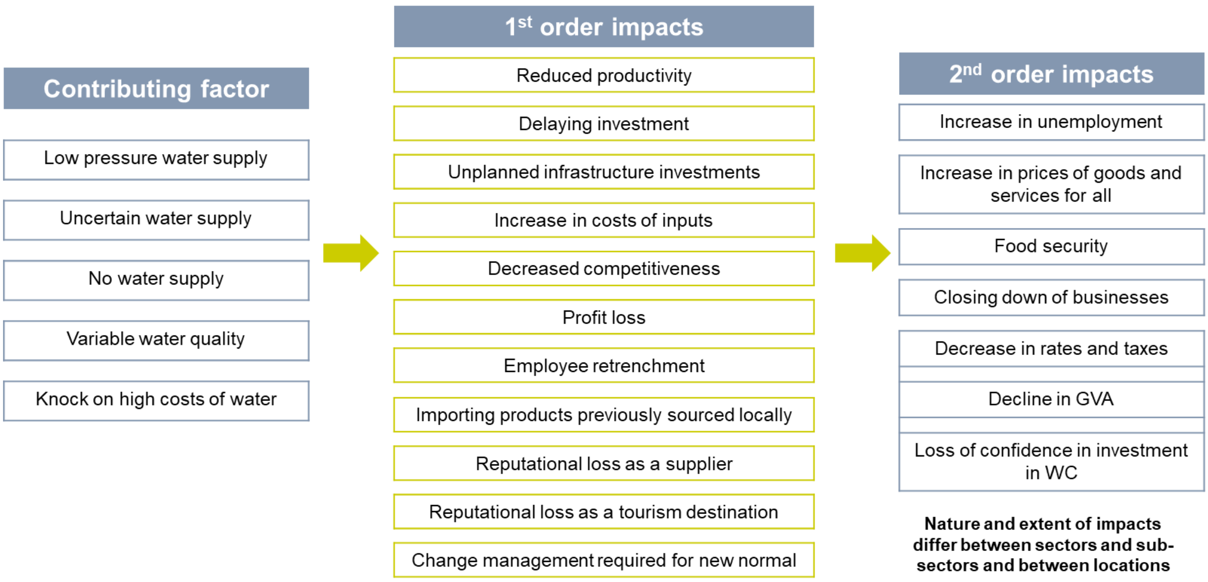
1. Introduction

The World Bank Group's 'High and Dry: Climate Change, Water, and the Economy' study identified that rising incomes, growing populations and expanding cities all place added stresses on water demand, all at a time when supply, due to climate change, is erratic and uncertain. A water shortage can result in slower growth, and in some regions, growth rates may decline by up to 6% of GDP by 2050, largely because of losses in sectors such as health, property and agriculture.

The Western Cape has, in recent years, felt the impact of a severe drought on its economy and the indications are clear that this will not be the last time the province may face such challenges, as this is exacerbated by climate change.

As the reliable supply and quality of water decreases, productivity decreases, input costs increase, livelihoods are lost and, ultimately, the economy itself is impacted. The province is highly vulnerable to water shortages as up to 52% of its GDP is grounded in agri-related industries. Modelling after the 2017 drought found that a 45% loss in water supply will reduce GDP by 11%, leading to a loss of 101 563 jobs.

Figure 9.1 Economic Impacts of uncertain reduced water availability for economic use.



Source: DEDAT

2. Situational Analysis

2.1 Context

The WCG commissioned a **fifteen-year Western Cape Integrated Drought and Water Response Plan** (WCIDWRP) after the 2016 to 2019 drought. This study will henceforth be referred to as the **Western Cape Water Resilience Plan**. This set of interdisciplinary and comprehensive reports, completed during 2022/2023, provides the most recent situational analysis for water and plots future supply and demand trajectories across the province. This information has been used as the evidence base for this chapter and guides all economic water resilience interventions[42].

South Africa is ranked as the 30th driest country in the world. Despite being a water-scarce country, consumption is around 233 litres/capita/day (l/c/d), compared to the international benchmark of around 180 l/c/d. Relative to the global rainfall averages, the Western Cape is a relatively water stressed province. Its winter rainfall along the western Atlantic Zone (the rest of the area receives year-round storm events) poses a unique problem in that storage of winter rain for the summer growing season means that dams are a critical part of water supply across the region.

Modelling the economic impact of a water crisis clearly demonstrated the overall impact on the Western Cape's GDP and jobs. The Western Cape GDP has the potential to decrease by 2.3% in a water crisis which leads to a few months of heavy restrictions on use, resulting in approximately 49 000 jobs being negatively impacted. This estimate climbs up to 9.3% should the crisis endure for more than a year and restrictions are strongly enforced, impacting approximately 215 000 jobs.

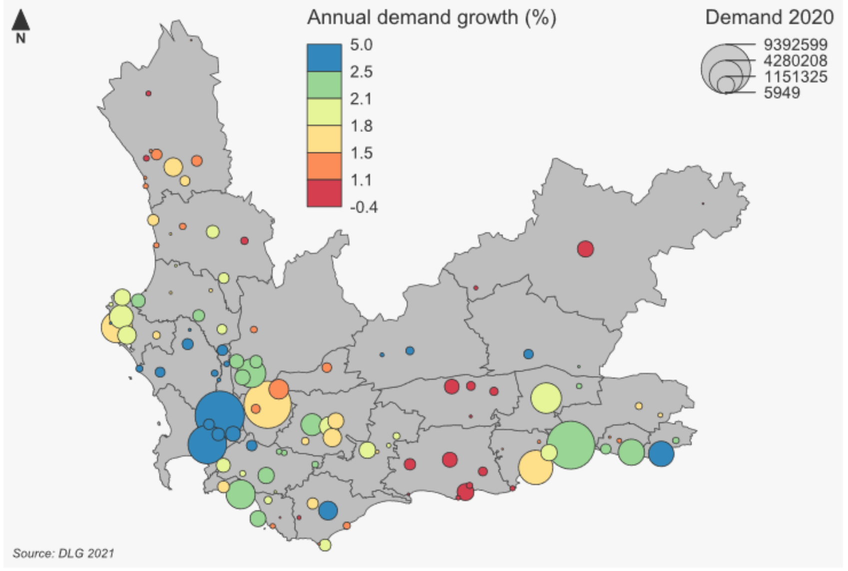
The **WCWSS Hydro-economic study (2021)** concluded that supplying water to provincial value chains is the key to economic progress. The surety of supply would have significant benefits in boosting the capacity of the overall economy as well as in boosting economic confidence in the province, an important precursor to investment.

When considering potential developments and subsequent water demand growth across the Western Cape up to 2035, it is useful to view it in the context of the 2014 Provincial Spatial Development Framework (PSDF) that identified three distinct urban priority regions in the Western Cape. These regions are responsible for driving considerable economic growth and development in the province. These urban priority regions are the Greater Cape Functional Region, the Greater Saldanha Region, and the Southern Cape Region.

Probable economic and population trajectories have been modelled more recently per settlement in the **Western Cape Water Resilience Plan**. The bulk of new economic growth is projected to occur in municipalities abutting the City of Cape Town (Theewaterskloof, Stellenbosch, Drakenstein), and the George, Witzenberg and Bergrivier areas also expect relatively strong growth, albeit from a smaller base (WCG, 2022). The highest water demand growth rates were predicted in Stellenbosch at 4.1% and Drakenstein at 3.9%. Also specifically confirmed was that the Breede Valley District should remain a priority for water infrastructure investment. 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. Another conservative scenario that was modelled was the impact of the top 10% of large business water users switching to non-grid/alternative water supplies, which further reduces the demand predictions by 0.1– 0.4%.

[42] WCG (2021), Western Cape Integrated Drought and Water Response Plan

Figure 9.2 Western Cape Modelled Water Demand Outlook, 2020– 2035.



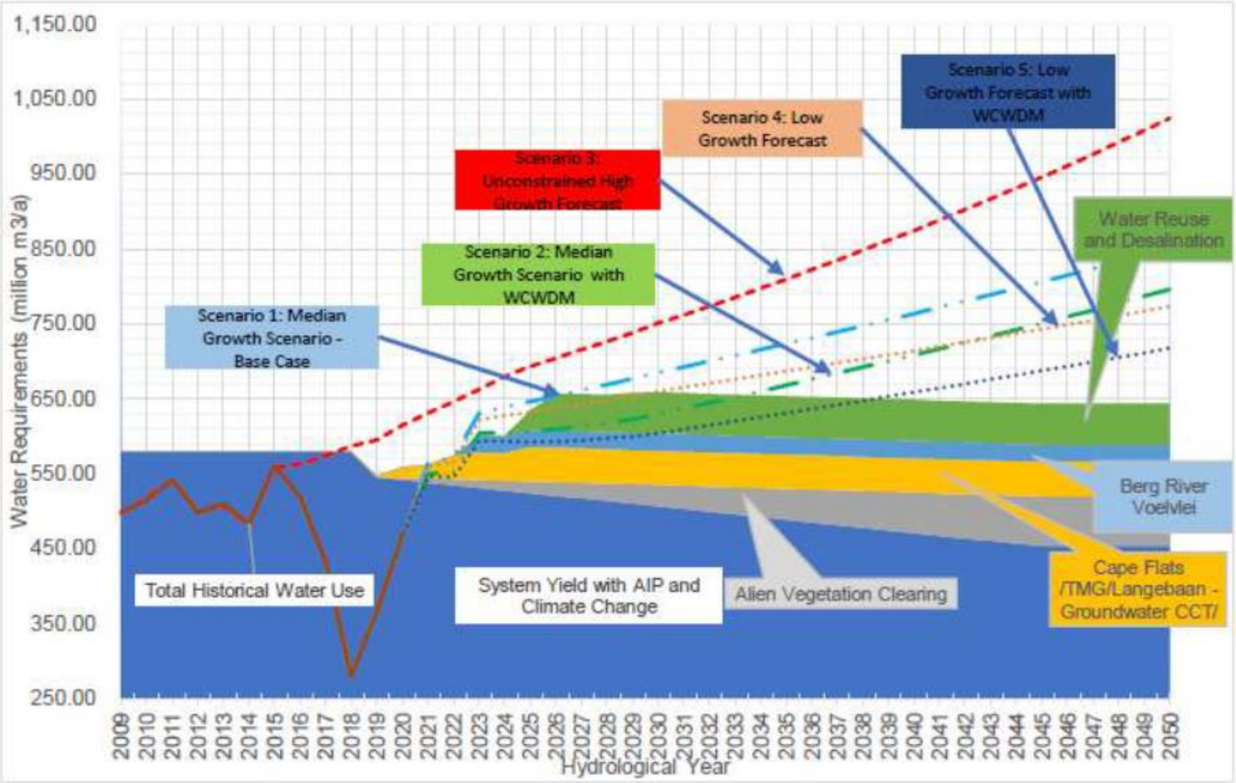
Source: DLG, 2021

The key insights from this work include the following:

- The modelling assumes that economic growth will follow historic trajectories and is driven largely by population shifts and growth of the Cape Town Functional Region. In other words, it has not projected for break-out economic growth.
- Disparate districts will recover from drought and weather shocks differently.
- There is extreme heterogeneity in future demand trajectories. Municipalities have varying capacity and resources to respond to challenges in water demand, supply and governance, but it is critical to develop a common base for projecting and responding to future demand.
- It will be critical to ensure government capabilities to deal with water reconciliation and fiscal impacts, particularly as future demand and development projections appear to be driven by the domestic sector rather than productive (non-domestic) sectors.

Acknowledging the dominance of the Greater Cape Functional Region in the current economic activity and the predicted growth areas, it is important to specifically consider the series of interconnected dams and infrastructure which provide surface water to Cape Town and the surrounding municipalities. This system is called the Western Cape Water System (WCWSS). The **WCWSS Water Demand modelling** undertaken by the Department of Water Affairs and Sanitation (DWS) allows for high, medium, and low growth assumptions, but the water availability will be limited by the pace of the committed bulk infrastructure delivery. The figure overleaf indicates five demand growth scenarios and the committed supply interventions.

Figure 9.3 Water Balance Scenarios, Western Cape Water Supply System.



Source: DWS

By becoming a national leader in water and climate resilience, the Western Cape economy could be 33% better off in 2040, avoiding a contraction and growing by up to 15%, with a commensurate increase in jobs of up to 12.4%. Regional exports could benefit by 6.4% and the overall cost of living in the province would decrease.[43.]

2.3 Current and future water demands in the agricultural sector

Farmers in the region are particularly exposed to water insecurity due to their operational dependence on either rainfall or allocated water and the relatively low surety of supply granted to the agriculture sector under South Africa's water legislation. Western Cape farmers have, however, always had to cope with variable weather, fluctuating levels of political support and mixed fortunes in global market integration, and most farmers in the province are proactive, adaptive, and resilient as a matter of necessity (Vink and Tregurtha, 2004). These attributes have served the agricultural sector well in recent years.

The agricultural sector has the highest water demand in the Western Cape. Based on 2005 data, 42% of the water in the Berg Water Management Area (WMA), 68% in the Breede WMA, 87% in the Olifants WMA, and 61% in the Gouritz WMA was used for irrigation. Irrigation farmers are heavily dependent on water stored in dams.

By one estimate, every additional rand of demand for agricultural output from the Western Cape adds R2.50 to the provincial GDP, with the highest multipliers generated by the meat industry (Vink and Tregurtha, 2004). Irrigated agriculture in the Western Cape (predominantly fruit and wine) accounts for 55% to 60% of South Africa's export earnings from agriculture.

[43] 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

For this sector access to water is also a function of water allocation regimes that are broadly unfavourable for farmers due the agricultural sector suffering a lower level of assurance of supply than urban and industrial users.

Projections of future climatic conditions in the Western Cape, drawn from the most advanced climate models, suggest that droughts or reduced overall moisture availability will be inevitable: *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*[44]. In most areas, by 2035, droughts will be twice as likely as they have been up to now.

Agri-processing and basic industries

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 by GVA in 2019), followed by beverages (8.5%).

Agricultural service town interface

The Future of Farming in Dryland Areas of the Western Cape (2021), a recent study by the Department of Agriculture earmarked the potential for agricultural service towns to develop their own 'circular' and off-grid water, electricity, and solid waste services, with farmers at the forefront of the process (Oelofse et al., 2021). Farmers interviewed for the study expressed concern at their inability to secure basic services, and the disruptive impact that this has on operations and connectivity to markets (Oelofse et al., 2021).

The Economic Water Resilience Strategic Framework 2019 was prepared by the Department of Economic Development and Tourism (DEDAT). The strategic framework maps out the various steps that businesses may take towards improved water use, efficient water use and reducing overall water consumption and use, namely audits, targets and risks, water efficiency interventions, onsite re-use of water and alternative water supply. It can clearly be seen that the province will need to adopt a range of key interventions that include:

Figure 9.4 Key interventions enabling both improved supply and improved demand management.

• 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

[44] DoA (2022), SmartAgri: Updated Climate Change Trends and Projections for the Western Cape, 2022. Department of Agriculture (https://www.elsenburg.com/wp-content/uploads/2022/08/SmartAgri-Climate-Change.pdf).

2.4 Enabling alternative water use, and services provision whilst supporting the water service authorities

In the Western Cape, twenty-four local municipalities and the metropolitan municipality of Cape Town act as the Water Services Authority (WSA) and Water Services Provider (WSP), as defined in the Water Services Act. There are strict duties and responsibilities which accompany these roles, including that of developing a Water Service Development Plan as part of the Integrated Development Process for the jurisdiction. This legal and operational situation has meant that the funding for water infrastructure and maintenance of the distribution networks, as well as water and wastewater treatment, is integrated into the municipal revenue model and therefore is tied to financial sustainability of the municipality.

Drought and increasing water scarcity have two direct impacts on municipal finances. Firstly, additional capital is needed for water supply augmentation and secondly, reduced water consumption during drought means that municipalities could receive less money from tariffs on water supply.

Additional pressure has been experienced due to the recent increase in electricity load shedding, which has obliged municipalities to use generators to continue treatment of sufficient water and wastewater. This emergency power is expensive and has dramatically impacted the operational and capital expenditure of these critical municipal services. Water source quality is another factor which drives treatment cost – the poorer the quality of the water source, the more treatment is required to make it potable. There is mounting pressure for the development of new and alternative municipal financing models to address these issues.

The WCIDWRP (2022) analyses show that municipalities can utilise various funding mechanisms, from internal sources such as restructuring of tariffs, introduction of conservation tariffs, to rebates, and incentives. The introduction of new tariffs, however, has several challenges, including the reliability of municipal data, e.g., meter information, customer base, cost allocation, etc.

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 include:

- Water supply is constrained with 98% of available surface water already allocated. Additional water will therefore 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 there is inefficient catchment management, including the clearing of invasive alien vegetation which compromises quality and quantity of water available for use.
- Water demand is increasing. Based on previous research which assumed a low economic growth rate, there is a projected 17% industrial water gap by 2030. As Growth for Jobs Strategy projections target 4 to 6% economic growth, the demand gap is expected to be substantially higher.

- Infrastructure maintenance is poor, leading to water wastage and leakages. There also appears to be an emphasis on expansion and new services at the expense of maintaining the existing infrastructure.
- 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 and an unequal distribution of water 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 is secured and gives 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.
- The Western Cape can expand and diversify sectors such as agriculture, agri-processing and light manufacturing industries, based on water assurances.
- 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, integrate the management of water resources, as well as enhance 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.

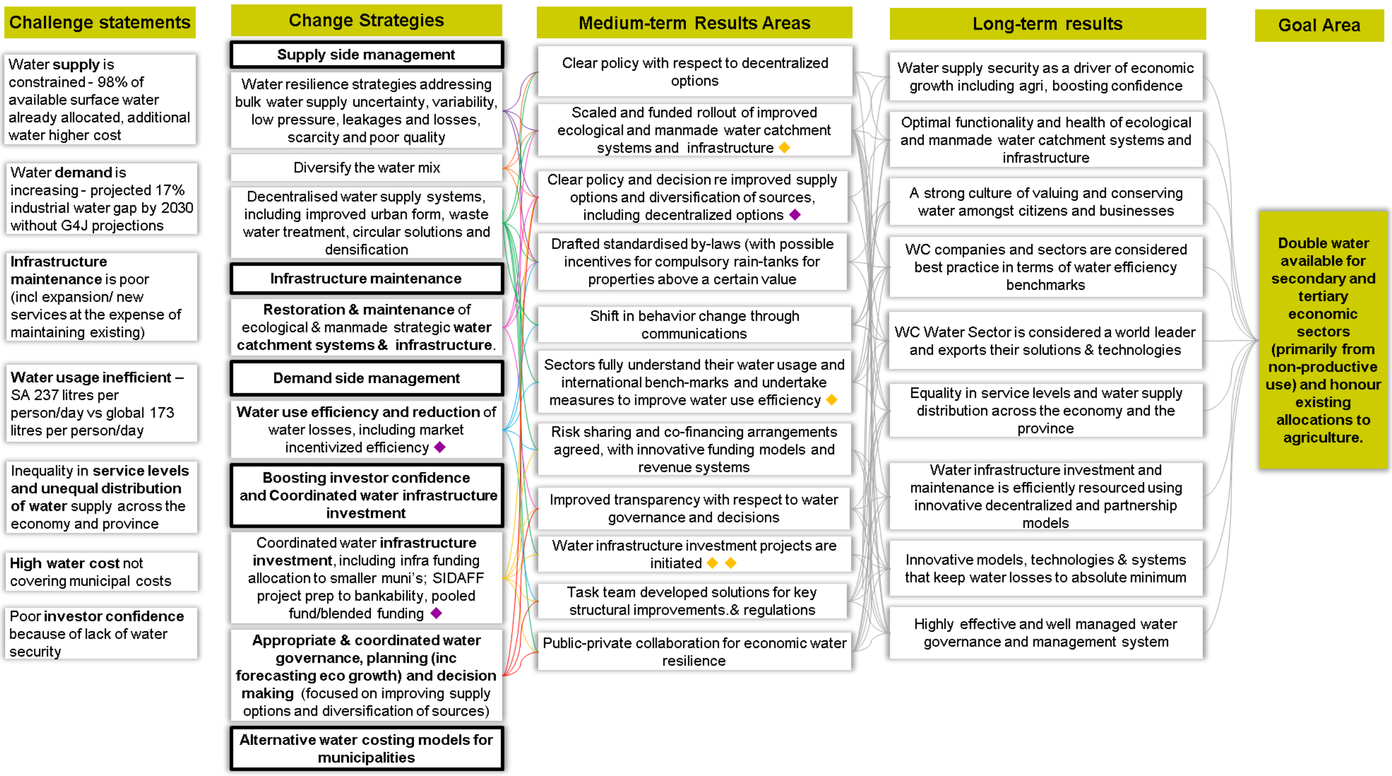
4.2 Goal statement

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

Water is a fundamental requirement for citizens and businesses, without which our economy and society will collapse. It is critical to note that this goal assumes the wide range of supply and demand interventions, as documented above, will be deployed collectively to facilitate an increase in the overall quantity of water that can be accessed and to critically 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 the Water Objective and Goal Statement will contribute R82 billion to GDP and 112 884 jobs[45] .

5. Strategic level theory of change for the Priority Focus Area

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.



6. Change Strategies and interventions

Contextualised within the situational analysis, the change strategies focus on increasing the supply of water and, in the face of growing demand from population increases and anticipated economic growth, ensuring all citizens and businesses are using water efficiently.

6.1 Supply side management

The following interventions, which include catchment improvement, decentralised water supply systems and improved bulk water supply management, have been recommended for consideration:

- Identify and address the **most impactful leverage points** in the water supply value chain, including investing in water re-use, stormwater utilisation, groundwater as well as the feasibility of new supply schemes.
- Optimise water supply at source, including the development of scaled **ecological rehabilitation and alien vegetation removal**. This could be coupled with measures to leverage biomass and biofuel economic opportunities to incentivise alien removal and

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

legislation about alien vegetation removal on private property (where legislation includes support provided to private property owners to assist in compliance).

- Review and revise **municipal water bylaws to** enable safe, alternative, and decentralised supply options, including the encouragement of rainwater tanks usage.
- Ensure ground water quality and abstraction levels are monitored to ensure adequate aquifer recharge.

6.2 Infrastructure maintenance

Interventions identified for consideration include:

- The **expansion of 'smart' water systems**, which enhance the monitoring of water usage and data collection to every municipality.
- Supply Chain Management processes will be improved so that there are no delays in providing appropriate repairs to water infrastructure. To this end, strong consideration will also be given to the utilisation of technologies such as sensors and Artificial Intelligence (AI) to monitor water infrastructure and allow for real-time alerts when there are infrastructure breakdowns and leakages.
- Priority should be given to 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 and incorporate: (1) bulk water users, (2) urban form and decentralisation, (3) decentralised wastewater treatment, (4) incentivised market efficiency, and (5) shift water from domestic to productive uses by driving water efficiency especially in non-poor households:

- Collect accurate, real-time data and intelligence on water usage and make this visible and public.
- Develop, resource and implement a sustained Provincial Economic Water Resilience programme providing **ecosystem and business support** so that sectors fully understand their water usage, international benchmarks and undertake measures to improve water use efficiency. For agriculture, 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.
- Target industrial areas to implement water re-use strategies.
- Develop a behavioural change programme to foster a culture of valuing and conserving water, including (1) encouraging and incentivising shared facilities such as pools, gardens, and parks; and (2) incentivising household use of grey water.
- Identify and address regulatory challenges impeding water system efficiencies and sensitise municipal by-laws and tariff structures, for example by standardising by-laws to encourage water re-use, addressing business constraints in water pressure management (which has a material impact on businesses' insurance costs), and the administration of contaminated alternative water sources.
- Incorporate water sensitive design into urban development that considers biomimicry, passive design and natural techniques for stormwater and wastewater management.

6.4 Boosting investor confidence and coordinated water infrastructure oversight and investment

The following interventions have been identified for consideration:

- Undertake 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.
- As a critical component of the collaboration, there should be coordinated water infrastructure investment, including infrastructure funding allocation 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. As part of this intervention, explore alternative models with respect to water oversight and governance.
- Provide clear policies to businesses with respect to decentralised systems, including the enablement of private sector to become Water Service Providers.
- Fund 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-couple water service charges from sanitation charges to encourage grey water reticulation.
- Innovate 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.
- Explore risk-sharing and co-financing arrangements with innovative funding models and revenue systems.

7. Considerations with respect to the Priority Focus Area and its Change Strategies

7.1 Assumptions

Some of the assumptions in achieving success in the Priority Focus Area include:

- There is an agreement of roles and responsibilities within national government, the WCG and local government 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 fifteen-year Year Water Resilience Plan developed by the Department of Local Government will be the key informant to the development and implementation of the Water Priority Focus Area 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 Department of Water and Sanitation,

where the latter – which has the legislative mandate to provide bulk water supply – is open to innovative and decentralise 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 (see the linkages annexure).
- Not identifying and pursuing more cost-effective and/or faster measures to increase supply of water resources will materially impact on the ability of the Western Cape Government to realise its targets.
- The historical challenges at National Department of Water and Sanitation, which have heavily impacted 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 needs to be undertaken to allow for evidence-based decision making.
- Research into global leading practices in demand management of water.
- The water supply and demand projections need to be updated to include projected Growth for Jobs GDP growth and climate change.
- Benchmarking studies for water intensive sectors need to be conducted to allow for the private sector to understand how they compare to international best practice with respect to water efficiencies.

Note: Linkages to other Growth for Jobs enablers, accelerators, and levers arising from the Priority Focus Area, as well as linkages to the Safety VIP and Well-being VIP, have been captured in the annexure.

Priority Focus Area: Technology and Innovation

10

Photo under licensing @Freepik

Chapter 10. Priority Focus Area: Technology and Innovation

1. Introduction

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. Within this context, it is understood that technology is comprised of low- and high-tech,[46] and innovation can be formal and informal. Innovation and technology are not synonymous but are interrelated in that technology is often a driver and enabler of the proliferation and evolution of innovation.

Total Factor Productivity 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 Total Factor Productivity, and a body of research asserts that technological change is the **most** important factor that determines the rate of economic growth. Research by Basu, Fernald and Shapiro (2001) shows that changes in technology are the only source of permanent increases in productivity, and Griliches (1995) determined that 50% of output growth and 75% of productivity growth are attributable to research and development (R&D) investment. Technology and innovation therefore play a vital role in improving firm competitiveness, value creation and income generation in an economy, as well as being a vital component of increasing Total Factor Productivity growth and thereby long-term economic growth.

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 within the South African Innovation Scorecard. **Global R&D intensity measured 1.72%** in 2017 (measured by Gross Expenditure on R&D as percentage of GDP) **compared to South Africa's 0.83%**. A focus on technology and innovation will be essential if the Western Cape is going to meet its R1 trillion goal, given its catalysing impact on overall competitiveness and productivity. Accordingly, technology and innovation has been adopted as one of the principles underpinning the Growth for Jobs Strategic Framework and Strategy, which also draw from the policy direction of the Western Cape Government.

1.1 The role of innovation and economic growth

According to the Global Innovation Index (GII), there is a **positive relationship between innovation and development**, i.e., the relationship between income levels (GDP per capita) and innovation performance (GII score) of a country. Boosting innovation is also a vital component of increasing Total Factor Productivity and thereby long-term economic growth. In the simplest terms, innovative ideas and better technologies increase productivity and generate greater output and value with the same input, and this leads to **greater efficiencies**

[46] Low-tech is technology that is designed to be simple to use and make. High-tech, on the other hand, is modern technology that uses advanced features. It includes items and devices such as the internet, computers, digital photography, high-definition TV, etc.

and **productivity**. As productivity rises, more goods and services are produced – in other words, the economy grows. Productivity also feeds into **wage growth**. Within the concept of Total Factor Productivity growth, technology and innovation are central components and will be a fundamental pillar in our growth plan and to achieve the ambitious Growth for Jobs targets.

1.2 The role of technology and economic growth

Technology adoption and innovation have enabled improved **competitiveness, value-creation, and income generation in the economy**. Technological innovation is one of the factors affecting economic growth and contributes to the development and modernisation of production methods. Therefore, technological innovation is the main driver for economic growth and human progress. The **competitive advantage** of nations is also rooted in innovation. In this regard, South Africa still relies too heavily on the region's natural resources to generate some degree of wealth, and the technology content in products or processes is relatively low. Moreover, technological knowledge or 'know-how' tends to be acquired over long periods of time or fast-tracked through importation, and this will have implications for the Technology and Innovation goals and ambitions.

1.3 The role of the digital economy and economic growth

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'.

Estimates of the overall value of the digital economy range between 4.5% and 22.5% of global GDP, depending on which definitions and measures of what constitutes the digital economy 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**. In 2016, the global digital economy was worth some $11.5 trillion, equivalent to 15.5% of global GDP. This is expected to reach 25% by 2026 and will continue to grow thereafter.

Globally, the digital economy, as a component of technological innovation, is regarded as the **main driver of economic growth** in developed and developing countries. Dynamic capabilities in the digital sector provide competitiveness and sustained growth to Western Cape businesses. The Growth for Jobs Strategy can harness the power of the digital economy, its associated technologies as well as innovation to not only contribute significantly to economic growth and job creation, but also to **narrow the 'digital divide'** to ensure that our society becomes more inclusive, rather than less so, as the digital economy grows in importance.

1.4 The role of R&D and R&D spend in the economy

To enhance technological innovation, scientific research and development (R&D) is necessary. Investment in R&D is an important input and contributes to provincial economic development. As the enabler of this endeavour, government reduces private sector risk and uncertainty by investing **significantly in R&D and in the institutional platforms that drive innovation**.

2. Situational analysis

2.1 Global Innovation Index and leaders in innovation

Every year the Global Innovation Index ranks the innovation performance of more than 130 economies around the world. South Africa currently ranks **61st among the 130** countries assessed. South Africa's ranking in terms of innovation inputs is far higher than in innovation outputs. This suggests that inputs in South Africa result in a lower yield of outputs than in other countries. South Africa also dropped in innovation inputs, from 49th in 2020 to 55th in 2021.

2.2 Productivity growth in South Africa and the Western Cape

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

2.3 South Africa's technical competitiveness

Various indicators of technological competitiveness show that, while South Africa fares better than most countries in Africa, the country does not hold up well to countries elsewhere at a similar stage of development. For instance, the gross tertiary enrolment rate in China is 27% and in India 25%; in South Africa it is 15%. The lack of adequate digital skills constrains technical competitiveness. A 2022 Cape Chamber Business survey noted that 63% of respondents believe that the population does not possess sufficient digital skills.

2.4 South Africa's digital economy

The Knowledge, Evidence and Learning for Development's (K4D) GDP measure estimates that, in 2020, the value of South Africa's 'Internet economy' was $21.55 billion, or about 6.51% of GDP, and this is expected to grow to more than $125 billion, or 12.92%, of GDP by 2050. South Africa's digital economy grows by 10% Compound Annual Growth Rate (CAGR) annually, contributing an additional 5% to GDP over and above targeted levels to compensate for reductions in GDP in traditional sectors. South Africa's digital competitiveness ranking improved slightly between 2016 and 2018, from 51 of 54 countries in 2016 to 48 in 2018. This was followed by a sharp decline in 2020 to 60 out of 63 countries – the largest decline by a country in that year's ranking. The percentage of individuals with access to the internet in 2020 was 74.1%, and, while about 70% of firms in manufacturing and services use email for conducting business, only 36% of firms have websites. The implication is that South African businesses are not utilising the productivity and competitiveness improvements that technology can offer.

The World Bank's Digital Economy Report on South Africa confirms that 'Countries like South Africa are still capturing only a fraction of this growth and need to **strategically invest in the foundational elements of their digital economy to keep pace**'. It is estimated that over the next decade more than R5 trillion value could be created in South Africa through using digital technologies in key industry sectors, including agriculture, public infrastructure and administration, financial services and manufacturing. However, the key factors impeding the growth and development of the digital economy are poor digital infrastructure and a lack of digital skills on the part of employees as well as consumers. The Growth for Jobs Strategy needs to capture 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.

2.5 South Africa's Research & Development spend

The South African Science, Technology and Innovation Indicators Report 2022 indicates that instead of moving towards the 1.5% target of gross domestic product (GDP), South Africa’s gross expenditure on R&D (GERD) declined for the second consecutive year. For the year under review GERD as a percentage of GDP declined to 0.62%, compared to the previous period’s (2018/19) 0.75%. In the case of business enterprise expenditure on R&D (BERD), its share as a percentage of GERD was 31% in 2019/20, less than a third of the previous figure reported. The report states that private sector should ideally contribute more than half of GERD.

UNESCO research shows that South Africa’s R&D spend as a percentage of GDP has dropped significantly. Furthermore, South Africa’s current R&D spend as a percentage of GDP is below that of Egypt, Rwanda, and Tunisia. It is also evident that the gulf between the country’s R&D targets and its performance at present is widening – South Africa lags significantly behind what has been targeted (62% of target). A revised target of 1.1% of GDP has been put forward, which, if met, would 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.

2.6 Higher educational institutions and R&D

At a regional level, higher education institutions are key actors in the regional innovation system. The presence of universities, which are strong R&D performers, provides 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 (R4.7billion) is the highest. Gauteng has the second highest expenditure in R&D by higher education (R4.2billion). The rest of the provinces are far behind. Despite the Western Cape’s lead in this respect, the most recent NACI report indicates that the number of inventions emerging from South Africa are very low. In 2020, the country had 25 patent applications per million population, whereas the average for upper middle-income countries in the same year was 641. Nonetheless, the country has been home to world-class innovations such as the CAT scan, Kreepy Krauly and the dolosse. South Africa has the potential and talent for further ground-breaking R&D that can be commercialised, but this needs to be unlocked by further and more synchronised investment.

2.7 The Western Cape Innovation System

The South African Science, Technology and Innovation Indicators Report 2022 assessed the performance of the provincial innovations systems, finding that the distribution of provincial R&D expenditure in South Africa is concentrated mainly in Gauteng, the Western Cape and

KwaZulu-Natal. Innovation support initiatives (e.g., incubators and technology stations, which are intended to improve the capacity of innovators and entrepreneurs) are also unevenly distributed, with most of them located in the same three provinces. Furthermore, studies by the HSRC have shown that with the notable exception of the agricultural industry, there are weak linkages between the private sector and universities, signalling that the economy is not sufficiently leveraging existing R&D capacity within the tertiary institutions.

With a growing number of tech start-ups, hubs, accelerators and other innovation facilitators, Cape Town, Nairobi, and Lagos have put themselves on the map as important innovation ecosystems in Africa. They highlight that innovation plays a critical role in driving the digital economy in Africa, supported by strong ecosystems, talent and a supportive policy environment. Lagos has at least 54 hubs, followed by Nairobi (51), Tunis (42), and **Cape Town** and Cairo (39 hubs each). The number of tech hubs in Cape Town grew by 33% between 2018 and 2021, thanks in part to interventions from government and private sector industry bodies, and wider policy support.

2.8 Entrepreneurial ecosystem

This section summarises the level of entrepreneurship in South Africa by examining the National Entrepreneurship Context Index (NECI) and total early-stage entrepreneurial activity.

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 has the lowest NECI score of the BRICS countries, which means that the environment is not sufficiently supportive of entrepreneurship. Overall, South Africa has one of the lowest NECI indices of the 54 economies measured in 2018/19, and was ranked ahead of only Croatia, Guatemala, Paraguay, Puerto Rico and Iran.

2.9 Start-up ecosystem of Cape Town

In addition to the narrative on the entrepreneurial ecosystem, the start-up ecosystem in Cape Town ranks the Western Cape's metropolitan at number 147 globally[47], showing a negative momentum as the city has decreased two positions since 2021. Cape Town, however, ranks at number one in South Africa, and first in southern Africa.

2.10 Tech start-up ecosystem

The Western Cape has the highest number of venture capital firms in Africa. In 2020, a total of US$88 million was invested into tech start-ups in Cape Town. The Cape Town-Stellenbosch corridor is said to have 450 tech firms employing more than 40 000 people. This ecosystem network materially contributed to the 2018 Endeavor report finding that the greater Cape Town technology start-up ecosystem is larger than that of Nairobi and Lagos[48]. However, more recent research has signalled that the Western Cape may have lost its initial momentum and status, overtaken by other African regions which have been more aggressive in their support and positioning.

[47] StartupBlink (2022), The Ecosystem of Cape Town Startups

[48] Endeavour Insight (2018), Evaluation and Network Analysis of the Cape Town-Stellenbosch Tech Sector.

2.11 Global trends embracing innovation in government

As indicated in the OECD's[49] report on Embracing Innovation in Government Global Trends of February 2017, governments are still grappling with major issues, such as how to make the most of technology and how to rapidly test new approaches to working in a fast-changing world. In grappling with these questions, various trends have been identified by the OECD which are relevant in the South African context:

- **Human and machine pairing: pairing human knowledge with innovative tools.** Governments are finding new and creative ways to combine the knowledge and experience of humans with machine-generated data and tools.
- **Zoom in or zoom out:** Advances in government processes and technology are enabling government to conceive new ways to scale government services for the public, and to revolutionise conceptions of what scale means. New ways are being found to bring innovative practices more effectively into government and to scale them from small to large.
- **Citizens as experts: redefining citizen-government boundaries.** 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, whilst promoting trust and inclusiveness in society.
- **Experimental government: small bets with big potential.** 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. To do this, they need to create a culture that allows experimentation to become second nature.
- **Mass or personalised services: the next generation of service delivery.** The world is changing at a remarkable pace and each new advance is accompanied by expectations on the part of its citizens. Governments 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, getting immediate feedback and responses from citizens, e.g., logging faults with a municipal with picture & GPS location.
- **Breaking the norms: 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:** The OECD Observatory for Public Sector Innovation (OPSI) and the United Arab Emirates (UAE) Mohammed Bin Rashid Centre for Government Innovation (MBRCGI) have identified four primary facets of public sector innovation, namely:
    - 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.
    - Anticipatory innovation: exploring and engaging with emergent issues that might shape future priorities and future commitments.
- **Invisible to visible:** Governments in recent years 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

[49] OCED (2017). Embracing Innovation in Government Global Trends February 2017

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

2.12 Industry trends

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

Rethink business strategy: Companies need to rethink their business strategies to go beyond using technology merely to cut costs and must adapt their business models and use technology to develop more innovative products and services that give them a competitive edge.

Focus on future skills: Companies need to upgrade their strategic workforce planning to become much more data backed and business led. They will also need to reskill and upskill existing employees at scale.

Embrace new ways of working: To future-proof investments in reskilling and hiring and to maximise the productivity of workforces, companies will need 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. This includes a greater focus on meaningful work, flexibility, autonomy, continuous growth, and connection.

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 competitiveness of the Western Cape in a future digitally transformed world will depend on the ability of the technology and innovation sector to contribute significantly to the digital transformation of enterprises and the public sector, to create jobs and economic value through the establishment and development of digital businesses (from start-up to corporate), and improved public sector efficiency.
- There is a mismatch between supply and demand for suitably qualified and experienced technology/digital technicians and professionals, resulting in companies, start-ups and entrepreneurs locating their businesses in geographies other than the Western Cape.

- Demand is significantly higher than supply, resulting in the offshoring of work (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.
- Fragmentation of the technology ecosystem results in a less visible profile and weakened reputation for the Western Cape as a world-class technology hub.
- A range of EoDB inhibitors, including the visa regime and exchange controls, along with an insufficient pipeline of scale-ups, reduces the attractiveness of the Western Cape for venture capitalist funders.
- Several legislative and regulatory constraints that tend to be industry-specific, prevent the uptake of innovation and technology within industry verticals. As an example, health tech innovation is hindered by challenges related to the South African Health Products Regulatory Authority's certification processes, while regulations pertaining to drones constrain innovative applications of the technology across several sectors.
- Inconsistent policy support creates uncertainty about government commitment.
- 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, reduced opportunities to commercialise innovation and a lower profile for the Western Cape technology and innovation brand.
- There are several inhibiting factors within the university environment that lead to sub-optimal commercialisation of Intellectual Property and R&D, including the weak university incentivisation policies for R&D.
- Government systems currently stifle, or do not encourage, adoption of new technology and innovation within government due to rigid hierarchies (difficulty in working transversally), coupled with systems structured around compliance 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, but South Africa does not attract sufficient international development financing funding to address this issue.

3.2 Opportunity statements

- A strengthened technology and innovation ecosystem that significantly contributes to a strong virtuous cycle of growth.
- Having the right technology skills available in the right place at the right time, coupled with the appropriate digital and hybrid infrastructure, enables 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 attract a strong venture capital base.
- Government becomes a catalyst for innovations in the province, helping to drive take-up through its embrace of innovative private sector solutions to service delivery.
- There are networks of local innovation hubs, ecosystems and centres of excellence that have international standing and reputations, attracting foreign talent and financing.
- The private sector has an energised culture of 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 regarding 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

Research and development expenditure is to be increased by 300% in real terms, reaching R35 billion and where venture capital deals will total R20 billion by 2035.

Innovation and technology are the critical component of Total Factor Productivity, and therefore fundamental to catalysing the targeted 4 to 6% GDP growth rate. The 300% increase (in real terms) in R&D expenditure will result in R35 billion being spent in research and development with economic benefits of R27 390 billion in additional GDP growth and additional employment of 32 869 jobs, and where digital maturity improves by 30% as measured by communication GVA in real terms (OECD). Venture capital as a goal statement demonstrates that R&D has been commercialised and is ready for scaling.

5. Strategic level theory of change for the Priority Focus Area

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.

6. Change strategies and interventions

In order to meet the ambitious goal statement, the Technology and Innovation Priority Focus Area will need to institute various change strategies which fall within the following broad themes: (a) strengthen ease of doing business and promote ecosystems of technology and innovation, (b) establish the Western Cape as a venture capital hub for start-ups and scale-ups, (c) stimulate growth and demand of innovation and of technology start-ups and scale ups, and (d) support 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:

- **Regulatory and legal reform**, with the immediate priority being **investor and investment related visas**, so that South Africa offers an immigration regime that 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 off a coalition movement between provincial government and the private sector and aim for a systematic shift in societal attitudes towards foreign investors and foreign professionals. Furthermore, regulatory challenges impacting on specific growth opportunities will be addressed in a manner that ensures systemic resolution.
- Build and support **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 collaboration between academia and industry with respect to R&D needs and improving 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.

- Establish 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.
- Enhance the reach with on-demand learning platforms for SMEs (opportunity to invest in skills development).
- Investigate **establishment of a challenge fund** to improve government-private sector collaboration and stimulate collaboration in research and development and innovation between the private sector, government, academia, and the public.
- Leverage private sector financial **support for research chairs at universities** in specific Growth Opportunities to build the R&D pipeline, but also develop skills sets within the universities' centres of excellence. This would include developing multi-disciplinary R&D capability to stimulate easy access to research and development opportunities for academics and communities.
- Help the four Western Cape Universities share 300 patents that could potentially be commercialised.
- Develop a **single, comprehensive entrepreneurial/innovation portal** that addresses the market need that aims to: (a) 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, etc), (b) foster collaboration between start-ups, innovators, investors, innovation hubs and development partners in the Western Cape, and (c) provide avenues for support (knowledge, skills, funding, etc.), especially in disconnected economies such as the rural and township environment.

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:

- **Improve 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, explore solutions around the repatriation of capital and ability to service international markets from South Africa, especially in digital services. As part of the ease of doing business, understand the innovation and digital sector's regulatory challenges and put in place additional interventions to remove or mitigate regulatory hurdles.
- Investigate how tax incentives or creating a physical hub, may be put into place to attract investment in digital, technology and innovation start-ups.
- **Facilitate growth of venture capital funds** available in the Western Cape through, amongst others**,** partnerships with institutional investors with respect to expanding their venture capital mandates as a proportion of their investment allocations, and investigate the set up of new, or ramping up, of existing funding vehicles. Leverage funding from private sector and international DFI and donor country institutions. As domiciles outside South Africa have proven to be extremely effective at attracting funding – undertake a support campaign to complement their efforts.
- 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 investment in digital and innovative businesses with significant growth potential.

- Provide support particularly for growth-orientated business to **access and maximise** the Technology and Human Resources for Industry Programme (**THRIP**), which provides coordination matching of investment and research on a 1:1 basis. Research and map 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.

6.3 Stimulating growth and demand of innovation and of technology start-ups and scale ups

The following interventions have been identified for consideration:

- **Position and market the Western Cape as Africa's capital of venture capital, digital, tech, innovation, and start-ups.** The marketing and brand awareness will include, along with highlighting the Western Cape's strong networks of ecosystems, promoting the Western Cape's centres of excellence for specific cross-cutting themes such as finance, design and digital technologies that can be applied horizontally across all segments of the economy and verticals such as 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.
- Promote the uptake of technology and innovation within local verticals to **stimulate local market demand and uptake**, leading to reach and scale, including networking to showcase the strengths of the region in technology and innovation.
- Drive the Western Cape Government to be more outward-facing with respect to innovation – promoting active support by government in the take-up of local tech, digital and innovation.
- Establish a regulatory sandbox for government to provide 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). Within this 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.
- **Enable business to be better able to take up technology** into their business practices so that they are digitally competitive. This can be achieved by greater awareness through ecosystem collaboration between networks, through government digitalising its procurement systems to act as a stimulant to the market, by creating a digital army of promoters by using the EPWP programme to sign up businesses to platforms such as Google, and possibly by taking good practice from successful international interventions such as those in Ireland where government reduces business risk by making a financial contribution towards the digital uptake by businesses. Another example is the Campus Région du Numérique in the Auvergne-Rhone-Alpes region in France where digital adoption support is offered to businesses together with matchmaking with local digital companies/service providers.

6.4 Supporting human capital development

- Introduce **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, to produce digital and tech skills at scale and at speed.

- Strengthen the digital skills foundation at school level to ensure that all learners have basic digital skills and enhance career guidance with respect to ICT/tech specialisation so that digital and tech is a career of choice.
- Facilitate the coordination between learning providers and institutions to match skills that are delivered and skills that industry needs better.
- Consider 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. Assist the WCED to adapt the education system to increase the focus on innovation, creativity and to develop the required pipeline of digital and other related skills, such as coding and robotics, where education and tertiary level learning includes as part of the subject matter digital, tech and innovation capabilities.
- Target **specialist skills programmes for sector-specific skill sets** and development of capabilities in key growth sectors.
- Build and strengthen public service innovation capabilities towards improving service delivery within the provincial government.

7. Considerations with respect to the Priority Focus Area 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 there is a behaviour shift in the civil service from merely being compliance-orientated towards being more service delivery orientated.
- Global business sentiment on tech and innovations remains strong.
- In the support of innovation, there is an acknowledgement and acceptance that there are risks of failure 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 why there is little up-take of innovation and tech in the public sector and assess the risk appetite/risk aversion in the public and private sector for funding of innovation.

- Regulatory review of procurement rules and their impact on innovation uptake within government.
- Business cases will need to be developed to understand the feasibility of a venture capital fund that is supported by the Western Cape Government.
- Research the exchange control and intellection property legislation, benchmarked against the country’s peers, with a view to using the evidence to advocate for a more enabling regulatory environment.
- Research and map 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.
- Conduct a business case on practical postgraduate ICT and tech conversion programmes at tertiary institutions, together with universities and TVET colleges.

Note: Linkages to other Growth for Jobs enablers, accelerators, and levers, arising from the Priority Focus Area, as well as linkages to the Safety VIP and Well-being VIP, have been captured in the annexure.

Priority Focus Area: Infrastructure and Connected Economy

11

Photo under licensing @Freepik

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

1. Introduction

The Western Cape's Growth for Jobs Strategy is predicated on growth, productivity and competitiveness which is heavily dependent on its **economic infrastructure** across the province. Funding of the infrastructure has been constrained nationally. The province will, as part of this strategy and in alignment with the Western Cape Infrastructure Plan 2050 (WCIP 2050), 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.

Growth is also dependent on **social infrastructure** which can drive a healthier and more secure workforce and opportunities for social mobility whilst improving the length and quality of citizens' lives. Natural resources supported and enabled by critical **ecological infrastructure** is 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 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 national conducive policy environment. However, the overall condition of South Africa's existing infrastructure is on average unsatisfactory and generally at risk of failing to serve its purpose. It is worth noting that 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 agenda can be derailed by external factors such as the drought and the Covid-19 pandemic which were outside the State's direct influence, resulting in the compelled redirection of funding.

The relationship between the value of infrastructure, growth and competitiveness is well established. Well-designed economic and social infrastructure investments affect GDP in two ways, namely:

- Direct contribution to GDP by boosting economic output through the spending on capital goods and employment of workers on projects.
- Indirect longer-term economic benefits such as improvements in total factor productivity, reductions in transaction costs, increases in land values, more efficient use of productive inputs, increases in product complexity, increases in output per worker and overall economic growth.

That is why infrastructure in its broadest sense is a key factor of growth for the strategy.

Just as we must have a broad understanding of the spheres of infrastructure, we also need to be cognisant of how future shocks, changes and opportunities our province face will require new infrastructure. 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 (more of which we mention elsewhere in this strategy) will require their own backbone. Universal access to network industries, which include broadband, is increasingly recognised as an essential prerequisite for economic growth. An absence of digital infrastructure, or an inability to access digital infrastructure because of its high cost, contributes to increasing digital inequality and will alienate domestic and foreign investors.

2. Situational analysis

African nations collectively spend $45 billion per annum on infrastructure. However, experts suggest that this figure should be raised to $93 billion per annum to secure a prosperous and stable future for the continent.

A study done by the World Bank found that the poor state of infrastructure in many Africa countries 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. Within a South African context, the National Infrastructure Investment Plan shows that investment by general government has declined 0.8% on average in real terms between 2014 and 2019, and in State Owned Enterprises (SOEs) investment is down by 4.9% on average over the same period.

2.1 South African Infrastructure Report Card 2022

The South African Institute of Civil Engineers (SAICE) had recently published the latest South African Infrastructure Report Card 2022 (IRC2022) in which infrastructure is rated in accordance with a five-point scale from A to E with the ratings definitions displayed in the figure below.

Figure 11.1 South African Infrastructure Report Card.

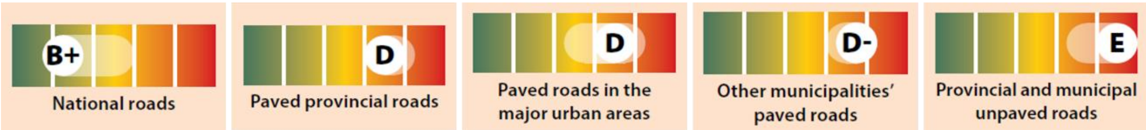
A: World class	B: Fit for the future	C: Satisfactory for now	D: At risk of failure	E: Unfit for purpose
Infrastructure is comparable to the best internationally in every respect. It is in excellent condition and well maintained, with capacity to endure pressure from unusual events.	Infrastructure is in good condition and properly maintained. It satisfies current demands and is sufficiently robust to deal with minor incidents.	Infrastructure condition is acceptable although stressed at peak periods. It will need investment in the current Medium Term Expenditure Framework period to avoid serious deficiencies.	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.	Infrastructure has failed or is on the verge of failure, exposing the public to health and safety hazards. Immediate action is required.

Source: SAICE, 2022

In 2022 the overall grade for South Africa's public infrastructure is graded at 'D', the lowest grade ever recorded by SAICE over the last sixteen years of assessment, showing a downward trend across the board since the 2010 Soccer World Cup. Between 2006 and 2022 and four IRCs to date, SAICE cites the **neglect of maintenance as the most persistent problem** since the inception of the report card. The conclusion is drawn that most municipalities, and some provincial custodians of infrastructure, manage assets reactively. SAICE suggests moving progressively to a system of scheduled, or preventative, maintenance.

2.2 SAICE Infrastructure Report Card (IRC)

Figure 11.2 Roads – Infrastructure Report Card.



Source: SAICE, 2022

South Africa's roads network is approximately 750 000 km long, making it the tenth longest in the world. About 160 000 km of the network is paved. SANRAL manages 21 403 km of this paved network (13% of these are toll roads), with the balance shared between provinces and municipalities. The proportion of the national road system in poor or very poor condition is below 7%, mainly because of SANRAL's strong maintenance and expansion regimen. By contrast, the secondary and tertiary road network is experiencing accelerated rates of deterioration. Except for the Western Cape, the condition of most paved provincial and municipal roads is substandard. There is a risk of further deterioration due to increased vehicle overloading, poor maintenance, and the steady reduction of skilled personnel in roads departments. In major urban areas the condition of paved roads has also continued to deteriorate.

Figure 11.3 Rail – Infrastructure Report Card.

Source: SAICE, 2022

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. However, challenges in freight train transport services persist, with 62% of businesses rating it as inefficient in a 2022 Cape Chamber Business survey. 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. Sound maintenance practices are in place and the system is still deemed world-class.

Figure 11.4 Ports – Infrastructure Report Card.

Source: SAICE, 2022

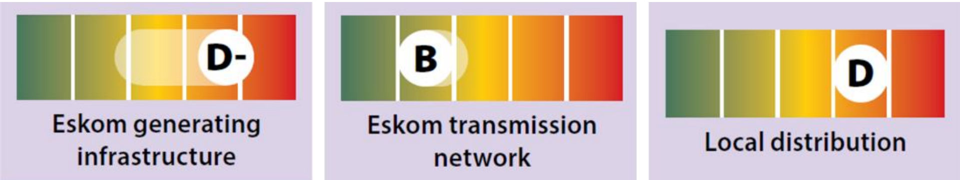
Transnet owns nine commercial ports, namely Saldanha Bay, Cape Town, Mossel Bay, Port Elizabeth, Ngqura, East London, Durban and Richards Bay, and the much smaller Port Nolloth. Well-developed standards and regulations govern infrastructure condition assessments and the maintenance, repair, and rehabilitation regimen. Consequently, infrastructure in all the commercial ports is generally in a good condition. With that said, there are growing concerns that port infrastructure is regressing rapidly and is in the need of higher levels of investment.

Figure 11.5 Airports – Infrastructure Report Card.

Source: SAICE, 2022

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 had been deferred in part because of Covid-19, and there will be a need to revive these plans in line with the revived increase in cargo and passenger flows.

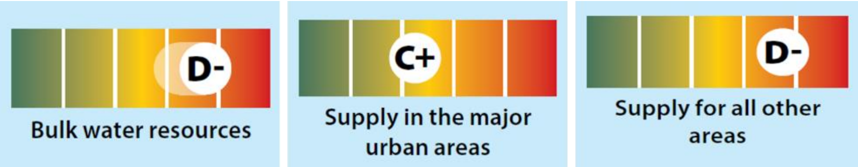
Figure 11.6 Electricity – Infrastructure Report Card.



Source: SAICE, 2022

Eskom owns and operates 15 thermal coal power stations. Some of them are more than 50 years old and have been operated without sufficient maintenance and refurbishment. The consequent decline in energy availability has increased the severity of national grid loadshedding. The national transmission system consists of 33 000 km of high-voltage overhead lines and 446 power transformers. Although its average age is nearly 40 years, diligent refurbishment of switch gear, instrument transformers and power transformers have contained any deterioration in performance. The Eskom distribution grid consists of 351 000 km of overhead lines, nearly 8 000 km of cables, and 391 000 power transformers.

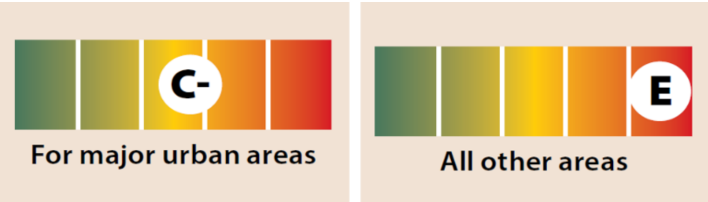
Figure 11.7 Water – Infrastructure Report Card.



Source: SAICE, 2022

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. The quality and reliability of water supply systems continue to decline in small towns and rural areas.

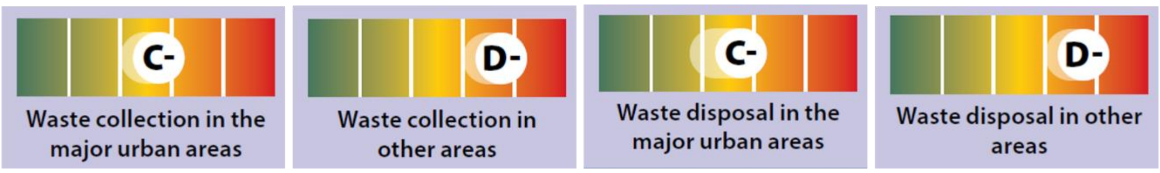
Figure 11.8 Sanitation (including wastewater) – Infrastructure Report Card.



Source: SAICE, 2022

Access to improved sanitation (flush toilets and on-site sanitation) has increased from 61.7% of households in 2002 to 84.1% in 2021. However, the quality of wastewater treatment is declining. In 2022, the Department of Water and Sanitation published the first green drop assessment of every wastewater system (excluding on-site sanitation) in nearly a decade. The results clearly indicate that standards have dropped during the period of slackened regulatory supervision. Of the 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, compared to 60 in 2013.

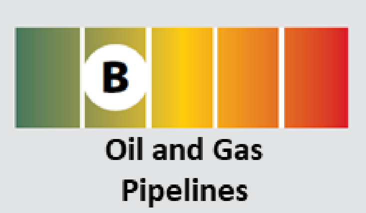
Figure 11.9 Solid Waste Management – Infrastructure Report Card.



Source: SAICE, 2022

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.

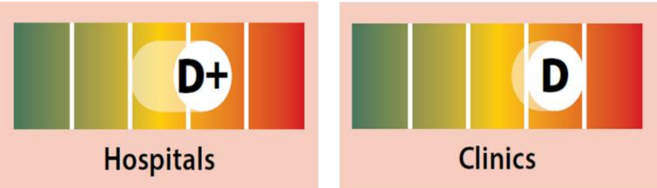
Figure 11.10 Oil and Gas Pipelines – Infrastructure Report Card.



Source: SAICE, 2022

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 4 600 km of onshore pipelines, Transnet Pipelines has the largest network and carries the largest volume of product.

Figure 11.11 Healthcare – Infrastructure Report Card.



Source: SAICE, 2022

There are nearly 4 200 health facilities, including 394 hospitals, in the country. In response to the outbreak of Covid-19, a significant amount of funds has been diverted to related emergency infrastructure. Data on the condition of health infrastructure is difficult to obtain. However, it appears that most provincial health departments and their associated public works departments do not place enough emphasis on maintenance.

Figure 11.12 Education – Infrastructure Report Card.

Source: SAICE, 2022

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. The 50 public TVET colleges have 700 000 students on 364 campuses spread across various towns and cities. Each province also has a continuing education and training college with satellite centres.

Figure 11.13 Information and Communication Technology – Infrastructure Report Card.

Source: SAICE, 2022

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

Figure 11.14 Overall Infrastructure Grade – Infrastructure Report Card.

Source: SAICE, 2022

South Africa's economic infrastructure is currently at a risk of failure, with infrastructure not coping with normal demand. Furthermore, social infrastructure continues to deteriorate. Crime and non-payment for services, as well as weak institutions lacking appropriate skills and accurate data, have contributed towards a further decline in the overall condition of infrastructure since the last SAICE Infrastructure Report Card.

2.2.1 Infrastructure investment

Investment trends over the last 15 years show a steady decline for the period. After peaking at 22% of GDP in 2008, building toward the 2010 Soccer World Cup, overall capital investment had substantially dropped to 13.7% by 2020 – one third of which is attributed to the public sector with the balance of two-thirds going to the private sector. The National Development Plan had targeted 30% of GDP by 2030, and the failure to achieve this target presents a massive challenge to the infrastructure industry. The lack of overall domestic investment is in part due to the under-investment by the public sector into infrastructure, which has been compromised significantly by corruption. This environment comprising 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.

2.2.2 User behaviour: rights and responsibilities

Notwithstanding the progressive socio-economic rights enshrined in the South African constitution in respect of **free** access to infrastructure and basic services, it is the unequal provision of this infrastructure and a lack of service delivery that often manifests, and understandably so, in community anger leading to the vandalism and associated destruction of the very infrastructure and public property that aims to serve communities. 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. The construction sector has been plagued by a peculiar form of extortion known as the 'construction mafia' for some time. Under the guise of transformation, gangs posing as 'business forums' have disrupted construction projects by demanding inclusion for little or no added economic value.

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 this has disproportionate costs to the fiscus and disadvantages other users.

2.2.3 People, mandates and data

The SAICE IRC2022 affirms the important role that infrastructure plays in any meaningful recovery plan agenda of South Africa. Given the 'D' overall rating of the nation's man-made infrastructure, a critical challenge facing the state's ability to give effect to the recovery agenda is the **dysfunction** that exists across most of the sectors. The region's State of Environment (2018) and State of Biodiversity (2021) reports also show a declining trend as ecological infrastructure struggles with over-utilisation, system fragmentation, pollution loads, increased weather extremes and altered fire regimes, as well as limited funding for restoration and maintenance. The three key factors cited 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 and scientific skills. It is rare to find a municipality that is blessed 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. In a survey of SAICE members, various reasons were given for a reluctance to work in the public service, including political interference with the core work of infrastructure departments and the lack of systems, processes, and structures for efficient administration.

Institutional robustness: The scale of corruption has been exposed as a major blight on the public service, much of it related to infrastructure procurement. The Commission on State Capture has had at least two important outcomes in this regard. Firstly, it exposed the massive amounts devoted to infrastructure provision that were wasted, meaning that the amount of spending does not reflect the scope or quality of assets obtained by the state.

Secondly, the public perception of SOEs and government procurement generally has been dealt a credibility blow, which will have a lingering impact on its 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 to be seen as a low-corruption node within the country, and therefore a lower risk to do business in, especially for offshore firms.

Data management and infrastructure monitoring and Asset Information Management Systems (AIMS): Most municipalities as well as many provincial and national departments and SOEs do not collect or analyse sufficient data that is crucial to their core functions. Some do not have the ability to integrate and interpret the data that is collected. At best, it might be said that bureaucratic inertia is rife. Many baseline monitoring programmes have been underfunded since the 1990s. At worst, it could be attributed to reluctance, obfuscation, and even concealment of data by prominent infrastructure agencies to avoid embarrassment.

To be clear, many owners or operators of assets simply do not collect condition and performance data. Some frankly admit to this failing. It is hard to decide which is worse: to be ignorant of the condition of assets under your control or to blindly allocate resources based on the loudest cries for attention. Frequently the data sets that are updated are not consistent across institutions, making comparison or aggregation difficult.

2.2.4 Connected economy

The Growth for Jobs Strategy recognises that **hybrid infrastructure**[50], which has the potential to significantly transform the efficiencies and effectiveness of the private and the public sectors and is a key form of infrastructure requiring emphasis within the Growth for Jobs Strategy. 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 reroute traffic as congestion builds, and manufacturers will increasingly operate highly precise, automated operations using low latency commercial and private networks.

Except for the Western Cape's paved roads, the unpaved (or gravel roads) were rated as a 'E', or infrastructure has failed or is on the verge of failure, exposing the public to health and safety hazards. Immediate action is required. The unpaved road network in the Western Cape is a critical agricultural enabler and connector that facilitates the export economy.

The Western Cape has been recognised historically for the quality and extent of its physical infrastructure. The reality, however, is that this infrastructure is neither evenly distributed nor easily accessed by all people and businesses, thereby contributing to social and economic inequality.

2.2.5 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. Exposure to poor air quality is not only a major contributor of greenhouse gases driving climate change but also drives health costs. The Western Cape Human Health Risk Assessment (HHRA,2020) estimated the economic impact of human exposure to poor air quality to be R8.2 billion per annum. Consideration is also imperative for the placement of infrastructure and communities, in terms of building in resilience and building back better to suit a changing climate and risk profile to communities, landscapes, infrastructure and economic sectors of the Western Cape. Resilience building also requires an enhanced understanding of near and long-term adaptation measures that avoid maladaptation (WCCCRS 2022).

---

[50] Hybrid infrastructure, or hybrid cloud, is an IT infrastructure design and environment made up of a mix of on-premises data centers, private clouds and/or public clouds. Source: https://en.wikipedia.org/wiki/Hybrid_cloud_storage.

2.2.6 Challenges

Based on the reflections provided by the SAICE IFR 2022, it is evident that 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, including 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.

2.2.7 Legal mandates

In the infrastructure space there is significant contestation around legal mandates, as this area is complex and entangled in contradiction around roles and responsibilities vis-a-vis 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 complicates 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, contradicts the power and functions of the custodian.

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. In addition, population increases with associated in- and out-migration and shifting patterns of infrastructure utilisation have outpaced the ability of government to respond appropriately within its current means.

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

The mobility sector has its own nuanced challenges related to the increase in 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. The Western Cape Government participates, with the South African Police Service and the National Prosecuting Authority (NPA), in a joint task team on taxi related crimes to investigate murders and attempted murders as well as crimes at the root of taxi violence, including 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 4 994 km of Transnet and 610 km of Passenger Rail Agency of South Africa (PRASA) rail line. A combination of freight and passenger (long distance and commuter) services operate on these lines, with PRASA operating the passenger services and Transnet operating freight services.

Old rolling stock is one of the challenges faced by commuter rail in the province as coaches are between 35 and 50 years old, with a maximum lifespan of 46 years. The number of trainsets available has reduced to 91 sets from an original 110 in 1995. Operational performance is another challenge as poor performance and availability of rolling stock cause services to be delayed or cancelled, negatively impacting the commuter experience. Additional challenges include overcrowding, poor track quality, and outdated signalling and ticketing systems.

2.2.8 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 is low hanging fruit such as solving land-side transport bottle necks 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 have been 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 and is transported more efficiently and cost-effectively. As such, it is necessary to consider rail freight in the Western Cape. It derives its strength from its ability to transport large volumes with low marginal cost. Most of the costs associated with rail are fixed and therefore, as volumes increase, the cost to transport each additional tonne of freight decreases.

2.2.9 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.

2.2.10 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 1 000 MW) costs the country R235 million. Spending on infrastructure requires a **long-term view**. This is important for several critical reasons. The first is that infrastructure is not a once-off cost. It requires ongoing monitoring and maintenance to ensure that it can perform the job for which it has been developed. The creation of a group within the province that can take this kind of view, through a provincial infrastructure fund, could be one way of doing this.

Secondly, it is also important to understand the **true cost of infrastructur**e, **or total cost of ownership (TCO)**. This may not be limited to the financial investments required but may extend further to environmental, social, and other costs which may be hidden or not fully considered at the time infrastructure is commissioned.

Thirdly, 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 process 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**.

2.2.11 Maintenance or sustainable job creation

Most infrastructure assets have a design life of 30 years or more that requires maintenance across their entire lifetime. The time taken to construct the new-build 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. Decentralised systems, for example provide significantly more opportunity for medium- to long-term local jobs and local economic benefits[51] 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.

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 include:

- The way infrastructure is planned, delivered and managed over time is not optimised, and the economic growth projections are not strongly being incorporated in the forecasting models of infrastructure plans.
- Current infrastructure backlogs prevail with massive constraints in adequate and structured long-term funding streams.
- There are spatial inequities in infrastructure which increases 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.

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

- 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-effectively maintaining 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:

- To identify and champion intelligent, resilient infrastructure solutions that contribute to accelerated, break-out economic growth, connecting people, communities and businesses to opportunities.
- Ensure options for ‘futureproofing’ infrastructure and that Total Cost of Ownership (TCO) considerations are part of the solution/design approach and Ecological, Social and Governance (ESG) opportunities are utilised to maximise project benefits.
- To coordinate, prioritise, innovate, and plan the timeous delivery of relevant infrastructure solutions (physical, digital and hybrid) 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.
- To improve the ease of doing business with respect to infrastructure investment for the private sector.
- To develop and strengthen a collaborative ecosystem of infrastructure stakeholders that will identify infrastructure challenges and opportunities and work 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.
- To harness the transformative power of digital and hybrid infrastructure to deliver greater value to inhabitants and the economy whilst simultaneously decreasing cost.
- To utilise catalytic government spending on infrastructure as a stimulus to encourage spatial transformation and broader ecosystem investment, benefitting the economy and communities accordingly.
- To improve the competitiveness of the economy and its associated sectors through targeted infrastructure investment and EoDB response for development, permitting it to identify and deliver catalytic infrastructure that will contribute to the development of the rural economy.
- To identify and utilise current government assets (land, etc.) as infrastructure catalysts for economic and/or social change.
- To develop new freight corridors (intermodal logistics hubs) that enable goods to move seamlessly and quickly to their destinations with minimal delays, in the process contributing to spatial transformation in the province. Develop a portfolio of ports (sea, air

and inland) serving the economy that have the necessary efficiency, focus and capacity to deliver goods to their destinations quickly and efficiently.

- To develop circular infrastructure that enables circular economy activity (e.g., re-use, recycling, or recovery of waste), and minimises the amount of material used across the infrastructure lifecycle or value chain.
- Infrastructure asset management presents and important opportunity to improve the capacity of local and provincial government to employ a systematic approach to managing assets over entire life cycles 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

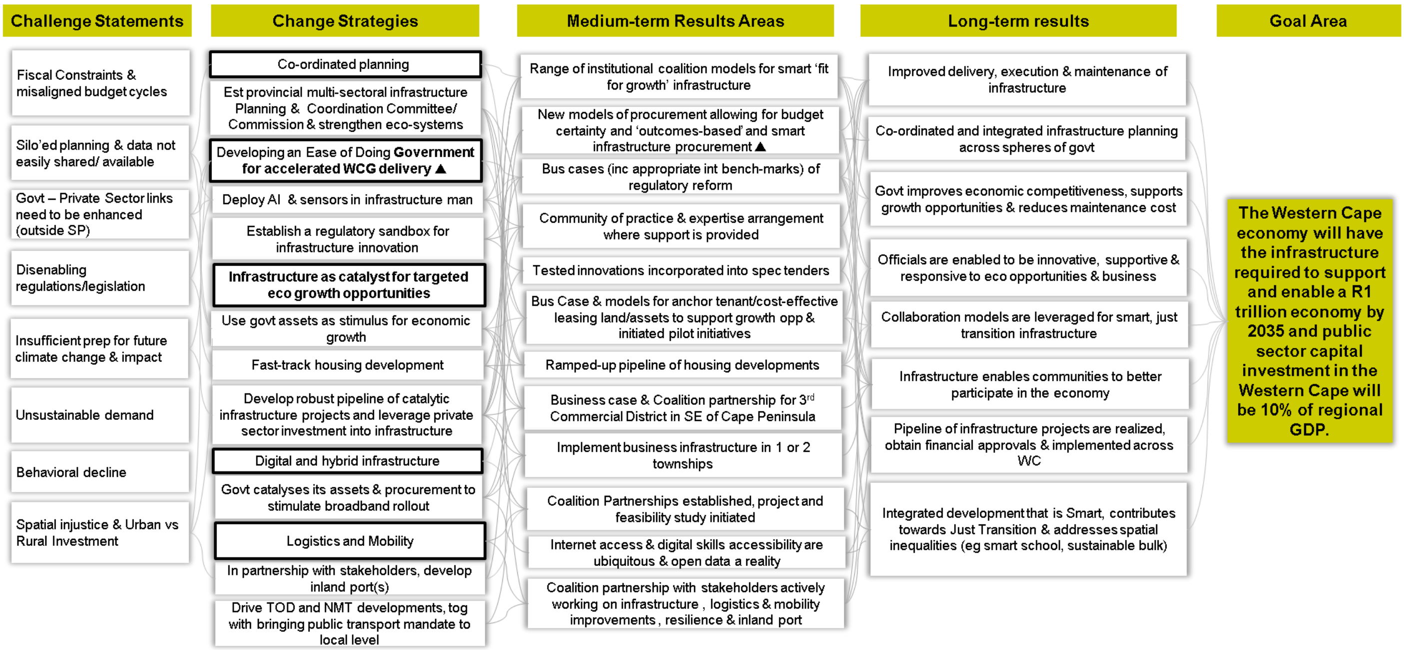
The Western Cape economy will have the infrastructure required to support and enable a R1 trillion economy by 2035 and public sector capital investment in the Western Cape will be 10% of regional GDP.

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 07% to 1%. The Infrastructure and the Connected Economy Priority Focus Area is therefore a critical contributor towards the realisation of the Growth for Jobs target of 4 to 6% GDP per annum growth. In fulfilling this goal, government's Gross Fixed Capital Formation (GFCF) contribution to GDP will increase from 4% to 10% by 2035, with infrastructure investment generating annual economic benefits[52] of GDP Growth of R100 billion and an additional 105 310 jobs in 2035.

5. Strategic level theory of change for the priority focus area

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

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



6. Change strategies

The Infrastructure and Connected Economy Priority Focus Area will need to institute various change strategies conducive to achieving a goal of enabling the 50% growth of the economy in 2035 through infrastructure development; these include coordinated planning, ease of doing government for infrastructure, accelerated infrastructure delivery for economic growth, harnessing opportunities in digital and hybrid infrastructure, as well as logistics and mobility.

6.1 Coordinated planning and strengthened ecosystem

- Develop 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.
- To obtain better alignment between planning units of economic cluster departments and municipalities and infrastructure implementors, establish **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 planning body will assist in the identification of a long-term portfolio and prioritised pipeline of infrastructure projects across all spheres of government.
- Establish 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.
- Strengthen the **coordination within government**, as well as 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

- Overcome **PFMA and MMFA constraints** with respect to infrastructure and develop bespoke governance and supply chain management (SCM) models sanctioned by National Treasury and the Auditor-General of South Africa as well as develop innovative, sustainable funding models and instruments for infrastructure such as blended funding, institutional coalition models, private-public partnerships, and outcome-based procurement.
- Develop 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.
- **Review 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.
- Build the **capacity and capability of municipal officials,** but also explore 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

- Drive 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 **initiate one or two pilot project township initiatives using whole 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.
- Identify **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 under-utilised buildings in city centres (for affordable housing) and railway stations (for retail activities) 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.
- Strengthen 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, but more importantly, to broaden the skills pool for the private sector.

- Together with the municipality of Stellenbosch and the Cape Town metro, support and strengthen approaches to urban planning, design, and development in a manner that supports 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.
- Drive 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

- Roll 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.
- Address EoDB with respect to access to way leaves, with a view to proactively incorporating the necessary fibre ducts to maintain road infrastructure integrity but also as a possible revenue source for municipalities.
- **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 to align better with new 4IR developments and skills acquisition trends.
- With the private sector support **provide laptops to all grade 8s in two rural towns** as a pilot project to determine the impact of improved accessibility to devices and the internet on learning outcomes as well as on the households of the learners.
- The Western Cape Government needs to drive business and citizen digital uptake through the **digitisation of government services and procurement processes**, but this must be coupled with ensuring that citizens have access to the internet and devices through, for example, Wi-Fiat libraries and the provision of Wi-Fi hotspots in communities.
- Make government data open and accessible to businesses and academia.

6.5 Logistics and mobility

- Understand business' infrastructure requirements, challenges and opportunities and model the infrastructure requirements and implications of 50% economic growth into the Western Cape infrastructure framework with respect to logistics and mobility. The infrastructure framework needs to develop a pipeline of projects with the intention of levering national funds or implementing coalition partnerships for construction as well as developing the appropriate institutional support structures to enable this.
- Champion 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.

- Work 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 export PFA chapter).
- Establish a task team to explore, amongst others, the introduction of a cashless payment system to be used in taxis and buses to promote productivity, safety, and an improved commuter experience. 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.
- Seek 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.
- Introduce new mobility solutions and/or positively impact 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 the Economic Opportunities and Employability Priority Focus Area).

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

7.1 Assumptions

Some of the assumptions that need to be borne in mind for achieving Priority Focus Area success include:

- 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 Fourth Industrial Revolution.
- 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 others for successful implementation (see linkages in the annexure).
- 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 well-being, 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.

Note: Linkages to other Growth for Jobs enablers, accelerators, and levers, arising from the PDA, as well as linkages to the Safety VIP and Well-being VIP, have been captured in the annexure.

Priority Focus Area: Improved Access to Economic Opportunities and Employability

12

Photo by @leo Moko

Chapter 12: Priority Focus Area: 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, a legacy of apartheid that is continuously reinforced by inherited settlement patterns that ensure 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. Research suggests that greater inequality hinders economic growth and macroeconomic stability. Land and human capital inequality reduces growth more than inequality of income, consequently it is imperative that human capital development is at the core of growth strategies.

It is against this backdrop that the Grow for Jobs Strategy has considered how it may best improve access to economic opportunities and contribute to employability through a range of interventions, including enabling people to access opportunities through digitally enabled services, 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 citizens' quality of life cannot rise sustainably unless residents from different walks of life are able to harness opportunities created by investment-driven economic growth.

To achieve our goal of improving the **economic mobility** of citizens, we need to adopt a holistic approach which addresses the binding growths to the supply of – and demand for – human capital. The Growth for Jobs Strategy tasks the Western Cape Government with enhancing the economic mobility of citizens through supply- and demand-side measures that are focused and practical, but that have reach and scale.

Demand-side measures targeting employability focus on basic education and workplace training, whereas supply-side measures include working with municipalities in creating enabling environments for growth-oriented entrepreneurs, with a special emphasis on township-based businesses.

2. Situation analysis

Improving access to economic opportunities and employability is required within a country that has the highest level of unemployment in the world. For the individual, employability depends on four elements:

- employability 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.).[53]

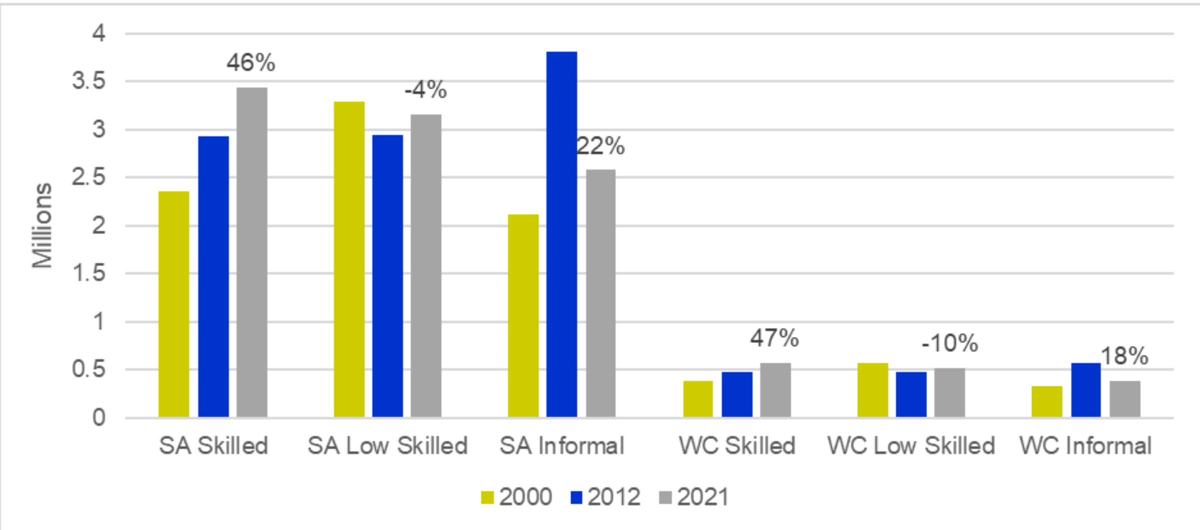
To these, might be added the skills, know-how and resources needed to exploit opportunities for entrepreneurship, be it within a formal or informal business.

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

It is common knowledge that the structure of the Western Cape's labour market closely approximates that of South Africa's: on the one hand you have a formal economy that is being held back by a critical shortage of skilled workers, while on the other, 2.6 million working-age residents[54] are either unable or unwilling to find gainful employment. These are explored below:

Critical shortage of skilled workers stifling growth: South Africa's economic growth is constrained in part by shortages of skilled labour[55]. Since 2000, skilled employment has increased by 46% nationally and 47% in the Western Cape. Whereas unemployment levels among citizens with advanced qualifications are broadly in line with benchmark economies, unemployment amongst unskilled and semi-skilled job seekers are exceptionally high. The skills shortage is particularly acute for job seekers with SET qualifications (science, engineering, and technology) and for managers and professionals. Between Q2 2018 and Q2 2021, the overall number of professionals increased by 115 000 nationally. Other fast-growing occupations during this time were science and engineering professionals (97 000), health professionals (32 000) and administrative and commercial managers (60 000). Sectors which experience the most intense shortage are education, financial services, the public sector, utilities and the ICT sector[56]. Due to increasing competition amongst employers over these scarce skills, highly skilled workers have experienced the sharpest increase in wages over the last ten years. Whereas in 2011 48% of workers within the top wage decile were highly skilled, in 2021 that proportion has risen to 62%.

Figure 12.1 Employment by skill level.



Source: Quantec

---

[53] Hillage, J. and Pollard, E. (1998) [Employability: Developing a Framework for Policy Analysis. Department for Education and Employment, London.]

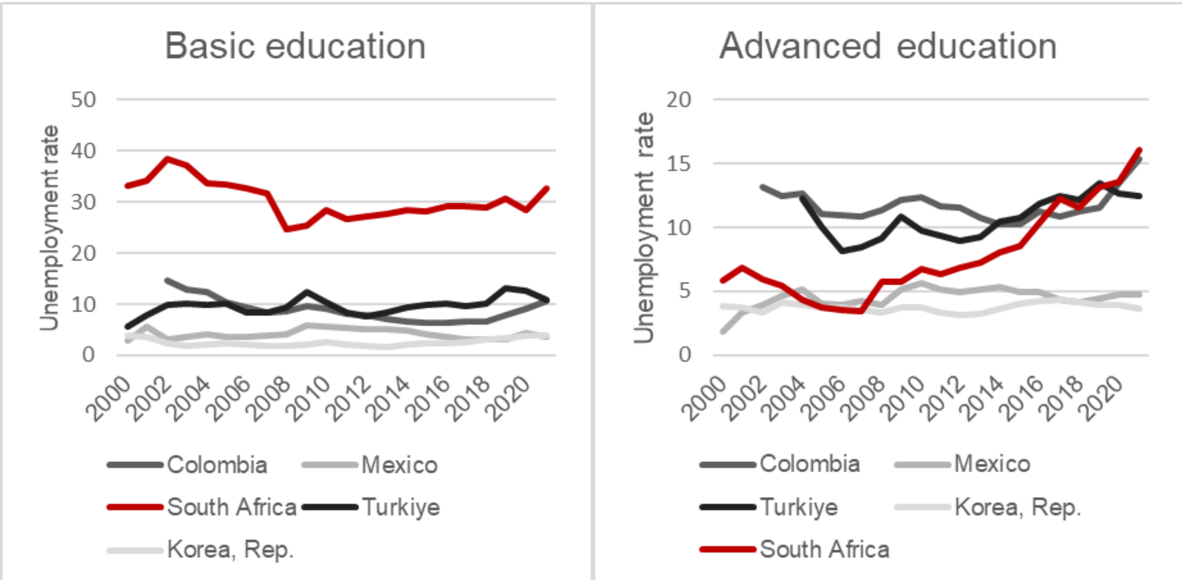
[54] 2021 estimate by Quantec EasyData 2023.

[55] Robert H. Davies and Dirk van Seventer, "Labour Market Polarization in South Africa: A Decomposition Analysis," Working Paper (WIDER Working Paper, 2020), https://doi.org/10.35188/UNU-WIDER/2020/774-3.

[56] DHET 2022 Skills and Supply and Demand in South Africa.

Growing number of job seekers: Structural shifts in the economy have had important consequences for the structure of the labour market and has changed its labour requirements, such as the mechanisation consolidation of agricultural production, the decline of legacy mining and the near collapse of the local textile industry in the face of globalisation. In particular, the modernisation of industrial processes has resulted in a declining demand for unskilled and semi-skilled workers, whereas growth in technology-intensive parts of the manufacturing sector have 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[57] unable to find work. Figure 12.2 below illustrates the point: unemployment rates amongst those with only a basic education is significantly higher in South Africa than those in benchmark economies (where the association between educational attainment and employment is weak).

Figure 12.2 Unemployment rates relative to educational attainment.

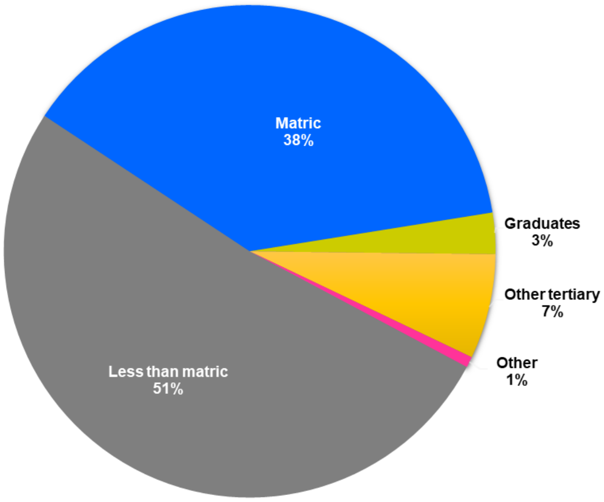


Source: World Bank

However, whilst unemployment amongst South Africans with tertiary education has been risen since 2006, at 10 to 15%, it is still largely comparable to benchmark economies. The DHET attributes this growing disjuncture to specific qualifications by individuals not aligned to the skills needs of employers, citing the decline in the number of SET graduates (which is in high demand) with a corresponding increase in humanities graduates (which is in low demand)[58]. Recent data (figure 12.3) succinctly demonstrates this point.

[57] QLFS Q1 2022.
[58] DHET 2022 Skills and Supply and Demand in South Africa.

Figure 12.3 Proportion of the unemployed by education level, Q3 2022.



Source: QLFS

The evidence, as demonstrated by the diagram above, signals that the more educated our citizens are with productive and relevant skills, the higher likelihood of them being employed. This aligns with the assertion that there is a misalignment between the supply of skills (low level) to what the economy requires (skill demand).

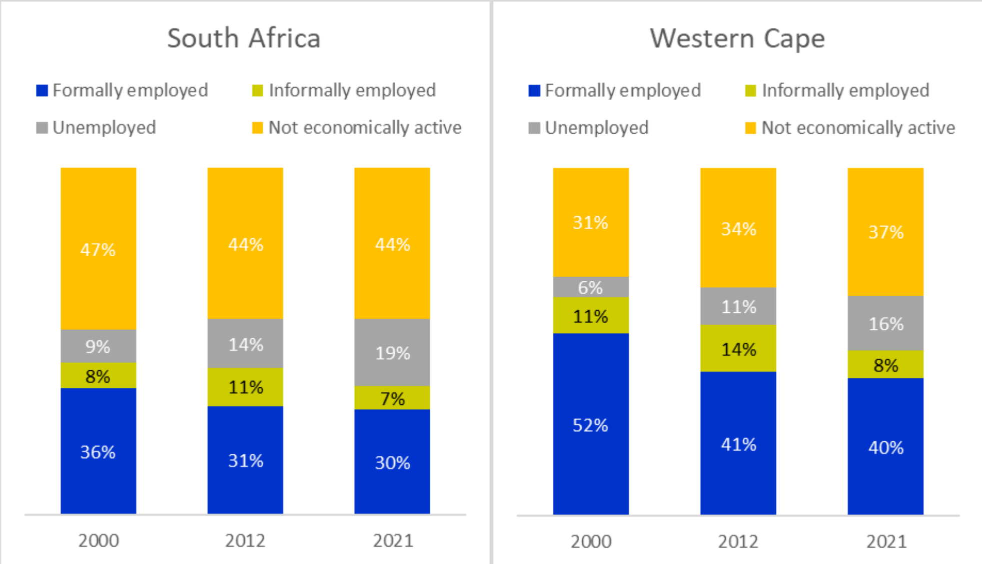
Further underlining the shortage of appropriate skillsets required by private sector, only 15% of 25 to 34-year-olds had a tertiary qualification in 2020 in South Africa compared to 47% on average across OECD countries[59]. One of the reasons for this is that South Africa has too few tertiary institutions – 26 universities (including four in the Western Cape), which is a lot fewer than comparable countries such as South Korea's 202 universities and Turkey's 129 state universities[60], and/or alternatively, the South African universities are not managing sufficient throughput of their student cohort. Around half of all South Africa's first year intakes drop out of university primarily due to an inability to adapt to university academically and socially, poor career choices, and inadequate funding.[61]

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[62]. In many cases this may be due to personal circumstances that have nothing to do with the employment landscape. Historically, however, South Africa's labour force participation (55–60%) has been significantly lower than benchmark economies, whereas the Western Cape's level of participation performs somewhat better (65– 70%). This is due to an emblematic South African phenomenon: institutionally induced unemployment that is unresponsive to the business cycle[63]. This is unemployment that is caused by a combination of low productive potential (an accumulation of educational, psycho-social and health deficits) and labour market rigidities (e.g., minimum wage and social grant conditions). This results in a situation where the productive potential of a person is lower than the minimum or union-set

[59] OECD (2022) Education at a Glance 2022.
[60] Statista (2021) Total number of universities in Turkey in 2021.
[61] Moodley, P. and Singh, R. J. (2015). Addressing student dropout rates at South African universities. Alternation. Special Edition No 17 : 91–115
[62] 2021 estimate by Quantec EasyData 2023
[63] J. Gerson, "The Question of Structural Unemployment in South Africa," South African Journal of Economics 49, no. 1 (1981): 7–15, https://doi.org/10.1111/j.1813-6982.1981.tb00685.x.

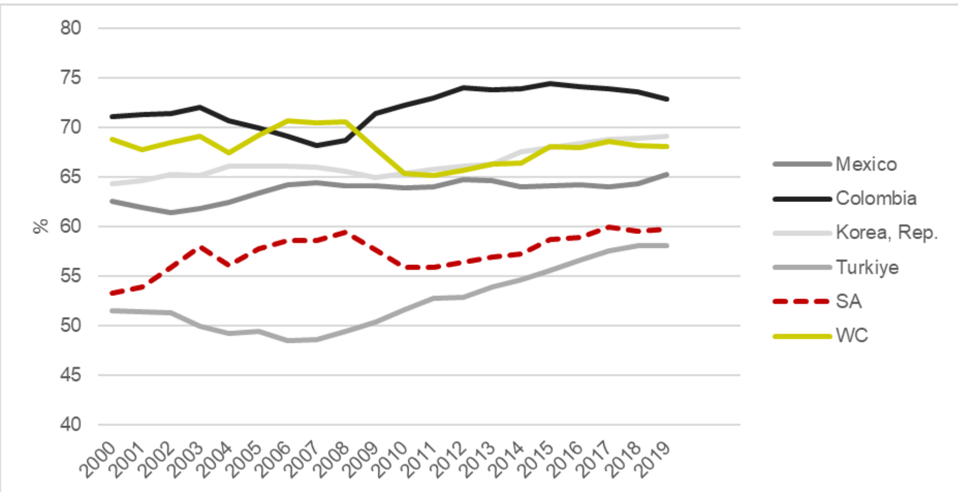
wage (which means there is no incentive for the firm or sector to employ the person), or in a non-unionised context, the obtainable wage of a person (given his productive potential) minus his commuting cost is less than the benefit of staying at home and relying on grants. For millions of individuals, there is simply no rational, short-term incentive to work. This challenge is particularly difficult to fix, since the longer people disengage from work, the more difficult it is to reintegrate into the working environment (e.g., due to substance abuse, mental illness, self-esteem, etc.).

Figure 12.3 State of the labour market percentage of working age population, 2021.



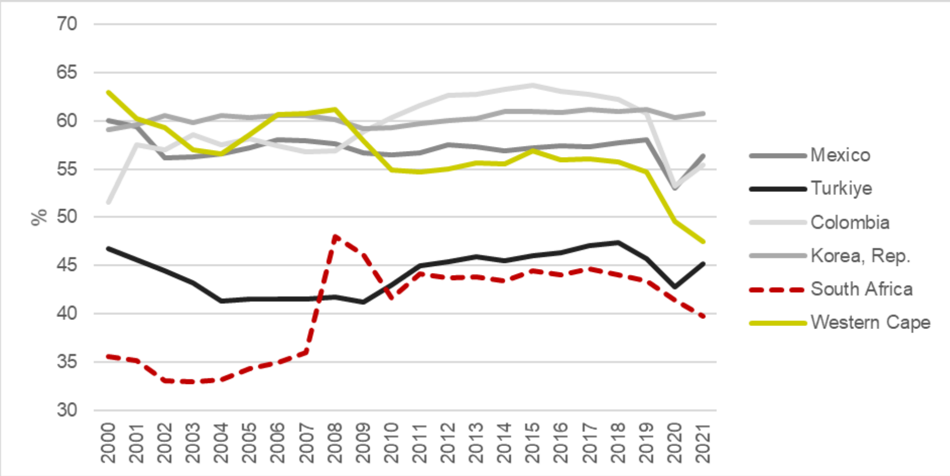
Source: Quantec

Figure 12.4 Labour force participation (employed + unemployed/working age population).



Source: World Bank

Figure 12.5 Labour force absorption (employed/working age population).



Source: World Bank

The Growth for Jobs Strategy applies as its point of departure a recognition that the national (and provincial) labour market is profoundly dysfunctional. It will require a generation of structural reforms augmented by targeted intervention for it to even begin to resemble a normal, healthy labour market that works for most, if not all, citizens.

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 drought, Covid and a sclerotic national economy. The province has added 230 000 new formal jobs between 2012 and 2021. Given the size of the economy and adverse macroeconomic circumstances, this is an exceptional rate of increase compared to other provinces and benchmark economies.

...but in-migration outweighs formal job creation

Despite the success of formal businesses in creating new jobs in the Western Cape since 2012, it has not been nearly sufficient to absorb the 765 000 people increase in the working age population – due in large part to 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.

Enabling growth-oriented entrepreneurs

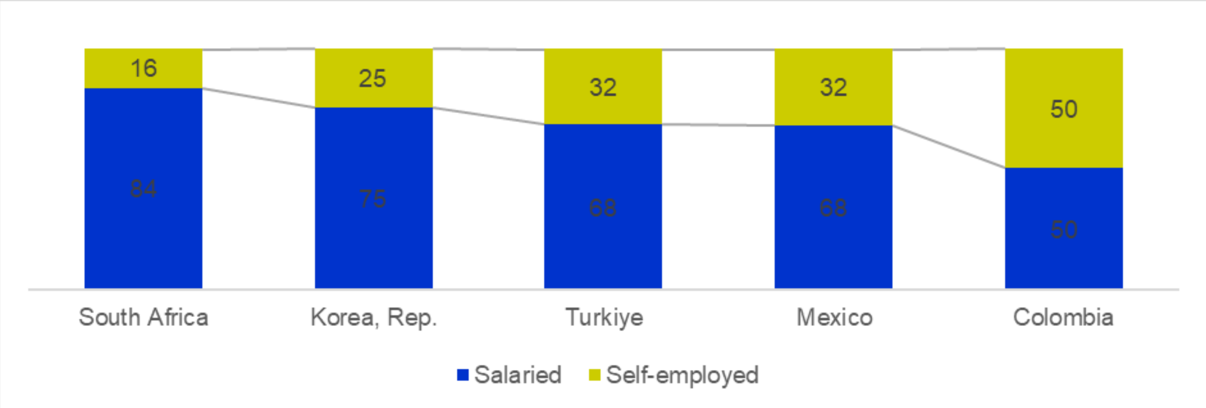
In developing countries that are experiencing high rates of low-income, unskilled urbanisation, the gap between the formal economy's capacity to generate new jobs, and the growth in the number of aspirant job seekers, is offset by informal self-employment in urban settings and subsistence agriculture in rural and peri-urban environments. Not all forms of informal self-employment are the same. Although national policy rarely acknowledges it, the nature, prospects, and appropriate response to survivalist activity is very different to growth-oriented entrepreneurs. Whereas survivalist activity provides a brief respite against extreme poverty (and is thus a social rather than economic strategy), growth-oriented businesses –

characterised by responsiveness to demand, risk appetite, and propensity to reinvest profits – offer a critical augment to job creation strategies relying solely on large formal employers.

Questions remain, however, 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. A comparison with benchmark economies suggest that South Africans are exceptionally dependent on salaried positions, and not particularly successful at self-employment, whether formal or informal (see figure 12.6 below).

Whether as a contributor to economic activity or employment, our informal sector is small compared to benchmark, and even developed country economies (see figure 12.5 on the previous page). Any strategy seeking to increase employment opportunities (especially for low- and semi-skilled workers) needs to identify and interrogate the role the Western Cape Government can play in addressing the binding constraints inhibiting the success of growth-oriented entrepreneurs within their operating environment.

Figure 12.6 Type of employment.



Source: ILO estimate from World Bank

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, South Africa's black middle class has grown from 1.7 million in 2004 to 4.2 million in 2021.[64] Indirectly, economic growth supports – through taxes – a social grant system which 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[65] because the root cause of income inequality is not the rate of job creation but rather inequality in the productive potential of individuals, a function of the distribution of educational, psycho-social and health outcomes across society, and neighbourhood factors such as distance to work, community social norms governing gender roles, and perceived vulnerability to violent crime.[66]

[64] University of Cape Town Unilever Institute (2021).
[65] Van der Berg, Servaas, Ronelle Burger, Rulof Burger, Megan Louw, and Derek Yu. "Trends in Poverty and Inequality since the Political Transition," 2006.
[66] 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, it has been shown that – hypothetically – were every unemployed South African given a job tomorrow at a wage level commensurate with their productive potential, aggregate inequality would increase.

The role of the WCG in supporting economic mobility

Given the challenges and opportunities described above, it is the task of the strategy to focus on the following levers:

1. 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.
2. Reduce the binding constraints impeding formal job-rich growth, particularly by reducing the burden of regulation, infrastructure provision and investment facilitation.
3. Support municipalities in creating an enabling environment for entrepreneurs, particularly those in economically marginal locations.
4. Support initiatives that invest in open ICT infrastructure supportive of online training, digital education, and labour market information (i.e., job-matching).

2.2 Key areas for intervention

Notwithstanding the structural challenges underpinning unemployment, there are also several factors that prevent access to employment. These fall into four groupings: quality of basic education, the alignment between the supply and demand for skills, constraints which discourage entrepreneurs (specifically in townships), and the burden of transport costs on aspirant job seekers.

2.2.1 Preparing learners for the work place

The Western Cape spends 36% of its budget on education, but weak labour market outcomes suggest that there is a need to align education/skills provided with employers' needs, 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[67].

The WCED curriculum and learning needs to link education to employment more effectively. Life orientation content on careers, work preparation and competencies need 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 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.[68] 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.

---

[67] Pastore, F (2018) "Why is youth unemployment so high and different across countries?" IZA World of Labor 2018: 420.
[68] KayLynn Hamilton, K (2022) What Does It Mean to Have Workforce Preparation Skills?

A curriculum for a E³ programme (Employability Entrepreneurship, Education) 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 by 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 there is a need to provide them with a second chance to complete their education or to obtain another form of training.

2.2.2 Demand-led vocational training

There is a need for a more coherent training and development ecosystem that guides learners and work seekers to the skills needed for emerging sectors of the economy. This will require the repurposing of existing schools and the establishment of new schools and post-school training providing 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 find and understand opportunities.

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.

The World Bank Group has developed the Skills Towards Employment and Productivity programme framework encompassing five steps:

a) Develop technical, cognitive, behavioural, and digital skills early in life to create a framework for later success.
b) Build stronger education systems with clear learning standards, good teachers, adequate resources, and a proper regulatory environment.
c) Build job-relevant skills by developing the right incentives for both pre-employment and on the job training programmes.
d) Encourage entrepreneurship and innovation by creating an environment that encourages investment in knowledge and creativity.
e) 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.

2.2.3 An enabling environment of entrepreneurs

Targeting growth-oriented entrepreneurs and survivalists

To realise the greatest return-on-investment in terms of job and apprenticeship opportunities, there is a need to move beyond a generalised approach to supporting entrepreneurs 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 formation motivated by unemployment are far less likely to survive than those motivated by 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. Household businesses therefore avoid the implicit radius of existing businesses run by another household. In this setup, markups tend to be high, pricing structures expensive, and customer bases thin. 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 commercial districts.

In contrast, growth-oriented entrepreneurs operate by choice, are willing to take risks, specialise in a particular market, and are fairly disembedded 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. In service activities, location defines the market, the inclusion in a larger firm's network, access to material and infrastructure, and opportunity to interact with other entrepreneurs. These 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 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. Growth-oriented entrepreneurs create jobs already in the initial phases of the firm, whereas survivalist traders generally do not show even small increments in the number of hours employed. 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 on 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 are 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, 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.

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[69]. 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, policy makers 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 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 is 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

[69] SACN 2019, Township economic development in the Gauteng province.

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[70].
- 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 province directly, or support provided to municipalities.

2.2.4 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.[71] The inefficiencies of this spatial form are deepened in South African cities because poor household often live in 'poverty traps' – areas in which social dysfunctionality has a profound impact on the performance of education and health services.

Figure 12.7 Cape Metro employment density compared to residential density.

Source: City of Cape Town

[70] Herrington, M., Kew, J. & Kew, P (2018) Global Entrepreneurship Monitor, University of Cape Town, Cape Town.
[71] Kerr, A. (2015) "Tax(i)ing the poor? Commuting costs in South Africa." SALDRU Working Paper Number 156.

Beyond transport costs, two other factors help entrench structural unemployment in the Western Cape:

- **Contextually inappropriate building regulations:** The housing market is also not fit for purpose. 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 also 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[72] 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[73]. The scope of the challenge is stark since there is a shortage of some 52 000 social workers[74].

It is against this backdrop that the Grow for Jobs Strategy has considered how it may best improve access to economic opportunities and contribute to employability through a range of interventions, including enabling people to access opportunities through digitally enabled services, nurturing local expertise and entrepreneurship, enabling micro- and small-sized enterprises to participate in industry value chains, and supporting self-employment.

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 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.
- 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 that are not aligned with the needs of businesses and there are few

[72] 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.
[73] https://assets.kpmg/content/dam/kpmg/za/pdf/2017/01/za-Too-costly-to-ignore.pdf.
[74] Gizella Opperman, G. (2022) South Africa faces shocking shortage of thousands of social workers.

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 even attending job interviews.
- Social and cultural norms do not encourage entrepreneurship, and the environment is not supportive to encourage 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.
- To have 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 benefiting 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 of competencies and skills and to finding work have been reduced or removed.

4.2 Goal statement

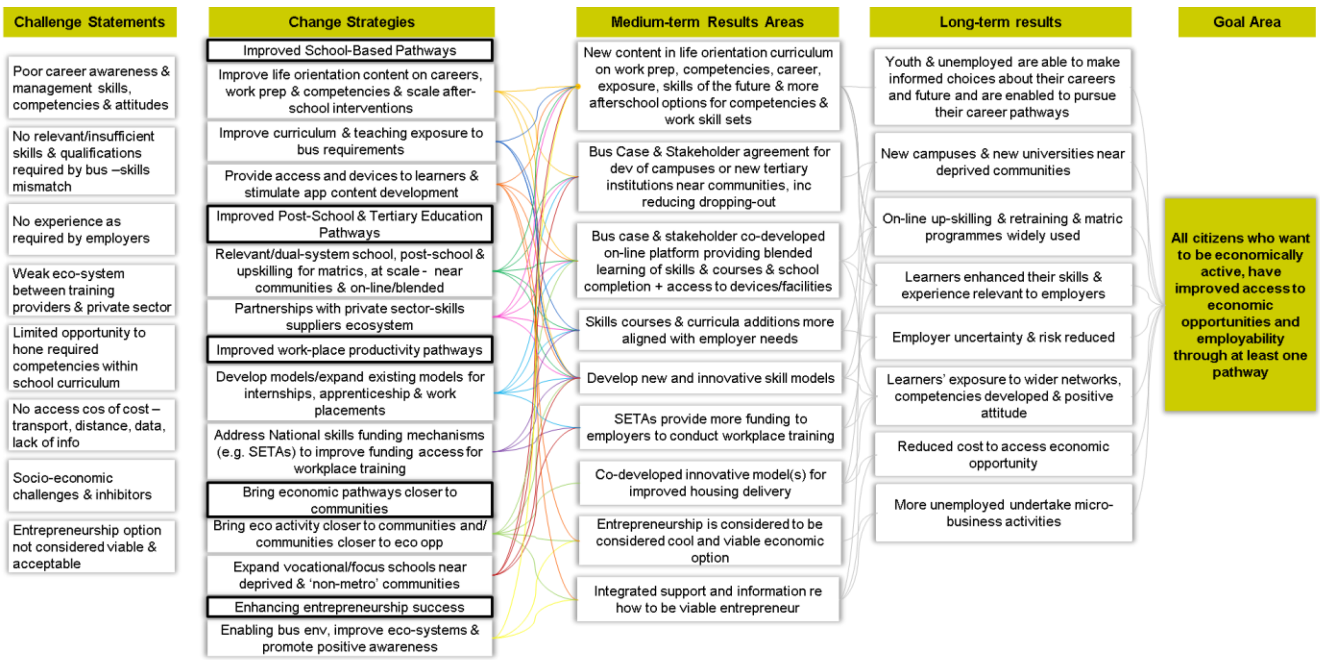
All citizens who want to be economically active have improved access to economic opportunities and employability through at least one pathway, with pathways comprising of improved employability assets (knowledge, skills, experience, and/or competencies), career management skills, workplace-ready capabilities and skills, economic opportunities more accessible to communities, and entrepreneurship[75].

Improved accessibility to economic activity, skills, and competency upskilling to meet business requirements, together with and 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[76] 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 Prioritised Focus Area. Participants workshopped the PDA's 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 12.8.

Figure 12.8 Theory of change.



6. Change strategies

The Improved Access to Economic Opportunities and Employability PFA will need to institute various change strategies to achieve the objective and the goal statements. These include:

6.1 Enhance career preparation and work-readiness competencies and skills

[76]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.

- Improved 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.
- Increase 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 into place.
- Expand 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/encourage learning.

6.2 Improve curriculum and teaching exposure to businesses and the world of work

- Revise 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.

6.3 Upscaling skills development and training

- Support establishment of dual-system tertiary education institutions/universities in/near dense settlements.
- 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.
- Investigate the feasibility and develop a strategy to expand the number of universities (private sector and public sector) and Technical Vocational Education and Training (TVET) colleges in the Western Cape and/or, in partnership with CHEC, expand the capacity of existing universities and colleges near communities.

6.4 Strengthen the ecosystem of education and training institutions and their links to the private sector and government officials

- 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.
- Work with the private sector, including training institutions, to enhance the relevance of skills and education training and to reduce the skills mismatch.

6.5 Increase internships, apprenticeship, and work placements

- Develop matchmaking initiatives, e.g., to connect microbusiness with opportunities.

- Develop an understanding of businesses' skills needs and meet that demand through formal learning and experiential learning, as well as knowledge exchange.
- Explore 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 whilst simultaneously giving previously unemployed or graduates an opportunity to gain work experience.
- Develop innovative models for the recognition of emerging trends of training – micro-certification of modules from credible tertiary institutions rather than long-term accredited skills programmes.
- Work 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 as not sufficiently identifying talent and potential.

6.6 Provide access and devices to learners and stimulate app content development

- Overcome 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 Tech and Innovation PFA).
- Champion and invest in programmes to deliver digital skills relevant to the workplace at scale (see Tech and Innovation PFA).

6.7 Leverage and enhance national skills funding mechanisms to improve funding access for workplace training

- Strengthen dialogue between SMMEs and SETAs to increase funding to non-corporate businesses, with a view to streamlining the administrative compliance requirements.
- Streamline the administrative requirements to access SETA funding or support intermediaries that help SMMEs manage the administration requirements.
- Forge 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, therefore, provide financial support to intermediaries so that the Western Cape is better able to leverage and scale these national programmes, whilst advocating for more streamlined national compliance systems.

6.8 Expand vocational/focus schools near deprived and 'non-metro' communities

- Accelerate 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 and 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.
- Schools will partner 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.

6.9 Bring economic activity closer to communities and vice versa

- Create the enabling environment for private sector to develop mixed-use, high density and compact settlements that promote sustainability and competitiveness through agglomeration economies.
- Develop 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 the infrastructure PFA).
- Collaborate with the Infrastructure and Connected Economy PFA 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 linkage to the Infrastructure and Connected Economy PFA).
- Understand the impact of compliance enforcement on local businesses, and develop more incremental, affordable, and empowering systems where necessary
- Develop **bespoke township strategies**, 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.
- Consider 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 Early Childhood Development and ensure that there is a strong sense of shared value and community ownership for the interventions that are implemented (see Infrastructure and Connectivity PFA).
- Supplier development: support the pathway from skills (business skills) to SMME support, to SMME development.

6.10 Enabling business environment, improve ecosystems and promote positive awareness

- Leverage 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.
- Support opportunities for microbusiness support for women, including early childhood development 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.

- Identify 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.
- Develop campaigns to promote entrepreneurship and microbusiness.
- Improve 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.
- Conduct an international benchmarking of South Africa's labour legislation and regulations, as well as support the development of a process work-flow tool to assist business compliance with respect to labour relations regulations. As part of this, also assess the existing labor 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.

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

7.1 Assumptions

Some of the assumptions that need to be borne in mind for achieving PFA success include:

- Learners will be supported with access 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 far from where people live.

- Universities and TVET colleges are unable to, or reluctant to, expand into communities, resulting in the continued inaccessibility of upskilling opportunities to learners and unemployed.

7.3 Research

- Based on the identification of growth opportunities and should there be a skills shortage constraining the growth prospects, research, in collaboration with that specific ecosystem, will be the most efficient way to meet the 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 reduce 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 rate.

Note: Linkages to other Growth for Jobs enablers, accelerators, and levers, arising from the PDA, as well as linkages to the Safety VIP and Well-being VIP have been captured in the annexure on linkages.

13 Transversality and the way forward

Photo by @Joshua Hibbert

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 ambitious 2035 objective and goal statements as articulated in the Growth for Jobs Strategic Framework will be achieved. The Western Cape Government **will** set out to achieve break-out economic growth to achieve sufficient employment and opportunity and this economy **will** be 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 of the fact that in the crafting and execution of the Growth for Jobs Strategy, its role is purposeful, choiceful, realistic and impactful.

- **Purposeful** in that it needs to be very clear about the outcomes it would like to achieve. It needs to align all of government around a common purpose in a concerted, transversal effort to achieve meaningful outcomes that will a difference in the lives of the residents of the province. This is what the overall Growth for Jobs strategic framework has attempted to accomplish.
- **Choiceful** in the way it selects the appropriate focus areas, accelerators, and 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 framework.
- **Realistic** in that more government intervention through increased spending is not always the appropriate approach. Realistic in the realisation that, in 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 therefore neither possible, desirable nor effective. The Growth for Jobs Strategy attempts to provide important guidance in the choice of initiatives, 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 in the way the Growth for Jobs Strategy combines, sequences, and prioritises enablers, accelerators and levers across focus areas in ways that leverage collaboration, the optimisation of resources and potential synergies to deliver results. The Growth for Jobs Strategy implementation process will leverage collaboration across the Western Cape Government, amongst all levels of government, and inclusive of 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 the determination of what and how the Western Cape Government will accomplish the overall targets set out by the Growth for Jobs Strategic Framework. The consilience of these determinations resulted in the identification of seven Priority Focus Areas. Clear and ambitious objective and goal statements have been set for each Priority Focus Area, the achievement of which will synergistically contribute towards the overall Growth for Jobs Objective and Goal target. Summarised, these are as follows:

Priority Focus Areas	Objective Statement	Goal Statement
Creating 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 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 Western Cape is a leading global export region in a diversified basket of goods and services, including tourism, and a sought-after source market known for its quality, reliability and cost-effective goods and service offerings.
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.	15 terawatt hours (TWh) (approximately 5 700MW) of renewable energy generation in the Western Cape and R96 billion in related investment by 2035.
Water security and resilience	The province will have optimised and increased water supply, integrate the management of water resources, as well as enhance 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 water available for secondary and tertiary economic sectors (primarily from non-productive use) 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.	Research and development expenditure is to be increased by 300% in real terms, reaching R35 billion and where venture capital deals will total R20 billion by 2035.

Infrastructure and connected economy	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.	The Western Cape economy will have the infrastructure required to support and enable a R1 trillion economy by 2035 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 can access economic opportunities and employment, including the skills of the future, and where barriers to accessing information, to developing of 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 of 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 **Priority Focus Areas** will have a direct GDP impact of **R395 billion**, and the economic modelling shows that this can result in between 600 000 and over 1 million jobs being generated. Accomplishing the objectives and targets set out by these Priority Focus Areas is an imperative as it 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 (TOC) in each of the Priority Focus Areas several mutual and transversal policy levers and themes have emerged. In 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. Reinforcement of these policy levers will be key differentiators in redefining 'how' the Western Cape Government will implement the Growth for Jobs Strategy.

Noting that there are several themes and policy levers that more than one Priority Focus Area emphasised for attention (and which will be further explored in the implementation plan), the following highlights the almost universal and most critical policy levers for immediate attention:

- Private-public sector coalition coordination
- Economic Intelligence
- Ease of doing government
- Regulatory and legislative ease of doing business
- Enabling procurement systems.

3.1 Private-public sector coalition coordination

Building partnerships: In the situation analysis of all Priority Focus Areas, the need to address fragmented ecosystems has been consistently highlighted and consequently all change strategies have emphasised the establishment and reinforcement of partnerships as one of their key interventions requiring attention. In building trust pooled resources and shared intelligence, ecosystems and partnerships are critical.

Strengthened ecosystems allows for the private sector to come together to exchange intelligence, critical linkages and opportunities with each other. It creates platforms for informal mentorship and advice amongst firms. It includes the private sector as a collective to address and/or articulate their challenges. It provides a coherent and unified voice when in dialogue with government about what support is required. 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: Whilst each of the **Priority Focus Areas** will need to focus on their respective private sector partnerships, there is a need to develop an overall coordination platform between government and the private sector, with some consideration being given to the inclusion of 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 has been a key recommendation flowing from the Growth Diagnostic and has been echoed in the stakeholder inputs obtained during the Growth for Jobs Strategy consultations. This therefore 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 the implementation of 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 that includes the conditions and criteria for the co-funding and implementation of joint initiatives. As there is currently no mechanism for co-funding initiatives in the way that the PFMA is applied, Provincial Treasury will be a key partner in the development of the models to ensure good governance and compliance. These models can be utilised, as applicable and relevant, by the Priority Focus Areas to implement their planned interventions.

3.2 Economic intelligence

A huge focus has been placed on data and economic intelligence within all the Priority Focus Areas where there has not only been an emphasis on research and gathering evidence, but also on generating and collecting primary data and on using technology to provide real-time data and dashboards.

A knowledge management approach required a theory of change developed for economic IQ. The nature and complexity of the challenges and opportunities with economic IQ asks for more than a single solution system development with some training or capacity building happening in isolation or ad-hoc basis. Given this, 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 the development of the Growth for Jobs Strategy the need for government officials to be empowered and enabled to deliver innovatively has been highlighted. This points to transforming the operating framework to an environment where officials work within 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 the delivery of the Growth for Jobs Strategy.

3.4 Regulatory and legislative ease of doing business

Emerging from the Priority Focus Areas there is a clear need for government to improve the legislative and regulatory environment in which businesses operate. Interventions identified within the various Priority Focus Areas include – but also move beyond – merely making it easier or faster for business to comply, but also focus on bringing about systemic change in addressing, and where appropriate, challenging the legislative and regulatory framework upon which the compliance requirements are founded.

The overall approach of the Western Cape Government is therefore that all government officials need to drive and embrace, within their mandates and in the execution of their responsibilities, a business-friendly mindset. To support this approach, tools, skills and methodologies will need to be provided to government officials that better capacitate an ease of doing business approach.

3.5 Enabling procurement systems

The Western Cape Growth Diagnostic notes that ‘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 Priority Focus Area but is echoed amongst many of the Priority Focus Area interventions.

Consequently, funding mechanisms that allow for private-public coalitions – including community-based coalitions – need to be developed by the Western Cape Government that allows officials to operate with the necessary assurance that they are compliant but with the flexibility that enables partnerships with stakeholders and that allows for innovative procurement like outcome-based tenders and blended funding models. To this end, Western Cape Government needs to lead the charge on providing compliant solutions that provide officials with the flexibility and agility to partner with the private sector and other economic stakeholders.

4. Transversal management and governance of the Growth for Jobs approach

The extent to which all Priority Focus Areas are fundamentally dependent on other enablers and levers poses a risk for success. The Western Cape Government needs to identify various models of transversal management, delivery and coordination that can deployed, as appropriate, to make sure that the Priority Focus Areas get the necessary support from those departments responsible for implementing identified levers and enablers. Critically, success and progress will significantly be undermined if one of those required levers/enablers are not delivering as needed. The successful implementation of the Growth for Jobs Strategy will rest on this.

4.1 Transversal coordination, governance, and accountability

The G4J Strategy has among its key principles 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 it comes to the evolution of a 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 G4J Strategy will necessitate the use of an array of available 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 the periodic and structured research, assessment and evaluation of strategic interventions, collaborations and their systems-level results.

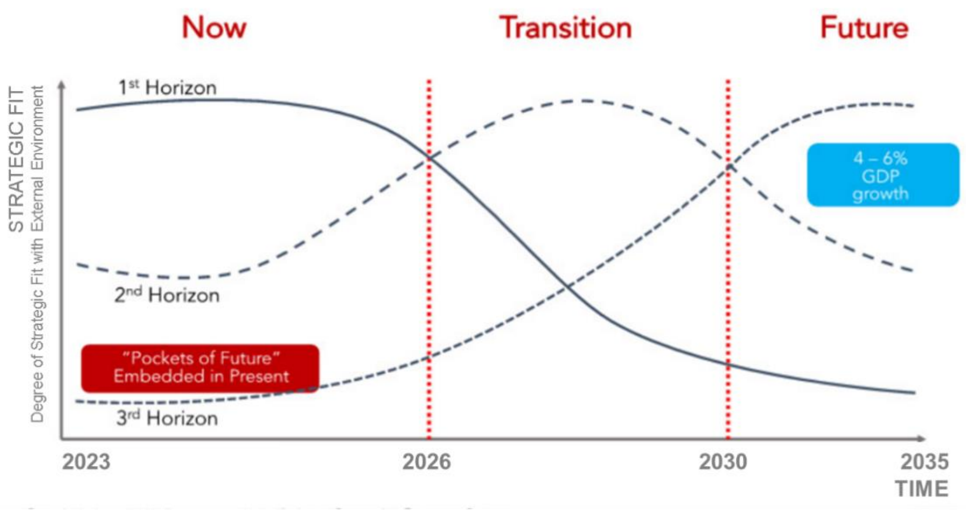
This will require oversight and accountability that embraces duality and complexity, forgoing strict hierarchies and tightly prescribed mandates in relation to the G4J Strategy and leveraging off the existing governance and oversight platforms already in place within the Western Cape Government. As part of the implementation of the G4J Strategy 2024–2035 the delivery of the goals associated with each of PFAs 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, there has been a Growth for Jobs Strategy shift away from activity-based indicators towards more strategic programmatic outcomes and objectives using the theory of change approach and methodologies.

As explained in the Growth for Jobs strategic framework, 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' (DPME, National Evaluation Policy Framework, 2011). Simply put, 'The purpose of a TOC is to understand how a programme, a project or a policy is intended to work' (Western Cape Government, DOTP, 2019). It can be developed for any level of intervention – an event, a project, a programme, a policy, a strategy or an organisation.

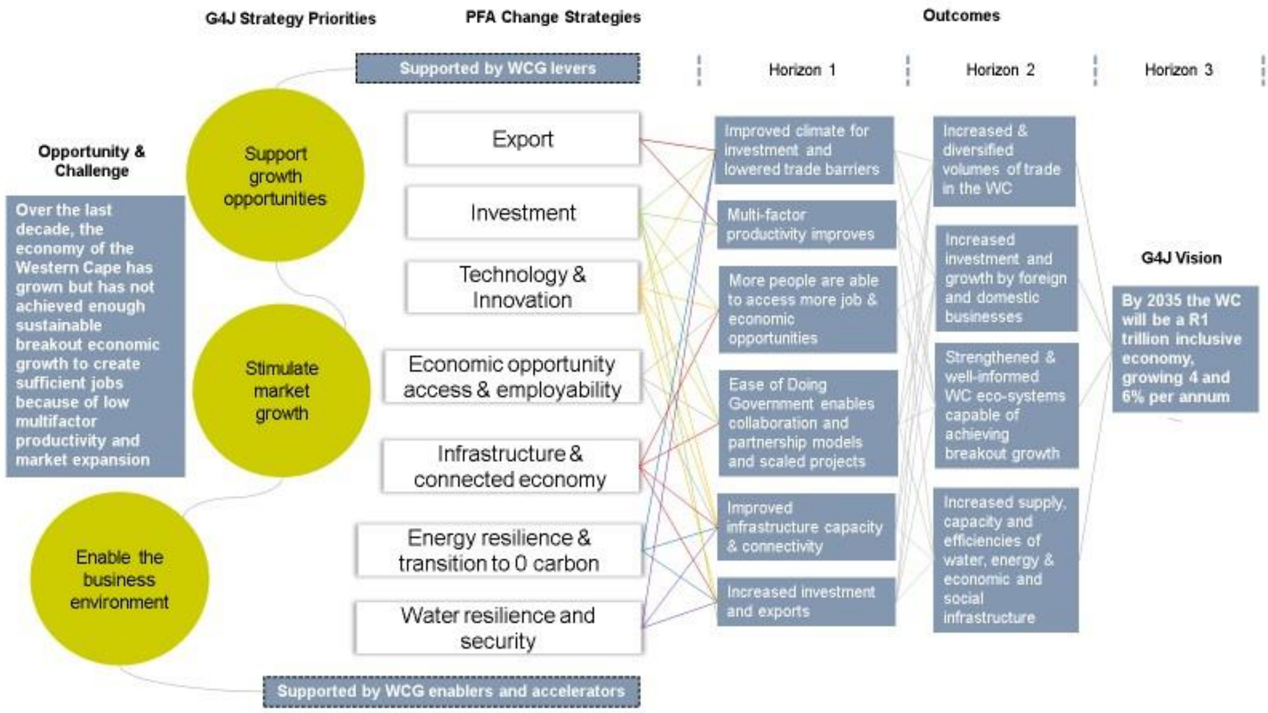
As part of the strategy development, a series of theory of change workshops were conducted at the meso-level for each of the seven Priority Focus Areas and this provided insight into the overarching logic and intended causality of the Growth for Jobs Strategy in relation to its overarching vision. Framed within the three sets of horizons, interventions were prioritised and sequenced along different timelines[77]:



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 to 2035.

[77] Adapted from Curry and Hudson (2008). Seeing on multiple horizons: Connecting Futures to Strategy. Journal of Future Studies.

On this basis an overarching theory of change for the Growth for Jobs Strategy was developed:



As the bold vision and goal statement signals that the Western Cape Government must do things differently, the Western Cape Government 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. Emergent practice within the provincial government, however, has begun to point to a risk where projects and interventions are being shaped by the indicators rather than the indicators signalling whether 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 Priority Focus Areas 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 our citizens and businesses. As a result, a set of transversal indicators will be used by the Economic Cluster for the delivery of Growth for Jobs, but which seeks 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. 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 between 4 and 6% per annum. To reach this vision, the Growth for Jobs Strategy is rooted in the understanding that it is not government's role to create jobs but rather to deliver an enabling environment for entrepreneurs, business people and citizens to succeed. The bedrock of the Growth for Jobs Strategy and its seven Priority Focus Areas is therefore the horizontal enablement of private sector-led economic growth – 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. More fundamentally, however, this strategy has laid out a different approach, focusing 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. This strategy should be robust enough for these types of issues, however, meaning that it will mainly be shifts and refinements in implementation more than strategy itself.

The development of the strategy has also been **consultative**, with a series of workshops and bilateral meetings being hosted to obtain inputs from a variety of stakeholders, businesses, experts and practitioners. Going forward, it is intended that the consultation will be ongoing, in the finalisation of the Growth for Jobs Strategy as well as during 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 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.

Chapter 14. Annexure

To be added after consultation.