

SOCIO-ECONOMIC IMPACT ASSESSEMENT

Portion 2 of Farm Strandfontein 712. De Kelders, Gansbaai

**for
Khoisan Bay Estate Developments (Pty) Ltd**

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EXECUTIVE SUMMARY

The proposed development of Portion 2 of Farm Strandfontein 712, De Kelders, Gansbaai as currently before the Overstrand Municipality holds economic potential for all three spheres of government as well as the broader private economy of the region. Conceivably no social ills will result from development on the specific piece of land either.

The development of 664 single residential, group housing residences and a retirement village with the added feature of the commercial facility, will add in no small measure to the economy of the region. A multiplier and accelerator effect will be felt through the economy as backward and forward linkages are felt in numerous sectors. These linkages will create jobs and generate income, savings and taxes within the economy.

To the local government the development will potentially generate a once-off income for plan approvals and water connection fees in the order of R6 million. In addition the developer will relieve the municipality of the full financial burden of developing roads and providing services in the area. The operational phase of the development will generate income to the local government structures from the provision of services such as water, electricity, refuse removal, sewerage and the rates and taxes that will be levied. Once all properties are occupied the income to the municipality is estimated to potentially be R15.6 million per annum. All fees will also attract VAT to the fiscus.

In terms of tax collection due to the national fiscus, monies will be generated from transfer fees and value added tax (VAT) on the sale of the erven and development of housing units. Further tax collections are also guaranteed through income taxes received by the tax authorities from earners benefiting from the new economic activity.

Once completed the facilities will offer direct employment to individuals. Incomes from income-generating activities on the property will filter through to the state coffers in the form of direct personal income taxes and VAT. Incomes earned by individuals providing services to homeowners on the property will also attract taxes.

In addition to the benefits of local investment, a multiplier effect of foreign direct investment (FDI) brought about by the inflow of funds from foreigners acquiring property in the proposed development will exist. The introduction of foreign investment into the economy boosts potential as it amounts to an injection into the circular flow of income. Effectively, the economy will grow with additional impetus from outside the existing envelope.

Nobody currently resides on the property and therefore no potentially socially harmful effects are envisaged. Collaboration with existing environmental groups and agencies will enhance local effort at conservation and upliftment.

If the application for this development is turned down the owners of the property may hold the property in the current state. Trivial income is generated for the local

government. The multiplier effects for the macro economy through job creation and income generation will also be foregone.

The South African Constitution calls for the three spheres of government to act interdependently and in the interests of nation building. The proposed development satisfies these requirements in providing impetus for the local economy as well as the broader macro economy, through job creation and income generation.

1. Background and Brief

EFG Engineers (Pty) Ltd engaged Amandla Consulting CC to undertake the study to assess the potential socio-economic impacts of the proposed development of Portion 2 of Farm Strandfontein 712, De Kelders, Gansbaai as currently before the Overstrand Municipality for consideration.

The development for which permission is sought envisages a private township consisting of single residential erven, group housing and a retirement village, supported by a commercial node.

This socio-economic impact assessment was carried out within the ambit of the Environmental Impact Assessments (EIAs). Research for the project was undertaken on an independent and scientific basis. Conclusions, findings and recommendations are my own and are free of any influence of any stakeholder who has an interest in the proposed development.

2. Social Impacts

The draft document "Guideline for Involving Social Assessment Specialists in EIA Process" prepared for the Department of Environmental Affairs and Development Planning, Western Cape informs the social impacts of the proposed development. Social impacts are defined as "The consequences to human populations of any public or private actions (these include policies, programmes, plans and/or projects) that alter the ways in which people live, work, play, relate to one another, organise to meet their needs and generally live and cope as members of society. These impacts are felt at various levels, including individual level, family or household level, community, organisation or society level. Some social impacts are felt by the body as physical reality, while other social impacts are perceptual or emotional" (Vanclay, 2002).

3 The Economic Allocative Basis

In economics we study the way in which society chooses to allocate its scarce resources in order to satisfy a multitude of needs and wants. These resources are both scarce and have alternative uses, so that it becomes necessary for society to prioritise its needs and ensure that they are met in a declining order of importance.

In the mixed economy, the balance between the supply of and the demand for resources is pursued either through the market system or the political system. In the market system prices are the equilibrating mechanism in the interplay between supply and demand, which, in turn, are determined by such factors as the preferences, and income of consumers, the costs of production factors, and the prevailing technology. Needs which cannot be or are not satisfied via the market system are channelled through the political process. The equilibrating mechanism between supply and demand in the political system is the ballot box; the price is the tax which people pay.

In the project under assessment the mechanisms of both the market and public sector as service provider, are applicable. Portion 2 of Farm Strandfontein 712, De Kelders, Gansbaai is owned by individuals who recognize the need for quality, residential properties in the Overstrand area and through the market mechanism can utilize the scarce land resource which they own to supply a commodity that the market demands.

On the other hand the public sector, in the form of the local and provincial governments, have the duty to ensure that the actions of the private individual do not negatively impact on other citizens' rights or alternatively that these actions are in fellow citizens' interest.

In sections 40 and 41 of the South African Constitution (1996) the principles of co-operative government and intergovernmental relations are set out. Section 40(1) specifically states that the local, provincial and national "... spheres of government are distinctive, interdependent and interrelated." In Chapter 13 of the Constitution financial matters are addressed. The need for local governments to provide services and the financing thereof "in the national interest" is unequivocal¹.

4. Economic Impacts

Economic impacts range from the macro² to the micro³, from the measurable to the non-quantifiable. Effects can be short term or long term. They can be direct, indirect or induced. They can lead to direct changes in income and indirect accelerated changes in investment and capital expenditure.

Given all of these possible types of economic impacts, economic impact studies are usually characterised as much by what they do not do as what they in fact do. This investigation reports on the likely short to medium-term microeconomic impact of the development of residential units on Portion 2 of Farm Strandfontein 712, De Kelders, Gansbaai as well as the longer term macroeconomic impacts on economic activity in the region. A partial equilibrium⁴ analysis is conducted as a general equilibrium framework⁵ is not possible in this case.

The short-term impacts are more exactly quantifiable in monetary terms than the long-term and secondary effects. Long-term and secondary impacts will not be confined to the proposed site. They will include the creation of additional jobs in the nearby commercial areas in the broader Overstrand municipal region. Because the analysis is based on input/output relationships it cannot, for example, attempt to measure investment changes

¹ See Sections 214(2)(a), 215(1) and 229(2)(a)

² Macroeconomics examines either the economy as a whole or its basic subdivisions or aggregates, such as the government, household and business sectors. An aggregate is a collection of specific economic units treated as if they were one unit. Factors such as total production, income and expenditure, economic growth and aggregate employment are relevant.

³ Microeconomics looks at specific economic units, observing the details of an economic unit or very small segment of the economy under a figurative microscope.

⁴ The economic effects in a single market are assessed in isolation.

⁵ Secondary effects of spending are included in a general equilibrium model.

or the distributional effects due to the proposed residential development. What is indisputable, however, is the impact the additional income to members of the local community will be, given the existing number of and the dependency ratio amongst the poor and jobless.

5. A Labour Impact Assessment

With 2004 having marked a decade of democracy, questions about the progress of the South African economy were widespread. The rate of unemployment is one measure of economic progress. The latest Labour Force Survey from Statistics South Africa indicate that the labour market situation has generally been stable over the period March 2001 to March 2007 with the unemployment rate virtually unchanged at 25,5% in March 2007 compared with 25,6% in March 2006. The number of employed persons rose from 12 451 000 in March 2006 to 12 648 000 in March 2007 - indicating an employment gain of almost 200 000 jobs. As a result of this employment growth, the percentage of working-age South Africans with jobs rose from 41,7% in March 2006 to 41,9% in March 2007.

One major contributor to South Africa's high unemployment is the mismatch of labour demand and supply. The South African economy is facing labour market failure, with labour supply of unskilled labour increasingly outstripping demand thereof. If the economy continues on its current growth path this problem of labour market failure will intensify and the employment situation amongst the un-skilled and semi-skilled population will continue to deteriorate. The severe levels of unemployment resulting from this market failure are a particular problem in South Africa given the role unemployment plays in exacerbating poverty and inequality in an already highly unequal and segmented society, and the uneven incidence of unemployment among racial groups (Leibbrandt and Woolard 2001).

There is an undeniable relationship between unemployment and poverty in South Africa. The option of state intervention to address the twin challenges of poverty and unemployment is strongly supported. The development proposed for Portion 2 of Farm Strandfontein 712, De Kelders, Gansbaai offers a response to both poverty and unemployment, while also addressing the linked national priority issue of asset creation.

Because salaries and wages make up the majority of income in the Western Cape, the proper functioning of the labour market should be a key component of any policy of redistribution and poverty alleviation. The provincial government has stated that "shared growth and integrated development in the province depend critically on improved labour market performance and enhanced economic empowerment and participation" (PERO 2006).

The province has seen a relatively rapid population growth over the past two decades, with an average growth rate of 3.0 per cent a year between 1985 and 1995 and 2.1 per cent a year between 1995 and 2005 (PERO 2007). Rates of population growth vary between population groups. Aside from natural population increase, migration is an

important contributor to demographic change in the Western Cape. Not surprisingly given their economic dominance, Gauteng and Western Cape are major receiving regions for internal migration. Since 2000 the Western Cape population has grown by close on 17 per cent.

Between 2000 and 2005, the Western Cape's working-age population grew at a rate of 2,3 per cent a year, placing the Province under greater pressure to create jobs than the rest of SA. Despite buoyant economic growth, provincial employment creation is not growing rapidly enough and as a result broad unemployment in the Western Cape is growing faster than nationally. Employment in the Province expanded by 1,5 per cent a year to about 1,73 million people in 2005. The bulk of employment expansion has occurred in the tertiary sector, driven largely by the rapid growth in wholesale & retail trade. The increase in the number of the discouraged work seekers in the Province is concerning and is contributing to a widening of the gap between the Provincial broad and narrow rate of unemployment. In 2005, broad unemployment in the Western Cape reached 25,5 per cent in comparison to 38,8 per cent nationally. Unemployment is concentrated among coloureds (51,7%) and Africans (41,6%), as well as in younger age-groups - in 2005 41,7 per cent of unemployed in the Province were between the ages of 15 and 24. A key feature of both SA and Western Cape unemployment is its long-term nature - most of the unemployed have never worked before, contributing to rapid erosion of skills and familiarity of current technologies.

Unemployment rates are likely to vary on a spatial basis, depending on the regional socioeconomic characteristics of a specific region. These factors are complex and interrelated. For example, the level of economic activity within a region may, on the one hand, be linked to lower rates of unemployment because there are relatively more employment opportunities, while, on the other hand, it may be argued that such areas are more likely to attract work seekers, thereby increasing the supply of labour and resulting in higher rates of unemployment.

Unemployment is relatively more concentrated in the City of Cape Town (71%) as only 29 per cent of the Province's unemployed residents live outside of the metropolitan area. The Boland and Eden regions each account for 10 per cent of the unemployed. The differences in the employment and unemployment shares mean that unemployment is higher than the Provincial average in three of the six regions, namely the City of Cape Town, and the Eden and Central Karoo regions. The highest rates of unemployment are to be found in the Central Karoo and the City of Cape Town, where approximately 42 per cent and 31 per cent of the workforce are broadly unemployed respectively. The lowest unemployment rates in the Province are to be found in the West Coast (17%), Boland (21%) and Overberg (22%) regions.

The Western Cape faces important challenges in its efforts to ensure that there are sufficient employment opportunities for its population. The working age population is expected to continue to grow and become older over time. Older people are tending to keep their jobs and younger people are struggling to find employment. In the province

youth unemployment is dire despite the fact that educational profiles of the youth are superior to their older counterparts.

5.1 The Role of the Labour Market in Poverty and Inequality

Late in the decade of the 1990's of a total population of 45 million, 24 million South Africans lived below the poverty line⁶ (Stats SA 2000). A recent Stats SA study puts South Africa's population at almost 49 million, a ten per cent growth on 2000 demographic census figures. Thirteen million lived in destitution, with income levels less than half the poverty line, and one in four children under the age of six, a total of 1.5 million children, were stunted due to chronic malnutrition (Mgijima 1999). These poverty levels are closely correlated with unemployment; the poorest encounter unemployment rates of more than 70% and the majority of households in the bottom four income deciles have no members in employment, leading to the conclusion that most poor households are poor due to the absence of wage income (Nattrass and Seekings 2001), findings which are confirmed by survey work indicating that job creation is the priority demand of households on the state, in terms of improving welfare levels (Klasen 1997). Given the strong correlation between wage income and poverty in South Africa, responding to unemployment is clearly a key policy challenge. Leibbrandt & Woolard (2001) conclude that access to employment is critical, since wage income accruing to households through wage labour or remittances, is the primary cause of income inequality. This highlights the importance of the labour market in influencing the movement of households across the poverty line.

It is argued that falling shares of income are accruing to the bottom deciles, implying that this group of households is getting poorer and inequality increasing. Viewing poverty from a dynamic perspective, poorest households are subject to ongoing labour market exclusion and economic marginalisation over time, which compounds and perpetuates their poverty. The chronically poor constitute a core within this group who over time remain below the economic threshold at which assets can be accumulated, shocks absorbed and expenditure smoothed, and hence are unable either to acquire the human capital required for participation in the labour market or move out of poverty.

5.2 Causes of Unemployment in South Africa

The current high levels of unemployment in South Africa are the consequence of structural trends over the last thirty years which have led to a steady decline in the labour absorption capacity of South Africa's economy. Annual employment growth reached a high of approximately 4% in the early 1970s, but has been declining since this time, and in the context of increasing labour participation rates the consequence has been a secular rise in unemployment, particularly among the unskilled, since the 1970s. The causes of this growth in unemployment are a combination of changes in the structure of the South African economy, domestic political and policy shifts, and the broader effects of global economic integration.

⁶ Calculated on the basis of household consumption expenditure of R800 or less per month (1996 prices).

5.2.1 Structural Transformation of the South African Economy

The structural transformation of the economy has entailed a shift in sectoral composition and increasing technology intensity leading to a situation characterised as one of 'high unemployment and negligible job creation'. This has had a major impact on both total employment levels and the composition of labour demand, leading to stagnation in the absolute number of jobs in the economy during the 1990s, and a significant fall in the demand for unskilled labour.

The share of the primary and secondary sectors in the South African economy has declined since the 1980s relative to the tertiary sector, the only sector to show substantial annual real growth over the same period, while both primary sectors, agriculture and mining, are in secular decline. The change in capital/labour ratio has been particularly marked in the mining and agriculture sectors as a result of major consolidation during the 1980s, which exacerbated the fall in labour demand in an already highly capital intensive structure of production. This increase in capital intensity was largely due to the relative economic isolation of the South African economy during the previous dispensation, and political concerns with self-reliance. Levels of formal sector employment declined in every year but three between 1981 and 1999, with the loss of 1.3 million unskilled formal sector jobs. Between 1993 and 1998 average annual job losses were estimated to be 5.5% in mining, 4.3% in construction, 2.1% in transport, 1.4% in utilities and 0.9% in agriculture (Wilson 2001, p21, citing Bhorat 2001a).

5.2.2 Domestic Political Change

South Africa experienced a further intensification of this process of structurally declining employment as a consequence of the lifting of international sanctions and the reintegration of the South African economy into the global market during the 1990s, following the change of dispensation in 1994. The associated trade liberalisation and increased exposure to international competition exposed the weaknesses of the high capital-intensity-low capital productivity basis of the South African economy which developed during the previous period of high regulation and protection. The consequence of increased international competition has been major industrial restructuring in terms of increased productivity for manufacturers able to increase their competitiveness, and plant closures for less competitive manufacturers, which led to the loss of one in nine manufacturing jobs between 1994 and 2005.

The new dispensation also introduced a macroeconomic strategy prioritising macro-economic stabilisation, which has been characterised by a contractionary monetary and fiscal stance. This strategy has deterred both domestic and international investment by increasing the cost of capital and constraining domestic demand. Failure to attract and retain capital investment in South Africa is a key determinant of the current poor growth rates, which averaged 1.3% during the 1990s and less than 3% in 2005, and continued poor economic growth implies increasing rates of joblessness in the country also highlights the

low labour intensity of South African manufactured exports compared to those of other developing countries.

5.3 Global Unemployment Trends

While South Africa is an outlier in terms of the severity of its unemployment crisis, the structural shift underlying this trend is one mirrored throughout the global economy, with a reduction in the numbers of workers needed to produce the goods and services required to satisfy global demand; as noted by Solow in the statement 'There is a fact, a big unmistakable unsubtle fact: Essentially everywhere in the modern industrial capitalist world, unemployment rates are much higher than they used to be two or three decades ago'. For South Africa, integration into the global economy accelerated after 1994, and while the net employment impact of increased integration is subject to debate, analysis indicates that it has contributed to a change in the composition of labour demand, resulting in 'significant disemployment at the bottom end of the job ladder' (Bhorat 2000).

5.4 The Role of the Informal Sector

The impact of these domestic and global economic changes has been exacerbated in South Africa by the lack of an adequate informal sector employment cushion to absorb labour shed by the formal sector. The informal sector is relatively under-developed compared to other Sub Saharan African countries, primarily as a result of the socio-legal constraints existing under the Apartheid system which directly and indirectly limited informal sector activity among the African population, while the migrant labour system contributed to the creation of labour reserves with a heavy economic reliance on formal sector wage income (Wilson 1976). As a consequence Nattrass (1998) estimated that 80% of the small informal sector which existed in South Africa comprised 'survivalist poverty relief oriented activity', rather than viable economic enterprise, hence the capacity of the sector to absorb excess unskilled labour is limited.

5.5 The 'Unemployable'

Apartheid has bequeathed South Africa a legacy of labour market and economic characteristics which has meant that the distribution of gains and losses arising from domestic policy choices, market liberalisation and global economic trends has impacted negatively on the poor African rural population. The labour market is failing, and the 'invisible hand' is failing to operate to resolve this imbalance of supply and demand. The net outcome of such a growth path is likely to be a widening of household inequality, driven by a labour market which fails to deliver formal employment for increasing numbers of labour market participants, while improving earnings for those retaining formal sector employment.

The consequence of this market failure is worsening unemployment, and the emergence of a growing category of the poor, described as the 'unemployable' and an 'underclass' comprising households where no-one works and no one is likely to find work. This group is

effectively economically irrelevant as it is excluded from participation in the market; the market economy doesn't need what they have and they can't buy what it sells. The existence of this group provokes the question 'what do we owe one another as members of the same society who no longer inhabit the same economy?'

Within the dominant political discourse in South Africa, unemployment is characterised primarily as a supply side problem, and policy responses developed accordingly. However, the problem with this approach is that it does not recognise the significance of the structural changes experienced in South Africa over recent decades in creating and sustaining involuntary unemployment, particularly in the primary sector. While supply-side factors, such as skills development and labour market inflexibility, do impact on unemployment in South Africa, they are subordinate to demand factors relating to structural change. Hence supply side interventions are not adequate to address the fundamental structural shifts and resultant labour market failure which South Africa is currently experiencing.

The labour demand deficit is already extreme, and trends imply that it will increase further, with the impact skewed towards the unskilled African population, for whom the situation has been described as catastrophic. The lack of informal sector opportunities or social safety nets makes the unemployed particularly vulnerable, and a crisis is taking place which the market is unable to remedy. The market has failed to deliver mass employment in South Africa, and will continue to fail, irrespective of supply-side interventions. Given the constitutional responsibility of the state to protect the socio-economic rights of its citizens, urgent interventions are now required to defuse the social, political and humanitarian breakdown which continuing labour market failure has initiated.

5.6 Job Creation

Given the failure of the market to provide sufficient employment in South Africa, direct policy intervention is urgently required to address the joint challenges of poverty and unemployment. Internationally policy responses to unemployment range from the demand oriented Keynesian expansionary fiscal stance and direct employment creation schemes on the one hand, to neo-classical supply side interventions and the creation of a more flexible labour force on the other. In the context of the current South African unemployment crisis a supply side intervention is inadequate, as it is not lack of skills, but net lack of employment which is the critical factor. While an increase in the skills level of the labour force will meet the structural demand for skilled workers, this demand is not sufficient in scale to absorb the majority of the unemployed, and nor will skilled workers in deep rural areas be significantly more likely to find employment. Hence a supply side response is only partial, and marginal in terms of the broader issue of unskilled rural and youth unemployment. Demand oriented policy responses to unemployment may be separated into three main categories; formal sector employment generation, informal sector employment generation and public works.

5.6.1 Formal Sector Employment Creation

Formal sector employment generation is directly linked to economic growth through a process of mutual reinforcement⁷, and this characterises the dominant South African policy response, outlined in the Department of Trade and Industry's strategies. This approach addresses mass unemployment and poverty reduction only indirectly, mediated through increased gross domestic product (GDP) in the long term, in a contemporary version of the contested 'trickle down' approach. While this strategy has the potential to promote economic growth and skilled employment, it does not address the structural unskilled labour deficit.

5.6.2 Informal Sector Employment Creation

The second category of policy responses to employment creation is informal sector employment generation, which primarily occurs through the creation of SMMEs and micro-credit organisations. These approaches aim primarily at skills development and transformation⁸ in order to stimulate informal sector activity. However, the scale of SMME and micro-credit engendered employment growth is not sufficient to redress the massive structural labour demand deficit. Also, SMME interventions tend to be concentrated at the top end of the informal sector, thereby excluding the most marginalized, since the poorest have less access to the human and financial capital required to participate in SMME activity.

5.6.3 Public Works Programmes

According to McCord (2002) only the third category of policy response, public works, is explicitly concerned with both poverty alleviation and job creation. The primary purpose of public works programming is poverty alleviation through labour absorption, and this is frequently achieved through the creation of public assets using labour intensive methods. Public works schemes function as a social safety net by directly increasing unskilled labour demand and making direct wage transfers to participants. Such schemes have the potential to absorb a large percentage of excess labour; during the Great Depression public works schemes in the US absorbed up to 30% of the unemployed, while in Tunisia and Mauritius similar programmes accounted for between 20 and 40% of the unemployed during the early 1970s, and the Maharashtra Employment Guarantee Scheme in India absorbed up to 75% of available person days in rural Maharashtra State.

Given the portfolio of job creation policy options available, public works offer the best match with the profile of unemployment in South Africa, having the potential to match the scale of the unemployment problem, while also directly addressing poverty alleviation, and at the same time responding to the national priority of infrastructure creation.

⁷ In this scenario growth contributes to formal sector employment creation which in turn contributes to further growth.

⁸ Transformation is the term used to refer to policy interventions aimed at redressing the racially skewed distribution of enterprises and economic activity within the South African economy, arising from the historical constraints of Apartheid.

The government's role in the provision of employment opportunities will be supported in the Khoisan Bay application. Providing the necessary permissions for the proposed development, the provincial and local government spheres will pave the way for regional growth and development and subsequent employment opportunities.

6. The Regional Macroeconomic Impact of the Development

Although the impact of the development on the macro economy⁹ has not been quantified, it goes without saying that the erection of new houses and additional facilities on the site will have a positive impact on the economy. The regional multiplier and accelerator effect of the proposed development is set out in the model below.

Distinction can be drawn between the construction and operational phases of the project, where the former represents a temporary injection only but is likely to have significant backward linkage effects; and the latter phase represents a permanent net injection into the local economy. In each case a multiplier process within the region will be triggered, boosting income above the value of the initial injection.

The multiplied increase in the region's income (Y_r) can be explained as follows:

$$Y_r = k_r (V_{ir} + \sum V_{jr})$$

Where V_{ir} is the value added (or contribution to Gross Geographic Product - GGP) by the new investment in the housing development i ; V_{jr} is the value added by upstream and downstream industries ($j = 1 \dots n$) within region (R) as a direct result of purchases and sales undertaken by the new investment project; and k_r is the spending multiplier, the value of which depends on the marginal propensity to consume¹⁰.

The equation simply says that the new investment project, net of all intermediate purchases of inputs from within and outside the region, will add value in the form of new wages and profits in the region (V_{ir}). It will also have certain backward and forward linkage effects on other industries within the region. These industries, after netting out intermediate purchases, will also add value in the form of additional wages and profits ($\sum V_{jr}$). The spending multiplier (k_r) now comes into operation - as illustrated in the flow diagram in Annexure A: the new wages and profits (net of taxes and savings) are spent in the local economy, working their way through the retail, wholesale and manufacturing sectors, with some part being lost to imports and the rest adding to new wages and profits within the latter sectors. This process repeats itself over several rounds, with the successive additions to wages and profits repeatedly being divided between savings, taxes and consumption expenditure.

⁹ The macro economy refers to the economy as a whole, considering aggregate economic behaviour - factors such as total production, income and expenditure, economic growth and aggregate employment.

¹⁰ The marginal propensity to consume refers to the additional spending arising from each additional rand of income generated by economic activity.

The above model can be specified either in terms of the region's income (i.e. its GGP), or in terms of the number of new job opportunities created for every R1 million increase in GGP.

6.1 Quantifying the Impact of the Proposed Development on the Regional Economy

The economic impact assessment is based on the proposed development consisting of the following:

- 664 single residential dwellings, on erven each measuring between 550m² and 800m²
- 13 hectares of group housing at a density of 13u/ha; and
- A retirement village on 8 hectares (200 units).

The commercial node in the form of a village square has not been included in any of the calculations as the specific nature of the commercial activities has not been accurately established. As the nature of the business will impact on service usage (for example water and labour usage in an office is very different to that in a restaurant) it is not viable to estimate revenues from the business activities.

6.1.1 Construction Phase

Distinction is made of the construction and operational stages of the development. The construction stage will provide a temporary injection with considerable backward linkages. The construction of over 1 000 residences and the infrastructure that goes with each home alone will provide an enormous boost to the construction industry. It will create job opportunities for highly skilled professionals such as architects, quantity surveyors, civil engineers and land surveyors and in addition, and more importantly, also in less skilled trades such as bricklaying, tiling, plastering, painting, plumbing, electrical services and carpentry. Each of these trades will in turn provide additional opportunities for unskilled and semi-skilled workers.

The backward linkages into the building supply sector will also be considerable. Manufacturers of bricks, cement, windows, doors, sanitary ware, wall, floor and roof tiles, carpeting, paint, glass, to name but the major inputs, will benefit by the increased demand for their products. The increased demand will aid job creation in the supplying sectors, which will in turn boost the demand for consumer goods and services. These effects are known as upstream and downstream effects.

The two most significant activities during the construction phase are the installation of the civil infrastructure (bulk and internal services) and the erection of the housing units. Labour usage and income generation to the fiscus for these activities is quantified below.

6.1.1.1 Civil Construction

The estimated contract value of infrastructures including services such as the road, electrical and sewerage networks, as well hard and soft landscaping is in the region of R100 million¹¹.

The majority of the persons employed on the contract will be un- and semi-skilled. The largest proportion of the value in the civil construction takes the form of remuneration to workers. Given the nature of the jobs and the location of the work opportunities these income flows will alleviate the plight of the poor in the region specifically.

As indicated in the discussion above, the fall in formal sector demand for unskilled labour has particularly serious poverty and equity consequences due to the unusually high dependence on formal sector income in South Africa. This is especially apparent in the Western Cape where persons with lesser skills have become less likely over the past number of years to obtain employment in the formal economy. This project will help alleviate the plight of the poor and supplying opportunities to accumulate skills, however rudimentary.

6.1.1.2 Residential Construction

The construction of the housing units will also have favourable employment consequences. If it is considered that it takes at least six months to build a house of moderate size, employment opportunities during the house construction phase is phenomenal.

The construction of one residential unit requires a minimum labour input from the following skills: foremen, plumbers, electricians, roofing experts, carpenters, painters, plasterers, bricklayers, tillers. Each of these professionals will require the assistance of semi-skilled and unskilled labourers.

As the houses will not be built simultaneously, and neither in any specific sequence, it is impossible to quantify the *number* of job opportunities that will be created. What is certain, however, is that at least one million three hundred thousand man-days of work will be carried out on the project. Table 1 provides the details of this calculation.

¹¹ Included in this amount is R8.8 million for bulk electrical services, R11.6 million for bulk water and sewerage services and R46.8 million for internal civil services such as roads and R27.4 million for internal electrical reticulation.

Table 1: Construction Phase Time Calculation

Unit Size	Quantity Units	Proportionate Man days	Size Adjustment factor	Total Days/unit
400	150	1 448	1 665	249 780
300	350	1 086	1 249	437 115
250	380	905	1 086	412 680
200	310	724	869	269 328
Grand Total				
days				1 368 903
Total Hours				10 951 224

In the construction of the houses, as in the civil construction phase, the majority of employment opportunities will be offered to un- and semi-skilled workers. To construct a house semi-skilled and unskilled workers provide the majority of the labour input. This is evident in the example provided in Table 2 below.

Table 2: Relative Labour Input

Activity Description	Skills Type	Number of People	Man days
Excavate the ground	Unskilled	8	120
Foundation	skilled/unskilled	8	80
Delivery Material	Unskilled	4	80
Brick ground floor	skilled/unskilled	6	120
Construct the slab	skilled/unskilled	8	200
Brick first floor	skilled/unskilled	6	150
Put the roof in place	skilled/unskilled	6	60
Instal the steps to the first floor	skilled	4	20
Instal the windows and doors-first floor	skilled	4	40
Instal the windows and doors-ground floor	skilled	4	40
Electrical installation first floor	Skilled	3	60
Electrical installation ground floor	Skilled	3	60
Plastering first floor inside	skilled/Unskilled	6	120
Plastering ground floor inside	skilled/unskilled	6	120
Plastering additional	skilled/unskilled	6	120
Painting first floor	semiskilled	3	45
Painting ground floor	semiskilled	3	45
Installation air-condition first floor	Skilled	4	60
Installation air-condition ground floor	Skilled	4	60
Painting perimetre	semiskilled	4	60
Carpet first floor	skilled	3	45
Carpet ground floor	skilled	3	45
Cleaning	Unskilled	4	40
Checking and punch list	Skilled	2	10
Handover to client	Skilled	2	10

As additional people are employed or firms make larger profits or generate higher turnovers the multiplier effects will result in a flow of additional income to the national fiscus in the form of individual, business and value added taxes.

The local government stands to benefit directly from the erection of the residences. The potential once-off income to the council is in the order of R4 million for fees for building plan approval and R2.2 million for water connections. The income from VAT for these services totals R886 309, an income to the national coffers. These figures are detailed in Table 3. In Annexure B the assumptions and details of all calculations used in this study are provided.

Table 3: Once-Off Income to Council

	Fees	VAT	Total (incl VAT)
Plan Approval	4 150 153	581 021	4 731 174
Water Connection	2 180 627	305 288	2 485 915
	6 330 780	886 309	7 217 089

In addition to the incomes from services taxes will be generated on the sale of the plots. If one assumes the average price of a plot is estimated to be R450 000¹² the VAT on these sales amounts to R75 million for the 1 190 erven.

In time to come the income generated on the re-sale of houses will lead to further tax collection in the form of transfer fees. The magnitude of these incomes will be exceptional if it is assumed that houses currently sell for at least R3 000 per square metre. Since the sizes of houses cannot be accurately determined at this stage such calculations are omitted. Suffice it to say, tax collections will eventually be substantially larger than those from the sale of the plots alone.

6.1.2 Operational Phase

Once the proposed development is completed and the residences occupied the multiplier and accelerator effects on the economy expand and impact on a larger number of sectors.

Sectors, which stand to benefit from increased economic activity within the development, include amongst other:

- Garden services and landscapers as well as swimming pool services
- Security services
- Domestic services (individuals and businesses)
- Interior decorating
- Furniture and appliances
- Electrical and television
- Insurance industry
- Telecommunication industry

¹² This is a conservative estimate as plots are envisaged to sell for up to R1.8 million.

Job opportunities in the operational phase of the project will be of a more permanent nature than those during the construction phase. It is not possible to quantify the number of opportunities that will materialize.

Opportunities for security guards will be of a permanent nature whilst it is likely that each residence will make use of domestic and gardening services, if not full time at least once a week. The latter two forms of activities will hold potential for yet more un- and semi-skilled persons to become gainfully employed.

As residents' consumption patterns are revealed the impact on businesses providing entertainment goods and restaurants in the region will provide the multiple stimuli set out above. This will have positive implications for the region as well as the broader economy - more economic activity, potentially more employment opportunities and ultimately more taxes collected.

Due to the increased number of resident and visitors to the region additional municipal collections will arise from amongst other:

- Boating licenses
- Parking
- Camp site usage
- Rental of community halls and beaches
- Fishing licenses
- Plans for additions to houses
- Poster adverts

The operational phase of the development will generate monthly income to the local government structures from the provision of services such as water, electricity, refuse removal, sewerage and rates and taxes levied. As is evident in Table 4, when all the houses are occupied these services would provide a total estimated annual income of over R 15.6 million to the local government and an additional R 1.2 million in the form of VAT¹³. Such guaranteed income to the local council will support attempts at revenue generation and may also create additional opportunities in service sectors as the municipal area develops or within the existing municipal area where funds are required.

Table 4: Annual Income to Local Government

	Fees	VAT	Total
Sewerage	1 634 589.00	51 715.44	1 863 431.46
Refuse	839 235.60	117 492.98	956 728.58
Water	1 551 706.80	217 238.95	1 768 945.75
Electricity	5 822 101.20	815 094.17	6 637 195.37
Rates & Taxes	5 798 668.50		5 798 668.50
Total per annum	15 646 301.10	1 201 541.54	17 024 969.66

¹³ These calculations were carried out at current prices and are conservative estimates of possible incomes.

6.2 Foreign Direct Investment

The spin-offs from the proposed development discussed so far have referred only to those impacting on the domestic (specifically regional) economy. The positive effect of foreign direct investment (FDI) in the economy cannot be overlooked.

The introduction of foreign investment into the economy boosts potential as it amounts to an injection into the circular flow of income. Effectively the economy grows, not merely by circulating existing funds at a faster rate as is the case with backward and forward linkages referred to above, but also with additional impetus from outside the existing envelope of the economy.

If a similar ownership pattern to that at nearby towns materializes at the proposed development, additional investment funding would be forthcoming in the form of FDI. The potential positive multiplier effects of such an injection are enormous and the impact of additional investment of this magnitude in the regional economy would be profound.

7. The Role of the Overstrand Municipality

The economic impact of the proposed development is assessed in terms of the satisfaction of needs, within the confines of scarce resources, against the background of constitutional requirements.

7.1 Intergovernmental Finances

With the constitutional requirements for nation building in mind, the potential financial impact of the proposed development must consider the effect on the broader economy. In assessing the project the Overstrand Municipality must not only consider the implications for the local (Overstrand sub-structure) government but, given the dimensions envisaged, also the macroeconomic impact of the project.

Direct financial benefits from taxation will flow to the national coffers. These taxes include:

- Capital gains tax payable by the current land owner;
- Value added taxes (VAT) from income generated by attorneys and estate agents in the transfers of properties and registration of mortgage bonds over the new properties;
- Value added tax on the value of the properties sold;
- Taxes from purchases of new appliances and furnishings in the dwellings; and
- Income taxes due by individuals and companies participating in the project.

8. Alternative Land Use

It has been established that as an alternative to the proposed development the portions of the farms will be left in their current undeveloped and underutilised form.

Without the proposed residential development the land will not be utilized for agricultural production. The soils have limitations and will not sustain profitable agricultural activity without enormous additional investment, an option the owners cannot entertain for financial reasons.

In its current state the property is likely to become unsightly over time as weeds take over the vegetation and moribund sets in. Overgrown weed vegetation supports combustion and may lead to fires leaving unsightly burnt tracts of land. This has negative implications for surrounding housing and ultimately places a cost burden on the services of the local government when fires need to be controlled or extinguished.

As an open piece of land the property may also become attractive to individuals who may elect to erect informal housing on the property. This would have a detrimental impact on the value of surrounding property and may ultimately harm the tourist potential of the greater area.

In terms of the local council, there are costs to foregoing the proposed estate development. Maintaining the property in its current form does not generate income for the council. Job creation is limited and a burden is placed on the council's infrastructure and endangers ratepayers' properties with the potential existence of fires.

9. Social Impact

Currently nobody resides on the property in question. Nobody's living conditions will therefore be altered by the proposed development leading to their removal from the land.

In order to invest in local communities and social upliftment the developers propose to link into the development project at Green Futures - Green Futures is a non-profit organisation. A partnership with Green Futures will be undertaken to support their existing training program. All students (who do a years horticulture and life skills learnership) at Green Futures are from the local disadvantaged communities in Gansbaai.

The support will take three forms. First, funding bursaries for student/s for their year's course. The students are clothed, fed, transported, paid pocket money and trained (including horticulture, plant ID, indigenous landscaping, ecotourism guiding, drivers licence, first aid, computers, banking, numeracy, literacy etc) for free. These students have no money and cannot support the costs of their education. They contribute to the College costs by propagating plants and doing landscaping work as part of their practical experience. The cost of getting one student through the College for a year is R50 000.

Green futures offers more than a decade's experience in propagating local indigenous plants and doing indigenous landscaping in the area. Their nursery is set up to grow large orders of plants at highly competitive prices with the added benefit of supporting the Green Futures non-profit work. Green Futures would be able to assist in landscape design, plant lists, search and rescue, plant propagation (plugs and bags) and the landscape contract work on site, a second support mechanism to the community.

Trained gardeners and maintenance staff would also be sourced from Green Futures' students. Links to bursaries are being investigated.

10. Conclusion

Having considered the socio-economic impacts of the proposed development and compared them with alternatives available to the owners of the property, I am able to conclude that the proposed development holds distinctive economic benefit for the Overstrand Municipality and the broader macro economy of the region and the country.

There is an undeniable relationship between unemployment and poverty in South Africa. Government involvement in decisions on issues affecting economic activity will impact on job creation in the formal economy as well as from what can be considered public works programmes.

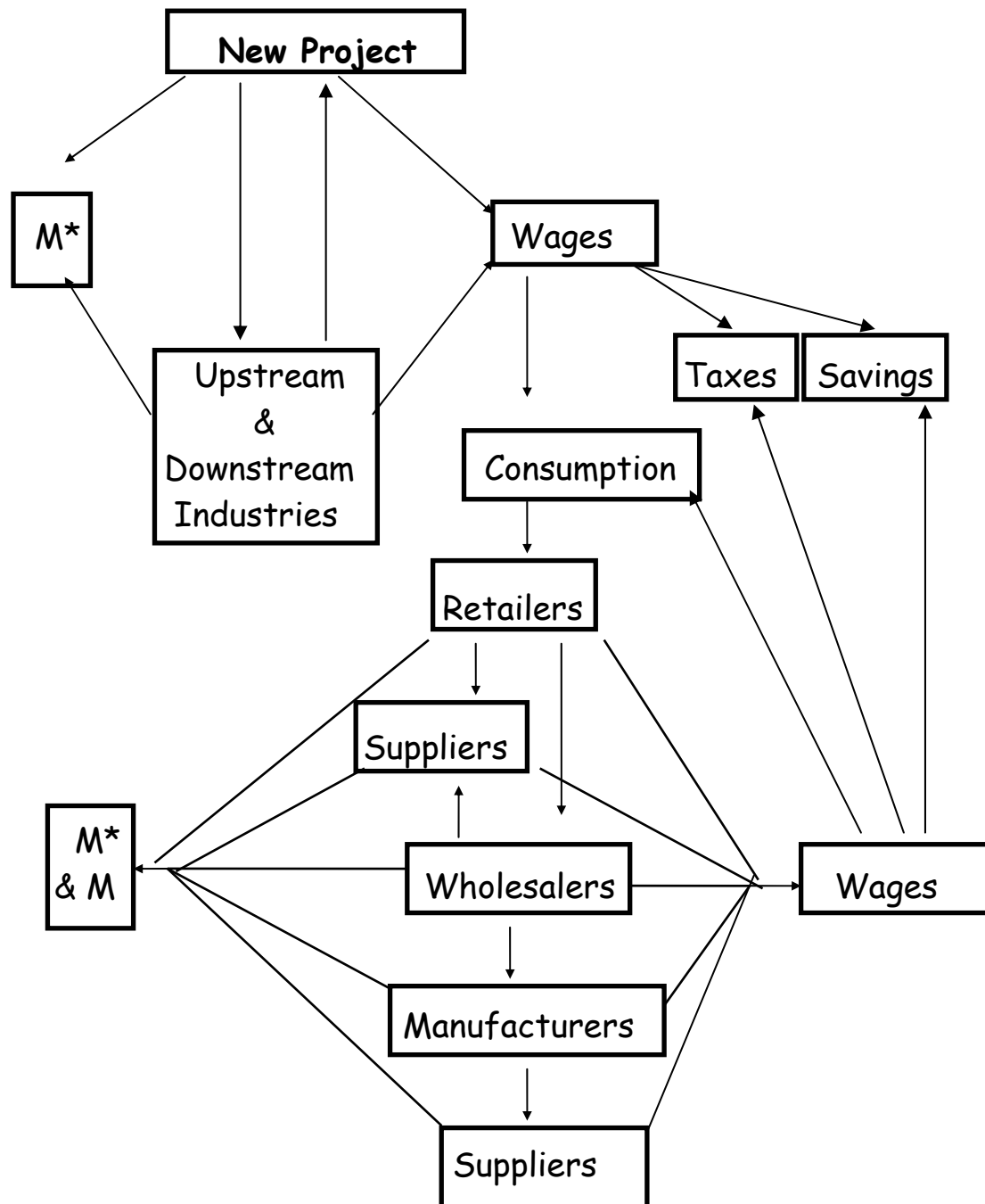
The option of state intervention through the rezoning of agricultural land and support for the proposed project to address the twin challenges of poverty and unemployment exists. The development proposed in the Overstrand offers a response to both poverty and unemployment, while also addressing the linked national priority issue of asset creation.

During the construction phase civil construction activities will provide employment opportunities as will the erection of the housing units. As it will be a number of years before all the houses in the development are completed employment opportunities will be of an on-going nature and provide income to workers for an extended period of time. Permanent employment for security guards, domestic servants and gardeners will also provide valuable job opportunities for individuals.

The financial benefits from the proposed development will not be reaped solely by the local authority. The national fiscus will collect large sums of money in the form of various taxes, some once-off and others on-going. The benefits to the local authority are financial as well as of a more indirect nature, resulting from enhanced business and employment opportunities in the local economy.

Supporting constitutional requirements for nation building I support the proposed project as it will provide impetus in the regional economy through job creation and income generation both domestically and from foreign sources.

Annexure A: Multiplier Process



M^* = (initial) capital goods imports; M = consumer goods imports.

Annexure B: Income Calculations

CALCULATIONS AND ASSUMPTIONS:

Assumptions for plan approval:

Municipality cost of R8.77 for first 100m², R13.16/m² for units 101m²-200m² and R17.54/m² for units 201m² and above.
Scrutiny fee, 200m²=R210.52 and 200m² R1.23/m²

Water Connection

Connection fee for 20 mm pipes

Rate	Units	Fee	VAT	Total
1 832.46	1 190	2 180 627.40	305 287.84	2 485 915.24

Refuse Removal

Total Units	1 bin per week	Total Cost	VAT	Total
1 190.00	705.24	839 235.60	117 492.98	956 728.58

per annum

Water usage estimates

unit m ²	usage kilolitres	Number of Units	7-10 kl (R1.28)	11-15kl (R1.75)	16-20kl (R2.54)	21-25kl (R3.36)	26-30kl (R4.19)	31-40kl (R5.63)	41-60kl (R6.89)	Per household	Fees	VAT
400	57	150	5.12	8.75	12.7	16.8	20.95	56.3	117.13	237.75	35 663	4 993
350	50	250	5.12	8.75	12.7	16.8	20.95	56.3	68.9	189.52	47 380	6 633
250	36	300	5.12	8.75	12.7	16.8	20.95	33.78		98.1	29 430	4 120
200	29	280	5.12	8.75	12.7	16.8	16.76			60.13	16 836	2 357
980										Total per month	129 309	18 103
										Total per annum	1 551 707	217 239

Electricity usage estimate

unit m ²	usage kWh	Fixed Tariff	Variable	Per Household	Fees	VAT	Total
400	1 486	106	424	529	79 377	11 113	90 489
350	1 300	106	371	476	166 681	23 335	190 016
250	929	106	265	370	140 728	19 702	160 429
200	743	106	212	317	98 390	13 775	112 165
Total per month					485 175	67 925	553 100
Total per annum					5 822 101	815 094	6 637 195

is calculated on a single phase 60 Amp provision

Rates

Unit Size	Q	Value	Per Unit	Total
400	150	1 242 300	8 386	1 257 829
350	350	1 092 300	7 373	2 580 559
250	380	443 800	2 996	1 138 347
200	310	392 800	2 651	821 934
			Total per annum	5 798 669

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