

National Policy Coherence Initiative: South Africa
Status Report
28 September 2007

Poverty and unemployment: Challenges for policy coherence
(Can public works programmes effectively provide social protection and employment?)

Background:

Mid-2006, ILO Pretoria Director, Judica Makhetha, requested INTEGRATION assistance in assessing policy responses to the problems of the “second economy”, a term introduced by President Mbeki in 2003 to refer to the underdeveloped, marginalized part of the South African economy, consisting of millions of people living in poverty, with no or little access to employment and wage income. Policy advice in regards to the “second economy” is an ILO commitment under the UNDAF for South Africa.

Current status:

Based on a preliminary review of literature on the SA “second economy” discourse and research, policy issues from the decent work perspective were initially identified and discussed with Ms. Makhetha and Steve Miller (EMP/INVEST and ASIST are providing technical assistance the South Africa public works programme, a major government response to the second economy). It was decided that the research could be further elaborated. After review of national data, studies and face-to-face consultations with relevant government agencies, academic researchers and experts and tripartite partners, as well as consultations/collaboration with relevant ILO units, we have now come up with a research proposal that (i) reflects national current, key policy debate and interests, and (ii) enjoys the interest and support from national stakeholders, including government offices directly concerned by the research topic and tripartite partners. Given time and financial constraints, we have also narrowed down the research to two priority research questions which could be addressed before end 2007. See Appendix A for most recent version of draft proposal.

Focus of proposed policy research:

The proposed research looks at the role of the Expanded Public Works Programme (EPWP) in South Africa in reducing income insecurity and promoting employment, and at how it interacts with existing social grants (cash transfers) provided to old-age pensioners, caregivers of children in poor households, and persons with disabilities. The Government of South Africa has adopted a number of measures to reduce poverty and promote employment. But, the EPWP has gained policy prominence, ascribed with considerable potential to address unemployment and poverty in South Africa. It is the only programme with both employment and social protection elements that are directed to the working-age population who are able to work and willing to work but cannot find work. About 70% of households with at least one unemployed belong to the bottom two expenditure categories. In poorest households (bottom income decile), 36% of adults are in labour force, of whom 3/4ths are unemployed; or only 9% of working-age population are employed. Households in the top income decile have 68% of adults working.

The initial, rather controversial debate on policy responses to the “second economy” appeared to have put social assistance and social grants in opposition to the employment-creation strategies, such as EPWP that provides mostly temporary, short-term jobs. This research proposal works on the basis of certain hypotheses. First, the availability of remunerative employment and access to it by those who are able and willing to work is central to poverty reduction. Second, a minimum level of social protection, which guarantees the basic needs (food, health, shelter etc) of all individuals who are unable to work or who are able to work but cannot find work, is equally important. Social grants and the EPWP are thus expected to be mutually reinforcing. Murgai and Ravallion¹ argue that direct cash transfers to potential workers would be a more efficient means to achieve poverty reduction. This research would examine the validity of this argument in the South African context.

The main criticism levelled against the EPWP is that it cannot provide an adequate response to the massive unemployment and poverty problem in the country: EPWP jobs are episodic and on the average last 4 months while unemployment is massive and largely chronic in nature. How can its impact and its functionality be enhanced – under what conditions, on what scale, which regions or population groups? The research addresses several questions relating to design and modalities of implementation including applicability of an employment guarantee scheme.

The research aims to contribute to the national policy debate and help build the empirical basis for national policy choices. The ANC, which celebrates its 95th anniversary this year, held a National Policy Conference in June 2007 and its 52nd National Conference later in the year. 2007 is viewed as a critical year for assessing the Government’s programmes and progress towards eradicating poverty and legacies of apartheid. In addition, this research complements a mapping and review of all government responses to unemployment and poverty that the Office of the President plans to undertake. Finally, this research contributes to the UN Development Assistance Framework (UNDAF) agreed upon by the UN and Government of South Africa, which includes, among others, assistance to the Government in addressing the problems of the “second economy”, and the development of a Decent Work Country Programme.

Work done:

December 2006: produced and circulated a research concept note

January-February 2007: consultations on research concept; circulated concept note for comments by ILO Pretoria (J. Makhetha, C. Yinusa), SRO Harare (T. Fashoyin, Raj Paratian, M. Ruck), ASIST-Africa (D. Sahle), EMP/INVEST (Stephen Miller) and SEC/SOC (K. Hagemejer, C. Behrendt); revised concept note.

March 2007: meeting with experts and key stakeholders in Cape Town, conducted jointly by J. Makhetha and A. King Dejardin, to clarify policy issues and directions of research. SRO Harare could not participate due to other commitments.

May 2007: first draft full research proposal circulated to ILO Pretoria, ASIST-Africa, EMP/INVEST

July 2007: second draft of research proposal

¹ Rinku Murgai and Martin Ravallion, “Employment Guarantee in Rural India: What Would it Cost and How Much Would It Reduce Poverty?” *Economic and Political Weekly*, July 30, 2005.

August 2007: mission to Pretoria to get feedback on revised proposal and secure support from EPWP agency, Presidency, other key agencies and tripartite partners; determine availability of local EPWP funding; begin assessing potential researchers
September 2007: external consultant engaged by EMP/INVEST continued preparations for research; available datasets assessed; assessed; methodology elaborated but few gaps to be resolved; suitable researcher/centres short-listed.

Collaboration with ILO Field Offices:

ILO Pretoria – technical inputs, networking with SA actors, financial contribution
ASIST-Africa and EMP/INVEST project in South Africa – inputs for research formulation, networking with SA actors
SRO Harare – inputs during initial phase of proposal formulation

Collaboration with HQ units:

EMP/INVEST – technical inputs for research formulation; financial contribution
SEC/SOC – technical inputs in first stages of research formulation
EMP/POLICY – information & consultation (Azita Berar-Awad, the EMPLOI focal point for South Africa DWCP)
STAT – information (Ralf Hussmann is providing technical assistance to StatsSA)

APPENDIX A

Research Proposal (version Sept 27, 2007)

Poverty and unemployment: challenges for policy coherence

(Can public works programmes effectively provide social protection and employment?)

I. Background

Poverty is closely tied to unemployment in South Africa; the unemployed have few fall-back options in subsistence agriculture or urban informal economy. A substantial proportion of the poor population lives in “workerless households”, i.e. households where none of persons of working age has paid employment or unpaid work in a family business.

The problem is not job creation per se but the number and type of jobs being created vis-à-vis those who want work. Under current economic trajectory and in spite of sustained high economic growth, job creation will not be enough and will be concentrated in areas and sectors not accessible to poor unemployed. New jobs have required higher skills, favouring households in higher expenditure category. The burden of unemployment has thus fallen heaviest on the low-skilled and unskilled, mainly poor and rural population. While efforts are undertaken to address these gaps in job creation and skills development, the needs of the unemployed and underemployed living in poverty have to be met.

Annex 1 discusses in more detail the poverty and unemployment situation and their interconnections in South Africa.

The Government of South Africa has adopted a number of measures to reduce poverty and promote employment. It has expanded its system of social grants over the past decade, and this has been credited for the country’s achievements in poverty reduction. Social grants are focused on pensioners (old age pension) and children (child support grant, foster care grant); other cash transfers are disability grant and food rations. Measures collectively known as “social wage” are in place: free medical care, and electricity, water and housing subsidies. Programmes undertaken by the Government of South Africa to promote employment opportunities include: Integrated Sustainable Rural Development Strategy oriented towards rural areas, Urban Renewal Programme focusing on urban areas, Land Reform Programme and Comprehensive Agricultural Support Programme for the agricultural sector, cooperatives programme, small enterprise development and Broad-based Black Economic Empowerment, education and skills development, and national youth service. In April 2004, the Government launched the Expanded Public Works Programme.

In South Africa today, the most effective ways of reducing further the poverty level and raising employment rates among the poor are being debated. The relative impacts of expanding the coverage or scope of social grants and expanding the public works programme are being assessed. In other developing countries, different mechanisms of extending income support to populations living in poverty or guaranteeing people a

minimum income, e.g. through cash transfers or employment guarantee, are also being examined. Some of the questions being asked are: are social grants a more effective way of reducing poverty even among able-bodied working-age population or in the context of “workerless households” than public works programme? Do social grants create dependency or do these support job search?

The proposed research will look particularly at the role of the Expanded Public Works Programme (EPWP) in South Africa in reducing income insecurity and promoting employment and how it interacts with existing social grants. The EPWP has gained policy prominence, ascribed with considerable potential to address unemployment and poverty in South Africa. It is the only programme with both employment and social protection elements that are directed to those willing and able to work among the working-age population.

The research aims to contribute to the national policy debate and help build the empirical basis for national policy choices. The ANC, which celebrates its 95th anniversary this year, held a National Policy Conference in June 2007 and its 52nd National Conference later in the year. 2007 is viewed as a critical year for assessing the Government’s programmes and progress towards eradicating poverty and legacies of apartheid.² In addition, this research complements a mapping and review of all government responses to unemployment and poverty that the Office of the President plans to undertake.³ Finally, this research contributes to the UN Development Assistance Framework (UNDAF) agreed upon by the UN and Government of South Africa, which includes, among others, assistance to the Government in addressing the problems of the “second economy”, and the development of a Decent Work Country Programme.

II. Policy Issues

1. Policy instruments that promote employment and social protection are complementary and mutually reinforcing. However, in some discourse, the social grants and the public works programme are posed as either-or alternatives, or as one being more effective in combating poverty than the other. The interconnections between social grants and the benefits derived from the EPWP need to be better understood so that measures can be taken in order to strengthen these positive linkages.

This research proposal works on the basis of certain hypotheses. First, the availability of remunerative employment and access to it by those who are able and willing to work is central to poverty reduction. Second, a minimum level of social protection, which guarantees the basic needs (food, health, shelter etc) of all individuals who are unable to work or who are able to work but cannot find work, is equally important. Therefore, social transfer mechanisms such as Old-age Pensions, Child Support Grants, Foster Care Grants and Disability Grants, on the one hand, and the EPWP, on the other, are not substitutable but complementary. While social grants are oriented towards those who are not able to work (e.g. the elderly, persons with disabilities) and

² Statement of the National Executive Committee of the African National Congress on the occasion of the 95th Anniversary of the ANC: January 8th 2007. www.anc.org.za/ancdocs

³ This is based on information given by Ms Neva Makgetla at the ILO meeting in Cape Town, 7-8 March 2007.

children in poor households, the EPWP is oriented towards working-age adults who are able and willing to work but cannot find work or work intermittently and for very low earnings.

Social grants and the EPWP may also be mutually reinforcing. An EPWP worker could use his/her wage earnings for improving his/her family's living standards and human, physical and financial assets if he/she did not have to share that income with relatives in zero-income households; and if public services covered part of the cost of health care, education and shelter. The financial impact of participating in the EPWP may be much less for one who belongs to a family network with highly insecure income flows than another whose family has access to other social benefits. The guaranteed minimum income offered by social grants may increase the flexibility (mobility, capacity) of household members in looking for work. Old-age pensions do not only alleviate the hardship faced by old persons; they also help whole households as many old persons live in multigenerational households, or care for their children with HIV/AIDS and grandchildren orphaned by HIV/AIDS.

2. The EPWP is the only employment-income support for able-bodied working-age population. Although the Programme is generally regarded or talked about as an employment promotion instrument, it also has a social protection function - income support in the form of wages associated with a minimum level of employment. Points for policy inquiry are: how can this income transfer function achieve the greatest impact for poor individuals and their families? Can this income support/transfer be up-scaled to a wider target population?

3. A third policy issue addresses whether or not employment creation and/or employment guarantee programmes are the preferred mechanism for poverty reduction for an able-bodied workforce. With respect to India's National Rural Employment Guarantee Act (NREGA), Murgai and Ravallion⁴ argue that direct cash transfers to potential workers would be a more efficient means to achieve poverty reduction. This research will examine both the validity of this argument and its applicability for South Africa.

The main criticism levelled against the EPWP is that it cannot provide an adequate response to the massive unemployment and poverty problem in the country: EPWP jobs are episodic and on the average last 4 months while unemployment is massive and largely chronic in nature. Under its current design, the Programme could create some 200,000 temporary jobs at any given time, which are not cumulative and represent at best 4% of total unemployment. The Programme is currently supply-driven, i.e. dependent on the availability of suitable public sector projects, the willingness of implementing officials to apply labour-intensive methods and the time frame in which projects reach the implementation stage. The fact that the EPWP uses existing public budgetary allocations for public investments and services, with the aim of maximising the employment-generating potential of these public resources for those in greatest need of income, is a strength or positive feature of the EPWP design. However, total dependence on existing public investment allocations may be a constraint if the Programme were expected to generate more work days for more

⁴ Rinku Murgai and Martin Ravallion, "Employment Guarantee in Rural India: What Would it Cost and How Much Would It Reduce Poverty?" *Economic and Political Weekly*, July 30, 2005.

people at any given time or to guarantee a minimum employment to anyone who is able and looking for work. In late 2005 the Cabinet Lekgotla recognised the design limitations of the EPWP and decided to consider ways to increase the employment creation impact of the EPWP while continuing all the current initiatives. The feasibility of introducing a model based on the Indian Employment Guarantee Act and associated Employment Guarantee Schemes is being explored. Under consideration is a demand-driven approach that would provide a given level of unskilled employment to a specified number of members of all households who wish to take advantage of the scheme.⁵

Among the advantages in providing minimum income support through direct job creation under public investment or public works projects works that have been cited are: (i) it secures a working-age person's right to a job, (ii) it is directed towards the unemployed at the bottom of income and social hierarchy where joblessness is often borne unequally by groups that suffer other disadvantages, (iii) employment not only provides income, but also enhances self-worth, social recognition and social networks, and (iv) public works projects take "workers as they are" regardless of their skills and education.

III. Previous studies of EPWP

Annex 2 presents the main findings of studies that have been undertaken on the EPWP. The key points emerging from previous studies of EPWP which have implications for the proposed research are:

- a) The studies by McCord (2004a, 2004b, 2006) and by Taylor *et al* (2005) have demonstrated methods for assessing the impact of short-term wage transfer, and work experience and skills training at micro level on poverty and labour market potential, at community level on local economy, and economy-wide effects.
- b) The studies also highlighted factors that influence impact: (i) targeting criteria and methods; (ii) EPWP wage rate and prevailing labour market situation in the area; (iii) varying implementation modalities and institutional contexts, which determine how the EPWP programme is understood, interpreted and implemented by offices/agencies/local governments (refer to case studies of Gundo Lashu, Zibambele and Western Cape); (iv) socio-economic and labour market situation of the area influences post-EPWP labour market performance of participants; (v) duration of provision of employment. The case study of Zibambele programme illustrated how targeting elicited the participation of women and female heads of households; and how repeated or longer provision of employment led to sustained social protection outcomes.
- c) The study by Vaidya and Ahmed (2007), which was premised on a demand-driven model of the EPWP and used the concept of reservation wage, highlighted the function of wage setting in determining the labour supply response to the EPWP and in reaching the poor or the poorest unemployed, and workers with very low earnings.

⁵ Cited in Kirit Vaidya and Farhad Ahmed, *Quantification of demand in the Expanded Public Works Programme*, Draft final report, February 2007.

- d) Studies concerned with the socio-economic impact of Working for Water, Working on Fire and Working on Wetlands completed by CASE (2007). The studies collected programme beneficiary data, and highlighted the impact of income transfer, psychological impacts of programme participation, and effectiveness of training and impact for quality of life.
- e) The cross-sectional study of EPWP completed by DRA (2007). This study collected data across the infrastructure, social, environmental and cultural and economic sectors of EPWP from beneficiaries, community members, contractors/implementing agents, government officials and training service providers. This study forms the basis for a longitudinal study of programme beneficiaries. The study investigated the impact of transfer, perception of benefits/disadvantages, effectiveness of training and impact for quality of life.
- f) The Mid-Term Review (2007) collected data from programme implementers and key EPWP stakeholders, and undertook document analysis and an international review public works programmes. The review assesses the efficiency, effectiveness and outcome of the programme against indicators set up at the start of the programme. The study raised key problems within programme administration and put forward recommendations for programme re-design and implementation.
- g) There are aspects of impact which need further investigation: (i) impact of infrastructure, physical assets or services created/provided on employment and local economies; (ii) the non-infrastructure sectors of EPWP which would entail different types of skills and employment prospects; (iii) differential effects of EPWP on poverty and employment depending on participating households' poverty level, access to other sources of earned income, and access to social insurance, social grants or other forms of social assistance; gender, age, ethnicity of participants; and (iv) related to the social sector component, its gender differentiated effect on employment and allocation of labour time to unpaid care work. The Zibambele case study illustrates some of the gender-differentiated effects.
- h) Until now impact measurement has relied mainly on data from two projects and two provinces, the Gundo Lashu programme in Limpopo Province and Zibambele programme in KwaZulu Natal. The additional datasets collected by CASE and DRA, along with data on EPWP collected through the Labour Force Survey and General Household Survey by StatsSA, allows for a broader empirical basis for policy assessment of EPWP.

IV. Proposed Research

The overarching policy questions which will guide this research are:

- How can the functionality of the EPWP, as both an employability enhancing instrument and a social safety net, be refined and enhanced? This requires investigation into expectations that can feasibly be attached to the EPWP, facilitated through: (i) an assessment of actual benefits and impact under current programme design; (ii) consideration of contextual and institutional factors influencing program outcomes, and EPWP responsiveness to those issues; (iii) an analysis of potential impact under alternative/augmented implementation models, detailing both financial and institutional feasibility.
- How are the benefits provided by the EPWP interconnected with existing social grants and the broader social assistance package of transfers and

subsidies known as the “social wage”⁶ and how can the positive linkages be enhanced and reinforced? In order to use and combine policy instruments more effectively to reduce income insecurity, unemployment and poverty, one needs to understand better how the instruments interact and under what conditions.

The specific underlying research questions are:

1. Focus on the wage income transfer function of EPWP:

1.1 What is the differential impact of public works wage transfers on individuals, households and local communities depending on socio-economic characteristics of participants, their households and communities? Thus far, most analyses of EPWP impact have looked at aggregate population level and have not looked at how the economic, labour market and social features of provinces and/or districts influence the outcomes of participating in the EPWP. This research question is relevant in answering policy questions such as: Under what conditions and in which situations does the short-term income transfer have the best impact? Which population, what target group? Which geographical context: metropolitan, regional, rural? Which sector: infrastructure, environment or social? Which household characteristics: households with social grants; female heads of households? This analysis will include an exploration of the interrelationship between social grants and the EPWP and discussion of how job creation and cash transfers can best be reconciled.

1.2 What are the characteristics of the local labour markets that the different sectors of EPWP are currently operating in? How effective is EPWP at reaching disadvantaged communities across sectors? What influence does the regional setting have upon programme outcomes for beneficiaries and the community? How does the spatial distribution of EPWP compare alongside disaggregated indices of multiple deprivation developed by Noble et al (2006)? The study will make recommendations regarding measures that could be taken to enhance the program’s impact across local labour markets.

Scope:

The research will look into three EPWP sectors: (i) infrastructure, which has been identified as the largest employment generator, and represents 70%-80% of EPWP projects; (ii) social sector, in view of the huge unmet demand for care services at local level that imply an important employment creation and social protection potential especially in poor areas; and (iii) environmental sector.⁷ For each of these three sectors, the research will examine employment impact and wage income transfer function. Impact in the following dimensions will be assessed: (i) income insecurity and poverty of individuals and households; (ii) labour market performance of participants and their households; and (iii) equality of access to income and employment benefits between men and women and other social groups in local area. The specific nature and indicators of impacts at individual level will differ from that

⁶ Measures which are collectively known as the “social wage” which are in place include free medical care, and electricity, water and housing subsidies.

⁷ The research will not cover economic projects because these involve business development interventions and factors that are much more complex than the other 3 sectors.

of the household or community level; and will also differ by component/sector of the EPWP.

Expected research outputs:

An empirical analysis which provides the basis for assessing policy choices regarding modification and improvements, and indications of how positive linkages between the EPWP and social grants can be strengthened. The analysis should specifically identify the conditions and situations (demand, supply and regional) that the program impact is most effective.

*NOTE: This analysis will be used as an input for section 2.

2: Alternative models for up-scaling the public works programme, and review of target population and wage structure:

2.1: Based on results from the empirical analysis conducted in section 1, beneficiary target groups who gain the greatest benefit from participation in the program will be identified. Based on a synthesis of findings from section 1, this section will investigate various models that could be applied to govern program massification. Specifically, this section will consider continuing with a budget-led approach, and an employment guarantee approach to programme expansion. This analysis will consider the effectiveness and efficiency of up-scaling the programme for specific target populations and locations versus a universal/limited employment guarantee model. This analysis will provide an assessment of costs (affordability) and benefits with respect to income security, employment creation and reduction of unemployment, in light of research into labour supply driven response by Vaidya and Ahmed (2007).

More specifically the study will explore the technical feasibility of the following three options:

- a) Continue with present design (maximum 4 months of temporary employment)
- b) Continue providing:
 - Short-term employment (maximum 4 months), but expand the number of short-term jobs at any given time from current estimate of 200,000 under existing budget allocations (estimated to cover 4% of unemployed population) to a higher number, to increase coverage of specific target groups as identified by the empirical study outlined in 1.1;
 - 200,000 jobs at any given time, but remove/decrease limitations on the duration of employment available;
 - Employment, but expand the number and duration of employment opportunities provided, to increase coverage of specific target groups as identified by the empirical study outlined in 1.1
- c) Guarantee a minimum income and minimum level of employment at a basic wage for:
 - specific target groups, as identified by the empirical study outlined in section 1.
 - all able-bodied individuals from poor households who otherwise cannot find work⁸

⁸ The study by Vaidya and Ahmed (2007) estimated labour supply response among households with per capita expenditure per month below R1000 at R330, R440 and R660 per month.

2.2: This section will include analysis of the wage structure, including calibrations to account for spatial variation in wages, to identify an appropriate minimum income for a minimum level of employment, to ensure that the EPWP can meet its objectives of increasing income security. Specifically, the effectiveness of the wage as an instrument for reaching the target population will be further investigated using econometric and micro-simulation techniques. Recommendations, based on empirical evidence, relating to the optimal duration of employment that should be made available for the targeted populations will also be made. Funding options for up-scaling the EPWP or for a minimum employment guarantee will be examined.

Scope:

The research will draw upon findings from research outlined in sections 1 and 2. For each of the three EPWP sectors, (i) infrastructure; (ii) social sector; and (iii) environmental sector, the research will examine the projects costs and benefits for various levels of programme expenditure and coverage, i.e., current levels, partial scaling up and universal coverage (massive scaling up).

Expected research outputs:

An empirical analysis providing a comprehensive set of scenarios choices to inform policy, regarding the likely outcomes, if the EPWP is to be maintained or up-scaled under various conditions; and identification of how the EPWP income transfer function can be enhanced.

V. Data sources

Existing data sets will be used to undertake the analysis, including the Labour Force Survey (LFS) and General Household Survey (GHS) from StatsSA; the cross-sectional/longitudinal survey by DRA/EPWP; Department of Forestry and Water Affairs surveys (Survey of working for fire/wetlands/water by CASE). All sources of data collect information on variables including gender, age, race, disability, educational attainment, language, dwelling type, and educational attainment. The following table summarises additional key variables.

Characteristics and Variables	DRA	CASE	GHS 2005-06	LFS 2006-07
Sample size	872 beneficiaries	862 beneficiaries	30,000 households	30,000 households
Control sample	200	155	N/A	N/A
Receiving social grants	60%	61%	Can determine	No
Project number	108	38	No	Can determine
Location of project	Yes	Yes	No	Yes
Type of project	Yes	Yes	No	Yes
Benefits of programme participation	Yes	Yes	Yes*	Yes
Skills derived from participation	Yes	Yes	Yes*	Yes
Child school attendance	Yes	Yes	Yes	No
Type of training	Yes	Yes	N/A	N/A
Debt/savings	Yes	Yes	No	No
Food intake/ skipping meals	Yes	Yes	Yes	No
Individual income	Yes	Yes	Yes	Yes
Household income	Yes	Yes	Yes	Yes
Household income before program entry	Yes	Yes	N/A	N/A
Government grant recipient	Yes	Yes	Yes	No
Household expenditure	Yes	Yes	Yes	No
Employment duration/ hours of work	Yes	Yes	No	Yes

*The GHS variables do not differentiate between EPWP and other government job creation programmes.

Annex 1

The problem: Poverty and unemployment

Headcount poverty in 2004 was 33.2 percent (15.4 million) according to van der Berg et al (based on a poverty line of R3000 per capita per year) or 18 million according to Meth (2006a, 2006b).⁹ Estimates of the magnitude of poverty in South Africa vary, and income/consumption thresholds and methods to measure poverty are subject of national debate.¹⁰ There is agreement that headcount poverty went down over the period 2000-2004, but there is disagreement over the magnitude of decline.¹¹ Nonetheless, public opinion believes that headcount poverty remains unacceptably high particularly in view of South Africa's high economic growth and GDP per capita income.

Poverty is closely tied to unemployment in South Africa because the unemployed have few fall-back options – employment opportunities in subsistence agriculture or the urban informal economy are few unlike many other developing countries or other Sub-Saharan countries. Inability to obtain formal employment or losing it is far more significant and detrimental to households than it would be for other regions.

A substantial proportion of the poor population lives in “workerless households”, i.e. households without employed workers. Within such a context, it is felt that social grants are not necessarily the most effective option for poverty reduction. Most of these households contain persons of working age, none of whom has paid employment or unpaid work (i.e. in family business). Although most of these households receive some income from a variety of sources (e.g. social grants, remittances from migrant workers), none of it is from earnings generated by household members. Meth estimates that there were 14.6 million persons in “workerless households” in 2001; by 2004, they had increased to 15.7 million.

The high level of income insecurity among the poor is evidenced by the fact that people in reported “zero-income” households, i.e. no income received from any

⁹ Poverty trends for previous years may be obtained from: Servaas van der Berg *et al.*, 2006, *ibid*; Charles Meth, 2006a *ibid*. and UNDP 2003. *South Africa Human Development Report 2003. The challenge of sustainable development in South Africa: Unlocking people's creativity*. Cape Town: Oxford University Press.

¹⁰ The technical issues besetting the measurement of poverty in South Africa are discussed by Servaas van der Berg *et al.*, 2006, *Trends in poverty and inequality since the political transition*, DPRU, University of Stellenbosch, February; and Charles Meth, 2006a, “Half-measures revisited: The ANC's unemployment and poverty reduction goals” in Bhorat and Kanbur (eds), *Poverty and policy in post-apartheid South Africa*, HSRC.

¹¹ For example, differences between estimates by Meth (*ibid* 2006a; and Meth, 2006b, *Income poverty in 2004: A second engagement with the recent van der Berg et al figures*, Working Paper 47, SALDRU, University of Cape Town, September) and van der Berg *et al ibid* 2006. Using LFS as primary data source, Meth estimates that poverty headcount are likely to have been higher than van der Berg *et al* suggest and that the fall in poverty in early 2001-2004 was likely to have been smaller.

source during the reference period (7 days before interview) numbered about 1.6-1.8 million in 2004, about 10 percent of those living in poverty.¹²

Table 1: Unemployment rates (in per cent) in South Africa, narrow and broad definitions, September 2002-2006¹³

Date	Labour force (in 000s)		Unemployment Official definition		Unemployment Expanded definition		
	Official definition	Expanded Definition	Unemployed (in 000s)	Per cent	Discouraged (in 000s)	Unemployed + discouraged (000s)	Per cent
September 2002	16322	19516	4936	30.4	3194	8130	41.9
September 2003	15858	19631	4434	28.0	3773	8207	41.8
September 2004	15778	19726	4135	26.2	3948	8083	41.0
September 2005	16788	20100	4487	26.7	3312	7799	38.8
September 2006	17191	20408	4391	25.5	3217	7608	37.3

Source: Statistics SA, Statistical Release P0210, September 2006 and September 2005

Unemployment (narrow definition) fell, in absolute numbers and relative to the labour force, in the past year to September 2006. This was accompanied by a decrease in the number of discouraged work-seekers. However, unemployment, narrowly and broadly defined, has remained high.

In the March 2006 LFS, some reasons given by discouraged unemployed for not seeking work or starting a business may be interpreted as withdrawal from the labour force – e.g. ill health, injury, physical disability, pregnancy and family considerations or child care. However, just fewer than 90 per cent of the discouraged unemployed appeared to be genuinely discouraged, giving reasons such as “no jobs available in the area”, “lack of money to pay for transport to look for work”, and “lost hope of finding any work”.¹⁴

¹² Inquiries by LFS 2004 into subsistence agricultural activities over a full calendar year showed that of men of working age in “zero-income workerless households” 170,000 did some work of this nature. About 145,000 working age women did so also. See Meth 2006b.

¹³ Stats SA uses the following definition as its official definition of unemployment: (a) did not work during the 7 days prior to the interview, (b) want to work and are available to start work within 2 weeks of the interview, (c) and have taken active steps to look for work or to start some form of self-employment in the 4 weeks prior to the interview. The expanded definition of unemployment excludes the 3rd criterion and thus includes persons who said they were unemployed but had not taken active steps to find work or to begin a business in 4 weeks prior to the interview, i.e. discouraged work-seekers. Prior to 1996, the official unemployment rate was (in OHS 1995) “...the actual number of persons as determined in accordance with the expanded definition of unemployment, expressed as a percentage of the relevant economically active population.” (P0317 27 November 1996)

¹⁴ Cited in K. Vaidya & F. Ahmed, Quantification of demand in the Expanded Public Works Programme, Draft Final Report, February 2007, p.4.

Unemployment (official definition) is unevenly distributed among the population groups, based on the September 2006 LFS, as follows:¹⁵

- Highest among black African people (30.5%), followed by coloured (19.4%)
- Except for white population group, unemployment among women, in particular Black African women, is in general substantially higher than male counterparts.
- The decline in unemployment rate for all South Africans reflects a decline in all population groups, though the decline among Coloured and Indian/Asian groups seems more pronounced than rate decline among Black Africans. The decline was also more pronounced among black African and coloured men than decline among female counterparts. Among white population group, unemployment rate declined among women but increased among men.
- Unemployment rates are increasingly lower as one goes to higher age groups. Among 15-24 age group, unemployment rate has consistently been above 50% during the period September 2001 to September 2006. They consist 33% of the unemployed.

Discouraged work-seekers are also unequally distributed among population groups as follows:¹⁶

- Predominantly women – 2 out of 3 (64%) are women
- Majority are young – 15-29 years make up 39.8%; 30-39 years old make up 23.3%
- Large variation among provinces: discouraged work-seekers in working-age (15-65) population ranges from under 10% in Western Cape, Northern Cape, Eastern Cape, Mpumalanga and Gauteng to 14.4 % in North West and 19.9% in Limpopo.

The causes of unemployment are complex and the subject of much debate in the country. Is it lack of skills, given that unemployment and poverty are concentrated among the unskilled and semi-skilled? Is it tough entry barriers to the labour market? Is it insufficient job creation? Is the modern corporate sector crowding out traditional and small-scale livelihoods on which low-income populations depend? It may be a combination of these factors, which would imply a mix of strategies and interventions.

Skills do not create jobs. Moreover, equipping people with the right skills can take time (i.e. years), often necessitating an educational foundation that begins in primary school, and would need to be continuous if it is to keep up with changing skill demands of new jobs.

Aggregate employment in South Africa grew by some 1.5 million jobs over the period 1995-2000 at an average rate of 2.5 per cent per annum; in the 2 years to September 2006, over one million additional people were employed.¹⁷ The problem is not job creation per se but the number and type of jobs being created vis-à-vis those who

¹⁵ Statistical Release P0210, LFS September 2006.

¹⁶ Statistical Release P0210, LFS September 2006.

¹⁷ Haroon Borat and Ravi Kanbur, 2005, *Poverty and well-being in post-apartheid South Africa: An overview of data, outcomes and policy*, University of Cape Town, DPRU Working Paper 05/101, ISBN: 1-920055-19-3, October.

want work. The economically active persons expanded from 16.788 million in September 2005 to 17.191 million a year later. Moreover, new jobs have required higher skills, favouring households in higher expenditure category. The number of workers living in households with incomes of R10,000 or more per month increased by more than 600,000 between 2001 and 2004. In households where income was less than R1236 per month, home to more than 70 percent of the poor, over 200,000 jobs were lost between 2001 and 2004. The burden of unemployment has thus fallen heaviest on the low-skilled and unskilled, mainly poor and rural population.

The Government of South Africa has adopted a number of measures to reduce poverty and promote employment. It has expanded its system of social grants over the past decade, and this has been credited for the country's achievements in poverty reduction.¹⁸ Social grants (means-tested cash transfers) are focused on pensioners (old age pension) and children (child support grant, foster care grant). Other cash transfers are disability grant and food rations. Measures collectively known as "social wage" are in place: free medical care, and electricity, water and housing subsidies.¹⁹ A major gap in the social protection system is the absence of support for working-age, able-bodied population who are unemployed. Social insurance (e.g. unemployment insurance, health insurance) benefits workers in the relatively small formal sector employment. Most unemployed living in poverty survive on private transfers (migrant remittances, help from recipients of social grants, handouts from less poor households) and subsistence activities probably too micro or too intermittent to be captured by the household surveys.

Based on recent calculations done by Meth, of the estimated 18 million poor (below poverty line of R309 per capita per month at 2004 prices), the number who live in households without paid workers (i.e. "workerless households") and without elderly persons (men aged 60 or more, women aged 64 or more) who might be recipient of old-age pension) is:²⁰

- 8.22 million people (in 2.28 million households) below a poverty line of R309 per capita per month in 2004 prices (R250 in 2000 prices); or
- 8.84 million people (in 2.45 million households) below the poverty line of R400 per capita per month in 2004 prices (R322 in 2000 prices).

In a context of limited social protection coverage, the poor have little choice but to work and earn an income in order to survive. This usually results in low

¹⁸ Part of the poverty reduction has been credited to the system of social grants, which expanded from 2000 onwards. Three social grants are to be credited, namely, the old age pension, child support grants and disability grant. It appears that 1.7 million people were lifted over the poverty line in 2001 and brought many others closer to the line; by 2004, rapid expansion in the scope of the grants system lifted an additional 1.3-1.5 million out of poverty. The old age pensions, which has the largest coverage and highest take-up rate, is said to have had the greatest impact: approximately 2 million pensions raised 1.5 million in 600,000 households over the poverty line. The old age pensions, which has the largest coverage and highest take-up rate, is said to have had the greatest impact: approximately 2 million pensions raised 1.5 million in 600,000 households over the poverty line. Five million child support grants seem to have lifted 900,000 people in 150,000 households out of poverty. Charles Meth, 2006c, "Sticking to the facts: Official and unofficial stories about poverty and unemployment in South Africa", unpublished article, 13 December. more information on coverage of social grants, see Guy Standing and Michael Samson (eds), 2003, *A basic income grant for South Africa*, Cape Town: University of Cape Town Press.

¹⁹ Measurement of the monetary value of these benefits to the poor is under debate.

²⁰ Meth's recent estimates sent to the ILO author of this proposal; to be published.

unemployment rates but high underemployment and large proportion of “working poor”. However, in South Africa, unemployment rates are high in spite of a limited social protection system, which imply a stark lack of income-earning opportunities for the poor, obstacles that prevent the poor from engaging in income-earning activities, and high vulnerability to risks among the poor.

Many programmes have been undertaken by the Government of South Africa to promote employment opportunities, among them: Integrated Sustainable Rural Development Strategy oriented towards rural areas, Urban Renewal Programme focusing on urban areas, Land Reform Programme and Comprehensive Agricultural Support Programme for the agricultural sector, cooperatives programme, small enterprise development and Broad-based Black Economic Empowerment, education and skills development, and national youth service.²¹ In April 2004, the South African Government launched the Expanded Public Works Programme (EPWP) for a 5-year period. Focused on the unemployed, unskilled and under-skilled persons, it has multiple objectives:

- (i) To draw significant numbers of the unemployed into productive work to enable them to earn an income within the first five years of the programme;
- (ii) To provide unemployed people with education and skills;
- (iii) To ensure those participants in the EPWP are able to translate the experience and enabled to set up their own business /services or become employed; and
- (iv) To utilise public sector budgets to reduce and alleviate unemployment.

The EPWP provides three benefits: (i) short-term wage income earned by participants, (ii) skills training and work experience acquired by participants, and (iii) physical assets created or improved, and services provided or improved, as well as their maintenance after completion of projects, which benefit local communities, not only participants. Funded completely from government’s regular budget allocations, EPWP projects range from traditional construction and maintenance of physical infrastructure to provision of community health care and early child development services, environmental projects and support to enterprise development.

²¹ Within the framework of the Accelerated and Shared Growth Initiative – South Africa (AsgiSA), which aims to sustain and accelerate economic growth while halving unemployment and poverty by 2015, the government in partnership with labour, business and other stakeholders has adopted a set of measures concerning infrastructure, sector development, education and skills, interventions oriented towards the poor, macro-economic priorities, and institutional interventions.

Annex 2

Previous studies of EPWP

McCord assessed the effectiveness of the EPWP as a strategy for alleviating unemployment and poverty by examining the Gundo Lashu Public Works Programme in Limpopo, which served as the EPWP model, and the Zibambele programme in KwaZulu Natal.²² The two programmes differed in design (targeting criteria and objectives) and institutional and implementation modalities. The empirical component of the study was based on a household survey administered to current and former public works programme employees and members of their households between June and September 2003 in rural areas of Limpopo and KwaZulu Natal, two provinces with similar unemployment and poverty profiles. The impact of the programmes was assessed on three levels: micro (household and individual), community and macro level. Micro level impact covered changes in income poverty at household level, poverty incidence (headcount poverty), and an individual's labour market potential or employment prospects as a result of skills training and work experience gained in the programme. At community level, McCord examined effects on local economy (businesses, trade). At macro level, she used a Social Accounting Matrix to determine whether an annual shift in factor intensity of R3 billion of existing infrastructure budget allocations was likely to have significant impact on employment or GDP growth. Key findings were:

Design makes a difference on impact: Zibambele offered quasi permanent employment (one year renewable contracts) whereas Gundo Lashu offered exclusively short-term employment; adopted flexibility of working hours that allowed participants to combine work with household responsibilities and other income-earning activities; allocated employment to the household rather than individual allowing the household to re-allocate public works employment; targeted the poorest in communities particularly female household heads, selected by community representatives while Gundo Lashu private contractors recruited directly with support from social facilitation agencies; operated directly by the Transport department while Gundo Lashu was implemented by private contractors. Zibambele had better results in terms of consumption smoothing, improved household budgeting, and savings or asset accumulation; and higher participation of poorest groups and of women.

On poverty at micro level: Poverty reducing benefits from the wage transfer endured as long as the public works job, thus short and temporary in the case of Gundo Lashu. The relatively high public works wage rates as compared to earnings in subsistence agriculture and non-farm activities risked drawing people away from existing but largely informal and precarious activities. The size of net wage gains from EPWP thus depend on income participants may have forgone in order to join the EPWP. Although majority of participating households remained below the poverty line, the income poverty gap was reduced. Positive impacts on non-income dimensions of poverty were achieved: nutrition, schooling, material and financial assets. Impact on poverty and income insecurity was greater in Zibambele because participants were poorer, and employment was much longer in duration and paid at minimum wage. As regards social capital, participation in the public works programme enabled participants and

²² Anna McCord, *The economy-wide impacts of the labour intensification of infrastructure expenditure in South Africa*, CSSR Working Paper No. 93, 2004a; and A. McCord, *Policy expectation and programme reality: The poverty reduction and labour market impact of two public works programmes in South Africa*, ESAU Working Paper 8, Economic and Statistics Analysis Unit, Overseas Development Institute, London: Overseas Development Institute, 2004b.

their households to participate in community activities and burial societies, to stop from being mendicants and even shift to being “donors”, and reduced shame from not being able to live decently.

On labour market potential of participants: Training or work experience obtained during the programme did not improve employability of former PW participants; unemployment was as high among former public works participants as non-participants. Majority did not receive training. Because of limited cash capital and skills, few could set up own business.

On local economies: Micro businesses that sprang up around public works ceased after completion of projects. There was no evidence that roads construction brought economic benefits.

On growth and employment at macro level: Using SAM, an annual shift in factor intensity of R3 billion of existing infrastructure budget allocations is unlikely to make significant impact on employment or GDP growth largely due to limited scale of the intervention.

Taylor, McCord and van Seventer compared labour based methods (LBM) and machine-based methods (MBM) of improving gravel roads with respect to financial and economic costs as well as their wider socio-economic benefits. It used data from the Gundo Lashu Project in Limpopo Province which had detailed records of roads projects using the two methods.²³ The main findings of the study were:

Financial costs: LBM and MBM were very similar in average cost per kilometre, although if the LBM had used same wage rate as MBM projects, the average cost per kilometre of LBM projects would have risen by 3%. If the LBM contracts had used the official industry minimum wage, the LBM contracts would have been 15% more expensive.

Economic costs: Based on assumed shadow wage rate for unskilled labour of R10 daily, and accounting rations for other resources (skilled labour, equipment, construction materials, fuels etc), LBM contracts were 25% cheaper than MBM contracts. Cost of more time delays in LBM was calculated to be a mere .003% of the cost of road improvement.

Macroeconomic impact: Using a SAM representative of the 2000 economy to calculate differing macroeconomic consequences of LBM and MBM, shifting R3 billion per year national programme (approximate equivalent of the EPWP) from machine-based to labour-based public works provision was estimated to increase overall employment by 1.5%, the income of the poorest quintile by 3% if public works employment was targeted to this group, and overall GDP by 0.1%.

Impact on household poverty: Public works employment could reduce the depth of poverty of participating households for a temporary period, but sustained impact on poverty reduction of individuals was limited. The short period of employment gave a temporary wage shock rather than a sustained income increase. Targeting employment to the poorest increased the significance of positive impacts on households particularly in terms of improved nutrition and schooling.

Impact on labour market performance: Work experience and training gained in the Gundo Lashu programme did not significantly improve participants’ chances of finding a job because of limited demand for semi-skilled labour in the areas where former PW participants reside.

²³ Gary Taylor, A. McCord & D. E. van Seventer, *Limpopo Province Labour Intensive Rural Roads Maintenance Programme (Gundo Lashu). Cost comparison report*. March 2005.

Impact on local economy: Businesses that sprung up around the public works projects ceased operating once the PW project was completed. Economic benefits from economic assets created by the PW project were not considered by the study.

In 2006, McCord assessed, among other aspects, the performance and impact of the infrastructure component of the EPWP Western Cape.²⁴ The infrastructure component represented over 70% of the total employment anticipated in the programme. It found that the formal construction sector demanded semi and skilled labour (e.g. artisans, handymen, supervisors) whereas the EPWP training provided limited, job-specific skills. The lack of impact of EPWP training was traced to: (i) the content and duration of the training provided; and (ii) isolation of the EPWP training from other provincial development initiatives and from a broader provincial strategy for skills development, employment promotion among low and unskilled workers, and infrastructure development. In addition, the study found important institutional problems: lack of common understanding of the EPWP programme and of the nature of training to be provided across concerned offices; and lack of credible, adequate management information system which meant data shortcomings that made impact assessment difficult. The study used a range of quantitative and qualitative methods including interviews with key informants in the Department of Transport and Public Works and Department of Labour at provincial level, the National Department of Public Works, contractors, service providers and current and former EPWP participants in a series of focus groups.

The recently concluded study by Vaidya and Ahmed made preliminary estimates of the magnitude of labour supply response to the EPWP and the size of the PW wage bill at different wage rates.²⁵ Since direct evidence on reservation wages was not available, the study used the employment and earnings data from the GHS 2004 to estimate the distribution of reservation wages of the unemployed. Although the estimates were based on a number of assumptions and limitations (e.g. the unemployed have the same reservation wages estimated for the employed; differences in reservation wage rates among individuals of different characteristics and provinces were not accounted for), the study is valuable. It was premised on a demand-driven model of the EPWP able to provide employment at a minimum income level to those who want it. It highlighted the function of wage setting in determining the extent to which the poor or the poorest unemployed (or employed but with very low earnings) are able to participate in the programme. At a given public budget, the wage rate could expand or ration the coverage of the programme. The authors suggested the need to collect primary data on reservation wages to validate the findings and examine differences in reservation wage rates between provinces and types of individuals.

Main points emerging from previous studies of EPWP which have implications for the proposed research on impact:

- a) The studies by McCord (2004a, 2004b, 2006) and by Taylor *et al* (2005) have demonstrated methods for assessing the impact of short-term wage transfer, and work experience and skills training at micro level on poverty and labour

²⁴ Anna McCord, *The current status of the EPWP (infrastructure) in the Western Cape*. A study prepared for Western Cape Provincial Treasury and Department of Transport and Public Works. Final Report 24 March 2006.

²⁵ Kirit Vaidya and Farhad Ahmed, *op cit*.

market potential, at community level on local economy, and economy-wide effects.

- b) The studies also highlighted factors that influence impact: (i) targeting criteria and methods; (ii) EPWP wage rate and prevailing labour market situation in the area; (iii) varying implementation modalities and institutional contexts, which determine how the EPWP programme is understood, interpreted and implemented by offices/agencies/local governments (refer to case studies of Gundo Lashu, Zibambebe and Western Cape); and (iv) socio-economic and labour market situation of the area influences post-EPWP labour market performance of participants. The case study of Zibambebe programme illustrates that design matters in eliciting the participation of women and female heads of households.
- c) The study by Vaidya and Ahmed (2007), which was premised on a demand-driven model of the EPWP and used the concept of reservation wage, highlighted the function of wage setting in determining the labour supply response to the EPWP and in reaching the poor or the poorest unemployed, and workers with very low earnings.
- d) Studies concerned with the socio-economic impact of Working for Water, Working on Fire and Working on Wetlands completed by CASE (2007). The studies collected programme beneficiary data, and highlighted the impact of income transfer, psychological impacts of programme participation, and effectiveness of training and impact for quality of life.
- e) The cross-sectional study of EPWP completed by DRA (2007). This study collected data across the infrastructure, social, environmental and cultural and economic sectors of EPWP from beneficiaries, community members, contractors/implementing agents, government officials and training service providers. This study forms the basis for a longitudinal study of programme beneficiaries. The study investigated the impact of transfer, perception of benefits/disadvantages, effectiveness of training and impact for quality of life.
- f) The Mid-Term Review (2007) collected data from programme implementers and key EPWP stakeholders, and undertook document analysis and an international review public works programmes. The review assesses the efficiency, effectiveness and outcome of the programme against indicators set up at the start of the programme. The study raised key problems within programme administration and put forward recommendations for programme re-design and implementation.
- g) There are aspects of impact which need further investigation: (i) impact of infrastructure, physical assets or services created/provided on employment and local economies; (ii) the non-infrastructure sectors of EPWP which would entail different types of skills and employment prospects; (iii) differential effects of EPWP on poverty and employment depending on participating households' poverty level, access to other sources of earned income, and access to social insurance, social grants or other forms of social assistance; gender, age, ethnicity of participants; and (iv) related to the social sector component, its gender differentiated effect on employment and allocation of labour time to unpaid care work. The Zibambebe case study illustrates some of the gender-differentiated effects.
- h) Until now impact measurement has relied mainly on data from two projects and two provinces, the Gundo Lashu programme in Limpopo Province and Zibambebe programme in KwaZulu Natal. The additional datasets collected by

CASE and DRA, along with data on EPWP collected through the Labour Force Survey and General Household Survey by StatsSA, allows for a broader empirical basis for policy assessment of EPWP.

At present time, a mid-term review of the EPWP has not been finalised. The results from the final analysis will inform this proposed research. It should also be noted that the EPWP has envisaged carrying out evaluation methods (e.g. poverty impact analysis, and aggregate impact analysis) at different stages of the EPWP roll-out to measure impact including impact on poverty and vulnerability. These studies have yet to be undertaken but an assessment of the impact of skills training and historical geo-coding of projects that have operated within the Free State over the past three are in the pipeline.