

THE MANDELA INITIATIVE

Dialogue and action to overcome poverty and inequality



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Theme: Labour Market

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The rationale

The Jobs Fund was established by government to encourage innovation and give greater impetus to initiatives with potential to generate sustainable employment. A particular emphasis is placed on the need to create employment and skills development opportunities for women and young people.

In 2011 the Fund was capitalised with R9 billion. The Fund aims to create 150 000 self-sustaining jobs over a three to five-year period; more importantly it also intended to contribute to evidence-based policy-making. The objective was to catalyse innovation in job creation through structured and strategic private and public sector partnerships. The Fund awards once-off grants to partner organisations through a competitive project application and appraisal process. The National Treasury funds and owns the Jobs Fund.

Despite periods of strong economic growth, South Africa's level of unemployment was at an unprecedented 27.8% (October 2017). It is recognised that the causes of unemployment are complex and deep-rooted, and the Fund was not intended to address the deep structural challenges of the economy, but it would focus on job creation as a catalyst for addressing poverty and inequality.

On the supply side, the legacy of the apartheid education system manifests in an over-supply of poorly skilled labour. The economy has proven

About this brief

This brief was commissioned by the Mandela Initiative to help inform a synthesis report on its work since the 2012 national conference, *Strategies to Overcome Poverty and Inequality*, organised by the University of Cape Town. The MI provides a multi-sectoral platform to investigate and develop strategies to overcome poverty and reduce inequality in South Africa. While the Nelson Mandela Foundation is a key partner, the Initiative has relied on collaborations between academics and researchers, government, business leaders, civil society, the church and unions.

The synthesis report serves as a framework for reporting on the work of the MI at a national gathering on 12 – 14 February 2018 at the University of Cape Town. The MI *Think Tank* has identified the objectives for the gathering as:

- to anchor the contributions of the MI within an analysis of the current South African political and economic context;
- to share the recommendations emanating from the MI-related work streams at a policy/strategic level to advance the goal of eliminating poverty and reducing inequality;
- to critically engage with the potential impact of the recommendations on eliminating structural poverty and inequality; and
- to discuss ways of promoting popular conversations and debate about what needs to be done to eliminate poverty and reduce inequality, beyond the MI.

The synthesis report aims to assist participants to prepare for the national gathering. The report drew on findings from the sectoral research projects of Think Tank members; the MI's *Action Dialogues*; a report on an MI *Community of Practice workshop* with research chairs from different universities to identify cross-cutting themes emerging from the MI's *research programme*; and the work programmes of others who have expressed an interest in contributing to the goals of the MI.

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ill-equipped to absorb the annual flow of people looking for work.² Although greater numbers have access to education, the shortcomings in our education outcomes have resulted in a mismatch of skills and experience required to meet the requirements of employers. In the face of uncertainty about labour quality, employers are reluctant to commit to the full costs of expanding permanent employment opportunities.

On the demand side, there has been a decline in the competitiveness of labour-intensive industries in South Africa. This has led to less demand for South African labour especially in the manufacturing sector. Moreover, the regulatory burden associated with employing people, as well as infrastructural backlogs and the high transport costs of moving people to and from their place of work (a result of poor spatial policies during apartheid, which continue) means that employers are less inclined to adopt labour-intensive strategies, thereby lowering the demand for labour.

This suggests that there are two broad themes that should underpin a job creation strategy for South Africa: The strategy should seek to *increase demand for labour*; while also *improving the supply of labour* (through better skills and assistance in job searching as well as reducing the cost of job search). For South Africa it also means that a job creation strategy must create as many entry-level jobs as possible for young people and women with limited skills. A special focus is needed on job placement, learning, training and workplace experience.

What the Jobs Fund tries to achieve

To address the challenge of unemployment sustainably, South Africa requires high rates of sustained economic growth. The macro-economic policy environment, infrastructure asset base, education system, spatial integration and regulatory frameworks are all key determinants of the growth path. However, improving or reforming these is a long-term process. *The Jobs Fund is not intended to tackle such long-term, structural causes of low growth and unemployment.* Other government initiatives are directed at these challenges. Rather the Jobs Fund is an opportunity to complement these efforts with a limited and targeted programme of support for effective labour market interventions and promising job creation projects in the short to medium term.

The Jobs Fund focuses on overcoming five identified short-term barriers:

- 1. *Opportunities for partnership between the private and public sectors frequently face institutional hurdles that will not be overcome without new incentives and better mechanisms for collaboration.*** Good but untested ideas are often not pursued by the private sector because private funding markets will not generally support untested business and training ideas even though they may bring external social benefits, yet the state can. The state, for its part, is not as nimble or responsive as the private sector in recognising and driving business opportunities. There is a need for a mechanism that can combine the best capabilities of the public and private sectors.

² Unemployment in South Africa – Business Trust

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- 2. Enterprises face risk and cost barriers when testing new models and projects.** Addressing unemployment requires squeezing of innovations; this means new approaches, partnerships and products. Yet new models are inherently risky. High costs, uncertainty and risk make them less attractive to financiers and employers. In these cases, additional incentives may be needed to trigger the investment. These incentives rely on public funding. The support and funding of the kind envisaged under the Jobs Fund have been developed with a view to incentivising experimentation, risk-taking and new ideas by private and public players alike.
- 3. Low-cost infrastructure that improves market access of enterprises is frequently missing or inadequately maintained.** Business infrastructure which is critical to the quality and security of the workplace for enterprises or to link enterprises to markets is usually prohibitively expensive for any single employer to bear alone. Here public funds can be used to fill the gap.
- 4. As noted already, there is a general mismatch between the skills set of unemployed work-seekers and available opportunities for employment.** The Jobs Fund seeks to close this gap.
- 5. Finally, many public institutions that could facilitate job creation have weak expertise or poorly designed programmes.** The Jobs Fund will support projects that contribute to improving the effectiveness of institutions that contribute to the effective functioning of the jobs market.

The Jobs Fund on a match funding basis supports a broad portfolio of projects that experiment with a wide range of initiatives focused on job creation.

Job creation models that work

Over and above our target of 150 000 new jobs, the Fund also aims is to fund and support experimental and innovative projects from which valuable lessons can be derived to inform longer-term approaches to job creation. Through the implementation of more than 117 projects, the Fund has learnt valuable lessons about which project models achieve sustainability and have the greatest impact on the lives of those with the greatest need.

Enterprise development

Supporting SMEs: Small- and medium-sized enterprises (SMEs) play an important role in economic growth and job creation. The Jobs Fund's portfolio of enterprise development projects is diverse and embraces innovative approaches that combine profitability with high social impact to create sustainable jobs.

Leveraging funds for job creation: The availability of grant funding on a matched basis has encouraged our partners to increase their support to SMEs and design commercial ventures that deliver greater social impact. Importantly, the grant has de-risked the investment decision of private sector partners and encouraged them to contribute additional funding for job creation. An example is the Jobs Fund

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partnership with Ashburton Fund Managers. This project has managed to raise R566.21 million from pension funds against a guarantee of R75 million from the Jobs Fund. SMEs have traditionally been viewed as high-risk investments, but our partners are demonstrating that they have the potential to provide competitive returns to investors.

Promoting the development of township economies is gaining traction as an option for creating more jobs where they are needed most. A2Pay, a project supported by the Fund, has been effective in using technology to promote the development of business enterprises in townships. The project is aimed at empowering and growing the emerging trader into a sustainable enterprise and thereby creates employment. A2Pay have developed a simple-to-use technology solution that assists the storeowner to better manage their store while attracting new customers through prepaid products and services. It's important for the store owner to understand what is happening in their business and the A2Pay system provides this information meaning the business owner can now see their profit, total sales, quantity sold and stock movement. A2Pay have already empowered many stores in areas such as Soweto, Shoshunguve, Bophelong, Katlehong, Tembisa, Diepsloot, Alexandra, Orange Farm, Rustenburg, Welkom and Limpopo. More importantly the technology can be leveraged to make available government services such as the payment of social grants.

Franchising as a model for enterprise development: Franchising represents an opportunity for previously disadvantaged individuals to own a business; however, concessional finance and support services are needed. The franchisee's success is determined by the level of support they receive from the franchisor and the franchisee's previous experience in setting up a business. ***Key Lessons:*** Franchising is a useful model for small, medium and micro-sized enterprise (SMME) development, but it is not without its challenges. It is important that the intervention is correctly designed, partners and beneficiaries are carefully selected and that the right barriers are addressed. Some critical design and market factors for effective franchisee support include the provision of upfront franchisee fees, lowering the cost of capital, reducing business risk for new franchisees, offering business support and mentorship, and selecting franchisors that have well established systems and effective brand support.

Microfinance: Building the capacity of SMMEs through microfinance has often been presented as a way to include the poor in the broader economy. However, the impact is often limited and there is the potential consequence that beneficiaries may become dependent on loans, with limited opportunity to move from SMME status to SME status. Microfinance is also likely to require on-going donor funding due to large unsecured investments, reducing the potential for long-term sustainability and impact. However, for the most marginalised and for women in particular the availability of microfinance combined with business training skills has had positive socio-economic benefits

Key success factors for enterprise development support: Analysis of the portfolio has revealed the following good practices:

- The methodology used to select entrepreneurs is critical.

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- The support services must be customised to each group of entrepreneurs.
- The intervention's success should not only be measured by the number of jobs created, but also in terms of individual SME sustainability.
- Access to finance and markets for SMEs must supplement training support.
- The organisations that offer enterprise development support should be managed as commercial entities and every attempt must be made to secure multiple revenue streams and reduce reliance on grant and donor funding so that their own business operations can become self-sustaining.

Support for work-seekers

The projects supported through our support for work-seekers funding window present further options for successful job creation. Train and place models address the mismatch between available skills and the skills that employers are looking for. The most successful of these intermediaries already understand where demand exists. They collaborate and form partnerships with employers who understand the skill need and are willing to provide work experience, with the potential of converting this experience into a job contract. These intermediaries:

- Typically have a large network of employer partners.
- Have access to labour market analysis and firm behaviour.
- Understand the needs of their unemployed beneficiaries.
- Invest in developing scalable operating systems.
- Work at improving their value for money proposition.
- Invest significantly in tracking the unemployed beneficiary's journey.

Harambee is a youth employment accelerator that has cultivated relationships with South Africa's private sector in order to empower job seekers through personal development, skills enhancement and, most importantly, formal job placement whilst giving employers access to previously inaccessible pools of talent at a reduced risk.

Harambee's work is based on the understanding that if a young person gets and keeps their first job they are more likely to remain employed for the rest of their lives.

In its latest project Harambee has expanded its focus to the country's SMEs. In working closely with young work-seekers and SMEs, Harambee has come to better understand the failure in the labour market. The goal is to build and demonstrate a technology-enabled solution that activates demand in SMEs for entry-level staff, and efficiently fills these positions with work-ready, matched young work-seekers from poor households, but who have the potential and fit that indicate a high likelihood of staying, performing and progressing in these jobs.

The impact on work-seekers has been profound: their levels of emotional maturity and skill have increased; they are better able to navigate the labour market and contract; and they have higher levels

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of confidence and readiness to proactively connect themselves and others with available employment. Analysis of the success factors for initiatives supported have also demonstrated by understanding firm behaviour in regard of employment: employers base their employment decisions on the applicant having had access to a combination of work-readiness training, technical skills training and on-the-job observation (through, for example, short-term work assignments), and not only formal qualifications or accredited training.

“Train and place” models have proved most effective in targeting youth.

Agriculture

Identifying sustainable business models for the sector is vital. Although the agricultural projects in the Fund’s portfolio have been classified under four main project models (agro-processing, on-lending, out-grower and technical skills development), the reality is that many of them implement a combination of these models.

Key differentiating factors for successful implementation of agriculture projects include a combination of technical advice, farming inputs, access to finance and markets, mentoring support and training for smallholder farmers and workers.

The results include higher yields and better prices for smallholder farmers; the ability to accumulate savings and establish a financial track record; improved farming practices and better skilled workers; integration into established supply chains; and improved management systems. The impact has also manifested in the following ways: Transformation of concentrated value chains towards improved equality and inclusivity; building assets and ownership and participation in decision-making; more productive use of resources; *entrepreneurial* development and job creation and improvement of livelihoods.

Conclusion

Higher levels of employment will contribute to reducing poverty and inequality. Commitment to addressing the structural challenges in our economy, dedicated focus, prioritisation and implementation capability together with appropriate policies and regulatory framework are necessary factors for a more inclusive economy. There are no short cuts, no silver bullets when we focus our attention on increasing the level of employment. Multiple interventions are required but to achieve scale the afore-named factors must be addressed with greater urgency.

For more information on the Mandela Initiative:

