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Socio-Economic State of FS province:

Constraints to Development and Competitiveness

Adaptation of paper presented at the CUT-curriculum conference in May 2010

by

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Presentation Layout



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1. Introduction

- **Purpose**
- **Economic Analysis in Perspective**

2. 7 + 1 key socio-economic challenges of the Free State

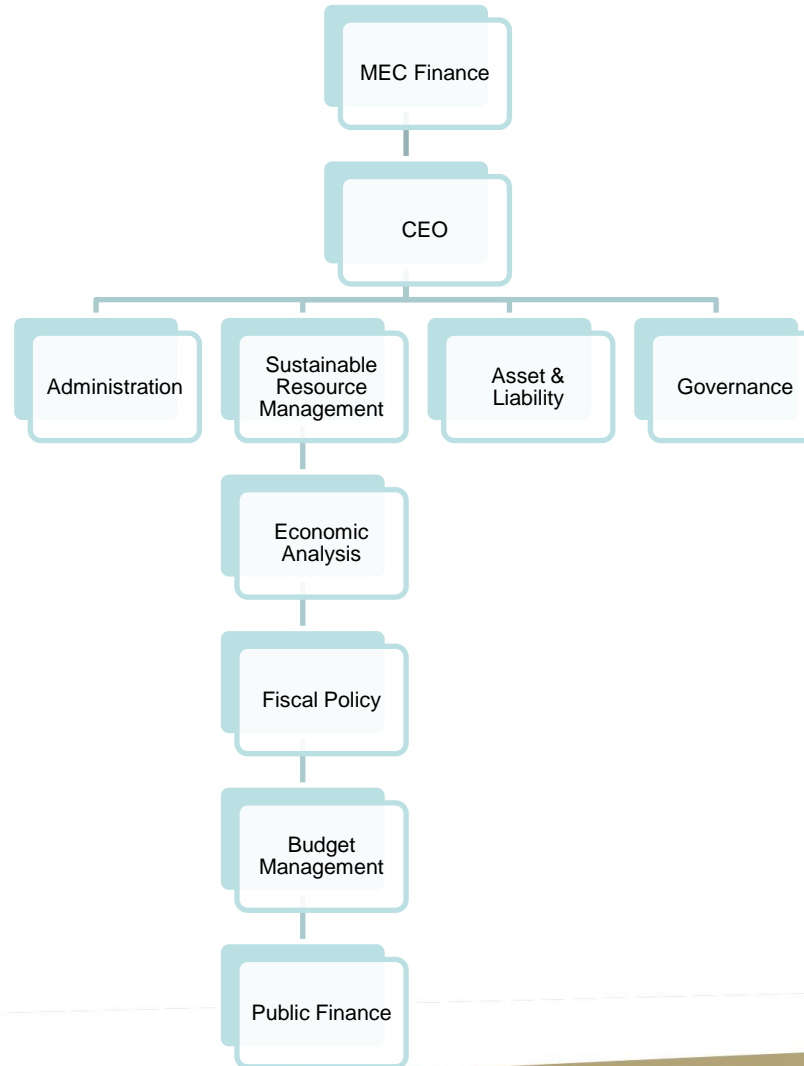
- **Demographics**
- **Economy**
- **Labour**
- **Welfare and poverty**
- **Quality of life**

3. Conclusion

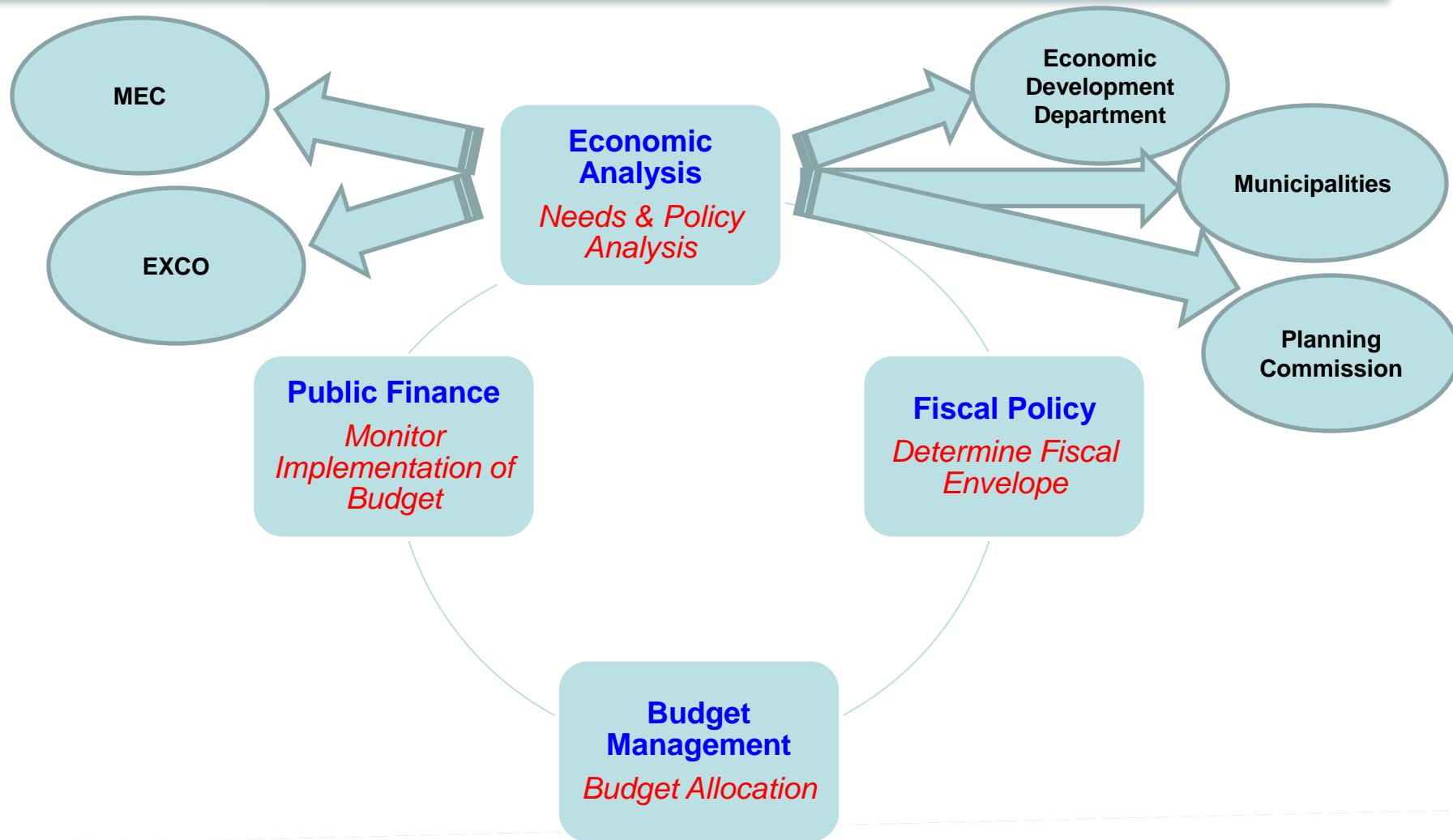
- **Summary**
- **Challenges**
- **Responses**



Economic Analysis in FSPT Context



Core function...provision of budget-related research-based advice...



Products/Services



Output/Service	Purpose	Frequency	How Far
SERO	Impact assessment	5 years	Inaugural publication - 2008
PERO	Economic assessment	Annually	Inaugral publication – 2008
MTBPS	Fiscal Policy Analysis	Annually	Inaugural publication – 2009
Newspaper Articles	Economic Literacy	Monthly	Since 2008
S3 of BS1	Socio-economic state	Annually	Since 2007
QLMR	Labour Market Reviews	Quarterly	Since 2009
(Policy) Briefs	Briefings to MEC/EXCO	Quartely	Since 2010
Round Tables	Focused sectoral discussions	Annually	Since 2010

Introduction



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- **Purpose**

- **Provide an overview of FS's socio-economic challenges as evidence of our collective failure to use the resources and confidence placed on us to make this a better province;**
- **Combination of trend analysis and snapshots (1996 & 2007)**

- **Data**

- **Secondary**
- **Major source - StatsSA**
- **Others**
 - **Global Insight**
 - **EMIS (Education Management Information System)**
 - **HST (Health Systems Trust)**





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Challenge #1

A Province of missed opportunities....

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Missed opportunities, is this tendency inherent? Can we afford to go on like this?



- **Centrality**
 - *“located midway on the axis between Gauteng and Cape Town, traversed daily by national political and business leaders,...halfway to everywhere”- CDE Report (2005)*
- **Commodity booms**
 - *Economic transformation*
- **Sasolburg?**
 - *Linkages more in Gauteng*
- **Rich history**
 - *Founding place for ANC, NP & COPE*
- **Excellent educational facilities**
 - *Education hub – also catering for NC, Lesotho & parts of EC*
- **2008 Recession**
 - *Back to the drawing board....new solutions...*
- **2010 FIFA World Cup**
 - *3 000 additional seats to an existing stadium?*
 - *“Guest-less” host city*
 - *Upgraded airport..?*



Too happy with status quo.....



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Challenge #2

Small, slow growing young population in small towns



FS centrally located with population growing very slowly



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- **2nd smallest population after Northern Cape**
 - 1996 – 2.63 million (6.4% of total)
 - 2007 – 2.77 million (5.9% of total)
- **Average growth rate (1996-2007)**
 - SA = 1.2%; FS = 0.6% (well below replacement levels)
- **Gender composition**
 - 1996 & 2007 – SA – female 51% & male 49% (ave); FS 49.7% male & 50.3% female
- **Race**
 - 1996 – SA – 76.9% black, 11.8% white, ± 11.3% others;
FS - 84.4% black, 12% white, ±3% others
 - 2007 – SA – 78.9% black, 10% white, ± 11.3% others
FS 87.1% black, 9.6% white, ±3% others (white population declined by 49,000)
- **Urbanization – (Surprising, few major urban centres and a great deal of wide open space, dry and arid)**
 - 1996 – SA = 54.2%; FS = 68.6%
 - 2007 – SA = 57.2%; FS = 79.2%



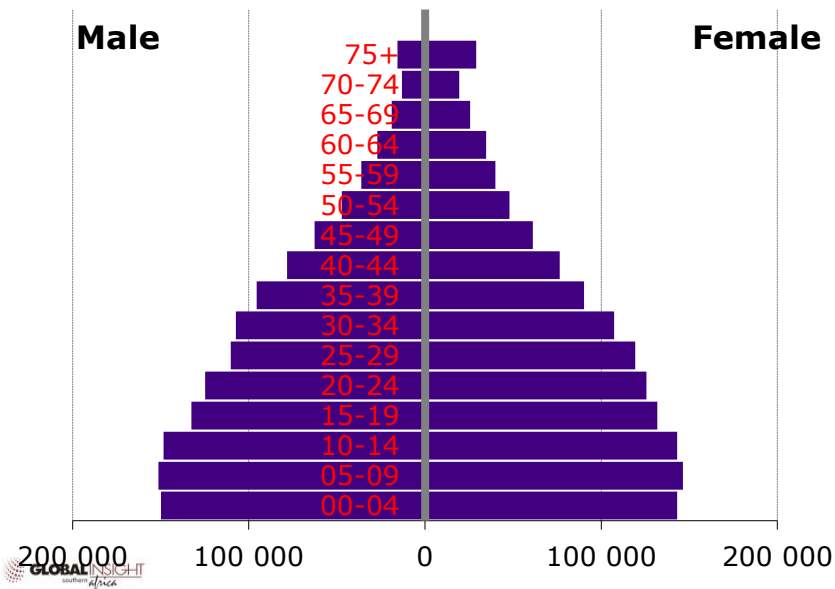
Proportion of school-going age cohort declining, proportion of working age increasing.....



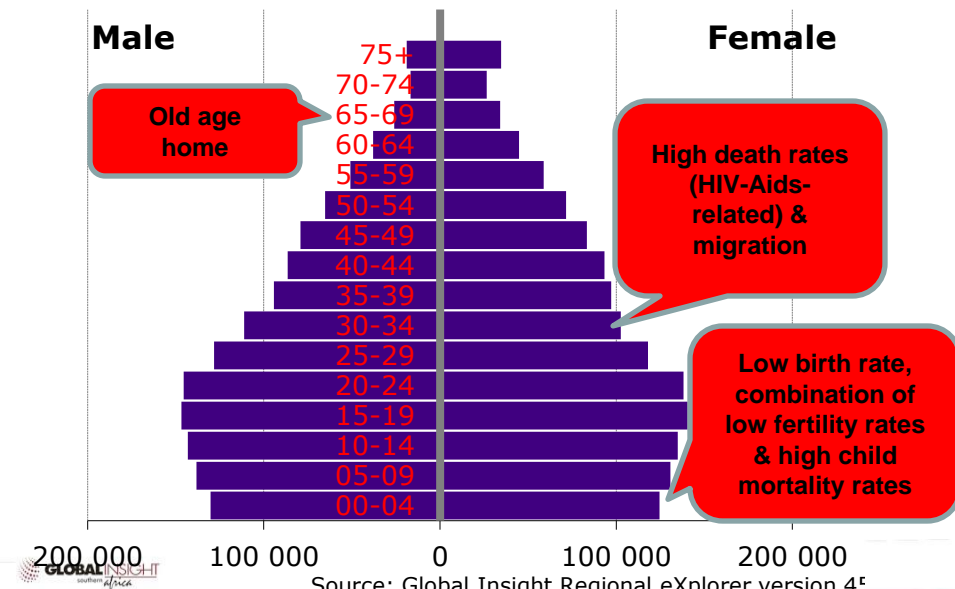
Age Structure

Age group	1996		2007	
	SA	FS	SA	FS
00-14	35.2%	33.2%	31.0%	28.5%
15-34	35.6%	36.1%	36.1%	36.1%
35-54	19.4%	21.0%	21.9%	23.6%
55+	9.8%	9.8%	11.0%	11.9%
Total	100.0%	100.0%	100.0%	100.0%

Population Pyramid, FS
1996



Population Pyramid, FS
2008



Source: Global Insight Regional eXplorer version 4.5





Challenge #3

**Small, poor performing
economy reliant on
government.....**



2nd smallest economy, relative contribution to GDP declining (R91,7 billion in 2008)



Free State's % contribution to the economy of South Africa



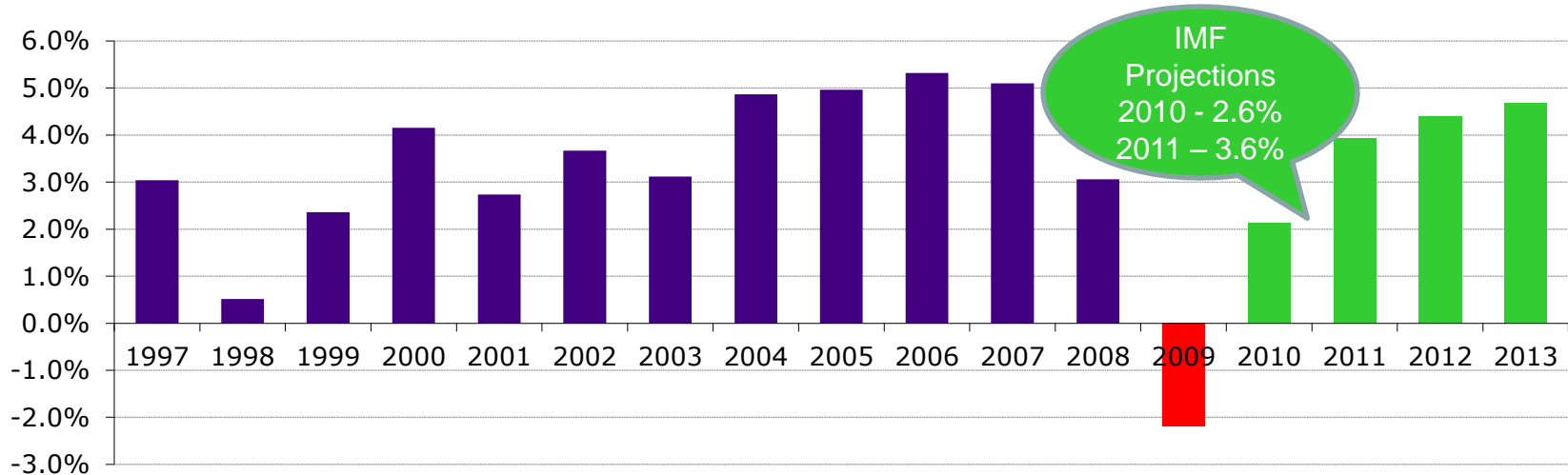
Source: Stats SA, 2009



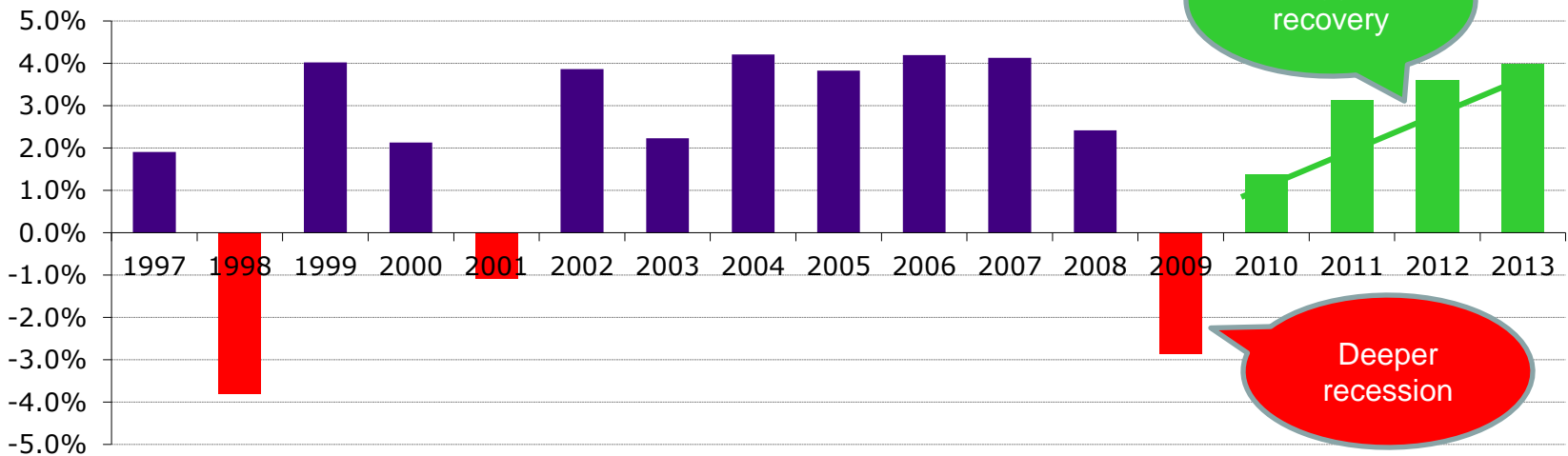
Poor performance in relation to target....6%?



South Africa



Free State



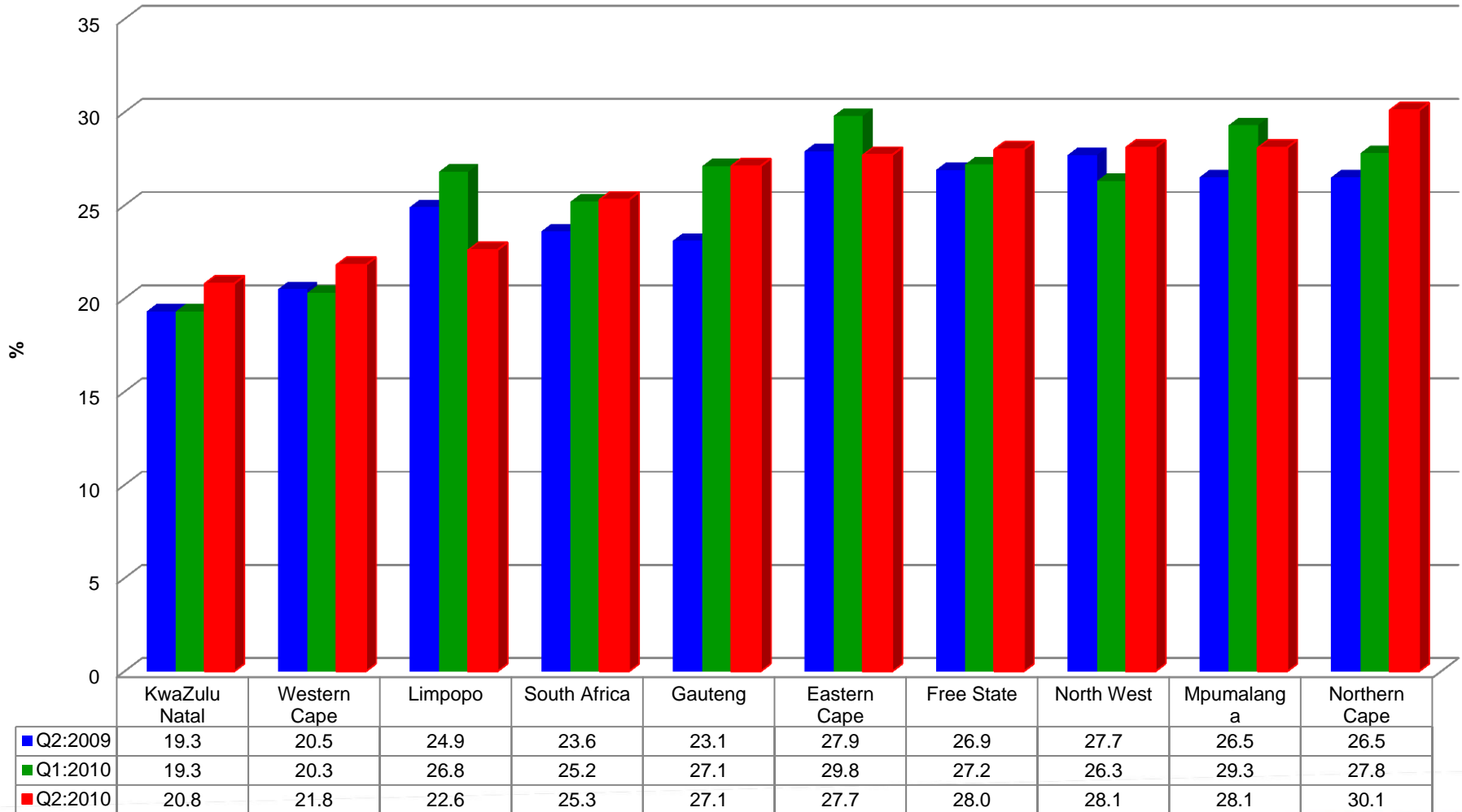


Challenge #4

**High rates of unemployment,
especially among African
females.....**



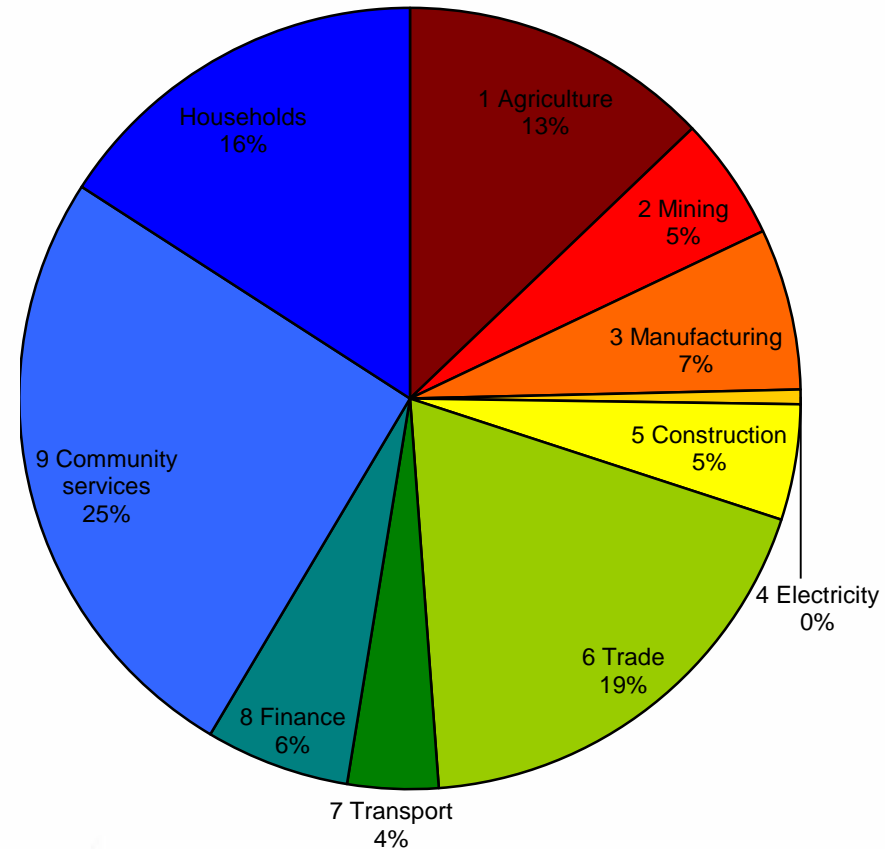
Unemployment in FS 3rd highest....



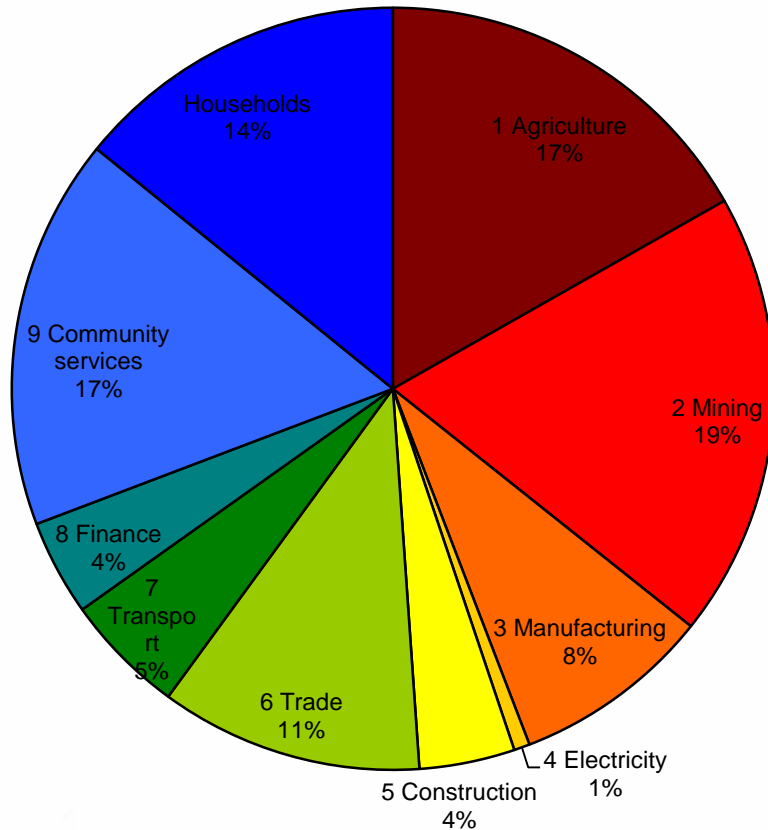
Government increasingly becoming employment agency or is it employer of choice?



Free State, 2009



Free State, 1996



Growing masses of the unemployed and discouraged...trend persistent



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Free State Labour Market Indicators	Jan-Mar 2009	Oct-Dec 2009	Jan-Mar 2010	Qtr-to-Qtr change	Year-on-Year change	Qtr-to-Qtr change	Year-on-Year change
	Thousand	Thousand	Thousand	Thousand	Thousand	Per cent	Per cent
Population 15-64 yrs	1 862	1 870	1 872	2	10	0.1	0.5
Labour force	1 088	1 059	1 055	-4	-33	-0.4	-3
Employed	812	790	768	-22	-44	-2.8	-5.4
Unemployed	277	268	287	19	10	7.1	3.6
Not economically active	774	811	817	6	43	0.7	5.6
Discouraged work-seekers	83	101	102	1	19	1	22.9
Other	691	711	715	4	24	0.6	3.5
Rates (%)							
Unemployment rate	25,4	25,3	27,2	1.9	1.8		
Employed / population ratio (absorption)	43,6	42,2	41,0	-1.2	-2.6		
Labour force participation rate	58,5	56,6	56,4	-0.2	-2.1		
Free State Employment by Sector	Jan-Mar 2009	Oct-Dec 2009	Jan-Mar 2010	Qtr-to-Qtr change	Year-on-Year change	Qtr-to-Qtr change	Year-on-Year change
	Thousand	Thousand	Thousand	Thousand	Thousand	Per cent	Per cent
Agriculture	89	74	75	1	-14	1.4	-15.7
Mining	33	37	33	-4	0	-10.8	0
Manufacturing	82	81	71	-10	-11	-12.3	-13.4
Utilities	5	4	4	0	-1	0	-20
Construction	65	56	45	-11	-20	-19.6	-30.8
Trade	167	170	160	-10	-7	-5.9	-4.2
Transport	38	44	45	1	7	2.3	18.4
Finance	66	55	57	2	-9	3.6	-13.6
Community and social services	172	169	189	20	17	11.8	9.9
Private households	94	100	89	-11	-5	-11	-5.3

Source: Stats SA, 2009

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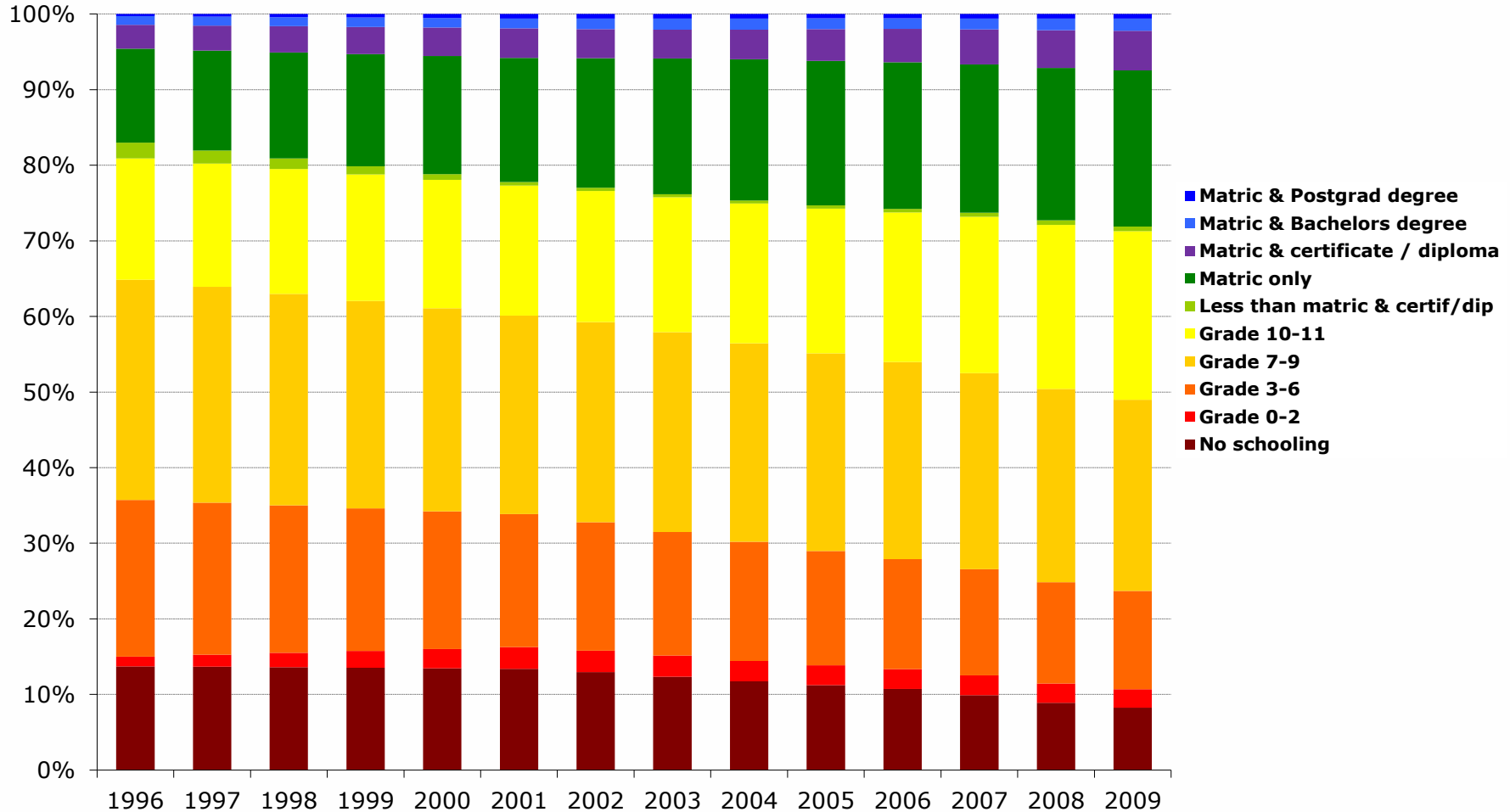


Challenge #5

Low literacy and educational attainment levels



50% of LF in FS have completed Grade 9....need for skill development

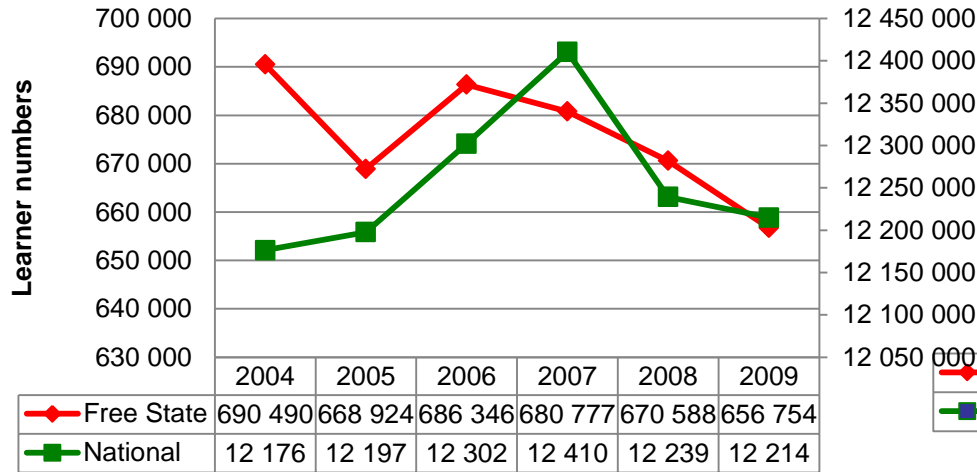


Source: IHS Global Insight Regional eXplorer version 491

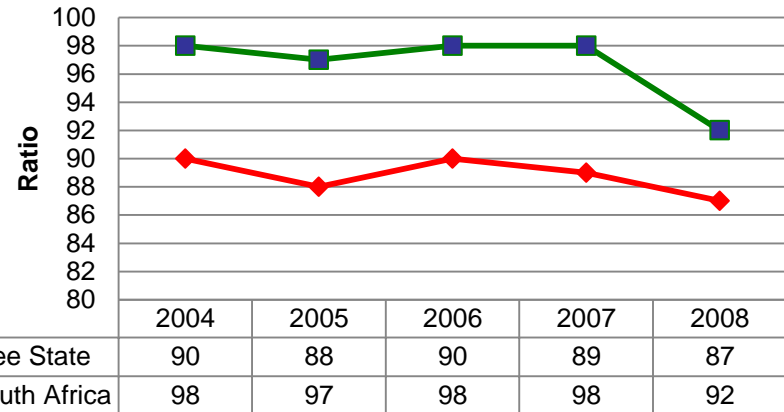
Some explanatory factors....



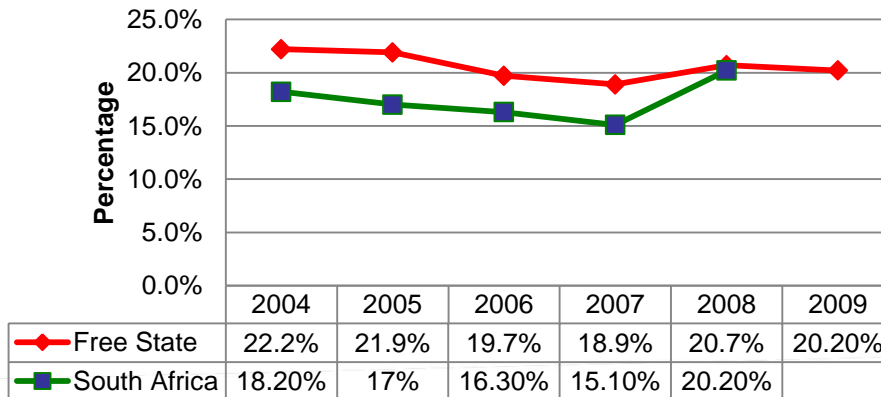
Learner Numbers



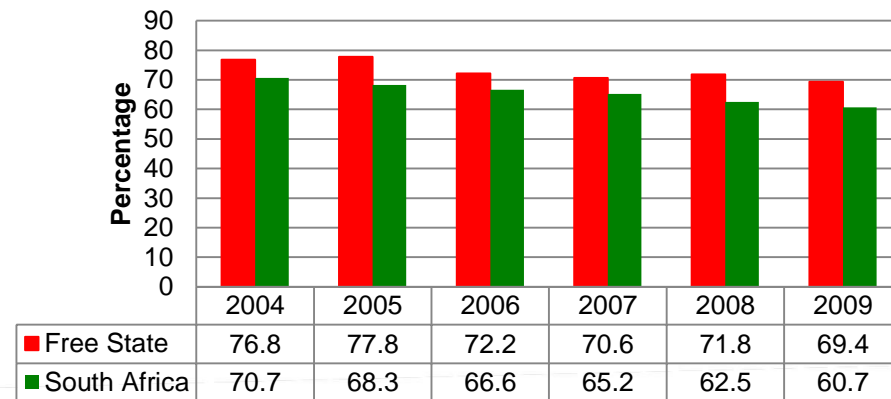
Gross Enrolment Ratio



Matric Endorsement



Matric Passes





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Challenge #6

High poverty levels and rising inequality.....

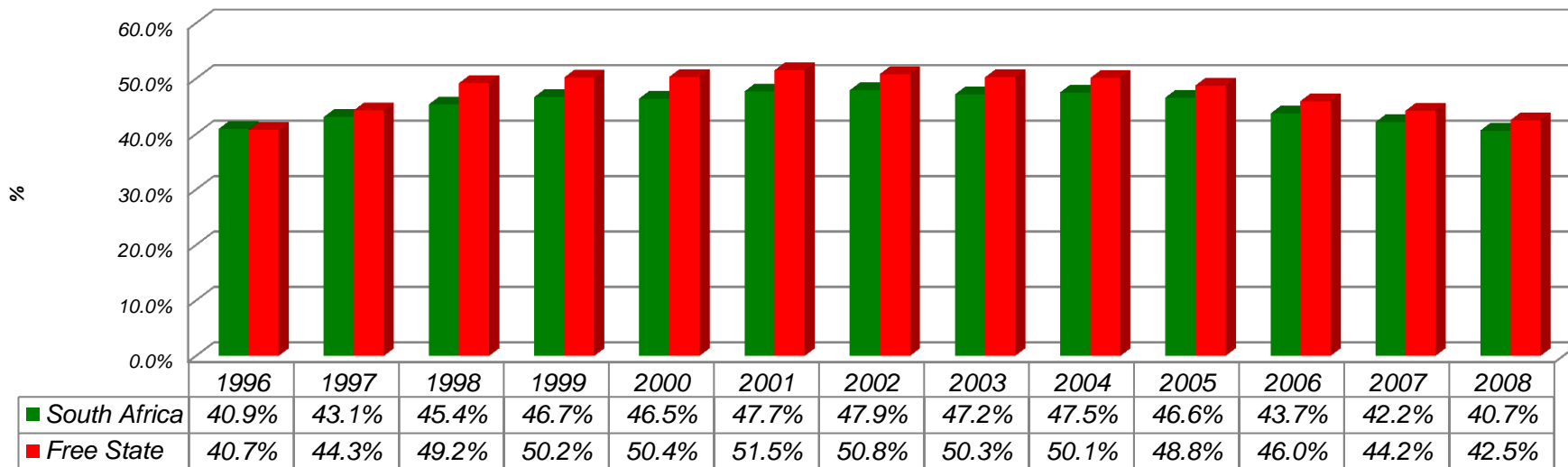
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Though falling, poverty levels remain extremely high...grants have become a vital source of relief



Poverty rates



- **Between 2003 and 2007, households:**

- with at least one grant recipient increased from 46.7% to 68.1%;
- with no grant recipient decreased from 53.3% to 31.9%;
- with at least one Child Support Grant recipient increased from 38.6% to 75.7%;
- with children aged 5-19 for which all children attend school increased from 77.5% to 85.5%.

- **The number of grant recipients rose from 93,757 people in 1994 to 747,262 people in 2007;**

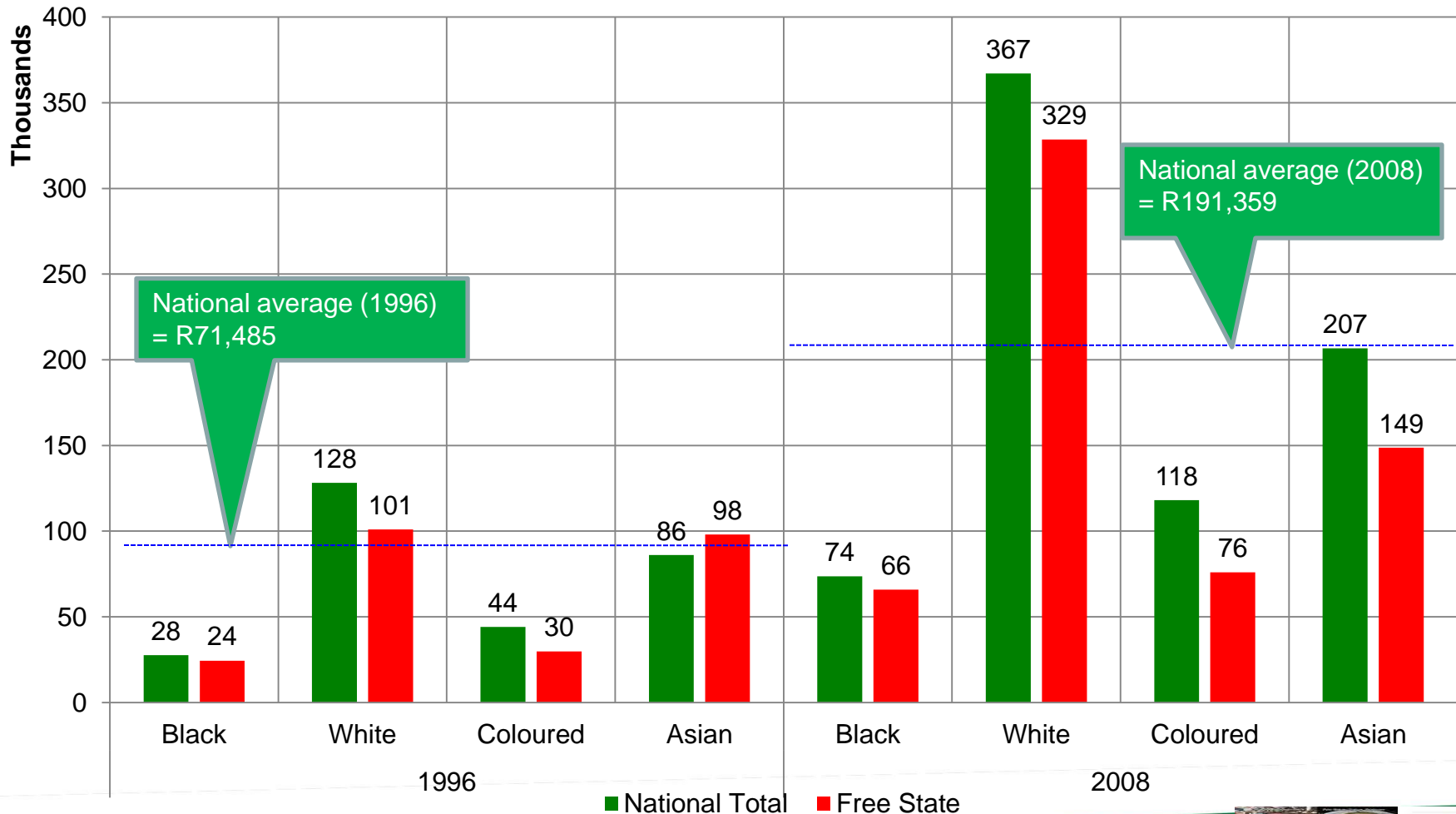
- **Expenditure on grants in the province rose from R800 million in 1995/06 to R3,7 billion in 2006/07.**



Rising income inequality, average income of white household in FS now 5 times that of a black household



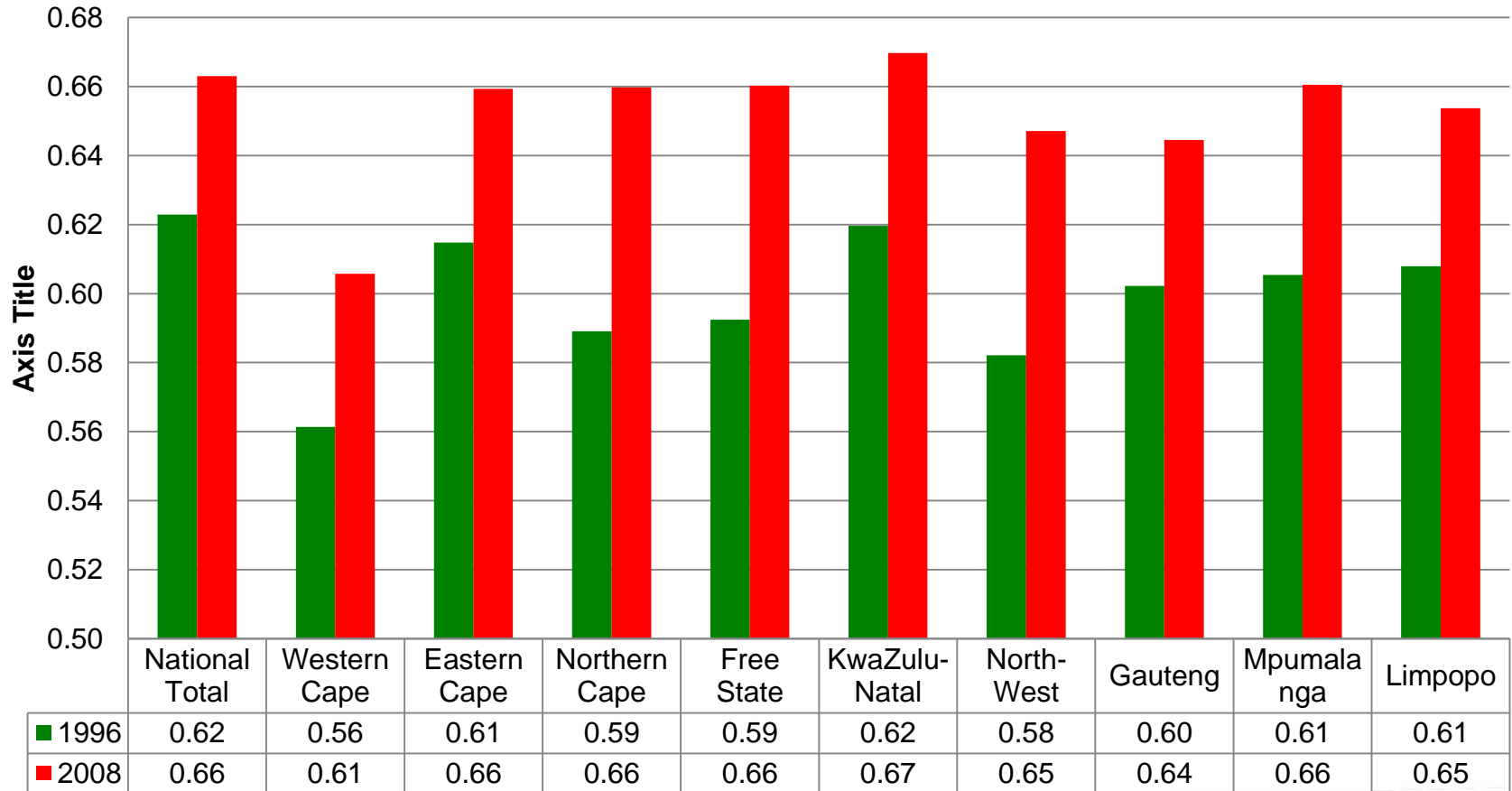
Household Income per annum



Further confirmation of worsening income inequality



Gini Coefficient 1996 & 2008





Challenge #7

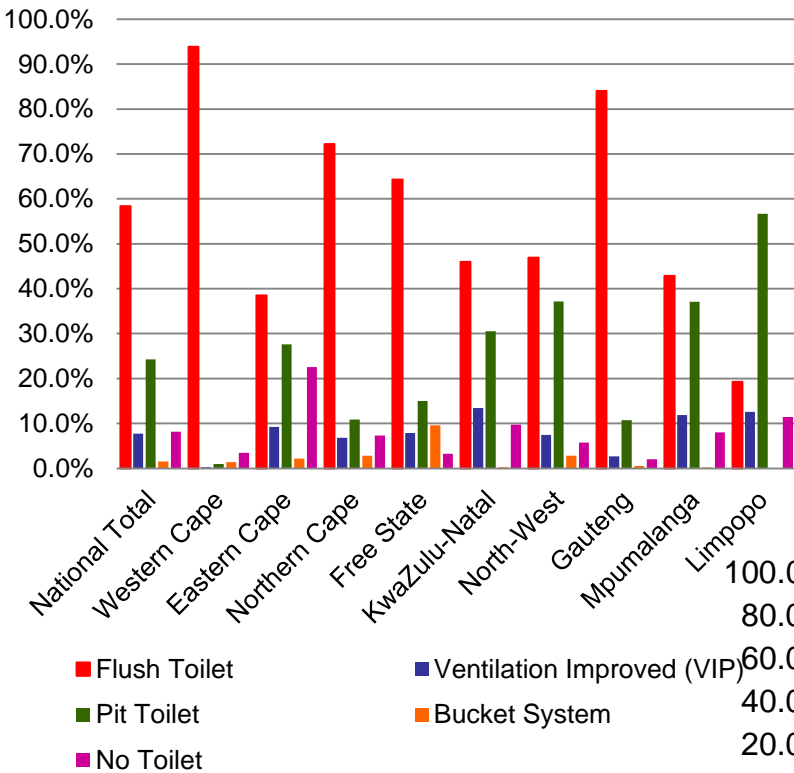
Inadequate access to basic services & infrastructure backlogs.....



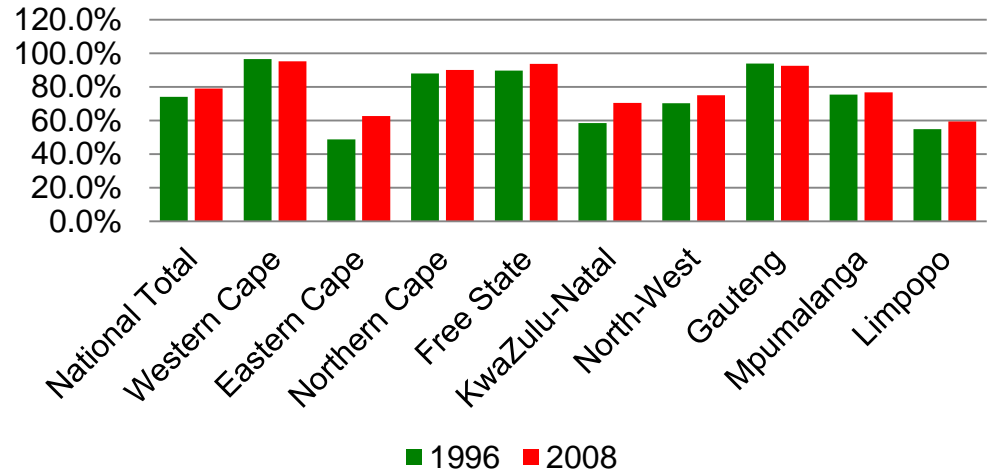
Unbeknown to many, this is one area where the province performance is well above the rest, despite challenges at municipalities...



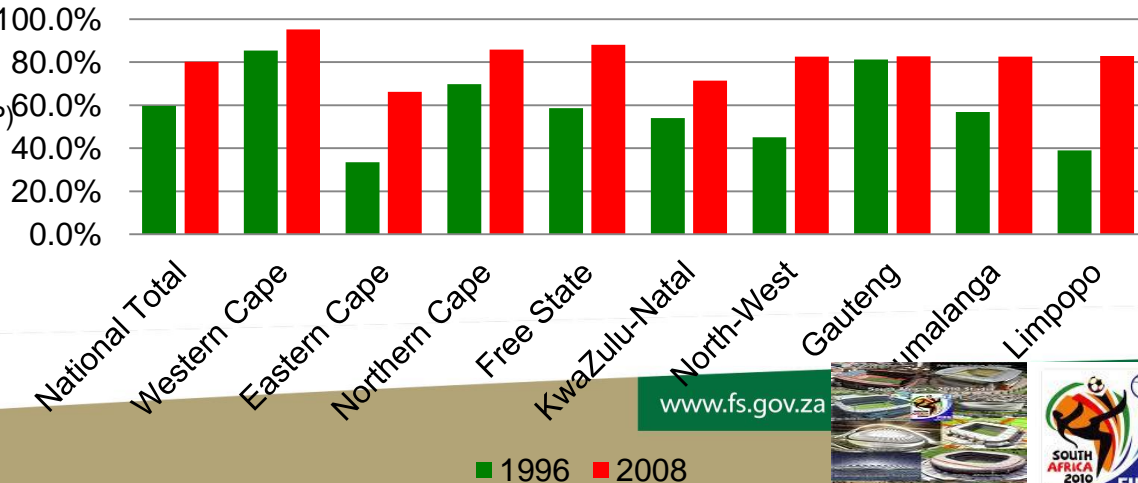
Households by Type of Toilet, 2008



Share of Households with water at or above RDP level(%), 1996 & 2008



Share of Households with electrical connections, 1996 & 2008





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Challenge #8

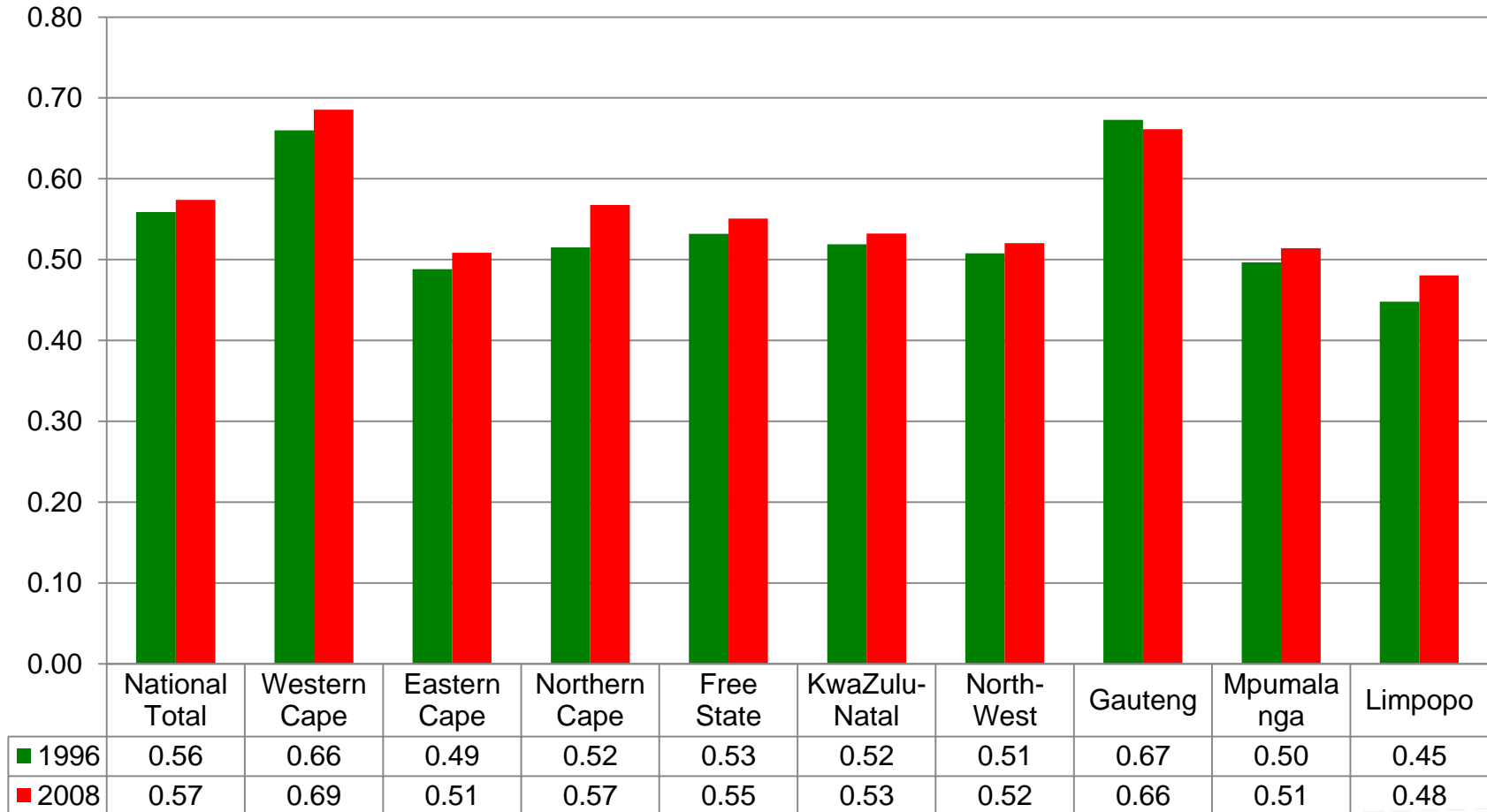
Low quality of life.....



Quality of life in FS is 3rd highest and improving, **BUT** below national average....



HDI



Summary



- Dwindling recorded population has adverse fiscal implications, but what is the extent of “unrecorded” population?
- Economic recovery ongoing, but will take a bit longer to return to initial levels, what is it that is needed to accelerate recovery? What is the role of government in general and treasury specifically in economic growth?
- Economic growth not sufficiently pro-poor, why? Is it structural or a reflection of a policy gap?
- Not much improvement has happened over the past 15 yrs, is the time not ripe for a critical reflection? Is there a need to review the provincial allocation of resources? Can we dare be different or is compliance the name of the game?

Some Challenges



- ***Inherent unavailability of data***
 - *Time lag between actual event and the release of data too long*
 - *GGP – quarterly data used to be available, but has been discontinued*
 - *GDP – only quarterly data available, monthly data not available*
 - *2010 FIFA WC statistics available end Sept 2010*
- ***Increased use of unofficial data***
 - *Dearth of official data at sub-national level*
 - *Unofficial not recognised (esp. by NT) for policy-making*
 - *Different data suppliers, different models, different assumptions, different statistics*
 - *Global Insight, Quantec & Barometer*
- ***Limited human & financial resources***
 - *Small pool of economists with high turnover rate (No/Low return on public sector investment on capacity building)*
 - *Non-personnel budget for research*
 - *2% of Programme 2 = R1,3m out of R66,9m over MTEF*
 - *8% of Economic Analysis = R1,3m out of R17,5m over MTEF*
 - *Insufficient interest by local HEIs*
- ***Collaboration as opposed to Competition***
 - *Duplication (meeting with StatsSA)*
 - *Waste of resources*

EA's response to the challenges



- **Capacity-building**
 - TIPS CGE Training
 - UP CGE Training
 - Conningarth CBA Training
 - DBSA/Conningarth SAM Training
- **Tools**
 - E-views
 - Stata
 - Rex
 - CGE Model, in collaboration with UP
- **Research**
 - Funding Adequacy for Health
 - Funding Adequacy for Education
 - Pilot CGE-based studies
 - Tourism
 - Transport sector
 - CGE-based study on impact of the recession in FS, in collaboration with FFC

Planned Studies



Project Title	Brief Description/Purpose	Mode	Implementation
Fiscal Implications of undocumented Migration in the Free State	Quantify the extent of undocumented migration and service delivery implications. Quantify the extent of under-funding from Equitable Share arising from this anomaly.	Outsourced	2010/11
Critical Success Factors for School Education in the Free State	Based on the Pareto Principle, identify key interventions in basic education in the province as well as the fiscal implications of such interventions.	Depend on outcome of roundtable	2011/12
Utilization of new schools completed in the past 5 years in the Free State	Against the backdrop of declining learner numbers, research the utilization of newly completed/constructed schools in the past years. Should we still building new schools or should we upgrade existing facilities and concentrate on resource centres and laboratories?	Internal	2010/11
Impact of the 2010 FIFA World Cup on the (economy?) Free State	Impact Assessment of the 2010 FIFA Soccer World Cup on Mangaung as host city and Free State province in general.	JV	2011/12??
Critical Review of the Agricultural Sector in the Free State, including funding, CGE-modeling	With government's commitment to revive agriculture in the Free State, use CGE modelling to quantify the amount of resources needed and the investment outcomes i.t.o output, employment and pro-poor income distribution.	JV	2010/11
Employment/Job creation Survey	In preparation for the State of the Province Address, there might be a need to independently ascertain the number and types of jobs created for the preceding financial year so as to inform the following year's target.	JV	2011/12??
Impact of Land Reform on the economy of the Free State	The sustained decline in agricultural output, value-add and employment in FS has had serious impact on the poverty in the Free State. What has been the role of land reform in this?	Internal	2010/11



***Thank
you!***

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