

Towards an Employer of last resort programme in South Africa?

3rd of April 2008



CONTEXT



Macroeconomic Context

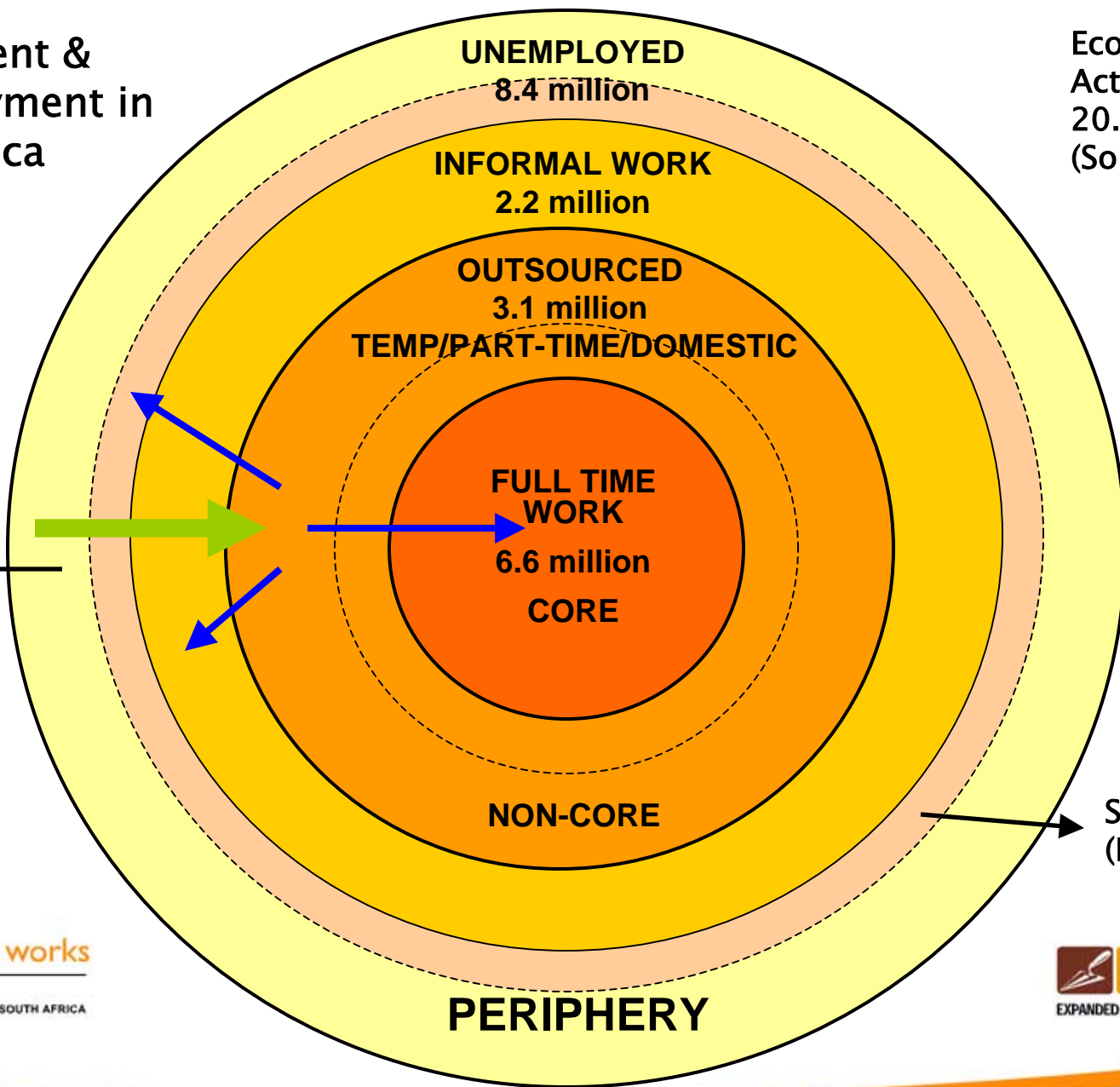
- EPWP is being implemented in a period of sustained economic growth but with persistently high unemployment rates of above 25%, not during or in response to a recession
- Strong government budgets and currently a budget surplus
- As such EPWP was not designed to stimulate demand through increased government spending as was the case with the “New Deal” in the USA or more recently “Jefes” in Argentina (2002–03)
- India’s current Employment Guarantee Programme is closest parallel where large public works programme is initiated in times of high economic growth
- This raises issues around
 - Capacity: Not as much the case that retrenched capacity is re-engaged (Particularly skilled/ management capacity)
 - Increasing government expenditure when there is no need to “stimulate demand”



Employment & Unemployment in South Africa

Economically Active Population
20.3 million
(Source Webster)

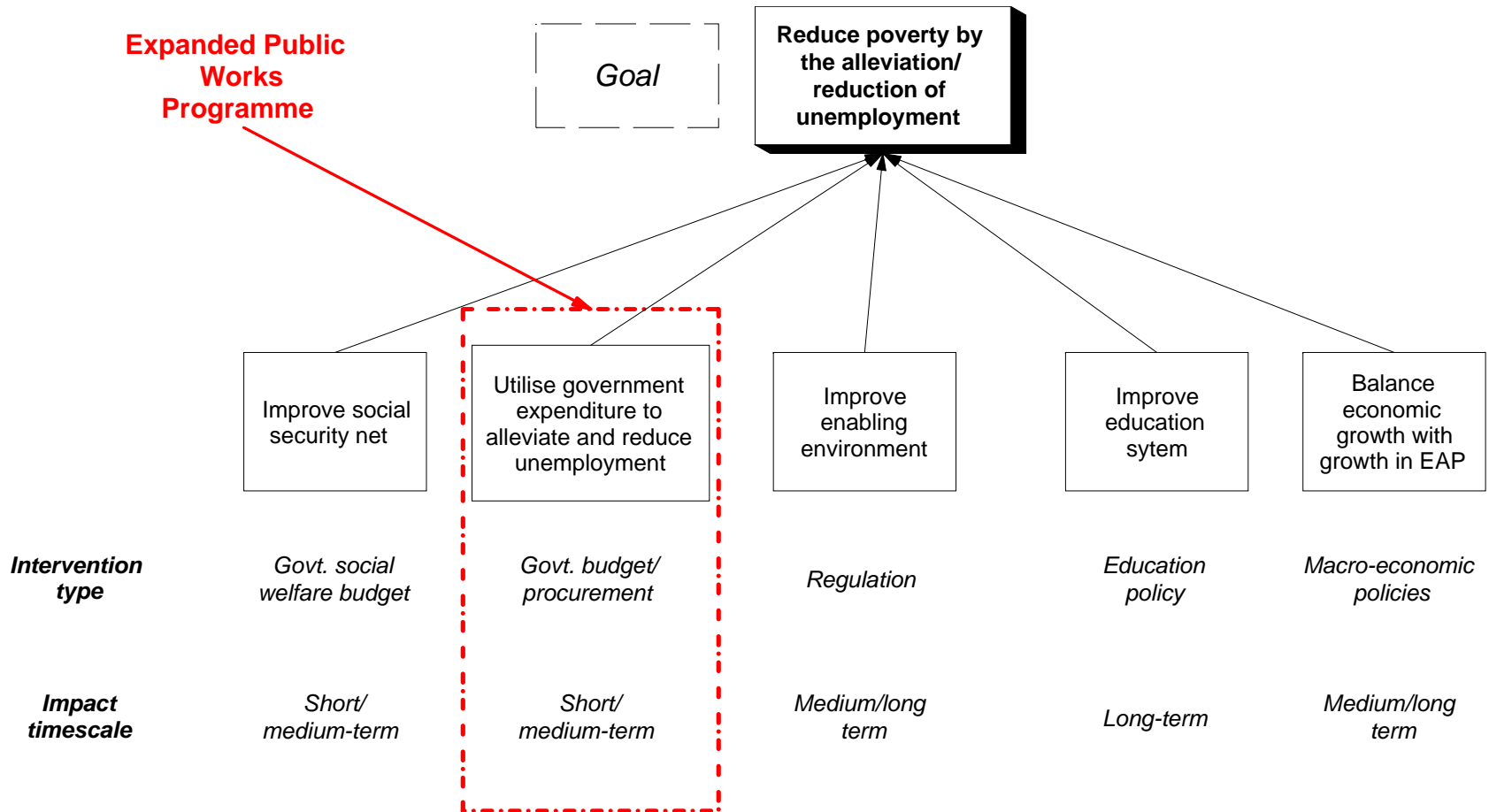
Potential EPWP Target Group
Unskilled 5.8 million
(incomplete Secondary School)



Skilled 2.6 million
(Matric or above)



Government Strategies to address poverty and unemployment (Complimentary, not exclusive)



(EAP = economically active population)

PROGRAMME DETAILS AND PROGRESS



Design of the EPWP

- Must allow for wide diversity of existing programmes
- Expand best-practice existing programmes
- No dedicated public works budget anymore, but funding through implementing public bodies in line with defined functions
 - To be sustainable, the EPWP must not be ‘make-work’ – must be ‘economically efficient’ otherwise public bodies will refuse to implement
 - Emphasis on labour-intensive delivery of cost-effective quality services
- All spheres of government and public bodies to contribute within their core roles and responsibilities
- Implemented in four sectors: Infrastructure, Social, Environmental and Economic



Core EPWP Strategies

- **Strategy 1:** Increasing the use of labour intensive methods in the construction and maintenance of government infrastructure
- **Strategy 2:** Supporting public bodies with replication and growth of existing Programmes
- **Strategy 3:** Identify new areas of government delivery in which unemployed and unskilled workers can be engaged so that they gain work experience and skills
- (These are not mutually exclusive but can actually complement each other)



Latest Results

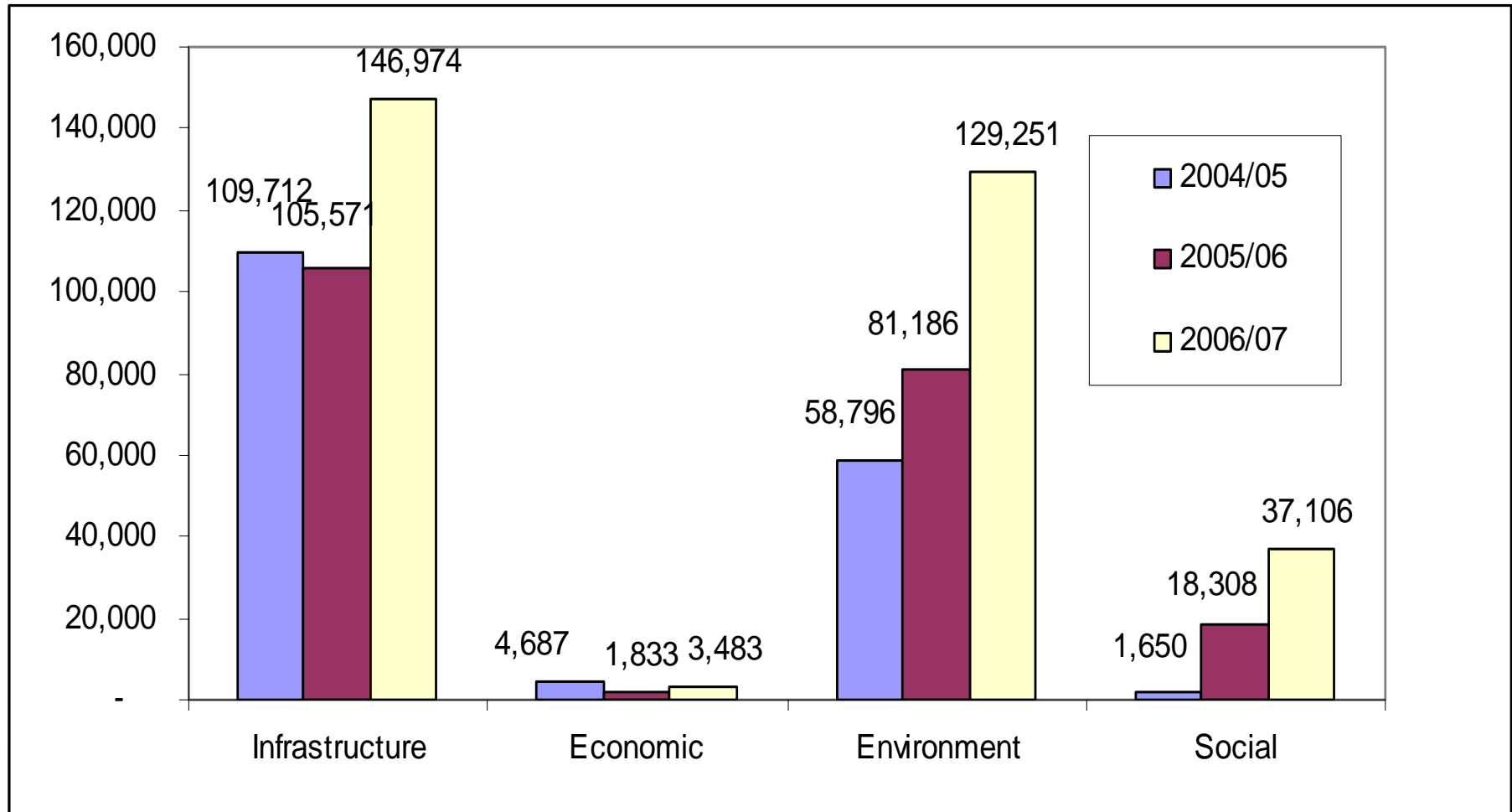
End of 3rd Quarter Results 2007–08 (3.5 of 5 years)

| Labour Force Survey Results: | March 2007 30,195 million 15-65 yrs | EPWP Results for Year Ending March 2007 |
|------------------------------|---|--|
| Heard of the EPWP | 8 948 000 | |
| Participated – past 6 months | 296,000 | 313,331 |

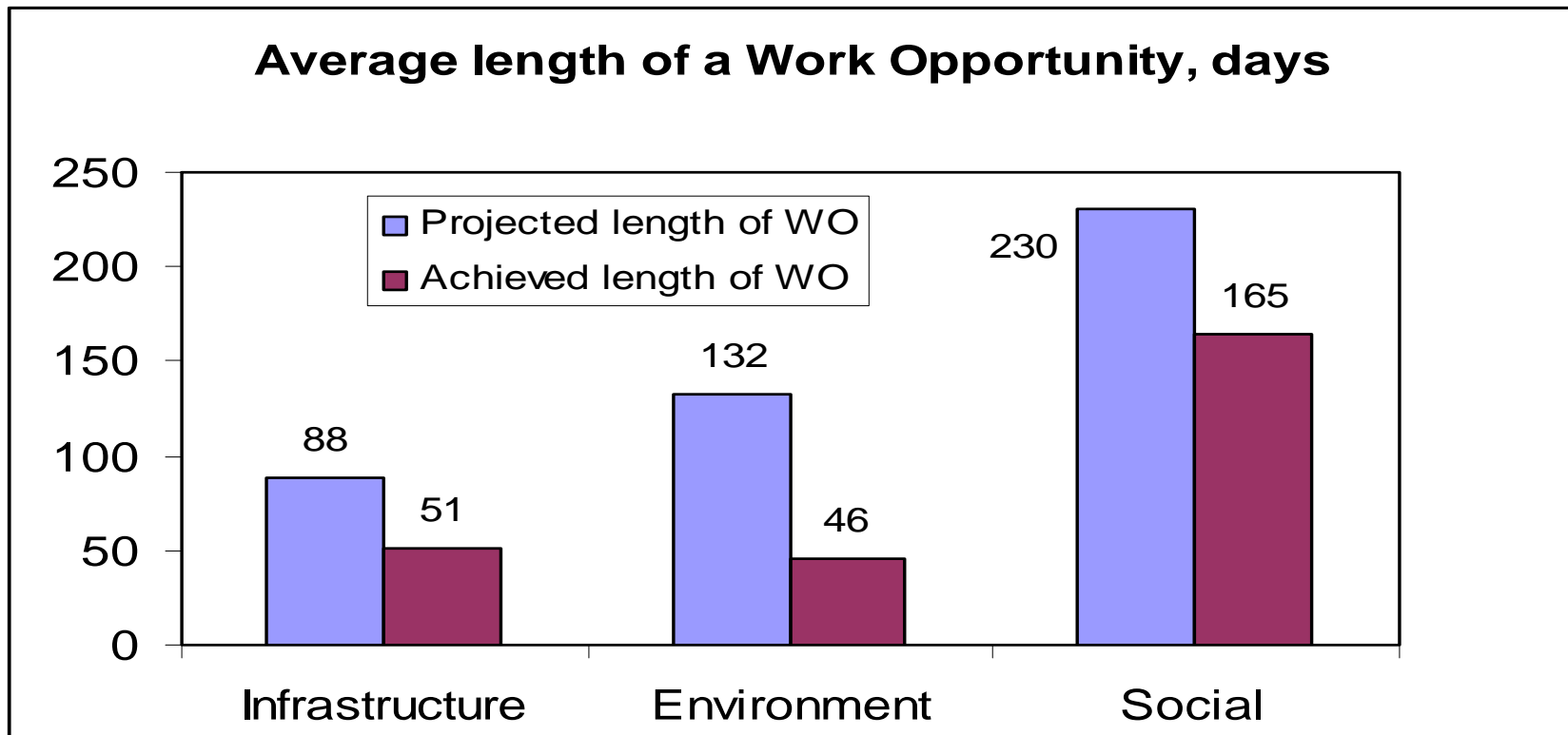


| Sector | Targeted work opportunities [WO] | Work opportunities [WO] delivered to date [1 Ap 04 – 31 Dec 07] | |
|------------------|----------------------------------|---|------------------|
| | | Number | % of targeted WO |
| Infrastructure | 750,000 | 495,220 | 66 |
| Environment | 200,000 | 344,980 | 172 |
| Social | 150,000 | 101,459 | 68 |
| Economic | 12,000 | 13,194 | 110 |
| Total *** | 1,112,000 | 954,853 | 86 |

Work opportunities created – year on year



Work Opportunities are shorter than anticipated



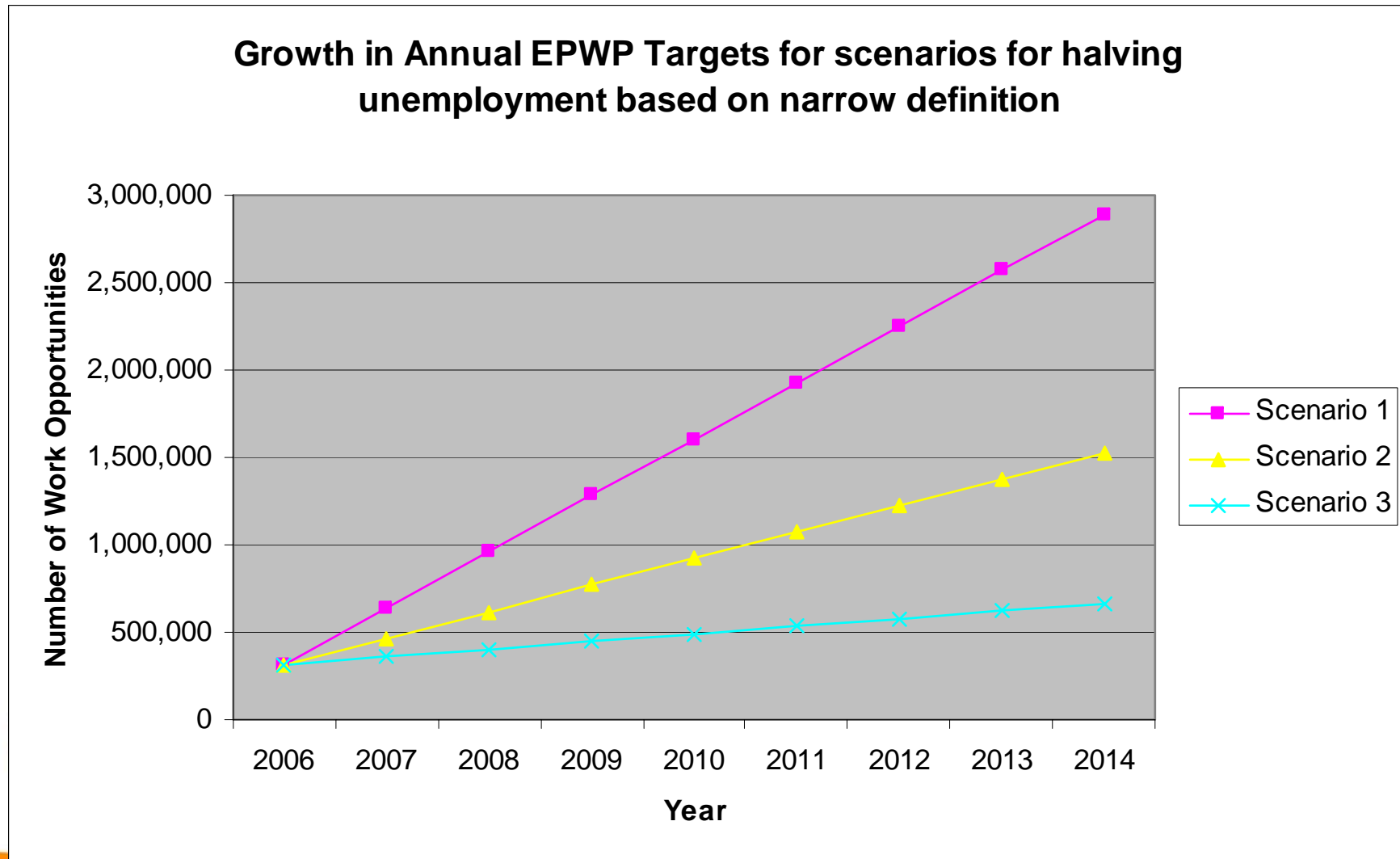
WHERE TO FROM HERE?



Scenarios for halving unemployment with EPWP acting as “Employer of Last Resort”

| Sectors providing employment | Employment in 2004 | Employment in 2014 | | |
|--|--------------------|-----------------------|---------------------------------------|--|
| | | Scenario 1: Slow Down | Scenario 2: High Domestic Orientation | Scenario 3: More Employment and traded Sectors |
| Formal Sector employment – Agriculture, Mining, Manufacturing, Services | 6,053,000 | 7,250,000 | 7,985,00 | 8,630,00 |
| Construction & utilities | 620,000 | 962,841 | 1,163,825 | 1,163,825 |
| Informal sector, dom work, subsist agric, less EPWP | 2,815,000 | 3,315,524 | 3,563,213 | 3,568,436 |
| Public Sector, private social services | 1,800,000 | 2,164,429 | 2,348,027 | 2,560,826 |
| EPWP Target for halving unemployment using narrow definition of unemployment | - | 2,892,653 | 1,525,931 | 662,713 |
| EPWP Target for halving unemployment using broad definition of unemployment* | - | 3,764,597 | 2,237,058 | 1,766,218 |

Required growth of EPWP for various scenarios



EMPLOYER OF LAST RESORT PROGRAMME IN SA?



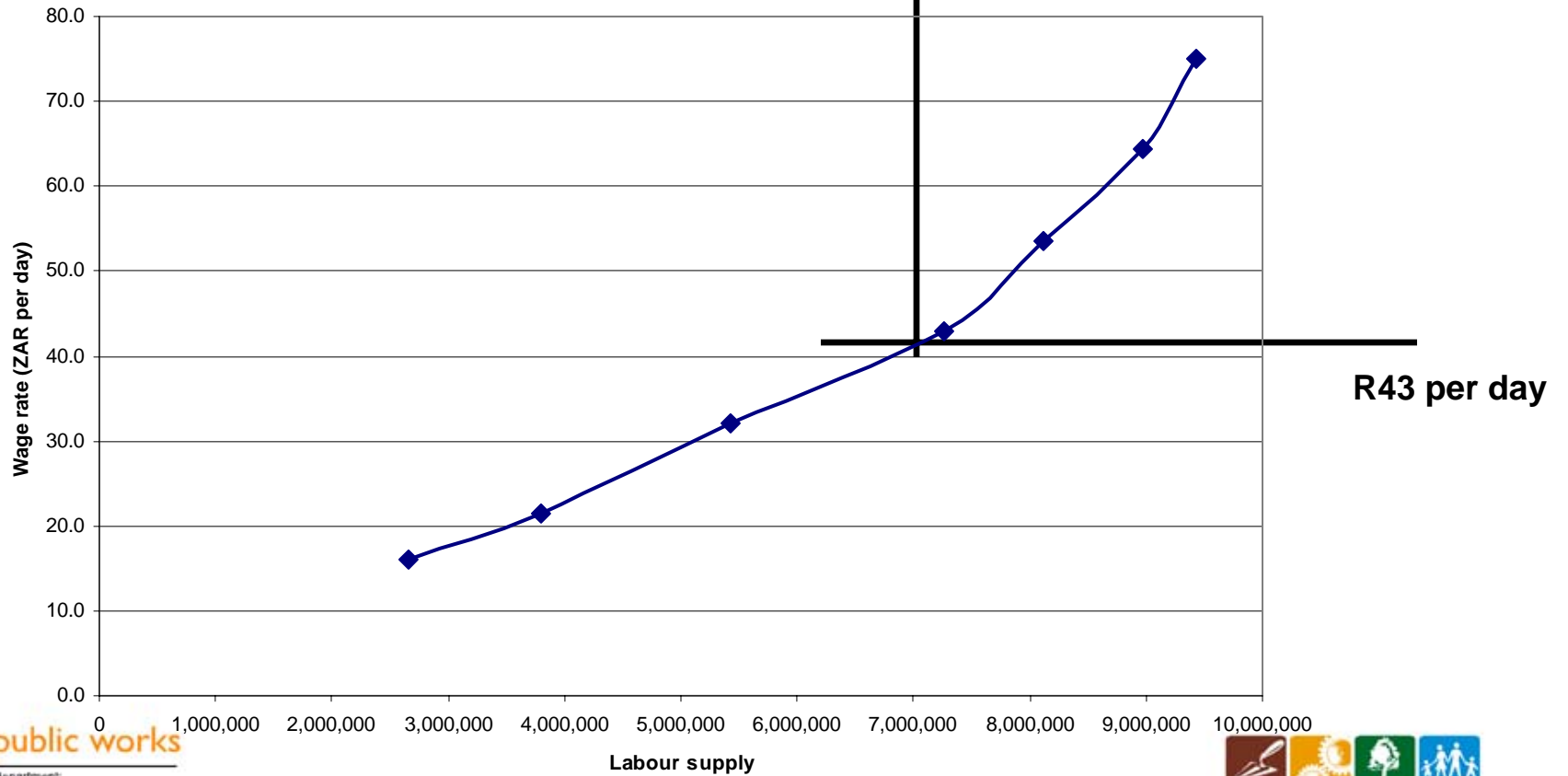
“Employment Guarantee” in SA?

- A full blown guarantee for all the unemployed in SA not feasible at this point in time
- But a programme can be designed to fit within the desired scope, fiscal framework and specific political priorities
- Guarantee can also only be offered to specific target groups:
 - Youth, Women, Residents in rural areas (Maharashtra State, India), Targeted provinces, ISRDP nodes
- Programme can also target households rather than individuals:
 - Rural households (All of India Employment Guarantee Act)
 - Women-headed households (Zimbabwe, KZN)
 - Households in ISRDP nodes
- Duration of work offered can be varied:
 - Full time: (Maharashtra State, India)
 - 100 days per year: (All of India Employment Guarantee Act)
 - 50 days (1 day a week): Current Pilots in South Africa

SA labour supply (1 / hh) vs wage rate

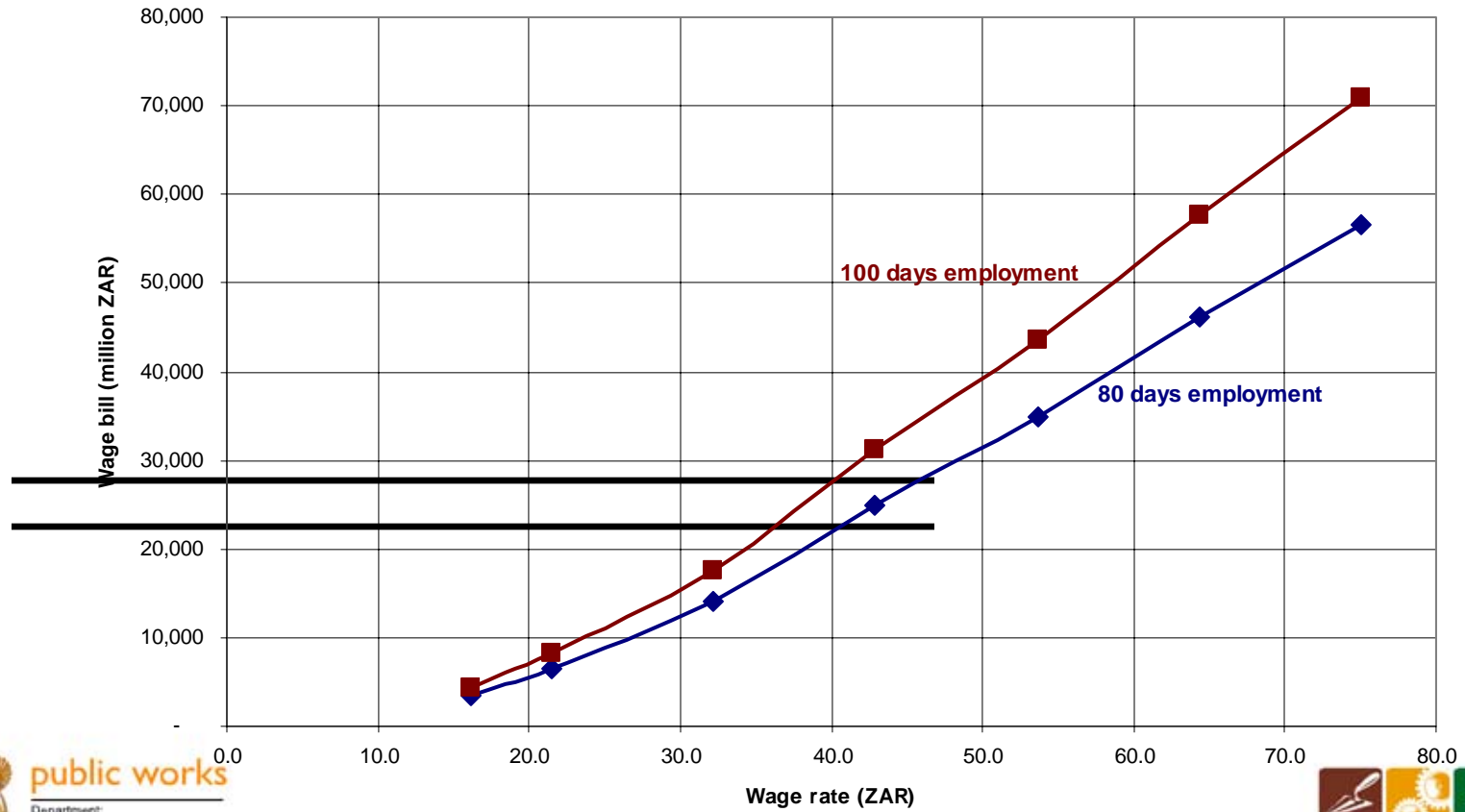
7 million people

Figure: Labour supply - estimated response to a range of wage rates



Projected Wage Bill: R25 to R31 billion

Figure: Wage bill at alternative wage rates



Fiscal Implications

- At a wage rate of R40 (2006) per day it is projected that there would be 7 million people willing to work in rural (non-urban) SA
- If the duration of each work opportunity was to be 100 days per annum (On average 2 days per week)
 - A worker would on average earn R4000 per annum (R330 per month)
 - Estimated funds required per annum: 7 000 000x R40 per day x 100 days = R28 billion
 - This represents 1,3% of GDP [07/08 estimate] and 5.2% of Government Budget

For comparison and context:

Someone receiving a disability grant receives R 10 440 per annum (R870 per month). All the Social Grants combined in 2007–08 are budgeted at R63 billion. This represents 3% of GDP and 13% of the budget

In the current EPWP workers earn around R3000 per work opportunity, typically over a 3–4 month period. Current EPWP wage bill is about R1 billion per annum

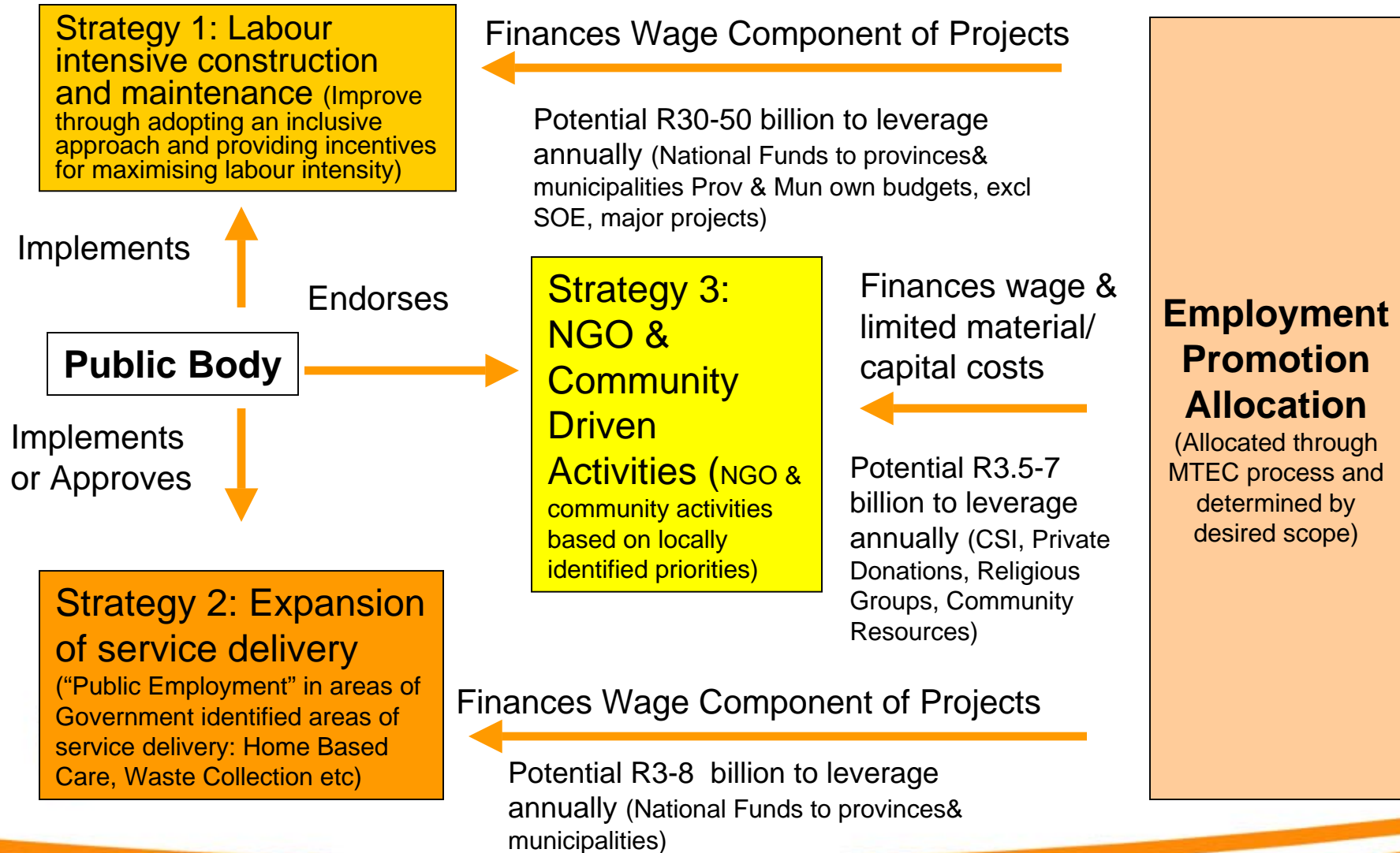


Using a wage “reimbursement-subsidy” as an incentive

- State would fund the wage costs of projects/ activities that create employment for target group
- This would create incentive for public bodies as subsidy would increase their budgets
- Would create incentive to increase labour intensity of projects/ activities
- Leverages other government funds and possibly other budgets
- Would allow scale of programme to be dictated more strongly by government but
- Also supports NGO/ CBO activities that create employment of target group through payment of wage components
- Complements and does not interfere with other mandates and process of government



Using a wage incentive for target group

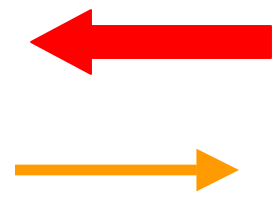


Strategy 3: NGO & Community Driven Activities

Government does not do direct project monitoring and reporting but uses existing capacities and frameworks to do so

Employment Promotion Allocation

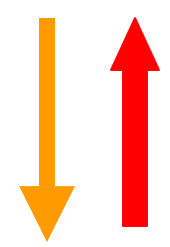
(Allocated through MTEC process and determined by desired scope)



Funders enters into a Agreement to claim the wage funding but mobilise other required funds

Existing Funders: Develop Long term funding strategy incorporating wage subsidy

NGO's funded from wage subsidy and other funds



NGO's report back to funders using existing mechanisms

NGO's, Community based organisations, faith based organisations etc

