

Employment Programmes in South Africa

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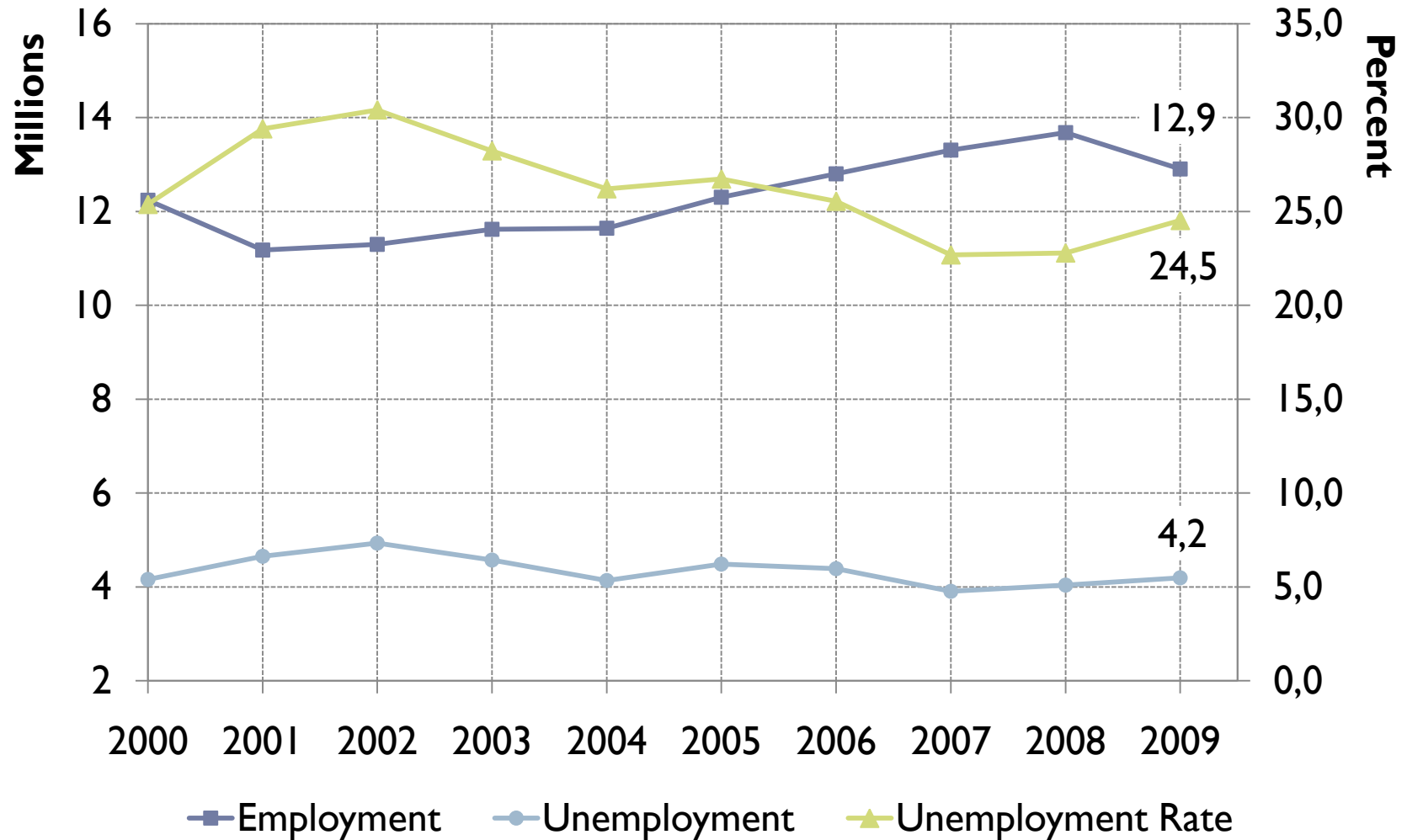
Overview

- ▶ Extent and nature of unemployment in South Africa
- ▶ Labour market policies and programmes
- ▶ Expanded public works programme
 - ▶ Objectives and structure
 - ▶ Performance: employment, poverty alleviation, skills development
- ▶ Proposed wage subsidy

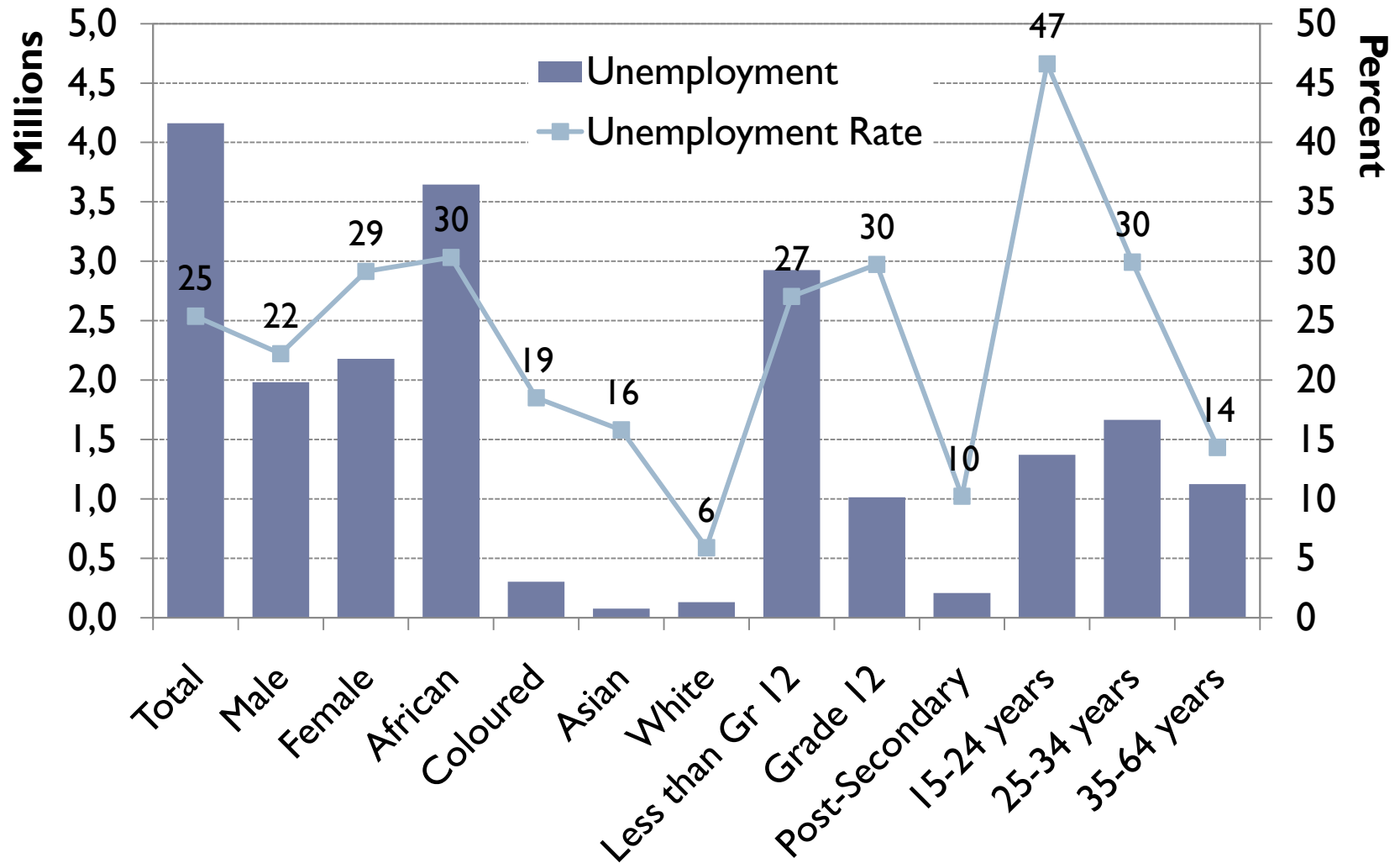


Extent and Nature of Unemployment in South Africa

Unemployment is gradually falling...

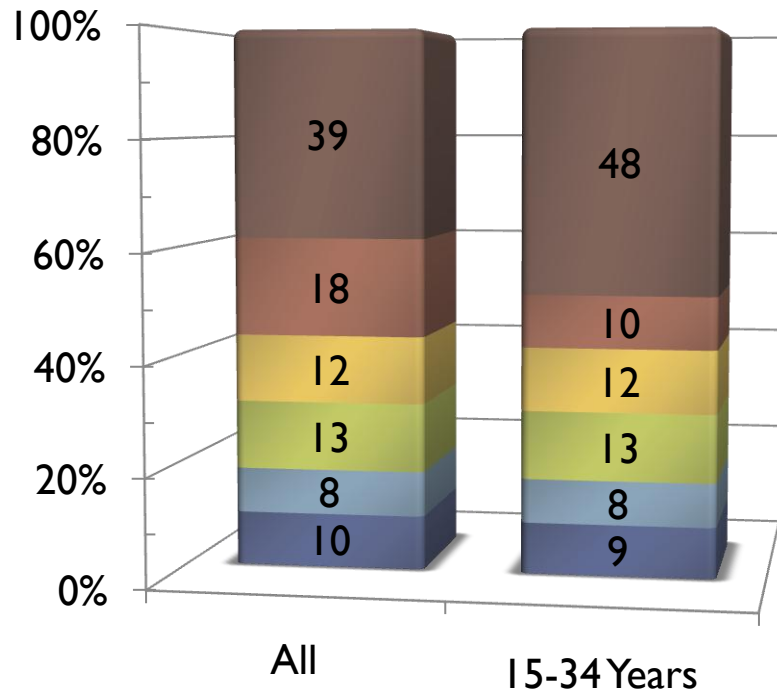


But specific groups bear the brunt...



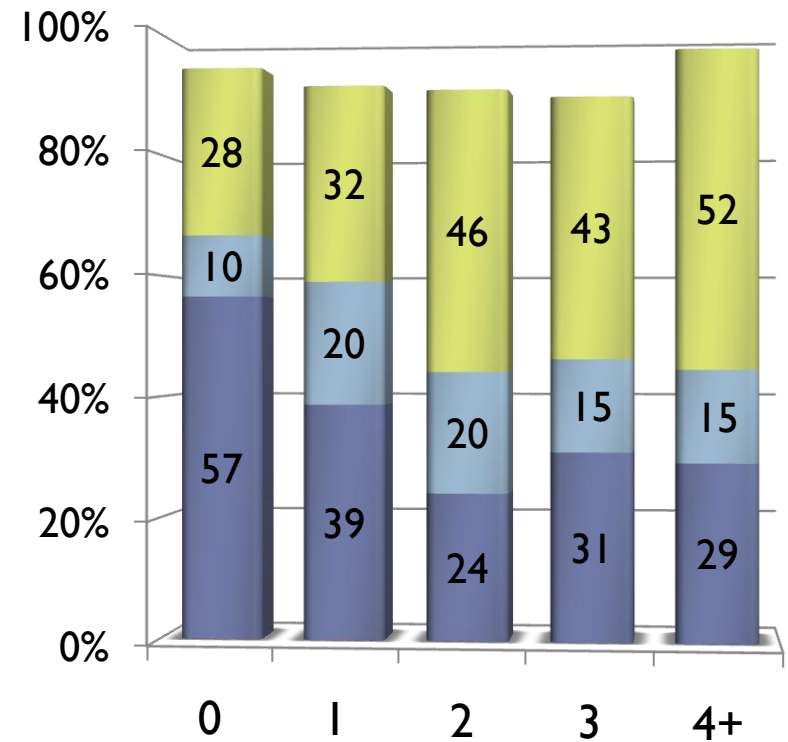
Long-term & isolated from labour market

Unemployment Duration



- <3 months
- <6 months
- <12 months
- <36 months
- 36+ months
- Never worked

Main Income Sources



- Salaries/Wages
- Remittances
- Pensions/Grants

In summary

- ▶ Employment unable to cope with rapid rise in LFPR, despite 17 years of uninterrupted economic expansion
- ▶ Structural change, skills-biased technical change
- ▶ Structural unemployment, muted informal sector response
- ▶ Particularly impacted:
 - ▶ Women, Africans, youth, less educated
- ▶ Long duration, points to deficient labour demand
- ▶ Large discouraged workseeker population
- ▶ Unemployed attach themselves to grant households that are increasingly marginalised from wage income and jobs

▶ **Extent and Nature of Unemployment**

Labour Market Policies and Programmes

South African Context

- ▶ Government commitment to lower unemployment rate from 26% in 2004 to 13% in 2014
- ▶ Current design of social security system covers:
 - ▶ Children
 - ▶ Elderly
 - ▶ People with disabilities
 - ▶ Ex-formal sector workers that are unemployed (up to 6 months only)
- ▶ Gap: 19-59 year olds

South African Context

- ▶ Various initiatives aimed at improving the unemployment situation, spearheaded by various departments and governments (local, provincial and national)
- ▶ Major initiatives
 - ▶ Expanded public works programme
 - ▶ Learnerships and training
 - ▶ Support for job search (various examples)
 - ▶ Wage subsidy (proposed)

The Expanded Public Works Programme (EPWP)

Objectives of the EPWP

▶ Employment

- ▶ Temporary employment
- ▶ Reducing frictional unemployment
- ▶ Long-term increase in employment
- ▶ Change structure of labour

▶ Poverty Alleviation

- ▶ Income relief AND improved income-earning capacity

▶ Skills Development

- ▶ Skills training and work experience improve post-exit prospects

▶ Service Provision

- ▶ Improve service delivery

▶ Expanded Public Works Programme

EPWP Sector

- ▶ **Four sectors identified**

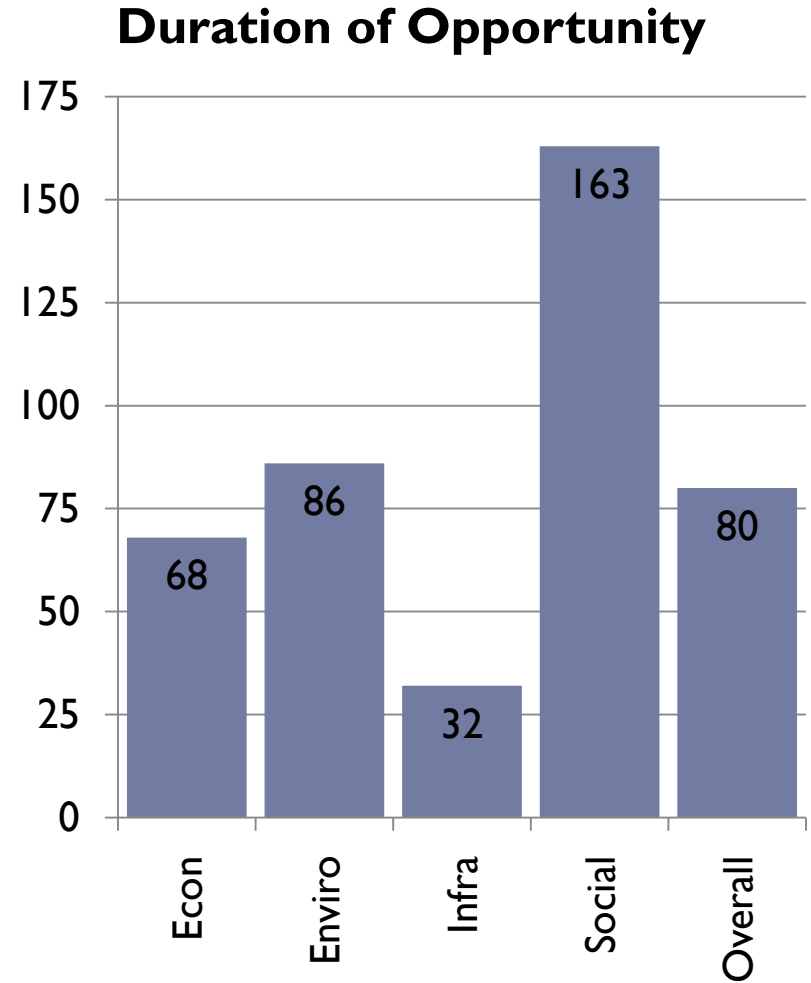
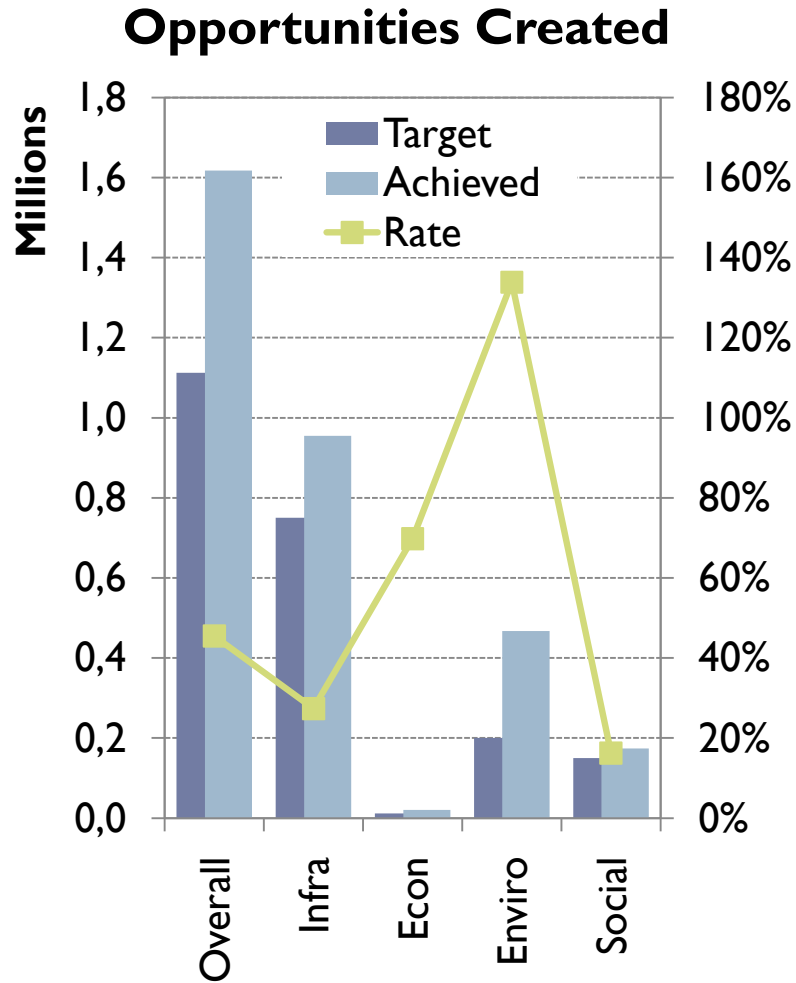
- ▶ Infrastructure
- ▶ Environment
- ▶ Social
- ▶ Economic

- ▶ **Common characteristics**

- ▶ Usually temporarily employed
- ▶ Combination of work experience and training
- ▶ Deliberate use of expenditure to create additional work opportunities
- ▶ Attempt to identify and develop exit strategies

- ▶ **Expanded Public Works Programme**

Performance: Employment

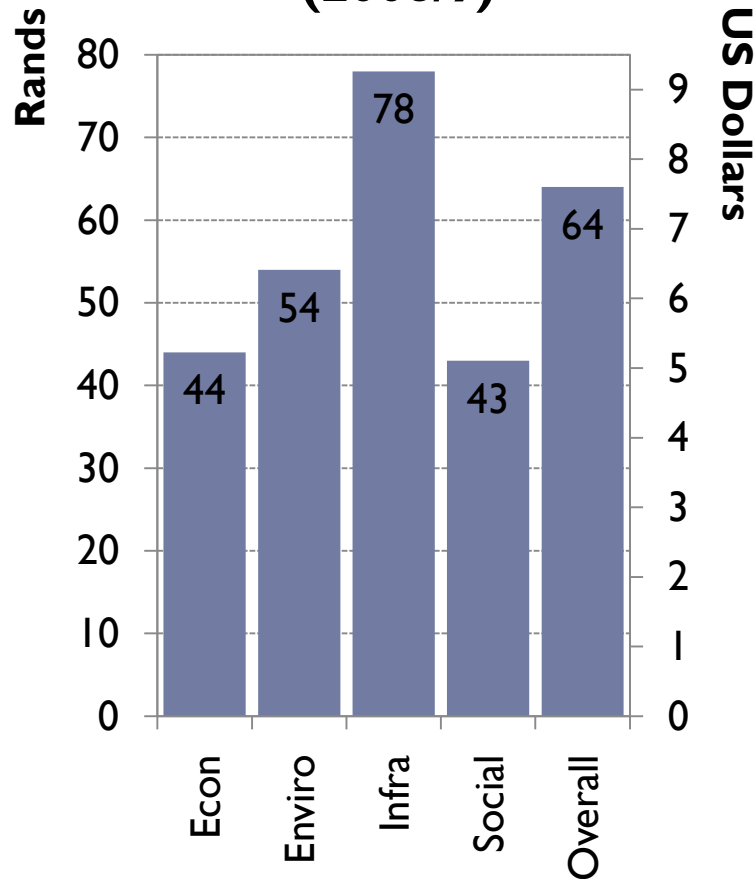


Performance: Employment

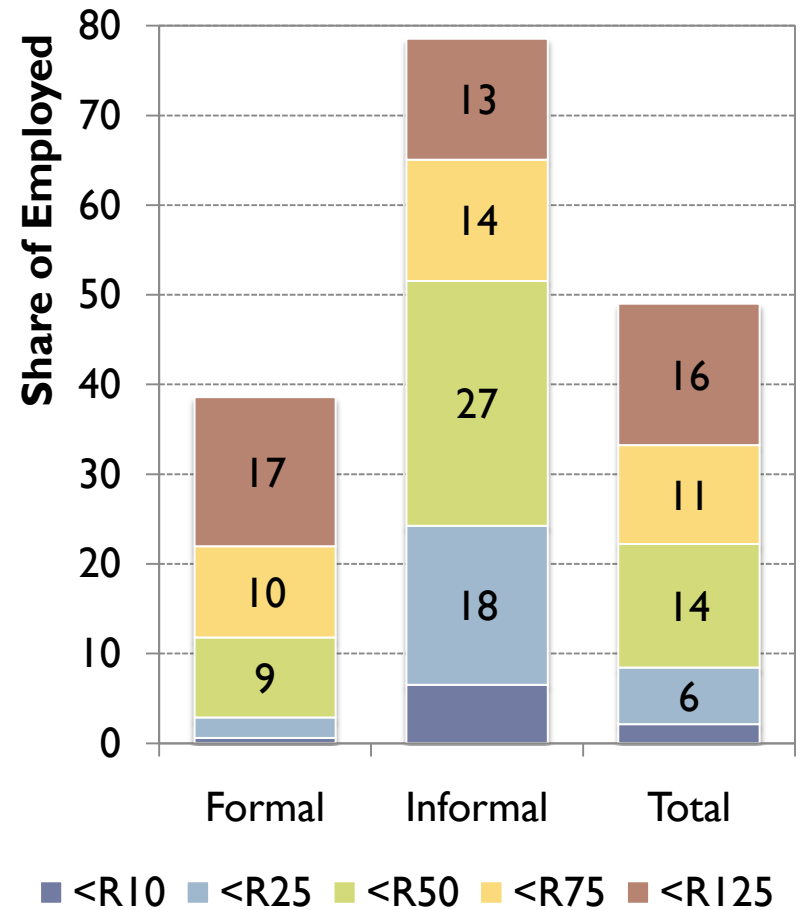
- ▶ **Reduction of frictional unemployment?**
 - ▶ Unable to tell due to lack of panel data
- ▶ **Long-term increase in employment?**
 - ▶ Beyond EPWP, little impact on labour intensity
 - ▶ Current approach to training and exit strategies has “extremely limited net impact on unemployment”
 - ▶ 14% report sustainable job post-EPWP (but causality?)
- ▶ **Despite growing over time, EPWP is still small...**
 - ▶ 570 815 work opportunities in 2008/09 compared to unemployment of 4.2 million in 2009Q3 → 13.6% of the unemployed
 - ▶ Only 200 000 work opportunities at any one time... (2007)

Performance: Poverty Alleviation

EPWP Mean Daily Wage (2008/9)



Mean Daily Wage (2007)



Performance: Poverty Alleviation

- ▶ Wages received per work opportunity falling due to stagnant wage bill in face of increased number of opportunities
- ▶ But wages are still high relative to private sector wages
- ▶ Injection is small
 - ▶ 2006/7 wage bill of <R1 billion, compared to UIF (R2.8 billion) and grants (R57 billion)
- ▶ But evidence points to improved household cashflow
- ▶ “Longer work opportunities that are more frequently available would have more impact on regularising incomes and addressing poverty”

Performance: Skills Development

- ▶ Skills development not typically a component of programmes offering employment guarantees in context of chronic unemployment
- ▶ Training should be aligned to skills shortages, but not so in EPWVP
- ▶ Short stints means little contact time (typically <12 days)
- ▶ Research finds training is too brief, too general and not linked to deliberate strategy for qualification and placement
- ▶ Skills development seen as an 'add-on'
- ▶ Importance of SETAs

Some Lessons for Phase II

- ▶ Too many objectives lowers likelihood of success
- ▶ Scale is important
 - ▶ Ability to reach significant numbers of unemployed, but
 - ▶ Capacity to manage the programme and spend efficiently
- ▶ DPW's limited authority to demand contributions
- ▶ Important to put incentives in place for implementing agencies to maximise job creation efforts
- ▶ Political mobilisation and buy-in important
- ▶ Issues surrounding wage rates
- ▶ Proper commitment to training

Proposed Wage Subsidies

The Proposed Wage Subsidy

- ▶ Proposed implementation of national compulsory social security scheme
- ▶ In combination, a wage subsidy scheme broadly targeted at low-income workers
 - ▶ Further targeting: youth
- ▶ Aim:
 - ▶ Off-set costs of social security contributions
 - ▶ Reduce wage bill of potential employers to boost labour demand
 - ▶ Act as redistributive tool to reduce poverty

Rationale

- ▶ 85% of entrants to formal sector employment come from other formal sector jobs
- ▶ Obtaining first job is vital to individual's future involvement with labour market
- ▶ Deficient labour demand at lower skill levels in particular
- ▶ Emerging consensus: direct subsidies to job creation in private sector most effective at raising employment rates, especially if combined with subsidised training or job-search assistance
- ▶ Relatively broad, targeted at working poor, administratively simple, formal sector only

Policy Considerations

- ▶ Can wage subsidy address *structural* unemployment?
 - ▶ Skills mismatch needs training interventions
- ▶ Will subsidy facilitate development of *permanent* employment relationships for sustainable labour absorption?
- ▶ Trade-off between targeting and simplicity
- ▶ High administration costs for firms substantially reduce effectiveness
- ▶ Identification of roles and responsibilities across government departments



Conclusions

Conclusions

- ▶ **There is no silver bullet**
 - ▶ An array of policies/programmes required in order to meet target of halving unemployment
- ▶ **Ensure appropriate programmatic focus**
 - ▶ Objectives, as well as target groups
- ▶ **Cohesive approach with inter-programme coordination**
 - ▶ Synergies and collaboration opportunities must be explored
- ▶ **Training critical for longer-term impact**
 - ▶ Structural unemployment dictates the training requirement
 - ▶ Institutional constraints

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- ▶ **Proposed Wage Subsidy**