

**PUBLIC WORKS AND OVERCOMING UNDER-DEVELOPMENT IN SOUTH
AFRICA**

UNDP, HSRC & DBSA

**Conference on Overcoming Under-development in South Africa's Second Economy
29 October 2004**

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Abstract

This paper gives a critical review of the potential contribution of the Expanded Public Works Programme (EPWP) to overcoming under-development and linking the second and first economies. The paper addresses the considerable disjunction between the presentation and aspirations related to the EPWP in the popular discourse, and the realities of the programme, in terms of scale and impact, which risks distorting the social protection debate in South Africa. It also highlights the sometimes contradictory labour market assumptions underlying the EPWP and concludes that the limited scale of employment offered under the EPWP, and the short duration of the employment period for each worker make it unlikely that the programme will have a significant impact on unemployment or poverty, at either household or national levels.

Introduction

This brief paper will present an overview of the nature of the unemployment crisis in South Africa and give a critical review of the potential contribution of the recently introduced Expanded Public Works Programme (EPWP) to overcoming under-development and linking the second and first economies. The paper first outlines the characteristics of unemployment and poverty in South Africa, and then goes on to review the EPWP objectives in the popular discourse. Next the paper examines the potential performance of the EPWP against the popular rhetoric in terms of its impact on poverty, unemployment and growth and highlights the tension between rhetoric and programme outcomes. It is concluded that while PWP's can have an impact in these key policy areas, the scale, duration and targeting of the EPWP instrument are the key constraints to successful implementation in South Africa, and that there is a major disjunction between the programme as perceived in the popular discourse, and its reality. In conclusion it is argued that increased fiscal allocations to the working age unemployed poor are critical (whether through public works or alternative redistributive measures) if the required linkage between the first and second economies is to be promoted.

Unemployment and Poverty

First it is important to gain an overview of poverty and unemployment in South Africa. The poverty rate is between 40 and 50%, depending on the poverty line used, with approximately 17 out of 45 million of the population living in poverty. Unemployment has reached a plateau over the last year having risen steadily since the 1970s, and stood at 5.3 million (31%), using the official definition, and 8.4 million, (42%) using the broad in March 2003 (Stats SA 2003). Unemployment and poverty are closely linked in South Africa, with access to wage income being a key determinant of poverty, due to high reliance on remittances, low levels of subsistence activity and a small informal sector. This is problematic since growing unskilled unemployment is contributing to increasing levels of poverty among the poorest.

It is necessary to examine briefly the nature and causes of unemployment. In the South African context unemployment is structural, chronic and mass, with falling formal sector demand for unskilled labour, in relation to supply, since the 1970s. This fall is largely due to structural changes in the economy, resulting from a decline in the importance of the primary sector, technological change, and liberalisation and entry into global economy. The consequence of these structural shifts is that the number of labour market entrants exceeds the number of new jobs, resulting in a rapid rise in unskilled unemployment. Hence the South African labour market is not able to deliver employment for 30% of the labour force, and the nature of South Africa's growth path is such that continued elevated levels of unemployment among the unskilled may be anticipated even with 4% GDP growth per annum in the medium term (Lewis 2001). As a consequence employment creation intervention is required in the medium to long term to address this problem.

The Government's Employment Strategy

The Government's employment strategy is based on two assumptions, i) that economic growth will lead to increased employment, and ii) that improved education will enable

workers to take up the skilled employment opportunities which will arise as a result of economic growth (EPWP 2004), and hence policies are focused around promoting growth and education. To this is added a public works component to provide employment in the short term, pending the realization of increased employment arising from growth and improved labour supply (for a full discussion of labour market interventions since 1994 see Streak and van der Westhuizen 2004).

EPWP Objectives in the Popular Discourse

The public works component, under the title Expanded Public Works Programme (EPWP), has featured prominently in the policy dialogue, both before and after the April 2004 elections. Within the popular discourse the presentation of the programme has been jubilant, and has created a set of assumptions and expectations relating to the programme which in turn have influenced both policy makers and the broader population. A good example of this would be the article in the Cape Times, under the heading '*Massive public works jobs plan to deal blow to poverty and lift economy to new level*';

'The governments is to unveil a 'massive' public works jobs plan to deal a blow to poverty and take the country to a new level of economic development Speaking yesterday at the release of the Towards a Ten Year Review, government spokesman Joel Netshitenzhe said the plan would lead to the employment of hundreds of thousands of people at a time. "It will be quite massive. It might not require new resources but it will involve better utilisation of projects that exist already" '

(Cape Times, 17.10.03)

And similarly under the banner '*Mbeki promises a million new jobs*' This Day told readers;

“A million unemployed people will get jobs over the next five years because of a dramatically expanded government public works programme” President Thabo

Mbeki said yesterday [...which would] draw “significant numbers of the unemployed into productive employment” and [...] allow workers to “gain skills while they are gainfully employed and increase their capacity to earn an income once they leave the programme”. The programme would help to move people off social grants and into public employment.’

(This Day, 12.11.03)¹

These statements imply a major initiative and raise a set of associated social protection expectations. The critical question is whether the policy design and outcomes match this rhetoric and associated expectations? In order to assess this it is useful to review the expectations in question. The key issues highlighted in the first quote were poverty, economic development and employment, while the second gives a more nuanced presentation, highlighting the problem of the working age poor and identifying the impact of the programme on the future labour market performance of participants. Even in these few statements discrepancies start to emerge between the policy rhetoric and the policy context which are critical to informing the broader policy agenda. One example is the expectation of helping ‘to move people off social grants and into public employment’, which is frequently cited as a key (ideological) benefit of the EPWP over alternative interventions. This is problematic, as the working age poor who would participate in the EPWP are not eligible for grants under the existing social protection regime,² hence EPWP employment will not help them to ‘move out of dependence on social grants’. Hence the rationale often raised for using public works rather than grants, the reduction of ‘dependence’, does not in fact apply in this instance, since the EPWP is the only significant transfer (in this case a wage rather than a grant) targeted at this group.

However, it is important to explore the more fundamental aspects of the policy in more detail, starting with the key EPWP objectives in the popular discourse, as illustrated by the quotations above. In this discourse the EPWP objectives match closely with the

¹ This speech was given on the occasion of President Mbeki’s address to the National Council of Provinces, 11 November 2003.

² Although some benefit indirectly from a share of grants such as the state old age pension or child support grant which are received in their households.

critical economic policy challenges currently facing the government; poverty, employment, growth and infrastructure provision³, echoing the heavy reliance on PWP as a key component of a comprehensive employment strategy (ANC, 2002b: section 67). In July 2002 the Cabinet Lekgotla agreed that a ‘massively expanded’ PWP would form a key component of a comprehensive employment strategy, together with a range of complementary supply-side interventions, primarily focusing on training through the expansion of the SETA-based training programme. Since that time PWPs have almost come to dominate the current social protection and labour market discourse. However, at the same time the government has acknowledged that there are no ‘magic solutions or quick fixes’ to the unemployment problem;

It is clear that the fight against unemployment is our central challenge. The need for sustainable jobs is glaring, but we should have no illusions. There are no magic solutions or quick fixes. Unemployment in South Africa is a deep, structural problem, reflecting the large inequalities we inherited in ownership and skills. New jobs will not be generated overnight, at least not in the numbers we need. Fighting unemployment will be a long haul (ANC, 2002b: section 125).

A Transient Supply Side Response to a Chronic Demand Side Crisis

Hence there is a critical tension in the policy discourse in relation to PWPs; on the one hand, there is a recognition of their limitations, while, on the other, public works are being ascribed extremely ambitious objectives and taking centre stage in the policy debate. In addition to these differing perceptions regarding the efficacy of short-term public works, there is also a tension regarding the nature of the labour market challenge South Africa is facing. While within government itself there is a recognition that the unemployment problem is chronic and structural, and not easily solvable by interventions

³ Given the funding modalities of the programme, it should be noted that much if not all the infrastructure funded under the EPWP would otherwise have been constructed, but using conventional capital intensive techniques.

such as short-term PWPs⁴, within the Department of Public Works unemployment is characterised as an interim or transitory phase through which the South African economy is passing, and the nature of the policy response, the EPWP, has been shaped in accordance with this analysis. This is clearly set out in the Department of Public Works rationale for the EPWP, which assumes that economic growth will generate demand for the labour exiting from the EPWP;

The EPWP is one of an array of government strategies aimed at addressing unemployment. The fundamental strategies are to increase economic growth so that the number of net new jobs being created starts to exceed the number of new entrants into the labour market, and to improve the education system such that the workforce is able to take up the largely skilled work opportunities which economic growth will generate. In the meantime, there is a need to put in place short- to medium-term strategies. The EPWP forms one of government's short-to medium-term strategies.

(Department of Public Works, 2003).

The EPWP offers short-term employment (experience) and training, on the premise that supply-side interventions are an appropriate and effective response to transitional unemployment – a policy approach that is consistent with the use of PWPs in contexts of temporary economic dislocation (see for example World Bank 2001 and World Bank 2004). But the structural economic and labour market problems which characterise the South African economy are not transitional problems, and in the South African context supply-side interventions such as upgrading human capital have only limited potential to address the unemployment problem (see, for example, Kingdon and Knight 2000; Lewis, 2001:25).

⁴ 'Comprehensive public works programmes as part of a community development programme are useful short-term strategies but are not by themselves a long-term solution'⁴ (ANC, 2002a: section 126).

Recognising the Limitations of the EPWP

This illustrates the tension which exists between the characterization of the EPWP as reported in the popular media as indicated above, and its characterization in the ANC documentation in terms of the role and potential impact of public works. In this context the appraisal of the potential achievements of the EPWP set out in Phillips (2004) makes sanguine and honest reading, which conforms to the more muted expectations of the ANC documentation cited above (ANC 2002a), given the structural nature of the employment crisis. According to Phillips the anticipated outcomes are the provision of public services, a temporary increase in incomes, increased dignity and reduced alienation among workers, workplace experience and making a modest contribution to increasing skills levels (Phillips 2004). This represents a significant down-sizing of the impacts anticipated in the Presidential address to the National Council of Provinces, 11 November 2003. Investigating this discrepancy is critical, as establishing a common understanding within policy elite is necessary if the role of the EPWP, its potential and its limitations, is to be understood. Without this clarification, it may be that the somewhat hyperbolic rhetoric associated with the EPWP might obscure or derail the vital social protection debate currently underway in South Africa.⁵

As a short term policy instrument the EPWP is not an appropriate response to the chronic labour market crisis, hence there is a need to establish what role the EPWP could play in South Africa. This paper attempts to make a contribution to this debate by examining the nature of the labour market problem and the current policy response, drawing on recent micro-economic survey data and macroeconomic modelling of the South African economy, to present some analysis to inform policy development, in the context of the wider debate on public works internationally.

⁵ For a discussion of the inherent tension between political and ‘technical’ considerations in the South African policy environment, with reference to the issue of poverty, see Everatt, 2003: 89-90.

Public Works and the Nature of Labour Market Crisis

Insofar as public works programmes are used to address unemployment internationally, the design of the programme is dependent on whether it is intended to be a response to unemployment as a transient labour market problem, or, more rarely, unemployment as a chronic problem. In the former the policy instrument of choice would be the implementation of temporary employment programmes (for example to address cyclical unemployment or unemployment resulting from an acute economic or climatic shock). In the latter, in the context of a structural unemployment crisis, the policy instrument would be oriented to the creation of demand through the implementation of large scale public sector employment programmes, offering employment guarantees and sustained employment.

So, how does the South African situation fit within these various scenarios? The unemployment situation described above clearly has the characteristics of chronic rather than acute, or cyclical unemployment. The total number of the unemployed reached 5.3 million (official definition) or 8.4 million (broad), in March 2003 (Stats SA 2003), and has levelled out over the last year. In this context the working age poor unemployed with no access to social safety net support form a sizeable vulnerable group, and it has been estimated that 3.9 million people may be living in households with no workers and no remittances with income less than R400 a month (Meth 2004a).

Yet the EPWP offers short term, temporary employment only, and characterises the unemployment problem as a transient one, pending the rising tide of employment resulting from economic growth, despite the fact that low and unskilled unemployment is anticipated to remain above 30% even in a positive growth scenario, due to the structure of the South African labour market (Lewis 2001). Hence the EPWP offers an acute response to a chronic problem.

The Scale of the EPWP and Employment

Notwithstanding this serious conceptual problem, it is useful to examine the EPWP itself in more detail. If fully implemented the EPWP would deliver 200,000 temporary employment opportunities each year, which may be estimated at between 2% and 4% of the unemployed workdays per annum. Hence the EPWP does not offer a significant response to the broader unemployment crisis currently being experienced by the state. This point is underlined by the fact that in order to meet the MDG objective of halving unemployment in South Africa by 2014, approximately 3.6 – 7.7 million additional jobs will be required (Meth 2004b), compared to the total of 200,000 temporary jobs to be provided at any one time under the EPWP.⁶ It is important to note that the EPWP jobs are temporary, and that at any one time a maximum of 200,000 will be offered – the jobs may not be considered additively, ie it is not 200,000 in year one, rising to 400,000 in year two and so on. So the EPWP is both too limited in scale, and too short in duration to have a significant impact on unemployment.

Having noted the incongruities between the popular perception of the EPWP and the anticipated outcomes highlighted in Phillips (2004) in terms of its potential impact on unemployment, it is useful to explore the key findings from a recent study which examined the impact of public works participation on employment and poverty (McCord 2004). In terms of the impact of public works participation on unemployment the survey revealed very poor labour market performance after PWP participation, a fact which is not surprising, given the limited number of jobs available in the market. This suggests that improving labour supply quality through training and experience may have only a negligible impact when the key constraint is on the demand rather than supply side. Secondary benefits in terms of local development or micro-enterprise occurring as a result of the transfer were also limited, primarily due to the short duration of the employment transfer, lack of access to micro-finance facilities, and the limited nature of

⁶ Depending on the rate of growth of the labour force and the participation rate, the economy will have to create between 350,000 and 750,000 additional jobs per annum to halve unemployment by 2014. Over the period 1997-2003, it looks as though it may have delivered between 120,000 – 150,000 formal jobs per annum, while the informal sector has stagnated. The lowest shortfall is therefore in the region of 200,000 full time jobs per annum (for a full discussion see Meth 2004b).

the local market, a situation which was exacerbated by lack of integration with other development initiatives.

The EPWP and Poverty

The study also examined the impact of PWP participation on income and other dimensions of poverty, and the key findings are briefly outlined below. With a wage set at either the minimum wage for the construction industry, or marginally below,⁷ 90% of members of households with a PWP worker still fell under a per adult equivalent poverty line of R486 per month, when taking home monthly wages of R650 or R350.⁸ The additional income coming into the households was primarily consumed, rather than invested, particularly when the duration of employment was short, and the potential to accumulate funds limited. This is consistent with international findings on the prioritisation of immediate consumption over investment of public works income, (see for example Devereux 2000), and given the low incidence of secondary labour market and income generating activity is unsurprising in the South African context.

In terms of non-income poverty the impact of PWP participation was found to have the potential to be significant, lowering the occurrence of adults skipping meals, and reduction in the size of children's meals, and improving regular school attendance by children in participating households, as well as reducing the shame of poverty, for example by enabling participating households to purchase adequate clothing, or observe social ceremonies⁹. In this way participation in PWPs can be seen to build human capital and social capital, and hence address important non-income aspects of poverty. The survey indicates however the critical role of targeting, since these impacts were only significant when the very poor were targeted, primarily due to the fact that this group was experiencing deeper poverty, and hence starting from lower levels of initial school

⁷ A negotiated deviation from the minimum wage is permitted under the terms of the Code of Good Conduct which governs PWP employment in South Africa (see Department of Labour 2002a and 2002b).

⁸ The difference in monthly income between the two programmes is explained by the fact that the former programme offered 'full time' employment, set at 5 hours per month, and the latter part time employment totalling 8 days per month.

⁹ These aspects of poverty are consistent with Sen's concept of social functionings (Sen 1993).

participation, nutrition etc. Equally the survey found that there were greater impacts on savings and investment when programmes were sustained rather than offering short (2-6 months) term employment. This corresponds with the international experience which argues that to address poverty, there is a need to enable consumption smoothing by means of regular income (see for example Devereux 2000, Dev 1995 and Adato et al 2004).

The EPWP and Growth

The impact of EPWP on growth, the impact of the EPWP on growth of GDP has been modelled using a macro-simulation based on a Social Accounting Matrix (McCord and van Seventer, 2004). The simulation of a shift in factor intensity of R3bn of infrastructure spending per annum was found to indicate only a slight increase of 0.06% in GDP growth once a range of multipliers are taken into account, a figure too limited in size to have a statistically significant impact on the economy.

Likely EPWP Impacts and Realistic Expectations

So, to summarise the potential impacts of the EPWP drawing on case study findings, the programme is not likely to have a significant impact in terms of reducing the numbers of people living below the income poverty within participating households, although it is likely to reduce, temporarily, the depth of poverty experienced. The programme may impact positively on human and social capital, if appropriately targeted. The impact on unemployment either in the aggregate, through the number of short term jobs created, or in terms of the future employment performance of participants is negligible. In terms of growth, the shift in factor intensity of expenditure is of too limited a scale to make a significant impact on GDP growth.¹⁰

¹⁰ It should be noted that this analysis does not take into account any growth benefits associated with the infrastructure provided as these assets would have been created irrespective of the EPWP, using conventional capital rather than labour intensive techniques.

In the light of the limited impacts of public works programmes indicated in survey analysis, and the modest ambitions for the EPWP outlined by Phillips (2004), it is critical to heed the realism inherent in the ANC's 2002 statement regarding unemployment;

‘...the fight against unemployment is our central challenge. The need for sustainable jobs is glaring, but we should have no illusions. There are *no magic solutions or quick fixes*. Unemployment in South Africa is a deep, *structural problem*, reflecting the large inequalities we inherited in ownership and skills. *New jobs will not be generated overnight, at least not in the numbers we need*. Fighting unemployment will be a long haul.’

(ANC 2002, section 125. Emphasis added)

The Fallacy of Unemployment as a Transient Phenomenon and the Resulting Policy and Rhetoric Gap

It is equally important to challenge the assumption inherent in the EPWP, that unemployment is a *transient* problem. Failure to recognize the fallacy of this assumption has led to the adoption of a policy response appropriate for transient rather than chronic unemployment, in the belief that there will be a significant increase in employment in the wake of economic growth, and that through improved education and experience the unskilled who are currently excluded, will be absorbed into the labour market.

Such analysis has led to the popular assertion that participation in the EPWP will enable significant numbers of workers to ascend from the second to the first economy, as demand for labour increases. President Mbeki has claimed, for example, that workers will;

‘gain skills while they are gainfully employed and increase their capacity to earn an income once they leave the programme’

(Announcing the launch of the Expanded Public Works Programme, 11 November 2003).

and,

‘take a [...] step to get out of the pool of those who are marginalised’
(Describing the EPWP in the February 2003 State of the Nation Address).

The rhetoric pertaining to the EPWP and its ability to link the second and first economies is widely endorsed, as illustrated by excerpts from the launch speeches of the EPWP around the country during the last six months;

‘The EPWP is an initiative to [...] take the marginalized poor people out of the spiral of poverty.’

S Sigcau, Minister of Public Works, 3 September 2004

‘The ‘Expanded Public Works Programme [...] would eradicate poverty [and] contribute to the overall realisation of the socio-economic goals of this government.

N Kganyago, Deputy Minister of Public Works, 31 August 2004

‘The EPWP [along with other policy measures] represents a product of ten years of organic thinking, [...] to eradicate poverty, improve the standard of life, reverse the effects of apartheid social planning and overturn apartheid economic policies.’

(ibid)

‘From today, let us stretch a helping hand to one another and rollout the extended public works programme to all corners of our country. Through our practical actions, working together in a people's contract, we must make the statement that we will ensure there are no "surplus" (sic) in our country.’

President Mbeki, Limpopo, 18 May 2004

Address at the launch of the Expanded Public Works Programme

These objectives are ambitious, and confirm the central role of public works in addressing the fundamental social challenges in the popular discourse. However, since unemployment is structural and chronic in nature, rather than transitory, the small scale and temporary nature of EPWP employment renders it unlikely that this initiative will make a significant contribution to the joining of the two economies hoped for in the quotes above, or make a sustained impact on the policy objectives of poverty reduction, employment creation, or growth.

It is important to recognize that PWP's can, and do offer a significant response to poverty and unemployment, if appropriately designed (in terms of targeting, scale, duration of employment etc), and that transfers of as little as R350/month can have significant impact on aspects of household poverty (see McCord 2004). However, there is a large gap between policy expectation (both in the political and the popular discourse) and likely programme outcomes.

The Popular Discourse Obscures the Policy Debate

The policy discourse is inconsistent regarding the nature of the labour market problem and appropriate responses. Exaggerated claims for what the EPWP can achieve are inhibiting debate on alternative larger scale government responses to unemployment and poverty. There is an urgent need to separate a realistic assessment of the potential impacts of the programme from the rhetoric in order to re-open the policy space to address this critical problem.

This critique of the EPWP raises important issues for consideration in terms of the challenge of linking the second and first economies. If poverty and unemployment are to be addressed (either through public works, or alternative grant based transfers to the poor), there is a need for significant additional fiscal allocations for addressing poverty among the working age poor unemployed, rather than the welcome, but extremely limited shift in the labour intensity of R3bn of infrastructure allocations represented by the

EPWP. As Phillips argues, 'the EPWP has the potential to make a modest contribution to employment creation, poverty alleviation and skills development' (Phillips 2004:13). These contributions should be celebrated, but the need remains for a large scale policy intervention if the government aims to promote the participation of the poor in the national economy, by offering a ladder from the second to first economies.

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