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LABOUR-INTENSIVE PUBLIC WORKS

Towards providing employment for all South Africans willing to work

CONTENTS

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This report was written by Dr Simon Dagut, CDE research manager, and Ann Bernstein, CDE's executive director. It is based on research undertaken for CDE over the past 18 months by Professor Peter Delius, University of the Witwatersrand, and Simon Dagut; interviews with more than 30 experts; and two workshops at CDE.

Cover: Beneficiaries of Zivuseni, the Gauteng government's labour-intensive public works programme, refurbishing a public building. Picture: Gauteng provincial government.

EXECUTIVE SUMMARY

Introduction

The South African economy will only be able to generate really large numbers of new jobs if it grows at 5–6 per cent a year – twice as fast than at present. Achieving much higher growth depends on attracting more fixed investment and on encouraging entrepreneurship. But potential investors and entrepreneurs, both foreign and domestic, are attracted to rapidly growing economies that also display political and social stability.

It is unfortunate, therefore, that South Africa's chronically high rate of unemployment is in itself an obstacle to growth. Unemployment at current levels significantly reduces the size of the domestic consumer market, and creates an image of South Africa as a country unable to sustain economic growth. A high level of crime – of which unemployment is a significant immediate cause – erodes social stability, contributes to the loss of skills and entrepreneurial energy through immigration, and directly threatens investor confidence. Unemployment could even threaten political stability. Criticism of government's macroeconomic policy is strengthened by South Africa's very high unemployment rate. Discontent could lead to a populist backlash against responsible fiscal policies, which would further threaten economic growth. For all these reasons, South Africa must combat unemployment more directly: in order to attract more job-creating investment, it must create more jobs and more opportunities for gainful self-employment.

Government's economic policies need the right transitional support

The government has shown admirable persistence in achieving and sustaining macroeconomic discipline. More recently, it has developed a wide-ranging set of expenditure reforms, and has announced a microeconomic strategy intended to encourage employment creation and reduce poverty in ways that are financially sustainable. It will take years for some of these reforms to produce results that directly benefit the majority of South Africans. Others may be faster acting, but could be unpopular in some quarters. All the reforms will need to be carried out and with firmness and consistency to be effective. This will require a great deal of political determination from the government.

A national public works strategy operating at scale would help the government to manage the difficult politics of economic reform

Hard social and economic reforms are easier to manage, and stand a better chance of being successful if they can shelter behind transitional measures that are quicker and easier to put in place. But a transitional programme should not be a 'Band-Aid', which temporarily disguises the real problems that must be addressed. Nor should it create new problems by requiring unsustainable levels of public expenditure that would destroy hard-won fiscal and monetary discipline. Rather, transitional measures should be fully compatible with the overall direction of reform. In a country with a major crisis of unemployment, they should provide jobs, improve infrastructure for growth, and, whenever possible, training.

Labour-intensive public works are an appropriate transitional measure

Properly planned, managed, and genuinely labour-intensive public works (LIPW) have major advantages over other proposed transitional measures such as a basic income grant (BIG) or employment creation schemes that do not add value. The most important positive features of LIPW are that they:

- **provide jobs** for the many South Africans who have never worked or are not working now.
- **create and maintain infrastructure.** This is the unique advantage of public works schemes. LIPW create socially and economically useful outputs, from urban clean-up to rural road construction.
- **provide training.** Workers on long-term programmes gain marketable skills while workers on short-term programmes obtain valuable exposure to the world of work.
- **are affordable within South Africa's fiscal constraints.** Enough money has already been budgeted to fund the start of a new large-scale LIPW initiative. And because LIPW produce additional employment within existing patterns of expenditure by substituting labour for capital equipment, they will not in future place unsustainable demands on public money.
- **are transitional by nature.** Unlike dole systems, LIPW are easily stopped when they are no longer necessary.
- **can draw on private sector capacity.** Unlike programmes that would rely on an understandably weak state bureaucracy to deliver them, LIPW could benefit from the capacity of South Africa's strongest asset: its private sector. Projects should be undertaken by private construction companies, contractually bound to the state to utilise labour-intensive rather than capital-intensive techniques.

CDE has therefore concluded that a large-scale LIPW strategy is an appropriate transitional programme for South Africa today.

South Africa needs a national public works partnership

A large-scale LIPW strategy is an appropriate transitional programme for South Africa today

National and provincial government departments currently operate several small public works programmes designed to create employment and infrastructure. In 2000/1, for instance, all of these programmes combined employed no more than 80 000 people, and it is unlikely that the total has risen significantly since then. The main reason why these programmes have remained so small is that they lack the involvement of the only South African sector that has proven that it can construct infrastructure on a really large scale: the private sector (and corporatised state enterprises such as Eskom). The experience of past decades across a wide range of areas – including housing and transport – clearly shows that state departments cannot provide large-scale delivery on their own.

This is a key point. If LIPW are to grow to a really significant scale, one that could bring the unemployment statistics down by 5 per cent or more, they will need long-term involvement from the private sector in the form of a public-private partnership for labour-intensive public works.

CDE's recommendations

CDE has developed guidelines that should be followed to ensure the success of a public-private partnership for LIPW. The most important of these are:

- **Highest-level political support is essential:** The LIPW strategy must have commitment from the presidency and the cabinet to sustained funding for as long it is needed to alleviate unemployment.
- **The LIPW strategy must grow to a really large scale:** The strategy has to be designed

in such a way that it can realistically grow to a size at which it will bring down unemployment by 5 per cent or more. This will require extensive private-sector involvement.

- **Every feature of the LIPW strategy must be designed to maximise private sector involvement.** A large-scale LIPW strategy will depend on voluntary senior leadership from the organised private sector and the enthusiastic involvement of private companies, because only the private sector has the capacity to ensure that LIPW can be carried out on a really large scale.
- **Wages must be low:** In order to target the poor effectively, be sustainable, and benefit the largest number of poor people, wages should be as close as possible to local informal wages for unskilled casual labour. Wages should certainly be much lower than the formal minimum wage in the capital-intensive construction industry, and should be task-based.
- **The LIPW strategy should draw on dedicated funds:** South African and international experience shows that it is not appropriate to fund LIPW through the standard budgetary channels. LIPW programmes work best when they act as sources of earmarked funding for government departments and contractors, funding which is only available in return for the use of labour-intensive techniques. The government already has the money to create a dedicated LIPW fund. In the first years of the strategy, no new government spending would be required.
- **LIPW contracts must be clear, binding, and enforceable:** It is very important to ensure that contracts entered into between all levels of government and construction companies or other implementing agencies incorporate clearly specified and fully binding requirements for the use of labour-intensive methods to obtain a product of the required quality. A system must be set up to ensure that contractors, consultants, and other implementers who act corruptly or who deviate from their contractual obligations in respect of labour intensity or other requirements would have their contracts terminated and be excluded from further LIPW work.
- **A large-scale LIPW strategy must not damage the established construction sector or impede conventional infrastructure spending:** There is no reason why the LIPW strategy should damage the established construction sector if a clear and realistic distinction is drawn between projects which should be predominantly labour-intensive and those which require – for economic or technical reasons – more conventional techniques. Equally, the strategy must supplement, and not replace, government's current or planned conventional infrastructure spending. Both make a valuable contribution to employment creation.

If discontent among the unemployed grows, South Africa's political stability could be threatened by short-sighted and destructive populism

Conclusion

LIPW on a large scale could make a major contribution to alleviating South Africa's most pressing and immediate social problem: unemployment. Genuinely labour-intensive public works programmes function as a 'safety net' for people who are adversely affected by structural changes in, and necessary reforms to, the South African economy. They create needed infrastructure. They provide workers with marketable skills, and with the sense of dignity and self-respect that comes from doing useful work. Crucially, LIPW could do all this in a way that is fully compatible with macroeconomic discipline. A new LIPW strategy would bring together government and business to build infrastructure and to create jobs for the unemployed poor. It would be one of the best ways of creating an enduring public-private partnership for a prosperous democratic South Africa at work.

Managing a public works strategy: some do's and don'ts

The precise management structure and institutional location of a new nationwide LIPW initiative can only emerge from negotiations between private sector representatives and government. Nonetheless, CDE's research enables us to offer a list of do's and don'ts that should be followed in managing the LIPW public-private partnership.

Don'ts

- ✗ **Don't** locate the strategy's management in the Department of Public Works. The DPW is primarily the government's landlord.
- ✗ **Don't** locate the strategy's management in the Department of Provincial and Local Government. The DPLG is overloaded already.
- ✗ **Don't** create an elaborate new government bureaucracy to run the strategy. Public sector employment regulations will prevent this from being efficient.
- ✗ **Don't** try to fund the strategy through the National Treasury's ordinary budget process. This is too complex and inflexible for a transitional programme that must deliver results on scale as quickly as possible.
- ✗ **Don't** rely on local government alone to deliver labour intensive public works on a significant scale. Local government in many parts of the country is short of capacity and is already overloaded with too many delivery imperatives.
- ✗ **Don't** try to manage the strategy using a centrally planned, supply-driven approach. This will be slow, clumsy and prone to corruption.
- ✗ **Don't** assume that successes will speak for themselves. Effective communication of the impact of the programme and its successes will be imperative

Do's

- ✓ **Do** ensure that the strategy's managers can rely on consistent and visible support from the highest levels of South African politics.
- ✓ **Do** involve private sector players in a frank and open partnership. The private sector needs to be an integral part from the start in designing the components of an effective, labour-intensive public works strategy
- ✓ **Do** set realistic but ambitious targets for the LIPW programme. Scale of impact is a critically important ingredient in making this a supportive pillar in the country's approach to macroeconomic reform and effective delivery
- ✓ **Do** exempt the management of the LIPW strategy from public service regulations on remuneration and procurement, so that it will attract the extensive capacity it will need from the private sector. A good model for this is the South African Revenue Service.
- ✓ **Do** ensure that the strategy acts as the sole gatekeeper of all funds earmarked to fund labour-intensive construction and maintenance. This will enable the management to see that labour-intensity requirements are met.
- ✓ **Do** manage the strategy using a demand-driven approach that responds to applications for funding from national departments, provincial and local governments, NGOs, private companies, and communities
- ✓ **Do** ensure that there is sufficient capacity to monitor and evaluate LIPW projects, to combat corruption ruthlessly and to 'learn by doing' through understanding successes and failures.
- ✓ **Do** link the LIPW programme with the politics of managing a tough structural reform of our economy. The necessary reforms must be implemented unambiguously and enthusiastically. LIPW will provide a safety net for those who are not able to take advantage of reforms in the short term.
- ✓ **Do** include resources for a professional and effective communication strategy. The LIPW strategy can be an important component in building confidence and hope for the future of the country among rich and poor alike.

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LABOUR-INTENSIVE PUBLIC WORKS

Towards providing employment for all South Africans willing to work

INTRODUCTION

South Africa's greatest challenge is to reduce unemployment. Some 7,8 million South Africans are not in regular waged employment. Around 5,6 million of these people are between 15 and 34 years old.[1] Unemployment is a terrible waste of human potential and of public investment in education. And, if discontent among the unemployed grows, South Africa's political stability could be threatened by short-sighted and destructive populism. Something must be done. But we have to be careful to choose the right 'something'. Whatever policies we adopt to reduce unemployment must be fully compatible with our broader national goals.

In this report CDE proposes principles under which South Africa could embark on a large-scale labour-intensive public works (LIPW) strategy as a significant contribution to reducing unemployment. Properly run public works provide training and work experience to people who sorely lack both. And public works do what no other unemployment or poverty relief system can: they create and maintain socially useful and economically vital infrastructure.

A Basic Income Grant (BIG) is neither desirable nor affordable as a transitional mechanism for unemployment relief

This study is based on 31 interviews with public works specialists and opinion-formers (see appendix A), two workshops held by CDE (see appendix B), and detailed input by experts. It draws on research into the local and international experience of public works projects and has also been tested by independent readers who have helped to improve successive drafts.

The study begins by discussing the scale and nature of unemployment, making the point that the dominant type of unemployment in South Africa is long-term youth unemployment. This is a problem for which labour-intensive public works is an appropriate solution. The document goes on to lay out the in-principle advantages of labour-intensive techniques of construction and maintenance. It then draws on international and local experience, and on an analysis of 'where we are now' with respect to public works in South Africa, to develop principles that should be followed to ensure the success of a new large-scale labour-intensive public works initiative.

UNEMPLOYMENT: SOUTH AFRICA'S GREATEST CHALLENGE

In 2000, 41 per cent of South Africans considered job creation to be the most important national priority.[2] By 2001, 55 per cent saw unemployment as the most serious problem facing the country;[3] by 2002 this figure had risen to 84 per cent.[4] These popular opinions reflect the reality and impact of chronically high joblessness.

Since 1995, the 'expanded' unemployment rate – generally considered to be a more accurate measure of joblessness than the 'strict' rate – has climbed from about 30 per cent to about 40 per cent. According to the official February 2002 *Labour Force Survey*, 40,9 per cent of South Africans wanting to work – 7,8 million people – did not find a job in 2001.[5] Some 5,6 million of these people are between 15 and 34 years old.[6]

Who are the unemployed in South Africa?

Analysis of the *Labour Force Survey* of September 2001 shows that:[7]

- Unemployment is higher among women than among men.
- Some 42,6 percent of the unemployed are men; 57,4 percent are women.
- Unemployment is somewhat more of an urban than a rural problem. Some 54,5 per cent of the unemployed live in urban areas, and 45,5 per cent in rural areas.
- Most unemployed people have at least some education and training. In fact, those with some further education (beyond grade 9) outnumber those with only general education (grade 9) or no education.
- The most common type of unemployment in South Africa is long-term youth unemployment:
  - 71,4 per cent of the unemployed are between 15 and 34.
  - 71,3 per cent of unemployed people under 30 have never had a job.
  - 61 per cent of unemployed people under 30 have been looking for a job for more than a year.

In 1998 only 33 per cent of South Africa's roads were in good condition

Unemployment involves enormous human suffering. And because so much of it takes the form of long-term youth unemployment, it also involves a grave waste of human potential and of public investment in education. Young unemployed people tend to be healthy and energetic. Even more importantly, they are potentially trainable, since most of them already have at least some post-grade 9 education.

Unemployment of this sort and at this very high rate also has wider – and extremely negative – social and economic impacts.

Unemployment threatens investment, stability and growth

The South African economy will only be able to generate really large numbers of new jobs if it grows at 5–6 per cent a year – more than twice its current rate of growth. Achieving much higher rates of growth requires the ability to attract more fixed investment and to stimulate entrepreneurship. But potential investors, whether domestic or foreign, are attracted to rapidly growing economies that also exhibit political and social stability. The same point applies even more strongly to the often highly mobile smaller-scale entrepreneurs who employ themselves and several others, and who are so important to the health of any economy.

A chronically high rate of unemployment reduces the size of the consumer market, and creates an image of South Africa as a country unable to sustain economic growth.

A high level of crime – of which unemployment is a significant immediate cause – erodes social stability, contributes to the loss of skills and entrepreneurial energy through immigration, and directly threatens investor confidence.

Quite soon, unemployment could also threaten political stability. In 2002, just 17 per cent of South African voters believed that the government was handling the unemployment problem 'very well' or 'fairly well.'[8] Criticism from the left of the government's macroeconomic policy is strengthened by the very high unemployment rate. Discontent on this issue could lead to a populist backlash against responsible fiscal policies, which would further threaten economic growth. For all these reasons, South Africa must combat unemployment more directly: in order to attract more job-creating investment, more jobs and more opportunities for gainful self-employment must be created.

TRANSITIONAL MEASURES REQUIRED

Government's economic policies need the right support

The government has shown admirable persistence in achieving and sustaining macroeconomic discipline. More recently, it has developed a wide-ranging set of expenditure reforms, and has announced a microeconomic strategy – though not yet concrete policies in all areas – intended to encourage employment creation and to reduce poverty in ways that are financially sustainable. Some of these reforms, by their nature, will need years to produce results that directly benefit the majority of South Africans. Others may be faster acting, but could be unpopular in some quarters. All these reforms must be carried out and with firmness and consistency to be effective. This will require a great deal of political determination from the government.

As CDE's research into a broad range of international experience has shown, hard social and economic reforms are easier to manage, and stand a better chance of being successful, if they are able to 'shelter behind' transitional measures that are quicker and easier to put in place. This is because such measures create groups of beneficiaries who are therefore much more likely to support the overall reform process.[9] Of course, ill-considered transitional programmes can be a distraction from overall reform, but if transitional measures are appropriately designed, they form a very useful part of a reform package and its political management.

Labour-intensive techniques can have dramatic consequences for employment creation

South Africa faces four hard realities

1. An extremely high level of unemployment – perhaps the highest in the world – is South Africa's most pressing social problem, a significant obstacle to stability and security, and therefore an obstacle to attracting investment as well.
2. Macroeconomic, microeconomic, and expenditure reforms must continue, deepen, and reinforce each other, but even if implemented consistently it will take several years before they begin to create really significant numbers of new jobs, especially for people with no work experience.
3. These structural reforms are far less likely to be politically sustainable unless a quicker-acting mechanism to relieve unemployment is put in place during this difficult transition
4. A Basic Income Grant (BIG) is neither desirable nor affordable as a transitional mechanism for unemployment relief (see box: **Why the Basic Income Grant is a bad idea,** page 10).

Given these realities, it is surely worthwhile to investigate the potential of large-scale LIPW both as a means of unemployment and poverty relief and as part of the process of permanently reducing unemployment and poverty. As the cabinet announced in July 2002, South Africa is a society trying to move away from hopelessness and dependency towards a future in which 'able-bodied South Africans enjoy the opportunity, the dignity, and the rewards of work'.[10]

The advocates of public works programmes claim that they can simultaneously create employment and badly needed infrastructure. Short-term programmes provide valuable exposure to the world of work, while longer-term programmes make it possible to provide on-the-job education and training. All this can be done, they claim, without very much additional public spending, meaning that public works programmes are compatible with the maintenance of fiscal discipline. Further, since most of South Africa's unem-

Why the Basic Income Grant is a bad idea

The idea of a Basic Income Grant (BIG) of R100 a month to every South African is supported by a wide array of civil society organisations and NGOs. COSATU has been an enthusiastic supporter of the BIG. The BIG coalition estimates that the grant would cost R40 billion a year. (This, they claim, would drop to R20–25 billion nett of tax once the grant is reclaimed from higher income groups.) A BIG, however, is neither a realistic nor an appropriate policy for South Africa.

A BIG is not realistic

The creation of a BIG would require an enormous increase in government spending – 13,8 per cent on the 2002/3 budget. This contrasts starkly with the government's stated expenditure plans. The minister of finance, Trevor Manuel, announced in February 2002 that real growth in non-interest government spending would average 4,1 percent per year over the next three years. This decision is not only a matter of fiscal prudence, important though that is; the government has also reached the limit of its capacity to spend efficiently. As Manuel said in November 2002: 'I can't see the public sector absorbing substantially more. …' He has also reminded MPs that 'the civil servants who would be expected to manage the grant are the same people who have failed to process pension applications.'

A BIG is not appropriate

Even if a BIG could be afforded, and even if could be distributed efficiently (both of which are highly unlikely), there are powerful reasons in principle for opposing it:

- A BIG would undoubtedly cause inflation unless it was fully financed by taxation (a contentious point among its proponents.) If it were fully funded from taxation, it would increase the tax burden to unsustainable levels – perhaps raising the VAT rate by 10 per cent, or the top marginal rate of income tax to 66 per cent.
- A BIG would be very cost-ineffective. According to a leading expert on public spending in South Africa, to 'transfer perhaps another R22 billion to the poorest 40 per cent of the population … [means that] another R32 billion [would] be paid to the not so poor …'
- A BIG would reinforce a culture of dependency among the unemployed.
- A BIG would mean that public money that could be spent on support for children orphaned by HIV/AIDS or on old age pensions would be parcelled out to healthy young adults instead.
- A BIG would be politically dangerous. It would set up a large, open-ended, nearly irreversible spending commitment. A government that established a BIG would face almost immediate (and often repeated) pressure to increase it. A BIG would also create a serious new moral hazard for the government by giving it an opportunity to increase the grant before elections, thus raising inflation in return for a fresh majority. And, of course, a government would risk losing power if it tried to reduce or end a BIG even when economic conditions made it appropriate to do so.[11]

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ployed are young and trainable, offering them work on public works schemes seems an attractive option.

LIPW CREATE JOBS AND INFRASTRUCTURE

Defining LIPW

The popular perception of labour-intensive public works (LIPW) is inaccurate. In the course of this research, CDE was often told that public works schemes make people 'dig a hole one day and fill it in the next'.

Properly designed LIPW are very different. They are not wasteful, nor do they produce low-quality output. LIPW construct and/or maintain socially and economically useful public infrastructure using labour-intensive techniques.

Labour-intensive construction or maintenance is defined as: the economically efficient employment of as great a proportion of labour as is technically feasible throughout the construction process (ideally including the production of materials) to produce as high a standard of construction as demanded by the specification.[12]

Programmes and projects that fit this definition generate useful infrastructure and a significant amount of additional productive employment within existing patterns of expenditure. Schemes that do not meet these criteria may be 'labour-extensive' in that they employ a large number of workers – often to stand idle while capital equipment does the work – but they are not LIPW.

Potential increases in employment

The changes in expenditure patterns that the use of labour-intensive techniques involves can have dramatic consequences for employment creation.[13]

Road construction and maintenance offer the greatest potential for employment creation through the use of labour-intensive techniques, but other types of projects (such as urban drainage or rural irrigation infrastructure) also offer considerable scope for job creation if they are constructed and/or maintained labour-intensively. Table 1, prepared by two experts in labour-intensive techniques, illustrates the scale of the potential increases in expenditure on labour, and hence employment, that can be created by the use of labour-intensive methods across a range of project types.

The fact that something tangible is being done about unemployment has social and economic benefits that spread well beyond direct LIPW beneficiaries

South Africa's infrastructure backlog

It is sometimes assumed that the infrastructure created by public works projects in South Africa would be a collection of 'white elephants' – possibly nice to have, or socially useful, but not economically necessary. This is far from being the case.

The development and maintenance of public infrastructure is essential to growth and job creation. South African companies and entrepreneurs find our declining road and rail infrastructure a barrier to competitiveness, while the quality of infrastructure plays an important role in the investment decisions of potential foreign investors.[15] Small businesses and emerging entrepreneurs are particularly badly affected by the additional transport and communications costs imposed by inadequate public infrastructure. The same costs imposed on poor workseekers contribute directly to their continued poverty and unemployment by reducing their capacity to find a job or to

Table 1: Potential increases in efficient expenditure on labour using labour-intensive methods [14]

Subsector	Potential percentage increases in client expenditure on labour*
Low-cost housing	0–33
Small-scale agriculture-related infrastructure	0–33
Electrification	0–36
Social buildings	0–40
Forestry	16–50
Railways	100–200
Water reticulation	150–250
Sanitation	150–250
Stormwater drainage	300–400
Dams and canals	230–430
Roads	200–550

* Range dependent upon standard specified for the infrastructure.

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make working worthwhile. The cost of delivering social services is also significantly increased by poor transport and communications infrastructure.

It is not possible to be exact about the extent of South Africa's infrastructure backlog, but two studies of the road network provide some sense of what needs to be done. A study commissioned by the Automobile Association in 2000 revealed that in 1998 only 33 per cent of South Africa's roads were in good condition. It would cost R65 billion to restore them to their 1988 condition.[16] The minister of transport has confirmed that his department was seriously concerned about the quality of local and provincial roads.[17]

Public works schemes wither away when they are no longer necessary

An older study by the Development Bank of Southern Africa (DBSA) estimated that South Africa would have to spend R152 billion between 1998 and 2008 in order to maintain and improve the road network if this was to remain efficient and meet foreseeable needs.[18]

Obviously, the figures are ideal estimates rather than precise costings, but they do show that there is a great deal of badly needed work to be done. It is estimated that expenditure of R1 billion a year on labour-intensive road construction in rural areas would create about 50 000 jobs a year.[19] (Labour costs may be higher in urban areas.) If only 20 per cent of the amount the DBSA estimates ought to be spent on South Africa's roads in the period 1998–2008 were spent using labour-intensive techniques, about 1.5 million new job offers could be made over that period. While most of these jobs would be temporary, as many as a third (500 000) could develop into permanent jobs in construction or maintenance.[20]

More employment could be created in the labour-intensive maintenance of roads and the labour-intensive construction and maintenance of infrastructure other than roads, such as drainage systems in urban informal settlements, irrigation systems in poorer rural areas (mostly former 'homelands'), and social buildings throughout the country. Yet more jobs would be created as private investment was attracted by improved public infrastructure and by the confidence-boosting demonstration effect of an LIPW strategy – a strategy that would prove in a tangible, media-friendly way that government is 'doing something'.

INTERNATIONAL EXPERIENCE

The theoretical case for an enhanced role for an LIPW strategy in assisting South Africa's transition is very strong. However, before a set of practical guidelines for LIPW in South Africa in the 21st century can be developed, it is necessary to appreciate the lessons of previous international experience.

The American and Asian experience

LIPW became prominent during the Great Depression of the 1930s in the United States, and have a long history in south Asia. According to research conducted by CDE consultants and by the Southern Africa Labour and Development Research Unit (SALDRU), this experience has shown that:

- LIPW require both long-term vision and sustained support from the highest political level.
- LIPW – such as the New Deal public works programmes – can create infrastructure – for example, the Tennessee Valley hydroelectric scheme – that is of lasting value if it is properly maintained.
- LIPW can grow to employ a very large proportion of available workers. The New Deal schemes absorbed up to 30 percent of the 11 million unemployed; while the Maharashtra Employment Guarantee Scheme in India absorbed 75 percent of available person-days in the state in 1978, its sixth year of operation.
- Large-scale LIPW have significant 'demonstration effects'. The fact that something tangible is being done about unemployment has social and economic benefits that spread well beyond direct LIPW beneficiaries. The classic example of this is the improvement in the morale of the United States generally as a result of well-publicised New Deal public works schemes.
- It is very important that wage rates on LIPW do not rise to the level at which they attract people who already have jobs. If they do, fewer and better-off people will benefit instead of the really poor unemployed, and the surrounding economy will be damaged.[21]

The largest stumbling block was organised labour

The African experience

Africa has witnessed a variety of public works programmes since the 1970s, though none on the scale of those in India and Bangladesh. The results have been mixed.[22] Short-term, poorly planned relief projects have tended to fail, but some carefully planned long-term public works programmes have succeeded. Perhaps most significantly, Africa has been the site of important developments in a labour-intensive approach to public works. Analysis of African public works programmes conducted for the International Food Policy Research Institute has shown that:

- labour-intensive methods did not increase the total cost of the investment if wages were set appropriately; and
- in most construction and maintenance work, an end product of the same quality as

that obtained using capital-intensive techniques could be achieved using labour-intensive and local resource-based methods.[23]

THE SOUTH AFRICAN EXPERIENCE

This section develops lessons from South Africa's experience of public works schemes in the 20th century.

Before 1994

The first really large-scale South African public works scheme was aimed at creating employment for 'poor whites' during the Great Depression of the 1930s. By 1932 the scheme claimed 18 percent of the total government budget, but did not increase overall government spending because it was financed by the reallocation of funds from other budget areas. Some 230 000 people were assisted under this programme, and most of them were ultimately absorbed into unsubsidised employment.[24] This programme was fundamentally flawed by being restricted to 'poor whites', but it does show how a South African public works programme was able efficiently to absorb a large proportion of the government budget, and that public works schemes can wither away when they are no longer necessary.

In the 1980s drought, rising unemployment, and political unrest led to a renewed interest among government planners in public works programmes, and a number of schemes were implemented. Analyses of these apartheid-era projects conducted by the Urban Foundation, economists, and independent civil engineers paints a gloomy picture of their outcomes.[25] The wastefulness of these programmes is revealed by the fact that a small proportion of their budgets was spent on wages compared to properly designed LIPW. Projects were often poorly planned and hastily implemented. Since they were short term, and intended to provide only temporary relief, very few sustainable jobs were created. The assets constructed were not cost-effective, of doubtful quality and, where they survived, poorly maintained. Little institutional capacity was built. The limited training that did occur was inappropriate and unfocused. Projects were also not effectively monitored and evaluated.

Genuinely labour-intensive public works programmes function as a safety net to catch people who are adversely affected by structural changes in the South African economy

These apartheid programmes serve as a reminder that while public works can relieve unemployment and deliver infrastructure, failure is entirely possible, and is often the result of thinking only of the short-term, poor planning, poor management, and poor monitoring and evaluation.

Since 1994

In the early 1990s, as South Africa moved towards democracy, public works schemes began their own progress towards maturity.

In 1992 a series of meetings between government, construction industry, and trade union representatives led to the drafting of a 'framework agreement for public works projects using labour intensive construction systems'.[26] The construction industry committed itself to maximising labour intensity in public works programmes, with the significant qualifier 'with due regard to economics'. COSATU agreed that payments could be linked to production, and that a task rate lower than the minimum wage in the construction industry could be paid. At the time this agreement was seen as a major breakthrough.

However, the framework agreement had major flaws. It created opportunities for labour (or other interests opposed to LIPW) to make labour-intensive projects impractical. This was because the agreement demanded extensive community consultation and involvement in the design and management of each project,[27] and also required (or at least strongly implied) that complex employment quotas be developed.[28] It further required that, although the task rate could be lower than the minimum wage in the construction industry, it should still be 'based on the minimum wage in construction'.[29] These requirements made labour-intensive methods too expensive to be practical. They also rendered LIPW developmentally unsound by preventing projects from effectively targeting the poor.

In January 1993 the employment task force of the National Consultative Forum on Drought presented a proposal to the government for a 'national employment creation programme for the provision of public infrastructure using labour-intensive methods'.[30] The government responded positively, and allocated funds to a pre-investment study. Although this large study made a convincing case for the technical feasibility of LIPW as civil engineering projects, as a policy document the report is weakened by the transitional context in which it was produced. It is based on an uneasy compromise between labour and business that left crucial areas such as wage rates and conditions of service hazily defined.

The discussion of the structure and institutional location of the proposed LIPW strategy was vague. Critical issues such as securing high-level political support, the difficulties of reorienting government expenditure across a range of line departments, and the lack of capacity at all levels of government were glossed over.

Despite being established on these insecure foundations, public works were enshrined in the Reconstruction and Development Programme (RDP) under the 'National Public Works Programme' (NPWP) as a critical element of job creation efforts.[31] The NPWP had two components. The first was a long-term programme to redirect public expenditure on infrastructure towards labour-intensive techniques. The second was a short-term community based public works programme (CBPWP) intended to provide rapid and visible relief to the poor, and to build capacity that could later be used in the longer-term programme.

Another attempt to reorient the attitudes and capacity of government officials so that they could play a central role in managing LIPW would certainly fail

The long-term component of the NPWP, 1994-8

Unsurprisingly, the long-term component of the NPWP fell far short of its targets. In 1995 the civil engineering industry turned over R6 billion, and employed 64 424 people. In 1996 the Department of Public Works estimated that 100 000 new jobs could be created through labour-intensive techniques, but by 1998, at a turnover of R9 billion, the construction industry employed 75 387 people – an increase of fewer than 11 000 jobs.[32] This outcome is disappointing, given that employment generation from conventional capital-intensive construction is estimated at 14 000 jobs per billion rands.[33] Even though 75 per cent of funding for civil engineering comes from the public sector, and policies to encourage labour-intensive methods are in place, employment per unit of expenditure has not increased significantly.

Responsibility for the attempted reorientation of expenditure was entrusted to the Department of Public Works. The name of this department might suggest that this was the ideal location. Eighty years ago it might have been, but in more recent decades the department's main responsibility had been to manage and maintain state-owned buildings and land. By 1994 even its traditional area of responsibility was in disarray. It therefore had very little capacity to oversee an ambitious and innovative LIPW strategy.

Locating the programme in the Department of Public Works was not the only obstacle to progress. According to a senior industry source, the construction industry was less committed to the practice of labour-intensive methods than they had been to rhetoric about labour intensity. The largest stumbling block, however, was organised labour. Trade union leaders' fears that the framework agreement would undercut the wages and conditions of service of those in formal employment were never allayed despite the presence in the agreement of clauses to prevent this. As a result, the agreement was not renewed after 1993.

The Community Based Public Works Programme

Since the late 1990s it has been clear that the NPWP has failed to reorient public expenditure towards labour-intensive techniques. The CBPWP, intended to function as the short-term poverty relief and capacity-building component of the NPWP, is all that has remained of the much larger programme initially envisaged.[34]

However, the CBPWP is too small to make a real numerical impact on unemployment. It has also suffered from underspend. An accumulation of funds since 1998 has meant that while in 2001/2 the annual budget for the programme was R374 million, the department had a large backlog of funds and could have tried to spend about R1 billion.[35] In 2002, however, the department did not publicly mention any accumulated underspending, but emphasised that the entire annual budget had been spent, and 29 400 short-term jobs created.[36]

The programme's achievements in job creation have been very modest. As table 2 shows, since 1998 the CBPWP has created only 105 000 short-term jobs, creating opportunities for just 1,3 per cent of the 7,8 million unemployed.

We could spend another R2 billion a year on infrastructure without being ill-disciplined

Table 2: Jobs created by the Community Based Public Works Programme, 1998-2002 [37]

Budget period	Jobs created
1998/9	29 194
1999/2000	15 994
2000/1	30 776
2002	29 400
Total	105 364

Note: These figures refer to short-term jobs and do not imply that the people employed in each year were employed for a full year.

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The programme was meant to have been implemented in two ways: through NGOs, and through provincial departments of public works. Neither set of implementing agencies has proved satisfactory. In 1996 a CASE/ILO report concluded that the CBPWP was one of the best public works programmes in the world, but expressed reservations about the efficacy of targeting, the understanding of labour-based methods, the quality of monitoring and evaluation, and operation and maintenance in the long term. An evaluation by the Presidential Labour Market Commission in 1996 was much less positive, and raised similar concerns.[38]

From 1996 onwards the CBPWP has been 'realigned' away from provinces and NGOs and has become the responsibility of local communities and local government. According to CDE interviewees, experience and skills painfully acquired in provincial government have been dissipated. The 'realignment' has involved a reduced emphasis on infrastructure delivery and a much stronger emphasis on income-generation projects such as small-scale agricultural co-ops (many of which have proved unsustainable.)

Nevertheless, despite a serious lack of capacity, compounded by its ill-advised 'realignment', elements of CBPWP illustrate how effective LIPW projects can be at transferring benefits to the poor and unemployed in South Africa. In-depth independent research on 101 projects in the Western Cape in 1995–7 conducted by the International Food Policy Research Institute showed that the vast majority of LIPW outperformed hypothetical untargeted transfer schemes in terms of poverty alleviation and, of course, job creation.[39]

WHERE ARE WE NOW?

Besides drawing on the lessons of experience, an informed assessment of LIPW as a realistic policy option requires an understanding of how they are perceived by the relevant experts and opinion-formers. To find out how LIPW are seen in these influential circles, CDE held two workshops and conducted a series of 31 interviews during the past two years (see appendices A and B).

Burnt fingers and suspicions

Except for some components of CBPWP and the Working for Water programme (see box: **Public works programmes: a growing trend?,** p 18) the outcomes of public works programmes in South Africa in the 1980s and 1990s were negative. As a result, considerable scepticism about LIPW has built up among civil engineering contractors, economists and development practitioners.

Wages must be significantly lower than the minimum wage

Consultants and contractors who were initially positive – or at least neutral – about labour-intensive construction found this extremely difficult to implement in practice. In the absence of a practical framework for agreement on wages and conditions of service, conflicts often arose that made projects impossible to complete.

Construction industry leaders and private sector economists interviewed also emphasised the difficulties created by South Africa's labour environment. While expressing their willingness to use labour-intensive techniques if the government were to offer large LIPW contracts, most construction company bosses said LIPW would be of no interest to them if workers had to be employed at the same wages and under the same conditions as in capital-intensive construction. The CEO of one construction company went further, saying that his company was reluctant to employ any more workers than seemed absolutely necessary. His company and, he said, many others in the industry used labour brokers and subcontractors wherever possible in an attempt to minimise their responsibilities under labour legislation, and to avoid worker militancy. This view was not shared by three senior executives of similar companies, but corporate economists and consultants confirmed that this approach was widespread.

An equally fundamental reservation centres on whether the state has the capacity to manage a large-scale public works programme. In order to be genuinely labour-intensive, public works must also be management-intensive, and the management must be appropriately skilled. Almost all interviewees were strongly opposed to a new initiative being structured along the lines of the NPWP. They felt that another attempt to reorient the attitudes and capacity of government officials so that they could play a central role in managing LIPW would certainly fail.

Service NGOs and development practitioners also reported confusion and disputes around LIPW and further noted an especially unfortunate outcome in some rural projects where wage rates had been set too high for local conditions. In these cases, existing subsistence activity and development work had been disrupted as workers flocked to the more lucrative – but temporary – LIPW. These other activities then had to be painfully reconstructed when the LIPW were completed.

Capacity developed, and lessons learnt

It would, however, be unduly harsh to write off the experiences of the past decade as no more than a false start.

Public works programmes: a growing trend?

Working for Water

Working for Water was launched in 1995 in an effort to tackle the problems of invading alien plants as well unemployment. It is a multidepartmental initiative led by the departments of Water Affairs and Forestry, Environmental Affairs and Tourism, and Agriculture. With 300 projects throughout the country, the programme is aimed at enhancing water security, improving ecological integrity, restoring the productive potential of land, promoting the sustainable use of natural resources, and investing in the most marginalised sectors of South African society.

Significantly, this well-known and much-praised nationwide programme also operates in partnership with the private sector and international donors. Working for Water has won 25 national and international awards. It had a budget for 2001/2 of more than R400 million, and employed 24 000 people in 2000/1.

The Zibambele roads maintenance contract system

The KwaZulu/Natal Department of Public Works and Transport began this programme, which creates sustainable jobs in labour-intensive road maintenance, in 1999. Under the project, roughly 6 000 households are contracted to maintain a specific length of the road for a year at a time. Zibambele households are responsible for maintaining the road surface, verges and drainage system, and maintaining good roadside visibility.

Gundo Lashu and other LIPW projects in Limpopo

The Limpopo Road Agency has established a long-term labour-intensive rural road rehabilitation programme called Gundo Lashu (Venda for 'our victory'). The agency has obtained R20 million in foreign donor funding to pay for the training of contractors and for technical support in programme management. The Gundo Lashu programme is being implemented in accordance with the gazetted code of practice for special public works programmes, and the Department of Labour is paying for the generic training of task-based workers employed by the contractors, in line with the code of good practice.

Several other labour-intensive road construction projects are currently under way in Limpopo. These include a project supported by Anglo Platinum and the Donaldson Trust to train LIPW team leaders and contractors.

Projects of the Department of Environmental Affairs and Tourism

This department currently operates a wide range of employment creation schemes, and is planning others. These programmes and projects involve environmental clean-up, for

Despite the many obstacles thrown in its path, the public works programmes of the 1990s:

- developed pockets of LIPW capacity in the Department of Public Works, in some provincial administrations, and in various development agencies and NGOs;
- inspired projects such as the Working for Water programme of the Department of Water Affairs and Forestry, which has projected a positive image for LIPW; and
- resulted in the compilation of detailed training manuals for LIPW contractors and consulting engineers.

Existing programmes are numerically insignificant

Since 2000 some of this capacity and some of these lessons are being applied more widely. Besides the CBPWP and Working for Water, the government has begun to operate a number of other relatively small public works and employment creation programmes (see box: **Public works programmes: a growing trend?**, below).

Not all of these projects would fit the strict definition of a properly labour-intensive public works programme. None appear to have benefited from rigorous independent

instance the Coast Care programme, and the maintenance and creation of tourist infrastructure. The department's business plan for 2002 lists 123 such schemes, with a combined budget of R516 million.

The National LandCare Programme

Since 1998 the National LandCare Programme of the Department of Agriculture has created more than 8 000 jobs. Its budget for 2002/3 is R35 million.

Building for Sport and Recreation

The Department of Sport and Recreation launched this programme in 2001. Sports facilities in disadvantaged communities are built or repaired using labour-intensive methods. The programme has been allocated R254 million to 2003/4.

National Roads Agency LIPW projects

In 2001 the National Roads Agency constructed a section of the N1 between Polokwane and Musina using labour-intensive methods. Labour-intensive projects planned for 2002/3 will shortly be put out to tender.

The Zivuseni Programme

In April 2002 the Gauteng government launched the Zivuseni short-term poverty alleviation programme. Its budget over the next three years is expected to be R400 million. Projects undertaken include maintaining government buildings and cleaning up urban areas, particularly managing waste and clearing storm water channels.

Zivuseni participants are employed for a maximum of three months in each year at R40 a day, which is 65 per cent of the minimum wage in the construction sector in Gauteng. The programme reports no objections from organised labour.

By the end of 2002 some 120 000 people had registered for the programme. Zivuseni's target is to make 12 000 job offers in 2002/3, and twice that number in 2003/4. It employed about 5 000 people to December 2002.

As the premier of Gauteng, Mbhazima Shilowa, puts it:

'The extent of poverty and the timeliness of the intervention are evidenced by the overwhelming response by thousands of potential beneficiaries who have already enrolled with the project. … The participants in the Zivuseni programme benefit not only through income gained from short-term jobs, but also through skills acquired in the process.'

The Gauteng government also requires that all its infrastructure development projects be at least 60 per cent labour-intensive.[41]

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evaluation. The National Treasury is not confident that all these initiatives have been efficient users of public money.[40] Most importantly, these are not large programmes. In 2000/1, for instance, all of them combined created no more than 80 000 temporary jobs, and it is unlikely that the total has risen significantly since then.

The main reason why these government programmes have stayed small is because they lack the involvement of the only South African sector which has proven that it can construct infrastructure on a really large scale: the private sector (and corporatised state enterprises such as Telkom and Eskom). The experience of past decades across a wide range of areas – including housing and transport – clearly shows that state departments cannot deliver at scale on their own.

This is a key point. If LIPW are to grow to a really significant scale, a size that can bring our unemployment statistics down by 5 per cent or more, they will need significant long-term involvement from the private sector.

SECURING PRIVATE SECTOR INVOLVEMENT

In interviews with CDE, business leaders and economists agreed that unemployment could pose a serious threat to the stability of democratic South Africa, and that urgent measures are required to alleviate it. While CDE's business informants are acutely aware of the difficulty of creating an efficient countrywide LIPW scheme, there is nonetheless a sense among them that a suitably organised and financed programme might well be the best job creation and poverty relief option that is realistically achievable.

However, if private sector leaders were to consider LIPW as a serious option for a major initiative, they would require more information on its financing, on wage rates and labour standards, and on how the initiative would be managed.

Financing LIPW

In 2000/1, government's public works programmes created no more than 80 000 temporary jobs

CDE's research and interviews indicate that the real problem is not funding a sizeable public works strategy but mustering the capacity and creating the conditions to spend those funds effectively. Economists widely agree that the government's success in reducing its debts has created some room for additional state expenditure.

Private sector economists interviewed agreed that the state could invest R2-3 billion a year in infrastructure without adverse effects on inflation or investor confidence. One leading corporate economist commented: 'We could spend another R2 billion a year on infrastructure without being ill-disciplined.' Another, well known for his fiscal conservatism, suggested that as much as an additional R4 billion could be spent on infrastructure a year without risk.

Even this modest increase in overall government spending would not be necessary to fund the first phase of a major LIPW strategy. In fact, at the start of a new LIPW initiative, it might not even be necessary to alter existing expenditure patterns by very much – let alone correct rollovers, or win the political battle to transfer funds between line departments. The treasury already has significant sums earmarked for employment creation and poverty relief – R1,5 billion in 2002/3, and another R1,5 billion in 2003/4.[42] CDE has estimated on the basis of the government's own figures that another roughly R1,9 billion was allocated in 2002/3 to infrastructure programmes that could adopt a more labour-intensive approach. This was projected to rise to R2,6 billion in 2003/4.[43] To be conservative, it is assumed that only 25 per cent of this amount could be spent labour-intensively. To these sums could be added some portion – say 25 per cent – of the 'contingency reserve', which stood at R3,3 billion in 2002/3 and was projected to rise to R5 billion in 2003/4, and some – say 50 per cent – of the R855 million allocated to the Umsobomvu fund for youth training and job creation.[44]

Table 3: Potential budget for LIPW with no additional government spending, 2002-3 [45]

Budget items	Funds
Employment creation and poverty relief funds	R1,5 billion
25 per cent of other infrastructure funds	R0,475 billion
25 per cent of 'contingency reserve'	R0,825 billion
50 per cent of Umsobomvu fund	R0,4275 billion
Total	R3,2 billion

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The potential maximum budget for labour-intensive public works, with no additional government spending, exceeded R3 billion in 2002/3. This is far more than could be efficiently spent in the first year of a new LIPW strategy.

Securing agreement on wage rates and labour standards

Without the ability to pay well below the minimum wage offered in conventional capital-intensive construction, LIPW simply will not happen because they will not attract the interest of contractors to tender for LIPW work. Just as important, wages on LIPW must be significantly lower than the minimum wage if they are to reach the largest number of really poor long-term unemployed people. The lower the wage, the more people can be assisted. (Obviously, the wage must be above the 'opportunity cost' of employment – that is, high enough to make working worthwhile. Finding the optimal wage rate for each LIPW project is a complex practical challenge, and a period of experimentation is likely to be necessary).

A transitional programme must not be a 'Band-Aid' that temporarily disguises the real problems

Fortunately, in January 2002 the minister of labour issued sensible and flexible regulations that would make a national LIPW programme possible. Crucially, the regulations permit workers to be paid at below the minimum wage for unskilled workers in the area, per sector and per task completed. They also exempt LIPW contractors from many other sections of the Basic Conditions of Employment Act that would make it impractically expensive to run a LIPW project.[46] (It should be noted that although these regulations make LIPW entirely possible, some experts argue that a well-publicised national framework agreement with organised labour may be required to make them practical on a really large scale.)

There is also an increasing sense in the highest political circles that creating growth and jobs is at least as important as maintaining a warm relationship between the government and COSATU. The individual voices of the poor and the unemployed are no longer completely drowned out by those of organised labour. In fact, according to an ANC official concerned with labour policy interviewed in 2002, representatives of the formally employed are also beginning to shift their stance. After all, reducing the number of dependants supported by each formally employed person is far more likely to benefit union members than would further mobilisation and protest aimed at forcing employers and government to raise wages or increase job security. COSATU itself stated in 2002 that the 'main enemy' of young people was mass unemployment, and called for the creation of 'youth brigades' that would 'mobilise young people in the service of the community, while at the same time giving them the chance to gain skills, build their self-confidence and help them to find income-generating opportunities in the future'.[47]

Managing a national LIPW strategy

The South African public works programme of the 1990s was weakened by the fact that they did not enjoy consistent high-level political support. This meant that, although the initial phases of the programme were relatively well thought through, it was quickly submerged in the wider turmoil of transition and transformation. A new LIPW initiative would need to be run in a very different way to secure the political support, private sector involvement, and skilled leadership that it will need.

The precise management structure and institutional location of a new nationwide LIPW initiative can only emerge from negotiations between private sector representatives and government.

CDE'S POINTS OF DEPARTURE

We now develop points of departure for a new large-scale LIPW strategy for South Africa by placing the proposed strategy in its wider context.

Massive job creation requires sustained structural reform

Enough money has already been budgeted to fund the start of a new large-scale LIPW initiative

CDE should not be misunderstood. The only way in which South Africa can achieve large and permanent increases in employment and significantly reduce poverty is by increasing its rate of economic growth from its current band of 2–3 per cent to 5–6 per cent a year.[48] To make this essential shift, and to ensure that the more rapid growth results in maximum job expansion, the country needs major structural reforms.

CDE has consistently welcomed and supported the government's macroeconomic reforms and the promise of microeconomic reform to reduce the cost of doing business. Fiscal discipline, sound monetary policy, an increasingly open trade regime, an independent Reserve Bank, and significant steps towards the abolition of exchange control all add up to a strong foundation for rapid and sustained economic growth.

These successes, however, are only a necessary foundation. We need to go much further, particularly with respect to microeconomic reforms and creating an environment that is attractive to investors and the maximum expansion of jobs. South Africa should:

- **remove all existing obstacles to growth and job creation.** The most important of these arise from current labour legislation, and from crime:
  - crime remains the single largest obstacle to investment, and therefore to growth. Real progress is required.
  - considered as a whole, our labour and employment equity laws work to discourage entrepreneurship and job creation. (This has been demonstrated in recent research by the World Bank on Johannesburg's manufacturing firms.)[49]

Job-destroying 'unintended consequences' and all the rules that distort or shrink the labour market must be abolished. This need not be at the expense of sound labour practice that protects worker rights;

- **radically reform our education and training systems** so as to improve both the quantity and quality of our skilled workforce. (We could, for instance, experiment with voucher system that would give poorer parents the opportunity to make similar choices to those of wealthy parents in finding the best schools for their children);
- **adopt an immigration policy that makes it quick and easy to attract skills to South Africa.** The Immigration Act of 2002 represents progress on this issue, but more should be done to attract skills. South Africa must actively recruit skilled people and entrepreneurs from countries where we can offer competitive opportunities. (On the vital importance of an 'open door' policy for skilled immigrants, see CDE's numerous publications on immigration[50]);
- **reform the tax system** to make it competitive with that of other emerging markets competing for foreign direct investment;
- **complete the long-delayed privatisation process, and bring competition into service provision** in the local and provincial spheres of government;
- **improve our economically vital infrastructure,** particularly in telecommunications and transport (CDE welcomes the government's recent commitment to increased spending on infrastructure of all types. This will make a valuable contribution to job-creation both directly and as a result of opportunities created by improved infrastructure.[51] LIPW should be seen as complementary to this programme, and not as a replacement for it);
- **improve our national health policy and practice,** especially in relation to HIV/AIDS; and
- **develop and implement urbanisation and urban policies that recognise that South Africa is an urban economy** and that the economic and social well-being of the nation depends on thriving and competitive cities.[52]

Given firm political leadership, many of these essential reforms could be implemented quickly. Others will be slow and complex to implement. Some of them are likely to be opposed by powerful interests, while others may appear to 'make things worse' for a time. Effective management of a comprehensive reform programme will require strong leadership and consistent follow-through. Hard political choices will have to be made, and stuck to for several years.

Only the private sector has the capacity to ensure that LIPW can be carried out on a really large scale

In the meantime …

These urgent structural reforms, which government (at least in principle) and business both support, should be accompanied by appropriate and realistic transitional programmes that address unemployment and poverty directly. These transitional measures would provide the space for the necessary structural reforms to be made more rapidly and boldly, and make the entire reform package much easier to sustain politically.

But a transitional programme must not be a 'Band-Aid' that temporarily disguises the real problems that must be addressed. Nor should it create new problems by requiring unsustainable levels of public expenditure that would destroy hard-won fiscal and monetary discipline. Rather, it should be fully compatible with the overall direction of reform. In a country with a major crisis of unemployment, it should provide jobs, improve infrastructure for growth, and, whenever possible, training.

LIPW are an important transitional measure

Properly planned, managed, and genuinely labour-intensive public works have major advantages over other proposed transitional measures such as a BIG or employment creation schemes that do not add value. LIPW have the following positive features:

- **Provide jobs** for the many South Africans who have never worked or are not working now.
- **LIPW create and maintain infrastructure.** This is the unique advantage of public works schemes. LIPW create socially and economically useful output ranging from urban maintenance such as waste collection, street cleaning, and stormwater drain maintenance to the construction and maintenance of rural infrastructure needed for small-scale farming and the maintenance and construction of economically vital infrastructure, particularly roads.
- **Large-scale LIPW draw on private sector capacity.** Unlike programmes that would rely on an understandably weak state bureaucracy to deliver them, large LIPW benefit from the capacity of South Africa's strongest asset: its private sector. Projects are undertaken by private construction companies, contractually bound to the state to employ labour-intensive rather than capital-intensive techniques.
- **LIPW are highly compatible with black economic empowerment.** Typical LIPW contracts tend to be easily divisible into relatively small subcontracts, and do not require expensive or sophisticated capital equipment. Small black-owned start-up contracting firms are therefore ideal private sector partners in many LIPW contracts. On larger projects, smaller contractors can be guided and assisted by larger, longer-established contractors, who are already experts in co-ordinating large projects using many small subcontractors.
- **LIPW provide training.** Unlike a BIG, which would reinforce attitudes of dependency, employment on longer-term LIPW enable participants to gain a thorough training in useful skills, while a job on a short-term LIPW project provides valuable exposure to the world of work, and may also provides opportunities to acquire marketable skills.
- **LIPW are management-intensive.** In South Africa the management intensity of LIPW could eventually become an advantage rather than a challenge to an LIPW strategy. There are many school-leavers with basic literacy and numeracy who cannot find a job, and who would be ideal candidates for training as labour unit supervisors and site foremen on LIPW projects. Some of these supervisors could progress to being trained in more senior management. (In the short term, a potential source of additional senior management capacity could be retired civil engineers and contractors willing to become involved in LIPW. This would give practical content to the president's call in 2002 for volunteerism.)
- **LIPW start to show results relatively quickly.** Some types of LIPW, such as urban clean-up programmes, can be implemented within a year.
- **LIPW are self-targeting.** Unlike income grants, which require immense state capacity to target their intended beneficiaries while avoiding fraud, low-wage, labour-intensive public works are self-targeting. To be an economically viable alternative to conventional capital-intensive construction, they must pay low wages – significantly below the minimum formal wage available in the area. They therefore tend to attract only the long-term unemployed to the jobs they offer. The need to keep wages low also means that a larger number of very poor people can be assisted.

The only way in which South Africa can achieve a large and permanent increase in employment, and significantly reduce poverty, is by increasing its rate of economic growth

- **LIPW are affordable within South Africa's fiscal constraints.** Enough money has already been budgeted to fund the start of a new large-scale LIPW initiative. And because LIPW produce additional employment within existing patterns of expenditure by substituting labour for capital equipment, they will not place unsustainable demands on public funds.
- **LIPW are transitional by nature.** Unlike dole systems, LIPW are easily stopped when they are no longer necessary, because the overall state of the economy has improved.

CDE has therefore concluded that a large-scale LIPW strategy is an appropriate transitional programme for South Africa.

These important advantages notwithstanding, LIPW are not a panacea nor a 'quick fix.' While some LIPW programmes, for instance urban clean-up campaigns, could be implemented within a year, LIPW designed to create new infrastructure function best and spend most efficiently as part of a multi-year transition plan.[53] LIPW are not a replacement for state transfers to those unable to work owing to old age or illness, and they are no replacement for child support grants. They also do not replace, but should rather be coupled with, an appropriate strategy to encourage and facilitate entrepreneurship (a CDE report on this topic is forthcoming).

CDE'S RECOMMENDATIONS

In this section, CDE identifies 12 guidelines that arise from its research and should be followed to ensure the success of a public works strategy for South Africa in the 21st century.

1. **The highest-level political support is essential:** A commitment is needed from the presidency and cabinet to fund an LIPW strategy as long as this is necessary to alleviate unemployment.
2. **The LIPW strategy must grow to a really large scale:** The strategy has to be designed in such a way that it can realistically grow to a size at which it bring down unemployment by 5 per cent or more. This will require extensive private-sector involvement.
3. **The LIPW strategy must be a national public-private partnership:** A large-scale LIPW strategy for South Africa will depend on voluntary senior leadership from the organised private sector and the enthusiastic involvement of private companies, because only the private sector has the capacity to ensure that labour-intensive public works can be carried out on a really large scale. The government should design every feature of the LIPW strategy so as maximise private sector involvement. (Why should a clean-up campaign, for instance, be run by a state agency rather than by a private company?)
4. **Wages must be low:** In order to target the poor effectively, be sustainable, and benefit the largest number of poor people, wages paid on LIPW should be as close as possible to local informal wages for unskilled casual labour. Wages should certainly be much lower than the formal minimum wage in the capital-intensive construction industry, and should be task-based.
5. **The LIPW strategy should draw on dedicated funds:** South African and international experience shows that it is not appropriate to fund LIPW through the standard budgetary channels. LIPW programmes work best when they act as sources of earmarked funding for government departments and contractors, which is only

The LIPW strategy can be an important component in building confidence and hope for the future of the country among rich and poor alike available in return for the use of labour-intensive techniques. The government already has the money to create a dedicated LIPW fund. In the first years of the strategy, no additional government spending would be required.

6. **The LIPW strategy should be 'demand-led':** National departments, provincial and local governments, NGOs, private companies, and communities should all be free to apply for LIPW funding for projects to be constructed and maintained labour-intensively. It is wrong to think that development can happen in a reasonable time and at a reasonable cost following a centrally imposed plan and in the absence of local capacity. The LIPW strategy should be marketed to create demand in less well-resourced or informed communities and spheres of government.
7. **LIPW must expand systematically:** Careful preliminary work is essential to the success of a LIPW strategy. Capacity-building should make full use of existing pockets of LIPW skill and experience. And a clear distinction should be drawn between short-term pilot projects and long-term programmes in order to prevent the former from weakening, let alone replacing, large-scale long-term LIPW. Long-term programmes take a year to two to become large and efficient, but if they are persevered with, the benefits to the unemployed and to the country as a whole are very substantial.
8. **LIPW contracts must be clear, binding, and enforceable:** To prevent corruption, and obtain a product of the required quality, contracts entered into between all levels of government and construction companies or other implementing agencies should incorporate clearly specified and fully binding requirements for the use of labour-intensive methods. A system must be set up to ensure that contractors, consultants, and other implementers who act corruptly or deviate from their contractual obligations in respect of labour-intensity or other requirements would have their contracts terminated and be excluded from further LIPW work.
9. **Labour-intensive techniques should only be applied when appropriate:** Care should be taken to weed out unscrupulous opportunists who will compete for tenders by making unrealistic claims for labour-intensive techniques. Much highly sophisticated infrastructure (such as high-speed rail networks) cannot be constructed labour-intensively.
10. **A large-scale LIPW strategy must not damage the established construction sector or impede conventional infrastructure spending:** There is no reason why it should, if a clear and realistic distinction is drawn between projects which should be predominantly labour-intensive and those which require – for economic or engineering reasons – more conventional techniques. Care must also be taken to ensure that the new LIPW strategy is compatible with the transformation of the existing construction sector under the auspices of the Construction Industry Development Board. Two of the main aims of the board – procurement reform, and black economic empowerment (BEE) – are just as important to LIPW as to the conventional sector. Equally, the strategy must supplement, and not replace, government's current or planned conventional infrastructure spending. The two programmes could make a dramatic contribution to employment creation.
11. **A LIPW strategy must be tightly focused on employment creation:** Care should be taken that the laudable objectives of BEE and small enterprise development do not replace those of large-scale employment creation. While labour-intensive black-owned construction firms are an important element of a LIPW strategy, capital-intensive black-owned construction firms are not – however desirable they may be in other contexts. Equally, while LIPW should provide training when this is

If LIPW are to grow to a really significant scale, they will need the long-term involvement of the private sector practically possible, LIPW should not be overloaded with training requirements, because these can damage their cost-effectiveness and sustainability.

12. **A successful LIPW strategy will depend on the efficient monitoring and evaluation of all projects and on effective information and media management.** Without careful monitoring, such projects are vulnerable to corruption in tendering, window-dressing in employment policy, and poor quality in construction and maintenance. It will be necessary to police and punish corrupt practices, and to determine minimum standards of labour-intensity and output for all LIPWs programmes, ensuring that they create both jobs and useful infrastructure. Criteria should be developed to decide which particular labour-intensive programmes should be built up to a large scale, which should be ended, and which require remedial intervention. The programme should publish an annual report to provide detailed information on its achievements in large-scale employment creation and infrastructure development. In order to derive maximum benefit from the strategy, it is essential that these achievements be well and widely publicised because one of the most important wider benefits of LIPWs is that they can provide tangible, media-friendly proof that 'something is being done' for the unemployed. Well-managed use of this 'demonstration effect' extends the benefits of the strategy more quickly and directly to all South Africans.

CONCLUDING REMARKS

In common with many other developing countries, South Africa is in the middle of the long and difficult transition towards a competitive, skills-based economy. Our most pressing social problem during this transition is unemployment.

Labour-intensive public works on a large scale could contribute greatly to alleviating this problem. Genuinely labour-intensive public works programmes function as a 'safety-net' to catch people who are adversely affected by structural changes in, and necessary reforms to, the South African economy. They create much-needed infrastructure. They provide workers with marketable skills, and with the sense of dignity, discipline, and self-respect that comes from doing useful work. Crucially, LIPW could do all this in a way that is fully compatible with macroeconomic discipline.

Do not locate the LIPW strategy in the departments of public works or provincial and local government

Such an initiative would also have wider benefits:

- A world-class public-private partnership in the form of a national public works strategy would be a drawcard for potential investors. It would be a powerful sign that South Africa was 'getting things right'.
- It would be a compelling example to South Africans generally of an excellent public--private partnership that is making South Africa a better place.
- Business – and especially small and emerging business – will benefit directly from the infrastructure constructed by a major LIPW strategy. Emerging construction companies in particular will profit from the growth in government spending on LIPW.
- Most importantly, the existence of a national public works strategy with a broad spectrum of programmes would considerably assist the government in managing the difficult politics of economic reform. By creating new beneficiaries of reform and by showing all South Africans in a tangible, media-friendly way that 'something is being done', it would enable the government to act more boldly and decisively in making the reforms needed to lift the country on to the higher growth path required to reduce unemployment and poverty in the longer term.

In July 2002 the cabinet announced that it would be preparing 'detailed proposals … on a massive expanded public works programme which will include partnership with the private sector, in line with its philosophy that 'as many as our citizens as possible should enjoy the opportunity, the dignity and the rewards of work.'[54] Opening parliament in February 2003, the president restated the goal of creating expanded public works programmes and said that 'the government must act to ensure that we reduce the number of people dependent on social welfare, increasing the numbers that rely for their livelihood on normal participation in the economy.'[55]

CDE welcomes these statements of intent. We believe that a public–private partnership for large-scale labour-intensive public works is a very important part of the package of reforms needed to ensure that an ever-increasing proportion of South Africans are able to enjoy the benefits of increasingly effective and 'normal' participation in the economy.

A new LIPW strategy would bring together government and business to build infrastructure and to create jobs for the unemployed poor. It would be one of the best ways of creating an enduring partnership for a prosperous, democratic South Africa at work.

APPENDIX A: INTERVIEWS

Anthony Asher, professor and director of actuarial studies, University of the Witwatersrand, March 2001.

Adrienne Bird, chief director, employment and skills development, Department of Labour, April 2001.

Brian Bruce, chief executive, Murray and Roberts Holdings, May 2001, November 2002.

Jim Buys, chief economist, Anglo American Corporation of South Africa, May 2001.

James Croswell, consulting engineer, March 2001.

Eustace Davie, director, Free Market Foundation, May 2001.

Julia de Bruyn, senior manager, intersectoral programmes, National Treasury, March 2002.

Andrew Donaldson, deputy director-general, budget office, National Treasury, March 2002.

Benjamin Donaldson, chairman, Donaldson Trust, June 2002.

Peter Derman, consultant, Community Organisation for Research and Documentation, June 2002.

Dennis Dykes, chief economist, Nedcor Investment Bank, May 2001.

Elna Fourie, projects manager, National Roads Agency, June 2002.

Rudolf Gouws, chief economist, Rand Merchant Bank, May 2001.

Jerome Govender, knowledge officer, Murray and Roberts, November 2002.

Mhlabunzima Hlengwa, member of parliament and chair: parliamentary portfolio committee on labour, February 2002.

Barry Jackson, project manager, Municipal Infrastructure Investment Unit, May 2001

Howard Jones, deputy group managing director, Grinaker-LTA, June 2001.

John Kane-Berman, chief executive, South African Institute of Race Relations, May 2001.

Gavin Keeton, economist, Anglo American Corporation of South Africa, May 2001.

Henk Langenhoven, executive director, South African Federation of Civil Engineering Contractors, March 2002, November 2002.

Salie Manie, member of parliament and chair: parliamentary portfolio committee on public works, February 2002.

Lucky Mochalibane, chief director, communications, Department of Public Works, January 2002.

James Mlawu, chief director, Department of Transport and Public Works, KwaZulu/Natal provincial government, July 2002.

Caswell Mthombeni, chief director, maintenance and public works, Department of Transport and Public Works, Gauteng provincial government, May 2001, January 2003.

Sean Phillips, head, department of public works, Limpopo provincial government, April 2001.

Graham Power, president, South African Federation of Civil Engineering Contractors, February 2002.

Charles Simkins, Helen Suzman professor of political economy, University of the Witwatersrand, March 2001.

Rick Snowden, joint chief executive, Ove Arup, May 2001.

APPENDIX B: WORKSHOPS

In the course of researching this study, CDE conducted two workshops on public works in South Africa. Attendance was as follows:

First workshop, 7 March 2001

Anthony Asher, professor and director of actuarial studies, University of the Witwatersrand.
Francis Antonie, senior economist, Standard Bank of South Africa.
Ann Bernstein, executive director, Centre for Development and Enterprise.
James Croswell, consulting engineer.
Simon Dagut, senior research co-ordinator, Centre for Development and Enterprise.
Peter Delius, professor, history department, University of the Witwatersrand
Maikel Lieuw Kie Song, researcher, department of civil engineering, University of the Witwatersrand.
Robert McCutcheon, professor, department of civil engineering, University of the Witwatersrand.
Charles Meth, senior lecturer, division of economics, University of Natal, Durban Campus.
Kate Philip, director, Mineworkers' Development Agency.
Sean Phillips, head, department of public works, Limpopo province.

Second workshop, 25 July 2001

Anthony Asher, professor and director of actuarial studies science, Wits University.
Ann Bernstein, executive director, Centre for Development and Enterprise.
James Croswell, consulting engineer.
Timothy Clynick, senior manager, Centre for Development and Enterprise.
Simon Dagut, senior research co-ordinator, Centre for Development and Enterprise.
Peter Delius, professor, history department, University of the Witwatersrand.
Gavin Keeton, economist, Anglo American Corporation of South Africa.
Henk Langenhoven, executive director, SA Federation of Civil Engineering Contractors.
Robert McCutcheon, professor, department of civil engineering, Wits UniversityDelani Mthembu, chairman, National Development Agency.
Michael O'Dowd, board member, Centre for Development and Enterprise.
Guy Preston, director, Working for Water, Department of Water Affairs and Forestry.
Charles Simkins, Helen Suzman professor of political economy, Wits University.
Filip Taylor Parkins, researcher, department of civil engineering, Wits University.
Tony Poulter, co-ordinator, Working for Water, Department of Water Affairs and Forestry
Sipho Shezi, chief executive officer, Sirius Development Foundation; former director-general of the Department of Public Works.
Rudiger Wagner, senior corporate affairs officer, Anglo American Corporation of South Africa.

CDE wishes to thank interviewees and participants in our workshops for their valuable input. However, the views expressed in this report are those of CDE alone.

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