

SOCIO-ECONOMIC DELIVERY

12 November 1998

"Socio-economic delivery - good, not bad and ugly"

The rate of socio-economic delivery to the SA population has improved over the last year. The main area of failure remains the lack of job creation and persistent high unemployment.

SUMMARY

- Housing delivery increased decisively.
- Electricity and water provision maintained last year's good record.
- Primary health care is reaching more and more people. The targeted ratio of population to primary health care centres has been reached in three of the nine provinces.
- Land redistribution and restitution are not progressing well enough.
- Postal services were expanded by 72% over the last four years; quality and security have improved noticeably over the last year.
- The ultimate item of delivery, job creation, has not improved. Unemployment remains a serious problem as it could destabilise the socio-economic environment.
- Education is struggling. The problem is not lack of resources, but poor management and budget control.

	HOUSING Previous forecast (Oct 1997): 800 000 houses built by end-1999 4 million people to benefit Current forecast: 850 000 houses built by end-1999 4.25 million people to benefit
<i>Remarkable acceleration from last year</i>	In August 1997 330 000 houses have been built or were in the process of being constructed. By August 1998, 600 000 houses have been built or were in the process of construction and more than 800 000 subsidies were approved. The forecast of 850 000 can be compared with the 1994 election promise of 1 million homes by 1999 - if only all election promises could be 85% achieved!!
<i>4 million people will benefit</i>	By the end of 1999 the number of houses built or under construction should approach 850 000. At an average family size of 5 persons, 4.0 million people would have benefited from the housing programme.
<i>Delivery will stabilise at about 200 000 houses p.a.</i>	The current level of housing delivery is about 1 000 houses per working day, resulting in annual delivery of about 200 000 houses. This level can be maintained on the budget allocations envisaged in the MTEF forecasts. At this level the increase in the demand for housing (i.e. from urbanisation and population growth) can be met and the accumulated backlog can be substantially reduced over the next eight years (i.e. by the year 2006).
<i>Pension and provident funds to be leveraged</i>	Several housing parastatals and NGO'S have developed new financing mechanisms which leverage formally employed persons' pension and provident fund monies to mobilise more housing finance. These initiatives will not increase the supply of housing, but it will help to leverage the government housing subsidy and provide a bigger house.
<i>From state to private ownership</i>	A little known feature of the current housing programme is the large number of state owned houses that are transferred, effectively free of charge, from state ownership to private ownership. 116 000 houses have already been transferred to individual owners. This is estimated to be about half the total stock of houses

The Job Summit proposals do not add much value

in public hands. Although these transfers are not enlarging the pool of housing stock, it is creating a whole new class of homeowners. Experience suggests this will stimulate private investment in housing (upgrading and additions). At the same time, it is freeing the government from the expense of maintaining those properties - in 1995 about R75 million a year was spent on maintenance of state owned houses.

This process could to some extent be undermined by the Job Summit agreement to create more rental housing. That agreement is regressive and came about as a result of very peculiar political circumstances discussed in my report of 2 November. The Job Summit agreement will probably not fly, and the trend towards more private home ownership will continue.

ELECTRICITY

**Previous forecast (Oct 1997): 2.25 million connections by 1999
11.25 million people to benefit**

Current forecast: unchanged, delivery as expected

Table 1: New electricity connections per annum

1991	1994	1995	1996	1997
82 000	435 756	478 767	453 995	424 000
	+ 431%	+9.9%	-5.2%	-6.6%

Reaching saturation point in the cities

New connections are made by both Eskom and local authorities. More than 80% of all urban houses and about one-third of all rural houses have been connected. The average cost of a connection in the rural areas is about R3 750 and in the urban areas about R2 800. Eskom carries the cost of these connections.

Poverty tariff ...

A criticism of the delivery programme is that a large number of the new connections are neither affordable nor economical. Consumers cannot afford the price of electricity and buy product for as little as R50 p.m. That in turn is not enough to cover the cost of the connection. To overcome this problem the electricity regulator is working on a "poverty tariff". This is a tariff equal to 50% of the cost of burning 5 light bulbs for five hours per day and cooking for two hours per day on a two-plate stove. (Note that this tariff excludes provision for hot water and refrigeration). The subsidy will be paid from current Eskom income.

... to create a better environment

Although uneconomical, these connections are beneficial. The intangible benefits include the stimulation of more small business activity, less pollution and environmental damage and more time for students and pupils to study and do homework. Quality of life is significantly enhanced.

WATER

Previous forecast (Oct 1997) 5 million people connected by 1999

Current forecast: unchanged, forecast likely to be exceeded

Roll on!

This is one of the not-so-quiet success stories of socio-economic delivery. By September 1997 a total of 1 020 water projects had either been initiated or identified for implementation. These projects would bring water to a total of about 9 million people when completed by 2001. At the time of writing this report, information on actual progress since Oct 1997 is not yet available.

The standard of water delivery that government is working to is to provide 25 litres of drinking water per person per day within 200 m of the individual's home and one ventilated pit latrine per household.

Decisive swing from secondary to primary health care

PRIMARY HEALTH CARE

The priority of government's health policy is primary health care. We therefore focus on delivery in this segment and not on health care in general.

Previous forecast (Oct 1997): 8.5 million people treated p.a. by 1999
Current forecast: unchanged

Actual clinics built by Oct 1997 350

Forecast:

Additional no of clinics to be built by June 1998 105
Actual built by March 1998 111 plus 106
 new mobile clinics

In addition, 36 existing clinics were upgraded by March 1997. A further 175 clinics would be upgraded during fiscal 1998/99.

Standard reached in 3 provinces

The standard the Dept of Health is striving for, is to have one clinic per 10 000 people. This standard has been achieved in three provinces (Eastern Cape, North West and Free State). Five other provinces are between 13 000 and 16 000 people per clinic, with Kwazulu-Natal sitting at 39 500 people per clinic. The Dept clearly has a long way to go in reaching its benchmark.

LAND REDISTRIBUTION

No previous forecasts made.

Two legs: restitution and redistribution

Government policy constitutes two processes of land redistribution: *restitution* aimed at those who lost their land since 1913 due to racially discriminatory policies and *redistribution* aimed at those who do not qualify for restitution but for whom access to land will improve their livelihood. These programmes are funded from monies voted in the national budget, involve commercial compensation for current owners and are based on the willing-buyer/willing seller principle.

Restitution

Under *restitution* claims must be submitted in respect of land lost. The cut-off date to submit claims for land restitution is December 1998. To date about 23 500 claims have been lodged: 20 000 in urban areas and about 3 500 in rural areas. Each claim must be verified for accuracy and legal validity. If restitution is not possible, adequate compensation must be paid by the State. Disputes must be settled by the Land Claims Court.

Progress slow

Progress is slow: by the end of 1997 only 18 restitution claims have been processed, enabling some 27 000 people to reclaim 150 000 hectares of land. Land Affairs Minister Hanekom has acknowledged that the process is going too slow and has instructed his department to submit proposals that can expedite resolution of the claims. He also fired the Chief Land Commissioner.

Redistribution

Redistribution involves government granting a subsidy of R15 000 per household to enable the latter to acquire land. By March 1998 18.4 million hectares of land - or 4.5 the size of Belgium - has been redistributed to about 20 000 beneficiary households or about 100 000 people. About one-third of the 18.4 million hectares were redistributed in KwaZulu-Natal. Gauteng had the fewest number of hectares redistributed : 8 354.

State not redistributing its own land

The biggest criticism against the government's land reform programme is that it does not redistribute land that belongs to the state itself. The state is by far the biggest land owner in the country with huge tracts of land that are both un- and under-used. The critics maintain that min Hanekom could have done more to redistribute some of this land to the poor.

Land reform is the one area of social delivery that has not done well enough. The policy, finance and systems are in place, but the actual processing is too slow.

TELECOMMUNICATIONS

Previous forecast (Oct 1997): 2.5 million people connected by 1999

Current forecast: 6.5 million

Getting much better

Last year we reported that "Telkom has been the laggard as far as delivery is concerned" but the "trend is improving". And so it has.

Table 2:

	1994/95	1995/96	1996/97	1997/98
Lines installed	181 504	150 345	256 459	386 426
% change		+17.2%	+70.6%	+50.7%
BOE forecast of new installations for 1998/98 (made in Oct '97)				340 000

Not just social spending - also upgrading technology

Of interest to business is that Telkom is not only delivering telephones to previously disadvantaged - it is also upgrading the telecommunications infrastructure. In 1997/98 Telkom replaced 228 353 analogue lines with digital ones. Under its license obligations Telkom has to replace 1.25 million analogue lines with digital lines by the year 2001. Telkom's own internal aim is to have all analogue lines replaced by digital lines by the end of 1999 - two years ahead of the required deadlines. (This is probably driven by the need to create a competitive edge against newcomers before the expiry of its exclusive license in the year 2000.

And upgrading profits too

Telkom has increased its profits over the last five years by 232% and is now servicing 23% more lines with 7.2% fewer people. The effect of partial privatisation is coming through.

POSTAL SERVICES

Previous forecast (Feb 1997): Turnaround in progress

Current forecast: Further improvements will take place

Many more getting mail delivery

Between 1994 and 1998 the post office increased the number of postal addresses it serves by 2.8 million or some 72%. It now serves 6.7 million addresses.

Theft better

Increased incidences of theft and other irregularities were experienced from 1996 onwards. During 1997, 276 employees were dismissed and 22 members of the public arrested for being involved in Post Office theft and irregularities. By October 1998 theft and irregularities have decreased noticeably.

Measured by outsiders

The Post Office introduced a performance measurement system, which is measured and audited by outside observers and auditors. Performance improved from 75% in 1995 to 90%+ in 1998.

Smaller loss, pressure to break even

The Post Office still runs at a loss, albeit a smaller one. In 1997/98 it needed a subsidy of R507 million from government to break even - 36% down on the R800 million it needed in 1991. Government has given the Post Office four years to break even and exist without the subsidy. This will focus the mind: expect more efficiencies and productivity improvements.

JOB CREATION

Situation bad

The ultimate instrument to alleviate poverty and reduce inequality is job creation. Little progress has been made over the last year. Unemployment ranges between 24% (narrow definition) and 34% (wider definition) of the economically active population. About 500 000 jobs have been lost between 1994 and 1997 - an average decline of 1.6% p.a.

However, there is more to come. The 1996 census data reveals just how much more.

(All the following figures are pre-AIDS. With the help of my colleagues we are compiling an extensive database on the impact of aids on both population and economic growth. Accurate data on these two specific aspects are scarce and fraught with all kinds of assumptions. As the picture becomes clearer, the figures in this report can be updated).

The "jobs deficit"

People in the age group 10 to 14 years number more than 4 million; an annual average of about 930 000 people will enter the job market. 60% of the people in the age category 15 to 65 are economically active. If this ratio continues into the future, the 930 000 new entrants will thus require 560 000 new jobs per annum - a growth of 4.1% in the labour market. That compares with the current labour market growth of -1.6% per annum.

The gap in job growth is thus 5.7% or about 780 000 jobs per annum.

A study by the Dept of Trade and Industry and the IDC suggests that an economic growth rate of 4.6% will generate growth of 3.1% p.a. in new jobs, provided the growth is *biased towards the service industries*. That is equivalent to about 428 000 new jobs per annum.

If this level and structure of economic growth can be achieved, the remaining job gap will then be about 352 000 jobs p.a. It will require a further 2% p.a. growth rate to close the gap - a total GDP growth rate then of 6.6% to grow the labour market by 5.7% and create the required 780 000 jobs per annum.

How to bridge the deficit

Closing this gap is an awesome task. It will require massive structural adjustments in the state budget (specifically on salaries and interest expenditure), policies around investment and measures to close the savings/investment gap in the economy. In the end the gap can only be closed through more sustained growth.

Against this background the measures agreed on at the Job Summit are mere drops in the ocean. If the kind of economic policies which Alex Erwin articulated in the run-up to the Job Summit could be achieved, the gap can be closed.

The business initiative of a R1 billion trust aimed at developing tourism will help to stimulate service industries and consequently job creation. The success of the scheme will be in how much other investment it can mobilise into the services sector.

Unemployment reaches beyond the labour market and has changed the political landscape in many countries. It is increasingly exerting the same pressures in SA. It can be the single most important force to shape the SA political environment in the next decade.

EDUCATION

Major voters' concern

Significant progress has been made with implementing structural changes in the SA education system. Over time, the benefits of these changes will flow through. For the man in the street, however, education is a major problem. It is ranked with crime and unemployment as the major concerns of most voters - specifically also ANC supporters.

Worse than 4 years ago

Official statistics bear their concern out: 9% fewer candidates passed matric in 1997 than in 1994; those who obtained university exemption dropped by 22% from 1994 to 1997.

The overriding problem is not resources, but management and productivity.

Management, not money

SA spends about 7% of GDP on education, against 5% in most comparable countries. However, it spends 93% of its budget on salaries, against an international benchmark of 80%. This results in too little monies being available for books, teaching aids, classrooms, power connections and water supplies. The real reason behind schools not having what is needed for education, is thus too many teachers, leaving too little money for other items.

Retrenchments are essential

Teacher retrenchments are essential to quality education. All indications are that government will tackle retrenchments after the 1999 election.

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