

**National Seminar on Reducing Unemployment and Poverty –  
International Experiences and Proposals for the  
Expanded Public Works Programme –  
Phase II**

2–3 September 2008

Kievetskroon, Pretoria

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## Acronyms

BUSA	Business Unity South Africa
CBO	community-based organization
EPWP	Expanded Public Works Programme
HSRC	Human Sciences Research Centre
ILO	International Labour Organization
Naledi	National Labour and Economic Development Institute
NEDLAC	National Economic Development and Labour Council
NGO	non-governmental organization
SA	South Africa





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## Introduction

1. Poverty is closely tied to unemployment in South Africa as it is in most countries. The problem is especially acute in South Africa as a result of a lack of social protection for the unemployed who are able to work and who must rely on a few fall-back options in subsistence agriculture and/or urban informal economy. Despite strong growth, the South African economy does not create enough jobs to satisfy the desires of those who want work. The official unemployment in March 2007 stood at 25.5, and a further 11 per cent of the population was considered to be discouraged workers (StatsSA, 2007). The experience of disadvantage in South Africa is intensified for different groups. For instance, the unemployment rate amongst black Africans was 30.2 per cent, compared to 4.3 per cent amongst the white population. Moreover, there are gender and youth dimension to unemployment in South Africa, with over 50 per cent of people aged between 15 and 24 years unemployed, and 30.8 per cent of women compared to 21.1 per cent of men unemployed.
2. The South African Government adopted a number of measures to reduce poverty and promote employment over the last decade, including the Expanded Public Works Programme (EPWP). The EPWP aims to create 1 million temporary work opportunities accompanied by training between 2004 and 2009, for the most disadvantaged South Africans. Since its inception, the EPWP has adopted an integrated approach to infrastructure development and increased the coordination among various government agencies. It has produced concrete results for the individuals engaged in the public works programme in terms of incomes, skill levels and work experience. Impact on the communities was also evident due to improved services brought about by better infrastructure. There is a demand for the programme. However, more needs to be done to enhance its effectiveness, impact and sustainability.
3. Critics of the EPWP claim it cannot provide an adequate response to the massive unemployment and poverty in the country because the jobs are episodic and the Programme's coverage and reach are inherently constrained by its dependence on existing public investment outlays and local institutional capacities. For EPWP to effectively meet the challenge of alleviating unemployment and poverty there is a need to re-examine and rethink the processes and approaches of the Programme.

## Objectives

4. The National Seminar on Reducing Unemployment and Poverty – The Role of the Expanded Public Works Programme was organized in order to contribute to the debate on the design of the EPWP Phase II to reduce the twin-problems of unemployment and poverty. It aimed to consolidate lessons from the experience of the first phase as well as lessons from similar programmes in other countries.
5. The Seminar had three tasks:
  - (a) to review findings and recommendations of a research on the wage income support provided by the EPWP;
  - (b) to examine issues and facilitate the exchange of views on options for scaling up the benefits and coverage of the EPWP, by drawing from assessments of the EPWP, views of national experts and relevant international experiences (including Argentina and India); and

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(c) to consider the critical issues relating to employment conditions and delivery mechanisms.

6. Three offices collaborated in organizing and facilitating the Seminar: the EPWP team within the Department of Public Works of the Government of South Africa; the Policy Integration and Statistics Department of the ILO; and the ILO Office in Pretoria. Main financial support for the Seminar was provided by the ILO–Norway Policy Coherence Initiative Project (PCI Project). The PCI Project promotes coherent national and regional strategies and policies for employment and decent work by, among others, drawing from country experiences lessons on policy models, institutional mechanisms and strategies that could lead to greater policy coherence and sharing them widely among policy actors. The EPWP and steering committees provided guidance on the content of the Seminar, and the Human Sciences Research Council of South Africa, and the Development Bank of Southern Africa co-sponsored the event.

## **Participants**

7. The Seminar brought together around 100 participants from national government agencies that are directly engaged in managing and implementing the EPWP (departments of public works, social development, environment) and members of the EPWP steering and technical committees, key national policy-making offices (Office of the President, Treasury, Parliament), provincial, district and municipal governments, social partners (Department of Labour, NEDLAC secretariat, COSATU, BUSA), research and academic institutes, national media and the ILO Offices in Pretoria and Geneva.

## **Programme**

8. The meeting consisted of ten plenary sessions and four parallel working group sessions. Session I introduced the context and objectives of the Seminar. Session II looked at the unemployment situation and considered employment scenarios in South Africa. This was followed by a review of the outcomes of the first five years of implementation of the EPWP. Session IV focused on the results of an investigation into the performance and differential impacts of the wage income support provided by the EPWP, the wage policy issue of the programme, and, on the basis of this assessment, alternative modalities of upscaling the benefits of the Programme. Session V reviewed the experiences of Argentina and India in public-funded job creation and employment guarantee programmes. The premises and feasibility of Minimum Employment Guarantee Schemes were also discussed in this session. Session VI consisted of presentations by representatives of the Presidency, Labour (NALEDI research institute) and Treasury on the macroeconomic and fiscal contexts and implications of upscaling the EPWP. On the second day, the first session considered draft proposals for EPWP Phase II and key challenges for going forward. This was followed by four working group sessions (one each for the social sector, environment, infrastructure and community works components of the Programme). Conclusions and recommendations from the working sessions were presented at the final plenary session.

## **Highlights of discussions**

### **Session I. Welcome and opening session**

9. Mr Joseph Ajakaye, Deputy Director, ILO Office in Pretoria, opened the Seminar on behalf of the Director of the ILO Office in Pretoria and on behalf of the ILO. He pointed

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out that reducing the twin problems of poverty and unemployment is a challenge that confronts many countries, including middle-income economies like South Africa and that demands an integrated decent work approach. In this regard, the ILO considers as highly important the role and potential of the EPWP in combining and interconnecting employment promotion and social protection objectives in the interest of poverty reduction. It provides poor and unemployed adults with minimum income support through direct job creation while creating or improving physical and social infrastructure that poor households and communities need for their livelihood and well-being.

10. The economic and social benefits of public works programmes do not come about automatically. Mr Ajakaye identified several factors which influence results of public works programmes: employment conditions including wage levels and duration of employment, the institutional and delivery mechanisms, operational procedures, and the methods of reaching target populations including poor women and other socially excluded groups, mobilizing their active participation and ensuring equal access to the programmes by groups differentiated along sex, race and ethnicity. There are also the concerns of cost-efficiency and sustainability of assets and benefits generated. Lessons in dealing with these issues can be drawn from decades of practical experiences worldwide; and from the first phase of the EPWP itself.
11. The ILO has extended technical support to the South African Government in the field of employment-intensive public works programmes since the Gundo Lashu project in 2001. Mr Ajakaye said that the Office is committed to continuing its technical assistance to South Africa in this policy area.
12. After the welcome remarks from the ILO, Mr Ismail from the Department of Public Works and master of ceremonies introduced the agenda and recognized the organizers and sponsors of the two days' seminar. He encouraged the active participation of all stakeholders.

## **Session II. The unemployment context: Employment scenarios**

13. Ms Miriam Altman, Executive Director of the Human Sciences Research Centre (HSRC) gave an overview of the national employment situation and challenges, and outlined a number of possible employment scenarios based on varying assumptions about economic growth rate.
14. Unemployment rate is very high: 36 per cent in urban areas and 50 per cent in rural areas, including discouraged workers. The share of long-term unemployed (i.e. looking for work for over a year and often more than three years) is high at 61 per cent of the unemployed. Close to two-thirds of the unemployed are below the age of 34 years, and are women. Gender disparities in labour market outcomes are reflected by women's lower labour force participation rate (51 per cent versus 64 per cent) and higher narrow (excludes discouraged workers) unemployment rate (31 per cent versus 21 per cent). More than half of the unemployed have not completed the matric level (i.e. 12 years of schooling). Although the rural unemployment rate is higher than the urban rate, most unemployed persons live in urban areas. About two-thirds of the workforce could be called "working poor"; they earn 2,500 rand or less each month and have limited access of health and unemployment insurance and private pensions.
15. Using three sets of assumptions concerning growth rate (3 per cent, 4.5 per cent, and 6 per cent), composition of the economy (e.g. high share of domestic-oriented services, commodity exports, and/or manufactures and skill-intensive services) and wage inequality (rising or stable), Ms Altman presented simple projections of employment scenarios: how

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many jobs might be created; how much would be the shortfall in jobs under different unemployment targets; and how many jobs special employment programmes should create. The main conclusions from the scenarios were that economic growth even at high levels will not be able to create enough new jobs; the public service sector and special employment programmes would have to expand to cover shortfalls.

16. During the open discussion, the consensus was that the EPWP could make an important contribution to reducing unemployment, especially among the poor and unskilled population. Participants suggested all government projects should include an EPWP component, aimed at maximizing employment-creating opportunities of public investments. It was also suggested that the Government should intensify dialogue with the private sector to discuss ways on how to have an integrated approach to employment creation. Everyone was called upon to play a role in solving the unemployment problem.

### **Session III. EPWP – The first five years**

17. Mr Stanley Henderson, Director, Monitoring and Evaluation Unit, EPWP, reviewed the performance and achievements of the EPWP and issues it faced during its first five years of implementation.
18. To date, the Programme has achieved 97 per cent of its target, i.e. 1.1 million jobs within five years across four sectors, i.e. infrastructure, environment, social and economic. However, it fell short with respect to its target for employing people with disabilities. The duration of jobs created were shorter and income benefits, smaller than expected. In areas where need for work was very high and work opportunities were few, job rotation was adopted, which led to smaller impact per beneficiary. Labour intensity was low and has not been increasing. Although the ratio of EPWP “work opportunities” to number of unemployed (official definition excluding discouraged workers) could be said to be substantial (an average of 11 per cent across provinces, but provincial ratios ranged from 6 to 18 per cent), it did not represent a significant reduction in unemployment.
19. In addition, Mr Henderson shared main findings of two studies that EPWP had commissioned and of the Mid-Term Review. Highlights of programme implementation in each of the sector are as follows:
  - *Infrastructure sector* – Job targets were met but work duration was too short. Local governments were mobilized for service delivery to fast-track implementation, but their capacities need to be further strengthened.
  - *Environmental sector* – Activities were largely built on established programmes. Targets were exceeded but the job duration was too short to be significant.
  - *Social sector* – Implementation was relatively slow compared to other sectors due to difficulties in the institutional structure. NGOs and CBOs were tapped for service delivery. Monitoring of progress remains a challenge.

### **Session IV. EPWP Performance and Impact, prospects/modalities for upscaling, research findings/alternative scenarios**

20. In coordination with the EPWP team at the Department of Public Works, and after a series of consultations with policy actors and stakeholders of the EPWP, social partners and national experts, the ILO initiated a research on EPWP in 2007. The ILO commissioned Dr William Mitchell, Director of the Centre of Full Employment and Equity in the

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University of Newcastle in Australia to design and undertake the research. The research focused on the wage income function of EPWP, and had three tasks: assess the impact of the wage income function of EPWP on unemployment and poverty and suggest improvements in programme design that would enhance impact; examine the wage structure of the Programme and minimum wage issue and propose guidance on what may be an appropriate minimum wage; and assess alternative options for upscaling the benefits of the Programme. Data used consisted of micro-dataset of a national survey on the environment component of the Programme (conducted by CASE), which was the only survey with reasonably good quality data for empirical analysis; labour force surveys, and administrative data of the Programme.

21. Based on a multi-level regression framework, the analysis of the CASE survey data clearly showed that EPWP participation significantly reduces poverty once the effects of other factors (personal, household and regional characteristics) and of multiple levels (variation within household, neighbourhood and region) are controlled. The poverty indicator used was minimum living level developed by Woolard and Leibbrandt (1999). Highlights of findings are as follows:
  - Gender and ethnicity differences influence the participants’ chances to escape poverty. Male and coloured participants are significantly more likely to escape poverty once entering the EPWP than female and African participants.
  - Having access to social grants during EPWP participation significantly reduces the chance that a household will remain in poverty relative to EPWP participants who are without access to social grants.
  - The location of EPWP participation (urban or rural) does not alter the success of EPWP participation in reducing poverty.
22. The research also demonstrated that the duration of EPWP work participation is a significant determinant of its impact on participants’ “stock of poverty”. The “stock of poverty” was defined as whether or not EPWP earnings were used to reduce outstanding debt, allow children to attend school, provide sufficient daily needs and/or acquire household items. Duration of more than five months led to significantly greater improvement. The average duration of EPWP jobs was 3.8 months. Dr Mitchell also revealed that the current allocation of EPWP jobs was not targeted at the most deprived areas and that spatially targeting would be important in alleviating poverty.
23. Dr Mitchell presented two sets of scenarios of scaling-up the EPWP and their corresponding public investment outlays. The first set of scenarios assumed the current annual number of EPWP jobs (i.e. 200,000) at three monthly wage rates based on current 900 rand monthly average and MLL poverty line: a scenario incorporating different durations of EPWP participation; a scenario incorporating better spatial targeting of jobs; and a scenario consisting of different job durations combined with spatial redistribution of jobs and their duration. The second set of scenarios explored the number of jobs and public investment necessary for acceptable reductions in the expanded unemployment rate under three assumptions, namely: EPWP jobs last 12 months; current high on-cost ratio and an ideal lower on-cost ratio; and three monthly wage rates. The high on-cost ratio, compared to India’s NREGP, emerged as a key constraint in scaling up the Programme.
24. The duration of employment and wage rates were two important design issues that needed to be reviewed for purpose of scaling up the impact of the EPWP. The Code of Good Practice, which set the employment conditions of special public works programmes, restricted the duration of employment and allowed deregulated wages to exist which reflect local private market settings. The combination of these two factors undermined the ability of the EPWP to achieve its primary aims of reducing unemployment and poverty. By

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allowing EPWP wages to be set locally, the South African Government allowed the private sector to dictate the minimum wages and placed the EPWP outcomes in the hands of the market. Using a simple regression trend line relating average job duration to average daily minimum wages from the EPWP data, the research found out that the shorter (longer) work opportunities had slightly higher (lower) rates of pay, and that low wages were accompanied by a low frequency and irregularity of work opportunity.

25. Dr Mitchell proposed principles, considerations and a framework for determining the minimum EPWP wage. A socially inclusive minimum wage is essential to reduce poverty. In the short to medium term, a minimum wage should guarantee each worker an income above some reasonable poverty line. In the medium to long term, the minimum wage should be broadened to include considerations aimed at improving human experiences and capacities of the population. Dr Mitchell recommended 1,000 rand per day as a starting point to provide a wage floor; implementation of a new wage floor would require a transition process. If 1,000 rand becomes a national minimum, private employers would be forced to restructure and there would be dynamic gains for new investments. The speaker did not look at labour supply response because reservation wage analysis to date was flawed. In addition, there was no conclusive evidence that minimum wage pushes up unemployment.
26. As a conclusion, Dr Mitchell argued that providing sustained access to EPWP employment and subsequent EPWP income accelerates the poverty alleviation process of the South African unemployed. In this environment, he proposed that an unconditional job guarantee would be ideal. South Africa is a modern monetary economy with tremendous potential to achieve full employment and social inclusion. A pre-requisite is to abandon unemployment buffer stock approach of neoliberal macroeconomics and instead use the EPWP as an employment buffer stock to fight against inflation and unemployment.
27. The open discussion sought further clarification on four issues:
- *Basis for calculating the appropriate minimum wage:* Mr Kostzer emphasized that the minimum wage is not only the price of labour; it is not about paying the marginal productivity of a worker. Rather, the minimum wage should be about the well-being of households, and helping them not to live in poverty. Dr Mitchell added that meeting an absolute poverty line, which is a minimum basket of goods and services, is required. But a sophisticated society should aspire to reduce relative poverty. A productive worker requires additional resources, and that providing people a capacity to smooth risks and accumulate assets is also an essential part of the developmental process. Optional employment guarantee programme needs to provide more than just a job since it deals with marginalized groups.
  - *Cause of South Africa's unemployment problem:* A widely held view was that the unemployment problem was a structural problem of the national economy. Dr Mitchell opposed this view and argued that it was a problem of demand deficiency – not enough jobs were being created to match the increasing labour supply.
  - *Market-based jobs versus EPWP jobs, and job guarantee:* Ms Altman stated that solving the unemployment problem called for creation of market-based jobs, and that EPWP jobs should not replace market-generated jobs, which would be the risk if EPWP jobs were paid at relatively higher wages. Dr Mitchell's position was that the private sector will work as it pleases, not guided by job creation objective; so the State must intervene and directly create jobs.
  - *Whether or not skills development should be provided within the EPWP:* Because of questions about the relevance and impact of training extended to EPWP participants, whether or not to retain it was an issue. Ms Altman said there was need for skills

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development within the EPWP. Dr Mitchell suggested a broader skills development strategy to complement EPWP.

## **Session V. Address of the Minister of Public Works**

28. Ms Thoko Didiza, Minister of the Department of Public Works, addressed the delegates of the Seminar. She mentioned that the national seminar is a concrete follow-up to the 12th Conference held in Durban.
29. The Minister noted that the EPWP was nearing its target of 1 million jobs. However, the Programme was still faced with the challenges of reducing poverty and underdevelopment. The Government needs to respond by creating more employment opportunities. It has to find better ways to use existing budgets to create employment, provide skills training to the unskilled and identify sectors where jobs can be created. Dignity should be brought back to the people of South Africa through working out of poverty. Partnership with the private sector needs to be strengthened. Further, interventions should focus on the young people, as they comprise a huge number of the majority of the unemployed.

## **Session VI. International experiences**

30. This session consisted of three presentations: an overview of minimum employment guarantees by Dr Mitchell; the Plan *Jefes y Jefas de Hogares Desocupados* of Argentina by Mr Daniel Kostzer; and the NREGA of India by Mr Santosh Mehrotra.

### ***Feasibility of job guarantee schemes – Dr William Mitchell***

31. Dr Mitchell discussed the main elements, premises and feasibility of job guarantee (also known as minimum employment guarantee). Under a job guarantee scheme, the Government continuously absorbs workers displaced from private sector employment. An example of “hiring off the bottom”, a job guarantee provides an unconditional bid for workers’ services at a given minimum wage; thus it places no upward pressure on the wage structure. Job guarantee workers constitute a buffer employment stock, increasing when private sector employment contracts or decreasing when the private sector expands. The scheme can therefore achieve and sustain non-inflationary full employment at any level of aggregate demand. The prevailing minimum wage effectively sets the national wage floor for the economy as a whole. The scheme is a progressive, forward-looking approach for a state aiming to rebuild communities based on the purposeful nature of work that can extend beyond the creation of surplus value for the capitalist employer.
32. Is job guarantee feasible in South Africa? Dr Mitchell deemed it appropriate for countries such as South Africa, which has a sovereign currency and which has an unemployment problem that is due to demand deficiency. The South African private sector is clearly unable to generate the level of employment commensurate with the willing labour supply. Hence, it falls back on the South African Government to generate the necessary employment via direct job creation. Dr Mitchell argued that many opportunities for paid jobs in the country were evident (i.e. not only in building much needed infrastructure but also in landscaping public areas, cultural development activities, social services) but that these were not being created by the private sector. This provides the EPWP an overwhelming mandate for its significant expansion.

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## **Argentina's Jefes y Jefas de Hogar Desocupados – Mr Daniel Kostzer**

33. Mr Daniel Kostzer, Social Development Cluster Coordinator of UNDP Argentina, reviewed the experience of Argentina's Plan *Jefes y Jefas de Hogar Desocupados* or the Employment Road to Economic Recovery. After the 2001 crisis, Argentina had to define a new strategy in order to manage the societal demands that had led to the fall of the previous administration. The Plan was developed and paved the way for a reduction of the contractionary effects that otherwise would have caused a catastrophic devaluation of the currency.
34. The Plan provided work for 750,000 who were reintegrated in the formal labour market, doubled the purchasing power of the minimum wage earners and contributed to the steady growth of the new macroeconomic environment. Women, those with low educational level, poor and young, sole female heads of households, comprised the great majority of participants. The Plan stimulated the political recognition of local governments as the selection process was allocated to the municipalities. The Plan had a number of political, social and local level advantages.
- *Political advantages* – It constituted a global strategy against exclusion and poverty by focusing on the employment conditions of the individual and restoring the citizenship status absent during the period of structural adjustment programmes.
  - *Social advantages* – It solved insufficiencies with respect to basic needs at the household level such as education, housing, skills training, and participation in decision making at the local level.
  - *Local and regional advantages* – It improved infrastructure and proximity services through involvement of beneficiaries in local infrastructure and generated multiplying and accelerating effects by inducing demand at the local level
35. In conclusion, the experience of Argentina's Plan demonstrated that the State can always perform the role of employer of last resort in the framework of an aggregate demand type of employment. There are basic requirements though, such as efficient and creative management, serious technical evaluation, transparency and strong political will for the State to effectively fulfil its role and for a country to achieve its goal of full employment.

## **India's National Rural Employment Guarantee Act – Mr Santosh Mehrotra**

36. Mr Santosh Mehrotra, Senior Adviser for Rural Development, Planning Commission, to the Government of India, presented the experience of India's minimum employment programme under the National Rural Employment Guarantee Act (NREGA) of India.
37. The NREGA has two objectives: first, provide work and, thus, incomes for landless labour and marginal farmers in the lean season for labour demand; and, second, create assets that raise land productivity and, thus, contribute to the reversal of declines in agricultural yields. It addressed many of the weaknesses of earlier programmes through several features in its design:
- it introduced a rights-based framework;
  - it introduced a legal guarantee of work, as opposed to a government programme which could be withdrawn by a government at will;



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- time-bound action to fulfil guarantee of work within 15 days of demand for work;
  - incentive structure for performance (central government funds 90 per cent of costs of generating employment);
  - disincentive for non-performance (unemployment allowance to be paid within 15 days if work not provided within 15 days is a state government liability);
  - demand-based resource availability; and
  - accountability of public delivery system through social audits.
- 38.** The average number of person days of work provided per household was 43 days. The works carried out so far under the Programme suggest that the groundwork is being laid for raising productivity in the future. The NREGA provided opportunities for people to contribute in regenerating agriculture. The works undertaken were on:
- water conservation and water harvesting;
  - drought proofing including afforestation;
  - irrigation canals;
  - provision of irrigation facility;
  - renovation of traditional water bodies;
  - land development;
  - flood control works;
  - rural connectivity.
- 39.** Despite the gains, the NREGA still has a lot of challenges ahead. The lack of people's awareness of their entitlements under the Programme is one. This is a problem even in districts under the current phase. To address this, several actions have to be taken such as conduct one-day orientation of all *sarpanches* at the block level and prepare advertisements in local vernacular newspapers, radio, television, films and local cultural forms, leaflets and brochures in simple language. Lessons have to be learnt for Phase III districts from that experience. Awareness of not just the NREGA but most other government programmes needs to be raised.

### **Open discussion**

- 40.** In the subsequent open discussion, a concern was raised on whether or not skills development should be included in job guarantee programmes. Mr Mehrotra pointed out that skills development was not a part of the NREGA, but qualified that it was an essential component of the strategy for inclusive growth and should be provided elsewhere.
- 41.** Further clarification about the fiscal feasibility and sustainability of job guarantees were sought. Dr Mitchell responded that in principle governments should use their fiscal power to ensure that everyone has a job, and that governments have a unique role in creating a demand for work. He pointed out that using public money in creating jobs that reduce poverty as well as provide services and assets should be viewed as an investment.

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42. The issue that a job guarantee might draw away people from the private sector was again raised. Dr Mitchell emphasized that a job guarantee programme should not compete with private sector jobs but rather employ those that the market cannot absorb.
43. In summary, the following are key elements which shaped the outcomes of the country programmes presented:
- *Political commitment at the highest level* – Poverty and unemployment have political roots and upscaling of a job guarantee programme would depend on political choices
  - *Role of local institutions in delivery* – For increased responsibilities of local institutions an intensified capacity building programme is necessary
  - *Clear targeting of beneficiaries* – Need to be specific if the programme is directed to household heads, to the poorest or to the unskilled
  - *Multi-stakeholder partnership is critical* – Partnerships with the private sector, communities, contractors, workers and their families need to be strengthened
  - *Consideration of the social dimension of the programme* – Effects on the dignity and social development of the beneficiaries are of utmost importance; job guarantee programmes need to be complemented with social assistance such as social grants, child allowance and health insurance schemes.

## **Session VII. Macroeconomic and fiscal perspectives: Implications for South Africa and the EPWP going forward**

44. Macroeconomic and fiscal perspectives of the EPWP and future challenges were presented by Mr Alan Hirsch, Chief Director of Economic Policy of the Office of the President; Mr Rudi Dicks, Executive Director, NALEDI Research Institute, and Mr Kuben Naidoo, Head of Budget Office of the National Treasury.
45. Mr Hirsch traced the unemployment problem to the inability of industries to create jobs especially in the rural areas. He highlighted the feminized structure of poverty, which he attributed to women's low labour force participation rate. The high concentration of young people among the unemployed was also underscored.
46. In this context, scaling up the EPWP is critical to create more impact. There is a great need for a longer term public works programme to reach the ideal employment and growth rates for South Africa. Mr Hirsch affirmed the achievement of the EPWP target. For the second phase, the design of the EPWP need to be reassessed and consider the trends mentioned earlier.
47. Mr Dicks noted that employment growth in South Africa remains evidently weak. Because the market has failed to create jobs, there is need for the Government to adopt an "interventionist strategy". The speaker endorsed public budget support for the EPWP as a poverty reduction strategy.
48. According to Mr Dicks, upscaling EPWP requires a significant policy shift. The Programme should be seen as a longer term initiative that can support workers to move into formal employment. Some EPWP jobs would need to be turned into permanent work. It must support reduction of poverty and wage inequality, and promote income growth. Jobs created under the EPWP should be expressed in full-time equivalents. The speaker further suggested that the NEDLAC agreement on employment conditions in special public

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works programmes would need to be reviewed to allow a constant assessment of the wage levels within the EPWP.

49. Mr Naidoo noted that employment has not been at the centre of national economic policies. He affirmed government support for a second phase of the EPWP pointing out that the country needs a longer term expanded public works programme in order to produce significant impact on reducing poverty and unemployment. The Government has invested a substantial amount in the EPWP and will continue to do so. Mr Naidoo stated that the Programme needs to adopt a more demand-driven approach with a performance-based financing mechanism.
50. The subsequent open discussion raised issues and questions regarding ways to enhance the effectiveness of the EPWP in addressing the unemployment problem, the employment problem in general and the fiscal capacity to address it.
- One of the major criticisms against the EPWP is that it addresses only the surface of the problem; it does not directly provide solutions. Mr Tseggai Elias noted that productivity rates in the Programme were very low (reference to high on-cost ratio of jobs created) such that a major challenge in the next phase is increasing productivity (jobs created) without increasing the costs. Ms Altman identified training and a clear strategy for targeting as absolutely essential or critical for EPWP. She also pointed out there is a need to look at other sectors that could support the EPWP.
  - Dr Mitchell suggested a more evidence-based research to measure the significant impacts of the EPWP.
  - Mr Kostzer reiterated the importance of putting employment at the centre of socio-economic policies, and suggested that employment targeting is an important step to ensure this. Ms Altman noted that intensifying investments in science and technology and a reorientation of the education curriculum are required to address the economic needs of South Africa. Mr Mehrotra pointed out that, in the case of India, investments in technology contribute a very small part of the country's growth. It is the increase in investments in health and education that has contributed highly to the India's growth and made its progress comparable to an Asian miracle.
  - Dr Mitchell further clarified that South Africa has the fiscal capacity to address the unemployment problem through public-funded job creation. South Africa continues to be a resource-based economy with a high unemployment rate of 23 per cent. But investment rate is at 22 per cent of GDP and savings rate is at 14 per cent of GDP. The gaps would have to be financed by foreign savings, so the foreign sector would accumulate South Africa's financial assets. But, there is a concern on how to raise domestic savings if the country continues to have a high budget deficit. These budget deficits provide the private sector an opportunity to accumulate wealth. There is consensus that the EPWP should continue and it should be scaled-up to reach a critical mass and have significant impact on employment generation and development.

## **Session VIII. Draft proposals for EPWP Phase II and some of the key challenges going forward**

51. Mr Maikel Lieuw-Kie-Song, former Operations Director, EPWP, presented draft proposals for the EPWP Phase II and noted some of the key challenges for going forward. Three main issues that affect the impact of the EPWP are: duration of work opportunities, training framework and targeting. Key issues that impede growth are: limited authority of

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the Department of Public Works in providing incentives to drive the programme, lack of effective mechanism to mobilize funds to scale up, supply-driven projects, integration of the EPWP into line function budgets, lack of uniform wage structure and employment conditions, no increase in the labour intensity of projects, and limited capacity of some of the implementing bodies.

52. Scaling up EPWP Phase II requires measures that allow for better services and scaling up of key programmes and testing new programmes. Funding modalities were also an issue, for which two have been suggested: supplementary budgets and a new dedicated funding stream which could be tested in a proposed component involving NGOs and CBOs.
53. Mr Lieuw-Kie-Song presented some of the gaps and potentials for each of the sectors of the EPWP, namely, infrastructure, environment and social sectors, which demand attention in planning Phase II.
- *Infrastructure sector:* Decentralized format of delivery with budgets and implementation involving multiple departments and national, provincial and municipal levels offers advantages as well as disadvantages. Maintenance work offers a potential for long-term employment programmes. There is a call for establishing new institutions with the purpose of doing things more labour intensively. The decentralized structure can also be maximized. Performance-based allocations based on minimum wages to be paid to beneficiaries. The expectation is that there is gradual improvement in the performance of the programme.
  - *Environmental sector:* Most of the activities are project based but many programmes could benefit from being structures as long term employment programme given the ongoing nature of some of the activities. All of the programmes in this sector are generally in a good position to scale-up. Budgets are the main constraint.
  - *Social sector:* There is a need for long-term employment programmes, as well as expansion of new areas. Additional expansion areas have been identified and scoped, but cabinet approval is still pending before operationalization. There is a need to upscale and consolidate existing programmes as part of the longer term.
54. A new component was being considered for Phase II – community works programme. Mr Lieuw-Kie-Song noted that state capacity alone cannot expand the EPWP. Non-state resources need to be mobilized to complement state resources. Focus should be on public assets that link directly to service delivery and in mobilizing the capacity of non-State actors. Hence, a proposal to implement a new programme focusing on community works. This programme can be implemented through the Presidency and models are available for rapid expansion and scaling up to 26 demonstration projects.

## **Session IX. Plenary discussions**

55. Representatives of the four working group sessions presented the results of their discussions. These concerned four components of the EPWP: environment, community works, social and infrastructure sectors.
56. Among the common issues raised by the four working groups include the following:
- *Wages provided in the programme are insufficient and relatively low.* It is suggested to review the wage-setting mechanisms to come up with a standardized wage rate across sectors.

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- *Duration of work is of primary concern.* The working groups agreed that the longer the duration of work, the greater is the impact on the beneficiaries as well as on the achievement of the programme's goals.
  - *Targeting needs to be aligned with the guidelines of the EPWP,* with priority consideration to women, youth and persons with disabilities.
  - *The role of local authorities, in particular the provincial and municipal governments, is very important.* Service delivery through them will enhance the effectiveness and expansion of the EPWP. However, there is recognition that the capacities of local authorities are limited. Therefore, capacity building for them is highly recommended. Incentives for more proactive engagement of local authorities are also suggested.
  - *The national government has to increase its budget allocation to expand and upscale the EPWP.* Further, non-state resources can also be mobilized to support government funds. A clear resource mobilization strategy to involve non-State actors is required.
  - *Multi-stakeholder participation in sector planning is essential.* This would require extensive groundwork and sharing of the correct information to encourage more participation from all actors.
  - *Training is a necessary component of the EPWP.* However, a broader skills development strategy, accompanied with adequate funding and technical support for skills mapping is required to create greater impact.

**57.** In addition, each of the sectors had their own sector-specific concerns, issues and recommendations. The environment suggested the need to provide clear guidelines for the sector with some examples and a package set for municipalities or provinces in delivering the Programme. The guidelines should also have clear exit strategies and some elements of the conditions of employment need to be revised. Information systems need to be aligned and better monitoring and evaluation systems need to be in place. The sector further recommended the conduct of a sector-specific seminar to look at in more detail the issues raised. A media drive to bolster the environment and culture sector is also highly recommended.

**58.** The community works programme is a new addition to the EPWP. Through this new programme, risks will be taken to address key economic and social problems. It offers an opportunity for people to gain through social participation. It provides structures to empower communities at the local level through the community development approach. Since this is a new programme, a number of concerns were raised.

- First, is the issue on how this new programme will link to existing systems and processes.
- Second, is how to ensure the quality of assets. There is an assumption that people at the community level have skills. However, this assumption may be incorrect.
- Third, capacity of local officials needs to be addressed as well as this is critical for service delivery.
- Fourth issue raised is the distinction of the community works programme and the community-based public works programme. This requires clarification.
- Technical requirements have to be linked with political will and community needs and wants. Implementing agents are the core, hence, they need to understand what needs to be done. The community works programme need to complement processes

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and systems. The continuum of community participation needs to be determined. Private sector funding may be mobilized.

59. The social sector deemed necessary the training component of the EPWP and recommended that the funding for training should be linked with the operating budget and institutionalize this component of the EPWP for sustainability. The sector also recommended a review of the Special Code of Practice to consider the inclusion of long term employment programmes in order to prevent people from going back to poverty after the completion of any project implemented on a short-term basis.
60. For the infrastructure sector, incentives and capacity for the State to deal with the resistance to change are deemed important. Commitment of public bodies and communities to identify appropriate beneficiaries is essential. Two recommendations were made by the sector on the way forward for the EPWP:
- first, to promote incentives and capacity of bureaucracy especially in the rural areas; and
  - second, to address resistance to change by setting standards and benchmarks to engage with a wide audience in planning and implementation.

## **Session X. Summary and closing session**

61. The international experts, Mr Mehrotra, Mr Mitchell and Mr Kostzer, were asked for concluding statements.
62. Mr Mehrotra emphasized the need for high administrative capacity and dedicated staff to ensure the efficient implementation of a job guarantee programme. The training component of the EPWP can be retained if the large private sector can commit to absorb those who have been trained. Major issues that need to be considered are: (i) is the child allowance drawing away people from EPWP jobs? (ii) how effective is the South Africa's system in providing credit to SMEs? (iii) the role of NGOs in monitoring and in social auditing can be considered as well. It is recommended that capacities at the community level need to be created. For the next phase of the EPWP, the design and objectives need to be simple.
63. Dr Mitchell emphasized the importance of addressing the macroeconomic constraints to address the issue of providing continuous and steady work. He reiterated the need to scale up the EPWP as broadly as possible. The proposed zero grade level will only reduce the standard positions in the public sector.
64. Mr Kostzer emphasized that the EPWP should move beyond being a pilot programme. Implementers of the Programme should think big. He reiterated the role of the State as an employer of last resort, and that the EPWP is a window of opportunity to strengthen the State's role in addressing the employment problem. The national government needs allies from the local governments to expand the EPWP. Civil society participation is also essential.
65. In conclusion, Mr Ismail informed all participants that the ideas and plans put forward by the sectors will be further reviewed. High level general confirmation of the recommendations would be sought before these could be taken forward. The general consensus was that there were significant opportunities to scale up the EPWP. The EPWP should think big, take risks and solve problems while doing.

## **Appendices**





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## Appendix I

### **National Seminar on Reducing Unemployment and Poverty – International Experiences and Proposals for the Expanded Public Works Programme – Phase II**

#### ***Draft programme – Version 4 (15 August 2008)***

*Date:* 2–3 September

*Venue:* Kievetskroon, Pretoria

Working title: Reducing unemployment and poverty: The way forward for the EPWP – Phase II. Drawing lessons from the EPWP – First phase and international experiences”

#### *Objective*

The Forum aims to contribute to debate on the role and the proposed design of EPWP II to reduce the twin-problems of unemployment and poverty.

The Forum will bring together a wide range of EPWP stakeholders including EPWP decision-makers and managers, partner departments and agencies, academics and specialists and concerned policy actors to:

- (a) review the employment and unemployment trends in South Africa to discuss policy options for addressing these in general and the role of the EPWP and other public employment programmes in particular;
- (b) review findings and recommendations of research work done on the EPWP wage income function done by Dr Bill Mitchell with funding from the ILO;
- (c) examine issues and exchange views on options for scaling up the benefits and coverage of the EPWP -including Job Guarantee option- based on research reports of international relevant experiences (including Argentina and India) and other national expert views; and
- (d) consider the critical issues of employment conditions and delivery mechanisms to contribute to the refining of proposals for the EPWP Phase II.

The seminar is co-hosted by the DPW (EPWP), ILO, DBSA and HSRC.

#### ***Draft proposed programme***

Day 1: Reviews and policy options			
Day 1	8:30–9:00	Coffee and registration	
	9:00–9:15	Welcome and opening remarks	Bongani Gxilishe: DDG EPWP ILO
	9:15 –10:00	The unemployment context: Employment scenarios	Miriam Altman HSRC
	10:00–10:30	EPWP: The first five years	EPWP: Bongani Gxilishe

Day 1: Reviews and policy options			
	10:30–10:45	Tea/coffee break	
	10:45–12:00	EPWP performance and impact; prospects/modalities for upscaling; research findings/alternative scenarios.	<b>A. King Dejardin</b> (Brief introduction of research) <b>B. Mitchell (30 Minutes)</b> Open discussion (45 minutes)
	12:00–13:00	Lunch break	
	13:00–15:00	<b>International experiences</b> (1) Minimum Employment Guarantee Schemes: premises and feasibility; (2) Argentina's Plan <i>Jefes y Jefas de Hogar</i> (3) India's National Rural Employment Guarantee Programme Clarification/Question/Answer sessions	<b>Moderator:</b> <b>B. Mitchell</b> , Centre for Full Employment and Equity (CoffEE) 30 min. <b>Daniel Kostzer</b> , UNDP Argentina 30 min. <b>Santosh Mehrotra</b> , Planning Commission, Government of India (30 min.) (30 minutes)
	15:00–15:15	Tea/coffee break	
	15:15–17:00	Views from macroeconomic and fiscal perspectives: Implications for South Africa and the EPWP going forward	<b>Moderator/Facilitator:</b> Speakers: Kuben Naidoo: National Treasury Alan Hirsh: Presidency Rudi Dicks: Naledi Discussion
	17:00–17:30	Conclusion of day 1	Facilitator

Day 2: Operational and implementation challenges				
Day 2	8:30–9:45	Draft proposals for the EPWP Phase II and some of the key challenges going forward	Maikel Lieuw–Kie–Song	
Delivery mechanisms Phase 2 (Parallel sessions)				
	Social	Environment	Infrastructure	Community works
Facilitator	Kele Sethibelo	Matilda Ntsoane	Ravi Naidoo	
Sector inputs	Oupa Ramachela	Lerato Matlakala	Maikel Lieuw Kie Song	Kate Phillips
10:00–12:30	Key issues for discussion (1) What numbers can the sector reach? (2) What are the employment conditions that would apply? (3) What are incentives that could apply? (4) What are the institutional implications?			
12:30–13:00	Lunch			
13:00–14:00	Presentation in plenary of groups			
14:00–15:00	Summarizing and closing session			EPWP

## **The National Rural Employment Guarantee two years on: Where do we go from here?<sup>1</sup>**

If the National Rural Employment Guarantee (NREG) achieved two outcomes, it would have achieved its objectives: first, provide work and thus incomes for landless labour and marginal farmers in the lean season for labour demand; second, create assets that raise land productivity and thus contribute to the reversal of declines in agricultural yields. By definition, the second outcome would be a second-round effect; hence, one should not even be expecting this outcome in the first three to four years. As the capacity of their own farms to support their family incomes improves, marginal farmers will revert to working almost exclusively on their farms. They will no longer need to depend on public works – although the demand for work from landless labourers may not fall. NREG is unique in being a demand-driven programme<sup>2</sup>; if labour's need for work falls, the fiscal requirements of the programme will fall. While previous wage employment programmes (e.g. the Sampoorna Grameen Rozgar Yojana, the nationwide programme that NREG has now replaced since 1 April 2008) might have seen ever-increasing allocations, the allocations for NREG could well take an inverted-U trend. In other words, if implemented properly, the allocations to NREG, while rising initially, can fall over time – even though it covers the entire country.

Several second-round effects of the first outcome (i.e. of a rise in lean-season wages in rural areas) are already visible. First, it is raising wages in the areas where NREG works are implemented (Table 1 shows wages by state). The table shows the prevailing market wage rates for agricultural activity prevailing in 2005, just before the launch of NREG. Notice the difference in market wage rates and NREG rates; this is especially noticeable in the case of women, who are paid the same rates as men under NREG. *Even though NREG rates are not time-based but piece-rate wages, by and large those rates are being paid – as awareness among workers about their entitlement has risen.* Second, there is anecdotal evidence emerging with workers saying they do not need to migrate to other rural areas (e.g. Bihari labourers saying they don't need to find work in Punjab, which in turn will impact wages in Punjab over time).<sup>4</sup> The decline in migration – initially in cyclical and eventually in permanent migration – to urban areas will take the pressure of congestion off already overwhelmed cities (IHD, 2006).

We have a long history (of at least four decades in post-independence India) of wage employment programmes, and reviews of these programmes had shown the following perennial weaknesses:

- Low programme coverage
- More than 50% beneficiaries not from most needy group.
- Bureaucracy dominated planning; little participation of community in planning
- Work to women lower than stipulated norm of 30%
- Only 16-29 days employment provided to household
- Assets created not durable
- Corruption: Reports of false muster rolls; Contractors persisted; Payment often less than prescribed wages (ARC, 2006).

It is also well-known that NREGA addressed many of the weaknesses of earlier programmes through several features in its design:

- NREGA introduced a Rights Based framework;
- It introduced a legal guarantee of work, as opposed to a government programme which could be withdrawn by a government at will;
- Time bound action to fulfill guarantee of work within 15 days of demand for work;
- Incentive structure for performance (Central government funds 90% of costs of generating employment);
- Disincentive for non-performance (unemployment allowance to be paid within 15 days if work not provided within 15 days is a State government liability);
- Demand based resource availability;
- Accountability of public delivery system through social audits.

This paper deals with key issues of design and of implementation – and examines the experience with the programme in its first two years with the latest programme data available. Section 1 summarises key areas of progress as well as weakness in the programme. Section 2 outlines key areas where remedial action to address the weaknesses is either being taken or actively considered.

## **1. Where do we stand now?<sup>5</sup>**

### *Person-days of work generated*

The number of *person-days of work provided* per household (by those households who demanded work) in the country was 43 days on average in India as a whole in 2006/7 (the state-wise figures are in Table 1).<sup>6</sup> The programme was initiated in the Phase 1 districts (200 most backward districts of the country) starting February 2006 – and lack of awareness about the programme was widespread. Despite the lack of awareness about the guarantee of 100 days of employment (which was an important novelty compared to earlier wage employment programmes), an average of 43 days was achieved in the very first year of the programme. Perhaps the most important point is that the SGRY, the wage employment programme funded by the Central Government which has covered all the non-NREG districts in the country till 31 March 2008, had generated only 26 person-days per household of work in 2005/6. This is not surprising since the programme was driven by contractors – who preferred to use machines where human labour could be used. Also, unlike in NREG, there was no 60:40 ratio applied to the shares of wage:non-wage items in programme expenditure – which also led to machines replacing human labour.<sup>7</sup>

Nevertheless, there is little reason to be complacent about having achieved 43 days of work for rural households demanding work. Table-I shows, even in 2007-08, only 42 persondays of work has been generated in the 330 districts under NREG on average. There is an important implication of the limited number of days of work generated so far. The lack of awareness has had a telling impact, and the results in Phase 3 (starting 1 April

2008) will only be better if staff are recruited and trained in adequate numbers in all states to enable work to be generated.

The *total* employment generated under NREG is clearly much larger than earlier employment programmes, e.g. SGRY and NFFWP (Table 2).<sup>8</sup> The earlier programmes, which covered the whole country, generated 748 million person days in 2002-03, and 856 million in 2003-04. Under NREG, the figure was 905 million in 2006/7 for only 200 districts, and 1437 million in 2007-08 (Table 2), partly reflecting the expansion of coverage to 330 districts and also improved preparedness.

Clearly, the demand for work is significant. In just 200 districts, there are 2.1 million households that completed 100 days of work (or 10% of all households that demanded work), despite the lack of awareness. In fact, the number rose to 3.5 million (or 11% of all households getting work) in 2007/8. Chhattisgarh, MP, AP, Rajasthan – all poor states, have the highest number of households completing 100 days of work.

#### *Differential performance of states*

The state-wise figures for person days of employment generated per household (2006-07 and 2007-08) are summarised in Table 1 and show considerable variation across states. The highest number of person-days is for Rajasthan – 85 per household – whereas in U.P. it is only 32 days and in Bihar 35 (2006/7). Since the incidence of poverty in U.P. and Bihar is high, and this should have led to a demand for jobs, the poor performance of these states almost certainly reflects inadequate effectiveness in the field. Bihar has done worse in 2007-08 than it did in 2006/7, and UP not much better (See Table 1). Among the BIMARU states, the only ones that did consistently well in both years were MP, Chhattisgarh and Rajasthan, with about half of all Rajasthan households who demanded work getting 100 days of work, and a fifth of MP households similarly being offered 100 days.

West Bengal generated only 14 days of work in 2006/7, the lowest for any state with a large number of Phase 1 districts, and barely made any improvement in the following year (22.5 days per household provided employment).<sup>9</sup> Given that these states (the BIMARU ones and West Bengal) account for a very significant share of the poor of the country, this performance is doubly disturbing.<sup>10</sup> Among the southern states, Orissa had generated 57.5 days of work per household in the first year, but fell back to 37 days in the second. Tamil Nadu picked up significantly from 27 days in the first year to 57 days in the second. Kerala generated 23 days in the first year, and 28.6 in the second. Karnataka provided 41 days in the first and 44 days in the second year. In Kerala, where normal wage rates are higher than under NREGA, only 23 and 28.6 days of work were generated per household in the first two years.

#### *Performance by district*

In Table 4 we present the total person days and person days per household of employment generated by district. One objective here is to assess whether there is any learning going on in the Phase 1 districts, which now have had two years of experience of

running the programme. In AP, there is a sharp increase in the number of both total person days generated, as well as per household; in fact, the average per household falls in 2007/8 as a result of the addition of new districts (from 47 for 2006/7 to 42 in the second year). In Chattisgarh too there is a sharp improvement from the first year to the second in terms of employment generated.

In Bihar there is a consistent decline in almost all districts in the second year compared to the first in respect of the person days per household generated. The total person days generated in the second year also show some fall in the Phase 1 districts. As in AP, the Phase 2 districts have generated much less employment than Phase 1 districts. In MP, too relatively less work was generated in the Phase 2 districts than in the Phase 1 districts. The same applies to Orissa.

Maharastra is interesting, since it is one of the six states of the country where not only have the number of poor been growing (in almost all other states the numbers of poor have been declining from 1973 to 2004/5), but poverty is getting geographically concentrated (along with UP, Bihar, MP, Chhattisgarh, Jharkhand). Maharashtra showed some improvement from the first year to the second. The districts of Vidharbha region, which have been seen a concentration of farmer suicides in recent years, however, do not show much improvement, and work generated there has remained relatively low.

In Rajasthan, the star performer in terms of employment generated, all districts have uniformly managed to generate a significant amount of work.

In Tamil Nadu, clearly there was learning going on between the first and second year in the Phase 1 districts, since the total person days as well as per household person days both shoot up in the second year.

Even in UP there seems to have been learning going on between the first and second year in the Phase 1 districts, since most districts show an increase in employment generated.

#### *Self-targeting is working*

While the share of Scheduled Castes (SCs) in India's population is 14%, their share in households who received employment under NREG is 27%. In fact, while the share of Scheduled Tribes (STs) in the total population is only 8%, they constituted 32% of the total employed under NREG. This is of particular significance since NSS data for 2004/5 shows that 80% of the poor in India are either SCs, STs or Other Backward Classes (OBCs) (with the incidence of poverty highest among the STs followed by SCs). The fact that an overwhelming proportion of workers are SCs or STs demonstrates that the self-targeting, seen as an unique selling proposition of the NREG, is actually working (ISWSD, 2006)

The Act requires that at least one-third of the beneficiaries shall be *women* who have registered and requested for work. In fact, women constituted 46% of all persons working in 2007/8. This is not surprising since men are more likely to have already migrated in labour-surplus backward districts where the NREG was implemented first. Only in UP

(14%), West Bengal (16%), Bihar (19%), and Assam (23%) are women not one-third of the beneficiaries.<sup>11</sup> These four state governments should examine what is holding back women from taking advantage of the work opportunities afforded by NREG. However, the fact that women are coming out to do hard labour – which is what NREG works normally entail – despite the fact that 56% of India's women suffer from body-debilitating Anaemia, cannot be seen as acceptable. It cannot be seen as acceptable also because per capita overall calorie consumption has consistently declined in India since 1983 (according to NSS data). *The Health Ministry of state governments may need to cooperate with the Rural Development Ministry of the state government to ensure that women that come to work are provided iron and folic acid tablets.*<sup>12</sup>

### *Works Undertaken*

The works carried out so far under NREG suggest that the ground work is being laid for *raising productivity* in the future. Water conservation (60%), land development (13%), and drought proofing (6%) together account for nearly four-fifths of all works; road connectivity constitute another 16%.<sup>13</sup> Taken together with the considerably increased investment in watershed development during the 11<sup>th</sup> Five Year Plan, the NREG works in this area should yield fruit in years to come (we return to the critical issue of quality and durability of these works later).

The works being undertaken are consistent with the eight types of works listed in NREGA:

- Water Conservation and water harvesting
- Drought proofing including afforestation
- Irrigation canals
- Provision of irrigation facility to land owned by SC and ST, land of beneficiaries of land reforms and of Indira Awaas Yojana (rural housing for poor)
- Renovation of traditional water bodies
- Land development
- Flood control works
- Rural connectivity to provide all weather access
- Any other work which may be notified by Central Government in consultation with State Government

Some state governments have been suggesting that other works should be added to this list of works, since the process to add new types of works (bullet 9 above) is dilatory. This is very important point for the continued progress of the scheme.

## **2. Challenges Ahead**

### *Addressing lack of awareness*

Table 1 shows that only 43 days of work was provided; this is despite the fact that almost all the households that demanded work were provided with it. To address the lack of awareness among the poor, several actions have been taken: one day orientation of all sarpanches at the block level; advertisements in local vernacular newspapers, radio, TV, films and local cultural forms; leaflets and brochures in simple language; fixing one day as 'rozgar diwas' in a fortnight; and preparation of primers for the workforce and sarpanches. Nevertheless, lack of awareness is still an issue in the existing districts, and lessons have to be learnt for Phase 3 districts from that experience, since the programme has become universal with Phase 3. Our field visits demonstrated that use of spots on radio are still not being utilized to their potential. Penetration of radios is widespread in rural areas and in fact to increase their penetration, civil society organizations, both national and international, should be encouraged to distribute radios to the poor SCs/STs/landless in rural areas. Awareness of not just NREG, but most other government programmes can be easily raised in this manner.

### *Monitoring and evaluation*

Operationalising the *MIS* has also been carried out for the NREG more effectively than for most other rural development programmes which are much older. The NREG placed priority on operationalizing a web-based MIS ([www.nrega.nic.in](http://www.nrega.nic.in)) as soon as the programme started. Workers' entitlement-related data is also available on the web: registration, job cards, muster rolls, employment demanded and provided. In addition, works-related data is also available: sanctioned shelf of works, work estimates, and work in progress. Finally, financial indicators available include funds available/spent, amount paid as wages, materials and administrative expenses. Computerisation has proceeded apace, with a database having been created on the ICT infrastructure of blocks. The result is that 82% of the 4141 NREG blocks are already filling out the data on the ICT infrastructure. But in most states, data is being entered very late – undermining the utility of data for both transparency and management purposes.

*Monitoring* has also involved field verification by external and internal agencies. There have been field visits by Central Employment Guarantee Council members to a few states, which included a social audit (Jharkhand, Chattisgarh, TN). National level monitors have visited almost all the Phase 1 and Phase 2 districts of the NREG. The MORD has itself undertaken a monitoring campaign, with ten villages visited by each officer. A comprehensive *evaluation* (with World Bank support) is underway to assess socio-economic impact at household level and the quality of assets created in select states. In addition, research studies have been conducted by 30 independent agencies covering all states. In addition, the Institute of Applied Manpower Research (under the direction of Programme Evaluation Office of the Planning Commission) is undertaking an evaluation, the results of which are due shortly.

A national consensus is needed about why an MIS is needed for the NREG: is it intended to improve transparency or for better management (Hirway, 2006). Serious under-staffing means that there are barely one or two people in the block Programme Officer's office at block level on NREG. So there could be a six-month backlog in entering Muster Rolls on



the computer; this cannot augur well for transparency. Of course, six month information will not help much for management purposes, except in a rated belated retrospective sense. One should only put on the computer what is good for management purpose, e.g. information relating to labour; funds; works; and inspection. The Andhra Pradesh MIS is a model for emulation, since it ensures that there is no delay in putting information on the web. It can serve both the purposes of transparency as well as management.<sup>14</sup>

In *social audit and muster roll verification* AP and Rajasthan are leaders; but greater efforts are required in all other states (Sastry, 2007). All states are to complete a social audit of all NREG works in the next three months, according to the Ministry of Rural Development (MoRD). So far, however, the social audits conducted have not been done by the GPs or Gram sabha, but rather by NGOs. So there is little institutionalization of the social audit process in the NREG, although it was seen to be a unique feature of the NREG (Sastry, )

The Comptroller and Auditor General's report on the NREG (based on its first six months of functioning) points to a number of procedural irregularities, but it does not present much evidence of large-scale embezzlement of funds (CAG Report, 2007). Those of us who have visited the field, and had discussions with officers implementing the programme, have found that the officers consider the NREG a very different programme from the earlier public employment programmes of the past (NFFWP, EAS, SGRY). They repeatedly say that the risks of getting caught in case of irregularities are much greater in the case of NREG compared to all other government programmes. In fact, the overwhelming feeling among field level government officers is that it is a far superior programme of public works (from the viewpoint of the poor) than such works in the past, they (the officials) have to work much harder for this programme, and partly for this reason they do not prefer to take on the responsibility NREG.<sup>15</sup> Whatever the perception of officials of the programme, the need for social audit has been demonstrated, and such audits will have to be actively encouraged.

Besides, Social Audits must be institutionalized, meaning that they must be regularly carried out by Gram Sabhas once every six months. So far social audits have tended to be carried out by NGOs or under the aegis of the Central Employment Guarantee Council. Andhra Pradesh has put in place a system of institutionalized social audit, involving routine verification of NREG records through participatory processes. That has to be main route to ensuring transparency. However, even in AP, there is a danger of the process becoming a top-down one. Greater initiative needs to come from the Gram Sabha

#### *Definition of 'household'*

The number of days of work being given per household is another issue. There are major differences between regions in India in terms of the likely demand for work under NREG, depending upon whether they are labour-surplus or labour-deficit regions. The programme was initiated in the 200 most backward, and thus mostly labour-surplus, districts of the country. The fact that in terms of numbers of days of work offered, no distinction is made between districts is an issue of design; 100 days is not likely to be

enough in labour surplus districts, while in labour-scarce ones, 100 days will probably rarely be demanded. In Phase 1 districts of NREG there were at least 2.1 million households that completed 100 days of work in 2006/7 – and this is when the awareness of the Act is limited. One view could be that the NREG is a *minimum* guarantee of work, and that in areas where there is a lot of labour we should take up other projects not relying upon a demand-driven scheme – in the spirit of the SGRY (Sampoorna Gram Rozgar Yojana), in which use of contractors and machines has been permitted.

An alternative way out of the problem is to clarify the definition of ‘household’. The NREG Act is not very clear in defining a household: is an adult son or widowed/separated daughter living with parents separately entitled to work or not? The answer is not clear from reading the Act. But the NREG Guidelines make it quite clear that adult children, even if living under one roof with the parents, are entitled to 100 days of work, independently of the parents. This issue has arisen repeatedly in field observations – and its resolution will remove a source of dissatisfaction with NREG and also clarify matters for concerned officials. Once interpreted as outlined in the Guidelines, it will actually increase both the demand for work as well as entitlement to it.

#### *Schedule of rates (SOR) and Wage Rates*

It has been pointed out that village people have to be involved in the way work will be measured and paid. The last is critical if statutory minimum wages for labour are to be paid. This is the only way to achieve required productivity norms. As Ambasth, Vijay Shankar and Shah (2008) rightly note: “Corruption in employment programmes is not merely a matter of fudged labour payment through muster rolls. The much more creative use of corruption arises from the way the SOR [schedule of rates] is used to manufacture estimates and cheat labour. With current SORs, workers are often unable to earn minimum wages. This can be a serious problem at the heart of the implementation of NREG.” Work done on employment programmes in India has since independence been measured through the SOR. Employment programmes in the past have generally been implemented by contractors using machines. The rates provided in the SORs assume that machines will be used and contractors will not pay minimum wages. Thus, the way SORs are currently conceived makes mechanization and the use of contractors almost inevitable, and the payment of minimum wages virtually impossible. For example, earthwork excavation takes place across geological strata, but SORs lump strata into a few categories. Average rates prescribed in the SORs also have no reference to the climatic conditions where work takes place (hot summers, or humidity can slow work) (Shah, 2007). The underlying notion of the SORs is that the workforce is healthy, but the daily productivity of malnourished workers (adult malnutrition is 31% among males and higher among females, NFHS 2005/6) is likely to be much lower than this average. There is no notion of age or gender difference in productivity in the current SORs.

Since the promulgation of the NREG, there has not been a systematic effort made by states to revise the SORs. Given these circumstances, it might be useful if the central government was to actively encourage the revision of the SORs, based on zonal studies – wherever SORs have not been revised. Even if the Centre does not engage in the revision

of SORs, it will need to actively monitor that all districts have actually revised the SORs. Again, professional support is needed on an urgent basis before the next peak work season begins for NREG.

Given that all unskilled wages are paid entirely by the Central Government, State Governments have a clear incentive to raise State level minimum wage rates paid under NREG (as they bear no part of the cost). Perhaps the only factor holding them back from notifying even higher State level minimum wage rates than already announced once NREG started is the fact that it puts upward pressure on non-NREG related wage rates which, to some extent, are being protested by farmers hiring labour for their farms. Eventually, wages rises can only be maintained if productivity too rises commensurately – another reason why NREG works must be such as to contribute to raising agricultural productivity. Otherwise, with a rise in rural wage rates, food prices may rise, and thus cutting away at the wage gains that rural workers are making. However, currently the priority should be that the NREG stabilizes as a programme, and this may be an inappropriate time to raise the issue of wage rates.

### *Convergence*

Only eight types of works are permitted to be carried out under NREG. This provision could potentially prove to be a handicap, if it undermines the objective of synergy and convergence of programmes. It is possible for labour component costs of IAY (rural housing for BPL) and PMGSY (rural roads) to be met under NREG. The Operational Guidelines of NREG permit such dovetailing. If labour is in short supply in some districts, this kind of dovetailing would be particularly helpful. The states' view is that the state governments should be left to decide about where such dovetailing should occur; currently works other than the permissible eight can only be carried out with the Centre's concurrence. States should, in any case, prepare a labour demand projection, saying by when they will exhaust the demand for work for the permissible eight works, and present a case for using funds for non-permissible works. Clearly, this issue needs to be resolved in the interest of flexibility, if only because in our large and extremely diverse country, the needs for both social and economic infrastructure are correspondingly diverse – one list of works does not necessarily fit all conditions. Through convergence not only is synergy likely to be achieved with other programmes, but fiscal costs reduced by releasing funds from other programmes through such convergence. The universally-acknowledged advantage of NREG is that works are carried out with much less 'leakage' than has traditionally characterized other government programmes. If that is the case, and the need for expanding rural infrastructure is pressing, then the logical conclusion is that convergence should be encouraged. However, care must be taken that the primary purpose of NREG should remain the eight items listed in the Act in the initial years. At the same time, some provision needs to be made (perhaps a fixed percentage of total expenditure, not exceeding say 20%) to allow for building other infrastructure required in rural areas.

### *Elaborate set up for Central Employment Guarantee Council (CEGC)*

NREGA in its current stage requires lot of fresh thinking and response to practical problems emerging from the field. Monitoring of NREGA in the country has to be a continuous exercise. This kind of effort would need coordinating between various state governments and Ministry of Rural Development. Ongoing performance appraisal in the field which would include profiling varied state practices on Rules, formats for records, staffing, transparency measures, MIS status, delivery of labour entitlements require coordinating systematic field visits, devising formats for statistics from the states, “performance sheet” proforma for state governments. It has been the mandate of CEGC to oversee the implementation of the Act in the country, but unfortunately, as has also been noted in the CAG report, the body is without a secretariat, staff and functional framework. A Technical Secretariat is now being created at the Central level, attached to Ministry of Rural Development (MORD) Similarly, recently completed costing provides for such technical and administrative secretariat at the level of the State capital as well, attached to the States Ministry for rural development.

#### *Release of funds*

Field reports (our own and those of others) are suggesting that there remain considerable delays in release of funds, leading to delays in initiating works, abandoning continuing works already started, and sometimes in delays of payment to workers. The guidelines state that the NREG would be different from SGRY and NFFWP because there would not be pre-determined allocations but releases based on state proposals. Each state would formulate and submit a State Annual Work Plan and Budget Proposal to the MORD. The actual release to a State government will depend upon its actual utilization of funds released. The MORD will release funds, say the guidelines, to a Revolving Fund at the District level to be operated as a joint account of which one of the signatories will be the District Programme Coordinator (usually the DM). After 60% of the allocation given to any GP has been spent, the GP may apply to the block-level Programme Officer for NREG for release of additional funds. However, this process does not seem to be working, and requires urgent attention. NREG district senior officers and State government officials are regularly having to visit Delhi to secure release of payment.

There is a possibility that the central government will, instead of releasing funds for NREG, directly to districts (as has been done for the last two years), allocate funds to State governments, who would then become responsible for allocating to districts. This would clearly be more efficient and less burdensome for the small number of central government staff dealing with the programme. Nevertheless, procedures would need to be streamlined at State level to ensure that village works are not stalled in future by delays in fund flows from State capitals to district headquarters. The emergence of an administrative secretariat at the State capitals for NREG would thus be an important step in the right direction to ensure (a) speedier smoother flow of funds to the districts; and (b) better monitoring of NREG works.

#### *Transparency in wage payment*

There is growing evidence that to ensure full transparency of payments under NREG to workers, savings accounts for workers are needed in banks and post offices. This system would almost eliminate any incentive the implementing officers have to fudge the muster rolls, since payments are beyond their reach.<sup>16</sup> To prevent the wrong people from claiming money from the post office accounts, banks/post offices will have to insist on photos on passbooks, which can be matched with the photos on job cards, to identify workers when they come to collect their wages. Although cash payments are preferred by workers where banks/post offices are far (there is an opportunity cost for workers if they have to travel say, 10 kms, to a bank/post office to receive their payment), there is almost no alternative to direct payment of wages into bank/post office accounts to avoid poor, illiterate workers being cheated. The postal network is used by AP (at a 2% service charge) and by Jharkhand without service charge. The Department of Posts has indicated the need to strengthen its Sub-Post Office/Branch Post Office through computerization of the Sub-Post Office. A service charge was proposed by the Department of Posts for opening wage earners' accounts; the issue now stands resolved, with the central government promising to invest in Sub-Post Offices to enable them to handle the increased workload.

The real issue here is that while on average in the country there are roughly 20 villages to one bank branch and 4 villages to each post office, there is a wide variation between states in terms of availability of post offices and banks. A way has to be found to ensure that wage payments are made through either banks or post offices, and the problem of distance to these sites for workers has to be overcome through innovative means (e.g. perhaps through mobile counters). Where payment through post office or banks is not possible, payments should be made in the presence of the Panchayat Samiti. However, payment through post offices or banks must continue to be pursued, as is happening in some districts even in UP (which has among the poorest bank/post office to population ratio in the country). The Government of AP is paying all NREG wages through post offices (CBGA,2006), and Jharkhand has created bank/post office accounts for two-thirds of its NREG workers. This is an example of the separation of payment agencies from implementation agencies, recommended in the NREG guidelines.

#### *Interface between watershed development programmes and NREG*

The 11<sup>th</sup> Plan will increase allocations for rainfed-area agricultural revival activities in a big way, primarily through the instrument of watershed development programmes. Implemented by the state governments through funding from the Department of Land Resources (in the central government's MORD), serious thought has now begun on how to ensure a proper interface between the NREG's water conservation, drought-proofing and land development activity on the one hand and the grander, watershed-based activity (now under the recently constituted National Rainfed Areas Authority) on the other.<sup>17</sup> Interface is possible with the Command Area Development Programme (CADA), and with the Integrated Watershed Development Programme (now merged with the activities of the National Rainfed Areas Authority). Without this interface, there is a clear risk that money may be wasted, or merely duplicated. On the other hand, with a well-conceived interface, there is likely to be synergy between the twin objectives of NREG: creating

productive work at remunerative wages and also creating productive assets that are not only created by the community but managed by it.

In fact, the raising of the agricultural growth rate to 4% per annum as planned for the 11<sup>th</sup> Five Year Plan, from the prevailing rate of roughly 2% per annum, is critically dependent upon raising productivity on rainfed agricultural land (*GoI, 2006*). Since rainfed agriculture accounts for 60% of all agricultural land, both poverty alleviation and increasing productivity will depend on efficiency of rainfed agriculture – which in turn implies enhancing the coverage and effectiveness of watershed development programmes. The 11<sup>th</sup> Plan (and the Annual Plan for 2007-08 and 2008-09) has already increased the allocation for centrally sponsored watershed development programmes. A unified guidelines for the erstwhile three different programmes (Integrated Watershed Development Programme, the Desert Development Programme and the Drought Prone Area Programme) has already been notified. A National Rainfed Areas Authority has been created. It is now time to properly integrate the larger watershed development programme with the soil and water conservation and land development works of NREG (which are invertebrably on a smaller scale) – so that the water table rises in rainfed areas. That can change erstwhile one-crop areas to double and triple cropped areas and raise productivity to supplement the output of the 40% of agricultural land in the country that is irrigated.

#### *Creating Assets on Private Land*

One issue that needs resolution is whether assets can and should be created on private land. So far, the NREG Act only permits the creation of assets on private land belonging to SCs and STs and also all land held by land reform beneficiaries. That has been extended to include land of all below poverty line (BPL) families and also Indira Awas Yojana (a programme of rural housing for BPL households) beneficiaries. But the problem is precisely that BPL families increasingly don't hold much land, as over time inheritance has led to fragmentation of land holdings and holdings becoming smaller and smaller. However, land productivity may well rise faster and the maintenance of water conservation related assets might be greater if it was carried out on private land. If asset-creation on private land was also assisted under NREG, with the proviso that such asset creation would begin with the small/marginal farmers, both the concerns around the durability and sustainability of assets would be met (since moral hazard around who will maintain assets would be reduced) and productivity gains might be seen sooner rather than later. Moreover, it may weaken farmers' resistance to NREG on the ground that it is raising agricultural wage rates, and thus raising their costs. After all, water conservation action would improve the water table for all, regardless of whether it is on small or large farms. In any case, all civil works under the Integrated Watershed Development Programme could be covered under NREG. In some states tribals do have fairly large land holdings which are lying fallow because of lack of rain/irrigation and these have benefited from these provisions. Also tribal/dalit holdings have been pooled and farm ponds dug which benefit all the landholders. In Kerala, the addition of all land reform beneficiaries has been very beneficial.

### *Professionalism in NREG*

It is only quality works which will ensure that the required land and labour productivity increase takes place – thus ensuring the achievement of the second objective of NREG (mentioned at the beginning of the paper). However, quality cannot be ensured merely by putting administrative staff in place (which, in any case, has not happened in many states, as the CAG report notes). Nor is it likely to happen simply by carrying out training (and even here many states have made little effort). The more important need is for technical hand-holding on a regular basis of the administrative and PRI staff. This technical hand-holding can only be carried out by professional personnel, hired on a contractual basis, who are available on an itinerant basis to sites where NREG are being implemented.

The CAG report shows that the NREG is being run for all practical purposes with very little professional input. A Technical Secretariat to the Central Employment Governing Council is being created. At the same time, 50% of NREG works are supposed to be implemented by GPs, and without the involvement of contractors. While the direct involvement of the GPs is important to ensure local-level accountability, it is entirely unclear from this mode of operation how quality of works is going to be maintained. There is anecdotal evidence that the quality of works is positively correlated with demand for work from the poor. Without technical and professional support, which is contractually obtained – being employed on a non-permanent basis – there is little likelihood of the quality of works improving. If the quality of works does not improve, there is little likelihood that the productivity gains that were proclaimed as a major benefit of the NREG will be realized.

First, 50% of works are to be carried out by GPs; the remaining by government agencies. But the government does not have staff to carry out such works, especially in states which have a large number of vacant posts at district and sub-district level. At the very least, the staff provided for to implement the NREG have to be appointed (one gram rozgar sewak per GP and one technical assistant for five GPs, plus one full time Programme Officer at block level, as specified in the guidelines). Most government programmes allow for 10% of total expenditure for administrative costs. Hence, the provision for 4% for administrative costs is already proving a serious constraint.<sup>18</sup> However, there is a Catch-22 situation here: State governments cannot initiate new works on a large scale under NREG unless locally available staff have been appointed, but with limited works the expenditure on NREG is correspondingly small, and 4% of a small spend limits the appointment of staff, let alone drawing upon professional engineering input. Hence a serious cost estimate is required of providing the administrative and professional support that can make the programme work with a modicum of technical professionalism.<sup>19</sup>

Second, there is no management support at State secretariat level for the NREG. The money for the programme is given to the GPs, but the Centre is seeking information constantly from the State; with no additional staff, it is not possible to run a programme on the scale of NREG – certainly not run it efficiently. Officers are required at State secretariat level: There is a strong case for such secretariat level staff.

Third, the Panchayat level has a rozgar sewak, but an accounts person is needed, since NREG needs a double entry cash book. After all, at GP level, there may be multiple schemes that are run through the GP, and it is impossible for the GP to run NREG work effectively without such support.

Fourth, despite all its provisions, the Act still does not answer the question – if wages are not paid? If job cards are not distributed? If muster rolls are not maintained? In all these situations, how does the labourer get his grievance redressed? There will hopefully be provision for a person at sub-district level throughout the country for such grievance redressal. But it is worth considering a State and National Lok Ayuktas.

Fifth, technical people are needed at the district level, who can be hired on a contractual basis who will be available as and when needed for different locations to providing technical support. It is not possible for the Junior Engineer to perform all the tasks necessary. There could be many works other than NREG in the area of one GP, and the Junior Engineer would be hard put to cover them all. The State Employment Guarantee Council, now created by all states, is meant to be supported by a Technical Support group- but there is still no provision for district and sub-district level professional support to conceive and design work, and ensure effective execution, from a watershed development perspective.

#### *State Rules*

It is to be realized that the Act prescribes entitlements for the labourers and basic administrative processes. But the nuts and bolts of the Act have been put together in the Operational Guidelines. The Operational Guidelines are seen as a Good Practice Manual and run the risk of not being accorded required credence by the state governments. Therefore, it is important to push for Rules (model Rules can be brought by the central government which can be subsequently adopted by the State Governments) on Grievance Redressal and Social Audit.

#### **A Final Word**

It is perfectly possible to put in place the system to minimize corruption in NREG (and in fact other schemes) – they have been discussed above. Equally importantly, the original administrative support for NREG was pegged at 2%, which was myopic to say the least. However, the 4% of programme costs now allocated to administrative costs and professional support is still woefully low, and does not recognize the fact that a programme on the scale of NREG requires serious professional support, not government business as usual. If the 2% per annum agricultural growth rate is to be reversed, the rainfed areas that constitute 60% of the agricultural cropped area in the country have to raise their land productivity; they have to move from one crop per year to preferably two



if not three crops per year. The evidence from watershed development programmes in the past has demonstrated that such programmes can repay the investment on them many times quickly. Therefore, if the NREG continues along the 'business as usual' manner, the programme runs the risk of going the way of most previous wage-employment programmes. On the other hand, if its design weaknesses, as well as the flaws in the design of its implementation are addressed, it can serve as a beacon of light for other rural development programmes, raise the stagnating rural wages, push up productivity, stem the tide of rural-urban migration, and have second- and third-round effects that go well beyond the policy-makers' original design.

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<b>Table-1: Wage Rates in Rural India and NREGA Wage Rates &amp; Number of Person Days</b>						
<b>S.No</b>	<b>States</b>	<b>Average Daily Wage Rates in Agricultural Occupations in Rural India, 2004-05 (Rs.)</b>		<b>NREGA Wage Rates (Rs.)</b>	<b>Employment Provided –Number of Persondays per Household</b>	
		<b>Men</b>	<b>Women</b>		<b>2006-07</b>	<b>2007-08</b>
1	Andhra Pradesh	36.61	27.83	80.00	31.4	39.6
2	Arunachal Pradesh	–	–	66.00	22.5	6.6
3	Assam	30.23	15.52	66.00	72.5	34.7
4	Bihar	45.06	26.24	77.00	35.3	21.1
5	Gujarat	55.48	30.14	50.00	43.7	29.6
6	Haryana	57.83	23.35	99.21	48.2	50.0
7	Himachal Pradesh	12.95	–	75.00	49.8	35.9
8	Jammu & Kashmir	31.82	–	70.00	26.9	31.7
9	Karnataka	49.00	27.85	74.00	41.1	44.4
10	Kerala	55.89	27.99	125.00	22.8	28.6
11	Madhya Pradesh	40.61	26.54	67.00	68.9	63.3
12	Maharashtra	52.97	31.90	69.00	40.8	39.0
13	Manipur	38.66	19.79	81.40	93.0	53.7
14	Meghalaya	21.44	9.77	70.00	26.9	38.9
15	Mizoram	–	–	91.00	15.6	35.8
16	Nagaland	–	–	100.00	43.6	18.7
17	Orissa	44.86	14.02	70.00	57.5	37.0
18	Punjab	32.01	–	94.48	52.0	10.5
19	Rajasthan	44.16	9.45	73.00	85.4	75.0
20	Sikkim	–	–	85.00	60.0	45.3
21	Tamil Nadu	60.79	31.23	80.00	26.9	57.2
22	Tripura	38.18	–	60.00	71.6	32.5
23	Uttar Pradesh	47.79	26.09	100.00	32.0	33.1
24	West Bengal	44.58	32.35	70.00	14.3	22.5
25	Chhatisgarh	–	–	66.70	55.6	57.6
26	Jharkhand	–	–	76.68	37.4	44.5
27	Uttarakhand	–	–	73.00	31.2	42.5
	All-India	61.23	44.59		43.1	41.8

Source: Wage Rates in Rural India (WRII), Labour Bureau, Ministry of Labour and Employment for daily wage rates in rural India, 2004-05; National Rural Employment Guarantee Act (NREGA), 2005, Ministry of Rural Development (MORD) for NREGA wage rates and employment provided-person days.

Note:

1. Number of persondays per household has been calculated by dividing total number of persondays of employment generated in the State by total number of households who were provided employment in the State.
2. Wage Rates in 2004-05 are average of different Agricultural Occupations (Ploughing, Sowing, Weeding, Transplanting, Harvesting, Winnowing, Threshing, Picking, Hardsman, Well digging and Cane crushing)
3. NREGA wage rates for Arunachal Pradesh are the average of Area-I & Area-II; NREGA wage rates for Maharashtra - the average of Zone-I, II, III & IV; similarly the average of Hoshiarpur, Jalandhar, Nawanshar and Amritsar for Punjab.
4. – = Not reported

<b>Table-2: Central Government Wage Employment Programmes: Total Employment Generated, 2002-2008 (Number of Person Days in millions )</b>		
<b>Year</b>	<b>SGRY + NFFWP (All India)</b>	<b>NREGA</b>
2002-03	748	–
2003-04	856	–
2004-05	912	–
2005-06	1116	–
2006-07	–	905 (200 Districts)
2007-08	–	1437 (330 Districts)

Source: Ministry of Rural Development, Government of India, NREGA Act, 2005

<b>Table-3: Households completed 100 days of Employment of total Households provided Employment during 2006-07 &amp; 2007-08 (%)</b>		
<b>States</b>	<b>% of Households completed 100 days of employment</b>	
	<b>2006-07</b>	<b>2007-08</b>
Andhra Pradesh	2.7	9.0
Assam	23.4	17.1
Bihar	3.6	0.7
Chhattisgarh	10.4	11.2
Gujarat	5.4	3.9
Haryana	11.1	10.4
Himachal Pradesh	26.5	5.1
Jammu & Kashmir	9.7	1.4
Jharkhand	3.7	3.0
Karnataka	12.8	4.2
Kerala	0.5	32.1
Madhya Pradesh	18.5	21.0
Maharashtra	1.5	1.8
Meghalaya	0.6	6.4
Mizoram	11.7	0.0
Orissa	11.1	3.4
Punjab	16.8	5.3
Rajasthan	54.4	42.0
Sikkim	5.4	10.2
Tamil Nadu	0.3	6.2
Tripura	26.3	0.4
Uttar Pradesh	6	10.9
Uttarakhand	2.8	8.3
West Bengal	0.6	0.8
<b>Total</b>	<b>10.2</b>	<b>10.8</b>

Source: National Rural Employment Guarantee Act (NREGA), 2005, Ministry of Rural Development (MoRD).

**Table-4: Person Days generated by districts, 2006-07 and 2007-08**

States	Districts	Total No. of Person Days (in Lakhs)			Person Days per Household		
		2006-07	2007-08	Change	2006-07	2007-08	Change
<b>ANDHRA PRADESH</b>							
	ADILABAD	43	131	87	35	54	19
	ANANTAPUR	83	171	88	37	50	13
	CHITTOOR	96	153	57	39	57	18
	CUDDAPAH	77	117	40	41	53	13
	KARIMNAGAR	36	110	74	26	38	12
	KHAMMAM	53	137	84	32	49	17
	MAHBUBNAGA	55	127	71	26	43	17
	MEDAK	30	107	77	29	54	25
	NALGONDA	54	122	68	22	35	13
	NIZAMABAD	34	86	51	27	50	22
	RANGAREDDI	36	45	9	54	53	-1
	VIZIANAGARA	35	102	66	24	45	21
	WARANGAL	44	99	54	28	31	3
	<b>Sub Total</b>	<b>679</b>	<b>1507</b>	828	<b>31</b>	<b>47</b>	16
	EAST DAVARI	—	156		—	39	
	GUNTUR	—	35		—	15	
	KURNOOL	—	152		—	56	
	NELLORE	—	67		—	29	
	PRAKASAM	—	32		—	19	
	SRIKAKULAM	—	62		—	31	
	<b>Grand Total</b>		<b>2010</b>			<b>42</b>	
<b>ASSAM</b>							
	BONGAIGAON	67	71	3	71	24	-47
	DHEMAJI	69	39	-30	75	43	-32
	GOALPARA	63	25	-39	62	25	-37
	KARBI GLONG	104	74	-30	60	40	-20
	KOKRAJHAR	103	102	-1	51	54	4
	LAKHIMPUR	100	41	-59	110	64	-46
	NORTH CHAR HILLS	66	19	-47	205	64	-141
	<b>Sub Total</b>	<b>573</b>	<b>370</b>	203	<b>72</b>	<b>45</b>	-27
	CACHAR	—	2		—	18	

	DARRANG	—	32		—	34	
	HAILAKANDI	—	3		—	8	
	MARIGAON	—	22		—	27	
	NALBARI	—	10		—	19	
	BARPETA	—	49		—	29	
	<b>Grand Total</b>		<b>488</b>			<b>35</b>	
<b>BIHAR</b>							
	ARARIA	25	25	-1	50	22	-27
	AURANAGABA	25	20	-4	43	20	-23
	BHOJPUR	8	13	5	25	12	-13
	DARBHANGA	54	31	-22	24	19	-6
	GAYA	27	48	21	37	34	-4
	JAMUI	35	35	0	42	34	-7
	JEHANABAD	25	22	-4	47	29	-18
	KAIMUR (HABUA)	12	10	-2	47	56	9
	KATIHAR	31	32	1	30	25	-5
	KISHANGANJ	12	9	-3	31	15	-16
	LAKHISARAI	17	26	9	141	39	-102
	MADHUBANI	9	18	9	14	12	-2
	MUNGER	32	35	3	43	38	-5
	MUZAFFARPUR	52	46	-6	60	34	-27
	NALANDA	35	24	-11	20	18	-2
	NAWADA	40	26	-14	40	32	-8
	PATNA	9	25	15	15	16	1
	PURNIA	25	8	-16	69	10	-59
	ROHTAS	16	14	-2	88	14	-74
	SAMASTIPUR	29	22	-7	44	22	-22
	SHEOHAR	9	14	5	40	35	-5
	SUPAUL	30	53	23	22	109	87
	VAISHALI	40	23	-17	51	19	-31
	<b>Sub Total</b>	<b>597</b>	<b>578</b>	<b>-19</b>	<b>35</b>	<b>29</b>	<b>-6</b>
	ARWAL	—	11		—	23	
	BANKA	—	11		—	11	
	BEGUSARAI	—	15		—	7	
	BHAGALPUR	—	13		—	22	
	BUXAR	—	18		—	78	
	GOPALGANJ	—	12		—	22	
	KHAGARIA	—	4		—	5	
	MADHEPURA	—	26		—	28	
	PASHCHIM AMPARAN	—	27		—	13	
	PURBI AMPARAN	—	36		—	14	

	SAHARSA	–	31		–	33	
	SARAN	–	17		–	8	
	Sheikhpura	–	4		–	38	
	SITAMARHI	–	20		–	55	
	SIWAN	–	33		–	61	
	<b>Grand Total</b>		<b>855</b>			<b>22</b>	
<b>CHHATTISGA</b>							
	BASTAR	70	99	29	74	54	-20
	BILASPUR	103	211	108	53	70	17
	DANTEWADA	26	54	28	40	45	5
	DHAMTARI	46	59	13	53	64	12
	JASHPUR	68	59	-9	62	52	-10
	KANKER	76	88	12	78	86	8
	KAWARDHA	48	82	34	47	76	29
	KOREA	40	44	4	64	65	1
	RAIGARH	48	117	69	40	83	43
	RAJNANDAGON	72	117	46	56	73	17
	SURGUJA	104	149	45	54	56	2
	<b>Sub Total</b>	<b>700</b>	<b>1080</b>	380	<b>56</b>	<b>66</b>	10
	JANJGIR-AMPA	–	42		–	27	
	KORBA	–	54		–	48	
	MAHASAMUND	–	46		–	40	
	RAIPUR	–	94		–	39	
	<b>Grand Total</b>	–	<b>1316</b>		–	<b>58</b>	
<b>JHARKHAND</b>							
	BOKARO	17	19	2	77	32	-45
	CHATRA	35	37	1	37	62	25
	DHANBAD	18	13	-5	42	47	5
	DUMKA	35	27	-7	53	36	-17
	GARHWA	44	38	-6	54	62	8
	GIRIDIH	23	34	11	30	42	12
	GODDA	30	11	-18	49	20	-29
	GUMLA	38	81	43	44	57	13
	HAZARIBAGH	15	42	27	24	34	11
	JAMTARA	20	19	-1	40	44	4
	KODERMA	12	12	0	55	49	-5
	LATEHAR	23	39	15	38	49	11
	LOHARDAGA	29	22	-7	68	49	-20
	PAKUR	15	22	7	38	32	-5
	PALAMU	37	47	10	46	40	-6
	RANCHI	37	108	71	16	52	36
	SAHEBGANJ	21	34	13	39	37	-2
	SARAIKELA	21	43	22	31	51	21



	ARSAWAN						
	SIMDEGA	14	40	26	27	73	47
	WEST NGHBHUM	38	20	-18	40	50	10
	<b>Sub Total</b>	<b>520</b>	<b>708</b>	188	<b>37</b>	<b>46</b>	9
	DEOGHAR	–	16		–	47	
	EAST NGHBUM	–	23		–	26	
	<b>Grand Total</b>	–	<b>748</b>		–	<b>45</b>	
<b>KARNATAKA</b>							
	BIDAR	0	31	31	0	53	53
	CHITRADURGA	0	52	52	0	35	35
	DAVANAGERE	0	48	48	0	41	41
	GULBARGA	36	31	-6	46	62	16
	RAICHUR	0	27	27	0	27	27
	<b>Sub Total</b>	<b>36</b>	<b>189</b>	152	<b>46</b>	<b>44</b>	-3
	BELGAUM	–	6		–	11	
	BELLARY	–	3		–	15	
	CHIKMAGALUR	–	0		–	24	
	HASSAN	–	0		–	0	
	KODAGU	–	0		–	0	
	SHIMOGA	–	0		–	0	
	<b>Grand Total</b>		<b>198</b>			<b>36</b>	
<b>MADHYA ADESH</b>							
	BALAGHAT	131	131	1	53	63	11
	BARWANI	117	156	40	80	90	10
	BETUL	91	113	22	61	68	7
	CHHATARPUR	107	122	15	75	75	1
	DHAR	174	189	14	88	93	6
	DINDORI	107	112	4	82	80	-2
	EAST NIMAR	79	109	30	67	71	5
	JHABUA	123	163	39	68	84	16
	KHARGONE	101	132	31	65	72	7
	MANDLA	143	160	17	89	91	3
	SATNA	99	99	1	58	64	5
	SEONI	114	114	0	62	62	-1
	SHAHNOL	61	96	36	47	68	21
	SHEOPUR	40	41	1	58	54	-4
	SHIVPURI	79	109	30	61	64	3
	SIDHI	222	264	42	73	81	8
	TIKAMGARH	108	85	-23	70	59	-11
	UMARIA	76	93	17	89	80	-9
	<b>Sub Total</b>	<b>1972</b>	<b>2288</b>	317	<b>69</b>	<b>73</b>	5
	ANUPPUR	–	50		–	45	

	ASHOK NAGAR	—	15		—	24	
	BURHANPUR	—	31		—	86	
	CHHINDWARA	—	62		—	43	
	DAMOH	—	37		—	38	
	DATIA	—	10		—	29	
	DEWAS	—	30		—	28	
	GUNA	—	29		—	39	
	HARDA	—	5		—	22	
	KATNI	—	50		—	29	
	PANNA	—	51		—	40	
	RAJGARH	—	56		—	36	
	REWA	—	37		—	34	
	<b>Grand Total</b>		<b>2753</b>			<b>63</b>	
<b>MAHARASHTR</b>							
	AHMEDNAGAR	10	5	-5	30	47	17
	AMRAVATI	16	12	-5	37	20	-17
	AURANGABAD	15	9	-6	73	62	-11
	BHANDARA	8	20	12	25	38	13
	CHANDRAPUR	10	8	-3	61	35	-26
	DHULE	18	5	-13	49	50	1
	GADCHIROLI	9	12	3	23	19	-4
	GONDIA	8	13	4	37	15	-21
	HINGOLI	3	15	12	69	63	-6
	NANDED	25	31	7	68	80	12
	NANDURBAR	23	25	2	51	95	44
	YAVATMAL	13	16	3	27	131	104
	<b>Sub Total</b>	<b>159</b>	<b>170</b>	<b>11</b>	<b>41</b>	<b>55</b>	<b>13</b>
	AKOLA	—	0		—	0	
	BULDHANA	—	0		—	4	
	OSMANABAD	—	0		—	24	
	THANE	—	11		—	27	
	WARDHA	—	1		—	25	
	WASHIM	—	2		—	180	
	<b>Grand Total</b>		<b>185</b>			<b>39</b>	
<b>ORISSA</b>							
	BOLANGIR	49	12	-38	61	26	-35
	BOUDH	12	5	-6	35	34	-1
	DEOGARH	21	11	-11	67	56	-11
	DHENKANAL	26	10	-16	40	36	-4
	GAJAPATI	27	18	-10	43	38	-6
	GANJAM	48	71	23	34	48	14
	JHARSUGUDA	24	14	-11	72	54	-17
	KALAHANDI	62	18	-43	51	33	-18
	KANDHAMAL	45	27	-18	65	35	-31

	KENDUJHAR	42	11	-31	60	29	-31
	KORAPUT	56	20	-35	69	37	-31
	MALKANGIRI	43	24	-20	114	66	-48
	MAYURBHANJ	121	31	-89	60	36	-24
	NABARANGAP	50	12	-38	63	32	-31
	NUAPADA	32	19	-13	70	52	-18
	RAYAGADA	42	19	-22	59	37	-22
	SAMBALPUR	38	17	-22	50	57	7
	SONEPUR	26	13	-13	85	46	-40
	SUNDARGARH	35	15	-21	65	26	-40
	<b>Sub Total</b>	<b>799</b>	<b>366</b>	<b>434</b>	<b>57</b>	<b>41</b>	<b>-16</b>
	ANGUL	—	5		—	22	
	BALESHWAR	—	10		—	37	
	BARGARH	—	11		—	20	
	BHADRAK	—	8		—	21	
	JAJPUR	—	5		—	21	
	<b>Grand Total</b>		<b>405</b>			<b>37</b>	
<b>RAJASTHAN</b>							
	BANSWARA	217	188	-29	85	78	-7
	DUNGARPUR	207	215	7	94	98	4
	JHALAWAR	113	129	16	88	80	-7
	KARAULI	127	141	15	81	90	9
	SIROHI	66	66	0	71	67	-4
	UDAIPUR	269	263	-6	85	85	-1
	<b>Sub Total</b>	<b>999</b>	<b>1002</b>	<b>3</b>	<b>85</b>	<b>83</b>	<b>-2</b>
	BARMER	—	175		—	63	
	CHITTORGARH	—	82		—	55	
	JAISALMER	—	68		—	75	
	JALORE	—	108		—	72	
	SAWAI						
	ADHOPUR	—	119		—	83	
	TONK	—	124		—	76	
	<b>Grand Total</b>		<b>1678</b>			<b>77</b>	
<b>TAMIL NADU</b>							
	CUDDALORE	39	103	64	28	42	14
	DINDIGUL	27	98	71	39	73	34
	NAGAPATTINA	19	63	44	24	56	31
	SIVAGANGAI	12	80	68	35	102	67
	TIRUVANNAMA	44	98	54	31	99	68
	I	41	154	112	19	56	37
	VILLUPURAM	41	154	112	19	56	37
	<b>Sub Total</b>	<b>183</b>	<b>596</b>	<b>413</b>	<b>27</b>	<b>71</b>	<b>44</b>

	KARUR	–	8		–	35	
	THANJAVUR	–	15		–	10	
	TIRUNELVELI	–	16		–	33	
	TIRUVARUR	–	10		–	18	
	<b>Grand Total</b>		<b>645</b>			<b>52</b>	
<b>UTTAR ADESH</b>							
	AZAMGARH	44	41	-2	18	28	10
	BANDA	15	24	9	35	51	16
	BARABANKI	50	66	16	25	31	6
	CHANDAULI	24	29	5	50	51	1
	CHITRAKOOT	12	38	26	15	58	42
	FATEHPUR	52	37	-15	36	29	-6
	GORAKHPUR	32	23	-9	44	25	-19
	HAMIRPUR	28	36	8	40	55	15
	HARDOI	74	68	-6	40	31	-8
	JALAUN	24	39	15	28	41	13
	JAUNPUR	30	40	10	28	35	7
	KAUSHAMBI	35	23	-12	50	53	3
	KHERI	41	53	12	24	30	6
	KUSHI NAGAR	31	58	27	37	35	-3
	LALITPUR	24	23	-2	59	46	-14
	MAHOBAB	11	26	15	40	51	11
	MIRZAPUR	37	46	8	41	42	2
	PRATAPGARH	28	45	17	12	28	17
	RAE BARELI	51	80	29	28	33	5
	SITAPUR	63	80	17	36	34	-2
	SONBHADRA	53	59	6	64	60	-4
	UNNAO	64	57	-7	58	33	-25
	<b>Sub Total</b>	<b>823</b>	<b>989</b>	166	<b>32</b>	<b>40</b>	8
	AMBEDKAR GAR	–	17		–	29	
	BAHRAICH	–	40		–	28	
	BALLIA	–	24		–	33	
	BALRAMPUR	–	24		–	36	
	BASTI	–	18		–	21	
	BUDAUN	–	27		–	34	
	ETAH	–	18		–	24	
	FARRUKHABA	–	10		–	22	
	GONDA	–	39		–	32	
	JHANSI	–	24		–	45	
	KANPUR HAT	–	12		–	23	
	MAHARAJGANJ	–	22		–	27	

	MAU	—	18		—	30	
	SANT KABEER GAR	—	14		—	23	
	SHRAVASTI	—	15		—	29	
	SIDDHARTH GAR	—	23		—	31	
	SULTANPUR	—	29		—	20	
	<b>Grand Total</b>		<b>1363</b>			<b>33</b>	
<b>WEST BENGAL</b>							
	24 PARGANAS UTH	28	47	19	11	18.67	8
	BANKURA	53	97	44	24	41.20	17
	BIRBHUM	101	115	15	22	30.60	9
	DINAJPUR KSHIN	28	19	-9	16	21.53	6
	DINAJPUR TAR	32	25	-7	10	19.13	9
	JALPAIGURI	38	80	42	11	29.02	18
	MALDAH	23	24	1	13	16.04	3
	MURSHIDABAD	37	52	15	8	15.67	8
	PASCHIM EDINIPUR	58	76	18	16	24.31	9
	PURULIA	41	50	8	16	29.72	14
	<b>Sub Total</b>	<b>440</b>	<b>584</b>	<b>144</b>	<b>14</b>	<b>25</b>	<b>10</b>
	24 PARGANAS (NORTH)	—	36		—	32	
	BURDWAN	—	99		—	28	
	COOCHBEHAR	—	60		—	23	
	DARJEELING	—	15		—	25	
	HOOGHLY	—	52		—	25	
	NADIA	—	77		—	24	
	PURBA EDINIPUR	—	46		—	23	
	<b>Grand Total</b>	—	<b>969</b>		—	<b>25</b>	

Source: Ministry of Rural Development, Government of India, NREGA Act, 2005

Note: 1. Person days per household for State-wise figures are average of districts

2. Grand total figures are including districts those added in 2007-08

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<sup>2</sup> Even though it may not have worked very well in that respect so far, reforms underway will push the programme in that direction in future.

<sup>4</sup> See, for instance, the series of articles by P. Sainath in *The Hindu* on a regular basis based on field visits to various states. As some of the 30 independent studies currently underway on NREG, more will be learnt on this subject: They are: Indian Institute of Management, Bangalore, Karnataka (two districts), Andhra Pradesh (one district); Centre for Budget and Governance Accountability, Andhra Pradesh (two districts), Chhattisgarh (two districts), Madhya Pradesh (two districts), Jharkhand (two districts); Indian Institute of Public Administration, Jharkhand (four districts); Institute of Human Development, Bihar (seven districts); Centre for Development Alternatives, Ahmedabad, Gujarat (six districts). These studies, however, need to be published and put on the NREG website as soon as each becomes available; otherwise, independent researchers are completely dependent exclusively on data on the government website.

<sup>5</sup> This paper draws upon published data from the NREGA website, discussions with government officials, independent studies, discussions with various NGOs working in the field, and personal field visits by the author as Member of the Central Employment Governing Council of NREGA.

<sup>6</sup> The CAG report states that the average employment provided to each registered household was 18 days. However, the CAG report's estimate is mistaken. We need to divide total mandays generated by total number of households provided employment to arrive at the number of days of work worked by the household. In the CAG report, on the other hand, the average days of employment per household has been calculated by dividing the total number of mandays generated by the total number of *registered* households – a number which is much higher (since not all registered households actually worked).

<sup>7</sup> In fact, under NREG, the share of wages in total programme expenditure has tended to exceed 60%, and has averaged 67% in the country – which is a problem to some extent, discussed later in the paper.

<sup>8</sup> A key concern about NREG, based on experience with past programmes, is whether the number of persons actually provided with jobs is much less than recorded in the official data because of malpractices such as fudging of muster rolls. It is impossible to pronounce definitively on this issue except by verifying through sample surveys those reported to be employed in field level records have actually been employed. The CAG report has brought out instances where muster rolls were not properly maintained or were tampered with. However it does not indicate whether the impropriety in maintenance of muster rolls was a major problem. It also does not indicate what percentage of records checked showed irregularities. The key question is not whether there are some irregularities but what is the extent of such irregularities. Discussions with officers implementing the programme suggest that the officers consider the NREG is better structured than the earlier public employment programmes and the risks of getting caught in case of irregularities are much greater.

<sup>9</sup> Bandhopadhyay (2008) suggests that NREG wages are much higher than market wages, and hence large landlords may fear that NREG works might distort the wage labour market by exerting upward pressure on market wages.

<sup>10</sup> A problem raised by the West Bengal government is that their suggestions for 'works' are not being accepted. They find it impossible to undertake water conservation works in all gram panchayats. They have also asked for the kachha work in school/Indira Awas Yojana houses to be permitted but once again there is a delay in these being approved.

<sup>11</sup> Even in these states there is considerable variation between districts in respect of women's participation in NREG works; we saw in Sonbhadra district in UP that Kol (STs) women were out in their hundreds at sites in this drought-prone area at NREG work sites.

<sup>12</sup> When we suggested this measure to the Principal Secretary, UP Health, we were told that she has already initiated such action at NREG work sites. In Rajasthan, actually, there is anecdotal evidence that the men are happy to send the women to do this back-breaking work. They do not migrate either.

<sup>13</sup> However, this does not establish the productivity of these works. That can only be done after the works are completed and even then, our ability to pronounce depends upon (a) collecting base level data on yields (b) measuring yields after completion of works and (c) separating out the effects of other interventions to raise yields. This can only be done through scientifically structured *ex post* evaluation.

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<sup>14</sup> States may claim that they do not have the manpower to undertake this level of computerization; however, one of the reasons of AP's success is said to be the Tata Consultancy Services software (National Informatics Centre software is used in all other states). There is an urgent need, therefore, for an independent evaluation of comparative merits and demerits of the TCS and NIC software. Whichever software is used its design should be such that it is not seen as a burden by programme management staff, but rather adding value.

<sup>15</sup> The fact is that evidence is emerging that some State governments are already being quite proactive to prevent corruption, and other States need to learn from such good performers (see Dreze et al, ...). For instance, Tamil Nadu has initiated a good system of muster roll (MR) maintenance, whereby each labourer has to enter her signature or thumbprint in the MR every day by way of marking attendance. This ensures not only that the MR is available for public scrutiny at the worksite, as required by NREG guidelines, but also that large numbers of people actually see it every day. This reduces leakage. Similarly, Rajasthan has shown the way in MR verification through the RTI movement. The fact that Orissa has not adopted such methods meant that in Orissa the transition from the traditional system of corruption has not been made, though the situation is improving after the revelations in October 2007.

<sup>16</sup> Of course, officers may still fudge muster rolls, and produce people with fake job cards at banks to enable them to fraudulently withdraw from bank/PO accounts. To prevent such an occurrence, workers could be given a printed token for each day worked, which are then exchanged for cash at the bank/PO. E.g. in one UP district, each job card holder is given a cheque-book style booklet with a counterfoil; the main token is exchanged by the worker at the bank, while the counterfoil is retained by the worker (so the worker too has a record of the number of days worked in a year, in addition to what is noted in the job card) Thus the job card and the booklet would supplement each other in ensuring transparency.

<sup>17</sup> In a seriously drought-affected district like Sonbhadra, we saw that although NREG works were aimed at improving water conservation through check dams, there was no watershed development activity being undertaken. This was despite the fact that the terrain is ideal for watershed development through the building of continuous contour trenches on the ridge surrounding a valley, that labour is available and demanding work, and rainfall for the last four years has been half of the average.

<sup>18</sup> The 4% is meant to cover the following activities: 1. GP to have one 1 gram rozgar sewak per GP for registration, job card issue, employment demand and provision, work implementation, payment, social audit, records; 2. Block to have one programme officer per block for overall management; technical assistants pooled to service 5 GPs; computer assistants for IT and MIS ; one accountant for finance; 3. District to have works manager with technical assistants; IT manager with computer assistants; accounts manager with accounts assistants for finance; one training coordinator for training; and one coordinator for social audit and grievance redressal.

<sup>19</sup> For example, in seriously drought affected Sonbhadra district, the author saw several sites where the terrain permitted watershed development alongside with small bandhs were possible, and would have enormously increased the effectiveness of the rainwater harvesting in a district where the water table has fallen by 7 feet within the last year. But there are no senior engineers who are being drawn upon for this purpose.





## **Workshop Session 1 Briefing Notes**

### **EPWP performance and impact: Prospects for up-scaling; research findings and alternative scenarios**

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#### **1. Terms of Reference**

- To inform policy, the proposed research will focus on the role that EPWP in South Africa has played in reducing income insecurity and promoting employment, and how it interacts with existing social grants.
- The overarching policy questions guiding this research are:
  - a. What improvements or changes in programme design would enhance the impact of the EPWP wage income on poverty alleviation?
  - b. What is the appropriate minimum wage for a minimum level of employment? How does this vary across space?
  - c. What are the alternative options for up-scaling the wage income transfer of EPWP? And what are the costs (affordability) and benefits of different scales of EPWP?
- To advance these research questions the research :
  - a. Provides an up-to-date descriptive analysis of the major dimensions and characteristics of the EPWP programme and its participants using summary statistics, maps and, where possible, spatial statistical techniques;
  - b. Considers a range of poverty indicators including the StatsSA approach based on minimum food needs for daily energy requirements plus essential non-food items, calculated on a simple per capita basis with per adult equivalent poverty lines and those based on equivalency scales (such as the Oxford equivalency scale) which consider child cost ratios and household economies of scale, will be assessed for suitability as dependent variables in the regression analysis;
  - c. Uses multi-level modelling regression techniques to estimate the differential impact of participation in the EPWP on the constructed poverty measures after controlling for relevant individual and regional (contextual) factors as well as programme characteristics;
  - d. Uses multi-level modelling regression techniques to compare the relative impacts of EPWP participation and the receipt of social grants on the constructed poverty measures after controlling for relevant individual and regional (contextual) factors as well as programme characteristics. In particular, we will examine the interconnections between social grants such as Old-Age Pensions, Child Support Grants, Foster Care Grants and Disability Grants, as they relate to the benefits derived from the EPWP, in order to better understand the measures that can be taken in order to strengthen positive linkages;

- e. Deploys the empirical output from (c) and (d) to explore the spatial distribution of benefits derived from EPWP employment under the assumption that the government will continue to ration the number of EPWP jobs;
- f. Deploys the empirical output from (c) and (d), to conduct a scenario analysis of different ways to increase the scale of the EPWP in order to eradicate indigence below a specified threshold level.
- g. Provides an overview of minimum wage setting in public works projects including the scope and coverage of minimum wages (including the Employment Conditions Commission, nationally negotiated wages, and bargaining councils, etc...); What criteria is used to determine the minimum wages; compilation and discussion of minimum wage rates for different sectors under the Basic Conditions of Employment Act since 2001.
- h. Provides a critique of the concept of the reservation wage and its relevance for minimum wage determination in EPWP projects using Vaidya and Ahmed (2007) as an example of a flawed approach
- i. Provides a framework for minimum wage setting in EPWP projects and assess the potential for introducing a safety-net wage to augment the plethora of wage rates that govern low-skilled work in South Africa.
- j. Within this framework we propose an appropriate scale of minimum wage rates for EPWP projects. This may include calibrations for spatial variation in wages, variations by sector or alternatively a standardised wage, depending on findings from differential impact analysis and the wage study.

## **2. Wage outcomes in the Expanded Public Works Programme in South Africa**

### **2.1 Overview**

- In this Section we provide an overview of the current average daily minimum wages paid by the EPWP projects broken down by level of government, province and employment sector (Infrastructure; Economic; Environment and Culture; and Social). The analysis shows that there is very little coherence in the pay floors provided under the EPWP, in contradistinction with wage determination in the “best-practice” employment guarantee design that we consider in detail in Workshop 2.
- How are EPWP wages set? The parameters of the EPWP are defined by the ‘Basic Conditions of Employment Act, 1997, Code of Good Practice for employment and conditions of work for Special Public Works Programmes’ (Here on Code of Good Practice). In this Section we summarise the way in which EPWP wages are set to help us understand why the disparities in daily minimum wages occur across provinces and sectors.
- The Code of Good Practice allows for special conditions of employment for government jobs creation programmes that fall under the banner of ‘Special Public Works Programmes’. The legislation outlines:
  - a. the duration of employment allowed on a SPWP, which should not exceed 24 months in a five year cycle;
  - b. the target population;
  - c. excludes beneficiaries from the Unemployment Insurance Act;

- d. that workers should be paid wages at a rate comparable to unskilled workers in the local area and that the rate should not be more than the average local rate to minimise displacement;
  - e. wages may be task or time based;
  - f. that workers are to receive two days of training for every 20 days worked, and that they should be remuneration at 75 per cent of their task/time rate wage while receiving training.
- The government believed that these stipulations ‘ring-fences employment conditions on EPWP projects from established industries. This is in order to prevent EPWPs being a vehicle for deregulation of the labour market or for promoting the casualisation in the labour market’ (EPWP Unit, 2004: 15). It was agreed that EPWP would be exempt from minimum wage legislation; that work opportunities would be short-term in order to prevent the creation of a second class of workers; and that workers would be given training in order to increase their employability and compensate for lower wages (Samson, 2008). The low wages of EPWP are also used as part of the programme’s targeting strategy. That is, if wages are set at sufficiently low levels, only the most vulnerable and desperate will be attracted.
- Several reports (McIntosh Xaba Associated, 2006; CASE 2007; HSRC, 2007) have found that inconsistent application of wage rates, timely payment of wages, payment of wages during training, extremely low wage rates, and unpaid labour are significant issues affecting beneficiary and community satisfaction and the poverty alleviation outcomes of EPWP. Further problems are encountered at the local level. For example, the differentiation in wage levels of EPWP projects by sector (and other government job creation programmes) has some unintended consequences at the micro level. In some instances, the programmes compete for the same pool of labour, and contractors have had difficulty completing projects on time as workers are attracted to other higher paying position that are available within one’s community.
- The EPWP’s Mid-Term Review evaluation (HSRC, 2007) found that the average wage per work opportunity had declined since the programme’s inception, and that the programme’s wage bill had stagnated, despite increasing numbers of programme beneficiaries. The review highlighted problems with the labour intensity of programme spending, stating that, “there are difficulties in translating expenditure into actual work opportunities” (HSRC, 2007:xi). McIntosh Xaba and Associated (2006) drew attention to the need for a review of wages, especially those below 40 Rand per day. It has been recommended that EPWP wages should not be less than a specified minimum wage (50 Rand), and that minimum length of work opportunity and wages should be established by sector (HSRC, 2007).
- Our assessment is that the duality of restricted duration employment and allowing deregulated wages (locally set wages) to exist which reflect local private market settings, as outlined in the Code of Good Practice, undermine the ability of the EPWP to achieve its two primary aims - poverty alleviation and generating a sustained reduction in unemployment.
- By allowing EPWP wages to be set locally at rates which do not interfere with ‘more permanent employment’, the South African government is placing the EPWP outcomes in the “hands of the market”. While the logic of this is articulated as being to defend the existing conditions in the formal labour market, the reality is that it is consistent with neo-liberal logic that the market provides the “correct” wage distribution. It is clear that the

market sector does not uniformly pay wages that are above what could be reasonably constructed as the poverty line.

- This failure also violates the goals of the Decent Work programme of the ILO which aims to ‘promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equality, security and human rights’.
- As a consequence, it is reasonable to conclude that the “market has got it wrong”, if the goals of economic activity are to provide a production and distribution system that makes work the vehicle for escaping poverty which is consistent with the ILO’s Decent Work strategy.
- In this case, far from the EPWP being a ‘vehicle for deregulation of the labour market or for promoting the casualisation of the labour market’ an appropriately designed EPWP (see Chapter 7 of main report) would lead the market and introduce dynamic forces such that the possibility that one could be among the working poor was eliminated.
- Accordingly, EPWP and the legislative base for EPWP in SA should provide a mechanism, for ensuring decent minimum working conditions within the labour market.
- But it is clear that the distribution of wages available in EPWP projects is in part dictated by the minimum wages that prevail in the private market sector. It is also clear that any recommendations with respect to introducing a national EPWP minimum wage may have impacts not just on the EPWP projects but also on private sector employers and other special public works, such as the Integrated Sustainable Rural Development Strategy.

## 2.2 Average minimum EPWP wages by sector

- Table 3.1 summarises some of the key employment and wage outcomes for EPWP projects for the 2006-07 reporting period by sector (Economic; Environment and Culture; Infrastructure and Social). The implied average minimum monthly wage was estimated by multiplying the average daily minimum by 19. This is based on the assumption made in the quarterly EPWP reports where the Department converts its data into ‘one person-years of work’ which is equal to 230 paid working days including paid training days. On a monthly basis, this is equivalent to approximately 19 days of work. The implied minimum monthly wage rate for February 2008 prices was based on inflating the 2006-07 by the relevant values in the All Groups Consumer Price Index data.
- The average daily minimum EPWP wage rate for the nation as a whole was around R41. However, there is considerable variation in the average daily minimum wage rates across the four activity sectors and within each sector (see Range column which depicts the actual minimum and maximum rates paid by sector).
- The Social sector offers the largest number of projects (59.3 per cent of total projects) but these generate a relatively small percentage of the total Person-days of work (26 per cent) and Gross Jobs (11.6 per cent). The jobs offered have two significant features: (a) they are low paying (for example, average minimum daily wages are almost 50 per cent below those on offer by Infrastructure sector projects); and (b) the average duration of the a job opportunity is around 130 days compared to 50 days in Infrastructure, 44 days in Environment and Culture and 75 days in the Economic sector. So workers who have opportunities in this sector earn the lower wage over a significantly longer period.
- The Environment and Culture sector offers only 14 per cent of the total projects but around 40 per cent of the total jobs. They daily wage paid is around the national EPWP average but the duration is below the corresponding average for the overall programme.

The highest paying sector in terms of average daily minimum wages is Infrastructure but the duration of the jobs is below the national average even though this sector generates around 47 per cent of the total job opportunities under EPWP.

- In Table 3.2, we break the sectors down by level of government to gauge the governmental variation within each sector, bearing in mind that the national and municipal governments only offer EPWP opportunities in Infrastructure and Environment and Culture. It is clear the Provincial governments dominate the Social sector and account for its long duration low wage EPWP job offerings. The pay contrast in that Sector between the Provincial and Municipal government projects is stark although Municipal government offers very few work opportunities with relatively short duration.
- The two main programmes of the Social sector are the Early Childhood Development programme (ECD) and the Home Community Based Care (HCBC). Plans are underway to introduce a stipend of 1000 Rand per month for ECD workers. For HCBC, the department intends the stipend to be 500 Rand per month. The rationale provided for the much lower stipend of the HCBC programme relates to the nature of the training provided throughout the work opportunity, which is not currently accredited. The Department of Social Development is currently undertaking a mass audit of ECD/HCBC providers to in an attempt to introduce minimum standards to the industry. In Chapter 4 of the main report, we consider the concept of training wages further.
- Many of these projects fall within the social sector, and are in part symptoms of funding arrangements and the historical focus of the programme. For instance, Provinces receive funding from the Department of Social Development for Early Childhood Centres (ECD) on a per child per day basis, in order to improve child welfare through provision of food and educational material, etc... Funding levels vary across the provinces, for instance KwaZulu Natal receives 11 rand per child per day, while the Free State receive 5.20 per child per day. The subsidy is not specifically for job creation, and traditionally it has been child welfare not job creation that has been the focus of these programmes. To that end, those working in the EPWP social sector are typically called volunteers, rather than workers, and receive a stipend, rather than a wage.
- Within the Infrastructure sector, while the municipal level pays higher average daily minimum wages the average duration of the work opportunities provided is significantly lower than those offer at the higher levels of government. The provincial governments provide the most job opportunities in infrastructure projects and these opportunities pay more and last longer on average than the infrastructure jobs at both the national and municipal levels.
- Within the Environment and Culture sector, the national government dominates but pays the lowest minimum wages of the three levels of government. However, in comparison to the Provincial government, the duration of the job opportunities that are offered by the National government are significantly longer. The few jobs offered in this sector by the Municipal level are well paid and long duration. Many of the EPWP Environment and Culture Sector projects operate on a 'programme' basis, such as 'Working on Fire', 'Working for Water' and 'Working for Wetlands'. This institutional arrangement gives those programmes much more control over the wages that are paid, and workplace regulation in general.
- If we estimated a simple regression trend line relating average job duration to average daily minimum wages for the EPWP data under consideration (2006-07) we would find that the shorter (longer) work opportunities have slightly higher (lower) rates of pay.

- A further issue that goes to the core of the problems of the EPWP is that the low wages are accompanied by a low frequency and irregularity of the work opportunity.
- There is also considerable variance around the average rate evident in the EPWP project wage outcomes. This variation manifests across space, sector and level of government is largely driven by the sectoral composition of projects at each level.

### 2.3 Spatial variation in average minimum EPWP wages

- This disparity also translates into spatial inequalities partly reflecting the spatial composition of sectors but also indicating that some provinces (such as Limpopo and North West) are low paying while others (such as Western Cape and Gauteng) are able to provide higher daily minimum wage rates. Considering the analysis in Chapter 2 of the main report, it is clear that these disparities partly reflect the private market economy activity in each of the provinces.
- Figure 3.1 breaks the wage data down into province and then level of government within each province (the difference between the province aggregate and sum of national and provincial is local government projects for which no data was available). The variation across provinces is driven by the variation in wages paid by projects run by provincial governments. There is less spatial variation in daily minimum wages paid by national government projects, which reveals the benefits of the ‘programme’ approach that has been adopted by the Environment and Culture sector.
- Table 3.3 provides both employment and wage data by province and level of government. The data provides additional information to support the GIS analysis presented in the formal ILO Report. We note that the Provincial jobs are typically lower paid but with higher duration than those offered by the other levels of government. However the wages paid by provincial governments are also more variable across space than those at the other levels of government. There is virtually no variation across the provinces in national government EPWP daily minimum wages.

### 2.4 Sector and level of government variation in average minimum EPWP wages

- Figures 3.2 and 3.3 provide some insight into the minimum wage disparities across sectors and projects (administered by National and Provincial government departments). Figure 3.2 shows the average manual daily minimum wage rates paid across 624 Projects – 4 projects in the Infrastructure sector 4 (SANRAL, 3; and Department of Transport, 1) and 620 projects in the Environment and Culture sector (Department of Environmental Affairs and Tourism, 101; Department of Water Affairs and Forestry, 246; and Department of Agriculture, 59). Each observation pertains to a specific National government department. The horizontal lines within each sector show the average for that sector at the National government level.
- For National government departments, the average daily minimum wage for manual workers was R71 for projects in the Infrastructure sector and R45 for projects in the Environment and Culture sector. The lowest (highest) average daily minimum wages in the Infrastructure sector were R65 (R72.33) and R43.18 (R50.33) in the Environment and Culture sector.
- The disparity in daily average minimum wages paid across EPWP projects is demonstrated more clearly in the Provincial government department projects. Figure 3.3 shows the average manual daily minimum wage rates paid across 5371 Projects (Infrastructure sector 620; Economic sector 134; Environment and Culture sector 219; and Social sector 4398) where each observation pertains to a specific Provincial

government department. The horizontal lines within each sector show the average for that sector at the Provincial government level.

- For Provincial government departments the average daily minimum wage for manual workers was R53 for projects in the Infrastructure sector; R50 for projects in the Economic sector; R45 for projects in the Environment and Culture sector; and R33 for projects in the Social sector.
- For Provincial government department projects, the lowest (highest) average daily minimum wage paid was R37 (R92.43) for projects in the Infrastructure sector; R48.53 (R51.94) for projects in the Economic sector; R43.35 (R55.00) for projects in the Environment and Culture sector; and R22.00 (R50.00) for projects in the Social sector. It is clear that in the Provincial government sphere, the Social sector pays the lowest minimum wages. The projects run by Provincial government departments in the Infrastructure sector have the greatest degree of variation, followed closely by projects in the Social Sector.

## 2.5 Job effectiveness in EPWP project expenditure

- Table 3.4 examines what we call the job effectiveness of EPWP expenditure which we define as the Rand spent per person days of work generated. The expenditure includes all programme expenditure, including the wage bill and professional fees; the person days of work excludes training days. The concept of job effectiveness can be seen in terms of labour intensity.
- The Social sector, at the provincial level, is the most job effective in terms of its expenditure. That is, for every one day of work generated, 83 rand are spent. Overall, the Social sector generates comparatively more days of work at higher rates of labour intensity. However, as we have seen these jobs are paid at relatively low wages when compared to the other sectors. That is, a large portion of the programme budget is directed to generating days of work, but the work is remunerated at a low wage.
- Projects in the Environment and Culture sector operated by both by national and provincial governments are the next best performed in terms of job effectiveness. As previously mentioned, the majority of programmes (708 of 991) operate through national departments on a 'programme' basis, such as the 'Working on Fire' or 'Working for Water' programmes. This allows these EPWP programmes more control over programme expenditure. Moreover, while this sector requires considerable supporting materials and equipment outlays, it still remains one of the most labour intensive.
- The EPWP infrastructure sector is the least job effective of all sectors. This is in part due to the investment in materials that is required to engage work in this sector, and additional professional fees for engineers and other contractors for infrastructure design. The labour intensity of expenditure varies greatly however, with provincial projects able to achieve double the number of days of work per rand of expenditure, when compared to national EPWP infrastructure projects. The average minimum wage rates are comparable across layers of government (between 57 and 64 rand), while the duration of work opportunity is comparatively low. The great variation in labour intensity in expenditure needs further explanation. McIntosh Xaba and Associated (2006) suggested that the ideal wage to material ratio for labour intensive projects should lie with the 30 to 40 percentile range. Their analysis, which looked at several EPWP projects as case studies, found that the labour intensity of the many of the projects was below this, falling between 3 and 25 per cent of programme budget. Their case study analysis reported that the cost per job in the infrastructure sector was between R73,000 and R95,000. While the cost per social sector

job was R12,661, and in the environment and culture sectors it was R18,519 and R62,331. The study recommended that the definition of 'labour intensive' needs to be clearly defined to ensure that a minimum proportion of programme budget is allocated to beneficiary wages. Our analysis supports their conclusions.

### **3. The wage income transfer function of the Expanded Public Works Programme in South Africa**

#### **3.1 Overview**

In this Section we report the formal statistical and econometric analysis that was undertaken to assess how effective the EPWP has been in improving the living standards of the South African unemployed. This analysis is performed by controlling for other relevant factors so that the specific contribution of the EPWP to poverty alleviation can be isolated.

The regressions are based on data derived from the Community Agency for Social Enquiry (CASE) survey of EPWP participants in the 'Working for Water' and the 'Working on Fire' programmes.<sup>1</sup> CASE surveyed 1,005 participants in both programmes in late 2006. Due to missing data on crucial variables the dataset was reduced to 867 respondents, of whom 718 have participated or continue to participate in the EPWP.<sup>2</sup> The remaining 149 respondents did not participate in the EPWP and represent the control group.

We also employ the regression results to model by different scenarios. To provide a basis for public debate on how the EPWP programme might be expanded we run two quite different scenarios:

1. The annual number of EPWP jobs is held constant (200,000) and we vary the duration and target groups:
  - a. The length of the employment is modified;
  - b. The jobs are targeted in such a way that the poverty alleviating effect is maximised;
  - c. The programme is tailored to include the most impoverished groups in the South African society, respectively.
2. Expanding the programme more generally to cover a broader group of South African unemployed – we call this scenario the Job Guarantee option.

In each case, we model the impacts of three possible minimum wages: R900 per month; R950 per month; and the preferred minimum of R1000 per month, which we discussed in Chapter 4 of the main report.

#### **3.2 Descriptive analysis of respondents**

- Table 5.1 provides summary statistics of the sample population that was used in the regression analysis divided into EPWP participants (718 persons) and EPWP non-participants (149 participants). To facilitate the later Multi-Level modelling (MLM), we present relevant characteristics by three levels of influence: (a) personal (the respondent); (b) household (of which the respondent is part); and (c) regional (where the household is located).
- In terms of the personal characteristics, there are considerable differences between the participants and non-participants. These differences particularly manifest in relation to age, gender and ethnicity. For example, 22 per cent of the participants are younger than



25 years of age compared to the control group which is older (15 per cent of the sample under 25 years of age).

- Furthermore we observe stark differences in respondents' access to other sources of income (that is, income derived from non-EPWP work).
- Finally, EPWP participants are more likely to reside in urban areas than non-participants, where an urban area is defined as a city having more than 20,000 inhabitants as of 2003.
- To properly isolate the effectiveness of the EPWP in reducing the poverty for participants, the differences in other factors that are likely to impact on the probability that an individual will be in poverty have to be controlled for. The variables summarised in Table 5.1 are likely to be variously influential in this regard. For example, access to other income is likely to have a strong impact on the probability that an individual will be in poverty. In other words we need to separate the contribution to this probability that can be attributed to EPWP participation from the contributions of other relevant determining factors. While the set of control factors used in the analysis has been carefully considered (and to some extent has emerged from the feedback received during the formal modelling process) it is possible that some other factors of influence are present which both show strong differences between participants and non-participants and affect the poverty outcome. So we always have to exercise caution in interpreting the results of a formal econometric modelling exercise and condition our response to them by our conceptual understandings of the phenomena under examination.

### 3.3 Data limitations

- In an ideal world, we would employ the so-called 'difference-in-difference' modelling technique to assess the effectiveness of the EPWP in assisting participants in their struggle to escape poverty.
- In this context, we would estimate the 'treatment' effect of EPWP participation by identifying the variations in poverty outcomes between participants in the EPWP (the target group) and non-participants (the control group).
- In doing so, we would have to control for potential temporal differences. These differences relate to the possibility that the economic circumstances in South Africa may change during the course of the EPWP programme, which affects poverty outcomes, but is unrelated to the EPWP.
- To account for temporal differences we would need to assess the poverty situation both prior to the introduction of the EPWP and during or after completing EPWP participation, both for EPWP participants and non-participants. Figure 5.1 captures the optimal design for data generation which would allow us to test differences-in-differences. This framework would allow any changes in poverty outcomes due to external factors (to EPWP participation) to be controlled for.
- Unfortunately, the CASE data do not allow for such an analysis. As an example of its limitations, we do not have information on the income of non-participants prior to the introduction of the EPWP.
- As a way forward, we assume that any influential external factors have not had a biased impact on the poverty outcomes for EPWP participants relative to non-participants. Consequently, we do not conduct a 'difference-in-difference' analysis, but rather present an analysis that focuses on differences between participants and non-participants at the time the survey was conducted.

### 3.4 The multi-level modelling approach

- To determine the impact that participation in the EPWP and the wage income that has been derived from such participation has had on poverty alleviation we naturally choose to focus (as the unit of measurement) on the individual (who is the participant). However, we also use appropriate techniques to control for household characteristics.
- However, poverty is typically not fully explained by personal or household circumstances and the incidence of poverty is unevenly distributed across geographic space. Table 5.2 presents three indicators that are typically associated with poverty in South Africa to illustrate the point.
- We observe considerable disparities between the provinces across all three indicators. For example, the expanded unemployment rate in North West and Limpopo is double the rate found in the Western Cape. Illiteracy (inability to both read and write) is high in the Eastern Cape and Mpumalanga, while access to piped water is poorly organised in the Eastern Cape, KwaZulu Natal and Limpopo. Such regional differences will clearly impact on the measured poverty rates but are not necessarily attributable to individuals or households who reside in such regions.
- If neighbourhood and regional effects are important then we might expect greater similarity in poverty outcomes within regions than across regions. To allow an assessment of spatial level effects to be made, we have to employ a methodology which recognises the multiple levels of influences on poverty outcomes. We can thus identify three main levels:
  - The individual or household level (in this analysis we concentrate on the individual unit because it is at this level that EPWP participation occurs and then control for relevant household characteristics);
  - The neighbourhood level (in specific terms the municipality in which the household is located); and
  - The regional level (in specific terms the province in which the municipality is located).
- We differentiate neighbourhoods (municipalities) and regions (provinces) as separate spatial levels because there is no way of knowing *a priori* the level of spatial aggregation at which the spatial effects are significant. There is plausible research around that can justify both levels being included in the formal modelling process.
- Table 5.3 shows the breakdown of the 9 provinces into 31 municipalities that are present in the data set (that is, the data set only contains respondents residing in these municipalities). So in terms of our hierarchical ordering the analysis is conducted for:
  - 867 respondents at Level 1;
  - 31 municipalities at Level 2; and
  - 9 provinces at Level 3.
- To accommodate research problems of this kind, we have to take into account the hierarchical nature of the observations (the different levels of influence). We will employ logit econometric estimation in a **Multilevel Modelling framework (MLM)** (see Figure 5.2) to explore the relationship between EPWP participation and changes to poverty indicators.

- Conventional logistic analysis and standard regression techniques would treat each individual (and their data) as being statistically independent to respectively, compute odds ratios or estimate elasticities. This would ignore the fact that the individual outcomes may be clustered by the region they live in (or family if we had convincing data at that level). In this sense we might attempt to consider the impact of the region as fixed effects and create dummies for each. Using this approach we would also ignore possible randomness in the slopes (the assumption being that the relationship between poverty and the explanatory variables is the same across all regions). To explore this issue we could create interactive dummies (region-specific slopes) for all explanatory variables but the size of the regression would then compromise the analysis in terms of loss of degrees of freedom.
- Another approach would be to compute aggregate measures for each person, for example means and use these to analyse the data. This is the ‘means as outcomes’ approach and it suffers from what has been called the ecological fallacy where there are lower actual correlations among individuals than are found among regions (the averages).
- There are methods available which explicitly acknowledge that one individual’s outcome may be dependent on another individual’s outcome if they live in the same neighbourhood. We can adjust the estimated standard errors to take into account the likelihood that individuals within a region are not independent observations but individuals across regions are independently observed.
- However a more comprehensive modelling strategy, which draws on the previous paragraph, is to use Multi-Level modelling (MLM) techniques, which were specifically developed to analyse data that is hierarchically structured with lower levels (individuals in our study) clustered into higher levels (neighbourhoods and regions).
- MLM allows us to assess the presence and form of any cross level effects. The benefits of this approach are that it overcomes the bias in standard error estimation which pervades conventional regression approaches using such datasets (Hox, 2002). The bias arises from the fact that individuals outcomes are likely to be more similar within an area than with other individuals in other neighbourhoods. The correlation between outcomes for individuals within an area is likely to be higher than the correlation between individuals across areas. So the within-area correlation means that the data is not independent and as such the estimates for standard errors are too small, which, in turn, can lead to spurious inference by type-I errors (Hox, 2002).
- Figure 5.2 schematically represents the MLM approach which combines a matrix of Level 1 individual/family characteristics as variables explaining the within-group (that is, within-area) variance in the response variable (poverty indicator) with Level 2 neighbourhood (municipality) and Level 3 region (province)) characteristics which explain the between-area variance in the response variable. We also include the “EPWP programme characteristics” as a separate component. Within this control structure we seek to determine the influence of EPWP participation on poverty.
- A properly structured MLM study thus requires us to articulate the influences on the response variable by hierarchical level. We thus posit the following influences:
  - Level 1 - Personal/Household circumstances: The CASE data provides a significant amount of detail about the characteristics of participants and non-participants in the EPWP and the circumstances in which they live. A comprehensive set of factors including age, gender, ethnicity, educational level,

household composition, and household access to social grants will be used in the analysis as control variables.

- Level 2 - Neighbourhood (spatial) circumstances.
  - Level 3 – Regional (spatial) circumstances.
  - EPWP participation and related circumstances: In addition to EPWP participation, the CASE data provides some limited insight into the dimensions of the EPWP work undertaken (for example, training experiences, history of engagement, type of work etc...). The DRA data is superior in this aspect. Departmental data, documenting average employment duration and wages paid per project for each EPWP sector, will also be useful. Estimating the separate influence of these factors has the potential to provide useful information that can feed into our Scenario analysis in Research Task 2. While the participation will be entered as a Level 1 influence the other dimensions of the EPWP projects will enter as Level 2 influences and thus allow us to correctly differentiate the participation from the location, design and type of project.
  - Receipt of Social Grant: Clearly we want to determine the relative impacts of social grants and EPWP participation, and how positive linkages between the two interventions can be enhanced and reinforced. Sixty per cent of survey respondents in both the DRA and CASE data sets receive at least one form of social grant in addition to their EPWP wage. Our modelling strategy will provide quantitative estimates of the respective impact of these policy dimensions.
- MLM techniques are suitable in these circumstances and will allow us to separate the individual influences from the neighbourhood / regional influences and programme characteristics in a statistically robust way.

### 3.5 Dependent variable – determining the poverty indicator

- The dependent variable (the variable to be explained) in our MLM regression analysis is a poverty indicator, consistent with our desire to model the impact of EPWP participation on poverty reduction. For the purposes of this exercise a favourable socio-economic outcome is defined as one where a person moves out of poverty as a result of EPWP participation.
- We recognise that there is no exact measure of poverty that is inclusive enough to capture all relevant dimensions. The World Bank (1990) defines poverty as ‘the inability to attain a minimal standard of living’. This inability can be captured using either an income or an expenditure approach. However, as Woolard and Leibbrandt (1999: 8) indicate, ‘the point at which we draw the (poverty) line is always somewhat arbitrary and often highly contentious.’
- While we also used poverty indicators (in Chapter 4 of the main ILO report) to deliberate on what a reasonable minimum wage is for the EPWP, the aims of the modelling analysis are somewhat different and so it is adequate to use some reasonable benchmark of poverty. In this regard, we consider two poverty lines that have been widely used in South Africa: (a) the Household Subsistence Level (HSL); and (b) the Minimum Living Level (MLL). Woolard and Leibbrandt (1999) find the two measures generate similar results. The MLL is used in this analysis and given the fact that the measures behave similarly, we consider that the results would not have been significantly different had the HSL measure been used. While the MLL is now discontinued, its strengths and weaknesses are widely known and so it provides a suitable threshold for this analysis.

- The MLL uses household expenditure analysis and differentiates the poverty line by household size. Table 5.4 presents the latest poverty line for South African households taken from Martins (2007).
- How do we use these poverty lines in the MLM regression analysis? The dependent variable is designed to capture the poverty situation of the household to which the respondents belong. Based on information in the CASE data set, we determined monthly household income.
- We then combined estimated monthly household income with information about the size of each household to determine whether a household is in poverty or not (using the thresholds presented in Table 5.4). If a monthly household income falls below the relevant poverty line threshold (by family size) then we ascribe a value of one to the poverty variable and zero otherwise. So our dependent variable (poverty indicator) is a binary variable (zero-one) which demarcates households in poverty (one) from those who are not in poverty (zero).

### 3.6 Regression results – Does EPWP participation reduce poverty?

- We also constructed a binary variable to represent EPWP participation, which took the value of one if the respondent had participated and zero otherwise. Binary variables of this type are sometimes called dummy or categorical variables because they demarcate membership or not of specific categories (in this case, EPWP participation).
- The final components in the regression model were included to control for differences between the EPWP participant population and the non-participant population. We use the variables described in Table 5.1 as control variables. Again the limitations of the data set force us to make assumptions about what variables to include and what conceptual influences they are representing.
- The results of our MLM logit regressions are presented in Table 5.5. For ease of interpretation the main participation effects is provided in the first row.
- The results show that once we control for the different relevant individual, household and regional characteristics available in the data set, EPWP participation clearly reduces the chance of being in poverty. That is, the standard error of the coefficient that captures the treatment effect is smaller than the value of the coefficient, which means we can safely infer that the coefficient associated with the EPWP variable is non-zero. Consequently we can rule out that participation has no effect on poverty. Further, the negative sign on the coefficient means that the households of which the participant is part, are less likely to be in poverty than households that have no access to EPWP employment.
- The coefficients of several control variables are also significant, indicating that households of female participants and African participants are more likely to be in poverty. The same applies to progressively larger households and to households having fewer income earners. Households that have access to social grants or other sources of income are also less likely to be in poverty.
- The multi level elements show interesting effects as well. Individual effects have most explanatory power for being in poverty or not, but as predicted, previously spatial effects also play a significant role. Though the provincial level effect is not significant, the municipality level effect is significant. This suggests that poverty “spills over” across space so that poverty in one neighbourhood is likely to increase the probability of poverty in contiguous or closely-proximate neighbourhoods. The presence of these spatial spill-over effects thus means that poverty is not exclusively driven by individual or household

characteristics but is also influenced by regional (municipality) characteristics. There is extensive literature on neighbourhood effects and social network effects which underpin empirical findings such as this. This finding will prove valuable when determining the consequences of better targeting the EPWP which we take up later in these Briefing Notes.

- What factors contribute to the gains from EPWP participation? To examine this question we need to introduce so-called “interaction effects” into the MLM regression framework.

### 3.7 Regression results – interaction effects

- Figure 5.3 gives a schematic overview of how interaction effects are introduced into the regression framework and how we can interpret them. They are constructed by multiplying relevant independent variables (from Table 5.5) by the EPWP dummy variable. In the example shown in Figure 5.3 we “interact” the participation decision with the participant’s gender, which gives us four categories (‘yes, male’; ‘yes, female’; ‘no, male’; ‘no, female’).
- Given that we are interested in factors that explain why EPWP participation contributes to poverty alleviation, the inclusion of the interactive terms allows us to test, for example whether such participation is more successful for male than female participants. To explore such differences, we focus on differences between the first two categories of the interaction variable (for example, ‘yes, male’; ‘yes, female’).
- We created a number of such interaction variables which allow us to explore the combined impact of EPWP participation and:
  - Provision of training within the EPWP;
  - Type of EPWP programme;
  - EPWP tenure;
  - Workload;
  - Gender;
  - Educational level;
  - Age;
  - Ethnicity;
  - Access to social grants; and
  - Urban residence.
- The results are presented in Table 5.6.<sup>3</sup> The conclusions we draw are summarised as follows:
  - Neither the availability of training in the EPWP job, the type of project or the workload of any EPWP job influence the poverty alleviating capacity of EPWP participation.<sup>4</sup> With respect to the training impact, this result is of no surprise given that the results are based on the CASE survey which was taken around the time of participation. If training was effective then it would increase the person’s ability to compete in the labour market and thus have more enduring impacts on poverty reduction. Indeed, the ability for paid work employment programmes to offer effective “on-the-job training” leading to the development of productive

capacity is one reason why we favour employment guarantees over social grants as a primary solution to poverty reduction.

- In terms of personal characteristics, gender and ethnicity differences influence the chances to escape poverty once a person is participating in the EPWP. Male and coloured participants are significantly more likely to escape poverty once entering the EPWP than female and African participants.
- Having access to social grants during EPWP participation significantly reduces the chance that a household will remain in poverty relative to EPWP participants who are without access to social grants.
- The location of EPWP participation (urban or rural) does not alter the success of EPWP participation in reducing poverty.

### 3.8 Summary of regression analysis

- Our regression analyses demonstrates that EPWP participation is effective in alleviating poverty after controlling for a range of relevant factors at various levels of impact. We find clear positive ‘treatment’ effects relating to EPWP participation.
- The EPWP’s capacity to reduce poverty increases further if EPWP participation is combined with the provision of social grants.
- Though stand-alone provision of social grants also reduces poverty, the impact is accelerated if combined with EPWP participation. As we will argue below, there are additional benefits from EPWP participation that go beyond the wage income transfer benefits and make employment guarantees a superior means of reducing poverty in South Africa.
- The contribution of EPWP participation to poverty alleviation is more pronounced for men than for women and for coloured participants than for Africans.

## 4. Scenario analysis – reviewing the target population and wage structures

### 4.1 The EPWP Report Card

- In this section we use the results of the MLM regression analysis to develop various EPWP expansion scenarios. The EPWP is currently in its fourth (of five) years. Relatively detailed information is available for the first three years.
- In the first three financial years, just over 700,000 jobs have been created, which means the EPWP is well on its way to creating the targeted 1 million jobs over the course of the five years<sup>5</sup> However, in terms of what really matters – the number of person-days provided – the performance of the programme is unsatisfactory. The average duration of the job opportunities is also low.
- Table 5.7 summarises the achievements of the EPWP to date as presented in the Mid-Term Review (HSRC, 2007). It is clear that the two dominant sectors are ‘Infrastructure’ and ‘Environment & Culture’, despite the fact that DBSA (2007) argues that the Social sector has the greatest potential for up scaling the EPWP.
- The South African government has invested 12.8 billion Rand in the first three financial years to create 716,399 jobs or 219,914 person years of work (see Table 5.8 for details). Approximately 2.4 billion Rand was invested in wages for EPWP beneficiaries, which implies that on-costs (the total costs to wage cost ratio) are about 5.4 to 1. Although, the EPWP Mid-Term Review (HSRC, 2007) found that the labour intensity, particularly that

of infrastructure spending had been decreasing from 27 per cent of programme budget in 2004-05, to 22 per cent in 2005-06, to just 8 per cent in 2006-07. Clearly, the labour intensity of programme expenditure is highly variable, and would benefit from a tighter regulatory framework. Despite this reality, the on-cost estimates derived from the actual programme expenditure play an important role in the scenario analysis, and are used to determine the total investment required per EPWP job.

- Costing estimates of potential expansions of the EPWP in the ‘social’ sector produced by DBSA (2007) produce a (weighted) average on-cost estimate of 3.2. These estimates ranged from 1.6 for the ‘School Sport Coaches’ initiative to 7.2 for the ‘School Nutrition’ programme. The high estimate for the ‘School Nutrition’ programme is caused by the involved food purchases for school pupils. These predicted estimates are above the current on-cost factors in the ‘social’ sector imputed in Table 5.8, which also shows that the on-cost factor is not stable across sectors or over time. In our scenario analysis we will use the average on-cost estimate of 5.4 to 1.
- However, international evidence from India (MRD, 2005) suggests that public works schemes can be run under a “labour to non-labour” expenditure ratio of no more than 1.5.<sup>6</sup> Other sources suggest a 60/40 rule where 60 percent of total costs are consumed by wages and the remainder being non-wage costs. If this was the case the on-cost ratio would be 1.67 which is in the ball-park of the Indian estimate and considerably lower than the current EPWP on cost estimate.
- So in the context of the ratio of wages to other costs that have prevailed in the EPWP programme since 2004, if the South African government could move towards this ratio of 1.67 then considerable reductions in the nominal investment required would be possible. In this Report we perform the scenario analysis using the historical cost evidence presented in Table 5.8 as the basis for the extrapolations but then provide the estimates for a on-cost ratio of 1.67 to provide a comparison.
- We recognise that one could be highly critical of basing the scenario analysis on historical evidence given that the labour intensity of the programme expenditure is not properly regulated and this means that EPWP employers have very little incentive to maximise the labour intensity of their expenditure. Given that the EPWP does not come with “ring-fenced budgets”, EPWP employers have to realign their normal budgets to results in EPWP job creation. They have no quotas or expenditure guidelines and the result is that labour intensity of expenditure is not maximised.
- As a result, our simulations are not based on what labour intensity expenditure should or could be. In that sense, they significantly overstate the budget outlays that would be required to expand the programme. However, by providing the 1.67 comparison as a benchmark we allow the reader to understand the extent to which historical practice has been unnecessarily inefficient in terms of achieving labour intensity.
- We also provide a note of caution in terms of seeing the on-costs ratio in purely technical terms. In part, the way we consider the ratio depends on the objectives of the programme. For example, in the “School Nutrition” project, the goals include the provision of a healthy breakfast for all pupils (a glass of milk every morning). The investment in milk is included in the total EPWP budget and in a technical sense this is counted as a non-EPWP wage cost thus inflating the on-cost ratio. The specific “School Nutrition” project has a on-cost ratio of 7.23 which would seem to be “inefficient” in terms of the 60:40 (1.67) ratio but clearly the non-wage costs are not all relating to what we typically would consider to be on-costs. We recommend therefore a more transparent way of accounting



for the costs in the EPWP projects to ensure that labour intensity is maximised but valuable accompanying investments are also preserved.

- We also note that there is a fundamental difference between the nominal and real costs of any activity. We explain this point in more detail in Chapter 8 of the main report, but it cannot be over-emphasised that the only costs that matter in considering policy design are the real costs which in the case of EPWP participants (and their households) amounts to the extra consumption of real goods and services that the participation elicits. The outlays required to fund the EPWP are better considered investments rather than costs.
- Table 5.9 contains information about monthly wages in the EPWP which on average have fluctuated around 900 Rand over the first three financial years of the programme. Even in terms of a one-person household, three out of the four sectors pay monthly wages below the Minimum Level Living index discussed earlier. It is only because of the relatively high wages paid in the 'infrastructure' sector that the average monthly wage in the EPWP is above the poverty line. We note however, that the duration of work opportunities in the Infrastructure sector are far lower than those in the Social sector (see Chapter 3 of the main report).
- To motivate the scenario analysis we use three monthly wage levels:
  - 900 Rand per month reflecting the overall programme average discussed above;
  - 950 Rand per month as per the discussion in Chapter 4 of the main report; and
  - 1000 Rand per month, which is the preferred minimum wage we recommend for all EPWP jobs as per the discussion in Chapter 4 of the main report.
- Table 5.9 also provides information about EPWP job duration. Although officially, EPWP jobs are allocated over four months we observe large sectoral deviations in the average tenure. EPWP jobs in the 'economic' sector last for only 2 months on average, while jobs in the 'social' sector last 5.5 months on average. In our scenario analysis we will use the overall average and hence assume EPWP job duration to be 3.8 months.

## 4.2 Scenarios simulated

- To provide a basis for public debate on how the EPWP programme might be expanded we run two quite different scenarios:
  1. The annual number of EPWP jobs is held constant (200,000) and we vary the duration and target groups:
    - a. The length of the employment is modified;
    - b. The jobs are targeted in such a way that the poverty alleviating effect is maximised
    - c. The programme is tailored to include the most impoverished groups in the South African society, respectively.
  2. Expanding the programme more generally to cover a broader group of South African unemployed – we call this scenario the Job Guarantee option.
- In each case, we model the impacts of three possible minimum wages: R900 per month; R950 per month; and the preferred minimum of R1000 per month, which we discussed in Chapter 4 of the main report.

### 4.3 Scenario 1: Annual job numbers constant, EPWP job duration and target group varied

#### Overview of Scenario 1

- What is the optimal length of an EPWP? In Workshop 2, we argue that the EPWP should be revised to become an unconditional (open-ended) job offer to anyone who wants to work at the minimum wage but who is unable to currently find employment elsewhere. In terms of the twin macroeconomic goals of full employment and price stability this is the optimal strategy.
- In this scenario we take a different approach and consider the job duration only in terms of addressing poverty. The poverty line employed in the MLM regression analyses is unsuited for this exercise, as it only measures a flow of income that is deemed to be sufficient to fund the basic needs in life. In other words, it does not consider the position that EPWP participants start from - the residue or “stock” of poverty. For example, some participants may be heavily indebted as a reflection of past income deficits. A heavily indebted person clearly needs more income during the period of indebtedness than the “flow measures” embedded in poverty line estimates suggest in order to manage his/her household finances. To achieve a sustainable reduction in poverty we thus have to consider broader issues of disadvantage.
- Our EPWP job duration analysis will therefore focus on the link between EPWP job duration and the capacity of participants to actually improve their living standards.
- The CASE data provides four pieces of information about the EPWP participant’s standard of living prior and during EPWP participation: (a) the household debt situation, (b) school attendance of children; (c) household nurturing; and (d) acquisition of household items. EPWP participants indicate in the survey that they used their EPWP income to:
  - Reduce their outstanding debt; and/or
  - Allow their children to attend school (instead of forcing them to do work at home); and/or
  - Provide sufficient daily meals; and/or
  - Acquire household items.
- In the CASE Survey EPWP participants provide information about how the EPWP has changed their circumstances in each of these spending areas. This information can be used to investigate whether the situation facing households has improved (or worsened) on any of the four elements as a result of EPWP participation.
- We use these changes to develop a measure of the change in what we call the Poverty Stock. If one of these elements have improved we assign a “+1” so that the best situation is “+4”. A worsening of any one of the elements is also possible and the worst (minimum) score possible is “-3”.<sup>7</sup> The range in the changes in the Poverty Stock therefore will lie between minus 3 and plus 4. We attach equal weights to each of the elements because we are not in a position to make any judgements as to what the optimal spending allocation should be.
- Table 5.10 shows the dynamics of our Poverty Stock index across the CASE survey respondents. Less than 4 per cent of the EPWP participants reported deterioration in their Poverty Stock while around a quarter reported no overall change. However, more than 70 per cent reported an improvement in their Poverty Stock. These results are consistent with

our previous findings, where we saw that EPWP participation increases the probability that a respondent (and their household) will be above the poverty line (used in the analysis).

- The duration experiment we conduct in this Section seeks to determine the length of the spell of EPWP participation that maximises (positive) change in the constructed Poverty Stock index. Since the dependent variable (that is, the Poverty Stock index) is an ordinal index, the appropriate strategy is to estimate what are called Ordinal Probit regressions. Our main independent variable is EPWP work experience measured in months, which coincides with the number of months the participant had access to EPWP income.
- At present the unemployed are entitled to 4 months of work per annum or 24 months in a five year cycle, employment can be ongoing for 2 years or beneficiaries may engage in different EPWP work opportunities until their 24 month allocation is exhausted. This means, among other things, that the projected one million EPWP job opportunities will not likely go to 1 million different unemployed South Africans.
- We have subdivided EPWP work experience into six categories:
  1. Less than 3 months;
  2. 3 to 5 months;
  3. 5 to 7 months;
  4. 7 to 9 months;
  5. 9 to 11 months; and
  6. more than 11 months
- The aim of the regression experiment is to determine the duration of EPWP work experience which maximises the improvement in the Poverty Stock index.
- Table 5.11 presents the results. We control for personal, household and regional characteristics that we included in previous regressions (results not reported) and have made the “3 to 5 months” spell of EPWP employment the reference category, which means the coefficients of all other work experience categories are to be read as “differences” (more or less depending on the sign) relative to the reference category.
- The major relevant conclusions are:
  - An improvement in the Poverty Stock is dependent (statistically significant) on the work experience provided by the EPWP job (and as a consequence on the length of the period of access to EPWP income).
  - EPWP employment spells of less than three months do not lead to a significantly different outcome in terms of change in the Poverty Stock index, compared to the current regime.
  - However, lengthening the spell of EPWP employment beyond 5 months clearly leads to a more rapid improvement in our Poverty Stock index than in the current design. Clearly the sustained access to additional funds assists EPWP participants in improving their state of poverty. There is nothing optimal implied by the higher level of significance attached to “Between 7 and 9 months”. This is just an artefact of the sample used.

- We find that improvements in the Poverty Stock are related positively to the level of EPWP income (which is hardly surprising) and that ‘Working on Fire’ projects are more successful in reducing the stock of poverty than ‘Working for Water’ projects.

#### **Scenario 1A: 200,000 jobs, differentiating the duration of jobs**

- The findings in Table 5.11 suggest that increasing the duration of EPWP job opportunities beyond four months will greatly improve the programme’s capacity to alleviate poverty. In Table 5.12 we present some estimates of the Rand investment required to improve the EPWP by increasing the length of each EPWP job within the overall constraint of only creating 200,000 jobs.
- The South African government currently invests 3.70 billion Rand to create 200,000 EPWP jobs each having a 3.8 month average duration period. We can see that this current investment would increase by a modest R0.4 billion if the wage over all EPWP jobs was set at R1000 per month (that is, the average wage equals the minimum wage for all jobs). If we increased the duration, for example, to 8 (12) months, this will increase this investment proportionately. For simplicity we assume that on costs are unrelated to the duration of a project. However, increasing the duration of the project will in all likelihood reduce the incidence of start-up costs. Start-up costs (both in terms of capital input and bureaucratic costs) will be a substantial part of the total on costs. So our estimates are conservative and err on being overestimates. We can see that the investment required if the on-cost ratio was 1.67 (right hand column) is considerably smaller.
- We also make no attempt to capture the so-called endogenous benefits arising from the expanded income that the higher public investment generates. These multiplier effects will be positive, increase economic activity elsewhere in the economy, and reduce the overall public investment accordingly as taxation revenue rises and the market economy begins to absorb some of the workers in the EPWP. All the scenarios presented avoid this complexity.

#### **Scenario 1B: 200,000 jobs, 4 months each, improved targeting**

- Earlier, we found that spatial effects (at the municipality level) play a role in explaining the persistence of poverty, which suggests that apart from the length of EPWP participation we should also consider spatially targeting EPWP employment to maximise poverty alleviation for a given outlay.
- To that end, we use a socio-economic deprivation index, constructed by the University of Cape Town (McIntyre and Okorafor, 2003). This deprivation index includes 9 socio-economic factors, which are clustered into one index using principal component analysis.<sup>8</sup> HST (2006) recalculated the socio-economic deprivation index to the District Council level.<sup>9</sup> Although this index has known limitations, we base the following scenario on the HST disaggregated socio-economic index.
- Figure 5.4 shows the deprivation index for South Africa, based on 2001 StatsSA Census data. We have created five quintiles of deprivation. Darker colours imply less deprivation. We observe that deprivation concentrates in the eastern parts of the country, predominantly in KwaZulu-Natal, Limpopo and the eastern parts of the Eastern Cape.
- In Scenario 1B we hold the number of jobs created per year (200,000) and the current maximum duration (4 months) constant. The variation we introduce is by way of targeting the EPWP towards the socio-economically poor District Councils<sup>10</sup> To motivate this we allocate 40 per cent of the 200,000 jobs to the poorest quintile, 25 per cent of the total

available EPWP jobs to the second quintile, 20 per cent to the third quintile, 10 per cent to the fourth and 5 per cent to the fifth quintile. Clearly this is an arbitrary weighting which could be varied to suit the interests of different stakeholders. It does, however, capture our intent. Within the quintiles we allocate EPWP jobs according to the size of the pool of unemployed. Since there is no increase in the aggregate number of EPWP jobs in this scenario, redistributing jobs is budget neutral.<sup>11</sup>

- Table 5.13 shows the consequences of targeting the poor in terms of EPWP job distribution for the first and fifth quintile. We present the current job distribution (based on LFS, 2007), the projected distribution and the differences between both job allocations. The overall pattern is evident:
  - District councils in the first quintile (the poorest) will experience an increase in EPWP employment, while District Councils in the fifth quintile (the richest) will experience a decrease in EPWP employment.
  - This suggests that the current allocation of EPWP jobs is not spatially targeted towards the poorest socio-economic District Councils.

#### **Scenario 1C: 200,000 jobs, duration differentiation, improved targeting**

- Scenario 1C incorporates both changing job duration and spatial redistribution of EPWP job provision to maximise the reduction in poverty for the given number of jobs. That is, we not only allocate larger shares of EPWP jobs to poorer District Councils (as described under Scenario 1B), but also differentiate job duration by the extent of poverty at the District Council level.
- More specifically, we assume that jobs:
  - in the first quintile last for 12 months;
  - in the second quintile last for 10 months;
  - in the third quintile last for 8 months;
  - in the fourth quintile last for 6 months;
  - in the fifth quintile last for 4 months.
- Table 5.14 summarises the impacts of such a differentiation on budget outlays. Several interesting points emerge from this simulation:
  - The first row shows the status quo scenario (no duration differentiation and no poverty targeting) for the three monthly wage levels being considered;
  - The second row introduces duration differentiation as scheduled above, but it does not include improved targeting as introduced in Scenario 1B. We find that duration differentiation more than doubles the investment required to create 200,000 jobs; and
  - The third row introduces improved targeting in addition to duration differentiation. The investment required rises by about R1.2 billion per year because the improved targeting redistributes EPWP jobs from low to high poverty District Councils and since by assumption the high poverty District Councils receive longer lasting EPWP jobs, the total required investment in the EPWP increases.
  - The total investment required is significantly lower if the on-cost ratio can be pushed down to 1.67.

## 4.4 Scenario 2: Expanding the number of EPWP jobs

### Overview of Scenario 2

- The various options explored under Scenario 1 all assume that the current annual total of 200,000 EPWP jobs is maintained. Given the nearly 8 million unemployed in South Africa that number of EPWP jobs will only marginally impact overall unemployment and subsequently will do little to alleviate poverty. This does not subtract from our findings that EPWP participation is beneficial in terms of poverty alleviation for the few who are fortunate enough to get an EPWP job.
- In Scenario 2 we explore the number of jobs (and subsequent budget outlays) needed to provide for acceptable reductions in the expanded unemployment rate. Two scenarios are considered:
  - Scenario 2A analyses what is required to bring down the overall unemployment rate – we model various maximum national unemployment rates;
  - Scenario 2B analysis what is required to reduce unemployment rates at the District Council level below a nationwide standard.
- We keep all parameters constant during these simulations. That is, an EPWP jobs lasts 12 months. As in the previous scenarios we provide a comparison based on-cost ratios of 5.4 and 1.67. We also run a simulation for the three monthly minimum wage rates discussed above: R900 per month; R950 per month; and the preferred minimum of R1000 per month.
- We abstract from spatial targeting, though Scenario 2B implicitly addresses spatial targeting.

### Scenario 2A: Expanding the EPWP to reduce the overall unemployment rate

- The expanded unemployment rate was 37.9 per cent in March 2007. The expanded unemployment rate includes those who are considered to be discouraged – that is, they are officially measured as being outside the labour force because they are not actively seeking work but are identical to the unemployed (who are measured as being within the labour force) in the sense that they would take a job if offered. Table 5.15 presents the outcomes from this simulation.
- The important point here in understanding the results of the analysis in Table 5.15 is that the labour supply sensitivity to the business cycle is already measured by the discouraged workers. So a consideration of cyclical labour force participation responses is not required in this instance. We make no presumptions on whether the official StatsSA LFS data is accurate. We take it as given.
- The first row of Table 5.15 shows that 595,000 EPWP jobs would have to be created annually to reduce the overall unemployment rate to 35 per cent. This would require a total investment of around R35 billion annually if the EPWP wage was R900 per month and R38.6 billion annually at the preferred EPWP wage of R1000 per month assuming the on-cost ratio is 5.4. The investment falls proportionately if the programme moves towards an on-cost ratio of 1.67.
- More jobs would be required to reduce the national expanded unemployment rate further. For example, some 3.7 million jobs would be required to bring the national expanded unemployment rate down to 20 per cent and this would require a total investment of around R217 billion and R230 billion depending on the minimum wage paid at an on-cost ratio of 5.4.

- We realise that even in a fully employed economy the unemployment rate would be around 2 per cent so we call this the full employment option.

### **Scenario 2B: Expanding the EPWP to reduce local unemployment below a threshold**

- Given the stark differences in the expanded unemployment rate between District Councils, the South African Government could also opt to maintain expanded unemployment rates in every District Council at or below a certain maximum threshold. This policy goal is tougher than the one employed in Scenario 2A.
- Table 5.16 shows the results of the simulations. If the maximum acceptable expanded unemployment rate in any District Council is say 50 per cent, then 155,000 jobs have to be created through the EPWP. This would require a public investment of around 9 billion Rand annually if the EPWP wage was R900 per month and 10 billion Rand annually at the preferred EPWP wage of R1000 per month at the historical on-cost ratio of 5.4. As before this falls proportionately as the on-cost ratio falls and we show the results for the 1.67 assumption.
- Eradicating unemployment in South Africa (2 per cent unemployment rate) would require R459 billion to be invested annually if the EPWP wage was R900 per month and R510 billion annually at the preferred EPWP wage of R1000 per month at the historical on-cost ratio of 5.4. Note again that this is an overestimate given the existence of some frictional unemployment at full employment.
- Alternatively, one could target the groups such as Women and Africans, which are especially vulnerable to poverty as indicated by the results of Table 5.5. Table 5.17 details the number of unemployed in these population groups and the required public investment associated with creating EPWP jobs to employ them and subsequently assist them in escaping poverty. The simulations are based on the historical on-cost ratio of 5.4.<sup>12</sup>

### **4.5 Qualifications – the impact of multipliers**

- The outlays estimated in the various scenarios that we have presented are deliberate over-estimates of the total impacts. This strategy was designed to make the analysis tractable and as simple to understand as possible. We have already noted the considerable sensitivity to the on-cost ratio that we have used. It is likely that labour intensity approaching that achieved in the Indian employment guarantee programme can be attained by the EPWP. As the on-cost ratio falls the required investment falls.
- A further simplification relates to the existence of expenditure multipliers. It is well known that an injection of spending to an economic system sets in train mechanisms whereby “multiplied” effects are enjoyed as the extra income is spent and ripples out to other beneficiaries. In the context of this exercise, the public investment in extra EPWP jobs would increase income directly according to the initial outlays. But the second-round effects based on the initial demand for goods and services throughout the economy would stimulate broader employment growth. The total “induced” (or multiplied) impact is dependent on the extent to which each successive round of spending “leaks” out of the expenditure system via taxes, imports or saving. Economists typically summarise the total impacts using the so-called *multiplier* which is a number depicting the extent to which national income increases per dollar of initial spending injection. This figure can then be used to estimate how many extra jobs would be generated in the economy for every EPWP job opportunity created.

- While the task of estimating the multiplier and its correspondence with employment generation is beyond the scope of this Report it is clear that if the multiplier is positive then our investment estimates will be overstated by the extent to which the private economy generates extra work itself in response to the EPWP expansion.
- One recent study is helpful in this regard (Antonopoulos, 2008). Antonopoulos was commissioned by UNDP to undertake research concerning the gender and employment in South Africa. The report examines the impact of budgetary outlays associated with the EPWP using a gender disaggregated Social Accounting Matrix. The study assumes an increase in programme budget from 600 million Rand to 9 billion Rand (2000 prices) per annum, and that the additional jobs would be full-time annual jobs that are exclusively undertaken by poor and ultra-poor households. The key findings that are relevant to our Report are: (a) An investment of 9 billion Rand (2000 prices) in EPWP social sector would create 571,505 new jobs, and amount to 1.1 per cent of GDP. In addition to direct job creation, indirect job creation would be in the order of 200,000. Over half of jobs created would go to females. The injection of 772,000 jobs would reduce the unemployment rate (official) 25.5 to 19 per cent; (b) For every three jobs created through the EPWP intervention, another one job would open up in the economy; (c) the impact on GDP growth would be in the order to 1.8 percent or 15 billion Rand. New direct and indirect taxes would amount to 3 billion Rand. The net increase in government spending (6 billion Rand) would be equivalent to 0.7 per cent of GDP or 2.3 per cent of government expenditure. Income distribution would improve, with the proportion of income received by the upper 50<sup>th</sup> percentile decreasing from 92.2 to 91.8, and the lower 50<sup>th</sup> percentile improving from 7.8 to .8.2; (d) the subsequent investment would be pro-poor, with ultra-poor households receiving the highest incremental change income, of 9.2 per cent. All households involved in the intervention classified 'poor' would cross an annual poverty line of R20000. The depth of poverty of the ultra-poor would be reduced by between 59 and 71 per cent, and ultra-poor households would cross the ultra-poverty line of R12000; and (e) the social benefits arising from the investment relate to accreditation and human capital acquisition, asset accumulation, enhanced service delivery and multipliers associated with local economic investment.

#### 4.6 Summary of Scenario analysis

- The scenario analysis has provided us with valuable information about the parameters of the EPWP programme. We have learned that EPWP job duration (in months) matters for the wage income transfer function of the programme, which is hardly surprising. Providing sustained (beyond the current four month average) access to EPWP employment and subsequent EPWP income accelerates the poverty alleviation process of South African unemployed. An unconditional Job Guarantee would be ideal in this environment.
- Furthermore our analyses reveals that the current allocation of EPWP jobs is not targeted at the most deprived District Councils, though multi-level regression analyses results demonstrated that such spatially targeting would be important in alleviating poverty.
- Finally, we explored the potential of expanding the EPWP to help more impoverished South Africans. The simulations exposed the crucial role played by the on-cost ratio assumption. If the EPWP programme was able to replicate the ratio found in the Indian employment guarantee programme.



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## **Tables and Figures to accompany Workshop 1**

Table 3.1 EPWP job and wage data by Sector, financial year 2006-07

Sector	No of projects	Person-days of work (ex. training)	Gross jobs (including learnerships)	Average length of work opportunity (days)	Average minimum daily wage rates (Rand)	Range of daily wages paid (Min-Max) (Rand)	Implied average minimum monthly wage (Rand)	Implied average minimum monthly wage (Rand) Feb 2008 prices
Economic	173	262478	3483	75	45	21 - 80	859	953
Environment and Culture	991	5632976	129251	44	44	30 -176	841	934
Infrastructure	1696	7539096	150854	50	61	30 - 120	1154	1281
Social	4164	4829439	37106	130	31	9 - 80	593	658
All Sectors	7024	18263988	320694	57	41	9-176	862	957

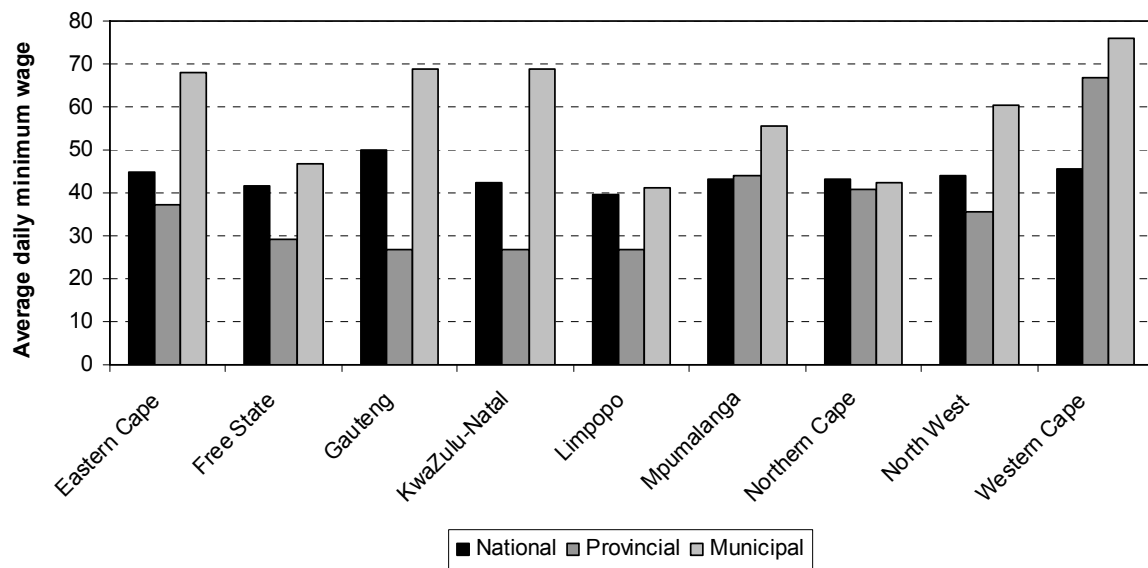
Source: Data provided by the Department of Public Works, South African Government. The implied average minimum monthly wage is derived by multiplying the daily rate by 19 (see text for explanation). All totals rounded to nearest whole number

Table 3.2 EPWP job and wage data by level of government and sector, Rand, 2006-07

Sector/Level of government	No of projects	Person-days of work (ex. training)	Gross jobs (including learnerships)	Average length of work opportunity (days)	Average minimum daily wage rates (Rand)	Implied average minimum monthly wage (Rand)	Implied average minimum monthly wage (Rand) Feb 2008 prices
<b>Economic</b>							
National government	0						
Provincial government	168	239678	3336	71	45	859	954
Municipal government	4	22800	114	200	40	760	844
<b>Environment and Culture</b>							
National government	708	4697370	97644	48	42	790	877
Provincial government	277	914598	31407	29	50	958	1064
Municipal government	7	21008	220	95	73	1384	1537
<b>Infrastructure</b>							
National government	126	206511	3872	53	57	1085	1204
Provincial government	952	5195474	82181	63	59	1120	1243
Municipal government	618	2137111	64801	33	64	1222	1357
<b>Social</b>							
National government	0						
Provincial government	4159	4825029	37036	130	31	592	657
Municipal government	5	4410	70	63	80	1520	1687

Source: see Table 3.1. The implied average minimum monthly wage is derived by multiplying the daily rate by 19 (see text for explanation).

Figure 3.1 Average daily wage rates by province and level of government, Rand



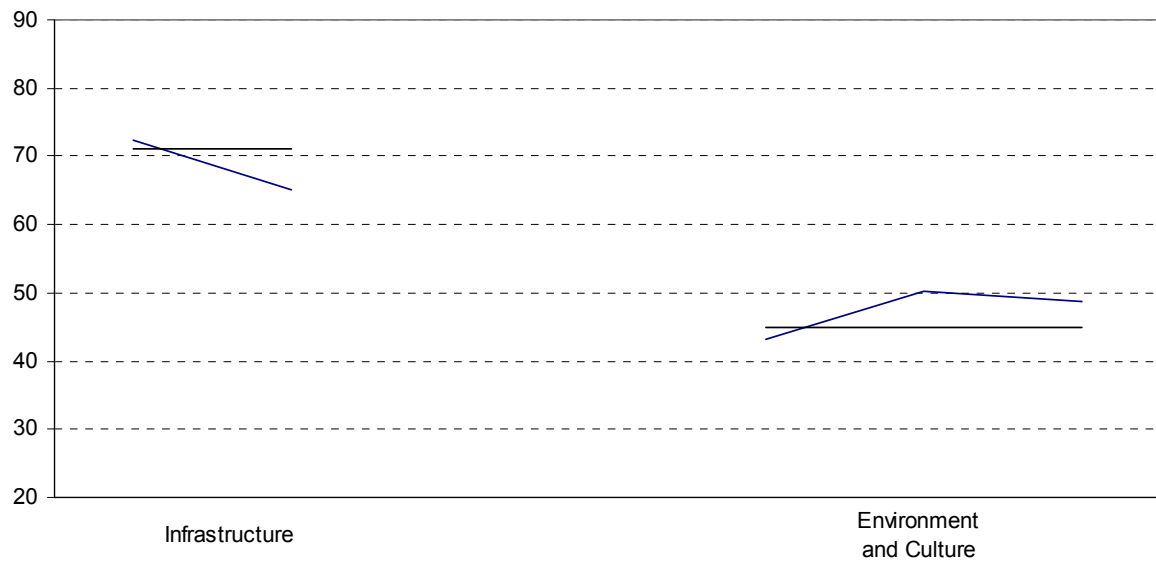
Source: EPWP, 2nd Quarterly Report, 2007-08, covering April 1 – September 30, 2007, Department of Public Works, South African Government.

Table 3.3 EPWP job and wage data by Province and level of government, Rand, 2006-07

Level of government/ Province	No of projects	Person-days of work (ex. training)	Gross jobs (including learnerships)	Average length of work opportunity (days)	Average minimum daily wage rates (Rand)	Implied average minimum monthly wage (Rand)	Implied average minimum monthly wage (Rand) Feb 2008 prices
<b>National</b>							
Eastern Cape	200	1156513	22318	52	45	850	943
Free State	48	252612	3714	68	42	793	880
Gauteng	73	368357	5527	67	50	953	1058
KwaZulu-Natal	126	1017331	15535	65	42	807	895
Limpopo	94	454451	9913	46	39	749	831
Mpumalanga	76	460803	5731	80	43	820	910
Northern Cape	66	401877	5359	75	43	825	915
North West	28	155107	6304	25	44	833	924
Western Cape	123	636830	27115	23	45	864	959
<b>Provincial</b>							
Eastern Cape	2011	2097122	17535	120	37	705	782
Free State	422	1250052	12403	101	29	558	620
Gauteng	365	1043161	9733	107	27	507	562
KwaZulu-Natal	795	3557914	75427	47	27	511	568
Limpopo	1107	832511	9199	91	27	507	563
Mpumalanga	255	521858	6663	78	44	836	928
Northern Cape	73	453258	4916	92	41	778	864
North West	140	601830	6416	94	35	673	747
Western Cape	388	817073	11681	70	67	1269	1409
<b>Municipal</b>							
Eastern Cape	92	412142	12283	34	68	1290	1431
Free State	31	48088	1055	46	47	892	990
Gauteng	82	491850	12377	40	69	1311	1455
KwaZulu-Natal	93	657207	27003	24	69	1305	1449
Limpopo	39	73326	1360	54	41	784	871
Mpumalanga	107	157436	4345	36	55	1053	1169
Northern Cape	6	14245	327	44	43	808	896
North West	43	100464	1171	86	60	1145	1271
Western Cape	141	230571	5284	44	76	1441	1599

Source: see Table 3.1.

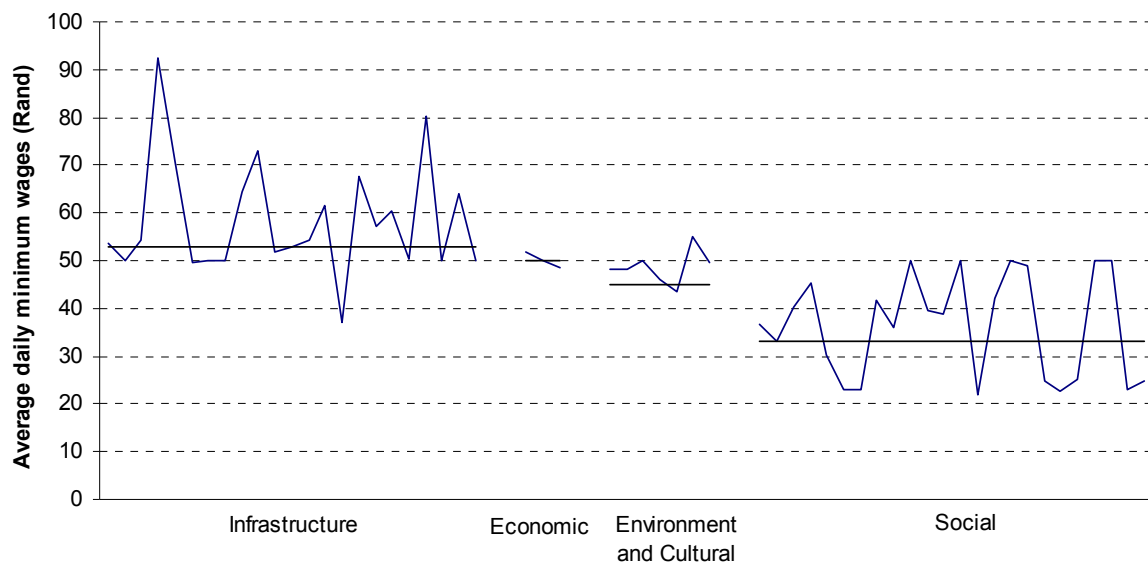
Figure 3.2 Average manual daily minimum wage rates, National government departments, Rand per day by sector, 2<sup>nd</sup> quarter 2007-08



Source: EPWP, 2nd Quarterly Report, 2007-08, covering April 1 – September 30, 2007, Department of Public Works, South African Government.



Figure 3.3 Average manual daily minimum wage rates, Provincial government departments, Rand per day by sector, 2<sup>nd</sup> quarter 2007-08



Source: EPWP, 2nd Quarterly Report, 2007-08, covering April 1 – September 30, 2007, Department of Public Works, South African Government.

Table 3.4 The job effectiveness of EPWP expenditure, Rand, 2006-07

Sector/level of government	Actual Expenditure (including professional fees) Rand	Person days of work (excluding person days of training) Days	Rand spent per person day of work
<b>Economic</b>			
National	0	0	0
Provincial	110,830,311	239,678	462
Municipal	5,920,366	22,800	259
<b>Environment and Culture</b>			
National	920,640,869	4,697,369	196
Provincial	178,558,134	914,598	195
Municipal	25,364,126	21,008	1207
<b>Infrastructure</b>			
National	258,745,629	206,511	1253
Provincial	3,527,165,113	5,195,474	679
Municipal	1,774,474,986	2,137,111	830
<b>Social</b>			
National	0	0	0
Provincial	400,574,626	4,825,029	83
Municipal	1697500	4,410	385

Source: see Table 3.1. Numbers are rounded to nearest integer.

Table 5.1 Descriptive statistics participants and non-participants in CASE survey

Respondent characteristics <sup>a</sup>	Participants	Non-Participants
<i>Personal characteristics</i>		
Age: younger than 25	0.22	0.15
Gender: male	0.45	0.33
Ethnicity: African (as opposed to Coloured)	0.85	0.77
Education: completed primary school or less	0.26	0.29
Disabled (physical, hearing or visual impairment)	0.12	0.11
<i>Household characteristics</i>		
Household size (mean)	4.9	4.7
Income earners per household (mean) <sup>b</sup>	1.6	1.2
Access to social grants	0.61	0.65
Access to home grown food	0.39	0.33
Access to other income	0.30	0.56
<i>Regional Characteristics</i>		
Urban environment	0.29	0.17

Source: CASE 2007. <sup>a</sup> We present shares unless stated otherwise. <sup>b</sup> For EPWP participants this excludes the income earner in the EPWP, but includes employment the EPWP participant had to give up participating in the EPWP.

Figure 5.1 Optimal design to test differences-in-differences

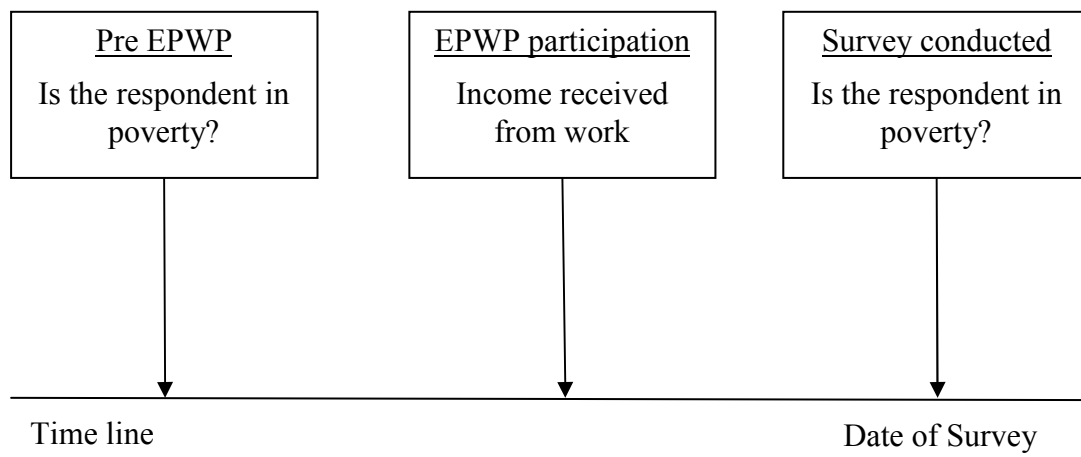


Table 5.2 Population characteristics to South African provinces, 2007

Provinces	Expanded unemployment rate %	Illiteracy rate %	Share of Population with no access to piped water %
Western Cape	23.8	22.4	1.8
Eastern Cape	42.1	32.6	15.2
Northern Cape	36.5	27.9	2.5
Free State	37.2	24.7	4.6
KwaZulu Natal	41.5	28.4	16.7
North West	44.9	29.2	9.7
Gauteng	32.0	20.5	2.6
Mpumalanga	38.3	34.3	11.2
Limpopo	53.1	32.7	19.3
South Africa	37.9	27.6	11.0

Source: Labour Force Survey, March 2007, Statistics South Africa.

Notes: The expanded unemployment rate requires persons to be unemployed, and able and willing to start work within 2 weeks. The official unemployment rate requires an additional condition. An unemployed person must have actively searched for work in the last 4 weeks. Consequently, the expanded unemployment rate is a broader measure of labour underutilisation than the official unemployment rate, as it includes the discouraged unemployed.

Table 5.3 Provinces and municipalities included in the formal modelling

Provinces	Municipalities
Western Cape	Breede River/Winelands, Breede Valley, Cape Town, Theewaterskloof, Stellenbosch, Witzenberg
Eastern Cape	Amahlathi, Kou-Kamma, Nelson Mandela, Qaukeni
Northern Cape	Bo Karoo, Kai! Garib
Free State	Letsemeng
KwaZulu Natal	Impendle, Ingwe, Jozini, Mtubatuba, Mkhomazi Wilderness Area, Ndwedwe, Kwa Sani, St Lucia Park, uMngeni
North West	Kgetlengrivier, Rustenburg
Gauteng	Johannesburg, Nokeng tsa Taemane
Mpumalanga	Highlands, Mbombela, Middelburg
Limpopo	Greater Letaba, Thulamela

Figure 5.2 The MLM modelling framework

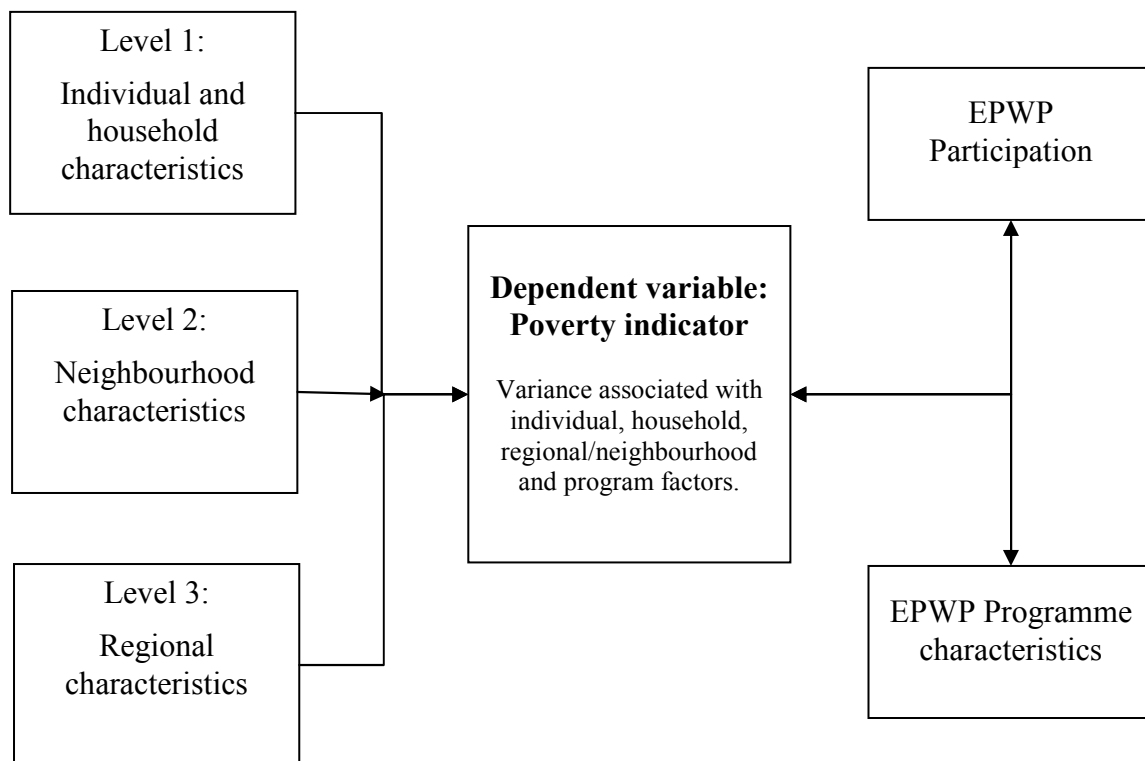


Table 5.4 Minimum Living Level poverty index

Household size	Poverty line (monthly household income) Rands per month
One	807
Two	1,050
Three	1,350
Four	1,696
Five	2,031
Six	2,373
Seven	2,673
Eight or more	3,248

Source: Martins (2007).



Table 5.5 Multi-level logit regressions for EPWP's contribution to poverty reduction

Independent variables	Probability of a household being in poverty
Treatment effect (EPWP participation)	– 0.21 (0.04) ***
<i>Control I: Personal characteristics</i>	
Age: younger than 25	0.02 (0.03)
Gender: male	– 0.09 (0.03) ***
Ethnicity: African (as opposed to Coloured)	0.12 (0.04) ***
Education: completed primary school or less	0.01 (0.03)
Disabled (physical, hearing or visual impairment)	0.01 (0.04)
<i>Control II: Household characteristics</i>	
Household size (mean)	0.05 (0.01) ***
Income earners per household (mean)	– 0.24 (0.05) ***
Access to social grants	– 0.19 (0.03) ***
Access to home grown food	0.03 (0.03)
Access to other income	– 0.27 (0.03) ***
<i>Control III: Regional characteristics</i>	
Urban environment	– 0.02 (0.05)
<i>Multi level effects</i>	– 0.02 (0.05)
Variance explained at individual level	0.140 (0.007) ***
Variance explained at municipality level	0.006 (0.004) *
Variance explained at province level	0.003 (0.004)
Log likelihood	– 392
Sample size	867

\* Significant at 10% level, \*\* Significant at 5% level, \*\*\* Significant at 1% level. Constant not reported; standard errors in brackets.

Figure 5.3 Schematic overview of interaction effects

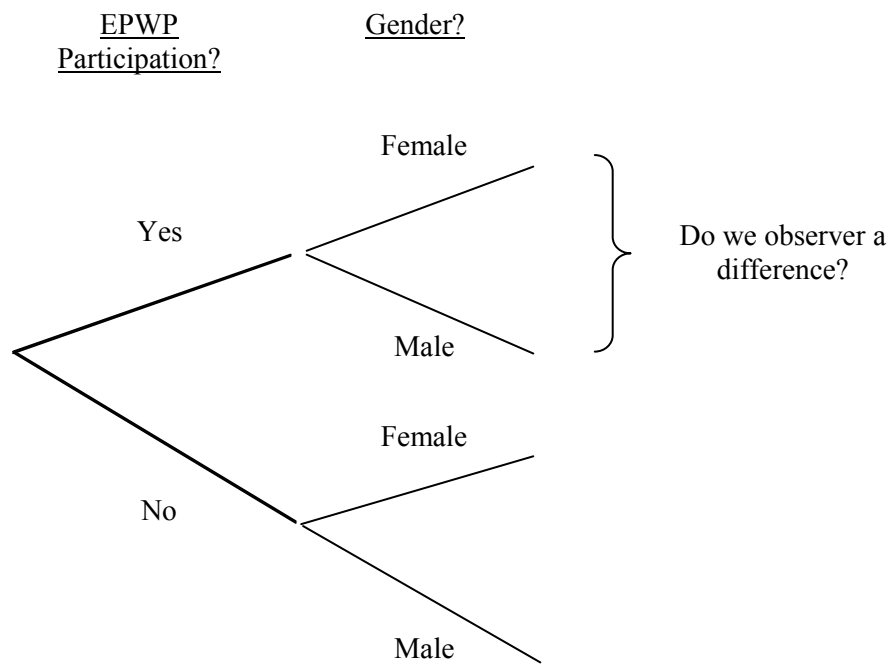


Table 5.6 Participation effects on household poverty

Interaction terms	Probability of the a household being in poverty
<b>Programme attributes:</b>	
Training (as opposed to no training)	0.01 (0.03)
‘Working on Fire’ (as opposed to ‘Working for Water’)	0.04 (0.05)
Five or more days (as opposed to less than five) a week employed	– 0.06 (0.05)
<b>Individual attributes:</b>	
Male (as opposed to female) participant	– 0.10 (0.03)***
Low educated (as opposed to more highly educated) participant	0.00 (0.03)
Young (as opposed to older) participant	0.05 (0.04)
African (as opposed to coloured) participant	0.11 (0.05)**
<b>Household attributes:</b>	
Access to social grants (as opposed to no access) while participating	– 0.19 (0.03)***
<b>Regional attributes:</b>	
Residing in an urban (as opposed to a rural) area while participating	– 0.03 (0.05)

\* Significant at 10% level, \*\* Significant at 5% level, \*\*\* Significant at 1% level. Standard errors in brackets.

Table 5.7 The EPWP report card

EPWP Indicator	5-year target	3-year status	% Progress over 3 years
1. Number of work opportunities created	1,000,000	716,399	72%
a. Infrastructure	750,000	362,257	48%
b. Environment & Culture	200,000	269,233	135%
c. Social	150,000	57,064	38%
d. Economic	12,000	10,003	83%
2. Person-years of employment created	650,000	219,914	34%
a. Infrastructure	250,000	115,817	46%
b. Environment & Culture	200,000	66,484	33%
c. Social	200,000	35,884	18%
d. Economic	18,000	1,730	10%
3. Training (number of training days)	15,579,000	2,973,817	19%
a. Infrastructure	9,000,000	1,124,840	12%
b. Environment & Culture	2,005,000	1,110,870	55%
c. Social	4,535,000	715,925	16%
d. Economic	39,000	22,182	57%
4. Project budget, R billion			
a. Infrastructure	R15.0	R17.4	116%
b. Environment & Culture	R4.0	R3.2	80%
c. Social	R2.0	R0.7	35%
d. Economic	Unspecified	R0.3	Unspecified
5. Actual expenditure	R21.6 <sup>1</sup>	R12.8	59%
6. Demographic characteristics of workers			
a. Youth	400,000	280,176	70%
b. Women	300,000	332,187	111%
c. Disabled	20,000	7,192	36%

Source: Data assembled from the Quarterly Reports of the EPWP Containing data and information for the period 1 April 2004 to 31 March 2007, or drawn by datasets provided by the EPWP Unit.

<sup>1</sup> The R21.6 billion allocated in “Actual expenditure” is the total of all yearly budgetary allocations and not a target set in the original Logframe.<sup>7</sup>

Table 5.8 Government EPWP outlays, 2004 to 2007 (in million Rand)

Years	Sector				
	Infrastructure	Economic	Environment & Culture	Social	Total
<b>2004 – 2005:</b>					
Total costs	2,471.8	24.4	643.4	18.7	3,158.3
Wage costs	671.8	2.9	132.6	15.8	823.2
On-cost factor	3.68	8.36	4.85	1.18	3.84
<b>2005 – 2006:</b>					
Total costs	1,515.9	26.5	795.8	143.4	2,481.5
Wage costs	328.1	1.5	220.6	85.4	635.7
On-cost factor	4.62	17.29	3.61	1.67	3.90
<b>2006 – 2007</b>					
Total costs	5,560.4	116.8	1,124.6	402.2	7,203.0
Wage costs	451.5	11.8	262.8	191.3	917.5
On-cost factor	12.31	9.87	4.28	2.10	7.85
<b>Total 2004-2007:</b>					
Total costs	9,548.0	167.6	2,563.8	564.3	12,843.8
Wage costs	1,451.5	16.3	616.0	292.6	2,376.4
On-cost factor	6.58	10.30	4.16	1.93	5.40

Source: EPWP (2005, 2006, 2007).

Table 5.9 Wages and job duration in the EPWP by sector, 2004-2007

Years	Sector				
	Infrastructure	Economic	Environment & Culture	Social	Total
<b>2004 – 2005:</b>					
Monthly wage (Rand)	1,058	850	693	671	965
Job duration (months)	5.8	0.7	3.3	14.3 <sup>a</sup>	4.9
<b>2005 – 2006:</b>					
Monthly wage (Rand)	970	575	770	657	839
Job duration (months)	3.1	1.5	3.5	7.1	3.6
<b>2006 – 2007:</b>					
Monthly wage (Rand)	1,083	806	822	691	892
Job duration (months)	2.8	4.2	2.5	7.5	3.2
<b>Total 2004-2007:</b>					
Monthly wage (Rand)	1,044	784	772	679	900
Job duration (months)	3.8	2.1	3.0	7.5	3.8

Source: EPWP (2005, 2006, 2007).

<sup>a</sup> This number appears to be an outlier but is due to the way the data has defined the total work days and the numbers of work days per month for 2004. Since there were only relatively few EPWP jobs created in the Social sector in 2004 compared to other years and sectors, it will not have a significant influence on the overall average job duration (3.8 months) that we use in our analysis.

Table 5.10 Changes in the Poverty Stock index due to EPWP participation

Poverty Index score	Distribution of participants
– 3	0.0%
– 2	0.7%
– 1	3.4%
0	22.4%
1	52.0%
2	19.3%
3	2.0%
4	0.3%
Total	100%

Source: CASE (2007).

Table 5.11 Multi-level probit regression on EPWP's contribution to poverty reduction

Independent variables	Improvement in 'Stock of Poverty'
<i>EPWP work experience in months:</i>	
Less than 3 months	0.17 (0.13)
Between 3 and 5 months	reference
Between 5 and 7 months	0.48 (0.26)*
Between 7 and 9 months	0.52 (0.15)***
Between 9 and 11 months	0.36 (0.18)*
More than 11 months	0.28 (0.16)*
Level of EPWP Income	0.00 (0.00)***
'Working on Fire' (as opposed to 'Working for Water')	0.22 (0.13)*
<i>Provinces:</i>	
Western Cape	– 0.31 (0.12)***
Eastern Cape	– 0.13 (0.22)
Northern Cape	– 0.67 (0.40)*
Free State	– 0.50 (0.09)***
KwaZulu Natal	– 0.12 (0.15)
North West	– 0.32 (0.16)**
Gauteng	– 0.20 (0.16)
Mpumalanga	– 0.24 (0.19)
Limpopo	reference
Log likelihood	– 641
Sample size	579

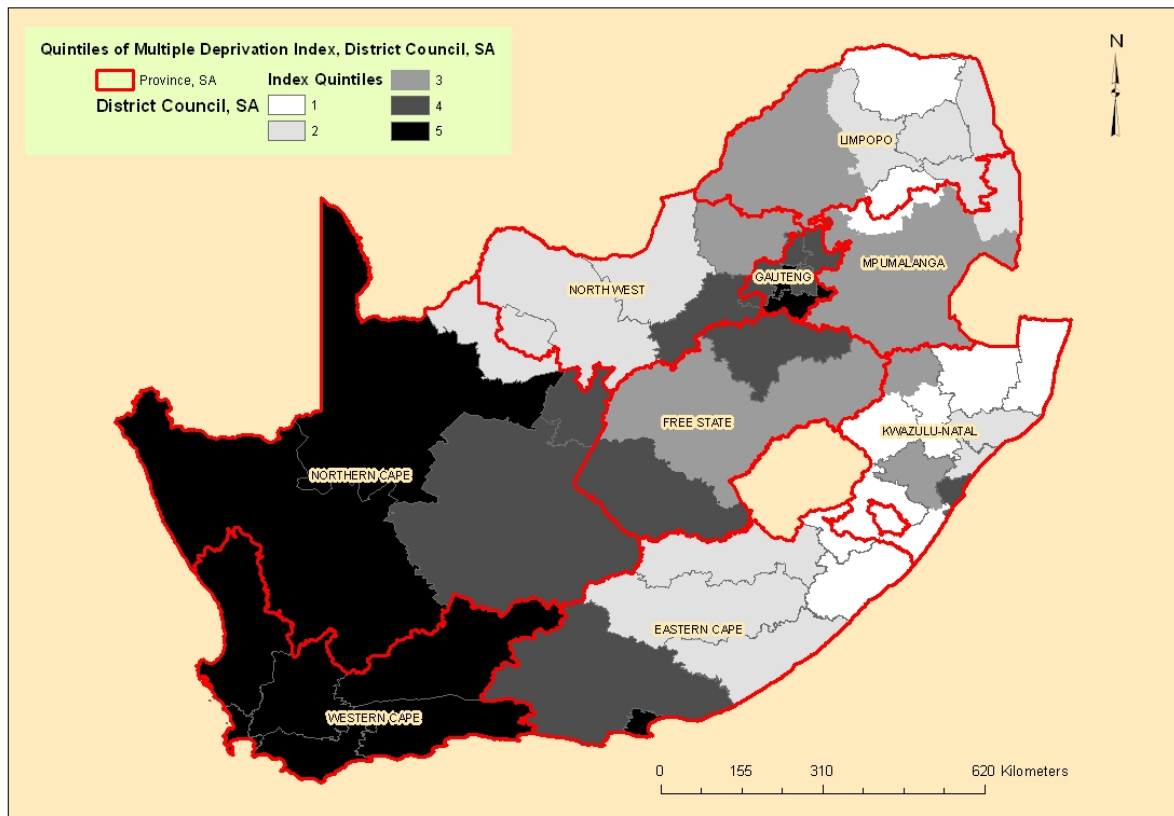
All control variables used in Table 5.5 are included in the model, but not reported in this table. Robust standard errors in brackets (clustered on municipalities).



Table 5.12 Investment required for changing duration of EPWP job opportunities, various minimum wages

Duration (in months)	Jobs	Monthly wage (Rand)	Total investment required (billion of Rand) On-cost ratio: 5.4	Total investment required (billion of Rand) On-cost ratio: 1.67
3.8	200,000	900	3.70	1.14
		950	3.91	1.21
		1000	4.11	1.27
8	200,000	900	7.79	2.41
		950	8.22	2.54
		1000	8.65	2.68
12	200,000	900	11.69	3.62
		950	12.33	3.81
		1000	12.98	4.01

Figure 5.4 Socio-economic deprivation at the District Council Level, 2001



Source: HST (2006).

Table 5.13 Changing the target group of EPWP job opportunities

Municipality	Current allocation	Projected allocation	Change
<i>First quintile:</i>			
Greater Sekhukhune DM	13,850	21,490	7,640
O.R.Tambo DM	770	1,190	420
Ugu DM	7,380	11,440	4,070
uThukela DM	6,740	10,450	3,710
uMzinyathi DM	3,850	5,970	2,120
Zululand DM	1,920	2,990	1,060
uMkhanyakude DM	3,850	5,970	2,120
Vhembe DM	2,310	3,580	1,270
Sisonke DM	7,700	11,940	4,240
Alfred Nzo DM	3,210	4,980	1,770
<i>Fifth quintile:</i>			
City of Cape town	390	260	– 130
West Coast DM	190	130	– 70
Cape Winelands DM	640	430	– 220
Overberg DM	320	210	– 110
Eden DM	130	90	– 40
Sedibeng DM	900	600	– 300
Central Karoo DM	1,670	1,110	– 560
Namakwa DM	4,040	2,680	– 1,360
Siyanda DM	1,920	1,280	– 650
City of Johannesburg	3,590	2,380	– 1,210
Nelson Mandela	1,280	850	– 430
Total (quintile 1 to 5)	200,000	200,000	0

Source: LFS (March 2007), Stats SA. All figures are rounded. Consequently, the third column need not be the exact summation of the first two.

Table 5.14 Investment required for changing the duration of EPWP job opportunities

Duration (in months)	Jobs	Spatial job distribution	Monthly wages (Rand)	Total investment required (billion of Rand) On-cost ratio: 5.4	Total investment required (billion of Rand) On-cost ratio: 1.67
3.8	200,000	No	900	3.70	1.14
			950	3.91	1.21
			1000	4.11	1.27
Quintile dependent	200,000	No	900	8.32	2.57
			950	8.78	2.71
			1000	9.25	2.86
Quintile dependent	200,000	Yes	900	9.45	2.92
			950	9.97	3.10
			1000	10.50	3.25

Table 5.15 Expanding the EPWP: targeting the overall unemployment rate

Maximum national unemployment rate	Jobs needed	Monthly wages (Rand)	Total investment required (billion of Rand) On-cost ratio: 5.4	Total investment required (billion of Rand) On-cost ratio: 1.67
35%	595,000	900	34.75	10.7
		950	36.68	11.3
		1000	38.61	11.9
30%	1,635,000	900	95.39	29.4
		950	100.69	31.1
		1000	105.99	32.7
25%	2,670,000	900	156.04	48.2
		950	164.70	50.8
		1000	173.37	53.5
20%	3,710,000	900	216.68	66.9
		950	228.72	70.6
		1000	240.76	74.3
2%	7,455,000	900	435.00	134.3
		950	459.17	141.7
		1000	483.34	149.2

Table 5.16 Expanding the EPWP: targeting District Council unemployment rates

Maximum national unemployment rate	Jobs needed	Monthly wages (Rand)	Total investment required (billion of Rand) On-cost ratio: 5.4	Total investment required (billion of Rand) On-cost ratio: 1.67
50%	155,000	900	8.99	2.78
		950	9.49	2.93
		1000	9.98	3.09
45%	300,000	900	17.54	5.42
		950	18.52	5.73
		1000	19.49	6.03
40%	605,000	900	35.32	10.92
		950	37.28	11.53
		1000	39.24	12.14
35%	1,110,000	900	64.74	20.02
		950	68.34	21.13
		1000	71.93	22.25
30%	1,830,000	900	106.81	33.03
		950	112.74	34.87
		1000	118.67	36.70
25%	2,710,000	900	158.43	49.00
		950	167.23	51.72
		1000	176.03	54.44
20%	3,725,000	900	217.54	67.28
		950	229.63	71.02
		1000	241.72	74.75
2%	7,455,000	900	435.00	134.53
		950	459.17	142.00
		1000	483.34	149.48

Table 5.17 Expanding the EPWP: targeting specific groups

Specific groups	Jobs needed	Monthly wages (Rand)	Total investment required (billions of Rand)
Women	4,557,000	900	266.26
		950	281.06
		1000	295.85
Africans	7,010,000	900	409.59
		950	432.35
		1000	455.11

1 See CASE (2007) for a detailed description of both programmes.

2 Several respondents who are reported to be enrolled in both programmes were excluded from our analysis because they were recorded as not receiving any wages. Several reasons might explain this anomaly: (a) privacy reasons (respondents unwilling to disclose income information); (b) they may have only recently joined the projects; and/or (c) there could be administrative problems paying wages. If the latter reason is important, then institutional reform is required immediately as it would seriously hinder the wage transfer function of the EPWP.

3 Each set of interaction effects presented in Table 7.6 belongs to a separate regression similar to those shown in Table 7.5. Full regression results are not shown in order to focus on interaction effects.

4 Though training is a compulsory component of the EPWP, about 30 per cent of EPWP participating respondents report not to have received training. Since training is unlikely to impact on the wage income transfer capacity of the EPWP (which Table 7.6 confirms), the far from full coverage of training provision is not a concern to our analysis. However, for an analysis studying the employability effects of EPWP it would be a major concern.

5 Financial years run from 1 April to 30 March.

6 Labour costs consist of wage costs of EPWP participants. All other costs are included in 'non-labour costs', which includes wages of supervisors.

7 A worsening in 'household item acquisition' is not possible. The variable only measures whether a respondent was able or not able to acquire household items. Consequently, the minimum score of the 'stock of poverty' indicator is '- 3'.

8 The nine variables that were included, are: the share of the area's population: 1) that are children below the age of 5; 2) that are black Africans; 3) that are from a household that is headed by a female; 4) whose household heads have no schooling; 5) of adults between 25 and 59 classified as both not working and looking for work or not working and not looking; 6) that live in traditional dwelling, informal shack or tent; 7) that have no piped water in their house or on site; 8) that have a pit or bucket toilet or no form of toilet; 9) that do not have access to electricity or solar power for lighting, heating or cooking. Data is sourced from the 2001 StatsSA Census.

9 Ideally we would like to disaggregate one level deeper to the municipality level. However, the quality of data collection at that level is dubious. Consequently we exploit the spatial data at the district council level.

10 We are cognisant of the fact that current policy structures do not provide a central budget that allocates funds to the various regions to create EPWP jobs. Rather EPWP jobs are funded from existing local budgets. Nonetheless this scenario is instructive as it demonstrates how better results can be achieved overall for the same total expenditure.

11 This budget neutrality depends on the wages paid in the programme. Throughout this report we recommend a unilateral minimum wage, which implies that budget neutrality is preserved as long as the number and the length of EPWP jobs remains unchanged. We drop the latter assumption in Scenario 1C.

12 Given the ultra poor status of women and African participants, it is not surprising that contemporary EPWP participation is a less effective means for them to escape poverty relative to men and coloured participants (see Table 7.6). However, we promote sustained access to EPWP employment (longer duration) and potentially higher wages in the programme as a means of lifting the ultra poor out of poverty.





## **Workshop Session 2 Briefing Notes**

### **Minimum Employment Guarantee Schemes: premises and feasibility**

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#### **1. Overview – the challenge of poverty and unemployment**

- The link between poverty and its major cause – unemployment – is undeniable. But in noting this obvious link we emphasise that these two twin evils are both political problems. There is nothing intrinsic to a modern monetary economy such as South Africa that makes either poverty or unemployment inevitable. The resolution of these twin evils overwhelmingly reflects the choices made within the political system and while the problems are significant in South Africa, they are not insurmountable if an appropriate policy framework is put in place.
- In fact, South Africa would seem to have the preconditions that would make the task of achieving full employment and poverty alleviation more easy than other nations. It has no shortage of space and is resource-rich in both natural and human terms. It has also developed the highest quality education, health care and personal care support systems that are available anywhere in the world but these are still beyond the grasp of the majority despite transition.
- It is no surprise that these resources were applied and distributed highly unequally under the apartheid system. The logic of that system was, in part, to deny the rights of the vast majority for the benefit of the few. However, despite abandoning the formal apartheid system as a legal framework to define rights, South Africa does not appear to have abandoned the underlying economic organisation and structure that underpinned and perpetuated it. In fact, the same system that generated economic inequalities under apartheid continues to deny the majority of South Africans access to the production and distribution systems.
- The continuation of this economic organisation and the strong policy support for it from the national government (for example, budget surpluses under the neo-liberal mandate) indicates that the dramatic inequalities that continue in democratic South Africa today are undeniably a result of political choice. In saying that, we recognise that the transition to democracy placed significant pressures on the political machinery available in South Africa. This machinery had not evolved under apartheid to deliver social democratic outcomes. We also consider that in making the transition towards the adoption of social democratic ideals, the South African government has received poor advice from external governments and international institutions and has been under incredible pressure to conform to the “world economic order” which is typified by the neo-liberal agendas set by the International Monetary Fund (IMF) and the World Bank. That agenda makes the elimination of poverty and unemployment difficult to accomplish because it places the necessary fiscal tools in a straitjacket and

does not support redistributive policies that more equably share the wealth generated by a nation economy.

- The South African government does have the policy capacity available to it to enable full employment and the significant reduction of poverty. The challenge is for it to identify this capacity and use it to develop the policy structures which will improve employment outcomes for all and reduce the widespread poverty.
- These notes provide some guidance in this respect which is outside the neo-liberal framework that has constrained the South African economy from achieving its noble ideals.
- None of this is to say that the task is easy. The logistics alone of transforming an apartheid economy into a more equal and inclusive social system are daunting. But the task has to be pursued within the correct economic and social policy framework which has not been particularly forthcoming in democratic South Africa.
- These notes outline the essential macroeconomic concepts that underpin the practical policy options available to the South Africa government.
- Unfortunately, the post-apartheid South African administration appears to have adopted what has been termed a neo-liberal economic understanding of the world and the policy apparatus that is concomitant with that understanding. The most explicit example of this is seen the transition from the Reconstruction and Development Programme (RDP) to the Growth, Employment and Redistribution Programme (GEAR). The RDP was envisaged to be the cornerstone for building a better life of opportunity, freedom and prosperity. In 1996 RDP was superseded by GEAR, which adopted explicit economic growth strategies that were oriented towards private sector investment and assumed the role of the public sector and government programmes to be minimal. The GEAR strategy pursued fiscal discipline by minimising deficits and maintaining high real interest rates, which paradoxically constrained economic and employment growth. The failure of GEAR is never more evident than in the discrepancy between the economic modelling, which predicted that a 6 per cent growth rate would create an average of 270,000 additional jobs annually in the formal sector, and the outcomes, which saw formal sector employment, stagnate and fall.
- It is no surprise then that the richness of resources have not been used to benefit the greater population. Neo-liberal economics emphasises the primacy of the private market place and uses “private costs and benefits” as the basis of resource allocations, largely ignoring the broader and more inclusive concept of “social costs and benefits”. In the case of South Africa, this translates into the hard to understand combination of a government running fiscal surpluses and more than 60 per cent of the population without adequate housing or income. The surpluses are justified by the erroneous claim that they are fiscally responsible management, a central misnomer of neo-liberal thinking which remains stuck in a time when fixed exchange rates and commodity money was the norm. In a flexible exchange rate world and where the government maintains sovereignty over its currency, these notions are inapplicable. The application of them results in dysfunctional outcomes which we see in the stark reality of the South African situation.

- Throughout the policy literature one reads that unemployment in South Africa is a complex and manifold problem. The construction of unemployment in South Africa as being a “structural problem” dominates the debate with contributions supporting this perspective coming from all sides of the political landscape. Various academic researchers also argue that unemployment is structural. We do not share the view that the overwhelming unemployment problem is structural in nature.
- However, any modern monetary economy, such as South Africa, has the capacity to create a pool of jobs that would be inclusive of the most disadvantaged workers and be spatially matched to the pattern of economic settlement. In that sense, to say the unemployment is structural is to assume all jobs have to be created by the dynamics of the private market place and selection and offer of training slots should reflect the prejudices of the private sector employers.
- By any standards, the unemployment problem in South Africa is what economists call a demand deficiency situation rather than a structural problem. This means there is not sufficient demand for labour being generated overall. The South African economy is not producing enough jobs and the labour queue then reflects the distribution of skills with the least skilled in the most disadvantaged position in the face of job scarcity.
- There is not a shortage of meaningful job opportunities that could be pursued in South Africa if there was a willingness to fund the employment. The private sector is clearly unable to generate the level of employment commensurate with the willing labour supply. This chronic state is a *prima facie* justification for a direct public sector job creation.
- Economists traditionally distinguish between structural and cyclical unemployment although the demarcations used are generally unsatisfactory (see Mitchell and Muysken, 2008). However, it is clear from the most cursory examination of the South African labour force data that this is an economy that fails to generate enough jobs not one that generates enough work in areas unsuited to those who are seeking work. That situation is not one of structural unemployment by any definition of the word. The solution to South Africa’s unemployment problem is to generate more work.
- Further, it is highly unlikely that the private sector will provide the impetus to solve this problem. It therefore falls back on the South African government to generate the necessary employment via direct job creation. That should be the unambiguous role of the EPWP and provide an overwhelming mandate for its significant expansion.

## **2. The concept of employment guarantees – the path to full employment and price stability**

- Central banks now employ unemployment buffer stocks to control inflation. This is very wasteful in terms of the poverty and exclusion that it inflicts on the unemployed individuals and their families.
- The modern policy framework whereby central banks use unemployment as an instrument to control inflation is in contradistinction to the practice of governments in the Post World War II period to 1975 which sought to maintain levels of demand using a range of fiscal and monetary measures that were sufficient to ensure that full

employment was achieved. Unemployment rates were usually below 2 per cent throughout this period across most of the Western world.

- Evidence from the OECD experience since 1975 suggests that deflationary policies are effective in bringing inflation down but impose huge costs on the economy and certain demographic groups, which are rarely computed or addressed. The effectiveness of an unemployed buffer stock has been shown to deteriorate over time, with ever larger numbers of fresh unemployed or underemployed required to function as a price anchor that stabilises wages.
- The central bank, as part of the consolidated currency-issuing government sector, has another, somewhat similar yet far more effective buffer stock option which is in fact an alternative way of managing the unemployment programme. Mitchell (1998) and Wray (1998) among others, show that a superior use of the labour slack necessary to generate price stability is to implement an employment programme for the otherwise unemployed as an activity floor in the real sector, which both anchors the general price level to the price of employed labour of this (currently unemployed) buffer and can produce useful output with positive supply side effects.
- The employment buffer stock approach - which we call the **Job Guarantee (JG)** - exploits the imperfect competition introduced by the operations of the fiat (flexible exchange rate) currency which provides the issuing government with pricing power and frees it of nominal financial constraints.
- Under the JG scheme, the government continuously absorbs workers displaced from private sector employment. The JG workers thus constitute a buffer employment stock and are paid the prevailing minimum wage which sets the national wage floor for the economy as a whole.
- In this vein we recommend that all politicians in countries that have a sovereign currency (such as South Africa) should set a minimum acceptable living standard and ensure that a base level job is always available at a wage which would allow all citizens to achieve that living standard independent of welfare payments.
- The JG is an example of “hiring off the bottom” – workers who are unemployed have no “bid” for their services. The JG provides an unconditional “bid” for their services at the minimum wage and thus places no upward pressure on the wage structure. The JG does not seek to employ any specific number of workers nor does it seek specific skills. Most importantly, it does not chase wages upward and thus never competes with higher and rising private sector wage offers. As a consequence, the JG can achieve and sustain noninflationary full employment at any level of aggregate demand.
- In contradistinction to traditional Keynesian pump priming, which competes for labour at market prices, the JG buys labour which attracts a zero bid (that is, no employer is currently prepared to offer these workers employment at the going wage) in the market economy.
- Progressive economists are mostly united by the proposition that the orthodox approach to inflation control is costly and unacceptable. The neo-liberal solution to the resulting unemployment is to pursue supply-side policies (labour market

deregulation, welfare state retrenchment, privatisation, and public-private partnerships) to give the economy room to expand without cost pressures emerging.

- Progressive economists, in general reject this strategy because the sacrifice ratios are high and the distributional implications (creation of under class and working poor and loss of essential services) are unsavoury.
- The JG is an integral part of a progressive strategy and introduces a wage floor that prevents serious deflation from occurring and defines the private sector wage structure.
- Balance of payments considerations should not be allowed to get in the way of deficit spending to achieve full-employment.
- In determining whether a JG job is superior to unemployment (that is, whether it is socially beneficial to employ unused labour) we only have to determine whether the marginal benefits are positive. With creative thinking and professional administration this very low benchmark would be easily exceeded by the JG jobs on offer.
- The JG is a progressive, forward-looking approach for a state aiming to rebuild communities based on the purposeful nature of work that can extend beyond the creation of surplus value for the capitalist employer. It also provides the framework whereby the concept of work itself can be extended and broadened to include activities that we would dismiss as being leisure using the current ideology and persuasions, as well as to encourage private sector activities currently counted as productive in a narrow sense that societies of the future will view as socially destructive.
- The JG also does not preclude training initiatives. Appropriately structured training within a paid employment context helps overcome the churning of unemployed through training programs, workfare and other schemes under current neo-liberal policies. Specific skills are usually more efficiently taught on the job.
- As a consequence, a properly designed JG can help previously unemployed persons to make transitions into careers in the private sector and also stimulate employers to modify their recruitment behaviour.
- A JG is likely to more closely align the preferences of the workforce with the provision of hours of work than under the current “fight inflation” approach. JG jobs can clearly be offered at fractions of full-time hours to suit the workers relying on them. There would be no enforced time-related underemployment and workers would be sovereign in the final number of hours they worked. In this sense, workers could more easily align their other commitments (family, recreational) with their working lives.
- Workers who are unable to work would have access to the other forms of state-provided income support as they currently do (depending on country concerned).
- Providing income guarantees via employment guarantees is a superior solution to those advocated by Basic Income Guarantee (BIG) advocates. A BIG excludes the disadvantaged from work and its social environment, provides little scope for self-

development and/or skill building, and confines them to a role as “consumption units”.

### **3. A modern monetary framework for fiscal policy activism**

- The popular claim that the introduction of a national employment guarantee would generate inflation and force up interest rates thereby crowding out private investment expenditure is based on a body of economic theory that does not explain (or apply to) a modern monetary system based on sovereign governments who issue fiat currency and operate in a world of flexible exchange rates.
- Mitchell and Muysken (2008) present a theoretical framework which demonstrates the actual options and responsibilities that apply to modern governments which issue fiat currency. South Africa is such a country, and as such has the fiscal power to solve unemployment and poverty without causing inflation or interest rate increases.
- They begin with an elementary exposition of the basic national accounting relationships between the government and non-government sectors. Within this framework we show that a government budget deficit adds net financial assets which are available to the private sector (in part to “finance” private savings). Budget surpluses have the opposite effect and squeeze the private sector for liquidity.
- In aggregate, there can be no net savings of financial assets of the non-government sector without cumulative government deficit spending. The only entity that can provide the non-government sector with net financial assets (net savings) and thereby simultaneously accommodate any net desire to save (financial assets) and thus eliminate unemployment is the currency monopolist – the government.
- Accumulated private saving is reduced dollar-for-dollar when there is a government surplus. The government surplus has two negative effects for the private sector: (a) the stock of financial assets (money or bonds) held by the private sector, which represents its wealth, falls; and (b) private disposable income also falls in line with the net taxation impost.
- Key macroeconomic principles to emerge from the discussion on government / non-government relations include: (a) Budget surpluses can be achieved only through decreases in non-government savings (increases in non-government debt) and reduce private savings (increase private debt); (b) Budget surpluses do not add to government wealth or their ability to spend; and (c) Budget surpluses have an inherent tendency to reduce aggregate demand.
- Mainstream (neo-liberal) macroeconomics is unable to comprehend this logic because it makes a fatal error when it blurs the differences between private household budgets and the government budget. Clearly the government is always solvent in terms of its own currency of issue. As the monopoly issuer of the fiat currency, the government does not need to “finance” its spending. Conversely, households use the currency provided by the government and thus have to “finance” their spending.
- Government spending is thus not revenue constrained. A currency-issuing government has no financial constraints on its spending, which is not the same thing as acknowledging self imposed (political) constraints.

- The concept of a fiat-issuing Government saving in its own currency is of no relevance. Budget surpluses do not represent national saving. They represent foregone opportunities to expand public infrastructure and provide necessary savings to the non-government sector. They typically represent a failed government.
- Government deficits do not cause interest rates to be higher and the issuance of government debt is not a “financing” exercise. Rather debt is issued as part of an interest rate maintenance operation by the central bank. Relations between non-government sectors (households, firms, banks, foreign sector) generate what we call “horizontal transactions” which do not create net financial assets – all assets created are matched by a liability of equivalent magnitude so all transactions net to zero. This is in contradistinction to transactions between the government sector and the non-government sector (for example, government spending and taxation; bond purchases or sales; gold and foreign exchange sales by the central bank, etc...) which generate (or destroy) new net financial assets because no matching liability (asset) is created.
- This helps us understand the impact of budget deficits on the financial system. The significant point is that net government spending (deficits) which is not taken into account by the central bank in its liquidity decision, will manifest as excess reserves (cash supplies) in the clearing balances (bank reserves) of the commercial banks at the central bank.
- Lending on the interbank market cannot eliminate this system-wide excess. Only transactions between the government and non-government sector can eliminate the excess. If these balances were not “drained” then overnight interest rates would fall to whatever support level the central bank has in place (for example, zero as in Japan) and the central bank would lose control of monetary policy (unless it targeted a zero or support interest rate).
- The central bank can drain this excess by issuing debt to the non-government sector (selling bonds to the banks) which provides an interest-bearing asset in place of the excess (non-earning) reserves. Therefore, it is clear that government debt does not finance spending but rather serves to maintain reserves such that a particular overnight rate can be defended by the central bank.
- Mitchell and Muysken (2008) also explicitly trace mass unemployment to the introduction of State money and show the relationship between net government spending and excess labour supply (unemployment).
- Unemployment occurs when the private sector, in aggregate, desires to earn the monetary unit of account through the offer of labour but doesn’t desire to spend all it earns, other things equal. As a result, involuntary inventory accumulation among sellers of goods and services translates into decreased output and employment. In this situation, nominal (or real) wage cuts *per se* do not clear the labour market, unless those cuts somehow eliminate the private sector desire to net save, and thereby increase spending.

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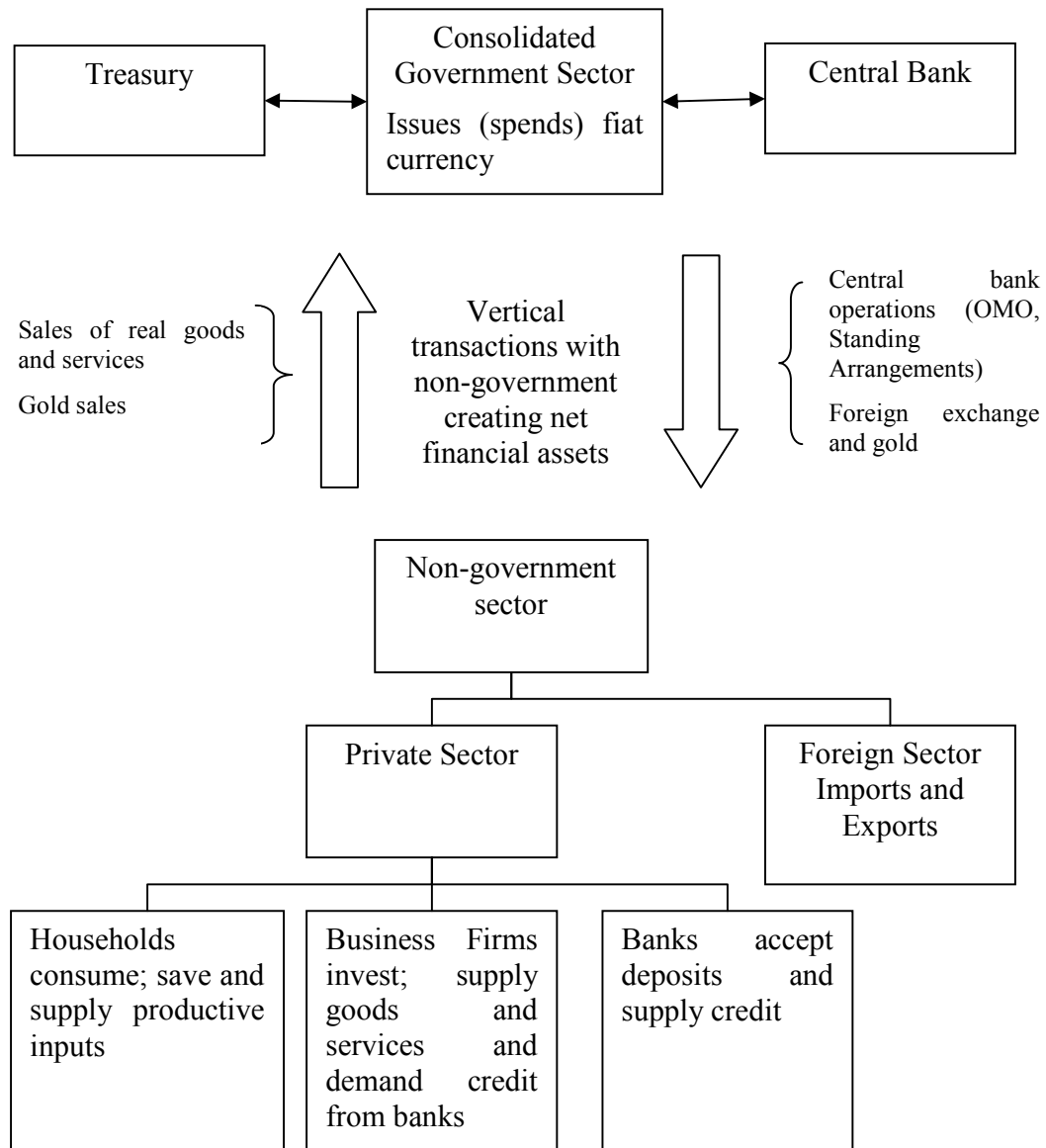
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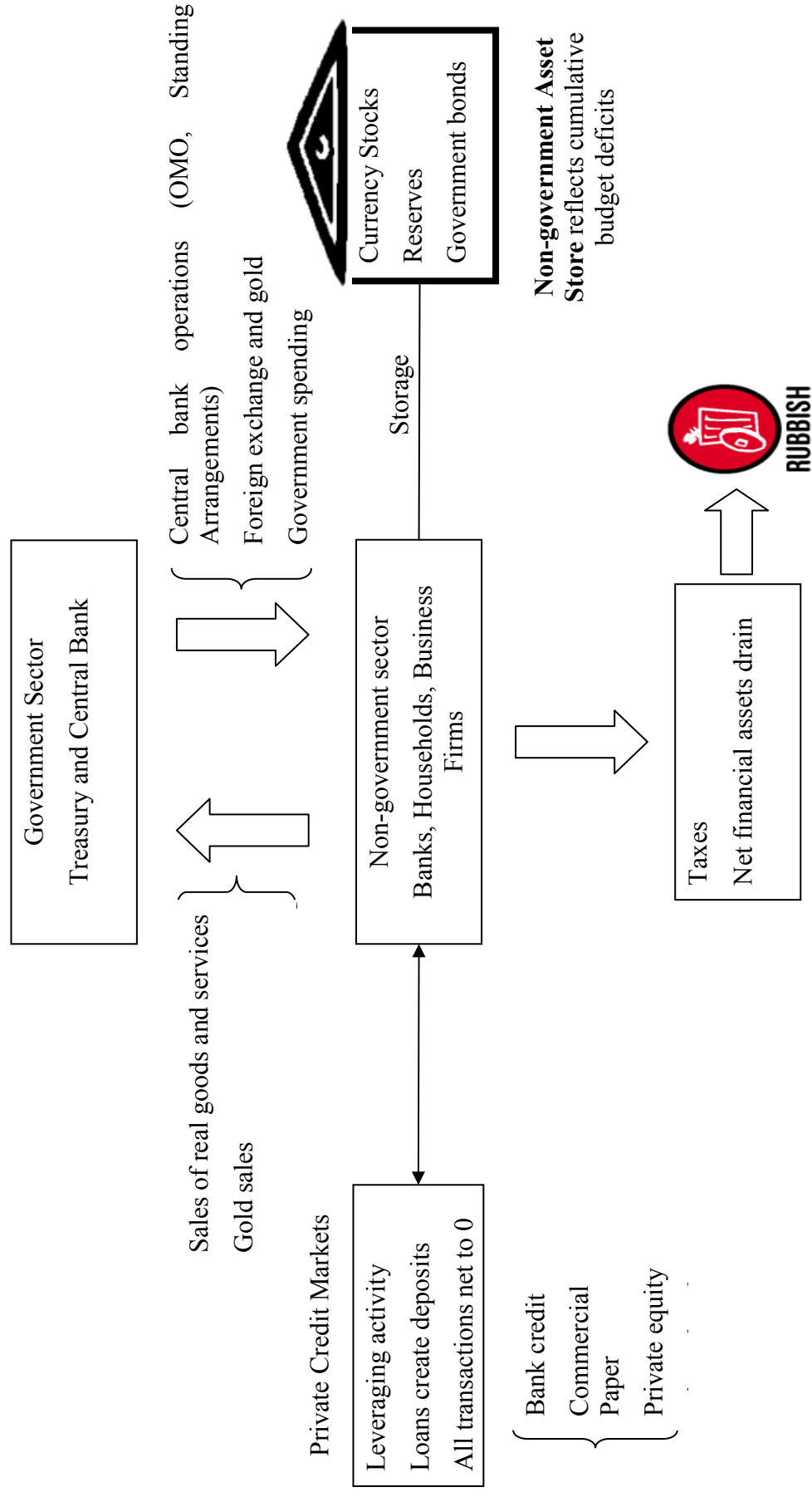
## **Tables and Figures to accompany Workshop 2**

Figure 8.1 The essential government and non-government structure



Source: Mitchell and Muysken, 2008.

Figure 8.2 Vertical and horizontal macroeconomic relations in a modern monetary economy



Source: Mitchell and Muysken (2008).



## **Workshop Session 3 Briefing Notes**

### **Minimum income levels and employment policy in EPWP**

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#### **1. South African wage determination and minimum wages**

##### **1.1 Overview**

- The debate about minimum wages in South Africa, particularly in relation to their impact on employment growth, is replicated in all modern economies. In relation to South Africa, the neo-liberal viewpoint is well expressed by Sowell (2006) who says that the high unemployment is not a failure of demand but has arisen because ‘minimum wages in South Africa have been set higher than the productivity of many workers, so employers have no incentive to hire those workers, even though such workers are perfectly capable of producing much-needed goods and services.’
- This argument is merely a rehearsal of the standard neo-classical text book mantra that follows the development of the perfectly competitive labour market model. The model has little applicability to the real world and theories of second best tell us that moving from a certain “real world” market structure to one that looks more like the perfect model (for example, via deregulation) does not guarantee that outcomes will “resemble” those of the perfect world – that is, they do not necessarily improve outcomes such as employment.
- Mitchell and Muysken (2008) conclude that mass unemployment of the scale that is found in South Africa is the result of inadequate aggregate demand for goods and services brought about by a spending gap. Reducing minimum wages in that context will not be an effective remedy.
- Where there have been effective statutory minimum wage interventions the impacts appear to have been positive.
- Tables 2.1 and 2.2 show the average daily rates of pay by industry for May and August 2007. The daily rates were computed from the average monthly rates published by StatsSA (P0277, Tables E and F, pages 29-30). The real increases are computed using the quarterly rate of increase in the Consumer Price Index (All Items, Metropolitan) provided by StatsSA (PO141). This rate of increase was 2.3 per cent.
- Table 2.1 shows the average daily rates of pay (including bonuses and overtime payments) by industry for May and August 2007. During 2007, with the exception of mining and quarrying, real wages rose more or less across the industry structure. In the “social” sector (Community, social and personal services) the percent increase in real average daily pay was 2.1 per cent or nearly twice the national average. It was also considerably larger than any other industry which tended to lie closely around the national average.

## 1.2 Low wage work in South Africa

- What is the extent of low wage work in South Africa? Valodia *et al.* (2006) use the Labour Force Survey (LFS) in 2000 and 2004 to compute the number and percentage of workers who earn below R2500 and R1000 per month. Their computations are shown in Table 2.3. Using the 2000 Labour Force Survey (LFS), 77.8 per cent of South African workers earn less than R2500 per month and over 53 per cent earn less than R1000 per month. The authors (2006: 91) also estimate that 38 per cent of all workers in 2000 (that is, 4,246,232) earn below R500 per month.
- To accommodate for the inflation over the four year period, the authors adjusted the thresholds for inflation and used R3500 and R1500 in 2004 as the nominal equivalents of R2500 and R1000 in 2000 (thus, approximately holding the real wage thresholds constant).
- We observe an increase of 183,545 workers reporting employment earning wages between 2000 and 2004. Over the same period the low-wage workers ( $\leq$ R1000 in 2000 and  $\leq$ R1500 in 2004) declined from 53.3 per cent of total employment in 2000 to 49.2 per cent in 2004. In absolute terms this group fell by 375,057 workers and so some progress is being made on providing transitions from low- to higher-wage employment.
- It is clear that the wage distribution in South Africa is highly skewed with a high proportion of South African workers earning low wages. In the case of the lowest paid – domestic workers and farm workers who together comprise around 17 per cent of total employment – ‘their estimated wages lie below the poverty line for individuals and for households as well’ (Altman, 2006: 74).
- However, the problem of poverty is not only that around 50 per cent of paid workers remain on extremely low pay, but is also driven by the fact that only a minority are officially employed.

## 1.3 Minimum wages in South Africa

- What is the minimum wage situation in South Africa at present? The Bureau of Democracy, Human Rights and Labor (US Department of State, 2007) says that there is  
no legally mandated national minimum wage, although the law gives the Ministry of Labor the authority to set wages by sector. Minimum wages were established for the retail sector, farm laborers, domestic workers, and taxi (minibus) drivers. As of March the minimum wage for farm workers was approximately \$142 (R994) a month in urban areas and \$126 (R885) a month in rural areas. The minimum hourly rates for domestics depended on the number of hours worked and could range from \$0.59 (R4.15) to \$0.86 (R6.04). Depending on province, compliance with the minimum wage rate ranged from 65 to 90 percent, according to figures published by the DOL in 2004. Minimum wages did not provide a decent standard of living for a worker and family; the government undertook other actions to alleviate poverty, including annual above-inflation mandatory wage increases for farm workers, exemptions from school fees, and improved access to health care.
- Despite industry / plant union negotiation providing satisfactory wage outcomes for their members, workers in sectors with little union involvement (unskilled and rural workers) ‘were unable to provide an adequate standard of living for themselves and their families’ (US Department of State, 2007).

- While there are some legal requirements with respect to length of working week and the division between standard and non-standard wages rates, *ad hoc* exemptions from government have allowed small business to avoid their obligations with respect to non-standard wage rates and leave entitlements (US Department of State, 2007).
- The US Department of State (2007) conclude that
 

Labor conditions for mostly black farm workers were harsh. Many, mostly white, farmers did not accurately measure working hours and often required their labourers to work 11 hours per day and six days per week. Twelve-hour days were common during harvest time, and few farmers provided overtime benefits. Human Rights Watch reported low wages, a lack of basic services in farm workers' housing, and inadequate education for workers' dependents (see section 5). Farm owners, predominantly whites, continued to evict workers legally and illegally. There was lack of compliance with labor legislation, lack of information on HIV/AIDS, and significant violence and crime against farm workers and farm owners. Health and safety regulations often were not observed when chemicals were used in agricultural work.
- Minimum wage rates in the various industrial sectors in South Africa are determined through: (a) Bargaining Council collective agreements, and (b) Sectoral Determinations. Bargaining Councils or the old Industrial Council system have historically been the central pillar of collective bargaining in South Africa but only cover 32.6 per cent of workers in the defined job categories, with four of the nine major sectors of the economy not having a Bargaining Council.
- The full ILO Report documents minimum wage outcomes from:
  - a. Furniture Bargaining Councils (see Figure 2.1 and Table 2.4);
  - b. Clothing Bargaining Councils (see Figure 2.2 and Table 2.5);
  - c. Leather Bargaining Councils (see Table 2.6);
  - d. Building Bargaining Councils (see Figure 2.3 and Table 2.7);
  - e. Hairdressers Bargaining Councils (see Figure 2.4 and Table 2.8);
  - f. Other Bargaining Councils (see Table 2.9);
  - g. National Bargaining Councils (see Figure 2.5 and Table 2.10).
- The Report documents minimum wage outcomes from a number of Sectoral Determinations:
  - a. Wholesale and Retail Sector (see Table 2.11);
  - b. Domestic, Farm Workers, Contract Cleaners, Forestry, Taxi and Hospitality sectors (see Table 2.12);
  - c. Private Security Sector (see Table 2.13);
  - d. Civil engineering sector (see Table 2.14).
- Table 4.9 documents the lowest of the minimum wage rates found in this study of Bargaining Council outcomes and Sectoral Determinations.

#### 1.4 Do minimum wages damage employment?

- Does the imposition of minimum wages hinder employment growth, especially at the unskilled end of the labour market? The standard neo-classical textbook model of perfect

competition predicts that wage increases and / or the imposition of minimum wages and conditions, will have adverse consequences for employment. This proposition is grounded in orthodox microeconomic theory developed within the highly stylised 'competitive' model. The results are simple outcomes of the way the model is set up.

- Dolado *et al.* (1996: 327) say that the orthodox textbook approach to the question 'can be encapsulated in five propositions:
  - a. A minimum wage cannot increase employment and generally reduces it.
  - b. Its adverse employment effects are largest in a small open economy where international competitiveness is most significant.
  - c. Lower tax rates or higher subsidies are a better way to improve both the employment prospects and the incomes of the low paid.
  - d. Young workers are most affected.
  - e. Minimum wage earners usually come from the poorest households, so minimum wages do little to alleviate poverty
- The question is whether the model provides useful predictions for the real world. The failure of the parameters of this 'text-book' model to materialise in the real world and the existence of pronounced interdependencies between labour demand and supply - in defiance of the model's assumption of independent costs and incomes - are typically ignored by those who want to abuse the 'text-book' theory and use it as an 'authority' for their claims.
- The dominance of the proposition has driven labour market policy over the last 12 years since the OECD released its *Jobs Study* (OECD, 2004), which provided a sophisticated and seemingly empirically-tight argument for comprehensive labour market and welfare system reform. The OECD advocated extensive supply side reform with a particular focus on the labour market, because supply side rigidities were alleged to inhibit the capacity of economies to adjust, innovate and be creative (OECD, 1994: 43).
- In recent years, partly in response to the reality that active labour market policies, including suppressing real wage increases for the most disadvantaged workers around the OECD countries, have not solved unemployment and have instead created problems of poverty and urban inequality, some notable shifts in perspectives are evident among those who had wholly supported (and motivated) the OECD approach.
- There has been a bevy of research material seeking to estimate the impact of minimum wages by estimating through econometric analysis the so-called wage elasticity. This elasticity conceptually measures the percentage change in employment for each percentage change in the relevant wage. It is argued by the neo-classical model that if a minimum wage is higher than that which the market itself generates, then the extent of the employment loss will depend on this elasticity. The problem is that the estimation process is not without significant problems and relies on a substantial amount of researcher judgement (about data to be used, estimation techniques, samples, and such). The results typically are highly sensitive to these judgements, which from a scientific perspective is most unsatisfactory.
- The overwhelming conclusion to be drawn from this literature is that there is no conclusion. These various econometric studies, which have sought to establish the empirical veracity of the neo-classical relationship between unemployment and minimum wages and constructed their analyses in ways that are most favourable to finding the null



that the OECD view was valid, provide no consensus view as Baker *et al.* (2004) and eminent Harvard economist, Richard Freeman (2005) show convincingly.

- In the face of the mounting criticism and empirical argument, the OECD has begun to back away from its hardline Jobs Study position. In the 2004 Employment Outlook, the OECD (2004: 165) admits that the evidence supporting their Jobs Study view that high real wages cause unemployment “is somewhat fragile.” However, in the 2006 OECD Employment Outlook, which is based on a comprehensive econometric study of employment outcomes across 20 OECD countries between 1983 and 2003, a major shift in perspective is offered. The study included those who have adopted the Jobs Study as a policy template and those who have resisted labour market deregulation. The OECD (2006) finds that:
  - a. There is no significant correlation between unemployment and employment protection legislation;
  - b. The level of the minimum wage has no significant direct impact on unemployment; and
  - c. Highly centralised wage bargaining significantly reduces unemployment.
- This latest statement from the OECD confounds those who have relied on its previous work including the Jobs Study, to push through harsh labour market reforms, retrenched welfare entitlements and attacked the power bases on trade unions. It is a fundamental rejection of the orthodox position with respect to minimum wage rates.

## **2. Wage outcomes in the Expanded Public Works Programme in South Africa**

- Mitchell (ILO Report, 2008) provides an overview of the current average daily minimum wages paid by the EPWP projects broken down by level of government, province and employment sector (Infrastructure; Economic; Environment and Culture; and Social). The analysis shows that there is very little coherence in the pay floors provided under the EPWP, in contradistinction with wage determination in the “best-practice” employment guarantee design that we considered in the Briefing Notes concerning employment guarantees.
- Several reports have found that inconsistent application of wage rates, timely payment of wages, payment of wages during training, extremely low wage rates, and unpaid labour are significant issues affecting beneficiary and community satisfaction and the poverty alleviation outcomes of EPWP. Further problems are encountered at the local level. For example, the differentiation in wage levels of EPWP projects by sector (and other government job creation programmes) has some unintended consequences at the micro level. In some instances, the programmes compete for the same pool of labour, and contractors have had difficulty completing projects on time as workers are attracted to other higher paying positions that are available within one’s community.
- The EPWP’s Mid-Term Review evaluation found that the average wage per work opportunity had declined since the programme’s inception, and that the programme’s wage bill had stagnated, despite increasing numbers of programme beneficiaries. The review also highlighted problems with the labour intensity of programme spending.
- Our assessment is that the duality of restricted duration employment and allowing deregulated wages (locally set wages) to exist which reflect local private market settings

undermine the ability of the EPWP to achieve its two primary aims - poverty alleviation and generating a sustained reduction in unemployment.

- By allowing EPWP wages to be set locally at rates which do not interfere with ‘more permanent employment’, the South African government is placing the EPWP outcomes in the “hands of the market”. While the logic of this is articulated as being to defend the existing conditions in the formal labour market, the reality is that it is consistent with neo-liberal logic that the market provides the “correct” wage distribution. It is clear that the market sector does not uniformly pay wages that are above what could be reasonably constructed as the poverty line.
- Accordingly, EPWP and the legislative base for EPWP in SA should provide a mechanism, for ensuring decent minimum working conditions within the labour market.
- The average daily minimum EPWP wage rate for the nation as a whole was around R41. However, there is considerable variation in the average daily minimum wage rates across the four activity sectors and within each sector. The analysis presented in these notes covers the 2006-07 reporting period.
- The Social sector offers the largest number of projects (59.3 per cent of total projects) but these generate a relatively small percentage of the total Person-days of work (26 per cent) and Gross Jobs (11.6 per cent). The jobs offered have two significant features: (a) they are low paying (for example, average minimum daily wages are almost 50 per cent below those on offer by Infrastructure sector projects); and (b) the average duration of the a job opportunity is around 130 days compared to 50 days in Infrastructure, 44 days in Environment and Culture and 75 days in the Economic sector. So workers who have opportunities in this sector earn the lower wage over a significantly longer period.
- The Environment and Culture sector offers only 14 per cent of the total projects but around 40 per cent of the total jobs. They daily wage paid is around the national EPWP average but the duration is below the corresponding average for the overall programme. The highest paying sector in terms of average daily minimum wages is Infrastructure but the duration of the jobs is below the national average even though this sector generates around 47 per cent of the total job opportunities under EPWP.
- The Provincial governments dominate the Social sector and account for its long duration low wage EPWP job offerings. The pay contrast in that Sector between the Provincial and Municipal government projects is stark although Municipal government offers very few work opportunities with relatively short duration.
- Within the Infrastructure sector, while the municipal level pays higher average daily minimum wages the average duration of the work opportunities provided is significantly lower than those offer at the higher levels of government. The provincial governments provide the most job opportunities in infrastructure projects and these opportunities pay more and last longer on average than the infrastructure jobs at both the national and municipal levels.
- Within the Environment and Culture sector, the national government dominates but pays the lowest minimum wages of the three levels of government. However, in comparison to the Provincial government, the duration of the job opportunities that are offered by the National government are significantly longer. The few jobs offered in this sector by the Municipal level are well paid and long duration.
- In general, the shorter (longer) work opportunities have slightly higher (lower) rates of pay.

- The variation across provinces is driven by the variation in wages paid by projects run by provincial governments. There is less spatial variation in daily minimum wages paid by national government projects, which reveals the benefits of the 'programme' approach that has been adopted by the Environment and Culture sector.
- Provincial jobs are typically lower paid but with higher duration than those offered by the other levels of government. However the wages paid by provincial governments are also more variable across space than those at the other levels of government. There is virtually no variation across the provinces in national government EPWP daily minimum wages.
- For National government departments, the average daily minimum wage for manual workers was R71 for projects in the Infrastructure sector and R45 for projects in the Environment and Culture sector. The lowest (highest) average daily minimum wages in the Infrastructure sector were R65 (R72.33) and R43.18 (R50.33) in the Environment and Culture sector.
- For Provincial government departments the average daily minimum wage for manual workers was R53 for projects in the Infrastructure sector; R50 for projects in the Economic sector; R45 for projects in the Environment and Culture sector; and R33 for projects in the Social sector.
- The Social sector, at the provincial government level, is the most job effectiveness, which we define as the Rand spent per person days of work generated. For every one day of work generated, 83 rand are spent. Overall, the Social sector generates comparatively more days of work at higher rates of labour intensity. However, as we have seen these jobs are paid at relatively low wages when compared to the other sectors. That is, a large portion of the programme budget is directed to generating days of work, but the work is remunerated at a low wage.
- Projects in the Environment and Culture sector operated by both by national and provincial governments are the next best performed in terms of job effectiveness. As previously mentioned, the majority of programmes (708 of 991) operate through national departments on a 'programme' basis, such as the 'Working on Fire' or 'Working for Water' programmes. This allows these EPWP programmes more control over programme expenditure. Moreover, while this sector requires considerable supporting materials and equipment outlays, it still remains one of the most labour intensive.

### 3. Determining minimum wages in the Expanded Public Works Programme

#### 3.1 Overview

- In this section, we compare the wage outcomes of existing EPWP projects examined in Section 2 to various estimates of the poverty line and demonstrate that the program as it is currently designed and implemented is incapable of achieving one of its primary aims - the alleviation of poverty. Our overriding starting point in discussing appropriate minimum wage levels for EPWP projects is expressed by the following logic.

**With poverty linked intrinsically to and driven overwhelmingly by unemployment, it is a sound strategy to counter the former by directly seeking to reduce the latter.**

- This Section has four aims:
  - a. To develop a transparent framework to determine appropriate minimum wage rates for EPWP employment. We will consider issues relating to the spatial variation of wages and the desire to preserve real values over time;
  - b. To employ this framework to make recommendations on appropriate wage rates for EPWP employment giving due consideration to: (a) the various poverty line measures that have been proposed for South Africa; (b) the extent to which own production provides real income; and (c) the potential for accessing other income sources;
  - c. To consider the impacts of the proposed minimum wages on the market wage structure and likely supply side responses. We will provide a critique of the concept of the reservation wage and its relevance for minimum wage determination in EPWP projects. We will also examine the extent to which EPWP wages displace workers from other sectors.
  - d. To consider the relationship between EPWP wage income and supplementary social grants. We assess whether a Basic Income Guarantee (BIG) or a Job Guarantee (JG) is the best vehicle to provide income guarantees. The debate is highly relevant to the choices confronting South Africa at this present time.

#### 3.2 Considerations to guide a minimum wage system

- There is scope in South Africa for reducing poverty by a reliance on “own production”. In terms of access to income from market work, it is clear that despite solid growth in demand for skilled workers there is still a grave insufficiency of market-based work opportunities in South Africa designed to provide the most disadvantaged workers access to the income distribution system.
- Given this insufficiency, we adopt the principle that a desirable and major source of safety net support should come from participation in EPWP work with some supplementation from social grants to accommodate family structure and regional cost of living differentials.
- In the longer term, like any employment guarantee system, training pathways should be designed to allow an EPWP worker more scope to choose other working opportunities and thus enhance the potential for earning market income.
- Our approach to minimum wage determination for EPWP projects is also influenced by the scheme’s own policy objectives. The Department of Public Works, which administers the EPWP, has stated that the scheme should pursue multiple aims which include poverty alleviation.

- Table 4.1 summarises how the EPWP objectives outlined above might guide a discussion of the appropriate wage setting guideline. In the wage setting guideline column we note the implications of the objective for the determining wage levels. In the comments column we provide some observations which include some of the broader impacts or considerations under each objective that need to be considered in relation to the design of the EPWP.
- In terms of the gender dimension, specific issues need to be considered. Table 4.2 encapsulates some of these considerations by gender. These considerations suggest that:
  - a. Projects should be accessible and inclusive for women who are in poverty and who have family responsibilities. If projects are rationed then some targeting of this same group should be introduced;
  - b. Wages should be equal by gender;
  - c. Projects should be designed to provide employment opportunities close to the residential location of the targeted workers;
  - d. Specific transport concessions and infrastructure should be available to make it easier for women to get to work locations quickly to allow their shared family and work roles to be feasible;
  - e. Child care facilities should be provided and/or improved and their staffing incorporated into EPWP paid work opportunities.
- We thus do not see the minimum wage discussion as being separate from the broader issue of public service provision and the quality of the social wage. In advocating a minimum wage for the EPWP worker that will be above an acceptable (and broadly defined) poverty line, we are not reducing the case for increased social wage benefits to be provided by the state.
- It is apparent that some EPWP projects pay “training wages” (lower to defray investment costs). We consider this practice to be misguided in terms of the objectives of the programme. First, it is a public sector initiative aimed at nation-building and as such has huge social benefits that go well beyond the benefits that can be captured by any private individual. Second, evaluations suggest that the ‘benefits of training and linkage to exit strategies are so uncertain’ (Human Sciences Research Council, 2007: 19). While we reject paying EPWP workers below a statutory minimum wage on the basis of spreading the costs (and benefits) of training between the employer and employee, we do recommend a training system being integrated into the paid work structure to enhance the productive capacities of the EPWP.
- A striking feature of the South African labour market is the disparity of EPWP minimum wage rates being offered across space, level of government, and type of project. It is hard to assimilate that disparity with the uniformity of EPWP aims set out by the Department of Public Works. We thus argue that a basic goal for any minimum wage system would be to ensure that the workers are able to escape poverty as a direct consequence of their labour. If that principle is paramount then we would also suggest that the considerable wage disparity across EPWP projects and space be eliminated.

### 3.3 A framework for setting wage rates for EPWP projects

- The recommended minimum wage determination framework is sketched in Figure 4.1 (see also Chirwa *et al.*, 2004). The following assumptions govern the discussion: (a) the wage floor is set at the poverty threshold which would enable productive work to be

carried out; (b) “own-production” is insignificant; and (c) EPWP income is the primary (100 per cent) income source for the worker.

- The framework for the determination of a minimum wage for EPWP workers should incorporate two (temporal) stages in poverty alleviation:
  - a. In the first instance, if the EPWP aims to deliver poverty alleviation then it should provide a minimum wage which will guarantee each worker has an income above some reasonable poverty line estimate which we consider would have both an absolute (basic needs) and a relative (social needs and risk management) dimension. Where the EPWP administrative structure is unable for operational reasons, provide enough employment to those who seek it then the wage should still be paid during the period that the government bureaucracy takes to offer EPWP employment. That is, no worker should be without an EPWP income due to a lack of actual job slot being made available at any point in time. Some readers might immediately see that this short-run dimension requires something akin to a BIG to be in place via the EPWP wage if there are no EPWP jobs currently available for immediate start. The difference between this approach and the standard BIG approach advocated by its proponents is the income guarantee would come from an EPWP wage not a basic income. The fact that the recipient may not start work immediately would reflect either frictions across space (short-term time delays in organising work) or more fundamental inefficiencies in the EPWP administrative structure. The former would be unproblematic but the latter would provide a feedback mechanism to evaluate the performance of the administration. The fundamental principle is that no worker should be without an income guarantee;
  - b. Over time, depending on the aspirations of the Government and the South African people, the minimum wage determination framework should provide for mechanisms that allow the concept of a minimum wage to be broadened to reflect more relative considerations which seek to improve the human experiences and capacities of the population. The minimum wage would thus embrace things such as widening the savings capacity of individuals (so they can better accumulate wealth; create personal risk buffers; and smooth out risk over time); developing skills and creating the capacity to benefit from increasing educational opportunities.
- However, the distinction between these two stages is not clear cut. For example, there is a need to provide an immediate capacity to EPWP workers to smooth risk and invest in education for their children. In that sense some of the considerations which would be refined as time passed should be reflected in the initial quantum. We reject the conceptualisation of poverty which is defined exclusively in absolute terms.
- A minimalist approach to poverty alleviation based on these absolute poverty lines is not conducive to capacity building and productive enterprise. Eliminating absolute poverty is crucial but the EPWP should aim to go well beyond this rather meagre aim.

### 3.4 Poverty estimation and poverty lines in South Africa

- If the imposition of a minimum wage is intended to ensure that those who gain employment escape poverty then two questions need to be addressed: (a) How do we measure poverty in Rand?; and (b) What is a desirable combination of wage income and non-wage income to alleviate poverty under this measurement definition?

- We recognise that the question of poverty measurement is vexed. Defining poverty is always a contested issue. Our assessments of reasonable poverty lines are unlikely to satisfy all stakeholders (government, residents, international community etc...). Further, this Report does not (and cannot) seek to resolve, in any comprehensive manner, the poverty definition minefield that exists in the research and policy domain. Instead we take a more modest role and consider existing definitions (that is, use a range of “poverty lines”) and demonstrate how a case can be made for one particular level against another.
- Some adopt so-called objective methods for demarcating the poor from the non-poor (such as absolute poverty definitions) while others, such as, Sen (1983) advance, within a broad framework of social inclusion and exclusion, a concept of ‘capabilities poverty’. Absolute poverty approaches are typically ambiguous and force the discussion into debating relative poverty concepts. Even in cases of basic or minimum food needs, the calibration is always influenced by subjective (relative) assessments of what is important.
- There are also conceptual problems with taking a relative approach that transcends the measurement issues. The danger with relative measures is that there will always be someone poor unless in the unlikely event of absolute equality (see Sen, 1983). Accordingly, relative poverty can exist in states of absolute affluence which reduces the meaning and impact of the defined state. It is hard to apply this sort of constraining logic to South Africa where the majority do not even achieve basic needs.
- A broader concept of absolute poverty that goes beyond a lack of income emphasises, for example, the need to have access to essential social services. The neo-liberal approach to absolute poverty has typically eschewed a broadening of the concept. They typically equate physical subsistence (of an inactive person) with freedom from poverty and usually are able to conclude that poverty is an insignificant problem in most countries (see Noble *et al.*, 2004: 5 for a discussion).
- After discussing the various definitions (and concepts) of poverty that have emerged in the literature, Noble *et al.* (2004) conclude (following the Taylor Committee, 2002 recommendations to include poverty measures which meld absolute and relative (social exclusion) components) that there is a need to extend the definition of poverty beyond ‘simply lack of income’ (Noble *et al.*, 2004: 13). While emphasising the advantages of a consensual definition, Noble *et al.* (2004: 14) are also acutely aware that it has to be ‘adequately operationalised’. They outline a two stage approach: (a) construct a list of socially perceived necessities; and (b) create measures of these items. Wright *et al.* (2007: 23) report on experimental research where a common set of perceived necessities was explored via social survey methodology. The significant result is that perceived necessities go well beyond the basic food, clothing and shelter requirements which would be produced by narrow absolute poverty measures.

### 3.5 Determining the poverty line in South Africa

- There are several reviews of poverty line methodologies and outcomes for South Africa that are available (for example, Whiteford and Posel, 1995; Woolard and Leibbrandt, 1999, 2007; Budlender, 1999; May, 1998; Hirschowitz, 2000; Klasen, 2000; Aliber, 2001; Bhorat *et al.*, 2001; Taylor Committee, 2002; Noble *et al.* 2004; Meth and Dias, 2004; Hoogeveen and Özler, 2005; Frye, 2005, 2007; and Özler, 2007). We do not attempt to rehearse all the arguments provided by these studies but draw upon their conclusions and disagreements.
- Table 4.3 provides a summary of some of the more notable and recent poverty line estimates for South Africa (taken from Woolard and Leibbrandt, 2006). To provide a

contemporary (February 2008) comparison, we adjusted the 2000 prices using factors derived from the South African CPI. The main ILO Report provides a detailed discussion of each of the concepts summarised in Table 4.3. The main conclusions are:

- a. The HSL and the MLL are minimalist poverty lines. The HEL, while an improvement, is also still close to a basic-needs concept.
- b. The World Bank “dollar-a-day” poverty lines do not provide for even basic nutritional standards for an idle person and are thus of no use in guiding a minimum wage process.
- c. Upper- and lower-bound poverty line approaches express poverty within a range. However, the lower limit of the Treasury/StatsSA (following Özler, 2007) poverty line really demarcates extreme poverty and poverty rather providing a demarcation between poor and non-poor.
- d. Özler’s (2007) upper-bound would be around R900 per capita per month in February 2008 prices and is the minimum that one would want to employ as a reasonable aspirational target to evaluate progress in poverty reduction.
- e. The ability to absorb shocks by maintaining some personal wealth buffers is reasonably considered part of the essentials for “poverty-free” living. Further, the basic nutritional and clothing requirements for productive, labour-intensive activity are likely to exceed those that would physically sustain existence. So a reasonable construction of poverty would allow for some productivity component, an awareness of the need for social inclusion to enhance opportunity and self-reliance, and some in-built personal insurance (buffer stock) capacity.

### 3.6 Maintaining the real value of the minimum wage – price level adjustment

- The issue of price adjustment to allow the nominal minimum wage to be maintained in real (not relative) terms is thus as important as setting an appropriate relativity against the prevailing wage structure. In the short-run, basing adjustments on general price level movements will preserve the real value of the poverty line but over time biases can enter due to the lowest income group’s expenditure patterns being different from those used to weight the CPI.
- Despite these issues, the danger in not adjusting the poverty line regularly is that the poor endure real losses over time if wages or transfers are calibrated against the line. This is especially so given the lags involved in generating and analysing data from the IES.
- We therefore consider it to be better to risk with some “drift” in the poverty line upwards and therefore regularly (each time the CPI is made available) adjust the poverty line, in between more careful calibration based on detailed IES data. This approach will provide a better basis for assessing how the EPWP is performing in relating to its poverty alleviation goal.
- As part of the development and implementation of a comprehensive framework for setting minimum wages for the EPWP, the South African government should avoid using the generally published CPI in making adjustments to nominal poverty lines. A range of specialist price change weighting mechanisms should be explored and a transparent discussion had which balances practical and political considerations with the aims of the minimum wage system.



### 3.7 Spatial price level adjustment

- Should there be a spatially differentiated minimum wage? This could amount to a different minimum wage for urban and rural areas or more finely differentiated wage rules across space. Those who argue for such spatial differentiation indicate that prices and spending patterns vary significantly across space – in particular, between the more expensive (but higher quality) urban areas and the less expensive rural areas.
- Given that the minimum wage should be linked closely to the aim of alleviating poverty then it should ensure that standards of living (relative to the locale in which the worker lives) are common across space. However, such adjustments often over-reward urban dwellers relative to rural residents because the higher quality of services and amenities in urban areas is usually ignored.
- Data available from StatsSA indicates that there is considerable spatial (regional) variation in the cost of living, as measured by the CPI. The recognition that the cost of living varies across space is well understood but difficult to simplify in practice. On balance, there does not appear to be the statistical basis for supporting the construction of a finely differentiated set of minimum wages across space.
- We recommend that where spatial cost-of-living disadvantage can be clearly identified and estimated, adjustments are made to social grants. So a zone allowance might be paid to the worker via a social grant. As more statistical support is developed to closely monitor spatial price and costs movements, then the minimum wage mechanisms could be adjusted accordingly.
- We recommend more research is conducted to identify the scale of cost differentials and the statistical support that would be needed to adequately introduce adjustments for spatial cost differentials into the minimum wage system.

### 3.8 Household size and structure

- Setting a minimum wage that will provide a buffer against poverty is complicated by the fact that household size and composition varies across the population. This problem bedevils efforts to set poverty lines because there are considerable differences in household consumption due to these composition differences that complicate meaningful comparisons.
- We believe that it would become too unwieldy to build adjustments for family size and age composition into the EPWP minimum wage determination framework. Instead we believe that poverty line measures should be equivalised where possible (and achievable) and the social grants system used through family assistance grants to supplement the EPWP wage.
- We also recommend a scaling up of the social wage to ensure that essential public services such as education, health and aged care and the like are provided in adequate supply. This public goods approach to services reduces the need for households to have private income.

### 3.9 EPWP performance against poverty line estimates

- A reasonable conjecture is that if we set the minimum monthly EPWP wage rate at the Treasury/StatsSA (2007) upper-bound of R898 per month then many projects across the provinces would be in default. Clearly, how many projects would be in default of the wage norm depends on the actual wage distribution which lies below these averages.

- To facilitate a more detailed analysis of this wage distribution, the Department of Public Works made available complete data for the 2006-07 reporting period. Table 4.5 summarises the key details of the wage distribution.
- Table 4.6 uses the complete dataset to compare the wage distribution for 2006-07 with a set of minimum wage scenarios, which are based on those presented in Table 4.3. We computed how many projects in each sector would fall below each of the proposed minimum wages and hence fail to ensure their workers are free from poverty, according to the logic of that particular poverty line.
- In addition, we investigated the employment characteristics (Person days as a % of sector total; Jobs as a % of sector total; and Average job length of job) pertaining to EPWP jobs that in 2006-07 were paying a minimum wage above R898 per month, R950 per month and R1000 per month, respectively. The results reveal the nature of “higher-paying” jobs for each of the three monthly wage benchmarks.
- This analysis gives a guide to the scale of the problem and the urgency to redesign EPWP wage determination to provide better poverty outcomes.
- It is clear that only 39.9 per cent of the 7024 projects overall pay above the Treasury/StatsSA (2007) upper bound of R898 per month (in February 2008 prices). The distribution of these projects across the four sectors is highly skewed. While only 14.4 per cent of the projects, 38 per cent of person-days and 29 per cent of total job opportunities provided in the Social Sector meet this norm, the jobs which do pay above R898 per month are typically longer than the average for the sector and the programme overall. The average duration of jobs that pay above R850 per month in the other sectors is lower than the respective sector average.
- While the percentage of jobs paying above R850 per month are relatively low in the Economic sector (32 per cent) and the Social Sector (29 per cent), most of the jobs in the other two sectors pay above this norm (69 per cent of Environment and Culture job opportunities and 89 per cent of Infrastructure jobs). However, these jobs are of average duration at best (taken as a group).
- The picture changes somewhat when we consider the jobs that are paying above R950 and R1000 per month. In terms of the R1000 per month benchmark that we recommend in this Report, the following features are worth noting:
  - a. 85 per cent of total Infrastructure jobs pay above R1000 per month, and they are just below the average duration for the sector (48 days compared to 50 days) but well below the average duration for the overall EPWP programme in 2006-07 (57 days). This has implications for the transition process should the R1000 minimum be introduced. Workers need not be made worse off by a lower minimum monthly wage if duration of the work opportunity expands significantly.
  - b. Only 20 per cent of the total jobs in the Social sector pay above R1000 per month but their average duration is 171 days, which sets them apart from all the other EPWP jobs on offer.
  - c. A modest percentage of total jobs in the Economic and Environment (29 per cent) and Culture (14 per cent) sectors pay above R1000 per month. The average duration of these jobs in the Economics sector is very low (33 days compared to 75 for the sector as a whole) while the highest paying jobs in the Environment and Culture sector are above average in duration for that sector (49 days compared to

43). In both cases, the higher paying jobs are short-term relative to the average for the programme as a whole.

### 3.10 Recommending a minimum wage for the EPWP

- In determining what poverty line demarcation should be used for calibrating the minimum wage in the EPWP programme we make the following observations:
  - a. The absolute concept of poverty has to be the starting point because it recognises that a minimum basket of goods and services is required by any one person to survive in any particular locality. Survival encompasses being in good health and having enough nutrition to engage in productive pursuits. The measure will vary somewhat between persons and environmental localities (for example, different clothing requirements for locations with extreme heat compared to locations with extreme cold). But despite these variations the concept can lead to a broadly objective measurement in the sense that science can define nutritional requirements and the like.
  - b. A sophisticated society should aspire to reducing relative poverty which leads into considerations of social exclusion and participation in community in the broadest sense. In this context an individual is poor if they are excluded from the typical patterns of life and cannot participate in the normal tempo of the society. It is not enough to merely have enough food, shelter and clothing that will enable barest physical survival. One's mental health and sense of inclusion transcend these minimum requirements and so a relative poverty conception links the fortunes of individuals to both the level and the distribution of wealth in the economy.
  - c. A productive worker also requires additional resources to ensure they can function effectively. These include access to adequate extra nutrition, specialist clothing and footwear, access to education and training facilities and such.
  - d. Providing capacity to smooth risk and accumulate assets is also an essential part of the developmental process.
- We thus take the upper bound of published in Özler (2007) and used in Treasury/StatsSA (2007) as the starting point for determining a reasonable minimum wage for EPWP workers. We note that there was little consideration given by the respective authors in relation to this upper bound to the proposition that the poverty line should actually provide scope for risk smoothing and capacity building requirements. We consider these capacities to be essential in building a modern economy where everyone can participate and contribute and be independent of the welfare system.
- The question is how would we evaluate the quantum necessary to provide some extra capacity in this regard? To answer this question more fully, we would require further research. It is reasonable to conjecture that somewhere between R950 per capita per month and R1000 per capita per month would be a useful augmentation to the Treasury/StatsSA (2007) upper bound *as a starting point* in providing this future looking capacity in the South African people.
- We have found that a relatively small number of EPWP jobs have wages that lie between R950 per month and R1000 per month. So the choice of one against the other as the minimum wages is moot.
- More importantly, in terms of providing risk insurance and some capacity to invest in future personal development, we believe it is better to err on the upward side of the

possibilities. In the same spirit as the “dollar-a-day” norm, which gained popularity because it was easy to remember and easy to conceptualise, we recommend a minimum EPWP wage in the first instance of R1000 per month.

- We would recommend the South African government conducts further research to test whether this minimum wage is an adequate expression of their desire to eliminate poverty. We consider it would provide a useful interim minimum wage that would immediately improve the fortunes of those who would rely on EPWP employment as their primary source of income.

### 3.11 Transition process

- In the transition phase, we note that some EPWP projects would be paying more than the suggested minimum of R1000 per month. In terms of the analysis presented in Table 4.6, there would be 1950 projects (out of 7024) paying above the norm. We also recognise that currently problems of policing the wage system combined with the short-term nature of the employment (particularly in the Infrastructure sector) means that many workers who are reported to be earning above R1000 per month may not have actually received those wages at all. Further, we have seen that the opportunities available that are paying above R1000 per month are at the shorter duration end of the spectrum.
- An ideal employment guarantee would provide an unconditional but uniform minimum wage across the programme. However, at present there is some heterogeneity in the skill levels of the tasks being undertaken within the EPWP which would justify some wage structure. For example, supervisors with some responsibility for the overall work flow etc... are employed as EPWP workers. We consider the best solution to this problem is to define the higher skill levels as being outside of the normal EPWP workforce, and, instead be reclassified within the normal public sector wage structure.
- Taken together, three broad policies might be considered in the transition: (a) only approve new EPWP jobs that pay the R1000 per month norm (in February 2008 prices); (b) phase out jobs that are paying above that norm as EPWP jobs, and, instead, consider reclassifying them as standard public sector positions and incorporate them into that particular wage structure; and (c) extend the duration of the work opportunities so that workers in jobs that are receiving more than R1000 per month at present can still enjoy higher overall annual incomes.
- In this way, the EPWP would become a true minimum wage at a wage level that was deemed to be above the poverty line.

### 3.12 Real minimum wage adjustment

- A regular process should be determined to ensure that this minimum is at least maintained in real terms over time.

### 3.13 The role of social grants

- It is without doubt that over the last 7 or 8 years, the dramatic increase in provision of social grants in South Africa, which have targeted the poor and disadvantaged has been an effective strategy to reduce the burden of poverty.
- Tables 4.7 and 4.8 provide a snapshot of the expansion that occurred in social grant provision (and take-up) over the last decade or so. The South African Treasury (2005) reported that real total spending on social grants grew on average at a rate of 20.2 per cent per annum between 2001-02 and 2005-06. The forward estimates for 2006-07 and 2007-

08 were that this real growth would slow to 9 per cent per annum partly as a result of a strategy by the Government to bring the growth within the bands of their inflation targets (3 to 6 per cent per annum).

- Many researchers and policy commentators seize on this type of data as the basis of their advocacy for the introduction of a Basic Income Guarantee (BIG) as the primary policy weapon against poverty. They highlight the fact that there is a lack of employment alternatives available to most poor South Africans and that the social assistance grants system has demonstrated an ability to reduce poverty in that country. These advocates note that the current social assistance schemes in South Africa provide no support to able-bodied people of working age who do not have children and who have never been able to build any unemployment insurance credits.
- The debate in South Africa that has unfolded since the Taylor Report (2002) advocated a phasing in of a BIG is replicated on the international stage. There has been a vigorous international debate going on between, mainly progressive economists and public policy practitioners as to whether income guarantees or employment guarantees provide the best insurance against poverty. A full treatment of that debate is beyond the terms of reference of this Report. Mitchell and Watts (2008) consider this issue in considerable detail.
- Most BIG proponents believe that full employment is now unattainable (for example, Nogeura, 2004). We argue that this solution is a palliative at best. It is based on a failure both to construct the problem of income insecurity appropriately and to understand the options that a government which issues its own currency has available to maintain full employment.
- We argue that there are no economic constraints in South Africa to achieving full employment. Only ideological and political constraints exist. In fact, each policy response (BIG or JG) requires that the same ideological and political barriers, relating to philosophical notions of citizenship and individual rights, be confronted and overcome. But when compared to a full-scale public sector employment programme, the BIG is a second-rate option and is inherently inflationary.
- In addition to constructing the problem of income insecurity incorrectly, the mainstream BIG literature advocates the introduction of a BIG within a 'budget neutral' environment. This is presumably to allay the criticism of the neo-liberals who eschew government deficits. One of the sensitive issues for BIG proponents is thus its perceived 'cost'. This issue has been an important part of the debate in South Africa (see Pauw and Mncube, 2007). Once we understand the principles of modern monetary macroeconomics (see Mitchell and Muysken, 2008), we can appreciate that much of the debate about the viability of the BIG is conducted on the false premise that the government is financially constrained.
- Once we recognise that there is no financial constraint on government spending, many of the problems created by BIG theorists can be avoided.
- Payment of a BIG to all citizens would signify a further withdrawal by the State from its responsibility to manage economic affairs and care for its citizens. Young people must be encouraged to develop skills and engage in paid work, rather than be the passive recipients of social security benefit. The failure to engage in paid work cannot be narrowly construed as an inability to generate disposable income which can be addressed through a benefit, but entails a much broader form of exclusion from economic, social and cultural life, which has highly detrimental consequences (see, for example,

Kieselbach, 2003). Harvey (2003) notes the benefits of stable work with decent wages, health and retirement benefits.

- BIG advocates fail to explain how its availability will promote meaningful engagement on the part of the disadvantaged, who have limited income earning opportunities. The universal availability of the BIG, does not overcome the stigma associated with voluntary unemployment of the able-bodied, who do not have caring or other responsibilities.
- Work remains central to identity and independence, and persistent unemployment remains the central cause of income insecurity. While the introduction of an BIG has superficial appeal - by allowing individuals to subsist without work - the model fails to come to grips with the failure of macroeconomic policy to provide paid employment opportunities and secure incomes for all.
- Initially, the question is how much do you interfere with the market allocation system. Neo-liberals emphasise the sanctity of the market allocation system and argue that it is better to achieve non-economic objectives such as equity via non-market transfers. Our assumption is that equity (and by implication poverty) is also a substantial economic problem – a failure to maximise the potential of the most value resource available to any country – its labour.
- In that sense, most of the debate surrounding the relative merits of in-kind versus income transfers; and the relative merits of using the wage system to achieve redistributive goals fail because they are based on flawed textbook market models that ignore market failure and second-best arguments.
- Mitchell and Watts (2008) oppose the use of a BIG as the primary means of poverty reduction for the following reasons:
  - a. It creates a dependency on passive welfare payments;
  - b. It creates a stigmatised cohort;
  - c. It does not provide any inflation buffer and is inconsistent with the macroeconomic principles governing modern monetary economies (see Briefing Notes for Workshop 2).
  - d. It does not provide any capacity building. A BIG treats people who are unable to find adequate market-based work as “consumption” entities and attempts to meet their consumption needs. However, the intrinsic social and capacity building role of participating in paid work is ignored and hence undervalued. It is sometimes said that beyond all the benefits in terms of self-esteem, social inclusion, confidence-building, skill augmentation and the like, is a priceless benefit of creating full employment is that the “children see at least one parent going to work each morning”. In other words, it creates an intergenerational stimulus that the BIG approach can never create.
- A sustainable full employment strategy must provide an unconditional offer of employment and be capable of maintaining an inflation anchor (via a fixed minimum wage). Unlike the BIG model, the JG model meets these conditions within the constraints of a monetary capitalist system.
- It is a far better vehicle to rebuild a sense of community and the purposeful nature of work. It is the only real alternative if intergenerational disadvantage is to be avoided. It also provides the framework whereby the concept of work itself can be broadened to

include activities that many would currently dismiss as being leisure, which is consistent with the aspirations of some BIG advocates.

- It also allows for capacity building by integrating training and skills development into the paid work environment.

### 3.14 BIG in developing countries

- There is also a concern expressed by BIG advocates that Job Guarantee schemes cannot apply in developing countries because the scale of the problem is too large. Does our logic apply to developing countries? Seekings (2006) claims that in high unemployment countries such as South Africa where there is already a high wage sector defended by vested interests, the introduction of an employment guarantee based on public works projects would be unsustainable.
- This is a common argument made by development economists against employment guarantees as a solution to poverty arising from mass unemployment. However, these criticisms typically are based on notions of financial unsustainability underpinned by a government budget constraint. In modern monetary economies such as South Africa these orthodox neo-liberal notions of fiscal unsustainability are without foundation (see Briefing Notes for Workshop 2).
- We consider there to be nothing intrinsically different in a developing economy that maintains sovereignty of its own currency that would prevent the introduction of a JG, particularly when such economies lack adequate social and economic infrastructure. There are political, ideological and perhaps administrative issues that need to be confronted but these are common to both policy suggestions – BIG and JG alike.

### 3.15 Recommendations concerning the role of social grants

- We do not favour social grants being extended to some form of BIG as the primary means through which the fight against poverty is conducted. We argue that, instead the EPWP should be progressively scaled up to become a true employment guarantee along the lines discussed in the Briefing Notes for Workshop 2.
- The current social grant system should be restructured to ensure that families of workers are also able to live beyond poverty. The holes in coverage in social grants should be redressed to ensure that all people are covered in terms of their poverty needs.
- Most importantly, we recommend that the R1000 minimum wage be made available to all those who are able and willing to work irrespective of whether the State is in a position to provide immediate work. We recognise that the duration of planning processes, administrative inefficiencies or other factors may lead to there being difficulties in providing enough immediate employment opportunities across all regions in South Africa to absorb the number of workers who would take up the offer.
- In that situation, and consistent with the poverty alleviation objectives of the EPWP, the minimum wage should still be paid upon the person signing in for work. We also recognise that frictions exist across time and space which would require the on-going EPWP minimum wage to be paid while workers shift housing or projects change.
- No South African should be left without an adequate income if they are willing and able to work. For those unable to work because of age, disability, illness or child-rearing, the primary source of poverty alleviation should be a upgraded social grant system.

### 3.16 Labour market impacts

- In this Section we consider the impact that the R1000 per month minimum wage might have on the South African labour market. The impact on labour demand and labour supply is contingent on the form in which the wage offer is made.
- We consider the conventional analysis that is proposed by neo-liberal economists to be erroneous in this situation. First, the aim of the South African government is to eliminate poverty in general. The proposal to increase the minimum EPWP wage is consistent with that overriding objective. However, maintaining sectors in the private labour market that pay “poverty wages” is not consistent with that policy. It is in the interests of the South African economy that higher productivity employment is fostered rather than relying on low-wage, working poor jobs to absorb the unskilled labour force. Second, the EPWP can serve an industry policy to promote a quickening of this move to a high-wage, high productivity economy by placing pressure on market economy employers through the wage floor it establishes. This is precisely what is being proposed in this Report.
- Table 4.9 provides a summary of the lower paid occupations in South Africa as specified in agreements from Bargaining Councils or in Sectoral Determinations.
- We have done our best to present the current (or most recent) prevailing minimum wages in Table 4.9. The data suggests that if the R1000 per month EPWP minimum was introduced several sectors (for example, some areas of hairdressing, rural domestic workers, some rural sections of the security industry, forestry) would be impacted given their wages are below the R1000 level.
- The way in which these impacts might unfold is, in part, dependent on the way in which the EPWP minimum wage was introduced.
  - a. If the EPWP minimum wage was not generalised (and we recommend that it is) then the major impacts will work via the supply side. This impact, in turn, would depend on the scale that the EPWP was offered at.
  - b. If the EPWP was maintained at its present scale then the impact will be small by definition although the probability of job competition from those already in employment would be likely.
  - c. If the EPWP wage became the national minimum then both demand and supply effects would be present. Employers currently paying below the wage would be confronted with the decision of operating that new legal minimum or closing down. What happened to the workers who lost their jobs depends on how many EPWP jobs were created and the impact of the higher wages on spending and overall job creation. There would also be a dynamic present to restructure existing employment along the lines we discuss below.
  - d. If the EPWP was scaled up into an unconditional wage offer to anyone who wants a job (which we recommend) then the supply effects are likely to be significant.
- In this latter context, employers paying below the R1000 would start to find it difficult to attract labour as the EPWP jobs (being always available, local and better paid) would become far better alternatives to the available labour. The employers would then be forced to invest in productive capital to increase the productivity of labour and pay at least R1000 per month to retain labour. There may be some cases where a worker would agree to working below that if the job provided them with other non-pecuniary rewards that compensated. It is unlikely that all the workers who are currently earning below R1000 per month would be attracted to the EPWP.



- If the EPWP minimum wage became the statutory minimum in South Africa then the private sector employers would face an immediate need to restructure their workplaces (invest in higher quality capital) to meet the new legal minimum wage levels but more importantly to stop the migration of their labour forces to more attractive EPWP employment. Some employers would close their operations because they would not be able to operate at the higher costs. Economic development always involves a movement from lower productivity-higher cost production to higher productivity-lower cost production. The ability of the EPWP to absorb this displaced labour would depend, in turn, on its scale. If there was a true EPWP safety net operating then these closures would shift workers into higher income areas and represent an improvement. That is the rationale of using the EPWP as a quasi-industry policy which can stimulate the South African economy towards the desirable high-wage, high productivity growth path.
- The extent of job losses on the demand side is unknown and the debate typically becomes mired in estimates of elasticities of labour demand (both short- and long-run), which measure the response of employment demand of changes in wage rates. There is little agreement about this issue in the wider international literature for any country. Disputes focus on differing theoretical conceptions, methods of estimation, and the applicability and quality of the data used in the applied analysis.

### 3.17 Supply side effects and reservation wages

- Table 4.9 does not provide any indication of the scale of the workforce that might be attracted in to an unconditional EPWP minimum wage offer of R1000 per month.
- The supply side response will be made of three components: (a) workers currently employed who are earning below the proposed R1000 per month minimum; (b) workers who are currently unemployed but counted in the narrow definition of the labour force (so conventionally unemployed by ILO standards); and (c) marginal workers who are captured within the broader definition of unemployment (but who are not conventionally unemployed by ILO standards). The latter group are the so-called discouraged workers.
- What is a reasonable estimate of the numbers of workers that would be willing to work in the EPWP if the minimum wage was set at R1000 per month?
- To get an idea of the scale of the problem – persons earning below R1000 per month who might desire EPWP work at that wage we consulted recent publicly-available statistics from StatsSA.
- From the most recent 2005-06 IES we know that R1000 per month would be higher than the mean household income for most people in the bottom two deciles (This point was verified in personal correspondence the author had with Charles Meth who has studied the 2005-06 IES in detail). So R1000 per month is not an insignificant intervention into the income distribution.
- Further information is available from the StatsSA Labour Force Survey (LFS). The September 2007 LFS, reveals a very low employment-population ratio which is a striking reminder of the failure of the South African economy to generate strong sustained employment growth relative to its potential (see Table 4.10). By comparison, the total OECD average employment-population ratio in 2006 was 66.1 per cent (OECD Employment Outlook 2007, Statistical Annex). Even the transition eastern European countries recently admitted to the OECD averaged around 56 per cent.
- The low employment rates also are mirrored in the higher official and broader unemployment rates. The official unemployment rate was 23 per cent and if you add

discouraged workers to that figure one would get an unemployed underutilisation rate of around 36 per cent (sum of unemployment and discourage unemployment as a percentage of the official labour force plus discouraged workers). Underemployment (part-time workers without enough hours of work) would add to this high level of resource wastage.

- Given that the discouraged workers are willing to work but have given up looking we can consider them as being part of the total pool of unemployed workers who would be candidates for EPWP work at the R1000 minimum wage rate.
- The September 2007 LFS published by StatsSA provides information on workers (employers, employees and self-employed) aged between 15 and 65 years by monthly income and sector. Table 4.11 presents this data which provides slightly different estimates of employment than those presented in Table 4.10.
- From Table 4.11, we see there were around 3.4 million workers currently in employment who earn below R1000 per month. These workers are spread across the formal, informal and domestic sectors. Taken together they comprise about 20 per cent of the total employed labour force which might be attracted to the EPWP at a monthly wage of R1000.
- Table 4.12 draws this information together to estimate the potential (maximum) EPWP workforce at R1000 per month. Assuming all the unemployed and discouraged workers were to take EPWP at that wage rate (if it was an unconditional demand side offer), around 7.4 million workers would offer their services or some 24.3 per cent of the working age population.
- In addition, assuming all the workers currently earning under R1000 per month were attracted into EPWP employment by the R1000 per month minimum wage, some 3.4 million workers would be involved or 11.3 per cent of the working age population.
- Some might suggest that this scale of involvement would be impossible to organise. Evidence from the Argentinean Head of Households program implemented in 2001 to overcome the crisis in that country demonstrates that a national employment guarantee scheme can be scaled up efficiently and quickly. More than 660,000 jobs were created in two quarters in the early stages of the program in Argentina. The jobs created covered around 5 per cent of the labour force at that time.
- Overall, around 35.5 per cent of the working age population might be attracted to the EPWP under the maximum response assumption. Around 32 per cent of the total response would come from those already employed. The difference between 950 and 1000 Rand per month would be minimal in this regard.
- Clearly this response is an overestimate. Detailed survey analysis would be required to estimate the actual numbers. The short-term market disruption would be focused on the potential 3.4 million workers who are currently employed and earning wages that are below the poverty line. As noted above, the total impact of this dynamic depends on how the EPWP was expanded and whether the wage became a national minimum.
- The larger the supply response of the unemployed the more effective the policy would be in alleviating poverty.

### 3.18 The reservation wage concept

- Most of the wage levels that were considered by Vaidya and Ahmed (2007) were below any reasonable measures of the poverty line. We consider it a wrong-headed approach to then proceed to estimate variations of wage levels within this range that at the margin

might elicit  $x$  per cent more workers into the labour force (or a particular segment of the employed labour force) when your primary goal is to alleviate poverty and develop a high productivity economy.

- The reservation wage concept inherits all the problems that pervade the neo-classical economics text book paradigm. It does not consider concepts of equity or basic human needs. It inherits the ahistorical, asocial, amoral standpoint that is adopted by neo-classical economic theory and in dealing with modern problems such as extreme poverty and unemployment it is all but useless.
- The theoretical assumptions the approach makes to operationalise applied work are problematic in the extreme.
- First, workers are assumed to have perfect knowledge and perfect foresight so that they rationally and continuously compute discounted present value life-cycle real earnings paths at different wage offers and juxtapose these paths with the real value of non-work. These assumptions are inapplicable in any economy and ignore the vast evidence on satisficing behaviour that Simon introduced to the economics literature.
- Second, the labour market is assumed to be price clearing and in a continuous state of full employment so that workers are “always on their supply curves”. What happens when the economic outcomes are rationed is not described by the neo-classical labour market model. Any conclusions drawn in this rationed environment become arbitrary.
- South Africa has a highly constrained labour market and the idea that the majority of its working age population, who are at the bottom of the market and largely excluded from meaningful and productive economic activity, conduct optimising calculus to determine whether they will work or not is far fetched. McLaughlin (1992: 147) says that ‘the low levels of out-of-work benefit incomes, together with little access to credit, result in little room for manoeuvre or abilities to build pathways into various forms of employment among long-term unemployed people.’
- Third, there is no credible evidence to support the neo-classical view that a certain nominal wage will induce an individual to exchange non-work for work. Paid work offers a number of rewards that go beyond the wage rate some of which are of a non-pecuniary nature (for example, access to credit). Vaidya and Ahmed (2007) ignore the non-pecuniary aspects of work which labour economists have found to be highly significant in determining labour supply decisions.
- Fourth, it is incorrect to assume that individuals ‘only consider the level of income available in or out of work’ (McLaughlin, 1992: 147). Individuals also consider the sources of income and its certainty in addition to the real value of different offers.
- Reservation wage studies are also notoriously inaccurate when applied to countries with high official unemployment and high discouraged worker numbers coupled with inadequate social security safety net systems. This is exactly the mix that is present in South Africa. These studies show that estimates of reservation wages are highly sensitive to duration of unemployment and the context of the unemployment (extent of the problem and social security system) (see Dawes, 1993 among others). Even within the logic of the reservation wage approach one has to perform panel data analysis to overcome the possible duration biases. Without a dynamic approach one can place little reliance on the estimates, notwithstanding all the other problems that bedevil this class of empirical analysis.

- Surveys that try to assess reservation wages are also susceptible to biased results. Several problems can arise. Walker (2003) summarises them as: (a) The respondents may not understand the exact dimensions of the employment being associated with different wage offers; (b) the concept of a minimum wage that would be accepted is often conflated with other notions such as fairness; (c) the valuation process implied by the theoretical framework is typically beyond the capacity of individuals who do not possess perfect foresight nor perfect information about the alternatives; (d) workers may provide an ambit claim; (e) workers do not want to disclose accurate information about wages to survey staff; (f) there is a difficulty pinning down spatial intentions (where a person might want to work) that accompany the wage information (see also Jones, 1988; Kingdon and Knight, 2001).

- Walker (2003: 52-53) sums up

In a country where unemployment is low, and where there are a sufficient number of job vacancies, knowing the determinants of reservation wages may be useful for explaining whether relatively high reservation wages are reducing the supply of labour. However, in South Africa the problem in the labour market is rather inadequate demand for unskilled labour. In an area like KMP, where 46% of the economically active respondents are classified as searching, networksearching or marginalised unemployed, this amounts to a substantial portion of the population. With this in mind one may wonder what use reservation wage information can be.

.... there is no evidence that the unemployed are out of work due to excessive wage aspirations, in relation to the wage they could command in employment ... those who are deeper in unemployment (i.e. more discouraged) ... are least likely to have a reservation wage above their predicted wage ... Unemployment is a result of the low availability of jobs for unskilled people rather than unrealistic wage expectations.

- Quite apart from the conceptual and empirical difficulties that pervade reservation wage studies, the work by Vaidya and Ahmed (2007) presents some specific applied problems that cast doubt on the veracity of the resulting empirical estimates.
- Vaidya and Ahmed (2007) make several contentious assumptions to motivate their computations. First, they assume that they can make inferences about the distribution of reservation wages of the unemployed indirectly by examining the pay and earnings of the employed. The logic they employ is to discover what they term ‘revealed evidence on the upper limits of the reservation wage rates of those in employment’ (p.14) by seeing how much a person is earning. This assumes that all economic rents are absent for all persons used to compile the “revealed preference” dataset. There is no justification given other than ‘time constraints, technical complexity’ for making this oversimplification.
- There is no provision in the theory that underpins the reservation wage concept for a range of wages that are “optimal”. Indeed, this would violate the whole notion that the reservation wage concept is built up – that of marginal analysis and switching points beyond which market realities and individual preferences depart.
- Even within the logic of the neo-classical paradigm, it is likely that a number of workers are receiving wages well above any “reservation wage”, that is, they are earning economic rents. In this case, there is no way of knowing the extent of the upper bias in estimates generated by assuming that the observed wage distribution equates to some “upper limit” reservation wage.
- Second, Vaidya and Ahmed (2007: 15) assume that:

...as far as reservation wage rates are concerned, those in employment are a random selection of those in the labour force. Therefore the distribution of the reservation wage rates of those in employment is representative of the distribution of the reservation wage rates of those available for employment but not employed at the time of the survey. This is an important assumption underpinning this study.

- This assumption cannot be maintained in a highly segmented labour market differentiated across ethnic groupings, gender and geographical space. There are clear selection biases operating in the South African labour market that have the result that the pool of employed workers could not be classified as being a “random” or “representative” selection of the overall labour force.
- Without that assumption, even within the internal logic of the reservation wage concept, the study is flawed and the results not reliable.
- Third, while the demarcation between urban and non-urban households is problematic anyway (see StatsSA, 2003), Vaidya and Ahmed (2007) make no allowance for migration responses between urban and non-urban areas. This is especially problematic given South Africa’s national Spatial Development Perspective; which seeks to ration capital investment across space and provide labour market intelligence to encourage migration.

### 3.19 Targeting scarce EPWP jobs?

- If the EPWP remains a highly constrained programme, then it is important that the rationed scheme provides benefits to those most in need. A minimum wage of R1000 per month will likely attract better off workers who are already employed. However, the response would depend on how long the EPWP jobs were offered for. Short-term opportunities would be unlikely to attract many workers from alternative employment (or income sources).
- This is one of the major reasons why it should become an unconditional JG. In the likely event that the South African government will continue to constrain the EPWP in terms of numbers of jobs available, then rationing devices have to be introduced to ensure that the scheme is properly targeted. Reservation wage studies provide no guidance at all in this respect.
- In a rationed state there is always going to be a queue of frustrated job seekers. The EPWP administration has to introduce measures to ensure a proper ordering of that queue.
- Setting the wage below the minima that are found in the market economy (as shown in Table 4.10) will reduce the number of employed people seeking to compete for EPWP work with those who are currently unemployed (either officially or discouraged). But that would be a counterproductive exercise if the aim of the employment was to alleviate (that is, negate) poverty among the recipients of the jobs.
- In this respect, we disagree with the analysis of Walker (2003, especially that centred around Table 16) who advocates a sensitivity analysis to ensure only the most impoverished workers are attracted to the limited number of EPWP jobs. Instead, we advocate setting a proper minimum wage (that will alleviate poverty) and then using non-wage rationing systems to distribute the limited number of jobs. Of-course this would be unsatisfactory, but the source of the problem would be the unwillingness of the South African government to use the fiscal choices available to it to expand the EPWP to a level that absorbs those without work on a national scale.

- How then might we target the jobs? Direct targeting would simply identify the poor and the unemployed and provide them with access to the wage earning opportunities. There are problems though that an administration would have to deal with which would be overcome if the employment guarantee is universal. In a rationed system, structures to identify who was in most need of a job, to determine the spatial allocation of the jobs, and to prevent localised corruption (“selling jobs”) would have to be implemented.
- In this sense, an unconditional job offer within the EPWP at the minimum wage is consistent with the literature on indirect targeting which is proposed to resolve the difficulties involved with direct targeting. So in an indirect targeting approach we simply set the wage rates at such a level so that the poor self-select and the better-off applicants will not pursue the employment opportunities.
- This means that the EPWP minimum has to become the wage floor for the national economy.

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## **Tables and Figures to accompany Workshop 3**

Table 2.1 Average daily rates of pay including bonuses and overtime payments by industry, Rand

Industry	May-07	Aug-07	Nominal Increase	Real Increase
Mining and quarrying	240.43	244.70	1.8	-0.5
Manufacturing	237.76	248.09	4.3	2.0
Electricity, gas and water supply	483.39	507.91	5.1	2.7
Construction	173.52	181.25	4.5	2.1
Wholesale and retail; repair of motor vehicles, motor cycles and personal and household goods; hotels and restaurants	183.16	188.88	3.1	0.8
Transport, storage and communications	372.33	384.26	3.2	0.9
Financial, insurance, real estate and business services	319.76	328.73	2.8	0.5
Community, social and personal services	310.68	330.74	6.5	4.1
Total	266.07	278.01	4.5	2.2

Source: StatsSA, P0277, Table E, page 29.

Table 2.2 Average daily rates of pay excluding bonuses and overtime payments by industry, Rand.

Industry	May-07	Aug-07	Nominal Increase	Real Increase
Mining and quarrying**				
Manufacturing	220.31	230.30	4.5	2.2
Electricity, gas and water supply	446.96	475.63	6.4	4.1
Construction	164.32	170.37	3.7	1.4
Wholesale and retail; repair of motor vehicles, motor cycles and personal and household goods; hotels and restaurants	176.12	181.74	3.2	0.9
Transport, storage and communications	340.04	348.76	2.6	0.2
Financial, insurance, real estate and business services	308.65	317.82	3.0	0.6
Community, social and personal services	300.95	322.42	7.1	4.8

Source: StatsSA, P0277, Table F, page 30. \*\* data for Mining and quarrying not available.

Table 2.3 Low-wage workers in South Africa

	Labour Force Survey 2000				Labour Force Survey 2004			
	<=R2500		<=R1000		<=R3500		<=R1500	
	No	%	No	%	No	%	No	%
Low-waged	8,697,262	77.8	5,958,388	53.3	8,218,534	73.4	5,583,331	49.2
Total employed reporting wages	11,174,295	100.0	11,174,295	100.0	11,357,840	100.0	11,357,840	100.0

Source: Valodia *et al* (2006). The calculations were based on data from Stats SA (2001) and Stats SA (2004).

Figure 2.1 Minimum wages for Furniture Bargaining Councils, by province, Rand per month, various dates

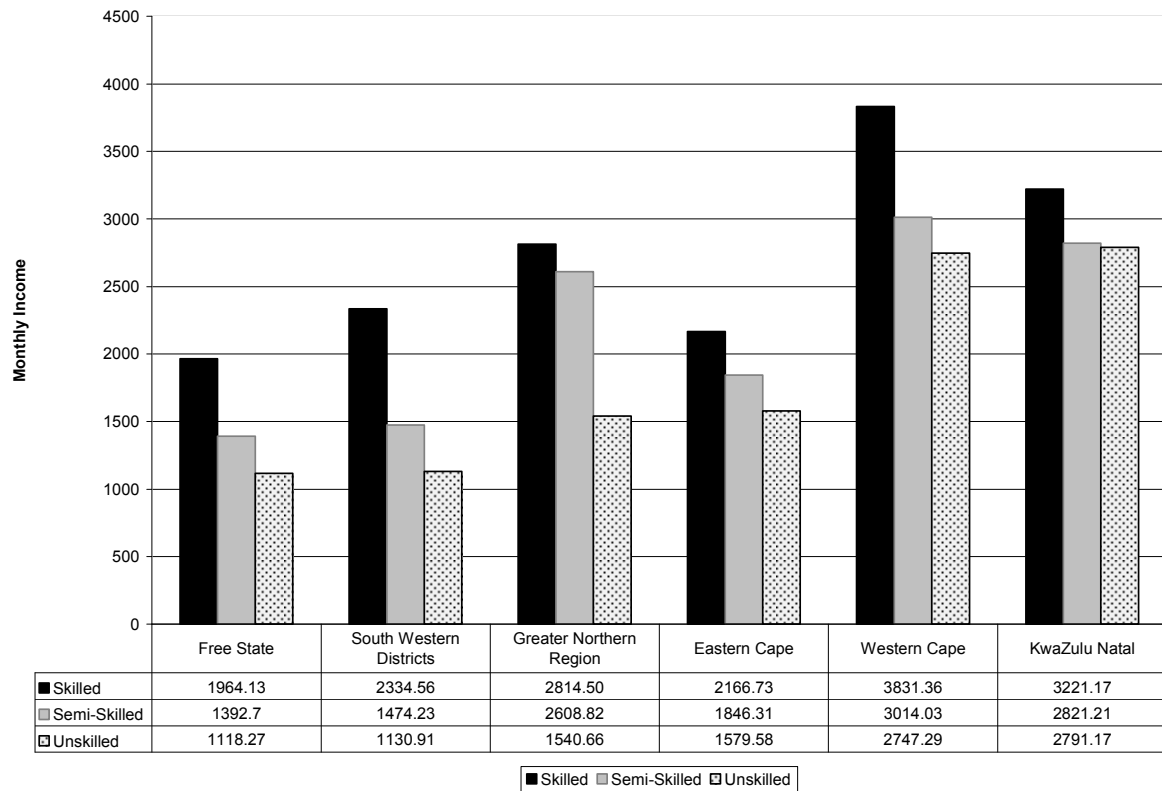
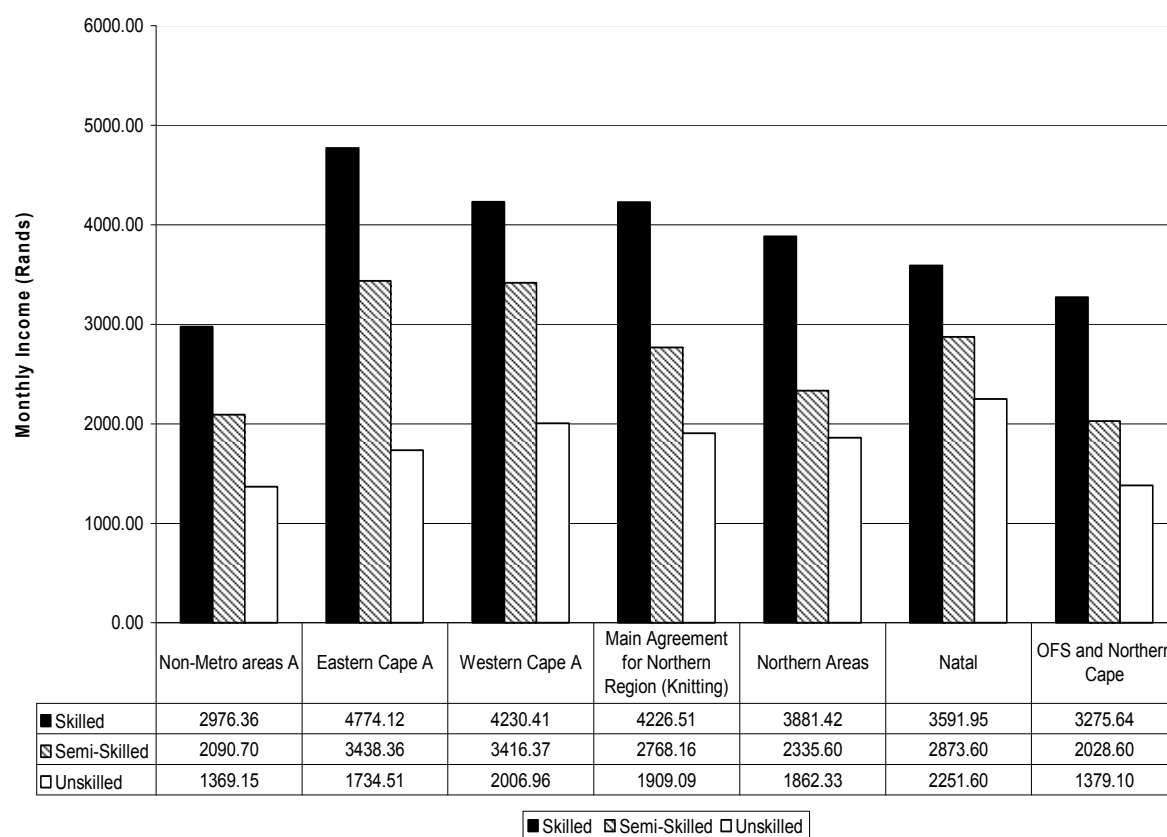


Table 2.4 Minimum wages determined by the Furniture Bargaining Councils, by province, Rand per month, various dates

Province	Skilled	Semi-skilled	Unskilled	Dates governing agreement
Free State	1964.13	1392.7	1118.27	Jan 8, 2001 to Apr 30, 2005
South Western Districts	2334.56	1474.23	1130.91	Until Sep 30, 2005
Greater Northern Region	2814.50	2608.82	1540.66	Dec 31, 2004 to Jun 30, 2005
Eastern Cape	2166.73	1846.31	1579.58	Expired May 10, 1998
Western Cape	3831.36	3014.03	2747.29	Until Jun 30, 2005
KwaZulu Natal	3221.17	2821.21	2791.17	Until Jul 31, 2006
National average	2722.08	2192.88	1817.98	

Source: see Figure 2.1. Note the national average is just a simple average of the component agreements. It is not weighted for employment size in each component.

Figure 2.2 Minimum wages determined by the Clothing Bargaining Council, All Areas (excluding Area B), Rand per month, various dates



Source: DOL Bargaining Council Wage Data Base. Wage rates are for the period ending 2005 and exclude all wage rates for Area B, where applicable.



Table 2.5 Minimum wages determined by the Clothing Bargaining Council, Rand per month, various dates

Area	Skilled	Semi-skilled	Unskilled	Dates governing agreement
Non-Metro areas A	2976.36	2090.70	1369.15	Oct 11, 2004 to Jun 30, 2005
Non-Metro areas B	2242.81	1575.38	1058.94	
Eastern Cape A	4774.12	3438.36	1734.51	Until Jun 30, 2005
Eastern Cape B				
Western Cape A	4230.41	3416.37	2006.96	From May 3, 2004 to Jun 30, 2005
Western Cape B	2089.23	1725.51	1706.02	
Main Agreement for Northern Region (Knitting) A	4226.51	2768.16	1909.09	
National Textiles, Northern Areas A	3881.42	2335.60	1862.33	
Natal A	3591.95	2873.60	2251.60	May 3, 2004 to Jun 30, 2005
OFS and Northern Cape A	3275.64	2028.60	1379.10	Oct 18, 2004 to Jun 30, 2005
National average	3476.49	2472.48	1697.52	

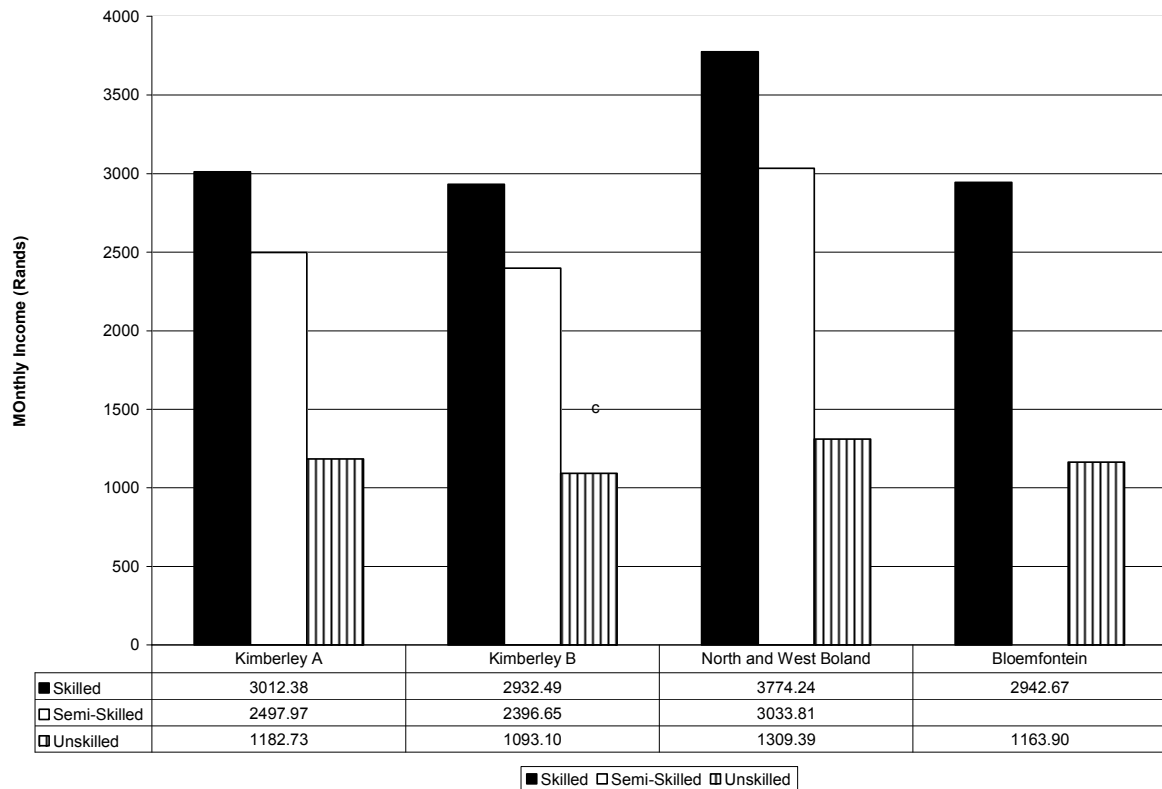
Source: see Figure 2.2. Note the national average is just a simple average of the component agreements. It is not weighted for employment size in each component.

Table 2.6 Minimum wages determined by the Leather Bargaining Council, Rand per month, various dates

Area	Skilled	Semi-skilled	Unskilled	Dates governing agreement
Footwear - Section A	4098.39	3271.75	2439.39	Jun 1, 2005 to June 30, 2007
Footwear - Section B	4508.22	3598.92	2683.34	
General Goods and Handbag - Section A	2828.09	2174.95	1682.24	September 9, 2005 to June 30, 2006
General Goods and Handbag - Section B	3110.88	2392.45	1850.46	
Tanning	3815.45	2838.83	2616.96	June 1, 2004 to June 30, 2006
National average	3672.21	2855.38	2254.48	

Source: DOL Wage Data Base on Bargaining Councils with collective agreements ending in 2006 and 2007. Section B covers metropolitan areas and Section A covers rural and semi-urban areas. Note the national average is just a simple average of the component agreements. It is not weighted for employment size in each component.

Figure 2.3 Minimum wages determined by the Building Bargaining Council, Rand per month, various dates



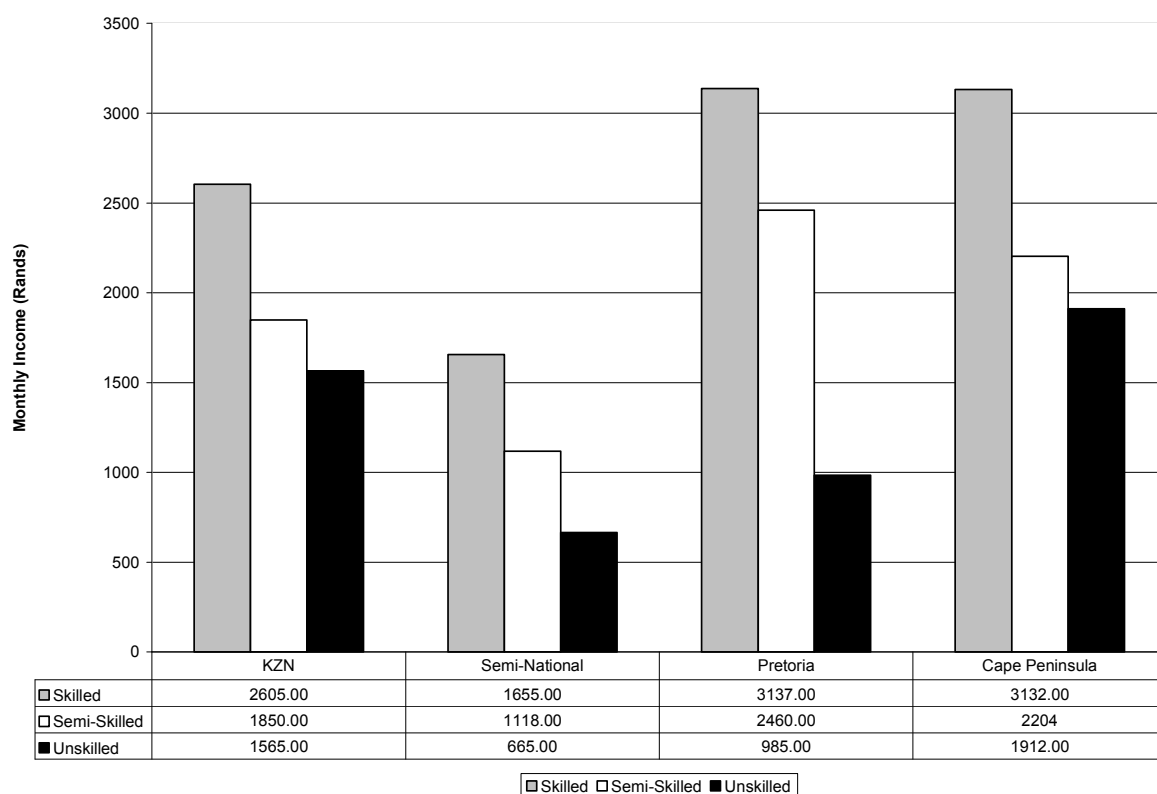
Source: DOL Wage Data Base on Bargaining Councils. Note the period of agreement for Kimberley ends in 2008 and for North and West Boland, Bloemfontein 2005.

Table 2.7 Minimum wages determined by the Building Bargaining Council, Rand per month, various dates

Area	Skilled	Semi-skilled	Unskilled	Dates governing agreement
Kimberley A	3012.38	2497.97	1182.73	Aug 2, 2004 to Jul 30, 2008
Kimberley B	2932.49	2396.65	1093.10	
North and West Boland	3774.24	3033.81	1309.39	Nov 1, 2004 to Oct 31, 2005
Bloemfontein	2942.67		1163.90	Jun 6, 2003 to Jun 11, 2005
National average	3165.445	2642.81	1187.28	

Source: see Figure 2.3. Note the national average is just a simple average of the component agreements. It is not weighted for employment size in each component.

Figure 2.4 Minimum wages determined by the Hairdresser Bargaining Council, Rand per month, various dates



Source: Department of Labour. The KZN and Cape Peninsula agreement ended in 2006, while the Semi-National and Pretoria agreements end in 2007. Semi-National refers to areas not covered by the other Bargaining Councils. This includes Johannesburg and surrounding areas, Eastern Cape, Bloemfontein and Kimberley.

Table 2.8 Minimum wages determined by the Hairdressing Bargaining Council, Rand per month, various dates

Area	Skilled	Semi-skilled	Unskilled	Dates governing agreement
KZN	2605.00	1850.00	1565.00	Jul 25, 2005 to Jul 31, 2006
Semi-national	1655.00	1118.00	665.00	Nov 8, 2004 to Dec 31, 2007
Pretoria	3137.00	2460.00	985.00	1 Mar 1, 2005 to May 10, 2007
Cape Peninsula	3132.00	2204	1912.00	Expired Mar 31, 2006
National average	2632.25	1908.00	1281.75	

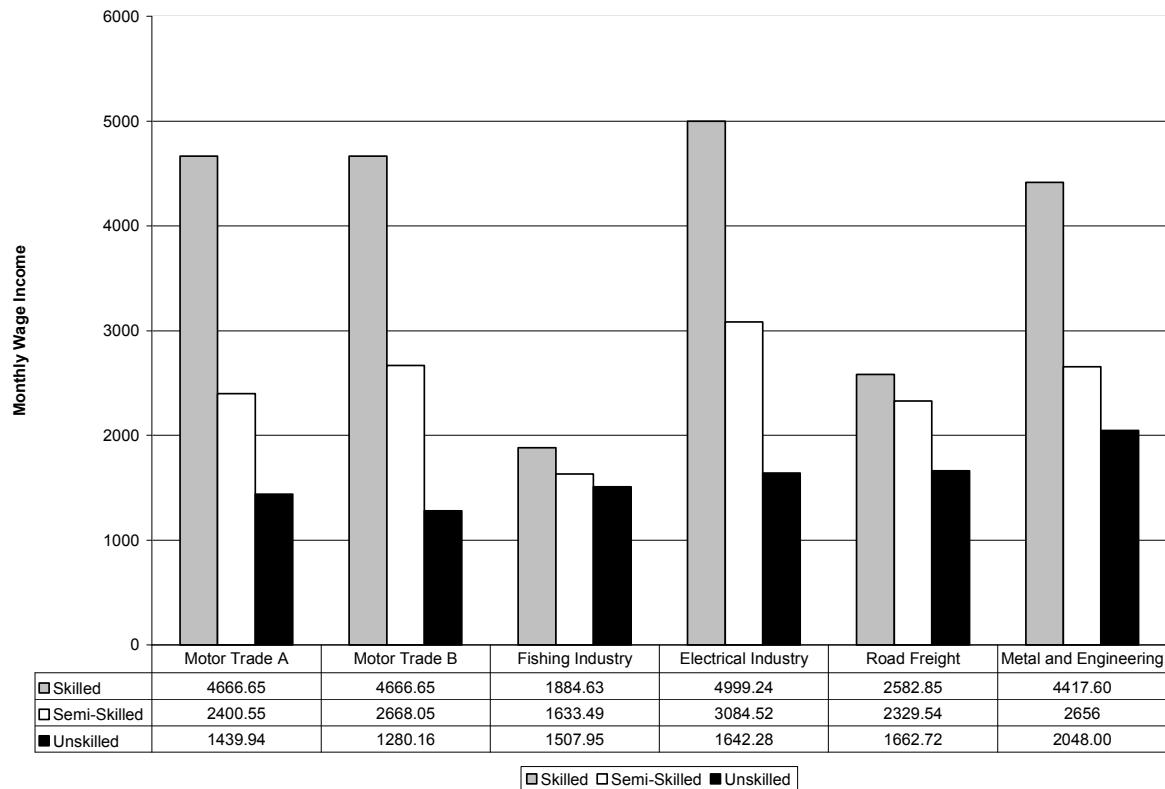
Source: see Figure 2.4. Note the national average is just a simple average of the component agreements. It is not weighted for employment size in each component.

Table 2.9 Minimum wages determined by Other Bargaining Councils, Rand per month, various dates

Area	Skilled	Semi-skilled	Unskilled	Dates governing agreement
BC for the Meat Trade (Gauteng)	2079.00	1771.00	1331.00	To June 30, 2008.
BC for the Canvas Goods Industry (Witwatersrand and Pretoria)	2754.87	2547.08	2074.76	To June 30, 2004.
BC for the Contract Cleaning Industry (Natal)	1316.58		1268.77	Aug 1, 2005 to Feb 28, 2006

Source: DOL Wage data base for Bargaining Councils.

Figure 2.5 Minimum wages determined by the National Bargaining Council, Rand per month, various dates



Source: DOL Wage data Base for Bargaining Councils. The period of agreement for Fishing ended 2005, Electrical 2006 and Road Freight 2006. Note that there was no data for Chemical, Paper Wood and Tyre Bargaining Councils



Table 2.10 Minimum wages determined by National Bargaining Councils, Rand per month, various dates

Area	Skilled	Semi-skilled	Unskilled	Dates governing agreement
Motor Trade A	4666.65	2400.55	1439.94	
Motor Trade B	4666.65	2668.05	1280.16	
Fishing Industry	1884.63	1633.49	1507.95	Dec 31, 2004 to Nov 30, 2005
Electrical Industry	4999.24	3084.52	1642.28	Apr 2005 to Jan 31, 2006
Road Freight	2582.85	2329.54	1662.72	Jul 25, 2005 to Feb 28, 2006
Metal and Engineering	4417.60	2656.00	2048.00	

Source: DOL Wage data base for Bargaining Councils.

Table 2.11 Minimum wages in wholesale and retail trade, Areas A, B and C, February 1, 2008 to January 31, 2009, Rand per month

	Area A	Area B	Area C
General Assistant	1737	1495	1458
Security Guard	1784	1697	1654
Forklift operator	1898	1503	1466
Driver - light vehicle	2015	1599	1559
Merchandiser	2092	1686	1644
Shop Assistant	2092	1686	1644
Cashier	2230	1797	1752
Driver - medium light vehicle	2436	1935	1886
Clerk	2642	2147	2093
Sales Assistant	2642	2147	2093
Sales Person	2642	2147	2093
Driver - medium heavy vehicle	2659	2338	2280
Displayer	2744	2070	2019
Driver - heavy vehicle	2922	2576	2511
Supervisor	3251	2620	2555
Trainee Manager	3510	2803	2733
Assistant Manager	3825	3088	3010
Manager	4190	3349	3265

Source: South African Government Gazette No 8413, Basic Conditions of Employment Act (75/1997): Amendment of Sectoral Determination 9: Wholesale and Retail Sector.

**Area A:** Bergrivier, Breede Valley, Buffalo City, Cape Agulhas, Cederberg, City of Cape Town, City of Johannesburg Metropolitan Municipality, City of Tshwane, Drakenstein, Ekurhuleni, Emalahleni, Emfuleni, Ethekwini Metropolitan Municipality, Gamagara, George, Hibiscus Coast, Karoo Hoogland, Kgatelopele, Khara Hais, Knysna, Kungwini, Kouga, Langeberg, Lesedi, Makana, Mangaung, Matzikama, Metsimaholo, Middelburg, Midvaal, Mngeni, Mogale, Mosselbaai, Msunduzi, Mtubatuba, Nama Khoi, Nelson Mandela, Nokeng tsa Taemane, Oudtshoorn, Overstrand, Plettenbergbaai, Potchefstroom, Randfontein, Richtersveld, Saldanha Bay, Sol Plaatjie, Stellenbosch, Swartland, Swellendam, Theewaterskloof, Umdoni, uMhlathuze and Witzenberg. **Area B:** Abaqulusi, Beaufort West, Bela Bela, Blue Crane Route, Boland District Management Area, Breede River/Winelands, Camdeboo, Central Karoo, Dannhauser, DC43 District, Delmas, Dihlabeng, Dikgatlong, Dipaleseng, District Highlands, Emnambithi, Endumeni, Enthenjeni, Frances Baard; Garden route/ Klein Karoo, Garib, Xhariep, Ga-Segonyana, Great Kei, Greater Kokstad, Greater Tzaneen, Hantam, Highlands, Highveld East, Ikwezi, Impendle, Inkwanca, Inxuba Yethemba, Kamiesberg, Kannaland, Kareeberg, Karoo, Khai-Ma, Kheis, King Sabata dalindyebo, Kopanong, Kou-Kamma, Kwa Sani, Ladysmith, Laingsburg, Lepele Nkupi, Lephalale, Lukhanji, Mafikeng, Mafube, Magareng, Makhado, Malaamulele, Malethswai, Malutia Mandeni, Mantsopa, Maquassi Hills, Masilonyana, Matatiela, Matjhabeng, Merafeng City, Messina, Mier, Mkhambathini, Modimolle, Mofutsanyane; Mogalakwena, Mohokare, Molopo, Mooi Mpofana, Mookgopong, Moqhaka, Moretele, Moses Kotane, Nala, Naledi, Namakwa district, Ndlambe, Newcastle, Ngwathe, Nketoana, Phalaborwa, Maluti a Phofung, Phokwane, Phumelela, Polokwane, Prince Albert, Renosterberg, Richmond, Rustenburg, Schweizer-Reneke, Setotlo, Siyancuma, Siyanda District, Siyathemba, Sunday's River Valley, Thabazimbi, Thabo The KwaDukuza, Thembekihle, Thohoyandou, Tokologo, Tsantsabane, Tsolwana, Tswelopele, Ubuntu, Umlazi, Umsobomvu, Umtshezi, uPhongolo, Utrecht, West Rand District, Western District, Westonaria, Zeerust. **Area C:** localities not defined above.

Table 2.12 Minimum wages for Domestic workers, Farm workers, Contract Cleaners, Forestry workers, Taxi workers, and Hospitality workers under Sectoral Determinations, Rand per month

Sector	Qualifier	Rand per month	Coverage period
Domestic workers (> 27 hrs p.w, excl. overtime)	Urban	1166.05	Dec 1, 2007 to Nov 30, 2008
Domestic workers (> 27 hrs p.w, excl. overtime)	Rural	946.04	Dec 1, 2007 to Nov 30, 2008
Domestic workers ( $\leq$ 27 hrs p.w, excl. overtime)	Urban	826.41	Dec 1, 2007 to Nov 30, 2008
Domestic workers ( $\leq$ 27 hrs p.w, excl. overtime)	Rural	670.44	Dec 1, 2007 to Nov 30, 2008
Farm workers	Area A	1041.00	Mar 1 2007 to Feb 28, 2008
Farm workers	Area B Area C	989.00	Mar 1 2007 to Feb 28, 2008
Contract cleaners	Area A	1671.00	Nov 2005
Contract cleaners	Area B	1505.00	Nov 2005
Contract cleaners	Area C	1340.00	Nov 2005
Forestry workers	All	836.00	Dec 1, 2007 to Nov 30, 2008
Taxi drivers		1,552.66	Jul 1, 2007 to Jun 30, 2008
Taxi admin workers		1,552.66	Jul 1, 2007 to Jun 30, 2008
Taxi rank marshals		1,242.13	Jul 1, 2007 to Jun 30, 2008
Taxi workers not elsewhere specified		1,086.87	Jul 1, 2007 to Jun 30, 2008
Hospitality sector workers	Small firm	1480.00	Jul 1, 2007 to Jun 30, 2008
Hospitality sector workers	Medium to Large firm	1650.00	Jul 1, 2007 to Jun 30, 2008

Source: South African Government Gazette No 8348, Basic Conditions of Employment Act (75/1997): Amendment of Sectoral Determination 7: Domestic Worker Sector, South Africa; South African Government Gazette No. 8401, Basic Conditions of Employment Act (75/1997): Sectoral Determination 13: Farm Worker Sector, South Africa; South African Government Gazette No. 8584, Basic Conditions of Employment Act (75/1997): Amendment of Sectoral Determination 1: Contract Cleaning Sector, South Africa; South African Government Gazette No. 8419, Basic Conditions of Employment Act (75/1997): Sectoral Determination 12: Forestry Sector, South Africa;; South African Government Gazette, Basic Conditions of Employment Act (75/1997): Sectoral Determination 11: Taxi Sector Amendment; South African Government Gazette No. 8685, Basic Conditions of Employment Act (75/1997): Sectoral Determination 14: Hospitality Sector, South Africa. Note, for contract cleaners, **Area A** is Capetown, Ekurhuleni, Johannesburg, Tshwane, Nelson Mandela, Emfuleni, Merafong, Mogale City, Metsimaholo, Randfontein, Stellenbosch, Westonarea **Area B** is KwaZulu Natal and **Area C** is the Rest of RSA.

Table 2.13 Minimum wages for security workers under Sectoral Determinations, Rand per month, Third year of Determination, 2007-08

Category	Sub-Cat	Area A	Area 2	Area 3	Area 4	Area 5
Artisan		2773	2609	2504	2205	1975
Clerical Assistant/Controller	Year 1	1429	1310	1184	1115	996
Clerical Assistant/Controller	Year 2	1478	1347	1221	1147	1026
Clerical Assistant/Controller		1523	1400	1273	1184	1057
Clerk	Year 1	1560	1433	1314	1215	1084
Clerk	Year 2	1745	1652	1478	1357	1213
Clerk	Year 3	1931	1767	1656	1494	1336
Clerk		2122	1938	1815	1630	1458
Driver	Light Vehicle	1503	1394	1264	1168	1047
Driver	Medium Vehicle	1722	1589	1461	1336	1197
Driver	Heavy Vehicle	1856	1716	1587	1431	1283
General worker	First 6 months	1170	1074	963	917	817
General worker		1248	1156	1039	989	881
Handyman		1665	1542	1420	1297	1164
Security Officer	Grade A	2733	2515	2267	2107	1891
Security Officer	Grade B	2286	2082	1878	1743	1564
Security Officer	Grade C	1756	1618	1460	1371	1221
Security Officer	Grade D	1587	1450	1319	1231	1100
Security Officer	Grade E	1500	1377	1244	1171	1050
All other employees		1445	1328	1199	1129	1016

Source: South African Government Gazette No 8635, Basic Conditions of Employment Act (75/1997): Correction Notice, Sectoral Determination 6: Private Security Sector, South Africa. **Area 1:** In the Magisterial Districts of Alberton, Bellville, Benoni, Boksburg, Brakpan, Camperdown, Chatsworth, Durban, Germiston, Goodwood, Inanda, Johannesburg, Kempton Park, Krugersdorp, Kuils River, Mitchell's Plain, Nigel, Oberholzer, Paarl, Pinetown, Port Elizabeth, Pretoria, Randburg, Randfontein, Roodepoort, Sasolburg, Simon's Town, Springs, The Cape, Uitenhage, Vanderbijlpark, Vereeniging, Westonaria, Wonderboom and Wynberg; **Area 2:** In the Magisterial Districts of Bloemfontein, East London, Kimberley, Klerksdorp, Pietermaritzburg, Somerset West, Stellenbosch and Strand; **Area 3:** In the Magisterial Districts of Odendaalsrus, Potchefstroom, Virginia, Welkom and Witbank **Area 4:** In the Magisterial Districts of Bethlehem, George, Hennenman, Highveld Ridge, King William's Town, Klip River, Knysna, Lower Tugela, Lower Umfolozi, Middelburg (Mpumalanga), Mossel Bay, Nelspruit, Newcastle, Oudtshoorn, Pietersburg, Port Shepstone, Potgietersrus, Rustenburg, Queenstown and Umzinto; **Area 5:** All other areas.

Table 2.14 Minimum wages for civil engineers, March 1, 2008 to February 28, 2009, Rand per hour

Task Grade	Province	Rate per hour Rand
1	Gauteng, Western and Eastern Cape, KwaZulu Natal, North West (Klerksdorp & Potchefstroom), Mpumalanga (Balfour, Bethal, Highveld Ridge, Middleburg, Standerton and Witbank), Free state (Bloemfontein, Odendaalsrus, Sasolburg, Virginia and Welkom)	12.48
1	Limpopo, Northern Cape, North West, Mpumalanga and Free State	12.11
2	Whole RSA	12.58
3	Whole RSA	13.31
4	Whole RSA	13.86
5	Whole RSA	16.63
6	Whole RSA	18.87
7	Whole RSA	22.07
8	Whole RSA	24.82
9	Whole RSA	28.05

Source: South African Government Gazette No 8635, Basic Conditions of Employment Act (75/1997): Amendment of Sectoral Determination 2: Civil Engineering Sector, South Africa.

Table 4.1 EPWP objectives and implications for wage setting guidelines

EPWP objective	Implications for wage setting guideline	Other implications
Short-term job opportunities for the target group	Will not affect demand for EPWP workers unless budget restrictions are imposed on the programme. An unconditional employment guarantee overcomes this problem is overcome by offering jobs at the minimum wage to anyone who wants one.	Significant numbers of workers in the market sector are currently employed at wages which are below reasonable estimates of the poverty line. Depending on the pay levels, demand for EPWP opportunities could come from those currently employed as well as those unemployed.
Skill formation	Who should pay for the training – worker or government? The BCEA SPWP says that workers are to be paid at 75 per cent of their wage while receiving training.	Skills development and capacity building is dependent on the training structures embedded in the employment programme. Issues about the current capacity of the SETAs, which deliver the training.
Long-term job opportunities through self-employment and absorption elsewhere in the economy	Higher minimum wage provides opportunity to better risk manage cyclical events and allow for saving. Higher minimum wages allow for personal saving which can resource private skill development and education.	Dependent on overall state of aggregate demand and skills development within the scheme. Need to consider complementary programmes such as financial literacy training, to enhance this outcome. High personal debt levels remain a significant problem for the low income South Africans.
Poverty alleviation	Minimum above reasonable poverty line measures required. Need to consider spatial cost of living variations. Need to examine the rationale and effectiveness of the considerable wage disparity across projects and provinces in EPWP.	Issue about creating a second-class group of workers. Need to ensure adequate social wage and other developmental opportunities are provided in addition to integrating workers into a paid work environment.
Provision of high-quality assets and social services	Higher wages tend to increase the productivity of workers.	Higher wages will provide for better motivation and nutrition and thus better effort. Other factors include the need for well organised workplaces and strong work teams
Efficient use of public resources	Highest wage possible given market wage structure Common wage across projects and space reduces the monitoring and implementation costs.	Investment in people provides the states with the highest return among competing uses of its funds. An adequate minimum wage is a foundation of this investment.

Table 4.2 Gender considerations in determining appropriate minimum wage for EPWP

Consideration	Female	Male
Ability to earn additional income from market participation	Low	Low but higher than females
Social grants as a poverty reduction policy instrument	Should this be the primary source of income or act as a supplementary source to EPWP income to address variations in household size and composition?	Same as females.
EPWP income	Same as for Social Grants	Same as for Social Grants
Off-market income sources	Low	Low
Returns from market work	Low	Low but higher than females
Saving potential for future capacity building	Not assumed. Minimum wage should provide some risk insurance against cyclical events and family changes (sickness, death, breakdown).	Same as females.
Unpaid work burden	High	Low

Figure 4.1 A framework for minimum wage determination

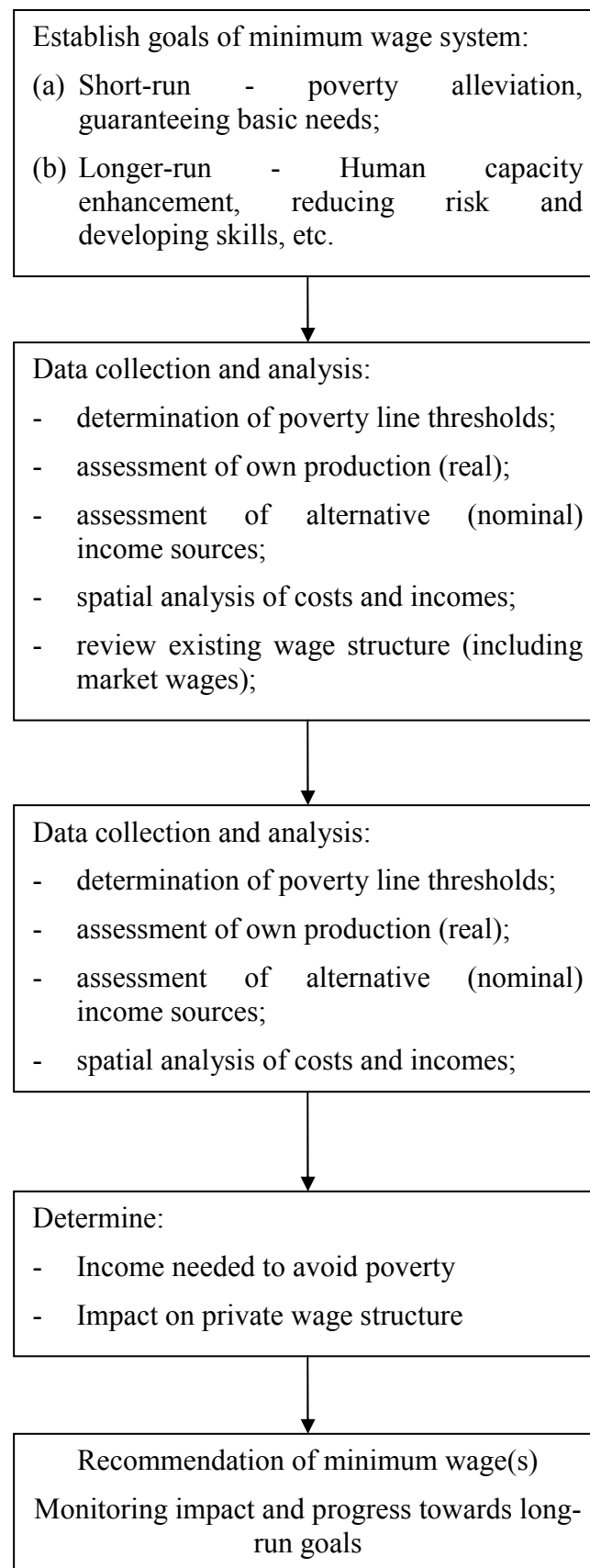




Table 4.3 Alternative poverty lines estimates for South Africa

Poverty line construct	Poverty line in 2000 prices	% of persons below poverty line (2000 IES)	Poverty line in February 2008 prices
	Rand per capita per month	Per cent	Rand per capita per month
Poverty line set at per capita expenditure of the 40th percentile of households	346	54.9	524
Poverty line set at 50% of mean national per capita expenditure	538	68.1	815
Stats SA (as reported by Hoogeveen and Ozler) – lower bound	322	52.6	488
Stats SA (as reported by Hoogeveen and Ozler) – upper bound	593	70.4	898
August 2004 Household subsistence level (HSL): metro average of 6 person African households, converted to per capita scale	286	48.5	433
August 2004 Household effective level (HEL): metro average of 6 person African households, converted to per capita scale	429	61.8	650
“Dollar a day” - International poverty line of US\$370 (1985 prices) per capita per annum	81	8.1	123
“Two dollars a day” - International poverty line of US\$370 (1985 prices) per capita per annum	162	27.0	245
“Poverty line” implied by the Old Age Pension means test for married persons, assuming a household of 5 persons and no non-elderly income earners	454	63.4	688
	Per household	Per cent	Per household
“Indigence” line of R800 per household per month (in 2006 prices)	573	11.7	648
“Indigence” line of R1600 per household per month (in 2006 prices)	1147	38.1	1296
“Indigence” line of R2400 per household per month (in 2006 prices)	1720	55.1	1944

Source: Woolard and Leibbrandt (2006, Table 9). The 2000 prices were adjusted using the factor of 1.515, being the average CPI in 2000 (100.0) divided into the February 2008 value of 151.5. The 2006 prices were adjusted using a factor of 1.13, being the average CPI in 2006 (134.0) divided into the February 2008 value of 151.5.

Table 4.4 Means test limits on social grants in South Africa, 2005 prices

Grant	Recipient unit	Urban (monthly)	Rural (monthly)
Child Support Grant	Primary care-giver and spouse	R800	R1100
Old Age Pension	Unmarried person	R1594	
Old Age Pension	Married person	R2954	

Table 4.5 Summary employment and wage details for EPWP, 2006-07

Sector	Total EPWP jobs	% of total EPWP jobs Percent	Average daily minimum wage Rand	Average (implied) monthly wage Rand	Average (implied) monthly wage Rand Feb 2008 prices
Economic	173	1.1	45.20	859	953
Environmental and Culture	991	40.0	44.27	841	934
Infrastructure	695	47.0	60.76	1154	1281
Social	4164	11.6	31.22	593	658
Total EPWP	7024	100.0	41.00	779	957

Source: Department of Public Works, South Africa. The implied monthly wage is based on a 19-day working month. Percentage totals do not add to 100.0 due to rounding. February 2008 price equivalents explained in Table 3.1.

Table 4.6 EPWP projects – employment and wage data relative to relative to wage norms

	Minimum Monthly Wage			
	R488 (a)	R898 (b)	R950	R1000
<b>Economic</b>				
Number of projects paying above	171	69	61	61
Per cent above (per cent)	98.8	39.9	35.3	35.3
Person days as a % of sector total (percent)		14.1	12.7	12.7
Jobs as a % of sector total (percent)		32.3	29.1	29.1
Average job length of job (days)		33	33	33
Average job length for whole sector (days)		75	75	75
<b>Environment and Culture</b>				
Number of projects paying above	991	637	206	154
Per cent above (per cent)	100.0	64.3	20.8	15.5
Person days as a % of sector total (percent)		58.3	20.1	15.5
Jobs as a % of sector total (percent)		68.6	16.8	13.9
Average job length of job (days)		37	52	49
Average job length for whole sector (days)		43	43	43
<b>Infrastructure</b>				
Number of projects paying above	1696	1499	1321	1320
Per cent above (per cent)	100.0	88.4	77.9	77.8
Person days as a % of sector total (percent)		87.5	82.0	82.0
Jobs as a % of sector total (percent)		89.1	85.2	85.2
Average job length of job (days)		49	48	48
Average job length for whole sector (days)		50	50	50
<b>Social</b>				
Number of projects paying above	3631	599	444	415
Per cent above (per cent)	87.2	14.4	10.7	10.0
Person days as a % of sector total (percent)		37.7	31.2	26.1
Jobs as a % of sector total (percent)		29.0	24.2	19.8
Average job length of job (days)		169	168	171
Average job length for whole sector (days)		130	130	130
<b>Total EPWP jobs</b>				
Number of projects paying above	6489	2804	2032	1950
Per cent above (per cent)	92.4	39.9	28.9	27.8
Person days as a % of sector total (percent)		64.3	48.5	45.7
Jobs as a % of sector total (percent)		73.3	50.0	48.3
Average job length of job (days)		50	55	54
Average job length for whole sector (days)		57	57	57

Source: Unpublished data provided by the Department of Labour. Rand amounts expressed in February 2008 values (see text for explanation). (a) is the lower-bound from StatsSA as published in Özler (2007); (b) is the upper-bound from StatsSA as published in Özler (2007). The figures in the final column for Person days as a % of sector total; Jobs as a % of sector total (percent), and Average job length of job are computed for the projects who paid above R1000 per month during 2006-07.

Table 4.7 Social grant growth, 2001-02 to 2007-08, millions of Rand

Type of grant	R million expenditure						
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Old age pension	12954	15285	17146	18504	19996	21443	23105
War Veteran	23	27	34	36	29	25	22
Disability	4585	7201	10329	12570	14438	15510	16932
Grant-in-aid	1	1	2	29			
Foster care	364	787	1142	1563	2044	2340	2712
Care dependency	226	309	639	760	938	1040	1147
Child support	2400	4558	7690	11431	14483	16575	17805
Total	20553	28168	36982	44885	51927	56969	61724

Source: National Treasury (2005) *Provincial Budgets and Expenditure Reviews, 2001-02 to 2007-08*, available via <http://www.treasury.gov.za>. The 2006-07 and 2007-08 data are projections.

Table 4.8 Social grant growth, 1997 to 2006, number of beneficiaries

Type of grant	Number of beneficiaries			
	August 1997	April 2001	April 2005	January 2006
Old age pension	1,742,253	1,877,538	2,093,075	2,126,373
War Veteran	11,495	6,175	3,340	2,889
Disability	754,830	627,481	1,307,459	1,311,148
Grant-in-aid	9,720	9,489	23,131	26,217
Foster care	42,917	85,910	256,325	299,865
Care dependency	3,815	28,897	85,818	88,679
Child support	400,599	974,724	5,633,647	6,894,428
Total	2,965,629	3,610,214	9,402,795	10,749,599

Source: see Table 4.7. The child support figures for 1997 relate to the maintenance grant which preceded the introduction of the child support grant in 1998.

Table 4.9 Minimum wage rates in selected sectors and occupations, South Africa

Sector	Qualifier/Occupation	Monthly Rand Wage
Furniture	Free State	1118.27
Clothing	Non-metro areas B	1058.94
Leather	General Goods and Handbag Section A	1682.24
Building	Kimberley B	1093.10
Hairdressers	Semi-national	665.00
Meat	Gauteng	1331.00
Motor Trade	National	1290.90
Farm SD	Urban	1041.00
Taxi SD	Workers not elsewhere classified	1086.87
Domestic Worker SD	Rural	946.04
Wholesale and Retail	General Assistant Area A	1737.00
Wholesale and Retail	General Assistant Area B	1495.00
Wholesale and Retail	General Assistant Area C	1458.00
Motor Trade	Area B	1280.16
Security Guard	General Worker Rural	881.00
Security Guard	General Worker Rural (First 6 months)	811.00
Forestry	As at 2007	836.00

Source: see analysis in Chapter 2.

Table 4.10 Labour Force summary aggregates, South Africa, persons 15-65 years, September 2007

	Persons	Rate (%)
Working age population	30,413,000	
Labour Force	17,178,000	
Participation Rate		56.5
Not in labour force	13,235,000	
Employed	13,234,000	
Employment Population ratio		43.5
Official unemployment	3,945,000	23.0
Discouraged job-seekers	3,425,000	16.6

Source: StatsSA, Key findings: P0210 - Labour Force Survey (LFS), September 2007.

Note: the participation rate is the percent of the Working Age Population in the Labour Force. The Employment-Population ratio is the percentage of the Working Age Population that is employed. The official unemployment rate is the percent of workers in the Labour Force without work. The Discouraged job-seekers rate is the number of discouraged workers expressed as a percentage of the official Labour Force plus the discouraged workers.



Table 4.11 Workers in South Africa, 15 to 65 years, by monthly income and sector, 000s, September 2007

Monthly income	Formal	Informal	Domestic	Total
None	28	284	0	314
R1-R500	281	619	253	1156
R501-R1000	975	559	421	1971
Total below R1000 per month	1284	1462	674	3441
Per cent below R1000 per month	9.9	53.8	62.7	20.5
R1001-R2500	2850	640	349	3864
R8001+	1410	47	0	1471
Don't know/refused	706	51	13	773
Unspecified	44	13	0	103
Total	12908	2718	1075	16816

Source: September 2007 LFS, Statistical release P0210, March 27, 2008, Table 3.5, p.18.

Table 4.12 Potential maximum labour supply response at R1000 minimum wage rate, 000s

Source of labour	Persons	Total as % of Working age Population
Formal	1,284	4.2
Informal	1,462	4.8
Domestic	674	2.2
Total employed	3,441	11.3
Official unemployed	3,945	13.0
Discouraged workers	3,425	11.3
Total (maximum) supply response	10,811	35.5

Source: Tables 4.10 and 4.11.



## Working Paper No. 534

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### **Argentina: A Case Study on the *Plan Jefes y Jefas de Hogar Desocupados*, or the Employment Road to Economic Recovery**

by

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\*I am grateful to all the colleagues at the Ministry of Labor that contributed to the discussions and data on the plan, hoping to do justice to it in this paper, with special reference to those involved in the survey of beneficiaries. Special thanks to Barbara Perrot and Soledad Villafane.

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## **ABSTRACT**

After the 2001 crisis, Argentina—once the poster-child for pro-market structural-adjustment policies—had to define a new strategy in order to manage the societal demands that had led to the fall of the previous administration. The demand by the majority of the population for employment recovery spurred the government to introduce a massive employment program, the *Plan Jefes y Jefas de Hogar Desocupados* (Program for Unemployed Male and Female Heads of Households). This program, which accounted for less than 1 percent of GDP at the outset, paved the way for a reduction of the contractionary effects that otherwise would have caused a catastrophic devaluation of the currency.

This paper explores how Argentina pursued a strategy of employment generation, with the state participating as employer of last resort, to recover from one of the worst social and economic crises in its history.

**Keywords:** Argentina; Employment; Employer of Last Resort (ELR); Economic Growth; Fiscal Policies; Social Policies

**JEL Classifications:** H53, J08, J48

## 1. INTRODUCTION

In December 2001, Argentina and the world witnessed diverse groups of people from different social classes proclaiming unanimously that the time had arrived and, with one voice, said “everybody out” (*que se vayan todos*). They were referring to all the representatives of the political system.

Ten years after the introduction of the currency board (convertibility) and after three years of recession, the unfilled gaps in the ELR (employer of last resort) schema started to crack—not only on the poor and the unemployed, but also the middle classes that had some savings in the banking system denominated in U.S. dollars. In a desperate move by “the father of the convertibility,” Domingo Cavallo limited money withdrawals from the banking system to a maximum of 300 pesos (equal to US\$300). Before that there was either the reprogramming of the debt, paying to the bond holders an annual interest rate of almost 18%, or the law of “zero deficit,” all precluding any kind of fiscal expenditure in order to recover the economy.

Two groups, the so-called *ahorristas* (savers) and the *piqueteros* (the unemployed that demonstrated since 1997 in the streets of Argentina), went to demonstrate in an action that ended with violent repression and the sad image of the president, elected exactly two years before, desperately climbing in to a chopper and leaving office. The result was that more than thirty people were killed by police in the streets and the political system was destroyed. Politicians could not walk in the streets without being harassed by the people; there were only a handful of them that could be exposed to the public without receiving aggressions.

The parliament followed the constitution and appointed the governor of San Luis, Rodriguez Saa, a flamboyant lawyer that ruled the province since 1983 and announced that Argentina was unable to honor the foreign debt. Several measures were announced that aimed at reducing unemployment and promoting domestic demand.<sup>2</sup>

Rodriguez Saa only lasted one week. The pressure from the Province of Buenos Aires, the biggest and traditionally most different in the country, ended with the former candidate for the presidential elections of 1999 losing in the first round by a significant margin as people protested in the streets against the political system.

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<sup>2</sup> Rodríguez Saa was very famous for governing his province with heavy state intervention, a system of productive subsidies to industrial firms, and a low unemployment rate. At the same time, national newspapers were talking about corruption there for a long time.

The first thing Eduardo Duhalde (the appointed president) did was to induce a devaluation of 40% in nominal terms. However, under the pressure from the IMF, the government was forced to liberalize the exchange rate, which skyrocketed to over 3.90 pesos per U.S. dollar—from 1.40 pesos to 3.90 pesos per U.S. dollar—in just a few months. The one peso per U.S. dollar exchange rate was a symbol of the past.

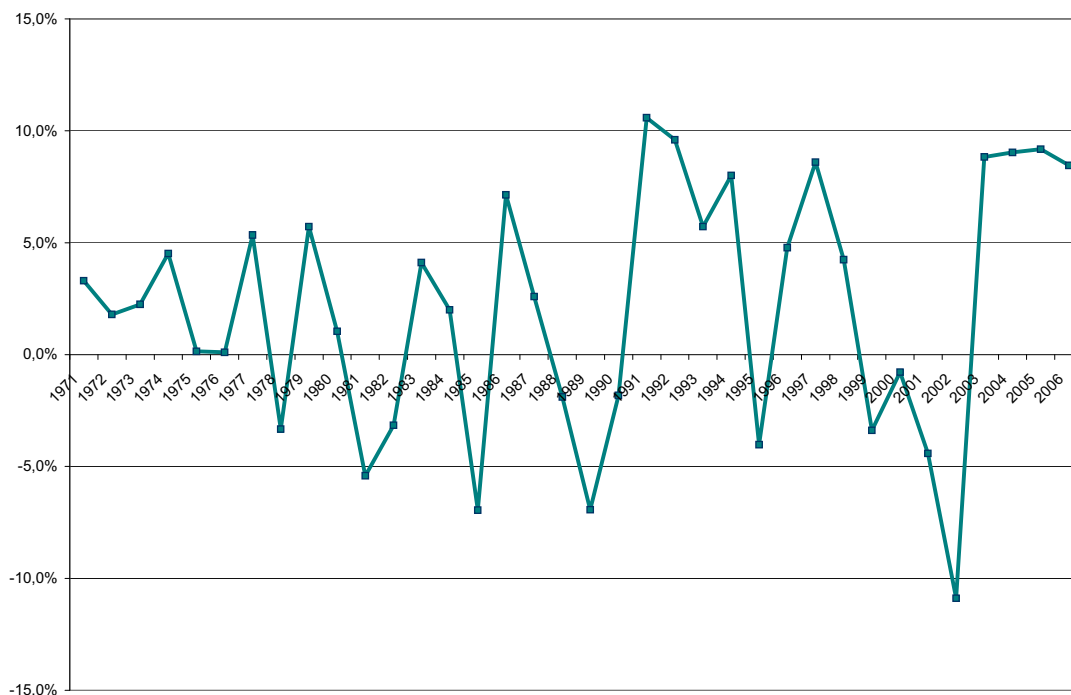
Social unrest did not stop. Months were spent trying to develop a rescue plan with the international community and the IMF. Finally, under the pressure of the people, the government introduced the largest direct transfer, income-employment plan in Latin American history.

In this paper, I will try to present the way in which the *Plan Jefes de Hogar Desempleados* (Unemployed Head of Household Plan) was implemented, its impacts on economic growth and the livelihoods of the population, and the influence on the overall economy. Some of the findings of the survey performed by the Secretary of Technical Programming and Labor Studies of the Ministry of Labor, Employment, and Social Security of Argentina (Roca et al. 2005) constitute one of the pillars of economic recovery following the 2002 crisis, a crisis that even jeopardized the democratic system of the entire nation.

## **2. SOME REFERENCES ON EMPLOYMENT AND SOCIAL PROGRAMS IN ARGENTINA**

The Argentine economy has been characterized by its volatility (Figure 1). Since the crisis of the Tequila in 1995, Argentina implemented a type of employment program under the support and supervision of the World Bank called *Trabajar*. The sharp increase in the unemployment rate in May 1995 forced the introduction of such a program. In theory, the program seemed universal, targeting the unemployed over 18 years old, but a budget constraint led to its unclear implementation. It never had an effect on more than 15% of the unemployed. Despite the federal government's role as head of management and resource allocation, those more linked to local governments and NGOs held the power to decide who participated in the program and who did not.

**Figure 1. Argentina's Yearly GDP Growth (in percent)**

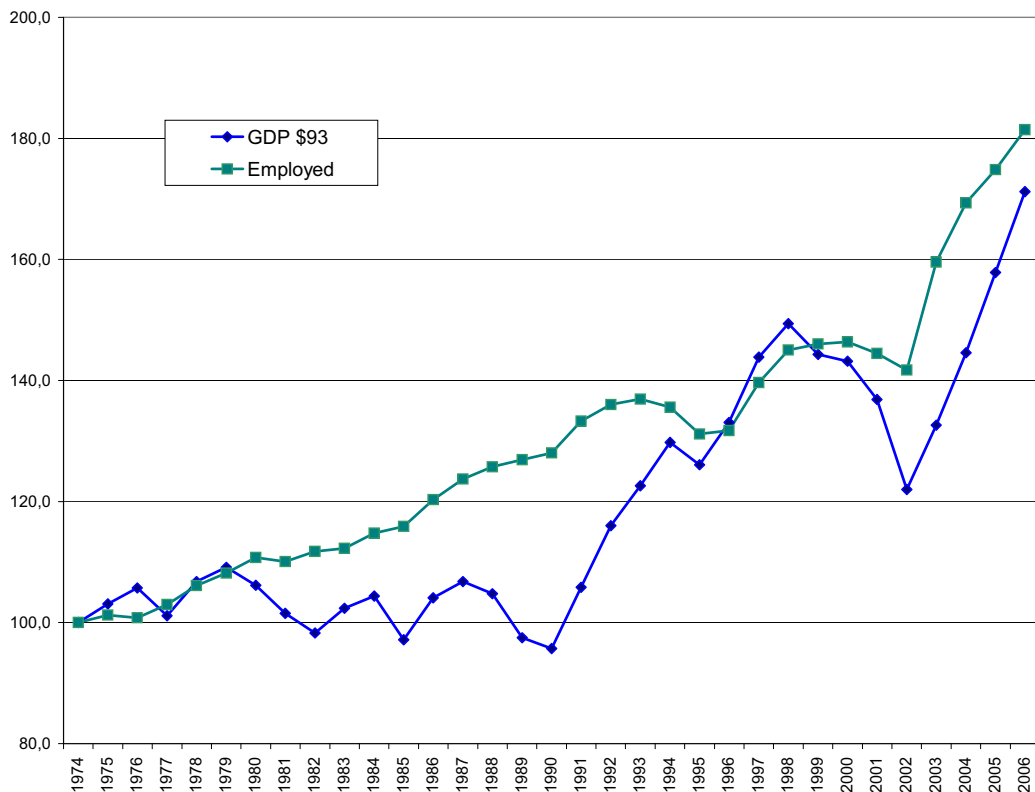


**Source:** National Accounts

Although the only requirement to receive the benefit was to be unemployed, the *Trabajar* program was not an entitlement or a right to the unemployed. At the maximum, *Trabajar* provided 350,000 people with work in a workfare or social work program. Although it was not necessarily a targeted program, as was norm for those implemented in the 1990s, *Trabajar* could not be considered universal or semi-universal due to the quota frequently defined by those responsible for public finance.



**Figure 2. Index of Employed and Overall GDP in % (Base 1970=100)**



**Source:** National Accounts and INDEC

In early 2000, the Ministry of Labor's team of the Employment Secretary worked on the first sketches of a new type of program. This program aimed to reduce poverty, unemployment, and boost domestic demand after two years of recession.

The challenges were many. On one hand, they faced increasing budgetary limitations due to debt payments. On the other, the newly elected government maintained its commitment to the currency board, sound fiscal policies, and accepted every suggestion by the IMF and the World Bank. It is worth noting that as a signal to markets in Machinea, the finance minister (now director of ECLAC) increased taxes to middle-income groups. He then went on to reduce wages and pensions in the state by 12% in nominal terms, citing not only the fiscal numbers, but also the "signal that should be sent to the economy."

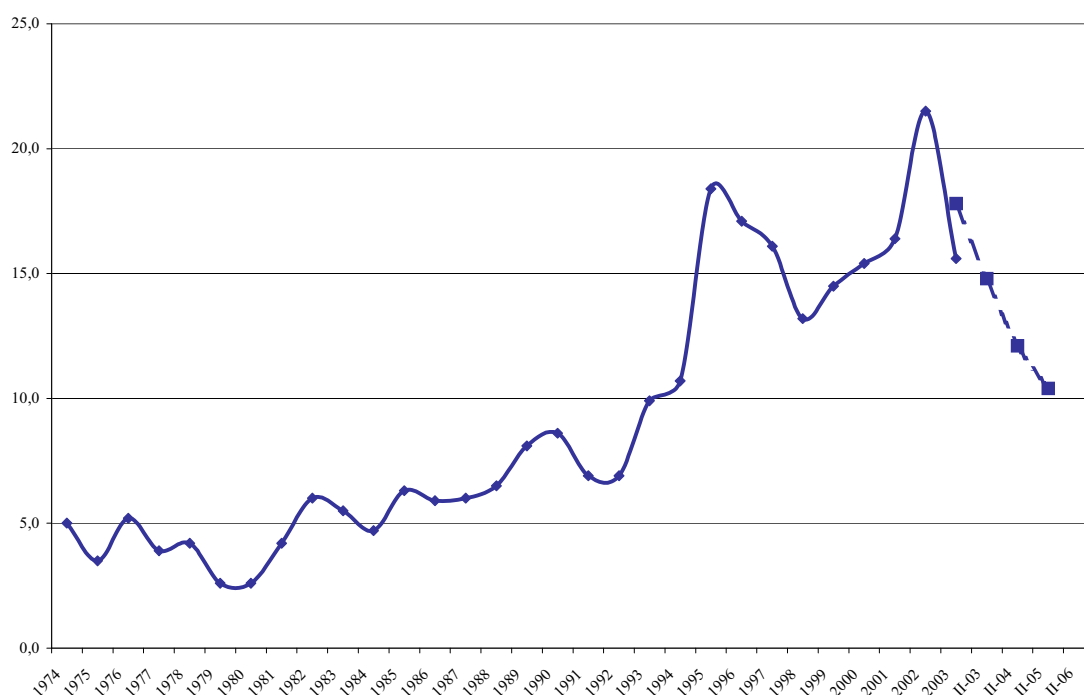
Within this political framework, the change in overall social policy was more than a political necessity, but pressed by the World Bank, the Ministry of Social Welfare opted for income programs that targeted specific areas and were based on a child allowance to the poor, much like the Mexican *Progres*a plan. The Ministry of Labor's<sup>3</sup> knowledge of the

<sup>3</sup> At the Ministry, everybody was worried since the pressure of the people was for employment programs. They wanted to have the legitimacy of something that looks like a job, not just charity, but the final decision was outside their jurisdiction.

characteristics of unemployment in specific areas and the time it would take to interview the areas with problems and identify the households depended on the research unit *Dirección de Estudios y Formulación de Políticas de Empleo*. Inspired by the ELR programs from certain post-Keynesian institutions, they stressed the idea of a universal program for a group of individuals and targeted the unemployed head of the household.

The first numbers and calculations showed that a minimum of 500,000 people would apply to the program. However, a larger number of people were expected to apply to the program due to a lack of formal or regular employment. It was estimated that this would increase figures by at least 50%.

**Figure 3. Evolution of Unemployment Rate as a Percent of the Economically Active Population**



**Source:** INDEC

**Note:** The dashed line indicates the new methodology of the household survey that changed in 2003.

The plan was publicly announced three times in newspapers, which always drew some pressure that aborted the initiative. In relation to the labor market, the trend was to send a new reform to parliament that aimed at reducing costs to firms in general. This marked the beginning of the end for the government elected at the end of 1999.

As General De Gaulle returned to save the country, 2001 saw the come back of a more adjusted Domingo Cavallo. Very much induced by the media and the establishment, the faith of the people in the streets suggested that he was the only one that could take the country out of the “straight-jacket” of a fixed exchange rate that was showing its dramatic limitations.

Table 1 shows the drastic changes in the social and economic indicators of Argentina after a decade of currency board—a 25% decline in average nominal income per household, a 48% reduction in the real income (measured by the ratio between nominal income and the poverty line), a rise in the Gini coefficient, three times more poor households, and lower elasticity of distribution and income to poverty. In a nutshell, a chaotic scenario that explains the people’s doubt of their democratic system and politicians.

**Table 1. Some Key Social and Economic Indicators of Argentina.**

	1993	1998	2003	2006*
<b>Average income of households (current \$)</b>	\$1.137.90	\$1.183.60	\$892.00	\$1,842.65
<b>Variation of average incomes</b>	-	<b>4%</b>	<b>-25%</b>	<b>107%</b>
<b>Median of the income</b>	\$800.00	\$800.00	\$600.00	\$1,450.00
<b>Poverty line value in current \$</b>	\$424.70	\$495.30	\$720.10	\$930.00
<b>PL variation</b>	-	<b>17%</b>	<b>45%</b>	<b>29%</b>
<b>Ratio average income and PL</b>	2.68	2.39	1.24	1.98
<b>Variation of ratio average income and PL</b>	-	<b>-11%</b>	<b>-48%</b>	<b>60%</b>
<b>Gini coefficient (G)</b>	0.455	0.472	0.482	0.4495
<b>Households under the poverty line (H)</b>	13.6%	17.7%	42.6%	19.2%
<b>Income elasticity of poverty</b>	-2.23	-2.13	-1.42	-2.16
<b>Distribution elasticity of poverty</b>	3.74	2.96	0.34	2.11

*Source:* Own calculations based on EPH-INDEC ([www.indec.gov.ar](http://www.indec.gov.ar))

### 3. THE HEAD OF HOUSEHOLD PLAN

Despite the announcement by the week-long administration of Rodríguez Saa to create one million posts, local governments started to think about what to do with the growing number of unemployed. In May 2002, the number peaked at 25%.

The social unrest was augmented by the rallies of the middle classes, demanding the reimbursement of their savings in dollars and a solution for the debtors of mortgages denominated in dollars. Because of this issue, as well as the problem of the large number of poor and unemployed, President Duhalde decided to introduce the *Plan Jefes y Jefas de Hogar Desempleados*.

In the beginning, the technical team that designed the plan suggested opening registration at schools where potential beneficiaries' children attended, which would mean that only 30–40 families would have to be serviced at each site. This would reduce the queue (a factor used to target social policies), since only those that really need the benefit will stand for hours to get it. However, the main reason behind using the schools was that teachers know the households of their students, so they would be able to add insight into some of the characteristics of the households that were applying for the benefit. Their insight would be used to implement additional policies by analyzing the employment potential of the beneficiaries, as well as in adding transparency to the selection process.

In order to induce the political recognition of local governments, the selection process was allocated to the municipalities. This was met with very poor results, not because of who was selected (since most were poor), but because important information that could emerge from the first interview was lost by urgency.<sup>4</sup>

### 4. SOME NOTES ON THE OLD AND THE NEW MACROECONOMIC SETUP

The currency board was characterized by a reduction in degree of freedom of macroeconomic policies, mainly monetary. The pressure for fiscal surpluses implied a lack of tools for intervention in the midst of a recession for more than three years.

The currency board forced the central bank to buy and sell dollars to everybody, implying procyclical behavior. When there were capital inflows (mainly short term) the central bank printed money in order to buy those flows. This enhanced liquidity in

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<sup>4</sup> It is true that with the lack of legitimacy of the government, the teachers union was reluctant to help. A few months before the teachers had abandoned their support for the population census and the government was afraid to face pressures in this field.

commercial banks and firms and put some pressure on domestic prices while fostering imports.

In the presence of capital flights, the central bank sold dollars and absorbed pesos, reducing liquidity, increasing the interest rate faced by the private sector, and reducing domestic activity. However, this process put pressure on tax collection. Since fiscal surplus was a must in order to maintain the “market’s” confidence, fiscal expenditure was curtailed, generating a process of implosion starting with the Asian crisis, increasing with the Russian default, and growing worse with the Brazilian devaluation.

The implementation of the promarket policies recommended by the Washington Consensus caused the disarticulated pattern of growth, as has been widely explained by several authors, such as Stiglitz (2002) and Frenkel and Taylor (2006) (in the specific case of Argentina), but also by many post-Keynesians in a more general scope.

In “Globalization and Disarticulations: The Road to Exclusion in Latin America” (Kostzer 2004), we try to make a more “institutional” and behavioral approach to what happened during the 1990s. We highlight the disarticulated pattern of growth that fully open economies have in the framework of a globalized world with independent central banks and open capital accounts that lead to dramatic exchange rate appreciation, among other things.

This implies that even when the economy grows, this growth is quite heterogeneous among social groups, industries, firms, and regions, and is something quite different from the Fordist or Keynesian regime of accumulation. Growth takes the form of mushrooms that, on average, show high rates of GDP increase, but also deteriorations in functional and personal distribution of income.

The main characteristic of these patterns of growth is its disarticulation at three different levels: social, sectoral, and regional. The social disarticulation reduces the interaction, via domestic demand, between labor and capital. Labor is just a cost of production and not a source of demand or a market for domestic firms. In the framework of open economies where everybody (at least in theory) faces the same cost of production for inputs, the only source of competitiveness is higher productivity. Increased productivity is achieved by a reduction in salaries, an increase in working hours, or some other labor arrangements that generally are not in the workers’ favor.

The sectoral disarticulation is the result of a reduction in import taxes and increased integration with foreign inputs, especially in the framework of exchange rate appreciation.

Most of this process is done intra-firm, but it implies the closing of small- and medium-size domestic lines of production in order to integrate the final product with intermediates of foreign origin.

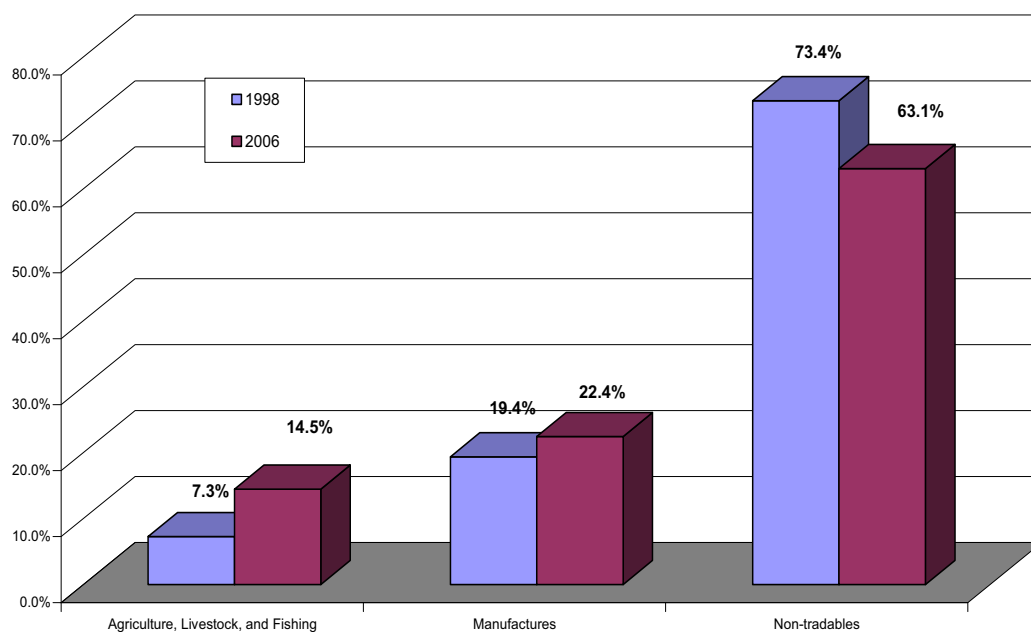
In large countries, these two dimensions of disarticulations have a deep impact locally where they are reproduced. Some regions end up losing their economic viability due to growing unemployment and social exclusion. This dramatic picture is worsened by the local governments' lack of tools to administer countercyclical policies. The reduction in local business and other activity cuts local tax collection, enhancing implosionary effects.

All three happen almost simultaneously and all very rapidly. Depending on how appreciated the exchange rate is and how long the setup continues along the same road, the more harmful the exit will be. This was Argentina's experience and it almost jeopardized their democracy.

The new macroeconomic setup offers an updated set of relative prices that have helped consolidate a different pattern of growth.

- **De facto protection of domestic production** due to the new exchange rate. As it is expensive to import many goods, this aims to induce some import substitution while recovering certain activities and inducing new ones, further reducing pressure on the foreign exchange gap.
- **Technologically** there is no bias to imported technologies with low labor content. It is expensive to buy "turnkey" technologies, so firms prefer more appropriated ones.
- **New fiscal instruments.** The massive devaluation increased competitiveness among local firms and generated windfall gains, part of which were appropriated by the state via *ad-valorem* taxes.
- **Fiscal surplus.** The increase in domestic activity impacts positively on tax collection, reducing the fiscal gap. The fiscal surplus generates a **buffer stock** that can be used in social policies and income redistribution on a more universal basis.

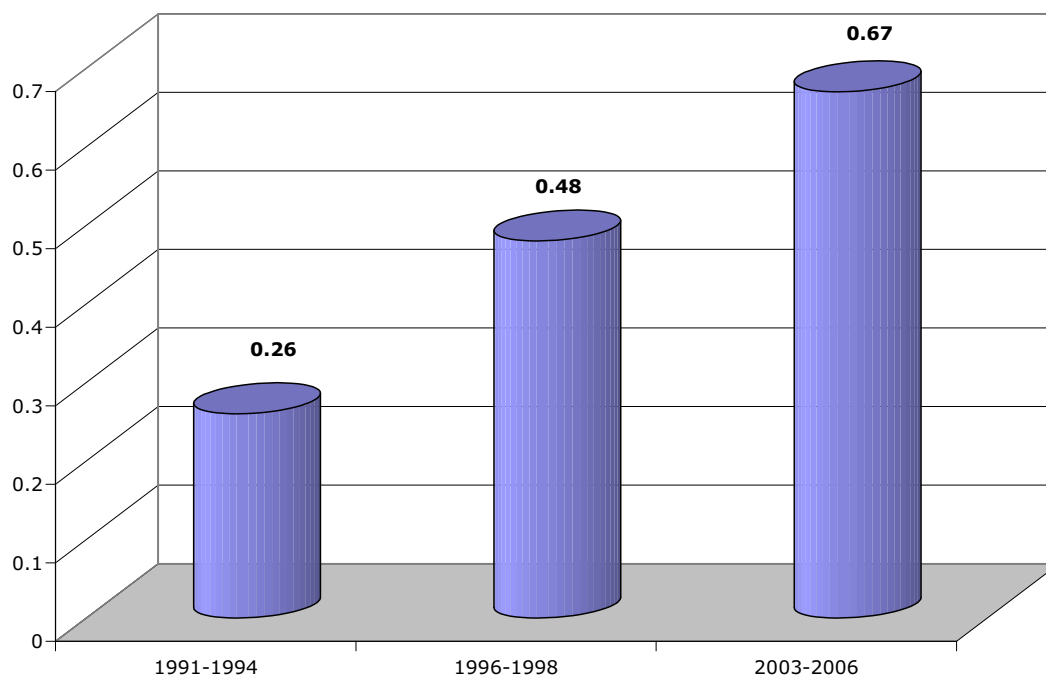
**Figure 4. Participation in GDP by Sector during the Currency Board and after the Devaluation.**



**Source:** National Accounts

With unemployment reaching almost 25% of the economic active population, and poverty affecting nearly 42% of households and more than half of the population, urgent measures had to be taken. Traditionally targeted social policies were not effective in reaching the population, but the new macroeconomic setup allowed more traditional Keynesian instruments, such as the state as employer of last resort.

**Figure 5. Employment to GDP Elasticity**



**Source:** INDEC and National Accounts

The previous two graphs can be regarded as the change in the pattern of economic growth of the last two years in relation to the previous stages under the currency board. This is more relevant when presented within its structural parameter, such as the employment to GDP growth elasticity, which during the first years of the convertibility was very low (0.26). Even having so-called Asian growth rates, unemployment doubled. The recovery from the Mexican crisis was more sustained in the informal sector, with elasticity slightly less than 0.5. The actual recovery, with a long-run elasticity of over 0.67 (and in some quarters close to unity), generated an important growth of formal employment.<sup>7</sup>

In Figure 4, it is clear that the new set of relative prices have changed the productive structure of the country, but this is not enough to explain such systematic and sustained recovery. It can only be due to the restoration of the articulations mentioned in the section above.

<sup>7</sup> Between the years 2003–2006, for each 100 jobs created, 89 were in formal sector and 11 were nonregistered work, whereas from 1991–2001, 95 were nonregistered labor and only 5 were formal.



## 5. AN ELR TO HELP THE RECOVERY

If the recovery of the economy is going to be based on the export sector, it will be difficult to resist the social pressure in the streets. Argentine exports are mainly natural resource based products with a high technological (biotechnology) content and extensive agriculture with a very low labor content. On top of that, these resources also constitute the wage-good of vast sectors of the population, generating a type of Ricardian conflict between workers, manufacturers, and landlords.

Additionally, the spatial disarticulation left some regions away from the Pampas (where most of the exportables are produced) without the chance of developing these above-mentioned advantages.

It is important to generate a boost in domestic demand in order to foster the process of import substitution, increase capacity utilization, and generate employment. In this respect, a massive employment plan that is widespread all over the country and provides an income to every household in need has proven to be the best alternative.

## 6. GENERAL ADVANTAGES OF THE ELR

An employment program presents advantages in several dimensions. These were stressed in previously cited papers (Kostzer 2004) and will be reproduced here as a summary on the strong points of this type of strategy.

### 6.1 Political Advantages

It should be clear that an ELR program needs a certain degree of political will and autonomy. In that sense, it presents some advantages to the policymaker that help in the implementation of such a program.

- **Constitutes a global strategy against exclusion and poverty.** An ELR program is global in the sense that it addresses the problems of exclusion and poverty by centering on the employment condition of the individual and restoring the citizenship status absent during the period of structural adjustment programs. It helps to show figures in terms of poverty and indigence reduction as goals of the administration.

- **It's a clear schema of social protection, not charity.** Since an ELR program involves a social service by the individual, it cannot be considered a mere charity strategy and should be envisioned as a social protection schema by the overall community, enhancing the political and social acceptability of the plan.
- **Reduces unemployment.** Unemployment is one of the crucial variables that help in the appraisal of a political administration. Since ELR reduces involuntary unemployment to almost zero, it can be presented as an achievement.
- **Integrates excluded groups.** It helps excluded collectives to extend nets and linkages via equality of opportunities, at least at the level of the program. It has a high level of self-targeting, thus making it superior to other types of social programs.
- **Allows the identification of problems for further interventions.** Since poverty is multidimensional, the program helps to identify other problems that are hiding at the household level under the guise of unemployment and aids in the design of complementary interventions.

## 6.2 Social Advantages of the ELR

The ELR is meant to reduce the exclusion that characterized the structural adjustment strategy implemented during the 1980–1990s in most of the countries of the region, generating what was called “social disarticulation.”

- **Solves basic-needs insufficiencies at the household level.** A large number of households have unsatisfied basic needs, most of them due to the insufficiency of income, thus leading to an increase in school drop-out rates, infant mortality, poor housing, dependency rate, etc. The provision of a basic income via employment helps to solve this facet of the problem.
- **Improves human capital at the individual, local, and national levels.** It is well known that the chances of an unemployed individual finding employment are lower the longer the unemployment period is, thus the reinsertion into an employment schema that involves training is a very efficient way of avoiding this process of human capital deterioration.

- **Involves beneficiaries in collective plans and projects.** The beneficiaries of the program, some of them with years of unemployment, can be involved in collective plans (many of them designed at the grassroots level), restoring the social links and networks locally. Overall, it enhances the feeling of participation at the local level.
- **Reduces pressures on the unprotected informal labor markets.** In countries with high informal or nonregistered labor markets, the vulnerability of workers is immense. If all individuals have the opportunity to get a reasonably paid job, it will induce wage increases and better working conditions in those markets, some of which are at the fringe of legality.

### 6.3 Local and Regional Advantages of the ELR

Since the implementation of an ELR has deep roots locally, there are clear advantages aimed at the restoration of the articulations disrupted by the pattern of growth.

- **It is basically countercyclical.** As was stated above, ELR has an important role in reducing the negative impact of the business cycle, as well as other effects (climatic problems, external shocks, etc.) at the local level. It also plays a role in preventing the transfer of those negative effects to other sectors linked to the main employers in the region.
- **It improves infrastructure and proximity services.** The beneficiaries will be involved mainly in local community projects that provide improvements to the local infrastructure (sanitation, housing, better sidewalks, irrigation schemas, road maintenance, school and hospital maintenance, etc.), as well as services appropriated by the community, its residents, and small-scale business, such as day care, school support, health support, etc.
- **It generates multiplying and accelerating effects.** Since the pattern of development and accumulation has changed from a homogeneous one to one with the behavior of “mushrooms,” it is very important to induce demand at the local level in order to recover local activities that were impacted by the disarticulation process. With an ELR, the injection of demand locally can restore part of those linkages destroyed by the institutional change.

- **It is able to articulate with the productive sectors in order to create stable, good quality jobs.** If the domestic demand is induced and some of the activities developed within the ELR program can be directed to foster the productive infrastructure of the region, it is more likely that the business community will take advantage of that potential induced by the ELR. This does not mean that the beneficiaries should play the role of the subsidized labor force for the private sector, as this has proven to be harmful (due to several factors that reduce the effectiveness of ELR).
- **It barely distorts local labor markets.** Although this is not a major point in economies that have unemployment rates of two digits, labor market distortion is one of the arguments stated by those that defend free markets. However, the alternatives to subsidizing private employment of various types are real distortions to the labor market, resulting in the *piling up* of people in the queue and not generating enough jobs. On top of that, some pervasive effects tend to occur, such as fictitious turn-over or massive lays-offs at the end of the program.

## **7. THE INTEGRATION OF THE *JEFES* PLAN IN THE NEW MACRO FRAMEWORK**

When the *Jefes* plan was implemented, one of the first things evaluated was its macroeconomic impact, not only at national level, but also regionally. The results were promising, although those against this type of initiative did not believe in the positive outcomes of the program.

The calculation with the simple Keynesian multiplier showed that in the midst of the crisis, the marginal propensity to consume of those households that were going to receive the benefit was close to one. Even taking into account that part of the income was going to pay past debts, this value was very important.

On the other hand, the marginal propensity to import of these groups with the new set of relative prices was also low, implying a multiplying effect of 2.53 for the medium run. This was very important in an economy that was in a recession for four years, since every one point of GDP that was invested in the program resulted in a 2.53% of growth.

The allocation of beneficiaries was scattered all over the country, but mainly concentrated in those regions where the production of exportables did not have an impact.

Some of the social and sectoral articulations started to take place locally at a pace impossible to achieve by the sole impulse of market forces.

In this respect, the recovery of employment in the provinces occurred before and faster than in the city of Buenos Aires, where it took more than a year for the recovery to begin.<sup>8</sup> This was the result of the important impact that an employment program with income transfers had in those regions with lower average income overall.

This raises the question about the feasibility of a program of this type under fixed and appreciated exchange rate, where a big part of the multiplying effects may leak to the purchasing of foreign goods—especially in the second round, where the middle- and upper-classes start to appropriate the macro benefits.

## **8. SOME CONSIDERATIONS ON THE INSTITUTIONAL SETUP OF THE PROGRAM**

The program was implemented in a mixture of centralized and decentralized ways by the Ministry of Labor, Employment, and Social Security, which was responsible for the direct payment, but the projects were defined at the local level, as were the beneficiaries.

The legal instrument was the Decree of the National Government 565/2002, designed as *Derecho de Inclusion Familiar* (Entitlement for Family Inclusion). This decree involved a work or back-to-school commitment and provided a monthly income support of \$150 (three-quarters of the minimum wage of that moment) to the unemployed head of household with dependants who were less than 18 year old. The plan was governed by the Resolution 312/02, where the eligibility and the work commitment were defined.

The Decree can be summarized in the following points:<sup>9</sup>

- “Due to the present economic and financial juncture of Argentina, ..., it declares the state of social, economic, administrative crisis”;
- “...the country has reached levels of extreme poverty aggravated by productive paralysis, it is mandatory to take measures to alleviate the difficult situation that is facing an important sector of the population”; and

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<sup>8</sup> The area of Greater Buenos Aires accounts for one-third of the total population, but significantly more in terms of GDP. Moreover, average incomes in Buenos Aires are several times higher than those in the rest of the country.

<sup>9</sup> The summary and its translation aspire to maintain the aim of the decree. Original text of the decree can be found at:  
[http://biblioteca.afip.gov.ar/afip/gateway.dll/Normas/DecretosNacionales/dec\\_c\\_000565\\_2002\\_04\\_03.xml](http://biblioteca.afip.gov.ar/afip/gateway.dll/Normas/DecretosNacionales/dec_c_000565_2002_04_03.xml)

- “There is the need to establish an entitlement for family inclusion to all unemployed heads of household... warranting a minimum monthly income to all Argentinean families.”

The decree was not very clear in defining if this was a program of income transfers or employment, something that was criticized on both sides of the ideological spectrum.

The program was financed by the treasury, involving almost 1% of the GDP and 4.9% of the yearly budget.

Since 2003 the financing has been done by the World Bank (\$600 million). This can be attributed not to the financial requirements of the government, but rather the need of a quick roll-over by the Bank, and the program offered a consistent and coherent package for the board.

Although the first year of full implementation was in 2003, by the end of 2002 two million beneficiaries were already receiving support. The following table shows the impact of the plan in the National Administration Budget.

**Table 2. The *Plan Jefes* in the National Budget**

	<b>Millions \$</b>	<b>%</b>
<b>Total National Budget</b>	<b>61,758.5</b>	<b>100.0</b>
<b>Total Ministry of Labor, Employment, and Social Security</b>	9,705.8	15.7
<b>Employment Actions</b>	3,722.4	6.0
<b><i>Plan Jefes</i></b>	3,055.7	4.9

*Source:* Cetrangolo and Jimenez (2003)

As shown in Table 2, almost 5% of the total budget was devoted to the plan and this was more than 80% of the budget allocated specifically to employment actions (workfare programs and training).

The payments went directly to the beneficiaries via bank accounts. In large cities this payment was done with a debit card that allowed for certain additional benefits, such as discounts in transportation or refunds of the value-added tax.

The management of the projects where the beneficiaries were placed was done by local governments, NGOs, or grassroots organizations that submitted the list of beneficiaries to the Ministry of Labor in order to pay them. This type of administration has the advantage

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<sup>12</sup> Since it only focuses on beneficiaries of the program, it can not be used to make comparisons with the overall population, but it has the virtue that it is representative of the two million people that are currently or were formerly involved in the program.

that local institutions know the needs of the people and, at the same time, can highlight what type of projects should be implemented in order to provide the environment to accomplish the work commitment behind the program.

### **8.1 The National Council of Administration and Control**

In order to promote a more effective implementation of the program, the national government created the National Council of Administration and Control of the Head of Household Program, integrated by three members of each of the following organizations: employer's organizations, worker's organizations, NGOs, religious organizations, and the national government.

This national council did not have any specific function in the normative framework, but was more the political attempt in the middle of the crisis, with people on the streets claiming for changes, to achieve legitimacy by gathering representatives of heterogeneous social groups.

At some point, the idea was that the national council would do some auditing on the program in order to avoid political corruption.

### **8.2 The Local Councils (LC)**

As was pointed out, since projects were scattered all over the 28 provinces and 2,300 municipalities of Argentina, the program was decentralized at local level.

The Decree (*Derecho de Inclusion Familiar*) created the Provincial Consulting Councils and, after some time, an internal norm by the Ministry of Labor created the Municipal Consulting Councils.

The objective of the local councils was to control the allocation of benefits and provide transparency to this activity, which had been stained by a long tradition of political patronizing. They would also control the registration, incorporation, and execution of the program at local level.

The LC was the place where all irregularities (such as beneficiaries not attending, two or more registrants per household, etc.) were denounced; it supported the decisions of the new incorporations and exemptions to the program made by the local government. It was also the responsibility of the LC to evaluate the proposal of new projects and activities, and help in the training of organizations and beneficiaries involved in the program. In a nutshell, the LC was the institutional and participatory support of the program, since it included community representatives.

Following García and Langieri (2003) in their field work on a large number of councils, they show that these local councils became the most relevant and novel instrument of the social policies in Argentina. They created a new institutionalism in the implementation and participation of state-managed social programs and they strengthened the participation by organizations of the civil society at the grassroots level—new in the political scenario. The level of representation was very heterogeneous.

Although there is consensus that the capacities of these councils was exceeded by the operational requirements of such a program (e.g., the design and management of small infrastructure projects, the provision of social and local services, etc.), an important number of those developed new abilities in order to perform their tasks.

The infrastructure of the LC was also very heterogeneous, depending mainly on the characteristics and development of local governments and the way in which they coordinated with local NGOs and community organizations.

## **9. SOCIODEMOGRAPHIC CHARACTERISTICS OF THE BENEFICIARIES OF THE PLAN**

The beneficiaries of the plan were followed very carefully by two means: the household survey, performed twice per year by the INDEC (National Institute for Statistics and Census) and an ad-hoc survey done by the Undersecretary for Technical Programming and Labor Studies at the Ministry of Labor. Additional studies were done by the World Bank at different levels, as well as by other institutions such as the ILO.

Although all views and surveys are important and contribute to the comprehension of the issue, the survey done with the beneficiaries provides the richest information.<sup>12</sup> Some of the findings, presented last August, are summarized here (Roca et al. 2005).

The authors state that in terms of geographical extension and population coverage this program has no historical precedent in the country and just a few at the international level. “It covers 16% of the overall country households, but regional differences are high. In some provinces, such as Formosa, Chaco, and Jujuy, this value reaches 40% of households” (Roca et al. 2005). This provides an idea of the local impact of the plan in those areas where unemployment impacted in a more dramatic way. This regional difference can also be higher when considering rural households, where the concentration of beneficiaries is very significant.



In terms of age, almost half of the beneficiaries were below 35 years old, with 33% who were between 25 and 35 years old and a little over 14% who were less than 24 years old, indicating that was a group of very young people.

### **9.1 The Positive Gender Bias of the Plan**

The first factor that can be highlighted is that the plan has a considerable gender bias towards women. As a matter of fact, 71% of the beneficiaries are women and 60% of those households are single-headed. The difference between the two numbers can be attributed to some cultural facts, such as the stigmatization of men getting an unemployment benefit, but also that many of them have occasional jobs in the informal sector and the plan reinforces the very low payment that they get. It could be said that the household survival strategy is what defines who gets into the program; in general, it is the member of the household that has the least chance of getting a job in the market. Obviously this can be done only in those households with an informal or nonregistered relationship in the couple.<sup>14</sup>

### **9.2 Educational Level of Beneficiaries**

A clear idea of the social strata reached by the program is given by the educational level of the beneficiaries, which is generally very low. When asked the highest educational level reached, 20% of the participants did not finish primary school (in Argentina, between first and seventh grade), while 37% did. The rest is divided between the 25% that started, but did not conclude secondary school, 11% that finished secondary studies (5 years, generally starting at the age of 13 years old), and 7% that began university.

To make a comparison, the overall economically active population in the country that did not finish primary school is only 7.4%, while 52.7% have finished secondary school or more.

### **9.3 Characteristics of the Households**

Sixty percent of the households have one or two children, compatible with the single-headed young female household that was pointed out earlier in this paper. Sixteen percent have three kids, while 20% are very large households.

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<sup>14</sup> It is true that in some cases an informal couple may attend to the registration separately and get two benefits, but there is little evidence of that.

They are all very poor households; ninety percent are below the poverty line of that moment and 53% are indigent. Without the program, these figures would be more dramatic. The indigence level would reach 78% without the transfers from the program.

On average, the overall household income of the beneficiaries has increased by 67%, reducing indigence by 25 percentage points. One-fifth of the households have the benefit of the plan as their sole income.

#### **9.4 Work Commitment**

As was expressed in the legislation that governed the program, there is a work commitment of 20 hours per week for every beneficiary of the program. If this is not accomplished, the person could be laid off, while the same would happen if the beneficiary finds a full-time job in the formal sector.

This point has several political, social, and economic implications that generally define the different approaches that society has to the program.

After the recovery of the economy, some in the local business community were very much against the program, since it defined a *de facto* minimum wage for the informal sector, especially in the rural and more backward areas. Added to this was the stability that the beneficiaries of the plan have in terms of continuity in the reception of the allowance, making employees reluctant to leave the *Jefes* program for work in the formal or informal sector.

Many rural activities pay a salary well below the legally established minimum wage and are more seasonal than in urban areas, so beneficiaries were reluctant to leave the plan in order to engage in such activities that may last for just a few weeks or a couple of months, as reinsertion into the plan that was not guaranteed at the beginning.

Employers in those areas raised their voice, arguing that they had a lack of labor supply due to the program. Although this is a very personal point of view, the general idea is that labor costs have increased in some stages of agricultural production (such as fruit, tobacco, or vegetable harvesting) that require large amounts of physical labor. These costs have increased due to the wage floor established by the ELR program, but the producers would prefer the absence of such a wage floor in order to maximize profits. A similar situation occurred in urban areas with low-qualification jobs, such as housemaids, gardeners, and other types of activities that were, and are, poorly remunerated.

The Ministry has changed the regulations, allowing beneficiaries to leave the program for short periods of time in order to reduce distortions in local labor markets, but the minimum work requirement defined by the allowance is still in place.

There is a large portion of the public opinion that argues that in order to receive the income support, the work commitment should be mandatory. This is part of some sort of petty bourgeois morality, very much imposed by the mass-media, that is not willing to take responsibility for the well-being of the large number of excluded in the country.

The advantages of the work commitment are precisely those that are more criticized by some; it reduces the pressure on the poorly paid informal sector by providing a regular income, while providing on-the-job training whenever possible, as well as producing goods and services to be appropriated by the local community.

More than 80% of the beneficiaries work in some type of project. The rest argue that either health problems or having to take care of a direct relative is what impedes their ability to participate in the program. There may also be problems regarding the management of the projects. Sometimes local governments engage in projects that are finished and there is some dead time before the start of a new project or some local governments are quite inefficient designing or defining new projects. The national government tries not to punish the beneficiaries for the lack of work caused by poor planning within the municipal administration.

The participation rate of beneficiaries in projects varies according to regions and, in cases such as the province of Tucumán or Formosa, is well above 90%. The Greater Buenos Aires area, with a large number of beneficiaries, has the lowest value (at around 75%), but is also very heterogeneous according municipalities. It should not be like that in a large city where there are a wider range of activities that could involve beneficiaries, as will be seen when analyzing the typologies of projects.

#### *9.4.1 Typologies of the Projects*

The projects that the beneficiaries of the program are involved in can be divided into six major categories:

- Community projects
- Microenterprises
- Back-to-school
- Vocational training

- Administrative work at municipalities
- Private employment

The first group, community projects, involves a wide array of activities related to local development, both in terms of services and goods production. The services can be child or elderly care, health program support, community and school kitchens, etc. These are activities that were traditionally implemented by the state or provided at a market value, but inaccessible to households with lower incomes. There was also an increasing demand for these services due to the economic crises.<sup>15</sup>

In terms of goods production, this category can be divided in to local infrastructure (sewerage and irrigation schemas, construction and maintenance of schools and hospitals, forestry, parks maintenance, building of community centers and sports halls, etc.) and production of consumables (bakery, clothing, recycling, etc.). Around 60% of the beneficiaries involved in a work commitment are involved in these types of projects.

Microenterprises are projects that the beneficiaries initiate on an individual or collective basis. Sometimes they are associations with other types of organizations, such as cooperatives or even the private sector. They involve goods production, but also some services (housing maintenance, carpentry, small metal workshops, etc.)

These projects may receive the support of other public programs, such as loans, technical and commercial assistance, etc. but only eight out of every one hundred beneficiaries are in this category, notwithstanding the efforts from the public sector to involve more people in these types of activities.

Six percent of the participants in the program have chosen to go back to school to finalize their formal education. The expectations were that this typology could include more people, but there are some limitations in terms of infrastructure and teachers for adult population since the system was almost completely dismantled during the past decade. There are also problems at individual level, as people who abandoned school a long time ago are often too afraid or shy to get back into it.

Vocational training involves 4% of the beneficiaries. Here also is the problem of the infrastructure and the lack of special programs. The bulk of these programs were organized

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<sup>15</sup> The case of community or school kitchens is clear evidence of the income crisis of certain groups in extreme poverty, since thousands of these kitchens had to be implemented in order to reduce malnourishment in certain areas. Most of them were around local NGOs operating in public places (schools, hospitals, community centers), but also in private ones (churches, private houses, etc.).

with local governments that identified the needs in terms of skills at local level and implemented through technical schools, unions, and employers.

On average, 19 hours per week were dedicated to the work commitments, excluding those that were involved in schooling or training.

In relation to the organization of the work, a little over 50% of the participants agreed that the work was well organized by the institution responsible, with a reasonable provision of the materials and tools, as well the training involved in the task.

The main complaints were that the effort could be more productive or oriented towards other types of things, skilled individuals were doing lower qualification jobs, or that there was some sort of arbitrariness in designing the project in which the person was involved. Also a large number were unsatisfied with respect to the amount of the allowance.

It was very characteristic that those who are middle aged and previously had a job in the formal labor market perceived this as a temporary alternative and the longer they were in the program, the more difficult it would become to recover the previous type of jobs they held. In that respect, they demanded training in line with market requirements. Meanwhile, those that were working outside home for first time or previously had low-quality jobs were happy with what they were doing in the program.

Using the traditional characteristics for the analysis of the labor market, all beneficiaries could be considered employed or at least under-employed, since they worked 20 hours per day. With the information from the survey, a classification was constructed that showed the relationship with the work commitment of the beneficiaries to their position in the overall labor market in a differentiated way.

**Table 3. Beneficiaries According Their Work Commitment and Activity Condition**

	<b>Male</b>	<b>Female</b>	<b>Total</b>
<b>Works in the program and outside</b>	51.9%	29.1%	35.7%
<b>Works in the program and is unemployed</b>	24.4%	23.4%	23.7%
<b>Does not work in the program and works outside the program</b>	11.4%	6.9%	8.2%
<b>Does not work in the program and is unemployed</b>	1.8%	3.0%	2.6%
<b>Works in the program and is inactive</b>	7.1%	28.2%	22.1%
<b>Does not work in the program and is inactive</b>	3.4%	9.4%	7.7%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

*Source:* Roca et al. (2005)

The 35% of the beneficiaries that work outside the program are involved in precarious activities in the informal sector, mainly seasonal work; sixty percent of them are self-employed and the rest are nondeclared workers. According to the survey, on average, male workers perform work for 24 hours per week, while females work for 14 hours per week. Of those who have work both within and outside of the program, 81% fulfill their *Jefes* work-commitment.

### **9.5 Labor Profile of Beneficiaries**

The bulk of the people involved in the program have had previous work experience. Almost all men (98%) previously had a job, as well 82% of the women. The first group had mainly been involved in construction, as well as some industrial production activities, while the female population was employed in housecleaning, administrative work, and industries.<sup>16</sup> Almost one-third have a technical or occupational skill achieved either on the job or via school, while the rest are nonqualified workers.

Separated by gender, the male population is divided by half in terms of skilled versus nonskilled, while three-quarters of the females do not have working qualifications.

In terms of regions, those that have now or had previously some sort of industries (i.e., Greater Buenos Aires, Córdoba, or Tucumán) have a higher share of skilled workers in the program.

### **9.6 Reinsertion of Beneficiaries in the Formal Labor Market**

Almost 750,000 beneficiaries were reinserted into the formal labor market since the initiation of the plan. A logistic model shows the probability of reinsertion according certain personal characteristics of those that got a job in the formal sector.

The most relevant factors influencing the dependent variable (reinsertion in the labor market) are gender (male) and previous experience in the labor market. The combination of both is three times higher in relation to the case of a female without previous working experience.

Being skilled increases the probability of finding a job in the formal sector by 30%, while each year of formal education increases the chances of joining the formal labor market by 7%.

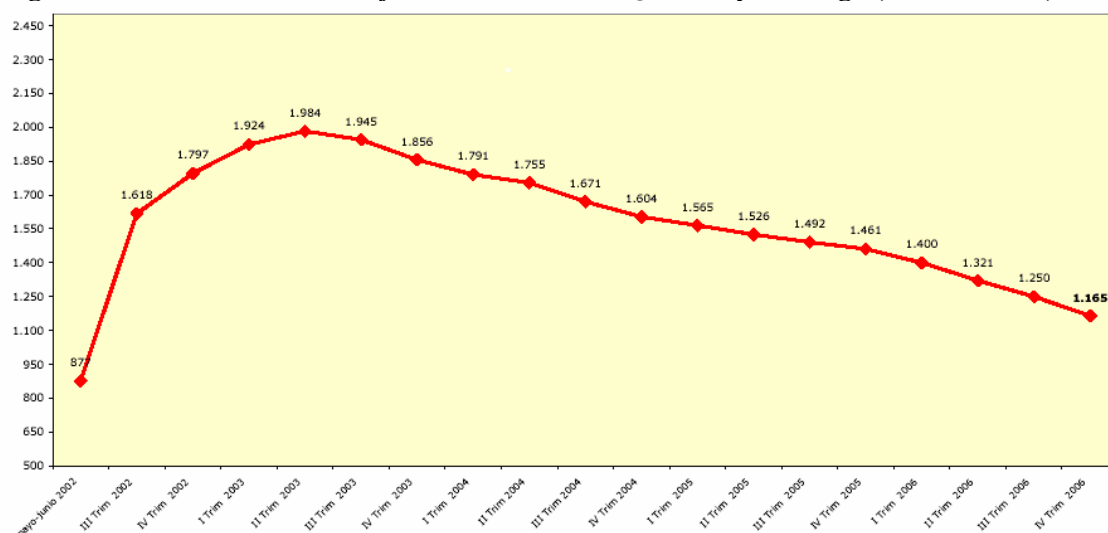
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<sup>16</sup> There were many localities that were related to one firm or one type of industry that lost their main source of income in the 1990s when unemployment skyrocketed locally.

Married workers have 5% more probabilities, while age and quantity of descendants has a negative probability.

Almost three-fourths of the male beneficiaries went into construction and manufacture, while the females took jobs in the service sector.

**Figure 6. Evolution of *Plan Jefes* Beneficiaries—Quarterly Average (in thousands)**



**Source:** Secretary of Employment—Ministry of Labor

## 10. THE ECONOMY AND THE EMPLOYMENT IN ARGENTINA TODAY

The recovery of the Argentinean economy has been very important since 2002. If the forecasts for 2006 are correct, it will be the first time in fifty years of Argentinean history that the economy grew for four continuous years.

**Table 4. Evolution of GDP at Market Prices, Unemployment Rate, and Employment Rate at the Third Quarter of Each Year**

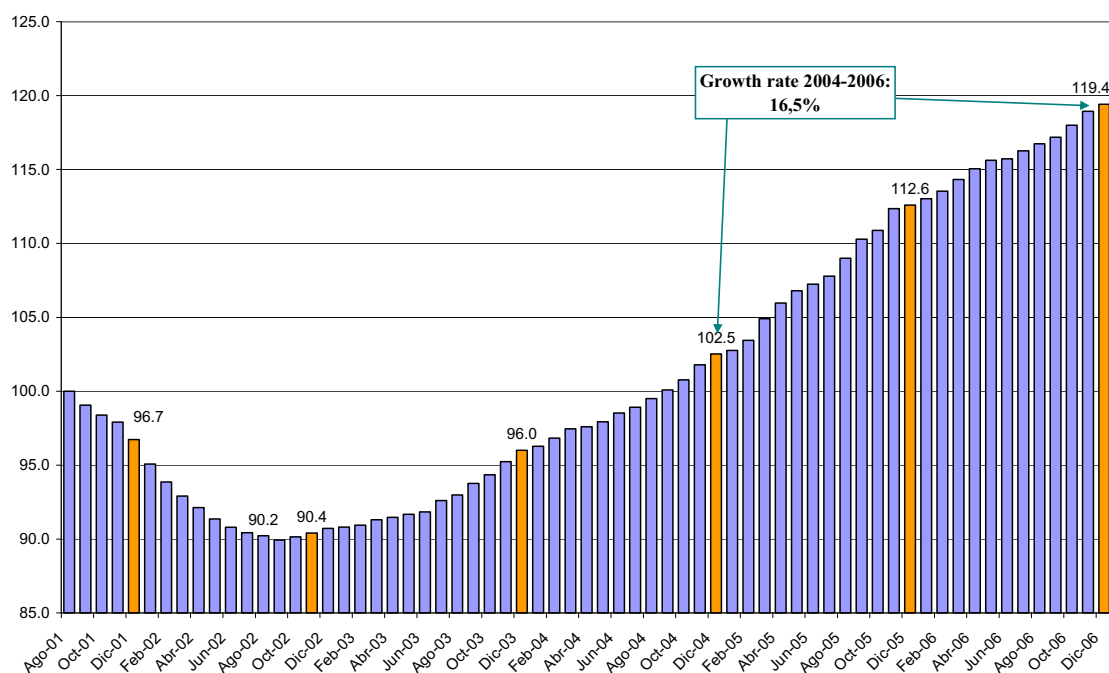
Year	Quarterly Average	Yearly Growth Rate	Unemployment Rate, QII	Employment Rate, QII
2002	-0.87	-10.89%	21.50	32.80
2003	2.81	8.84%	17.80	36.20
2004	2.24	9.03%	14.80	37.40
2005	2.18	9.18%	12.10	39.40
2006	2.08	8.46%	10.40	40.10

**Source:** National Accounts and INDEC

**Note:** Employment rate over total population

The table above shows the GDP growth, as well as the quarterly averages and the forecast for 2006. As was mentioned before, this was also reflected in the employment—not only in the informal sector, but mainly in the formal one.

**Figure 7. Evolution of Formal Employment Level (Aug01=100)**



**Source:** EIL—MTEySS (Survey of Labor Indicators—Ministry of Labour, Employment and Social Security)

After the sharp decline of more than ten points between August 2001 to August 2002, the recovery between December 2004 and the same month of 2006 in the formal work at firms with more than ten employees was 16.5%.

The three million unemployed in May 2003 was reduced to 1.3 million in 2006. Of the six million of persons with employment problems (unemployed plus underemployed), the number was reduced in the same period to 3.1 million.

The purchasing power of the minimum wage at the end of 2006 was more than double that in December 2001.

This transcends the mere bouncing back of the economy. It is more a result of steady growth in the new macroeconomic environment, although many things still have to be done.



## 11. CONCLUSIONS

As can be seen, although far away from the ELR-type of program supported by the so-called Kansas City Approach, the *Plan Jefes* is the closest of these types of programs in place today in any country of the periphery.

There is a lot of disagreement on the importance of this program's contribution to the Argentine economic recovery, but nobody can deny that it played, and plays, an important role, especially in support of those excluded sectors of the society that were very much polarized by more than a decade of following the recommendations of the mainstream.

Obviously, and to avoid the same simplification done by the technocrats of the multilateral institutions, one size does not fit all. The state can always perform the role of employer of last resort in the framework of an aggregate demand type of unemployment. When the problem is more of the type of structural unemployment, i.e., due to a lack of investment and no excess capacity (a-la Marx), the selection of projects and the destination of the money involved should be thought through in a different way.

There are also some structural problems in terms of patterns of consumption and production of some goods, such as wage goods. A country must have the capacity of securing those goods in order to avoid shortages, inflation, or problems that will affect the viability of the program; the state should be ready for intervention at different levels.

The development of analytical tools in order to evaluate the ex ante and ongoing effects of these programs is a must.

This type of program requires a very high level of coordination between jurisdictions (public and private sector), but above all must guarantee transparency and participation in order to assure the political legitimacy of these types of initiatives.

Efficient and creative management, serious technical evaluation, transparency, and strong political will are the basic requirements to succeed on an employment road to economic recovery.

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## Appendix VII

### Speech of Ms Judica Makhetha, Director of ILO, Pretoria

The Honourable Minister of Public Works  
The Director-General of the Department  
Distinguished representatives of business  
Distinguished representatives of labour  
ILO colleagues  
Distinguished participants  
Ladies and gentlemen

It gives me great joy to be with you this morning at the opening session of the National EPWP Seminar on Reducing Employment and Poverty. On behalf of the ILO, I wish to extend a warm welcome to all our distinguished participants from the various departments in government to this important meeting. I am informed that we are having participation at all levels of government – national, provincial and municipalities. Your presence in this important meeting is evidence of the commitment at all levels to the success of the EPWP programme as a national strategy for curtailing the high levels of unemployment and poverty prevailing in South Africa.

I would like to also welcome the representatives of our social partners – the employers and workers’ organizations in South Africa who have remained active participants in the development processes and in particular in the articulation and implementation of various development projects at the national levels. I am convinced that their presence today will contribute immensely to improving the social dialogue processes around the EPWP strategy as a viable means of poverty reduction in South Africa.

I also wish to extend similar warm welcome to our colleagues from ILO headquarters in Geneva who are here to participate in this meeting. In particular, I would like to make mention of Amelita King-Dejardin who has followed the evolving EPWP programme in South Africa with keen interest over a long period of time. I am sure their participation in this meeting will add value to the discussions that will be taking place in the next two days.

Distinguished participants, ladies and gentlemen, the challenge of reducing the twin problems of poverty and unemployment confronts many countries, including middle-income economies like South Africa. As we are all aware, poverty is a complex reality, deeply rooted in inadequate and ineffective economic and social systems. For the ILO, “the world of work holds the key for solid, progressive and long-lasting eradication of poverty. It is through work that people can expand their choices to a better quality of life. It is through work that wealth is created, distributed and accumulated. It is through work that people find dignified ways out of poverty” (ILO *Working Out of Poverty*, 2003:3).

For the ILO, decent work is the “crucial underpinning of a broad development agenda for social justice”. The concept of “decent work” sums up peoples’ universal and basic aspirations in work and these include: adequate and stable income, fair and equal treatment, safety at work, economic and social security in old age, through ill health and in time of hardship, more opportunities to develop one’s creativity and potentials, voice and representation, and dignity, respect and freedom at work.

The four strategic objectives of the ILO decent work agenda respond to the most urgent demands of families living in poverty today:

- (a) Productive and sustained employment - without which it is impossible to eliminate poverty.
- (b) Rights - people in poverty need voice and representation to participate in the society and in policy-making; and enforceable laws that protect their interests and equality of treatment and opportunity.
- (c) Social protection and security – systems that support people unable to work because of age, illness, disability; that alleviate the unpaid work caring for family needs; and that promotes the right of everyone to a minimum level of social security.

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- (d) Social dialogue – policy agendas that incorporate the interests of the poorest and solve problems in a sustained way require social dialogue among different groups and interests.

Integrating these four objectives necessarily call for a coherent mix of economic and social policies at macro, sectoral and institutional, and local levels. From an integrated decent work perspective, the ILO regards as highly important the role and potential of South Africa's Expanded Public Works Programme in combining and interconnecting employment promotion and social protection objectives in the interest of poverty reduction. ILO's decades of support to public works programmes across the world – not only in Africa but also in Asia and Latin America – is premised on the combined potential benefits of job creation and income security.

Distinguished participants, ladies and gentlemen, providing minimum income support through direct job creation under public investment or public works projects has several advantages:

- (a) It secures a working-age person's right to a job.
- (b) It is directed towards the unemployed at the bottom of the income and social hierarchy where joblessness is often borne unequally by groups that suffer other disadvantages; Employment not only provides income, but also enhances self-worth, social recognition and social networks.
- (c) It has the potential of creating, providing or improving infrastructure, services and assets which benefit the poor and support employment in the long term.

It must however be noted that these benefits do not come about automatically. Several factors influence the outcomes of public works programmes and these include the employment conditions within public works programmes, the institutional and delivery mechanisms, operational procedures, and the methods of reaching target populations, mobilizing their active participation and ensuring equal access to the programmes by groups differentiated along sex, race and ethnicity. There are also the concerns of cost efficiency and sustainability of assets and benefits generated. Lessons in dealing with these issues can be drawn from decades of practical experiences worldwide; and from the first phase of the EPWP itself. I am certain that we will learn about South Africa's lessons and experience with public works as well as that of India's and Argentina in these two days. My colleagues and I are also ready to share with you ILO's rich knowledge in these matters.

In spite the criticisms levelled against the ability of the EPWP to solve the high level of poverty and unemployment in South Africa, it is important to note that because of the complexity, the challenge of unemployment and poverty requires a combination of responses. Nevertheless, we believe that the impact of the Programme on unemployment, income insecurity and poverty could be improved, expanded and further strengthened in a sustained manner. It should however be emphasized that the EPWP is the only social assistance extended to working-age adults who want to work but unable to find work. It is also distinct from most other public works projects by its inclusion of environmental and social services projects. The job-generating and social returns to public investments in environmental and social infrastructure, in addition to physical infrastructure, may easily outweigh the financial cost.

I am pleased to recall that the ILO has extended technical support to the South African government in the field of employment-intensive public works programmes since the Gundo Lashu project (Limpopo) in 2001. We are committed to continuing our support to South Africa in this policy area. The policy assessment of the EPWP, which Dr Mitchell has undertaken on behalf of the ILO is part of that technical support, the results of that assessment will be presented to this meeting to enrich your discussions.

Distinguished participants, ladies and gentlemen, let me emphasize the fact that the ILO looks forward to the recommendations and conclusion of this meeting. For us, it is important to have feedback from you on how far the EPWP approach has gone in contributing to solving the problems of poverty and unemployment. The inherent policy implications of massification of such strategy should inform the policy-makers of the direction of the EPWP programme in the next phase. In this context, you may wish to note that at the ILO–NEDLAC meeting held in Cape Town in April 2008, support to labour-intensive sectors and the EPWP have been identified as critical elements of the Decent Work Country Programme for South Africa. It is in this context that the ILO is pleased to support this meeting.

I wish you fruitful deliberations and thank you for your attention.

ILO Office  
Pretoria

02 September 2008



