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SOUTH AFRICA'S RESPONSE TO THE CRISIS

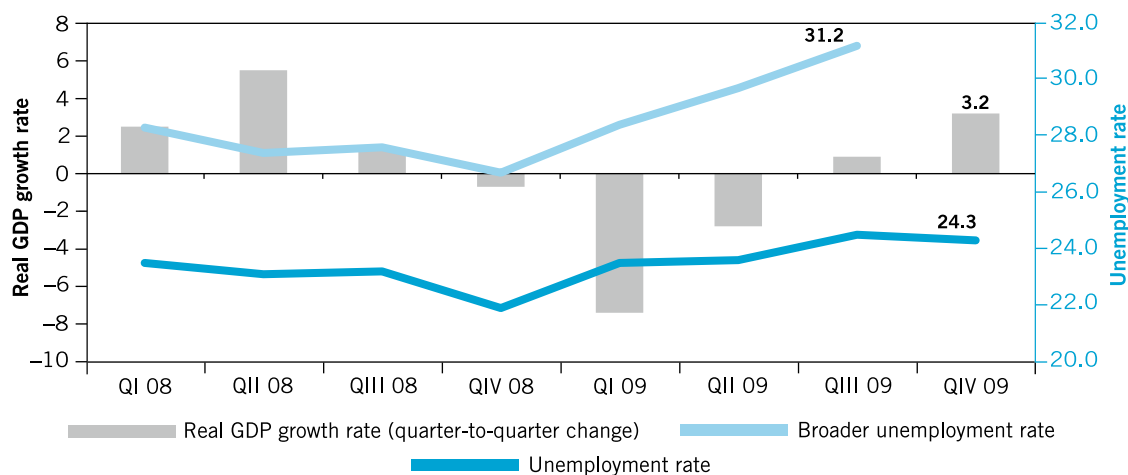
Economic growth returns but unemployment still very high

South Africa was enjoying a healthy pace of economic growth before the crisis hit in late 2008, with real gross domestic product (GDP) averaging 5.5 per cent during the period 2005 to 2007. However, the country's integration in the world economy made it vulnerable to the effects of the global financial and economic crisis and by the end of 2008 the South African economy went into recession for the first time in 17 years. Real GDP was down 0.7 per cent in the fourth quarter of 2008, and the economic contraction intensified in the first half of 2009, with GDP falling 7.4 per cent and 2.8 per cent during the first two quarters of the year (figure 1). Modest GDP growth returned in the second half of the year, driven in large part by a rebound in manufacturing, although this was not sufficient to offset the weakness of the

first half of 2009. For the year as a whole, GDP declined 1.8 per cent compared with the expansion of 3.7 per cent in 2008.

Unemployment was already high prior to the crisis and began rising further from the fourth quarter of 2008. The open unemployment rate increased 2.4 percentage points from 21.9 per cent in the fourth quarter of 2008 to 24.3 per cent in the fourth quarter of 2009. The rise in the broader unemployment rate, which takes into account jobless persons who are not actively seeking work, gives a bleaker picture. In the third quarter of 2009, broader unemployment stood at 31.2 per cent, up 3.6 percentage points from a year earlier. This rise mirrors the increase in the official estimates for number of discouraged workers, which increased from 1.1 million in the second quarter of 2008 to 1.7 million by the fourth quarter of 2009. In view of these figures, the impact of the recession on South Africa's labour market is best reflected by the broader definition of unemployment.

Figure 1. Real GDP growth rate, unemployment rate and broader unemployment rate, by quarter 2008–2009 (percentage)



Source: Statistics South Africa, Quarterly Labour Force Survey and National Accounts (www.statssa.gov.za). Unemployment figures not seasonally adjusted.

Somewhat surprisingly, informal sector employment as a percentage of total employment fell over most of the crisis period, from 17 per cent in the second quarter of 2008 to 15.5 per cent in the third quarter of 2009. Job losses in the informal sector are more harmful for workers because these laid-off workers are not covered by unemployment insurance. Of the 4.1 million unemployed in the second quarter of 2009, only 154,312 were registered against 111,692 registered claimants for the same period a year earlier. In the final quarter of 2009, employment in the informal sector rebounded by 116,000, compared with 41,000 in the formal sector, although the agricultural sector and private households continued to shed jobs.

A stimulus package with strong social partner consensus

The South African government responded quickly to the crisis by easing monetary policy and implementing a fiscal stimulus package to support demand and create jobs. The Monetary Policy Committee (MPC) of the South African Reserve Bank started reducing interest rates in December 2008, progressively lowering the repurchase rate through August 2009 from 12 per cent to 7 per cent, where it has remained since. In December 2008 tripartite negotiations began among organized labour, business and government to formulate a collective response to the crisis. The resulting "Framework for South Africa's Response to the International Economic Crisis" of February 2009 outlined the main pillars of an action plan, including a major public investment programme of approximately R787 billion.

The government's public works programme covers the three financial years through March 2012. Of the R787 billion total, R390 billion is to be spent by state-owned enterprises. A portion of the funds is also directed to South Africa's Expanded Public Works Programme. At the time of the programme's announcement, the then Finance Minister, Trevor Manuel, noted that the rise in the fiscal deficit this

increased spending represented would be manageable: "...although the budget deficit will rise to 3.8 per cent of gross domestic product next year, debt service costs will remain moderate over the next three years at about 2.5 per cent of GDP."¹

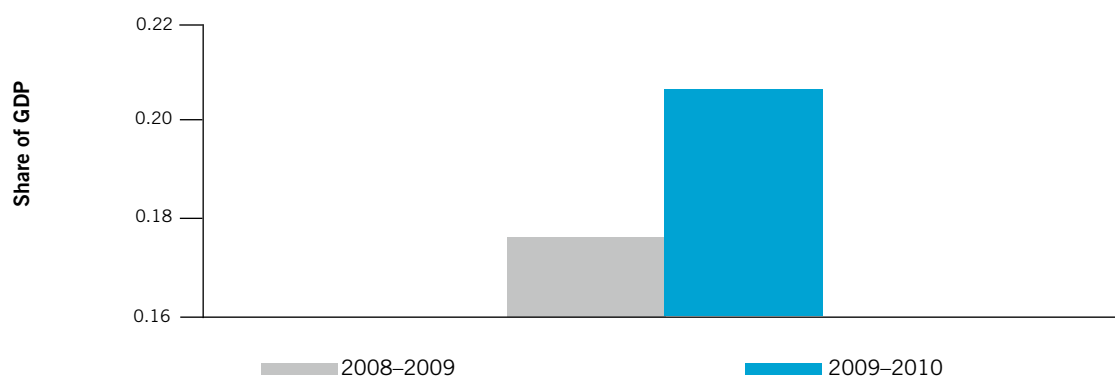
The Expanded Public Works Programme

South Africa has been implementing a large-scale employment programme to tackle the country's high unemployment since 2004. The Expanded Public Works Programme (EPWP) originally sought to provide 1 million jobs over the five-year period to April 2009, but this target was exceeded by a large margin, with 1.65 million work opportunities created. The sectors covered included infrastructure, the economic sector (mainly small enterprises), the environment, culture and the social services sector. From March 2008 to April 2009, expenditure on EPWP amounted to 3.2 per cent of the budget and 1 per cent of GDP. Wages paid out over the same period amounted to 0.4 per cent of the budget and 0.1 per cent of GDP.²

In the 2009 Framework Agreement, the government took on an even greater role as employer of last resort. In the Agreement the social partners approved a scaled-up second phase of the EPWP with several new features to improve its reach and impact. Although the first generation EPWP was successful in exceeding its job creation target, many of these jobs were short term and thus had limited positive impact on the lives of the beneficiaries. EPWP II will see the total number of job days offered increase tenfold to 2 million one-year full-time equivalents (FTEs). Some 4.5 million unemployed are expected to benefit over the five-year period between 2009 and 2014, which would reduce unemployment by half.

One FTE is equal to one full-time job per year. This means a scaling up from 210,000 FTEs per year in 2009–2010 to 610,000 FTE jobs in 2013–2014, an average of about 400,000 FTEs per year. The 2 million full-time equivalents will be created

Figure 2. South Africa's effort at fiscal support for public works (percentage)



Source: National Treasury Budget 2009, estimates of national expenditure on public works.

through a cumulative total of 4.5 million work opportunities from the 2009–2010 to the 2013–2014 financial year.

The government has committed R4.1 billion for the first three years and has pledged to increase its contribution if the EPWP programmes exceed expectations.³ Although this will contribute to an appreciable increase in fiscal expenditure for public works as a share of GDP (figure 2), it is spending that engages many additional South Africans in income generation, the poor in particular. Noteworthy also here are the substantial efforts made to support provinces and municipalities facing the brunt of the crisis. In parallel to the spending on public works, the government is maintaining or increasing spending on key social expenditures for the poor, including direct food relief, access to free basic services, such as water and electricity, and an extension of the Child Support Grant to age 18.

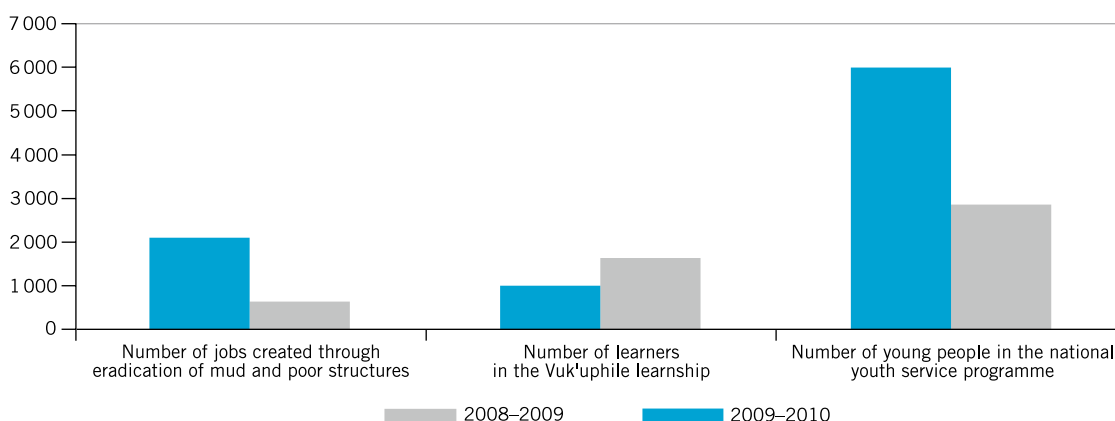
While the redirection and outlay of fiscal stimulus to infrastructure and public works is ongoing and appreciable, there is to date only partial information on the employment impact of the stimulus. Figure 3, for example, illustrates several actual and projected employment impacts of several of the government programmes.

For an employer in distress, one of the important advantages of the Scheme is that the employee receives income through the training allowance paid by the National Skills Fund in lieu of a wage. While the employee is in training, the employment contract continues and the employer must cover at least the cost of a basic package of social benefits for the trainee. For the employee, who would otherwise face unemployment, the Scheme means enhanced skills and continued ties to the labour market, reducing the major risk of a prolonged labour market recovery for the unemployed – being separated from the labour market.

The training layoff involves a cessation of work in favour of training for a maximum period of three months with a possible extension for three additional months. The training itself is aligned to the skills needs of the company, although there is also a provision for general training. There is a maximum earnings threshold for eligibility.

The Scheme is voluntary, and employers, trade unions, or workers can apply. Eligibility for a company is limited only to those businesses in economic distress and considering retrenchments. While participation is voluntary, there must be agreement by all parties.

Figure 3. Actual and projected employment creation of selected national public works programmes



Source: National Treasury: Estimates of Public Expenditure 2009, Public Works.

The Training Layoff Scheme

The Framework Agreement also advanced the idea of creating a “training layoff” scheme to assist employers in economic distress and their employees at risk of retrenchment.⁴ The Training Layoff Scheme, rolled out in September 2009 by the South African Department of Labour, provides skills training and an allowance to employees during a negotiated layoff period, although they technically remain employed. The plan not only provides short-term relief to employers and employees, it aims to improve overall skills levels and the prospects for more decent jobs in the recovery.

Applications for the scheme are evaluated by the Commission for Conciliation, Mediation, and Arbitration (CCMA), and participation is approved by a committee in the Department of Labour. The government has strongly encouraged the social partners to use the Scheme as an alternative to layoffs.

The Scheme is funded from the National Jobs Fund which comprises contributions from the Unemployment Insurance Fund and the National Skills Fund of R1.2 billion each. The Sector Education and Training Authorities have set aside approximately R500 million to support the cost of training.

The Scheme is still quite new, but already a number of companies and workers have applied. As of the end



of January 2010, 66 requests covering over 3,000 workers were received. The industries covered included metal, mining, automotive, hospitality, engineering, and cleaning services.

Outlook and challenges

Policy-makers will continue to face both the challenges emanating from the past and new ones resulting from the current recession. While poverty and inequality indicators reveal a favourable trend in recent years, the worsening labour market situation could reverse these trends. The main challenges are thus increasing job creation in the formal economy, particularly for the low-skilled, and supporting unemployed persons during their job search. Creating a positive labour market environment for discouraged workers, whose numbers have reached peak levels, will also be an important challenge for policy-makers.

South Africa's economy is projected to grow by only 3 per cent in 2010.⁵ Therefore, growth needs to accelerate in order to generate more jobs, which in turn requires a supportive set of industrial and macro-economic policies.

¹ Michael Appel, "SA to spend billions on infrastructure", SouthAfrica.info, www.southafric.info/business/economy/infrastructure/budget2009b.htm, 4 December 2009.

² Government of South Africa, *EPWP Five-year review report*, 2009, Annex A.

³ Framework for South Africa's Response to the Economic Crisis, National Economic Development and Labour Advisory Committee (NEDLAC), 19 February 2009, pp. 15-16.

⁴ Information in this section is from "CCMA Retrenchment Support and Training Layoff Project: Report on Progress Made with Implementation of the Training Layoff Scheme", South Africa Commission for Conciliation, Mediation and Arbitration, 10 November 2009.

⁵ Standard Bank, <http://ws9.standardbank.co.za/sbrp/LatestResearch.do>.