

## **INFORMATION SERVICES: RESEARCH**

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### **PRESENTATION TO THE PC ON LABOUR: YOUTH UNEMPLOYMENT IN SOUTH AFRICA**

#### **1. INTRODUCTION**

The South African government was challenged in 1994 with the adoption and implementation of several policy initiatives aimed at creating jobs and redressing the imbalances of the past. Government has since 1994 introduced a wide spectrum of social and economic reforms. In relation to labour market interventions, rights for the most vulnerable workers have been secured including the right to freedom of association and to bargain collectively. The objective of the new labour framework is to ensure that adversarialism is replaced by social dialogue.

Notwithstanding the fact that significant gains have been made since 1994, there are still critical challenges in dealing the problem of high levels of unemployment in South Africa, particularly amongst young people. The South African economy has enjoyed more than 5 years of sustained growth and the benefits of sound financial and monetary policies, yet there is still a dire need to make the necessary interventions in the first economy to accelerate progress towards the achievement of higher levels of economic growth and development of at least 6% per annum.

South Africa's industrial performance during the late 1980s and early 1990s was constrained by both external pressures and continued internal structural inadequacies. High levels of protection, low levels of investment, weak competition laws and various constraints on entrepreneurial activity led to rising levels of concentration in the ownership and structure of the manufacturing sector (Poverty and Inequality, 1998).

The labour market was characterised by a number of distortions and inefficiencies that were a result of a particular growth trajectory (Standing 1996). The South African labour market reflected relations of unequal power and high levels of exploitation (Standing, 1996). The legal framework ensured that the black component of the labour force was available as cheap labour. Import substitution industrialisation was constrained by a skills scarcity. The majority of the black labour force (unskilled and semi-skilled) was restricted to the secondary labour market (Standing, 1996).

The labour market inherited by the democratic government was characterised with high levels of poverty (working poor), income inequality, low levels of education and skills, adversarial labour relations, inadequate protection for vulnerable workers and the absence of a comprehensive social security network (Poverty and Inequality, 1998).

In a global context where there are vast disparities between those who have easy access to resources and those living in conditions of great poverty, South Africa is ranked as having the fifth highest gini-coefficient in the world.<sup>1</sup> The South African economic landscape is characterised by the fact that many employees earn less than R1000 per month. For example, almost a quarter of formal sector workers, approximately 76.3% of informal sector workers and 90% of domestic workers fit into this income category. The unemployment problem is therefore coupled with the fact that amongst the ranks of those who are employed, there is great disparity and inequity in how people are remunerated.

The government's objective is to halve poverty and unemployment by 2014. The Accelerated and Shared Growth Initiative of South Africa (ASGISA), which consists of limited set of interventions that are intended to serve as catalysts to accelerated and shared growth and development, will constitute an important tool for attaining this objective. In his 2006 State of the Nation Address, the President noted that the trade union movement and civil society as a whole must face the challenge of translating into action the commitment made with other social partners at the Growth and Development Summit. This focussed on developing a common vision for promoting rising levels of growth, investment, job creation, and people centred development.

The Labour Force Survey estimates South Africa's population to be 46.9 million.<sup>2</sup> Of this, 17.49 million are in the age group 15-35 years, constituting approximately 37.2% of the South African population. Using the official definition of employment, the Labour Force Survey estimates that approximately 40% of this age group, is unemployed. This figure increases when taking into account persons classified as discouraged work seekers, i.e those who did not look for employment 7 days prior to the interview. These statistics reflect an alarming high number of unemployed young people in the country.

Previous Apartheid policies have ensured that the youth of South Africa have not been able to develop this young talent. Youth form a particular vulnerable group in our society. Youth are particularly exposed to poor housing conditions, crime and violence, high rates of unemployment, and poor access to education and training. In the South African context youth employment strategy is linked to the national employment strategy. The current government is paying particular attention to the economic and social empowerment of youth. This paper will attempt to sketch the South African

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<sup>1</sup> Simply put, the gini-co-efficient is used to measuring levels of inequality i.e. the gaps between the rich and poor.

<sup>2</sup> Labour Force Survey, September 2005.

labour market landscape and illustrate how the labour market can be used to create jobs and effect a more equitable distribution of income for young people.

## **2. SOUTH AFRICAN LABOUR MARKET LANDSCAPE**

The labour market is central to South Africa's numerous economic growth and policy challenges. These challenges centres on issues such as skills constraints or mismatch with the new requirements of the economy, unemployment, employability, under employment, skills emigration, poverty and the impact of HIV and AIDS on the labour force.

The goal is no longer to merely create jobs. The objective is to create sustainable jobs for the poor so as to increase the living standards of the most vulnerable. The labour market question is not easy to resolve within a South African context and involves the management of trade offs. The South African labour market experienced increases in both the demand and supply of labour. The growth in the supply of labour exceeded the growth in demand that has led to the employment gap. Employment creation from 1990 to 2001 was unable to absorb the new and existing labour force.

South Africa needs to ensure international competitiveness within a context of globalisation and an outward growth strategy. The economy is undergoing fundamental changes that include the introduction of new production methods that are reliant on skills and technology. The demand for skilled workers has increased in South Africa followed by a decreased demand for unskilled workers. The dilemma is that the South African labour force is characterised by low skills. The export led growth strategy of the government has become skill and capital intensive further increasing the demand for skilled labour. One of the key challenges for the economy is to increase the skill levels of the labour force, as there is a mismatch between the available skills and the needs of the economy.

At a sectoral level the highest increases in employment have been in the trade and finance sectors (social and community services). This was followed by the construction and transport sectors. Employment performance in manufacturing has been uneven and increased slightly from September 2003 to September 2004 but declining from September 2004 to September 2005. Agriculture has consistently shed jobs from 1990 to 2005. Mining employment has increased marginally with the bulk of employment being created in the public sector. It is difficult to deduce precisely if employment increases have occurred in the formal or the informal sectors. The growth propellers of the economy are not creating jobs.

According to Leibbrandt etal (2000) household wage income constitutes the key determinant of inequality and poverty. The Leibbrandt study reported that many South African households have no access to a wage income and widespread distribution inequality exists between households that do have access to wage incomes. Bhorat etal (2000) asserts that there are three dimensions to labour market vulnerability namely "low participation rates, high

unemployment and low earnings for those that are employed". The Leibbrandt et al (2000) study demonstrates that racial inequality in South Africa is high and relative to the highest internationally however inequality within racial categories has become increasingly more pronounced.

Measuring a broad range of income sources including remittances, capital income, state transfers, self employment and wage income, the Leibbrandt study (2000 ) finds that wage income and the lack thereof is the single largest factor shaping South Africa's Gini coefficient. Income from self-employment also seems to contribute to inequality. Leibbrandt et al (2002) disaggregated South African households using various permutations and concluded that households with unemployed members tend to be concentrated below the poverty line as compared to households with employed members – hence the importance of employment and a smooth functioning labour market. (Leibbrandt 2000)

#### Official/ Expanded Unemployment (STATS. SA)

YEAR	OFFICIAL <sup>3</sup> DEFINITION	EXPANDED DEFINITION
1993	17.8	29
1994	20.3	36.6
1995	16.5	29.3
1996	19.3	33
1997	21	36
1998	25.2	37.5
1999	23.3	36.2
2000	25.8	35.9
2001	29.5	41.5
2002	30,5	41,8
2003	28,4	42
March 2004	27,9	41,8
September 2004	26,2	41
March 2005	26,5	40,5
September 2005	26,7	38,8

The dual challenge for South African policy is to create employment opportunities for those without access to jobs, on the one hand, and the need to improve the quality of employment and earnings for those workers that are most vulnerable in the labour market. The choices between increasing employment levels and the quality of employment is not always clear as policy choices can be contradictory and involve trade-offs.

<sup>3</sup> Strict definition of unemployment refers to people in the labour force who are actively seeking employment whereas the broad definition includes those people in the labour force who are not actively seeking work but might be discouraged work seekers.

### 3. KEY CHALLENGES

The following key challenges impact on youth in the labour market:

- Different types of unemployment including frictional (between jobs), seasonal (agricultural, tourism), cyclical (employment linked to the cycles of the economy- current mismatch) and structural (skills).
- The labour market is still plagued by the legacy of discrimination based on race, gender, age and disability.
- Current mismatch between labour demand and supply of labour especially with regard to youth.
- The low level of skill is a key factor impacting upon the supply and demand of labour. Current National Skills Development Strategy is not centrally focused on the unemployed and the impact on employment creation is fairly low.
- The Expanded Public Works Programme is a key response to the unemployment crisis however the cost of creating jobs is high low employment multipliers.
- Labour Market Information. Youth currently experience a lack of information regarding job opportunities. Labour Centres could play a role in this regard.
- Small, medium, micro enterprise development involves training and provision of finance. Key players include the Department of Trade and Industry and the Umsombovu Youth Fund. The formal banking system has not been responsive. Risk profiling.
- Education for employment. There is an urgent need to improve the schooling system so as to improve the quality of learners. The Higher education system is not improving the employability of learners.
- Key labour market programme and institutions have been established – the current need is to fine tune implementation.
- Duplication and overlap – private and public sector responses to youth unemployment – need for greater coordination.
- How targeted are the current labour market interventions especially with regard to youth? Are they reaching the most vulnerable youth – low skills, rural and women?
- Substituting capital for labour: The cost of employment is an important factor impacting upon employment.

- Database of unemployed graduates: A significant development in the process of reducing unemployment, is the completion in 2005, of the task of registering unemployed graduates. There are currently over 60 000 names in the database. These graduates now need to be linked to potential places of employment.
- High levels of illiteracy: Literacy levels amongst adults in South Africa are still exceptionally low in the post-1994 period, notwithstanding substantive transformation in the education system. Adult illiteracy is defined as persons aged 16 years and older with less than 7 years formal schooling. Such persons are considered to be functionally illiterate.<sup>4</sup> The 2001 census revealed that there are approximately 4 340 911 illiterate men in South Africa (30%) and 5 259 912 illiterate women (32%).<sup>5</sup> The 2004 General Household Survey shows that 1 in every 10 persons aged 20 and above still has no formal education. This constitutes about 10-12% of the population. It is, however, important to note that there is a definite decline in the percentage of learners aged 7-24 years not attending an educational institution as a result of a lack of financial means. It is estimated that this percentage has decreased from 39.6% in 2002 to 37.1% in 2004.<sup>6</sup>

#### 4. LABOUR MARKET PROGRAMMES

The Presidential Job Summit of 1998 and the Growth and Development Agreement of 2003 represent a national consensus on the joint interests of business, labour and government. The objective of these interventions was to ensure agreement on a correct mix between the market and legislation, profits (competitiveness) and labour standards, and growth and redistribution (Presidential Commission, 1996). Each party is expected to pledge commitment and ensure stakeholder support for the objective of a growing South African economy, increased foreign investment, poverty reduction, promotion of equity and job creation (Growth and Development Summit Agreement, 2003). Besides giving content to economic competitiveness and labour market transformation, the two summits represent a decisive break from past adversarial industrial relations.

The use of labour market mechanisms to create jobs and eliminate inequality in the distribution of income should be approached with caution (Poverty and Inequality 1998). Taking into account the equity dilemma in South Africa labour market policies need to be closely associated with job creating and income equity promoting strategies (Bhorat, 2000). However, the labour market is not the only instrument to create jobs or effect income equity. Other instruments such as labour legislation, government spending, taxation, provision of services such as health, welfare and education may be equally important in creating jobs or effecting a more equitable distribution of income – either directly or indirectly (Poverty and Inequality, 1998). Creating jobs and

<sup>4</sup> Statistics South Africa definition.

<sup>5</sup> Sourced from Statistics South Africa.

<sup>6</sup> General Household Survey, 2004.

ensuring an equitable distribution of income requires a common vision and coordinated action between the main role players: government business and labour (Growth and Development Summit Agreement, 2003). Labour market interventions have been guided by the need to increase employment, improve the quality of employment and income, increase the quality of skills and improve the bargaining power of workers through collective bargaining (Poverty and Inequality, 1998). The following notable labour market interventions were endorsed at the 2003 Growth and Development Summit:

- Public Works Programmes: Public Works Programmes have been linked to infrastructure development, rural development, employment creation, skills development and strengthening of human resources. The programme is intended to provide poverty and income relief.
- Sector partnerships and strategies for effective restructuring of the economy towards equitable employment by creating growth through prioritising efforts in the following sectors: clothing, textiles, agriculture, agro-processing, tourism, call centres, back-office processing and cultural industries. Business also committed to invest R145 billion over the next 5 years in the automotive, chemical, mining and oil sectors.
- Local economic development with government undertaking to expand the number of multi-purpose centres and intensify the Imbizo Campaigns while strengthening local government structures and Integrated Development Plans.
- Strengthening the skills, training and education system in South Africa with the objective of improving the domestic skills base. As part of a coordinated sector plan employers should be encouraged to invest in the training of workers. Relative to other countries the expenditure on skills training in South Africa is low. With the need for skilled labour and high levels of unemployment the restructuring of the higher education system becomes imperative.
- Ensuring consensus between the major role players: government, business and labour.
- Public investment initiatives should include a labour intensive component e.g. road construction, water supply and electricity provision etc.
- Promote local procurement with the objective of supporting job creation, BEE, cooperative development, SMMEs, growing the local economy and a Proudly South African campaign.
- Small, medium and micro enterprise promotion that promotes black economic empowerment and increases job creation. The Small and Medium Development Programme, which by 2002 produced 535 projects worth R3 billion creating 20 457 local jobs

- Establishment of cooperative structures that promote income-generating activities, increasing savings and promote skills development.
- Ensure the provision of basic services such as water, electricity, sanitation and refuse collection.
- (Presidential Job Summit Declaration 1998 & Growth and Development Summit Agreement 2003)

In the formulation and implementation of strategies that create jobs and promote a more equitable distribution of income it is important to distinguish what is achievable in the short to medium term and what will change in the long run (Poverty and Inequality, 1998). A more integrated approach to ensuring job creation and income equality is preferred over an *ad hoc* and disorganised strategy (Poverty and Inequality, 1998).

## **5. ENTITIES PRESENTING TO THE COMMITTEE**

### **5.1 National Economic Development and Labour Council (NEDLAC)**

During the early 1990s, the power of organised labour led to the transformation of the National Manpower Commission (NMC) from an advisory body into a forum where business and labour interest could negotiate with government. Conflicts between government and labour over the introduction of a value added tax (VAT) system resulted in the formation of the National Economic Forum (NEF) structured along similar lines. Both were replaced in 1994 by NEDLAC, a statutory body which consolidated and extended the powers of the NEF and NMC. NEDLAC acts as an umbrella where the social partners attempt to find common ground on a broad range of macro issues including industrial relations. NEDLAC institutionalises tripartism and facilitates negotiation not only of labour policy but of key aspects of fiscal, industrial and development policy.

The NEDLAC Act of 1994 outlines the following objectives:

- Strive to promote the goals of economic growth, participation in economic decision making and social equity.
- Seek to reach consensus and conclude agreements pertaining to social and economic policy
- Consider all proposed labour legislation relating to labour market policy before it is introduced to Parliament
- Consider all significant changes to social and economic policy before it is implemented or introduced in Parliament
- Encourage and promote the formulation of coordinated policy on social and economic matters.



## 5.2 The South African Youth Council (SAYC)

South African Youth Council (SAYC) is a voluntary civil society youth organisation that represents the interest and aspirations of various youth organisations affiliated to it including political youth, student, religious, cultural, sporting and voluntary youth organisations. The SAYC has been incorporated in terms of the Non-profit Organisations Act No. 71 of 1997. The SAYC is a civil society organisation representing a wide spectrum of youth. A key function of the SAYC is to mobilise youth organisations to ensure their participation in building and entrenching democracy in South Africa.

The mission of the Youth Council is to

- Seek to develop and empower all South African youth.
- Provide a forum for all membership-based youth organisations and youth service providers to contribute to youth policy and monitor its implementation.
- Uphold democratic values as enshrined in the Constitution and the Bill of Rights of the Republic of South Africa.
- Ensure participation of young people in national development and reconstruction, and contribute to social, economic and potential life of our communities and country.
- Recognised our role and responsibility in South African, the southern African region (i.e.. SADC), the African continent and the world in a spirit of friendship and solidarity amongst nations, development and co-operation.

## 5.3 The Umsobomvu Youth Fund

The Umsobomvu Youth Fund (UYF) seeks to facilitate effective youth development programmes and the mainstreaming of youth development programmes for youth to have sustainable livelihoods. It further seeks to enhance the active participation of the South African youth in the mainstream of the economy. It therefore strives to facilitate and promote the creation of jobs and skills development for South Africa's young people. The UYF claims that it has become a catalyst for SMME development and growth through its various programmes.<sup>7</sup> It has formed partnerships with the private sector, government and other key stakeholders to tackle youth unemployment. Its Enterprise Finance Programme has 3 SMME funding areas, namely the Franchise Fund (which in the 2004/05 period approved 38 investments valued at R 41 million and resulting in the creation of 531 jobs), the Progress Fund (which in the 2004/05 period assisted 12 youth SMEs with in excess of R 10 million worth of loans) and the General Fund (which to date has assisted 11 entrepreneurs with over R 13 million worth of loans). The UYF also has initiatives aimed at improving entrepreneurship in South Africa. Through the Entrepreneurship Programme, 30 000 young people were assisted to enhance their entrepreneurial skills with CIDA City Campus.

<sup>7</sup> Annual Report, Umsobomvu Youth Fund, 2005

Notwithstanding the initiatives of the UYF, youth unemployment figures remain high. Even though the entrepreneurship programmes are important initiatives in addressing unemployment, the Global Entrepreneurship Monitor (2003) ranks South Africa far below most of the developing countries polled on the total entrepreneurship activity index. It is also important to note that in the 2004/05 period, the UYF received a qualified audit. The report of the audit committee noted that a major part of the Fund's investments consisted of an investment in the Progress Fund, a public-private partnership with the First National Bank. The Progress Fund did not prepare consolidated financial statements and no audit was performed on the Progress Fund for the purposes of the audit. It was further noted that there were no satisfactory auditing procedures that could be performed to obtain reasonable assurance as to the completeness and accuracy of the equity accounted earnings related to this investment.

#### **5.4 National Youth Commission**

The National Youth Commission (NYC) was set up in 1996 as an institution within government that would bear responsibility to advance youth development. Provincial Youth Commissions were also set up as part of an attempt to address the challenges facing young people in the country. The initial mandate given to these structures was to develop appropriate policy instruments that would guide government interventions at all levels. This mandate has since evolved and the NYC now conducts programmes aimed at improving the status of youth through:

- Advocacy and lobbying.
- Research and development on youth development issues.
- Policy formulation and analysis interventions.
- Communication and outreach programmes.

In 2003, the NYC, UYF and South African Youth Council convened a youth sector summit on growth and development. The focus of this initiative was to facilitate the integration of youth into the labour market to improve sustainable livelihood. The purpose of the summit was to consolidate youth input into the main Growth and Development Summit. Four recommendations emerged from this initiative:

- The Summit recommended that the National Youth Summit Programme (NYSP) should be adequately resourced. Relevant programmes such as the Expanded Public works Programme should commit to use the NYSP as a delivery mechanism to benefit young people.
- Young people are still struggling to access finance and small business development support. It was therefore recommended that the private sector and development funding institutions develop appropriate tools that can assist young people to become entrepreneurs.
- The government has initiated public internship programmes as a way of bringing first time entrants into the labour market to acquire skills and work experience. The scope of this initiative needs to be