Lessons from the Jobs Fund

Najwah Allie-Edries
National Treasury

Introduction

Unemployment has a profoundly negative effect on a country's development and prosperity. In South Africa (SA), unemployment remains one of the key economic and developmental challenges that the country is grappling with and a well-coordinated response is required. This summary paper highlights some of the current gaps in labour market interventions, the Jobs Fund's experience after eight years of implementing a range of job creation models, and potential policy considerations in the job creation landscape.

Box 1: Background to the Jobs Fund

The Jobs Fund was launched in June 2011 in the context of large-scale unemployment in SA. Capitalised with R9 billion, the Fund's aim is to co-finance and test innovative approaches to employment creation and share successful models in such a way that organisations and government are encouraged to adopt these approaches as part of their mainstream strategy.

The Jobs Fund operates on "Challenge Fund principles", which means it has the following core features: 1) funding is allocated to projects on an open, transparent, and competitive basis; 2) projects are co-financed and applicants share risk with the Jobs Fund; 3) the key goal is to overcome cost, technology and infrastructure, and technical expertise barriers (de-risk).

The Jobs Fund supports interventions under four funding windows: **enterprise development** (investments designed to broaden access to economic opportunities [labour demand]); **infrastructure investment** (infrastructure investments that directly enable enhanced investment [labour demand and supply]); **support for work seekers** (for programmes resulting in a job match for the beneficiary [labour supply]); **institutional capacity building** (for projects aimed at strengthening institutions through which jobs are created [labour supply]).

Current market gaps in employment creation interventions

Supply-side interventions

Large sections of the labour market have inadequate or inappropriate skills and characteristics relative to labour demand. This results in high rates of unemployment among the poorly educated and unskilled, who are disproportionately likely to be young, female or black. In addition, job search activities are likely to be both difficult and costly for some of these groups due to their spatial dispersion - travel is the largest job search cost. The lowest wage earners in urban areas pay up to 40% of their incomes on transport costs[64] and over 70% of non-searching youth indicate that their location constrains them from looking for work[65].

In young people aged 15 to 34 years, 40.1% are not in employment, education or training (NEET)[66]. Youth in rural and marginalised areas such as townships are in need of skills development and work opportunities.

The enormity of the youth unemployment challenge suggests that more work is needed in the piloting and testing of innovative ways to improve the employability of unemployed young persons, as well as in the speed in which job creation models, that are known to work, are scaled and replicated.

Demand-side public and private sector interventions

There are a number of factors that act as deterrents for employers to take on labour. These include structural issues, such as the relatively high regulatory

[64] Kerr, A. (2015) Tax(i)ing the poor? Commuting costs in South Africa in REDI3x3 Working paper 12, Sept 2015

[65] Mlatsheni, C. and Ranchhod, V. (2017) *Youth labour market dynamics in South Africa* in REDI3x3 Working paper 39, July 2017

[66] STATSSA (2020) Quarterly Labour Force Survey, Quarter 4 of 2019.

burden associated with employing people, uncertainty due to weak economic conditions, perceived political instability, mixed messages regarding economic and labour policy, and infrastructure backlogs. However, other constraints include costs associated with moving people to and from their place of work, institutional hurdles faced by public-private partnerships, and limited access to finance (especially for small firms).

According to literature, small, medium and micro-enterprise businesses (SMMEs) are regarded as the biggest contributors to the creation of new jobs[67]. The National Development Plan (NDP) envisioned that by 2030 SMMEs will contribute a 60–80% gross domestic product (GDP) increase, and generate 90% of the 11 million new jobs[68]. As reflected in the literature, as well as in evaluations of Jobs Fund Enterprise Development projects, SMMEs face a number of challenges ranging from a lack of access to finance, technical training, markets, infrastructure and business support services.

A number of apartheid era rooted challenges hamper the establishment of new informal economy enterprises and limit the growth of existing firms in the sector, which affects the sector's ability to create jobs. These constraints include poor linkages to the mainstream economy (established value chains and markets), lack of infrastructure to support their productivity, lack of business systems and technology platforms which deepen information asymmetries and limit access to finance[69], and a constraining regulatory environment. This is in spite of the fact that the NDP projects that the informal economy could create up to 2 million new jobs (or self-employment opportunities) by 2030.

Direct and indirect government business incentives

Established enterprises and big businesses also play a role in employment creation, firstly in maintaining jobs and secondly in the creation of new jobs.

In SA, investment incentives are used to mitigate the cost or uncertainty of doing business, and to upgrade or sustain production and employment, especially in priority sectors.

Incentives are also used to improve competitiveness, address historical inequalities and increase the participation of historically disadvantaged groups in the economy. There are also many incentives that are designed to address market failures in the labour market, where there is a significant mismatch between the skills generated by the education system and the needs of business.

While job creation, transformation and SMME development are addressed by between 40% and 50% of direct incentives, investment stands as the single most common objective and is reflected at approximately 80% of the direct and indirect incentives captured in the inventory carried out by government[70].

A review of over 200 business incentives resulted in the identification of a number of gaps which may affect the rate of employment creation. Both gaps and recommendations to address these gaps are included in Box 2 below.

Box 2: Business incentives review recommendations

- A large part of the incentive system is oriented towards sustaining mature industries and protecting workers in existing companies, rather than facilitating new entrants (companies or sectors) or technology diffusion.
- Insufficient attention is given to the rationale and design of new incentives, and the monitoring and evaluation of existing programmes.
- All departments responsible for the administration of business incentives should develop a comprehensive monitoring and evaluation framework, in which all substantive incentives (with budgets of more than R100 million a year) should be subjected to an independent evaluation, the results of which should be made public.
- Despite the existence of significant expertise in some units, there are weak mechanisms for sharing lessons and information within departments and across government, and in most instances, officials do not look beyond sector or department interests.
- The DTI together with the National Treasury should invest in the design and development of a comprehensive and online grant and document management system, that also houses a single register of all beneficiary firms. This should be administered by the National Treasury or SARS.

Source: (DPME, 2018)

[67] Globally, over 95% of enterprises are SMMEs and employ 60 - 70% of the working population.
[68] National Planning Commission (2012). National Development Plan 2030.
[69] There is also insufficient quality business credit record data in South Africa for funders to access, which further exacerbates the challenge of accurate and appropriate credit scoring.
[70] Department of Planning, Monitoring and Evaluation (2018). Report on the Evaluation of Government Business Incentives

Experience of the Jobs Fund

The Jobs Fund has over 140 contracted projects that implement a range of job creation models across several sectors/industries in the economy.

As a result of this diverse portfolio, the Jobs Fund has built up a wealth of knowledge regarding job creation programmes and the labour market that can contribute to policy discussions.

The Jobs Fund supports both supply and demand-side interventions under four funding windows, and good practice, challenges and policy considerations under each area are discussed below.

Support for workseekers interventions

The aim of the support for workseekers (SWS) funding window is to link active workseekers to formal sector opportunities and job placement.

SWS interventions focus particularly on unemployed youth and include job search projects, training activities and support for career guidance, and placement services. The programmes supported must effectively pathway the beneficiary into a suitable job.

Key considerations for support for workseekers programmes are discussed below.

Demand-led training

The design of models which train unemployed youth in preparation for placements with employers must be in response to the skills gaps and employment opportunities identified by employers. This ensures that the right profile of youth is selected, the optimum number is recruited, and the correct skills intervention is designed so as to result in a good employer-employer match. Advanced selection criteria and assessment are thus critical in good matching. Box 3 provides further detail.

Accredited training is not the silver bullet in addressing supply-side labour inefficiencies. Agile interventions that can easily be tailored are more efficient at addressing market requirements and reducing turnaround times. Beneficiaries are therefore placed in jobs at a much faster rate.

Box 3: Innovative selection criteria and assessment

Employers should be encouraged to use innovative candidate selection and assessment criteria; going beyond traditional numeracy and literacy tests and matric/tertiary results. These include:

- Attitude, behavioural and aptitude-based assessments, and
- Work environment simulators.

These assessments have been found to efficiently and accurately identify the right candidates for the positions available.

SETA accreditation inefficiencies

In many instances, long Services Sector Education and Training Authority (SETA) accreditation processes have slowed the ability of Jobs Fund projects to place beneficiaries into jobs. Delayed SETA certification has prevented youth being absorbed into jobs after the completion of their training/skills intervention. This was particularly evident in health-related programmes (e.g. the training of social auxiliary workers and pharmacy assistants), where certificates had to be issued by the SETA prior to the learner being legally recognised as being able to fill the position.

Other Jobs Fund projects are structured in such a way that workseekers secure permanent placements on the back of programme certificates (not SETA issued) after successful completion of the training intervention.

Adequate stipends

Learner stipends need to be better aligned with sector contexts and the constraints faced by learners. The National Minimum Wage Act 9 of 2018 stipulates a stipend range between R1204 to R7023, depending on the National Qualifications Framework (NQF) level. However, in many instances, the vast majority of the stipend is used on transport costs with little left over for food and other consumables. This increases drop-out rates.

In order to lower drop-out rates, Jobs Fund projects have employed various strategies, including:

- Considering the "2–taxi rule" when matching employees to employers, i.e. it must not take the employee more than two taxis to reach work; and
- Supplementing stipends with other creative incentives, e.g. offering meals and healthcare services at work.

Tracking employment trajectories
The pathway to employment in SA is often characterised by a staggered employment pattern, where young people secure increasingly shorter employment opportunities, only to fall out of these soon thereafter.

Given the volume of youth who are looking for work, an efficient approach is required in order to screen and assess young people for the appropriate pathway in their transition journey and to assist them along the way.

Policy coordination
Some Jobs Fund projects have found that employers increasingly prefer to take on new entrants in a learnership/internship programme rather than on a permanent/longer-term employment basis due to incentives on offer such as the employee tax incentive (ETI). As a result, there is a constant cycle of learnerships/internships on offer but these leaners/interns are often not absorbed as employees into the participating organisations after completion of the programme (e.g. the dti's Monyetla Project).

Although it can be argued that many more youth are afforded the opportunity of a learnership as a result, i.e. much-needed workplace experience, the opportunity cost is that increased internship placements result in *fewer employee placements* (i.e. fewer longer-term secure opportunities for youth in the organisation).

It is important to ensure that the skills being developed are appropriately matched to the demand. In doing this, the probability of a positive match increases, as it is responding to an identified skills gaps. Effective matching, therefore, de-risks the employment decision and promotes better job absorption and retention. This is further supported by findings from the University of Johannesburg's Siyakha research[71].

Infrastructure investment

The aim of this Jobs Fund funding window is to co-fund local infrastructure investment projects, which directly enable enhanced investment and job creation, e.g. local market and business hub facilities, critical transport and communication links.

Improving labour supply and demand
Enabling infrastructure can both facilitate skills transfer and capacitate workseekers, and increase demand for goods and services.
An example of this is the Mercedes Benz Learning Academy project, where a specialised learning academy was built with state-of-the-art equipment and simulators to training artisans in the automotive sector. As a result of an improved supply of home-grown skilled labour, Mercedes Benz increased the demand for vehicle production at the SA plant. The knock-on effect is that this stimulates the automotive value-chain, with both upstream and downstream benefits.

Increase SMME participation in the economy
For SMMEs, some infrastructure/equipment can reduce the high entry costs for business. This enables them to channel capital towards increasing their business productivity, which fuels their growth and demand for jobs, e.g. A2Pay.

Key considerations
Demand-led investment is crucial, this ensures that the build adequately responds to the needs of the market and will be fully utilised.

There are currently inefficient regulatory approval systems within some spheres of government upon which infrastructure builds can progress. This inevitably undermines the speed at which infrastructure projects can reach completion and this thus limits the job creation potential of projects.

Infrastructure builds, however, must be paired with:

1. Capacity to manage the facilities, and
2. Capacity to deliver support services to beneficiaries/communities (in cases where the project model includes a support programme, e.g. the construction of an SMME hub where enterprise development support and business development support services are offered to participating SMMEs).

Institutional capacity building

Institutional capacity-building projects are aimed at strengthening institutions through which jobs are created. There are limited Jobs Fund projects that operate under this window, but findings have been included below.

Long-term support required
It often takes longer than three years to support non-profit organisations (NPOs) and similar organisations to the point where they have sufficient capacity to sustain their operations without additional public funding. In some instances, these organisations will always require public funding to continue operating.

[71] Graham, L. et. al. (2019) Siyakha Youth Assets Study. Published by Centre or Social Development in Africa, University of Johannesburg

Job creation potential limited in the short-term

Projects under this funding window do not offer quick wins in terms of employment creation. These projects will improve operational efficiencies, remove barriers to doing business, catalyse innovation and thereafter scale up the potential for job creation (supply and demand). As mentioned above, this generally takes more than three years to achieve.

Enterprise development

This funding window aims to support SMMEs to unlock their job creation potential. The Jobs Fund co-invests in projects that are engaged in the development of new business models, product development, local procurement, marketing support, equipment upgrading, or enterprise franchising designed to broaden access to economic opportunities and job creation.

Elements of successful enterprise development interventions

Five key elements of success have been identified when supporting SMMEs to sustainability. These are access to:

1. Enabling infrastructure,
2. Appropriate finance,
3. Markets,
4. Training and mentorship, and
5. Business development support/services.

Business incubation

SMME incubators have been found to be an effective way of addressing unemployment as they reduce early-stage failure rates and develop critical entrepreneurial skills for business success. However, interventions need to focus their efforts on growth sectors, carefully selecting incubatees and then ensuring all five of the key enterprise development (ED) intervention elements are included. Without this, SMMEs tend to move from one incubator to the next and never graduate out of dependency.

When it comes to the incubator as an organisation, those that are sustainable have well thought-out operating models, and funding models are well capacitated.

Labour regulation compliance

SMMEs often cite labour regulation compliance as an administrative burden on an already stretched capacity. As a result, some SMMEs are reluctant to take on young job seekers on a permanent/long-term basis as they view it as inherently risky for the longevity of their business:

- Labour legislation locks them in to retain employees even when it no longer makes commercial sense for them - may bankrupt the business.
- Reporting regulations are onerous (Unemployment Insurance Fund (UIF) reporting, Pay As You Earn (PAYE) reporting, Skills Development Levy, etc.)
- Cashflow is negatively affected during quiet periods as salaries still need to be paid.

Minimum wage compliance

Early-stage businesses and smallholder farmers battle to comply with minimum wage stipulations, particularly within marginalised areas.

Smallholder farmers starting out are unable to pay themselves minimum wage but are expected to pay their workers minimum wage. This can cripple their efforts to expand, when most of their revenue is spent on wages, instead of agricultural inputs and equipment to expand their operation. Without the correct inputs, they are unlikely to reach economies of scale and thus sustaining a profitable agriculture enterprise will become more and more difficult. This can impede the pace of successful land reform and empowerment, labour absorption in mostly priority nodes and overall farm success.

Businesses in the primary economy face similar challenges.

Expansion of informal/primary economy opportunities

Townships and the informal economy offer unique opportunities for economic growth and labour absorption, however, the regulatory environment requires some level of reform to allow these businesses the legroom to grow.

For example, legacy municipal by-laws and other regulations and practices constrain the growth of informal enterprises. For example, most township land is zoned as residential and informal trade permits are difficult to obtain.

Access to Infrastructure

Entrepreneurs in townships and other marginalised areas need infrastructure to support their productivity, e.g. office space, storage and sorting facilities, as well as those for light industrial/ manufacturing. Instead of building new hubs and other types of shared facilities that would serve this purpose, there is also an opportunity to re-purpose currently under-utilised public infrastructure such as hubs, community centres and libraries. This, however, would require that all these spaces are mapped and current use established.

The lack of business systems, including information technology platforms, affordable mobile data and internet connectivity further worsens the gap between formal and informal sector business as a result of information asymmetry.

Markets and Funding
Township enterprises are disconnected from local and international formal markets, including those now made possible through the advancement of technology (e.g. Amazon, Alibaba). There is also limited access to funding because informal sector businesses do not have systems that help them collect and process basic trading and financial data, and they lack collateral to secure the funds in the first place.

Conclusion

Although many job creation programmes and initiatives have been designed to address unemployment in SA, there is a general sentiment from implementers, scholars and government, that these have largely been uncoordinated. The recently launched Presidential Youth Employment Initiative begins to address this by planning a systemic approach that will identify/create and coordinate the myriad of services to pathway the unemployed into income-generating activities. This will inevitably require a supportive regulatory environment that needs to complement the efforts of this campaign.