

**Fitting the pieces together:
A composite view of government's strategy
TO ASSIST THE UNEMPLOYED
in South Africa 1994 - 2004**

**Judith Streak and Carlene van der Westhuizen¹
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INTRODUCTION

Job-creation was a leading goal of government policy during the first decade of democracy in South Africa. However, little success has been achieved in the struggle to create sufficient jobs in the economy. Extensive unemployment remains stubbornly entrenched. Using the expanded definition of unemployment (which includes people who have given up looking for work), the unemployment rate was estimated to be 28.6% at the time of the transition to democracy (Altman 2003:5). The most recent estimates (March 2004) find the unemployment rate to be 41.2% using the expanded definition and 27.8% using the strict definition (Statistics South Africa 2004).² This translates, respectively, into 8.4 million or 4.6 million unemployed people, depending on the definition of unemployment being used.

Four features of the unemployment crisis are important for setting the scene. Firstly, unemployment in South Africa is structural or systemic in nature, not transient. It has grown out of changes in the economic structure since 1970, including those associated with technological development, the declining importance of the agricultural sector, liberalisation and global entry.³ The structural nature of unemployment is also closely tied up with the legacy of apartheid schooling. The second important feature is that unemployment is concentrated amongst the youth (people aged between 18 and 35). The third is that the overwhelming majority of the unemployed are semi-skilled or unskilled. Fourthly, unemployment in South Africa is not only due to too little demand for labour in the aggregate (linked to insufficient economic growth). The problem is also that the demand for labour does not match the skills profile of the majority of work-seekers (Bhorat 2004). This means, as President Mbeki has pointed out (2002), that much higher rates of economic growth will not, on their own solve the unemployment crisis.

The unemployment situation in South Africa has profound implications for poverty, human rights and political stability. Unemployment is associated with extensive and deep poverty at the household level. In the absence of a social assistance programme targeted at the unemployed and with poor access to productive assets (such as land and skills), the majority of the unemployed face a daily struggle to meet their basic needs. This situation is at odds with the Constitution, which gives all South Africans a comprehensive set of justiciable socio-economic rights. It challenges the state to generate and use society's resources in such a way that everyone – including the millions who are poor due to unemployment – is able to meet basic needs and live a life of dignity.

Over the first ten years of democracy, government's measures to assist the unemployed (via job-creation and poverty relief) have been informed by three umbrella development strategy documents - the Reconstruction and Development Programme (RDP) of 1994, the Growth, Employment and Redistribution Strategy (GEAR) of 1996 and the Micro-Economic Reform Strategy (MERS) of 2001 – and also the 2003 Growth and

² Altman's measure is based on the *October Household Survey 1994* and Statistics South Africa's the *March 2004 Labour Force Survey*. Measuring unemployment in South Africa is tricky. For an overview of the problems and the nature of the employment crisis, see Meth 2003, Altman 2003 and Bhorat 2004.

³ As Altman and Meyer (2003:79) explain, 'the build-up of unemployment in South Africa over the past decades can most accurately be attributed to the demise of jobs in traditional resource-based industries in agriculture and mining, without a concomitant employment take-up in more advanced industrial sectors'. For an historical overview of how structural development in the South African economy, led by expansion of mineral output and the political agenda of the apartheid regime produced a situation of labour surplus prior to 1994, see Altman and Meyer, 2003: 67-69.

Development Summit (GDS). Looking across the entire decade, government's approach towards job creation and assisting the unemployed shows that even though government has not made its strategy sufficiently explicit, the measures have developed out of a coherent strategy, with continuities in approach over time. The lack of explicitness of the strategy is problematic for three reasons. Firstly, it contributes to misplaced expectations around the power of a particular measure to assist the unemployed, as is the case with the much publicised Expanded Public Works Programme (EPWP). Secondly, it means that the spotlight for monitoring - by researchers, parliamentarians and the press – tends to fall on selective and/or relatively unimportant elements in the strategy. Thirdly, it does not allow an accurate picture to emerge of the remaining gaps in government's strategy to assist the unemployed.

This paper is the first in a series from Idasa's Budget Information Service to focus on government's programming, budgeting and spending for the unemployed. The objective of this paper is to construct an overview of government's strategy to assist the unemployed and to examine what shifts and changes this strategy reveals over time. In so doing, it aims to provide perspective on the significance of the EPWP as a strategic measure to reduce unemployment and alleviate poverty. The paper also seeks to highlight current gaps in government's strategy and to consider what type of research is needed to monitor government's progress in addressing the unemployment crisis.

The paper has five parts, followed by a conclusion. Section one explains the ways in which government can work to assist the unemployed. It identifies two channels of assistance: measures to facilitate job-creation (indirect channel) and measures aimed at providing goods, services or income directly to the unemployed (direct channel). Sections two to five track the evolution of government's development strategy, covering both the indirect and direct measures adopted over time. Section two gives a brief overview of the development strategy put forward by the RDP, highlighting those elements that have been taken forward in the subsequent design of government's strategy to assist the unemployed. Section three describes the development strategy and the measures to assist the unemployed proposed in the GEAR policy document, released in June 1996. Section four considers how the strategy to assist the unemployed emerged in practice between 1996 and 2000. Section five gives attention to the post-2000 period. It asks how government's development strategy and measures to assist the unemployed have shifted in emphasis over the last four years. The conclusion recaps the main points that emerge from the paper.

SECTION 1

TWO ROUTES OF GOVERNMENT ASSISTANCE

Two broad channels can be identified through which government can act to assist the unemployed (in the sense of alleviating poverty and improving quality of life). The first, the indirect channel, consists of measures to facilitate sustainable job-creation in the private sector. The second, the direct channel, comprises assistance in the form of spending on government programmes that provide income (through jobs or transfers) and/or goods and services directly to unemployed people.⁴

1.1 INDIRECT ASSISTANCE VIA MEASURES THAT FACILITATE JOB-CREATION: THE LONG-TERM SOLUTION

The creation of jobs in the market economy (private sector) depends on two key variables: the rate of economic growth and the capacity of the economy to absorb the labour of the unemployed at each rate of economic growth⁵ (Altman 2003:177). Therefore, when a government aims to assist the unemployed via the indirect route of job-creation, there are two sets of measures to consider:

- Measures to raise the level of economic growth (and hence the overall demand for labour in the economy); and
- Measures to encourage more demand for labour - of the variety matching the skills of the unemployed - at each level of growth (this includes measures to increase the labour intensity of economic growth and to promote bottom and top end employment growth, i.e. skills development for the skilled and unskilled).

To work effectively, the two sets of measures must be linked. Growth-enhancing measures (for example raising aggregate demand or promoting improvements in technology) are necessary, but insufficient. They must be supported by measures (such as skills development for unskilled workers) to produce a better match between the skills of the unemployed and the labour wanted by potential employers. (Bhorat 2004; Altman 2003; Department of Finance 1996).

The set of indirect measures to assist the unemployed spans the full spectrum of government policy, including those relating to the macro-economy, trade and industry, the social sector (counting education), labour market reform and agriculture. It follows that the success of these measures relies heavily on effective co-ordination and co-operation across many departments, policies and programme areas.

As the MERS strategy document (2002) and President Mbeki in *ANC Today* (2002) have pointed out, a critical point to note when thinking about strategy to assist the unemployed in South Africa is that the indirect measures are expected to take a long time to deliver significant employment (and hence they are often described as long-term measures). To use the words of Meth (2003), a problem with these necessary long-term measures is that “[f]or many people, ‘the doctor’ will be a long time in coming”. Also, as McCord (2004a & 2004b) stresses, it is uncertain how much employment the indirect measures will generate – even in the long run. Moreover, the international and domestic economic growth trajectory together with the unskilled character of millions of the unemployed in South Africa suggests that it is highly probable that extensive

⁴ For an overview of the channels of assistance, see World Bank 1990, World Bank 2000/01 and Meth 2003.

⁵ This is in turn dependent on the labour demand or intensity of economic growth and the extent to which the labour demand matches labour supply.

unemployment will be a reality even in the long run. Achieving low equilibrium unemployment rates in South Africa is at present no more than a pipe dream. And, instead of being a temporary phenomenon that can be overcome in the medium to long term, extensive structural unemployment needs to be acknowledged by policy makers as a reality that will continue into the future. Measures to cope with it (in line with the values enshrined in the Constitution), therefore will remain a challenge.

1.2 DIRECT ASSISTANCE THROUGH PROGRAMMES THAT PROVIDE INCOME, GOODS OR SERVICES

The slow speed at which indirect measures operate and probability that structural unemployment will remain on a large scale as we move into the future, makes it all the more important for government to provide more immediate poverty relief measures through the use of public sector budgets. Provided finance is available – on a sustainable basis - government can assist the unemployed by designing, financing and implementing (with the help of the private sector and NGOs) the following types of programmes:

- Public works / workfare programmes that offer a wage or food to unemployed people for a temporary period, in return for their labour;
- Social assistance programmes that provide income transfers to eligible unemployed people; and
- Social and basic service programmes that provide free access to health, education, housing, water, sanitation and electricity, as well as welfare services (such as counselling).

Another form of possible assistance would be for government to provide long-term jobs for large numbers of unemployed people in the public sector. However, this has huge cost implications (see McCord 2003a). The cost implications, together with government's commitment to a fiscal policy of low deficit to GDP ratios, make this option ideologically not a possibility in South Africa. Hence, this type of assistance currently does not provide much scope for job-creation⁶.

1.3 LIMITED RESOURCES, PRIORITISATION AND SYNERGY BETWEEN DIRECT AND INDIRECT MEASURES

"Harold Macmillan once remarked that a just society should contain both a safety net and a ladder." (Barr 1993:4)

"The pursuit of fairness in social policy must, however, be tempered with realism." (Donaldson, in Simkins & Lipton 1993:271)

The appropriate balance between direct and indirect measures depends on the scale of need for government assistance, which in turn is a product of the scope and depth of poverty and unemployment in a country. In the context of limited resources, policy-makers are faced with the problem of deciding how much they can afford to spend on direct assistance (that is, how comprehensive these measures can be) and what kind of programme measures they should prioritise within the direct assistance set. Obviously, as suggested by Macmillan in the quote above, it would be ideal for government to support the unemployed as comprehensively as possible. In South Africa, this ideal is echoed by the Constitution and the obligations it creates to eradicate poverty. Due to resource limitations, however, it is clear that choices often have to be made, as Donaldson also points out in the quote above. When government develops programmes

⁶ As Borhat and McCord (2003) have shown and is mentioned again in section 4.2 below, government, driven by its goal of reducing the public sector deficit, contributed to unemployment growth during the first decade of democracy by shedding public sector employees.

to provide direct support to the unemployed, it has to be careful not to make spending decisions that will undermine the capacity for economic growth to reduce poverty through job-creation in the mainstream economy over the long term.

It is not clear precisely what proportion of the budget government can afford to spend on programmes to provide assistance to the unemployed. In addition, protagonists differ in their views about the type of programmes that should be given priority. There are various perspectives on what share of direct income support should be channelled through a social assistance grant, for example, and what share should be provided through public works programmes (see Meth 2003; Samson 2002; Nattrass 2003; Department of Social Development 2002).

It is important to note that direct assistance in the form of government spending on income support and services for the poor, is likely to facilitate job-creation in the private sector, particularly in the informal sector. Samson (see for example 2002) has highlighted this theme with reference to hypothetical government spending on a basic income grant (BIG) for the unemployed. As section five will show, government's current strategy to assist the unemployed also highlights this duality. Government's spending on infrastructure, education and health programmes, as well as the EPWP, is seen to play the dual role of providing poverty relief *and* facilitating the conditions required for economic growth to reduce poverty in the long run via job-creation⁷.

⁷ As McCord has pointed out (personal communication), the EPWP will contribute to growth if the assets are strategically selected in terms of addressing infrastructural barriers to growth, and ii) if the transfers are sufficient in quantity and sustained in duration in any one locale. Otherwise the transfer will be too widely disbursed to have any impact.

SECTION 2

RDP BUILDING BLOCKS

In April 1994, the ANC released the RDP base document as part of its election manifesto. In November of the same year, the *RDP White Paper* was released with the aim of providing more concrete implementation strategies for the RDP (Republic of South Africa 1994: 6).

The RDP is heavily influenced by Keynesian economic ideology. It displays little faith in private sector-led economic growth to create jobs and reduce poverty. Instead, a demand stimulus in the form of government spending is put forward as an absolute necessity for poverty reduction and job-creation. The RDP draws connections between redistribution, reconstruction, development and growth, with the first two driving the latter (Adelzadeh 1996: 66). Infrastructure development, led by government investment and co-ordination, is seen as the key intervention linking growth, development, reconstruction and redistribution. Spending on infrastructure programmes has the dual role of providing access to goods, services and jobs for meeting the basic needs⁸ of the poor – and of stimulating economic growth by raising demand (ANC 1994: 5-7).

The macro-economic policy aspect of the RDP is vague. The base document does not set out how the extensive government spending being proposed, is to be financed. The white paper implies a need for fiscal prudence to reduce the high level of government debt accumulated by 1994⁹. Yet it does not explain how this objective is to be aligned with extensive spending on infrastructure, social and basic services (see Adelzadeh 1996).

Section three below outlines how government's strategy to assist the unemployed under GEAR shifted the balance away from government spending on direct support measures and towards the indirect measures. However, many of the building blocks of the strategy as it exists today and as presented in the GEAR document, are to be found in the RDP. In addition to the idea of creating jobs and reducing poverty through government spending on infrastructure, the following aspects of the RDP are important to note in this regard:

- Targeted industrial support measures to change the structure of the demand for labour and to raise growth;
- Trade liberalisation (through simplification of the tariff structure and the reduction of protection) and the introduction of export incentives to promote exports;
- Technology policy to raise innovation and hence economic growth;
- Support for small, medium and micro-enterprises (SMMES);¹⁰
- Investment in education and training;

⁸ Along with land, housing, water, electricity, telecommunications, transport, a clean and healthy environment, nutrition, health care and social welfare, jobs were identified as a basic need that had to be met. All these aspects were prioritised in the RDP's strategy for meeting basic needs (ANC 1994: 7, 16).

⁹ The fiscal deficit to GDP ratio stood at about 8% of GDP (Dobson 2002 and DTI 2002b).

¹⁰ In the RDP, this takes the form of facilitating access to credit, domestic and international markets, skills and supportive institutional arrangements (ANC 1994: 90, 94), advice, infrastructure and premises, appropriate technology, as well as favourable amendments to legislative and regulatory conditions (Republic of South Africa 1994: 25).

- Agricultural reform measures including land reform (redistribution and restitution) and technical support to poor farmers to extend land ownership to the rural poor, as well as to promote food security;
- Labour policy aimed at the protection and extension of workers' rights and raising productivity, addressing areas such as collective bargaining, affirmative action, a living wage, workplace conditions and the restructuring of labour market institutions;
- Investment in urban development driven by urban-renewal projects;
- Implementation of public works projects;
- Social service programmes providing food (nutrition), clothing and health care to those in need, as well as cash transfers to targeted groups in the form of disability grants, maintenance grants, foster care grants and veteran grants (ANC 1994: 55).

SECTION 3

GEAR: PLACING A BRAKE ON DIRECT SUPPORT

In June 1996, the Department of Finance released government's GEAR strategy. It emerged at a time of mounting concern about the still high deficit, the rapidly declining rand and stagnant levels of private investment. Within this context, GEAR aimed to help bring about conditions for launching South Africa onto a higher growth plane, where more jobs would be created and poverty would be reduced. Section 3.1 below briefly outlines the strategic approach to development put forward in GEAR. Section 3.2 gives specific attention to the strategy to assist the unemployed in GEAR.

3.1 DEVELOPMENT HINGES ON ECONOMIC GROWTH

GEAR brings with it a shift away from Keynesian ideology. Driven by neo-liberal orthodoxy, the GEAR policy document is rooted in the argument that the fiscal position in 1996 could not support an expansionary fiscal stance. Thus while public sector investment is still given a role to play, it places emphasis on expansionary private investment and exports as the drivers of growth, sustainable job-creation and improvements in living standards (Department of Finance 1996; Bruggemans 2003; Adelzadeh 1996). Relative to the RDP, the GEAR strategy presents a "down-playing of any leading role for government itself... [in addressing the] ...enormity of the employment...[and development]... challenge which South Africa faces" (Michie & Padayachee 1998:628).

In GEAR, the central vehicle for reducing poverty and inequality is faster economic growth.¹¹ Job-creation is presented as the critical link between economic growth and poverty reduction. An important part is to be played by the provision of goods, services and income through a range of government programmes. However, these measures take a back seat to job-creation led by private sector investment. The GEAR document summarises this poverty reduction strategy succinctly:

"Accelerated economic growth associated with stronger employment creation is the key to continued progress towards an equitable distribution of income and improved standards of living for all. Employment creation provides a powerful vehicle for redistribution, supported by government housing, water supply and sanitation, health, education, welfare and social security services" (Department of Finance 1996:22).

The danger of the Gear strategy for reducing poverty is that it ignores the evidence, given by experience around the world and South Africa's development experience since the 1970s of the de-linking of economic growth and employment (particularly for unskilled and semi-skilled workers).¹²

3.2 GEAR STRATEGY TO ASSIST THE UNEMPLOYED

In line with the general approach to poverty reduction and development described above, the GEAR strategy to assist the unemployed involves, broadly speaking, two main elements. Firstly, it emphasises job-creation through private sector investment

¹¹ As Weeks (1999) and Michie & Padayachee (1998) have pointed out, the GEAR document and strategy actually says little about inequality reduction. It can even be shown that the nature of the GEAR model is such that inequality *increases* as growth takes off. Nonetheless, the logic of the GEAR strategy assumes that it is through employment-creation and wage growth that inequality is to be reduced (Weeks 1999:798; Natrass 1997:26).

¹² For the evidence on the de-linking of economic growth and growth in unskilled and semi-skilled labour demand see McCord 2004b, Bhorat and McCord 2003 and Altman and Meyer 2003.

(with a little job-creation by government). Secondly, it provides for government spending on programmes that deliver a range of social and basic services, but no direct income support for the unemployed. Job-creation via the private sector is clearly given the lead role.¹³ The discussion now takes a closer look at both the direct and indirect measures to assist the unemployed under GEAR.

3.2.1 INDIRECT ASSISTANCE MEASURES IN GEAR

To facilitate job-creation in the private sector, GEAR presents measures to enhance economic growth and measures to improve labour absorption. It is the latter set of measures that are often down-played as part of the job-creation strategy in GEAR. Perhaps this is because the focus and detail is on the former, and more particularly, on macro-economic policy.¹⁴

3.2.1.1 MEASURES TO ENHANCE ECONOMIC GROWTH

The economic growth engine in GEAR takes the form of a demand stimulus, led by a rapid expansion in private sector investment.¹⁵ Low real interest rates and investor confidence are presented as the key determinants of private investment, which will lead economic growth. Conservative fiscal policy in the form of budget deficit reduction and restrictive monetary policy are taken to be the most important interventions required to facilitate growth and employment. This is because they are expected to bring about a lowering of interest rates, build confidence and so ignite private sector investment.¹⁶ Foreign direct investment (FDI), manufactured export growth, public investment and containment of wages are also taken to be important, but play second fiddle to private domestic investment. FDI is important because without it, there is a threat of interest rates being pushed up in the face of exchange rate depreciation and a deficit on the current account (Weeks 1999:801).

There has been a tendency amongst commentators to mention only the macro-economic measures to stimulate growth in GEAR. However, micro-economic policy

¹³ The relative role of government spending and private sector investment in creating jobs is illustrated in Appendix 1.

¹⁴ Bruggemans has suggested that the focus on macro-economic policy and on fiscal discipline in particular, must be understood in the context of the economic situation of the time: "In early 1996 the country was faced with external pressures and the need to gain credibility regarding its commitment to sound macro-economic policies" (2003:57).

¹⁵ The text of the GEAR document presents growth in fixed investment and exports as the engines of growth and suggests that public sector investment is as important as private sector investment. But as Weeks convincingly argues (1999:300), a careful reading of the modelling in GEAR shows that it in fact assumes that export growth is not a demand stimulus: the effect of foreign trade on domestic demand in the model is actually negative (due to growth in imports outstripping growth in exports). Furthermore, the model also assumes that the role of public sector investment in the demand stimulus is small, with private investment responsible for generating about 93% of the total stimulus.

¹⁶ GEAR does not stop at motivating its call for conservative fiscal policy by linking lower budget deficits with increased private sector investment. It also presents arguments on the dangers of fiscal expansion. It argues that fiscal expansion would exacerbate the unacceptable level of wastage in the public sector inherited from the past. On the basis of model simulations, it contends that increased spending would drive up interest rates, which would crowd out private investment. Model simulations, it argues, also show that growth in government employment would initially raise employment levels but that real wages would be eroded by inflation. GEAR also warns that financial markets are sensitive to unsustainable increases in government expenditure, which they know to cause balance of payments and debt servicing problems. With South Africa's relatively large public debt and limited foreign reserves, capital flight would be quick to occur. This would in all likelihood cause further currency instability and monetisation of the budget deficit (Republic of South Africa 1996: Appendix5).

aspects are incorporated under the sections dealing with trade, industrial and small enterprise policies, social and sectoral policies, public investment and asset restructuring policies, employment, wages and training policies, as well as the section focussing on a national social agreement. The micro-economic measures listed in GEAR as important for helping to produce higher economic growth, can be summarised as follows (See Natrass:1996; Streak 2004; Department of Finance 1996):

- Budget reform measures (including privatisation and legal and systems reform) to make the budgeting and delivery system in the public sector more accountable, efficient and effective;
- Rapid tariff reduction and other foreign trade and investment deregulation measures to reduce production costs, increase the incentives for investment, stimulate exports and integrate the South African economy more into the world economy after years of isolation;
- Human resource development initiatives, including improved spending on education, with better coverage of the poor and enhanced quality of schooling given particular emphasis;
- Increased public spending on infrastructure particularly important for stimulating private investment (if allowed by the deficit reduction / private sector investment creation initiative);
- Supply-side industrial policy measures to encourage investment in industrial development and manufactured export expansion;
- Institutional reform in the labour market to produce more flexibility.
- Technology policies to upgrade technological capability; and
- A 'national accord' in which government's partners, labour and business buy into the development plan and become committed to the implementation of stable and co-ordinated policies (including low real wage growth).

3.2.1.2 MEASURES TO IMPROVE LABOUR ABSORPTION

"...institutional and microeconomic reforms are the key to reversing the structural barriers to labour absorption in the economy" (Department of Finance 1996: Appendix 15).

"In the context of a broader strategy aimed at accelerating growth, labour market measures which facilitate job creation for the unskilled and semi-skilled work-seekers are needed to enhance the labour absorption associated with economic expansion" (Ibid: Appendix 13).

As the quotations above attest, GEAR stresses the importance of measures to change the structure of economic growth. However, when it comes to describing the range of measures required to facilitate this process, the document is a little sketchy.¹⁷

Labour market measures: wage restraint and skills development

In addition to small business development measures, GEAR's approach to raising labour absorption rests primarily on labour market reform measures (Department of

¹⁷ Adelzadeh (1996) and Michie and Padyachee (1998) have also pointed to the limited attention GEAR gives to the micro-economic measures needed to ensure that the structure of economic growth facilitates job-creation and poverty reduction. For example, Adelzadeh (1996:81) says: "Section five of the document, on 'Trade, Industrial and Small Enterprise Policies' is thin on what the proposed trade policies, industrial policy and small business enterprise policies are to be. On trade, the proposals appear to do away with any policies, as far as possible. Some small enterprise policies are listed, and there is a complete absence of any proposal for an industrial policy or strategy."

Finance 1996; Bruggemans 2003; Nattrass 2003). Within this ambit, there are two main thrusts, namely wage growth moderation and skills development.

GEAR argues that the 'appropriate determination of wages' or 'private sector wage moderation' is critical to achieving higher rates of labour absorption. The goal is for wage and salary increases to be managed in a way that such increases do not exceed average productivity growth. As a means towards this end, it calls for a 'national accord' between labour and capital, in which workers buy into the idea that wage and salary increases do not rise by more than productivity growth (See Department of Finance 1996; Nattrass 2003 & 1996).¹⁸ The move towards wage restraint also requires the development of a system of collective bargaining and wage-setting in which the Minister of Labour has greater discretion over the extension of collective agreements to non-parties. Such a system would also be sensitive to "regional labour market conditions, the diversity of skills levels in firms of varying size, location or capital intensity and the need to foster training opportunities for new entrants into the labour market" (Department of Finance 1996:19). Underlying this latter call is the concern that the application of high wage agreements extensively across the economy will result in relatively high wages for insiders, without drawing outsiders into the labour market.

Skills development is the focus of the second grouping of labour market measures aimed at raising absorption. These measures are directed across the full spectrum of the workforce, in both the formal and non-formal sectors.¹⁹ The development of skills is presented as an important part of the strategy to support the unemployed through job-creation (Department of Finance 1996:20). The following array of skills development measures is highlighted:

- Accelerated investment in skills development across a broad sectoral front, involving government and the private sector;
- The continued refocusing and the organisation of formal learning under the auspices of the education authorities, with co-ordination of standards and quality assurance being the responsibility of the newly established South African Qualifications Authority; and
- The final development and implementation of the Department of Labour's Human Resource Development Strategy and attached to this, the development of an effective financing mechanism and institutional arrangement for delivering more and more effective investment in skills development. Regarding the financing arrangement, a mandatory levy on payroll is proposed.

Industrial policy measures: investment incentives and small business support

The industrial policy measures in GEAR span trade, technology²⁰ and small business policies. The emphasis is on technology and trade measures to promote structural

¹⁸ The Labour Market Commission Report, released in 1996, highlights the potential for nationally co-ordinated wage settlements that contain private sector wage growth to assist in raising labour absorption and reducing unemployment in South Africa.

¹⁹ As Nattrass, the ILO and Cosatu (see Nattrass 2003) point out, in theory raising skills across the board can assist employment-creation by raising productivity and growth (and thereby the demand for labour).

²⁰ The technology policy measures are advocated more for their positive impact on economic growth, via increased productivity, than because they can contribute to changing the structure of the economy to raise labour absorption. However by raising demand, they have the potential to increase job-creation. They also appear as measures to facilitate economic growth in the section above.

change in the direction of greater integration into the world economy and boosting production for export. The rationale for this strategy is to promote efficiency gains and higher economic growth. On the link between these measures and employment, the GEAR policy document acknowledges that trade liberalisation may undermine job-creation to some extent in the short run. Yet it asserts that the measures will be beneficial for employment-creation in the long run.

The document lists the following industrial policy measures to stimulate 'labour-absorbing industrial development':

- An accelerated depreciation allowance scheme for all new investments in manufacturing.
- The introduction of a tax holiday, available to completely new pre-approved projects, initiated during a window of three years, beginning in the last quarter of 1996. The structure of the incentive is such that three factors are considered, namely regional location, job-creation and priority industries. (It is not made clear what these priority industries are).
- Defining, and then offering special support to, priority industries.
- Continued implementation of the Regional Industrial Development Programme, but simplified and tailored to the needs of small- and medium-sized business.

The promotion of small, medium and micro-enterprises emerges as "a key element in the GEAR strategy for employment-creation and income generation" (Department of Finance 1996:14). In order to support such enterprises, the GEAR document refers to a need to implement the policies on small business promotion outlined in the White Paper on *National Strategy for the Development and Promotion of Small Business in South Africa* (Department of Trade and Industry 1995) and to develop supporting legislation in this regard.

Land reform

Finally, in the spirit of the RDP, land reform and small farmer support programmes are presented as an important element in the strategy to raise labour absorption: "The land reform programme, combining asset redistribution with enhancement of tenure has an important role in improving the long-term prospects for employment and income generation in the rural economy" (Department of Finance 1996:16).

3.2.2 DIRECT ASSISTANCE MEASURES IN GEAR

In the GEAR strategy, direct assistance to the unemployed comes in the form of programmes that roll out a range of social services, including housing, welfare, education and health services, as well as basic services such as urban infrastructure, electricity, water and sanitation.

- The GEAR document highlights the need to improve the quality of education to contribute to economic growth and job-creation. It also calls for efficiency gains to be generated via reprioritisation, involving shifts in spending on high level services to spending on basic services.
- Similarly, to finance the delivery of health services to the poor, spending is to be reprioritised away from high level care towards primary health services.
- In the welfare sector, GEAR supports the need for a developmental welfare services framework. Resources are to be shifted away from expensive government institutional care towards a greater role for NGOs and families. In addition, GEAR extends a number of social grants to vulnerable groups, including children, the elderly and people with disabilities (Department of Finance 1996:15). There is no proposal for extending income support to the unemployed as a vulnerable category.

The GEAR strategy also contains a proposal for more government capital spending on public (social and economic) infrastructure. This facet of support to the unemployed echoes the RDP and re-appears again strongly in the post-2000 period. GEAR highlights backlogs in a range of areas for government capital spending to address:

“Public investment needs include domestic and industrial grid electricity and other energy projects; domestic, industrial and agriculture water supplies; telecommunications and postal services, urban housing-related infrastructure; rural development; and hospitals, clinics and educational facilities” (Ibid:16).

Raising government spending on these infrastructure assets is called for both to encourage economic growth (in part by crowding in private sector investment), but also to reduce poverty by providing needed assets²¹ and jobs.

The entire Appendix 14 in GEAR is dedicated to government job-creation, driven partly by spending on public works. This is another aspect of the GEAR poverty relief strategy that is often downplayed. As McCord (2003a:7) points out, included in the labour assistance strategy are two ideas about how government spending should be used to facilitate job-creation (and thereby poverty reduction):

- Government spending (particularly capital spending, but also to some extent service provision spending) is to be re-orientated so as to facilitate the use of more labour-intensive techniques; and
- Smaller-scale project-based investment is to be made in temporary job creation.

The emphasis in the GEAR document is on creating jobs by developing more labour-intensive techniques in the provision of social and economic infrastructure: “The main area for increasing employment is as a result of expanded capital spending in the field of agriculture and land reform, urban infrastructure and housing, social infrastructure construction and road construction and maintenance” (Ibid). On the assumption that about R1 billion is needed to create 20 000 jobs and that R2.5 billion per annum can be invested over the five-year programming period, GEAR estimates a government public works spending contribution to employment-creation of 250 000 jobs (Ibid).

However, Appendix 14 reminds us that government spending on job-creation can only play a small part in the total strategy to assist the unemployed.

²¹ “The provision of basic household infrastructure, in particular, is a relatively low cost and effective form of public intervention in favour of the poor and consistent with the reduction of income inequalities” (Department of Finance 1996:16).

SECTION 4

FROM POLICY TO PRACTICE 1996 - 2000

Having pieced together government's strategy to support the unemployed (through job-creation and poverty relief) from the two leading policy documents between 1994 and 2000, this section now provides a brief overview of how the strategy played out in practice. It is beyond the scope of this paper to sketch a comprehensive picture of implementation in practice for each measure outlined above. The aim is rather to set the scene for understanding the post-2000 adjustments to the strategy to assist the unemployed. To this end, this section highlights which elements in the strategy were stressed in practice and which experienced slow (or non-existent) implementation.

4.1 INDIRECT ASSISTANCE MEASURES

4.1.1 THE KEY GROWTH ENHANCEMENT MEASURE: MACRO- STABILISATION

The fiscal and monetary policy measures of restraining government spending, reducing the budget deficit and curtailing inflation emerged as the star performers in implementation. It is these areas that saw the most action being taken. The downward trend in inflation and particularly in the deficit was even more rapid than planned. On the other hand, economic growth and private investment did not respond as positively as had been hoped for and performance in job-creation was dismal. The two tables in Appendix 2 summarise the excellent macro-economic performance of the GEAR strategy as regards reducing the deficit and inflation, as well as the bleak results for investment, growth and unemployment.²² Foreign direct investment performance was far poorer than anticipated. (See McCord 2003b:43-44).

It is important to note that from early 1998, the economy suffered from the contagion effects of the Asian crisis, which affected growth and interest rates in ways that could not have been reasonably predicted. At first glance, it does appear that the GEAR modellers were almost certainly unrealistic in their assumption that business confidence (and hence investment) would rise once the GEAR policies were announced. However, not all the blame for slow investment, growth and job-creation can be attached to the policy package (Natrass 2003:126-128; Streak 2004).

4.1.2 THE LABOUR ABSORPTION MEASURES

4.1.2.1 LABOUR MARKET REFORM MEASURES

In the wage restraint element of the GEAR job-creation strategy, an important difference emerged between the plan and implementation in practice. A number of researchers (Natrass 2003; Barker 1999; Bruggemans 2003) have noted that, instead of private sector wage restraint facilitating more labour absorption, private sector wages rose relatively quickly, undermining job-creation. Little progress was made in containing the rate of private real wage growth. The planned results for the annual real growth rate of

²² The downward trend in the fiscal deficit should be understood not only as part of the GEAR strategy directive. It was also a product of tremendous improvements in revenue collection by the South African Revenue Service (see Van Zyl and Van der Westhuizen 2003), as well as difficulties that a number of government departments experienced in building the capacity necessary to spend funds effectively.

private wages were -0.5 for 1996 and 1.0 for the years 1997, 1998 and 1999. The actual outcomes were 1.7, 2.3, 8.6 and 3.0 percent respectively (Natrass 2003:126-127).

What happened in the labour market reform process to generate this outcome? Natrass (2003:128, 165-167) highlights the following developments.

- Firstly, government passed various pieces of legislation that increased the costs of employing labour. The *Basic Conditions of Employment Act* (1997) and *Employment Equity Act* (1998), which were directed particularly at those not already covered by the collective bargaining system, had the effect of putting upward pressure on wages. For example, the former provided for longer annual and family leave (thus increasing the indirect cost of employing labour) and reduced hours of work (thus increasing hourly fixed costs). It also increased the cost of overtime employment. The latter put pressure on wages by calling for the eradication of wage differentials.
- Secondly, and related to the first point, a collective bargaining system was entrenched in which wage agreements reached by bargaining councils operating at industry level were extended to all firms in that industry (even those non-party to the bargaining council). This was activated by Section 2 of the new *Labour Relations Act* which came into effect in 1997 and obliges the Minister to extend bargaining council minimum wage (and other²³) agreements.

There was some, if slow, progress as regards the skills development and equity element of the strategy. The period saw the implementation of the *Skills Development Act*, passed in 1998. Linked to this, the *Skills Development Levies Act* of 1999 placed a duty on employers to deduct 1% of their payroll for spending on training of the workforce (See Borat et al 2001:207-208). These acts also established the National Skills Authority (NSA)²⁴, representing all stakeholders to the *Skills Development Act*. The acts set the scene for the development and launch of the Human Resources Development Strategy in 2001, jointly hosted by the Ministers of Labour and Education. The implementation of this crucial element in the strategy to assist the unemployed through job-creation began to pick up momentum in the post-2000 period. It is described in more detail in section 5 below.

4.1.2.2 INDUSTRIAL POLICY MEASURES

There are no easily accessible government documents that describe simply and holistically how government (led by the DTI) developed, co-ordinated and implemented a set of industrial policy measures to assist the unemployed via stimulating economic growth and labour absorption. This makes it difficult to piece together the relevant measures in a way that ensure comprehensiveness and does justice to the rationale behind the strategy. The industrial policy during this period needs to be seen in the context of closer integration of developing economies into the world economy in the 1990s and South Africa's accession to the World Trade Organisation (WTO) at a time when a number of measures, including export subsidies such as GEIS (General Export Incentive Scheme) were prohibited, and developing countries were required to reduce tariffs irreversibly²⁵. (Altman and Meyer 2003:69)

²³ Bargaining councils usually bargain over minimum wages, hours of work, leave and bonus provisions, as well as retrenchment procedures (see Natrass 2003:165-166).

²⁴ The NSA advises the Minister of Labour on the National Skills Development Strategy (NSDS). The NSDS was drafted by the Department of Labour under the direction of the NSA and involved extensive research, consultation and debate.

²⁵ Thus South Africa faced the challenge of continuing the dismantling of the extensive array of tariffs that had been put in place during the period of import substitution industrialisation and the apartheid government had begun to reduce in the early 1990s.

Generally speaking, the implementation of industrial policy involved trade liberalisation as well as a continued shift from demand-side to supply-side measures, with incentives being put in place to promote investment, competitiveness, the adoption of new technologies, innovation and exports (ANC 2002:12). As Altman and Meyer (2003:69) point out, supply side interventions were targeted at specific industries, spatial locations and exporting sectors. Industrial policy implementation seems to have focussed more on economic growth than on labour absorption measures. Most of the attention was given to measures to liberalise, promote exports, to further integrate into the world economy and to develop new policies to advance technology.

Trade policy measures concentrated on the final implementation of the formal programme of phased tariff reductions and tariff harmonization started in 1995 and securing market access to the economies of South Africa's main trading partners. (Altman and Meyer 2003:70). Various trade agreements, for example with the EU and SADC, were negotiated to provide increased access to foreign markets (DTI 2002a: 1). A range of programmes were also implemented to assist exporters in developing new foreign markets and to reduce the financial risk attached to exporting (see DTI 1998: 42).

The Accelerated Depreciation Allowance Scheme was introduced. The scheme provided for the depreciation of plants, machinery and buildings to encourage manufacturing and the expansion of existing plants (Wesgro 2001).

The Regional Industrial Development Programme was replaced by the Tax Holiday Scheme and the Small and Medium Manufacturing Development Programme (SMMDP) (DTI 1998:24):

- The Tax Holiday Scheme became fully operational in 1997/98 and aimed to promote labour-intensive investment in priority sectors and production in specific regions. The scheme was available to both foreign and local firms whose investments in plant and machinery exceeded R3 million. The scheme awarded two-year tax holidays for compliance with each of three different components, namely location, human resources and industry type (DTI 1998: 27). The scheme was terminated in September 1999 (Department of Finance 2000: 267) because it was "not successful" (National Treasury 2001a: 665).
- The SMMDP was introduced to support manufacturing and job-creation by SMMEs. The programme consisted of a range of grants and input/output incentives linked to certain provisions, available to local and foreign firms investing up to R3 million in a project (DTI 1998: 33). This scheme was replaced by the Small and Medium Enterprise Development Programme (SMEDP), which extended the measures of the SMMDP to include higher value and services sectors (National Treasury 2002b: 734,735; PMG 2000: 6).

Targeted supply side measures of assistance focused on two sectors: the auto assembly and components industry (co-ordinated under the Motor Industry Development Programme), and the clothing and textiles sector (Department of Trade and Industry 2001: 9, 10. Altman & Mayer 2003). Support for these two special sectors entailed import-export complementation. In the case of autos and components, exporters were allowed to import inputs on a duty-free basis. As regards clothing and

textiles, exporters were allowed to claim on the duty paid on imports (Kaplan 2003: 15).²⁶

The focus of industrial policy implementation was not so much on industries as on areas. Spatial Development Initiatives (SDIs) were introduced in 1996. Government's objective with these measures was specifically to crowd-in private investment (particularly in certain areas), by packaging industrial projects and marketing them to investors. The initiative also included the creation or upgrade of physical infrastructure by public sector institutions (Department of Finance 1999: 269; Department of Labour 1998: 12).²⁷ Industrial Development Zones (IDZs) formed part of certain SDIs²⁸ and have been implemented since 1998. They were designed to attract export-oriented, high value, labour-absorbing projects by providing locations supplied with superior infrastructure, import and export facilitation and a one-stop regulatory authority. The idea was for existing investment incentives, labour and environmental legislation to apply in these areas (Department of Labour 1998: 11,12; DTI 1998: 28).

In addition to the SMMDP/SMEDP referred to above, a range of other actions were implemented to support job-creation through SMMEs. The white paper, published in 1995 and the *National Small Business Act* of 1996 gave birth to the National Small Business Strategy. To implement the strategy, four primary institutions were set up: the National Small Business Council, Khula Enterprise Finance Corporation, Ntsika Enterprise Promotion Agency and the DTI's Centre for Small Business Promotion (Berry *et al* 2002: 35; The Presidency 2004: 40).²⁹ However, the literature on the implementation of the Small Business Development Strategy highlights slow progress and limited impact on poverty alleviation and job-creation. The strategy largely depends on the above-mentioned institutions for implementation. Berry *et al* (2002) argue that the support measures did not have the desired effect mainly because these institutions failed to implement the measures effectively and to raise awareness of their existence, coupled with the general distrust of these agencies by SMMEs. In this regard, Von Broembsen (2003) also highlights the inability of NGOs³⁰ to effectively support SMMEs. The lack of success achieved by the supply-side measures was also attributed to insufficient demand for the goods/services supplied by SMMEs in rural areas and the micro-economies or urban areas (Von Broembsen 2003: 9). Employment generated by SMMEs largely emanated from new micro- and survival-enterprises, which may not be sustainable (Von Broembsen 2003: 9).

²⁶ See Kaplan (2003) for more on these two targeted support measures and their seeming success in the auto and components sector – particularly in exports - relative to the clothing and textile sector.

²⁷ Five main types of SDIs were developed, namely industrial (for example Richard's Bay-Durban-Pietermaritzburg), agro-tourism (for example the Wild Coast and Lebombo initiatives), hybrids of industrial and agro-tourism (for example the Maputo Development Corridor and the West Coast Initiative), metropolitan corridors (for example the Phillipi-Wynberg corridor in Cape Town), and focused industrial development zones (for example East London, Coega and Saldanha) (Department of Finance 1999: 266). By October 1998, it was estimated that 630 projects were at various stages of consideration for involvement in these initiatives and could potentially create 54 000 jobs (Department of Finance 1999: 266).

²⁸ Ports targeted for IDZs included Coega, Richards Bay, Saldanha and East London (Department of Labour 1998: 11,12; DTI 1998: 28)

²⁹ The National Small Business Council was closed in 1997 due to the alleged misuse of funds (Berry *et al* 2002: 35). Khula was created to facilitate access to finance for SMMEs and Ntsika was established to facilitate access to non-financial support (Von Broembsen 2003: 5). The DTI's Centre for Small Business promotion was tasked with coordinating, monitoring and evaluating the implementation of the strategy (Berry *et al* 2002: 35).

³⁰ Local business service centres were created as a critical part of the strategy. These were either existing or new NGOs, accredited by Ntsika. They were tasked with providing information, referrals, training and mentoring to SMMEs (Von Broembsen 2003: 6).

To set the scene for post 2000 developments in industrial policy it is important to note what research suggests about the performance of industrial policy between 1994 and 2000. Generally speaking, researchers highlight differential success across the range of policy objectives of industrial measures. The big success is seen as a structural change away from mining towards manufacturing and services and an enhancement of the international competitiveness of the manufacturing sector.³¹ This is evidenced by the marked increase in exports as well as the structural shifts in exports away from minerals towards manufacturing and services. (Altman and Meyer, 2003:76; Bruggemans, 2003). Another positive outcome is the measures' effect in producing a more competitive environment by introducing more international competition as well as facilitating deregulation of domestic markets (See Altman and Meyer 2003:76).

The industrial policy measures are seen to have performed poorly in promoting SMMEs. The jury is still out on the *net* impact of the measures in terms of absolute employment creation, and particularly the impact of trade liberalisation on employment, with different economists coming up with different numbers regarding net gains and net employment losses. What the research has made clear is that the measures had a negative impact for the struggle to solve the structural unemployment crisis in that they seem to have led to a shift in labour demand – away from unskilled workers towards skilled workers. The negative impact on the demand for unskilled labour was a product of many producers responding to opening up of the economy (and attendant increased competition) by increasing capital intensity and employing more skill intensive technologies. (See Edwards in Altman and Meyer 2003:73, Altman and Meyer 2003:76 and McCord, 2003b:46).

4.1.2.3 LAND REFORM AND AGRICULTURAL SUPPORT MEASURES

To facilitate land redistribution and restitution, government introduced the *Restitution of Land Rights Act* of 1994, the *Land Reform (Labour Tenants) Act* of 1996, the *Extension of Security of Tenure Act* of 1997 and the *Provision of Land and Assistance Act* of 1998 (ANC 2002: 13). While some progress was made, the literature makes clear that the rate of delivery of land restitution was extremely slow in the first five years after 1994 due to detailed and complex verification processes and legal procedures. After a review by the Department of Agriculture and Land Affairs, the process was restructured and streamlined (UNDP 2004: 36). The land redistribution process was also slow in taking off. As a result, government introduced the Land Redistribution for Agricultural Development programme to contribute to the process and also provide better support to poor rural farmers (UNDP 2004: 39).

4.2 DIRECT ASSISTANCE MEASURES

The period under review did see reprioritisation in social spending, particularly in health and education, with funds being re-directed from the delivery of high level services to lower levels (for evidence see National Social Development 2002:57). The developmental welfare service paradigm was adopted and implemented, with the associated shift away from institutional care towards the development of community support structures. Government financed and implemented a large number and range of programmes (most of which were first implemented before 1996 and have their origins in the RDP) to increase access to social and basic services for people in poor households (including the unemployed).

³¹ Research suggests no evidence of de-industrialisation as a consequence of the trade liberalisation. (See Altman and Meyer 2003:71).

The lead or umbrella programmes driving the roll-out of services and income support to poor households included the following:

- The means-tested National Housing Subsidy programme of the Department of Housing.
- The Department of Water Affairs and Forestry's Community Water Supply and Sanitation Programme, supplying potable water to communities.
- The Department of Provincial and Local Government and various local authorities' Consolidated Municipal Infrastructure Programme, for the provision of municipal services.
- The Department of Education's General Education and Training programme, aimed at providing affordable and quality schooling for children from grade 1 to 9.
- The Early Childhood Development programme (implemented only in 1999), aimed at providing education for very young children and a Grade R (reception year) that prepares children adequately for Grade 1.
- The Department of Health's Primary School Nutrition Programme (now known as the Primary School Feeding Scheme and implemented by the Department of Education), directed at providing a morning meal to school-going children in targeted income-poor areas.
- The Department of Health's programme to provide free health services to pregnant women and children under six and its means-tested programme of primary, secondary and tertiary health care for people without medical insurance.
- The Department of Social Development's cluster of social assistance programmes targeted at vulnerable groups. These include the Care Dependency Grant (for children with disabilities), Dependency Grant (for adults with disabilities), Old Age Pension (for income poor women over 60 and men over 65) and Foster Care Grant (for children without parents placed in foster care). All these programmes were carried over from the apartheid era but were, until 1994, primarily benefiting white people. In addition, the Child Support Grant programme was introduced in 1998 as a replacement for the State Maintenance Grant. This programme provides income support to poor children (up until 2002, the age limit for eligibility was set at children aged 0 to 6).
- The Department of Social Development's programme to provide, with the assistance of NGOs and CBOs, developmental social welfare services, including the provision of shelter (for example children's homes) and counselling services.
- The Department of Agriculture's Food Security and Rural Development programme, aimed at financing projects for achieving household food security.
- A cluster of poverty relief and employment-creation programmes financed through the Poverty Relief Fund (PRF). Special poverty relief allocations were first made in the 1997/98 financial year for special employment (public works) programmes and were later broadened in 1998/99 to include a focus on temporary poverty relief (National Treasury 2004b:135). Appendix 3 lists the projects implemented as well as the budget allocations for the period 1997/98 to 2003/04 (when the PRF was terminated).
- The Community-Based Public Works Programme. Even though this public works programme was the main vehicle for job-creation via public works, McCord (2003a) has shown that it had very limited success in achieving its job-creation and poverty alleviation goals.

While social and basic service delivery expanded between 1996 and 2000 (see The Presidency 2003 and UNDP 2004), the literature highlights the following important points about the record of implementation:

- Firstly, the rate of investment in the provision of services was contained by the fiscal policy goal of reducing the deficit. There has been considerable debate over the *extent* to which the fiscal deficit policy objective of GEAR undermined investment in social and basic service delivery.³²
- Secondly, insufficient access to quality services – even of the most basic services (potable water and toilets) – remained a reality for millions of people at the end of the period. Moreover, the poorest of the poor in rural areas are still disproportionately represented amongst those with poor or no access to services. This is to be expected given the critical role that a minimum income plays in facilitating access to services (National Department of Social Development 2002 and Meth 2003).
- Thirdly, the under-spending of funds, which in turn is linked to insufficient implementation capacity, undermined the pace of roll-out of services and the rate at which funds were allocated to social and basic service programmes (Van Zyl & Van der Westhuizen 2003). The Poverty Relief Fund represents a particularly apt example of programmes in which under-spending affected the rate of roll-out of services (see Parenzee 2003).

True to the GEAR plan, government did not develop a programme to provide an income transfer to the unemployed. In July 2001, a group of 12 organisations, led by COSATU, announced the formation of a Basic Income Grant (BIG) Coalition to advocate for the introduction of this measure. They proposed a grant of R100 per month for all South Africans. In 1999, the National Department of Social Development had appointed a task team to investigate the comprehensiveness of social security in South Africa. In 2000, a committee had been appointed (informally known as the Taylor Committee) to make recommendations on how the system should be transformed. The committee's report, released in May 2002, supported the call for a BIG, to be phased in through a process starting with the upward adjustment of the age limit for the child support grant.

It is important to note the role of government in contributing to the unemployment crisis by downsizing public sector employment. As Bhorat and McCord (2003) have illustrated, one of the trends in the labour market between was a decline in the number of people employed in the public sector. Their research – focusing on the period 1995-2001 – shows that whilst private sector employment increased by 32% or 1.6 million jobs between 1995 and 2001, public sector employment fell by 8%, or 150 000 jobs. The latter was largely due to the major public sector restructuring exercise carried out after 1996 (Ibid:118-119).

³² Changes in the categorisation of budget information on social services and insufficient data on basic service spending at local government level make it difficult to sketch an accurate picture of spending on social and basic services. Van Zyl & Van der Westhuizen (2003: 7,8) argue that the budget allocations to social services (housing, welfare, education and health) show a small positive increase for 1996/97 to 1999/00 (with the only decrease taking place in 2000/01). However, they note that actual spending over the same period reveals a different and uneven trend, which may be more the result of departmental over- or under-spending than deliberate cuts in social spending. In terms of per capita spending, there was also no clear trend of an annual reduction in spending, and although per capita social spending decreased over the period as a whole, it decreased by less than total per capita government spending – clearly showing that social spending was prioritised over the period (Ibid: 8,9). The United Nations Development Programme's (2004) ten year review of democracy finds a real decrease per capita on health and education services from 1996 to 2000 and an increase per capita on welfare (including social welfare services and social assistance).

Finally, in government's strategy to support the unemployed between 1996 and 2000, a particularly unfortunate discrepancy between the plan and reality emerged in the area of government capital spending. As Roux (2001) and Bruggemans (2003) have argued, this aspect of the strategy was a lame duck. Not much government investment in (social and economic) capital materialised. Real public fixed investment was expected to grow by 7.5% annually from 1996. However, after a burst of activity focused on investment associated with Telkom in 1997 to 1998, public fixed investment "tailed off again and growth in such investment only averaged 3.8% annually for the period, in part reflecting the budget constraint. Thus, such investment spending failed to provide support for social delivery as intended, but also did not augment overall demand in support of faster investment and GDP growth (Bruggemans 2003:65)."

The 2000 year saw the end of the GEAR programming period. As already indicated, the period proved successful in achieving the objectives of macro-economic stabilisation. However, it was disastrous in generating sufficient investment and job-creation for making inroads into poverty, unemployment and inequality (Dobson 2002: 8). In his 2001 *State of the Nation Address*, Mbeki (2001: 7) acknowledged the dismal poverty and unemployment legacy:

"There is a general consensus that we have established the necessary macroeconomic balance and stability, away from the precarious position we were in, in 1994³³...Furthermore, the international competitiveness of the economy has improved...However, the reality remains that our rate of growth is still too low as are the aggregate savings and investment rates. Similarly, the levels of poverty, unemployment and underdevelopment in some parts of our country are too high."

The legacy is also captured neatly in the following quotes from Bruggemans and Natrass:

"The real achievements of the 1996-2000 period turned out to be financial discipline and considerable efficiency gains" (Bruggemans 2003:33).

"Instead of creating jobs, GEAR presided over significant job losses...estimates of the number of jobs lost since 1994 range from 400 000 to one million...Maintaining a high level of wage protection in an economic environment characterised by restrictive fiscal monetary and fiscal policies...(turned out to be)...a recipe for employment shedding" (Natrass 2003:129, 167).

³³ In 1994, the deficit to GDP ratio stood at almost 8% (DTI, 2002b).

SECTION 5

POST-2000 SHIFTS IN STRATEGY

Government's post-2000 plan of action for meeting the challenges of poverty reduction and job-creation is articulated in the *Microeconomic Reform Strategy* (MERS). The MERS developed out of the Integrated Action Plan (IAP), put forward by President Mbeki in his 2001 *State of the Nation* address. The IAP was fine-tuned and elaborated in the form of the MERS, released in 2002 (ANC 2002:5).

In the 2002 *State of the Nation Address*, President Mbeki proposed a Growth and Development Summit (GDS) to "...address the urgent challenges facing us in the economy and build enduring partnership in which all of us can lend a hand building a prosperous South Africa" (Nedlac 2003b:1). The GDS was held in June 2003 with representation from the labour and business sectors, community organisations and government.³⁴ The proceedings of the GDS were organised around four themes:

- More jobs, better jobs, decent work for all;
- Addressing the investment challenge;
- Addressing equity, developing skills, creating economic opportunities for all and extending services; and
- Local action and implementation.

Section 5.1 below provides an overview of the development strategy put forward in MERS, highlighting continuities and new aspects. Section 5.2 then describes the main changes in the strategy to assist the unemployed after 2000, drawing mainly from the MERS document and the 2003 GDS Agreement, but also from relevant additional policy documents and conversations with government officials.

5.1 DEVELOPMENT STRATEGY: MICRO-ECONOMIC REFORM, MORE LINKING UP OF GOVERNMENT PROGRAMMES AND EXTRA SPENDING

The MERS was developed not as a replacement for GEAR and the RDP, but as a supplement, to push the pace of development after macro-economic stabilisation had been achieved. In the words of Erwin, "[i]t's not a change in paradigms, it's a change in phasing...If you attempt to only bring about structural changes through macro-economic measures, it's likely to fail" (DTI 2002b). The focus in MERS is on micro-economic reform. However, just as GEAR had a micro-economic element, so MERS includes a macro-economic component. Mbeki (2001:7) summarises the shift as follows:

"While continuing to focus on the maintenance of the correct macro-economic balances, we have...decided to pay detailed attention to the critical micro-economic issues."

The macro-economic element in MERS essentially calls for more of the same. However, there are two nuances. (This is discussed in more detail in section 5.2.1.1 below).

The MERS package of micro-economic reform measures is guided by a view of key constraints to more rapid, higher growth and development:

"...limits to growth persist at the microeconomic level. These microeconomic constraints to growth exist in both the developed and underdeveloped aspects of the economy. In the

³⁴ One of the goals set at the Growth and Development Summit was to halve unemployment in South Africa by 2014 (that is, to reduce the official unemployment rate from 30% to 15%). This implies job-creation at the average rate of 546 000 jobs per year (Department of Public Works 2004:13).

developed economy there are impediments to cost competitiveness such as tariffs charged by certain state-owned enterprises impeding efficiency of supply chains. In the underdeveloped economy there is a lack of basic infrastructure, especially roads and communications. Impediments to cost competitiveness exists in the labour market as a result of the mismatch of labour demand and supply, the low levels of education and skills of the workforce, and the need for ongoing review of labour market regulation. There is also technological under-provision...Further, there are low levels of integration in the manufacturing process contributing to insufficient value addition, and there is inadequate investment in equipment and machine tools, knowledge and training” (DTI 2002b:1).

To overcome these constraints, MERS advocates for micro-economic reform measures grouped into three initiatives (see Dobson 2002; DTI 2003; DTI 2002a&b):

- The first initiative - referred to as cross-cutting issues - is aimed at getting the 'fundamentals' for competitiveness into place. This involves reforms and investment to build technological capacity, improve human resource development, promote access to finance and build infrastructure.
- The second initiative - labelled as competitive input sector measures - encompasses reforms and investment in the transport, telecommunications, energy and water sectors to raise competition, increase efficiencies, lower costs, expand access to services and upgrade service delivery.
- The third initiative is directed towards priority sector growth. It aims to focus the attention of the state, business and labour on developing strategies to promote priority sectors. These priority sectors are chosen on the basis of their potential to contribute to employment-creation, economic growth and the generation of export (DTI 2002a:30; Dobson 2002:19). The MERS identified five sectors for the design and implementation of special programmes aimed at employment-creation, value-addition, export growth, small business development and black economic empowerment. These are agriculture, tourism, information and communication technology (ICT), cultural industries and export sectors. In 2002, an Integrated Manufacturing Strategy (IMS) was developed as a complement to the MERS and aimed specifically to address “the question of low levels of integration in the manufacturing sector” (DTI 2002b). The IMS formulated specific measures for the export sectors, after which the GDS added more priority sectors (see the section on industrial policy below).

The MERS identifies six key performance areas: growth, competitiveness, employment, small business development, black economic empowerment and the geographic spread of economic activity (DTI 2002a&b).

The IAP and MERS certainly did not usher in a change in development paradigm or any major changes in the strategy to assist the unemployed. However, relative to the GEAR development strategy, there are important new aspects that in turn have affected (in a positive way) the strategy to assist the unemployed. The novel elements are as follows:

- The post-2000 framework reflects less faith in the potential for economic growth led by private sector investment, on its own, to impact greatly on poverty reduction via job-creation in the short to medium term. Linked to this, it gives a greater role to government in facilitating employment creation and poverty reduction via increasing government spending and developing and implementing more effective short to medium-term employment creation and poverty reduction measures.³⁵ In ANC

³⁵ Of course, the more expansionary fiscal stance after 2000 must be seen in the context of the success in reducing the deficit, achieved during the GEAR programming period. This provided the space to step up spending. It must also be understood that time will tell how much rhetoric and reality there is in the acknowledgement of the need for government to do more in terms of

Today, President Mbeki (2003a) explains the need for more government spending and leadership by referring to a structural disjuncture between the 'first world economy' and 'third world economy'. This disjuncture limits the 'trickle down effect' of measures that facilitate investment and growth in the first economy. He argues that the disjuncture calls for government to pay particular attention to the spatial aspect of development measures and for a substantial increase in transfers to the 'third world economy'. The latter, he says, should be in the form of increasing investment, investing in skills, supporting small enterprises and providing more easy access to finance.³⁶

- There is a new focus on more effective, high-level policy alignment amongst different government departments and programmes to increase the impact of programmes and spending.
- The post-2000 strategy shows an increased emphasis on government capital spending (involving maintenance and investment spending on economic and social infrastructure).
- It has a more explicit focus on holistic, government wide co-ordinated strategies to promote the goals of job-creation and equity.
- There is greater acknowledgement of the importance of communicating that human resources, skills and technology development are medium- to long-term strategies (DTI 2002b). (Though government's response in terms of developing short term strategies to fill the social protection gap remain inadequate).
- The post-2000 strategy gives greater attention to partnerships between government and the private sector, as well as with labour and community organisations to facilitate development.³⁷
- It reveals a new emphasis on government using incentives and investment to direct the spatial dimension of development.

developing short to medium strategies to assist the structurally unemployed. At the moment, even with the key new measure, the EPWP, the short to medium term interventions are inadequate.

³⁶ It is worth quoting Mbeki (2003a:3) at length: "It is sometimes argued that higher rates of economic growth, of 6 percent and above, would, on their own, lead to the reduction of levels of unemployment in our country. This is part of a proposition about an automatic so-called trickle-down effect that would allegedly impact on the 'third world economy' as a result of a stronger 'first world economy'. None of this is true. The reality is that those who would be affected positively, as projected by these theories, would be those who, essentially because of their skills, can be defined as already belonging to the 'first world economy'. The task we face therefore is to devise and implement a strategy to intervene in the 'third world economy' and not assume that the interventions we make with regard to the 'first world economy' are necessarily relevant to the former...this will require sustained government intervention. This is because, given the structural disjuncture that separates the 'first world economy' and 'third world economies' we cannot and should not expect that there would be any mechanism inherent within the 'first world economy' that would result in the latter transferring the required resources to the former, to enable to outgrow its third world nature. We mention resource transfers because this is exactly what the 'third world economy' requires to enable it to break out of its underdevelopment. These resources include education and training, capital for business development, and the construction of necessary social and economic infrastructure, marketing information and appropriate technology and the ways and means to ensure higher levels of safety and security for both persons and property."

³⁷ For example, in its position paper for the GDS, government says: "...growth and development cannot be achieved by government acting alone...Government therefore proposes to its social partners that a joint programme of action be developed to accelerate the pace of change – and this programme be built on the basis of partnership, prioritisation and active participation" (Nedlac 2004b).

- The framework gives greater credence to the importance of building local government capacity to facilitate development.

5.2 THE POST-2000 STRATEGY TO ASSIST THE UNEMPLOYED

Since 2000, government has begun to make more explicit how its strategy to address unemployment fits together. It has become clear that the strategy includes long-, medium- and short-term measures, with more emphasis of late being placed on the latter (see Department of Labour 2004; DTI 2002b). The MERS, for example, provides the following overview of the job-creation aspect of the strategy to support the unemployed:

“In the long-term, the restructuring of the economy and higher levels of integration in manufacturing resulting from the successful implementation of this reform strategy will result in employment creation in the economy. There are also several medium-term strategies that are in place to generate jobs, including increased public sector capital expenditure, improved labour market information, small business development and black economic empowerment, and human resource development. However, it is recognised that immediate short-term actions need to be taken to create jobs. Such actions will include specific programmes in rural areas, urban nodes and specific sectors of the economy, as well as programmes for new labour market entrants” (DTI 2002b:4).

This section of the paper provides an overview of developments in government's strategy to assist the unemployed since 2000. Once again, the discussion looks in turn at the two channels of assistance, indirect and direct. However, as government spending plays a more prominent role in the post-2000 development programme, there is a growing overlap between the two channels.

5.2.1 INDIRECT ASSISTANCE: ENHANCING PRIVATE SECTOR JOB-CREATION

5.2.1.1 MACRO-ECONOMIC POLICY

In post-2000 macro-economic policy to facilitate job-creation through economic growth, there remains a commitment to fiscal discipline as a cornerstone.³⁸ Inflation targeting (introduced in 2000) remains another cornerstone of macroeconomic policy. Keeping inflation at a low level – within a band of 3 – 6 % - through inflation targeting is seen as important for facilitating growth, investment and employment creation by creating an environment conducive to lower interest rates. The two nuances signalled above are as follows. Firstly, a ‘fine-tuning’ of macro-economic policy in order to address the consequences of a volatile and undervalued exchange rate for inflation, food and input prices. The second twist is a more expansionary fiscal stance, with a large proportion of the extra spending flowing to capital spending (on social and economic infrastructure) (DTI 2002b:2; Knight 2004; National Treasury 2001b, 2002a, 2003b, 2004b; Idasa 2003).

Table 1 illustrates the more expansionary fiscal stance. The rationale for expanding government spending is both to support growth through stimulating demand and for

³⁸ Government has not made clear exactly what deficit to GDP ratio it can afford to maintain, or how this notion varies with its ideas about economic growth prospects. The need to keep the deficit at ‘sustainable’ levels is often used by the Department of Finance to explain why South Africa cannot afford to extend social assistance to the unemployed, for example through a basic income grant.

government to do more for the poor (including the unemployed) through the direct provision of goods, services and income. Spending on economic and social infrastructure has been prioritised due to the slow public capital spending between 1996 and 2000, as well as its potential (as explained in GEAR) to contribute to both economic growth and poverty reduction (see National Treasury 2002a, 2003b, 2004b).

Table 1: Main budget non-interest government expenditure (total and growth) 2000/01- 2004/05 and budget deficit to GDP ratio

	2000/01	2001/2	2002/03	2003/4	2004/05
Total non-interest expenditure (nominal, in R million)	187 613	215 324	244 721	284 359	318 472
Growth in expenditure (%)					
Nominal		14.7	13.6	16.1	11.9
Real		8.3	2.9	10.2	6.5
Deficit to GDP ratio (%)	-2	-1.4	-1.1	-2.6	-3.1

Source: National Treasury (2004c:59) for the nominal total expenditure data; National Treasury (2004b:53) for the CPIX inflation data used to deflate; National Treasury (2004b:59) for the deficit to GDP ratio.

Note: The low deficit in 2002/03 reflects favourable revenue collection rather than a decision to cut spending. This is shown clearly by the high growth in allocated spending.

At the GDS, another potential measure was flagged to facilitate more job-creation in the aggregate through stimulating investment and hence economic growth. The proposal was to set up a mechanism “to encourage investors, including business (local, foreign, public and private), retirement funds, the life assurance industry, government, labour, and community organisations to work towards investing 5% of their investable income in appropriate financial instruments“(Nedlac 2003a:23). This measure has not yet been implemented.

5.2.1.2 LABOUR MARKET REFORM

In the post-2000 strategy to raise employment, the focus of labour market reform has fallen on the implementation the Human Resources Development Strategy (HRDS) and making it more effective in creating jobs. Linked to this, attempts are also being made to push the pace of equity and black economic empowerment. There has been an important strategic shift towards down-playing the former emphasis on wage restraint.

Skills development

The HRDS, launched jointly by the Departments of Education and Labour in 2001, has two legs. The first leg is the responsibility of the Department of Labour and takes the form of skills development and job-creation through work-based training and development. The National Skills Development Strategy (NSDS) activates this leg. The second leg is the responsibility of the Department of Education. It deals with the long-term developmental skills requirements of the economy and aims to address the unemployment crisis through reforms in schooling, Further Education and Training (FET) colleges and tertiary education restructuring. A great deal of emphasis is currently being placed on reform in the areas of early childhood development, improving the quality of school outcomes (including the quantity of candidates qualified well in mathematics and science), trying to create a better match between FET outputs and labour market needs, as well as implementing the National Qualifications Framework.

The overall vision of the NSDS is 'skills for productive citizenship for all'.³⁹ This refers to the right of people not only to vote, but also to make decisions about their own work life. Through the NSDS, funds are supposed to be generated and used to develop skills in certain priority areas, dictated by the needs of the unemployed and growing economy. To activate the NSDS strategy, two primary labour market institutions have been established: the Sector Education and Training Authorities (SETAs) and National Skills Fund (NSF).

The NSF is managed by the Department of Labour and guided by advice from the National Skills Authority (NSA). The NSF is funded through receiving 20% of the levies paid by employers to the South African Revenue Service for the implementation of the NSDS. The role of the NSF is to provide funding to address unemployment, small business development, and special assistance to women, youth, rural people and people with disabilities. The NSF also funds provincial offices, which have the primary role of assisting unemployed people with skills development, based on an analysis of the skills requirements in the province.

The role of the SETAs (which receive 80% of NSF money) is to signal new skills needs and then resource and facilitate their development. Twenty-five SETAs were initially established (see Appendix 4). At the 2003 GDS, government noted that an important instrument for skills development and job-creation has been placed in the hands of the SETAs, namely the Learnership Programme. The Learnership Programme is principally a work-based training route that aims to provide a parallel set of options for unemployed young people, particularly school leavers and inexperienced graduates who are otherwise unable to find work. However, learnerships are also available to those already in work. Learnerships combine theoretical learning and practical experience in the workplace. Employers who enroll staff in learnership programmes are provided with tax incentives to enable them to offset the cost (Nedlac 2004b:3).

The NSDS has five strategic objectives and one set of equity targets. In terms of equity, the NSDS requires that 85% of all its beneficiaries be black, that 54% be female and 4% be disabled people. The five strategic objectives are to:

- Develop a culture of high quality life-long learning;
- Foster skills development in the formal economy for productivity and employment growth;
- Stimulate and support skills development in small business;
- Promote skills development for employability and sustainable livelihoods through social development initiatives; and to
- Assist new entrants into employment.

The first phase of NSDS implementation was lethargic with many SETAs experiencing difficulty in allocating and spending funds (see Wildeman 2002; Department of Labour 2003, McCord in personal communication). As a way to energize the process, the SETA system is currently being re-organized and there is talk of a new NSDS being launched in October 2004⁴⁰. In addition, the GDS Agreement committed government, organised business and organised labour to place greater emphasis on the following:

³⁹ The NSDS (Department of Labour 2004:1) is aimed at "addressing the structural problems of the labour market inherited from the past, and transforming the South African labour market from one with a low skills base to one characterised by rising skills and commitment to lifelong learning. The NSDS also seeks to ensure that through responsive education and training the labour market is better able to support social development to reverse the challenges inherited from the past, such as poverty, inequality, disease and unemployment".

⁴⁰ As one of the changes, the number of SETAs is apparently being reduced. (McCord, personal communication).

- Promoting literacy and training through the SETAs and adult learning centres;
- Using the learnership vehicle more effectively for job creation. The business sector and government agreed to register 72 908 learnerships by May 2004 and to increase the number of unemployed participants in the total number (Nedlac 2004a:31). Appendix 2 provides a breakdown of the targets set for the various SETAs and shows government's commitment to implement a large number - 26 000 - of these. Thus far, however, performance has been weak, with less than half of government's targets being reached (personal correspondence).
- Linking learnerships to projects implemented under the Expanded Public Works Programme (see below).

Black economic empowerment

Government has introduced a broad range of measures to promote black economic empowerment in the post-2000 period. While the discussion below cannot provide a full review of these initiatives, the following key developments are noted:

- The release of government's strategy on black economic empowerment;
- Efforts to use procurement policy more effectively to advance black ownership and employment;
- Attempts to use the Learnership Programme to facilitate employment amongst black people and particularly unemployed black youth (18 years to 35).
- The development and implementation of sectoral black economic empowerment strategies and business development support; and
- An attempt to develop closer partnerships with the private sector in the strategy to promote black economic empowerment.

5.2.1.3 INDUSTRIAL POLICY AND AGRICULTURE

A key new development in industrial policy since 2000 is the IMS. This strategy was introduced in 2002 to raise economic growth and job-creation by addressing the low levels of integration in the manufacturing process (DTI 2002b), as well as raising productivity and lowering costs. The scope of the IMS is broader than what has traditionally been considered as industrial processes (the transformation of natural products into manufactured products). It also covers a number of associated processes such as the extraction of raw materials, procurement of inputs, production of intermediate goods and final products, as well as packaging, marketing, distribution and retail (ANC 2002: 5; DTI 2002a: 32).⁴¹

Behind the IMS lies the view that it is imperative for economic growth and the creation of a modern outward oriented economy that development and competitiveness is built upon increased knowledge-intensity and the addition of value. In the words of Altman and Meyer (2003:77) the strategy shows that government believes that 'new sources of competitiveness are located in the development of the ICT sector, the impact of

⁴¹ In implementing the IMS and supporting the MERS, the DTI aims to play three roles:

- It provides leadership in the economic, investment and employment cluster of the government departments responsible for the implementation of the MERS, as well as providing policy certainty, reliable statistics and other information and analysis in this regard (DTI 2002a: 40);
- It develops programmes and interventions for specifically targeted sectors (Ibid); and
- It provides broad-based support to all enterprises, including appropriate policy, legislation and regulation (DTI 2003: 41).

technological change on production processes, and the importance of time and efficiency to production costs. The emergence of integrated supply or value chains – in many cases transnational and influenced by the operations of multinational corporations – is seen as a hallmark of modern production processes’.

As McCord (2003b:58) and Altman and Meyer (2003:77-82) point out, the emphasis on expanding the production of high technology and high value added industries producing for exports – which is understandable in light of the growth objective – in the IMS is a concern in light of the need to expand unskilled and semi-skilled employment. In the words of Altman and Meyer (2003:78) ‘there is an uneasy and unspecified relationship between the objective of creating a modern, outwardly focused economy, with the imperative of reducing unemployment among the unskilled and semi-skilled.’ A growth path that emphasises investment in such production without also prioritising investment (led by government) in unskilled and semi-skilled labour intensive sectors is unlikely to do much to reduce the level of structural unemployment.⁴²

New emphasis on sector-specific growth in employment

As seen above, it is not a new approach for government to provide special support to priority industries. It was flagged in GEAR and materialised pre-2000 in the sector-specific support programmes targeting the automotive and components industry and the clothing and textile industry. In the post-2000 period, this trend gains further emphasis.

The IAP and MERS identified five priority sectors for intervention, namely export sectors, agriculture, tourism, information and communication technology and cultural industries. In turn, seven export sectors were identified for support, namely clothing and textiles; auto and components; agro-processing; mining, metals and minerals; chemicals and biotechnology; crafts; and ICT (Mbeki 2001: 9; DTI 2002b). The IMS identifies more specific interventions for these seven export sectors, as well as for tourism.

The GDS underlined the importance of promoting sectors with the potential to impact strongly on overall employment-creation and economic development, as well as touting the effective use of sector partnerships and strategies in this regard (Nedlac 2003a: 11). Broadly speaking, the idea is for government, business and labour - as well as community members where appropriate - to identify sector strategies, looking not only at implementation but also at monitoring, evaluation and scope for the further development of the strategy. Issues to be covered in the development of a strategy include marketing, branding, market access, skills development, SMME development, BEE and infrastructure (Nedlac 2003a: 12). An important step in this process is the organisation of sector summits to facilitate communication amongst stakeholders, to set timeframes and to develop frameworks for agreements and commitments (Nedlac 2003a: 11). The extent of progress towards these goals varies across sectors (see Nedlac 2003a).

General measures to support growth, employment and exports

The IMS develops a broad-based programme aimed at marketing South Africa as an investment destination. Its measures in this regard include conducting investment missions, investment facilitation and incentives, as well as programmes such as the National Industrial Participation Programme and IDZs (DTI 2002a: 46,47). A new emphasis has also been placed - partly through the GDS process - on the role of

⁴² Altman and Meyer (2003) argue that government needs to simultaneously push investment in high-tech industry (so important for promoting rapid economic growth and providing the income increases required to finance increased transfers to the poor) *and* investment in basic needs type goods and services (that promise more in terms of employment for the unskilled and semi-skilled).

procurement policy in job-creation. This is reflected, for example, in support for the Proudly South African campaign.

With exports identified by MERS as a priority growth sector and increased market access identified by the IMS as the goal of one of its broad-based programmes, trade policy has focused on increasing market access through international trade negotiations. In addition, existing export development and export promotion programmes are to continue, albeit in a more efficient manner, and new programmes are to be added (DTI 2002a: 45, 46).

Participants at the GDS agreed that co-operatives were an important vehicle to promote income-generation activities and employment. The constituencies undertook to work together to strengthen co-operatives (Nedlac 2003a:20). Government support in this regard is to include the implementation of appropriate legislation for the establishment of co-operatives, implementing the BEE strategy with its emphasis on the role of co-operatives, the implementation of a co-operatives development strategy in partnership with the other role-players, the establishment of a development unit for co-operatives in the DTI, the establishment of a co-operatives advisory board, research of best practice, marketing of co-operatives, as well as appropriate institutional and financial support (Nedlac 2003a: 21,22).

Spatial development measures

As noted above, since 2000, greater attention has been paid to the geographical aspect of development. Both President Mbeki's 2001 *State of the Nation* address and the MERS highlight the need to address the unequal development of different regions in South Africa, with the aim of reducing rural as well as urban poverty, inequality and under-development (Mbeki 2001:1; DTI 2002b). This entails the ongoing implementation of SDIs and IDZs. To influence the spatial aspect of development, government has developed the National Spatial Development Initiative (still under discussion at the time of the GDS), the Provincial Growth and Development Strategies, the local government Integrated Development Plans⁴³(Nedlac 2003a:39), the Urban Renewal Strategy and the Integrated Rural Development Strategy (IRDS) (both launched in 2001). The challenge is now being seen by government as how to improve the coherence of these strategies and to ensure better co-ordination of implementation (DTI 2002b; Nedlac 2003a:39).

The aim of the IRDS is to transform rural South Africa into an economically viable, socially stable and harmonious sector, which makes a significant contribution to the country's economic growth. It includes the provision of services to the rural poor, enhanced opportunities for income-generation, local economic development and the provision of physical infrastructure (DPLG 2000: 19). The IRDS does not introduce new measures of assistance, but rather entails the selection of a 'basket of services' from government's existing range of measures.⁴⁴ These 'baskets of services' are to be customised according to the needs of specifically identified areas or nodes (DPLG 2000: 24,25). The process of selecting the appropriate services or programmes is to be guided by the node's Integrated Development Plan (DPLG 2000: 25).⁴⁵

⁴³ In accordance with the *Municipal Systems Act* of 2000, each municipality must within 12 months of its elected term, adopt a single inclusive plan for its development, which sets out its priorities, strategies as well as financial plans (DPLG 2000: annexure 2).

⁴⁴ These include amongst others, basic service delivery, SMME promotion, SDIs, housing, education and training programmes (DPLG 2000: 24).

⁴⁵ As McCord (personal communication) points out, the IRDS has been put forward as a critical institutional instrument for helping to deliver the social protection component of support for the unemployed/poor. For a critique of the way the instrument has been conceived see Everatt, D. (2003) 'The Politics of Poverty' *Development Update*, vol 4. no.3.

The Urban Development Programme (UDP) operates along the same lines as the IRDS and is directed at a number of key urban nodes, which represent the largest concentration of urban poverty in the country (DPLG 2004).

Measures to support small business development

In line with the GEAR and RDP strategy to assist the unemployed, small business development emerges as a critical element in the post-2000 period. Government acknowledges that even with the successful implementation of the expanded public works and learnership programmes, an insufficient number of the unemployed will be absorbed into the mainstream economy. This is because the level of demand is simply not high enough and the number of people in need of work is just too great (Personal communication with government officials). Very limited success appears to have been achieved in the area of small business development to date. Commentators have drawn attention to several problems undermining government's measures in this regard, including too little market information about programmes, insufficient demand for the products produced, the lack of skills amongst those trying to set up businesses, as well as limited skills on the part of NGOs involved in trying to train prospective entrepreneurs (see Von Broembsen 2003). Both the MERS strategy and the GDS Agreement stress the enhancement of measures to support SMMEs as critical to create more jobs and reduce poverty more quickly. The measures emerging from this discourse are:

- A review of the current strategy and of the entire regulatory framework governing SMME development;
- Specific sectoral initiatives;
- Improving access to finance, partly through the implementation of the Declaration of the Financial Sector Summit (signed by Nedlac partners on 20 August 2002); and
- Using the SETA institutions, the Learnership Programme and links with business to facilitate development of the skills needed to start and sustain successful ventures.

Agriculture, agro-processing and land reform

As mentioned above, agriculture and agro-processing is one of the priority sectors being promoted by government, business and labour. Government and the organised agricultural sector (established as well as emerging farmers) drew up a strategic plan for the sector. This strategy was already in the process of being implemented by June 2003 when the GDS took place (DTI 2002b; Nedlac 2003a: 43). It introduces measures to bring about more rapid and sustainable land reform, accompanied by improved and expanded support to new farmers (Department of Agriculture 2001: 8-10). A wide range of strategies to improve the global competitiveness and profitability of the sector were also identified.⁴⁶ According to government, land reform - accompanied by support for black farmers - is still one of the key measures in the strategy to create jobs and reduce poverty (Nedlac 2003; Personal correspondence with Treasury officials). Time will tell whether the pace of land reform is speeded up and how much this together with small farmer support measures impact favourably on employment creation and poverty reduction. Of course, in evaluating the impact of these measures on employment creation and poverty reduction it will important to consider the gains in light of any net loss associated with employment in agriculture due to the introduction of more regulation and the minimum wage.

⁴⁶ These include government measures to reduce taxes and duties on inputs, the development of financial instruments to address the effect of high interest rates on the cash flow of farmers, structural adjustment incentives to encourage farmers to switch to more competitive products, as well as a review of agriculture's rail transport requirements (Department of Agriculture 2001: 12,13).

5.2.2 DIRECT MEASURES OF SUPPORT TO THE UNEMPLOYED

The period since 2000 has seen some favourable developments in government's direct measures to support the unemployed. Most notably, there has been an extension to the social assistance net via government increasing the age eligibility of the Child Support Grant programme (see section 5.2.2.1). Also, the Extended Public Works programme has been introduced to create short-term jobs and raise income-earning capacity (see section 5.2.2.2). (Though It is important to point out that the EPWP was introduced in the context of the closure of the CBPWP, which used to offer between 12 000 -25000 jobs per annum and that the EPWP is partly a repackaging of the successful bits of the CBPWP and the Poverty Alleviation Fund)⁴⁷.

In addition, government has continued in its efforts to improve the efficiency of - and the reach of spending on - the range of social and basic service provision programmes already in place. Progress in this regard is beneficial to the unemployed, many of whom depend on these programmes as direct measures of support. At the GDS summit, government stressed its commitment to improving the reach and effectiveness of its programmes that provide social and basic services as its direct support for the unemployed. In this regard, the following actions were flagged as important (see Nedlac 2003a):

- Additional financial and technical support, as well as institutional restructuring, to facilitate the roll-out of basic services at local government level;
- A review of the housing programme (to facilitate access for more to affordable housing, but also to ensure it does more to support employment-creation); and
- Using the EPWP as a tool to develop infrastructure important for the provision of social and basic services.

Government has not as yet responded positively to the call of the BIG coalition and the Taylor Committee to extend direct income support to the unemployed through the design of a programme supplying a transfer. National Treasury has been of the view that government cannot currently afford to finance the provision of a grant to the unemployed (Moleketi, cited in Haffajee 2004; Natrass 2003; Borat 2004). It is also arguing that in any event instead of extending social assistance government should concentrate on helping the unemployed to develop the ability to earn their own income. This principle is aptly summarised in the following statement by President Mbeki (2002):

“...the government must act to ensure that we reduce the number of people dependent on social welfare, increasing the numbers that rely for their livelihood on normal participation in the economy”.

The sentiment of government that it is better to lift people out of poverty through market led job creation than extend direct income support through government transfers (either through public works or social grants) is understandable. However, it is cause for concern in light of research based suggestions that government's new strategy to stimulate growth will have limited effect on the demand for semi skilled and unskilled labour. (See Borat and McCord 2003 and Altman and Meyer 2003).

5.2.2.1 EXTENSION OF THE CSG PROGRAMME

⁴⁷ Thank you to Anna McCord for highlighting the importance of contextualizing the EPWP introduction by referring to the closure of the CBPWP and termination of the Poverty Relief Fund.

In April 2003, government announced an extension of the child support grant, with the age of eligibility being adjusted upwards in phases over three years. After 1 April 2003, children under the age of 9 who passed an income means test became eligible for the grant. From 1 April 2004, all children passing the means test under the age of 11 became eligible for the CSG. From 1 April 2005, children who pass the means test and are less than 14 can qualify for the grant (Cassiem & Kgamphe 2004: 183).

The Child Support Grant can be seen as a direct measure of support to the unemployed in as much as it allows for the transfer of income into poor households where there are children. In other words, it assists those unemployed who are the parents or care-givers of children to meet at least some of their households' needs. The CSG also benefits those unemployed who simply share households with children who receive the grant. In this sense, the extension of the CSG programme represents a positive shift in the strategy to assist the unemployed.

The extension of the grant should also be seen in the context of the recommendations of the Taylor Committee and the call for a universal basic income grant. In its report, the Taylor Committee Report called on government to immediately extend the CSG to all children as part of a phased-in approach to introducing a universal BIG. Thus far, government has rejected the notion of extending social assistance further – for example by means of a BIG – on the grounds that it is unaffordable and fiscally imprudent (see Natrass 2003). There thus remains a gap in government's strategy to support the unemployed: there are no direct measures in place that target the unemployed specifically and ensure that those in need of income are assisted by the state.

5.2.2.2 INFRASTRUCTURE INVESTMENT AND THE EPWP

“We need to improve the effectiveness of public works by pooling resources across national, provincial and local government to deliver infrastructure. We create opportunities for employment and training by making their delivery labour-intensive. By and large we are not talking about new money. We are talking about doing things in a different way that enhances their impact” (Moleketi, cited in Haffajee 2004).

President Mbeki formally introduced the Expanded Public Works Programme as a new short- to medium-term initiative in his *State of the Nation Address* in 2003. The programme was formally launched by the President in May 2004 (Department of Public Works 2004:13).

The goal of the EPWP is to provide government spending on temporary jobs (one million in the first five years of the programme or 200 000 per year). By 2009, the target is that at least 40% of these jobs will be for women, 30% for youth and 2% for those with disabilities. (Department of Public Works, 2004:31). The purpose of this job-creation is three-fold:

- To provide temporary income (and hence short-term poverty relief);
- To provide needed public goods and services, at required standards (with the help of private sector implementation capacity but using public sector budgets); and
- To increase the potential for participants to earn a future income by providing work experience, training and information related to work opportunities, further education and training, as well as small, medium and micro-enterprise development.

The EPWP implementation plan document describes the programme and its objectives as follows:

“The EPWP is a nationwide programme covering all spheres of government and state-owned enterprises. It aims to draw significant numbers of unemployed people into

productive work accompanied by training, so that they increase their capacity to earn income" (Department of Public Works 2004:13).

Government aims to create the one million plus temporary jobs through the EPWP primarily by re-orientating line function budgets and conditional grants spending (for example Municipal and Provincial Infrastructure Grant spending) so that more jobs and training opportunities for the unskilled are created. This requires a change in technology towards the use of more unskilled labour techniques. In the words of the policy document, "[t]he programme involves re-orientating line function budgets and conditional grants so that government expenditure results in more work opportunities, particularly for unskilled labour" (Ibid).

Employment under the EPWP is to be governed by the *Learnership Determination for Unemployed Workers* and the *Code of Good Practice for Special Public Works Programmes*. The code was generated after discussions at Nedlac over how to change the conditions of employment in public works so that the costs of employment are lowered without undermining just labour practice. The code involves a number of measures, such as employers setting wage rates locally (at levels that avoid attracting workers away from permanent employment), reduced obligations for employers (including no UIF payment) and task-based payment (Ibid:15). These conditions only apply to employers if the workers are entitled to training and workers can only be employed under these conditions for a limited period of time (a maximum of 24 months in a five year cycle). All work opportunities are therefore to be combined with skills training or education, supposedly of the kind that will increase the ability of participants to earn an income once they exit the programme. Much of the current training in place for workers working on the EPWP, as opposed to contractors, is of the lifeskills variety. (McCord in personal communication). The Department of Labour, together with the SETAs, have a critical role to play in the programme in that they are responsible for co-ordinating the training and skills development that will be important for raising the long-term income-earning capacity of beneficiaries. The following exit strategies for beneficiaries have been identified (the second last of which is vague):

- Employment with a new employer;
- Further education and training;
- Self-employment;
- Ongoing employment with the same employer at normal conditions of employment;
- Being a better equipped work-seeker; or
- Learnerships and other longer term skills programmes.

The EPWP introduces three primary changes in government's approach to job-creation through public works programmes between 1994 and 2003:

- Firstly, in the wake of the termination of the Poverty Relief Fund on 31 March 2004, six of the job-creation projects implemented under the PRF are now transferred into the EPWP;⁴⁸

⁴⁸ The Poverty Relief Fund projects that are to be continued as part of the Expanded Public Works Programme include: the Department of Agriculture's *LandCare* project, the Department of Arts and Culture's *Investing in Culture* project, the Department of Environmental Affairs and Tourism's *Coastal Management, Waste Management, Tourism Infrastructure and Product Development* project, the Department of Science and Technology's *Agricultural Processing* project, the Department of Sport and Recreation's *Building for Sport Recreation* project and the Department of Water Affairs and Forestry's *Working for Water* project (National Treasury 2004b:135). These projects were identified by the independent review of the Poverty Relief Fund, conducted by independent consultants in 2003/04 (National Treasury 2004b:135).

- Secondly, the EPWP pushes job-creation not so much by stepping up spending on projects but - in the spirit of the suggestion in GEAR - by trying to use more labour-intensive technologies across all government spending programmes (particularly capital spending).
- Thirdly, the EPWP represents an *attempt* to improve the impact on poverty by linking up spending on short-term job-creation with spending on other programmes (such as the learnership and SMME development programmes).

The Department of Public Works has the lead responsibility for the implementation of the EPWP. A budget (as set out in Table 2) has been allocated to the department for the MTEF 2004/05 to fulfil this role.

Table 2: EPWP funding flowing to the National Department of Public Works

In R thousand	2004/05	2005/06	2006/07
EPWP funding	10 000	13 000	15 000

Source: National Treasury (2004a:128).

Note: This funding replaces the funding for the Community Based Public Works Programme.. Spending on the latter programme was 288 346 000 in 2003/04 and 275 001 000 in 2002/03 (Ibid). It needs to be pointed out that under the CBPWP funds were used for the actual funding of projects. Under the EPWP, DPW does not fund any projects and these budgets are used only for the overall coordination of the EPWP. (Lieuw Kie Song in personal communication).

Four areas of spending have been highlighted for action in terms of job-creation and training through the EPWP:

- Infrastructure spending (of which the provincial and municipal infrastructure grants are *currently* the primary vehicles – it is hoped that in future more funds will be provided through the equitable share and other municipal infrastructure spending);
- Public environmental programme spending (for example, *Working for Water*).
- Public social programme spending (for example on community care workers and early childhood development); and
- General government expenditure on goods and services that provide the work experience component of small enterprise learnerships.

Following this line of thinking, four sectoral sub-programme components of the EPWP have been created (Department of Public Works 2004: 15). Each sector component is driven by a lead department, which is responsible for developing the sector plan and co-ordinating implementation. Table 3 shows the expected spread of the one million temporary jobs across the sub-programmes, the average duration of jobs and the information available on the budget of each sub-programme over a five-year period. It is followed by a brief overview of each sector plan. Finally, this section of the paper then highlights the limited role of the EPWP within government's overall strategy to assist the unemployed and considers the potential for this programme to impact on poverty and unemployment.

Table 3: Break-down of EPWP job-creation targets across sectors and budget for the five year period beginning 1 April 2004/05

Sector	Work opportunities	Budget (R billion)
Infrastructure	750 000 (4 month duration)	15 billion
Environmental	200 000 (1 year duration)	4 billion
Social	150 000 (12-18 month duration)	0.6 billion (planned to increase to 2)
Economic	12 000 (18 month duration)	Still to be determined

Total	1 000 000 plus	R 19.6 billion
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Source: Department of Public Works 2004.

The infrastructure sector plan

The infrastructure plan is being led by the Department of Public Works and includes the Departments of Transport, Housing, Provincial and Local Government, Water Affairs and Forestry, Public Enterprises, Minerals and Energy, and Education. The Independent Development Trust also has a role to play. This sector programme involves using a portion of the existing conditional infrastructure grants to provinces and municipalities for labour-intensive projects such as the construction and maintenance of low-volume roads, storm water drains, trenching for pipelines and sidewalks. The success of the plan rests on the notion that the local labour content of these civil engineering projects will increase on average from 5% of project costs to 30% of project costs. Government is confident that this is possible as research suggests that such a technology change will not reduce efficiency and quality. In addition, money has been set aside to train engineers (particularly emerging contractors) in the labour-intensive techniques that can be used effectively. For example, 250 emerging contractors are to be put through the learnerships registered by the Constructions Education Training Authority to gain the necessary skills to build infrastructure using labour-intensive methods.

Implementation of the infrastructure sub-programme has progressed further than the other sub-programmes (particularly those in the social and economic sectors). Relevant SETAs have already developed accredited training courses for learners working on projects registered under the programme, and learnerships are registered (Lieuw Kie Song in personal communication and Department of Labour 2004). It is not however clear how many of the beneficiaries of learnerships other than those of the life are EPWP workers as opposed to contractors involved in the projects. This is something that needs to be clarified through research as the impact that the EPWP will have in terms of sustained employment creation and poverty reduction will be heavily influenced by the extent to which workers as opposed to contractors, benefit from training that equips them to earn their own income.

The environmental sector plan

The environmental sector plan is a joint initiative of the Departments of Environmental Affairs and Tourism, Water Affairs and Forestry, Arts and Culture, and Agriculture – with the former taking the lead. The plan builds on projects that already exist - such as the Department of Agriculture's *LandCare* project and the Department of Water Affairs and Forestry's *Working for Water* project. New projects will also be added, provided the necessary plans are put in place and funds are forthcoming. It is not clear how much progress has yet been made in developing an implementation strategy for the existing projects under the EPWP.

The social sector plan

The social sector plan, like the economic sector plan is still very much in the conceptual phase. This component of the EPWP is to be implemented by the Departments of Health, Education and Social Development, with the latter taking the lead. As indicated above, Early Childhood Development educators and community care-givers attached to government's Home-Based Care (HBC) programme are to be the primary beneficiaries of job-creation, income transfer and training. Not much progress will be made with this part of the plan until the training legs –including learnership content for ECD and HBC - are developed (Lieuw Kie Song in personal communication).

The economic sector plan

No budget was allocated for this sector plan in 2004/05 and it is still very much at the conceptual stage. The intention is to jump-start the plan with a micro-enterprise venture learnership project. Learners selected from amongst the unemployed will be registered on full-time SETA-funded learnerships and supported to set up SMMEs. The practical work experience component of these learnerships will be funded through public bodies allocating learning contracts to the learners and using general public sector expenditure on goods and services. The learners will graduate from their learnerships with the necessary technical knowledge to run their businesses, knowledge on how to tender for public sector projects, an NQF qualification, work experience and a credit track record (Department of Labour 2004: 16).

The role and potential impact of the EPWP

The EPWP has received a great deal of attention from the media and in popular discourse. This is of course partly due to government's own emphasis on the programme during the election period around April 2004. As McCord (2004a) has pointed out, the way in which the programme has been represented in the popular discourse suggests that there are inflated expectations about the poverty and job-creation impacts that can and will flow from the programme. This makes it important to stress that in the conceptualisation of government's entire strategy to support the unemployed, the EPWP has only been given a very small role to play. It also calls for clarity on the reasons why, in practice, the EPWP will not have a big impact on unemployment and poverty.

In the EPWP implementation document, government explicitly refers to the limited role afforded to the programme, as well as the need to see it as part of a broader attack on unemployment and poverty:

“While the EPWP provides an important avenue for labour absorption and income transfers to poor households in the short- to medium-term, it is not designed as a policy instrument to address the structural nature of the unemployment crisis. Moreover, it is merely one element within a broader government strategy to reduce poverty through the alleviation and reduction of unemployment” (Department of Public Works 2004:13).

The EPWP cannot be expected to have a large impact on employment and poverty for the following reasons:

- Firstly, the short-term direct creation of one million jobs is tiny in relation to the scale of unemployment in South Africa (8.4 million unemployed people using the broad definition and 5.3 million using the strict definition). McCord (2004a) points out that the annual temporary job-creation goal of the project (200 000 per year) means that the programme, if it reaches its target (which is unlikely in the first year) can provide temporary jobs for only 2% of the unemployed using the expanded definition and 4% using the narrow definition.
- Secondly, McCord's current case study research on the impact of the EPWP is showing that the wage income supplied to beneficiaries may have a favourable impact on the non-income dimension of poverty (such as food and clothing), but it is unlikely to be large enough to push people above the poverty line (Ibid).⁴⁹
- Thirdly, a number of factors are likely to undermine the translation of short-term job-creation into sustainable income capacity amongst many of the one million beneficiaries. For example, the wages earned by participants in the EPWP are likely to be too low to allow them to access and accumulate business and/or human capital. There may well be insufficient demand for the output produced by new

⁴⁹ Her research finds that close to 90% of beneficiaries remain under the poverty line (of R486 per adult equivalent per month).

enterprises and insufficient demand emanating from the mainstream economy for the skills produced by learnerships.

The EPWP is therefore expected to impact on poverty alleviation only on a limited scale. As McCord (2004a and 2004b) notes, it is thus important to make clear that the EPWP is not a measure that can close the social assistance gap or provide the much-needed short-term measures in government's strategy to assist the unemployed. Even if the EPWP reaches its maximum potential, there will still be millions of people looking for work in the economy but unable to find it. They will still struggle daily to meet their basic needs and be unable to turn to the state for income support. A large proportion of these will be youth. Additional government measures to assist the unemployed are desperately required. McCord (2004b:xiii) summarises the implications of government's newest short to medium intervention to assist the unemployed elegantly:

The EPWP 'does not offer an adequate social protection response to the growing problem of the working-age poor. There is an urgent need to open up the policy space to address this critical problem'.

CONCLUSION

Government's current strategy to assist the unemployed involves both job-creation and service and income provision, using many different indirect and direct measures. The strategy is implemented by a range of government departments. Inter-departmental co-ordination and alignment amongst the different programmes are therefore critical to making the strategy more effective.

The current strategy to assist the unemployed is comprised largely of elements proposed in the RDP and GEAR. Hardly any additional elements have been added since 2000. There is a new emphasis on reducing input costs by restructuring public utilities and some signs of commitment to expanding the potential role of co-operatives. Besides this, there is only one other new measure - the EPWP – and even this initiative is not really new. The programme reflects an idea that was present in the RDP and GEAR, but simply failed to take off sufficiently due to subsequent policy decisions and insufficient government investment spending.

The primary elements of the strategy to assist the unemployed through *job-creation* remain:

- Indirect assistance in the form of measures that aim to provide an environment conducive to higher rates of private investment growth and economic growth (via macro-economic, trade and industry policy);
- Indirect assistance in the form of investment in skills, so that productivity increases the demand for labour in the aggregate and the skills profile of labour suppliers is brought closer in line with labour demand (via human resource and skills development);
- Indirect and direct measures to support small enterprises and equity in employment and ownership;
- Direct assistance in the form of government spending on public works projects and infrastructure; and
- Indirect measures to facilitate moderation in wage growth.

In addition, the strategy aims to alleviate and reduce poverty amongst the unemployed by:

- Investing in and improving the implementation of programmes that provide affordable basic services (a process driven by the local government level);
- Investing in and improving the implementing of programmes that provide social services such as health, education and housing; and
- Spending on and extending the reach of social assistance programmes and welfare services targeted at children, people with disabilities and the aged.

However, while the key pillars or elements of the strategy have remained largely the same since 2000, there are important changes in the way the strategy is being implemented, relative to the 1996 to 2000 period:

- Greater attention is being given to the development and effective implementation of short-term measures of support to the unemployed. (However, the emphasis is still on the long-term measures);
- The post-2000 period brings a change in the relative weighting given by government to the various elements in the strategy. Small business support, skills development, support for priority sectors and temporary job-creation via public works have emerged as more important than containing private sector wage growth;

- The state is taking more action on the indirect support front by stepping up the level of demand in the economy (primarily through infrastructure spending), as well as devising an industrial policy that is more effective for economic growth;
- Through the implementation of the IMS, there is a greater emphasis on promoting modernisation and knowledge intensity in the manufacturing sector; and
- There is a new emphasis on joining up the different programmes to assist the unemployed and improving co-ordination and implementation;

The paper showed that there is reason to be concerned about government's strategy to assist the unemployed and a need for adjustment. On the indirect measure front, there is the problem that it seems unlikely that new measures – led by the IMS – will impact significantly on the demand for semi-skilled and unskilled labour. Hence, even in a high growth scenario – with success in implementing the indirect measures – it is probably that extensive structural unemployment will remain. This makes the direct measures of assistance are critical.

On the direct measure front, the paper showed that government must be commended for taking new action post 2000 to extend and improve short- and medium-term measures of assistance. This has included extending the CSG, taking action to improve SMME and skills development initiatives and introducing the EPWP. However, it also revealed a problem in that the extensions thus far are inadequate. The newest short- to medium-term initiative – the EPWP – the paper illustrated, will not have much impact on employment creation and poverty reduction. The EPWP is certainly not sufficient to fill the social protection gap that still remains in government's strategy to assist the unemployed.

Additional measures of direct support – such as extending social assistance grants to poor able bodied workers or more extensive spending on public works – are needed to prevent a continuation into the future of the situation where millions of people struggle to meet basic needs due to unemployment. The gap in social protection for the unemployed is an untenable situation - and one which we are challenged to rectify by virtue of the socio-economic rights in the Constitution.

One of the objectives of this paper is to shed some light on how best to monitor government's programming and budgeting for the unemployed. Looking at the design of government's current strategy to support the unemployed, where should the spotlight focus in monitoring? The large number of programme measures affecting job-creation and poverty relief for the unemployed – many of which are not targeted specifically at the unemployed – makes it difficult to track government programming and spending for the unemployed in a comprehensive way. Thus, the best option is probably to concentrate on following the design and implementation (including budget allocations and spending) of one programme measure at a time. Yet at the same time, the inter-dependence of measures makes it important for researchers concentrating on one measure to highlight how it relates to other parts of the strategy.

It is also worth noting that the spotlight in research should not focus too strongly on the EPWP, at the cost of monitoring other measures. It is important to track the implementation of the EPWP and in particular, to see whether and how short-term job-creation (for workers as well as contractors) leads to income generation capacity via training. However, there are other measures that promise to do more for the unemployed and hence, require the concentration of research efforts. For example, close attention is needed on how much progress is being made in the initiatives to support SMMEs and to stimulate growth and labour absorption in priority industries. Regarding the latter, particular attention needs to be paid to the question of the

differential impact of the measures on unskilled versus skilled labour demand. More concerted monitoring is also required to track developments (or the lack thereof) in the strategy to develop human resources and skills. Here an important question to address is the extent to which unemployed relative to employed workers are benefiting from the learnership and SETA initiatives. Another important project involves gathering decent data that will allow for drawing an accurate picture of the trend in government budget allocations and spending on the short and medium term leg of the strategy relative to the long term. Currently, the available data makes this very difficult. Finally, there is a need for continued research into what action is required on the ideological, financial and service delivery fronts to ensure that more immediate support is provided to the unemployed.

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APPENDIX 1

SOURCES OF EMPLOYMENT-CREATION IN THE GEAR POLICY DOCUMENT

	Formal	Non-formal*	Total
Higher output growth	189 000	119 000	307 000
Increase government induced employment	195 000	7 000	202 000
Improved elasticities and wage moderation	229 000	8 000	238 000
Interaction of growth and policy shifts*	79 000	7 000	87 000
Total	692 000	141 000	833 000

Note: Non-formal includes domestic service, semi-formal contractual employment and informal sector activities.

Source: Department of Finance 1996: Appendix 6 – The prospects for employment creation.

APPENDIX 2

GEAR OUTCOMES VERSUS THE GEAR OBJECTIVES

The GEAR integrated scenario predictions for key variables, 1996-2000

	1996	1997	1998	1999	2000	1996-2000 (average)
GDP growth (real)	3.5	2.9	3.8	4.9	6.1	4.2
Inflation (CPI)	8.0	9.7	8.1	7.7	7.6	8.2
Fiscal deficit	-5.1	-4.0	-3.5	-3.0	-3.0	-3.7
Employment growth	1.3	3.0	2.7	3.5	4.3	2.9
Private sector invest (growth)	9.3	9.1	9.3	13.9	17.0	11.7
Real bank rate	7	5	4	3	3	4.4

Source: Department of Finance, 1996:7

Note: By 2001/02, the fiscal deficit as a percentage of GDP had come down even further, to -1.4% of GDP (National Treasury 2004b:59).

Actual outcomes for key economic indicators predicted in GEAR (1996-2000)

Percentage	1996	1997	1998	1999	2000	1996-2000 (average)
GDP growth (real)	4.2	2.5	0.8	2.1	3.4	2.5
Inflation (CPI)	7.4	8.6	6.9	5.2	5.3	6.6
Fiscal deficit	-4.6	-3.8	-2.3	-2.0	-2.0	-2.9
Employment growth	-0.6	-1.7	-3.4	-2	-2.7	-2.0
Private sector invest (growth)	7.7	4.8	-1.8	-3.3	6.4	2.7
Real bank rate	7.9	7.4	11.1	8.8	6.1	8.3

Source: Streak 2004 for all except the bank rate, which was supplied by the South African Reserve Bank on 13 September. The real bank rate has been calculated using CPI inflation and annual average.

Note: CPIX has been used to indicate inflation in 2001. This is because the CPI indicator, the inflation measure used by GEAR, is not given any longer in the Budget Review for CPI. The data on the fiscal deficit as a percentage of GDP uses the main budget deficit and is for the financial years beginning in 1996/97.

APPENDIX 3

ANNUAL ALLOCATIONS TO DEPARTMENTAL PROJECTS VIA THE POVERTY RELIEF FUND, 1997/98 - 2003/04

Department	Programmes	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Agriculture	LandCare		25	20	25	25	25	40
	Food Security					10	10	10
Arts & Culture	Investing in Culture				9	25	30	42
Education	Thuba Makote: Rural school-building					48	34	64
	Ikhwelo: Adult basic education & training					25	40	50
Environmental Affairs & Tourism	Tourism development, coastal management, waste management			70	99	175	240	300
Health	Household nutrition projects	15	28	23	7	10	12	15
Housing	Social rental housing			75	-	75	75	-
Labour	Employment services & social plan information			46.3	3.4	3	-	-
	Social plan technical support facility			3.7	-	7	-	-
Provincial & Local Government	Local economic development and social plan			45	78	79	102	120
Public Works	Community-based public works programmes	85	374	377	249	274	274	274
Science & Technology	Agricultural processing projects				21	30	18	22
Social Development	Social development programmes	50	203	40	120	50	100	71
Sport & Recreation	Building for sport and recreation					40	90	129.5
Transport	Rural roads and bridges			100	-	94	100	100
Water Affairs & Forestry	Working for water	150	120	120	230	290	330	330
	Community water supply & sanitation and Spatial Development Initiatives		150	80	121	90	20	-
TOTAL		300	800	1000	972.4	1350	1500	1567.5

Source: National Treasury, in written correspondence.

APPENDIX 4

GROWTH AND DEVELOPMENT SUMMIT: LEARNERSHIP AGREEMENTS

Name of SETA	Number of learners
PSETA (Public Service)	10 000
MERSETA (Manufacturing and Engineering)	8 831
DIDTETA (Defence)	8 600
THETA (Tourism and hospitality)	8 000
MQA (Mining)	7 340
ETDP (Education and Training)	5 000
SERVICES (Temporary employment agencies and domestic)	4 148
TETA (Transport)	2 250
CETA (Construction)	2 174
HWSETA (Health and Welfare)	2 000
W&RSETA (Wholesale and Retail)	2 000
SETT (Information Systems)	1 500
CHIETA (Chemical)	1 466
FOODBEV (Food and Beverage)	1 200
FASSET (Financial Services)	1 200
CTFL (Clothing and Textiles)	1 080
BANK (Banking)	1 050
PAETA (Primary Agriculture)	1 000
FIETA (Forestry Industries)	825
ESETA (Energy)	782
LGW (Local government & Water)	670
MAPP (Media, Advertising, Printing, Publishing & Packaging)	653
SETASA (Secondary Agriculture)	489
INSETA (Insurance)	350
POSLEC (Police, Legal Services and Correctional Services)	300
Total	72 908

Source: Nedlac 2003a.