THE JOBS FUND

South Africa Siyasebenza

Learning Series

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CREATING JOBS THROUGH INFRASTRUCTURE INVESTMENT

Lessons from an impact evaluation of selected projects from the Jobs Fund infrastructure investment portfolio

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The Jobs Fund is a R9 billion fund established by the Government of South Africa in 2011. It was set up to encourage innovation and give greater impetus to initiatives with potential to generate sustainable employment. The Fund aims to catalyse innovation in job creation through structured and strategic private and public sector partnerships by awarding once-off grants to partner organisations through a competitive process. The Jobs Fund operates on challenge fund principles and aims to act as a catalyst for innovation and investment in new business approaches that directly contribute to long term sustainable employment creation.

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1. INTRODUCTION

Unemployment is a critical challenge facing South Africa's economy and a significant threat to the welfare and development of its citizens. At 29%, the unemployment rate is unsustainable for the country's long-term growth prospects and is particularly concerning for its effects on economic welfare, production, human capital, crime and social instability.

Investment in infrastructure has been acknowledged as an important contributor to job creation and economic growth. Infrastructure lowers transaction costs, creates economic linkages and improves productive capacities. Additionally, infrastructure expansion creates jobs during the construction and maintenance phases and increases demand in the economy, supporting forward linkages. The delivery of infrastructure could lead to significant improvements in the vast poverty and income inequality experienced in the country. In response to this, the South African government initiated the National Infrastructure Plan (NIP) which has spent over R1 trillion on infrastructure since 2009. Despite this, there is a backlog in the construction of infrastructure which remains a hindrance to job creation.

It is in this context that the Jobs Fund, a R9 billion-rand challenge fund launched by the South African government in 2011 aims to catalyse job creation and local economic development. The fund operates through four distinct funding windows: (1) **Enterprise Development**, (2) **Support for Work Seekers**, (3) **Institutional Capacity Building** and (4) **Infrastructure Investment**.

The infrastructure investment funding window aims to co-finance light infrastructure projects that unlock job creation potential in an economic sector or geographical area.

Funded projects focus on missing infrastructure that creates trading opportunities, enhances market access, improves business environment, and catalyses employment linked investments. The key characteristics of projects considered for this window include large-scale impact, contribution to systemic change, innovation, value-for-money, a clear link to job creation, and a demonstrable capacity to implement the projects by the applicants.

The Jobs Fund has funded nine projects in the infrastructure window, with a total investment of R 777 million in grant funding matched with nearly R1.6 billion of additional investment, representing a 1:2 co-financing ratio.

With its grant funding fully allocated, the Jobs Fund is seeking to better understand the impact that has been achieved through the infrastructure investment window. In order to capture these insights, the Jobs Fund appointed Genesis Analytics ("Genesis") to conduct an impact evaluation on four selected infrastructure investment projects, as well as a comprehensive review of the infrastructure investment portfolio. This evaluation has produced insights into the relevance, effectiveness, scalability and replicability of infrastructure investment models that are applicable to a variety of audiences including government, funders and practitioners in the infrastructure investment sector.

This summary brief aims to disseminate these key insights and highlight a set of best practice guidelines for supporting or implementing infrastructure investment programmes.

Figure 1: Overview of the Jobs Fund Infrastructure Investment Portfolio

THE JOBS FUND

SNAPSHOT OF THE INFRASTRUCTURE INVESTMENT PORTFOLIO

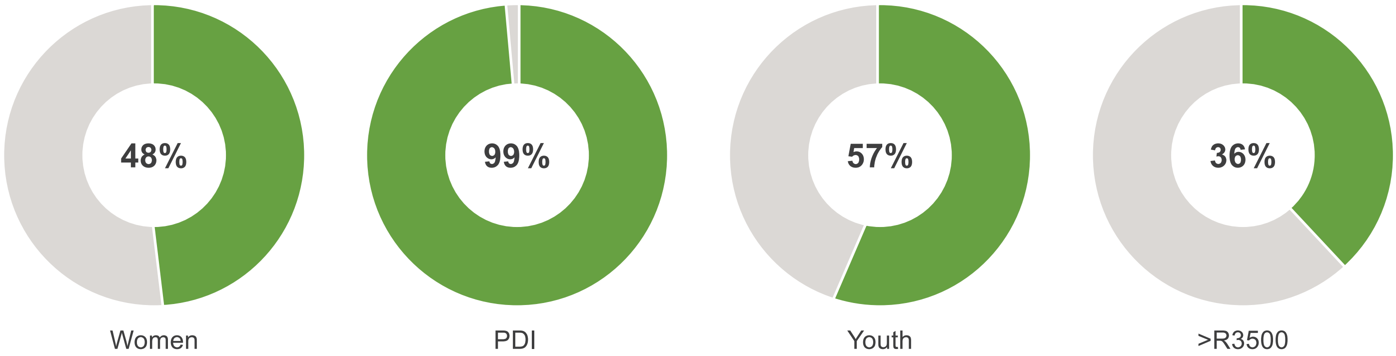
9 Infrastructure projects funded by the Jobs Fund to date

R777 million spent on infrastructure projects

Average Jobs Fund grant of **R98 million**

Infrastructure investment window created **4380** direct jobs

DEMOGRAPHICS OF THE JOBS CREATED BY THE INFRASTRUCTURE PORTFOLIO



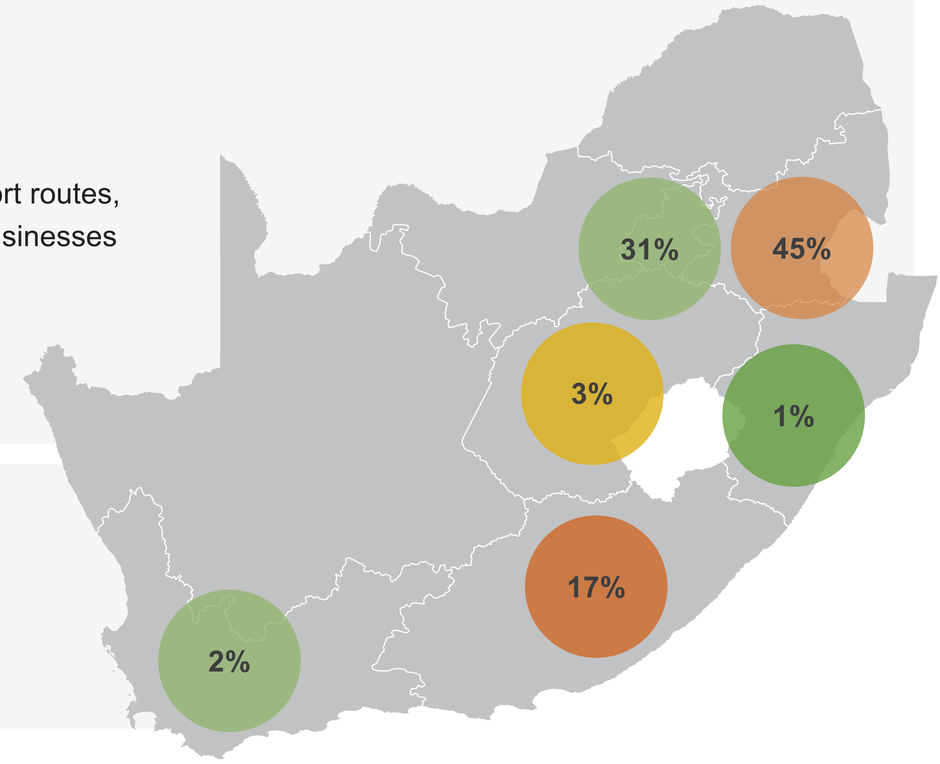
OVERALL IMPACT OF THE INFRASTRUCTURE INVESTMENT PORTFOLIO

4380
Direct permanent jobs

New schools, transport routes, informal and formal businesses

1.1 GDP multiplier
19 500 total jobs

GEOGRAPHIC DISTRIBUTION OF JOBS CREATED BY THE INFRASTRUCTURE INVESTMENT PORTFOLIO



2. KEY LESSONS

The project-level evaluations and portfolio review identified three key lessons for investment in infrastructure. These are **1) light infrastructure** alone does not create jobs, **2) understanding impact** holistically is important and **3) infrastructure** with shared access and value creation has the potential for greater impact. Case studies from the evaluation are used to illustrate each finding.

2.1. LIGHT INFRASTRUCTURE ALONE DOES NOT CREATE JOBS

The Jobs Fund's infrastructure investment window is critical, particularly because there are not many programmes that specifically support light infrastructure development. In fact, many grant programmes explicitly avoid funding capital costs. However, the evaluation found that the light infrastructure component was a necessary, but insufficient component of the job creation projects funded under this window. In all of the cases, the majority of job creation impacts were driven by the secondary enterprise development and support for workseekers activities that were part of the overall intervention design. **The infrastructure component was however enabling these sustainable job creation activities to take place.** The analysis further revealed that projects that provided comprehensive secondary activities were more successful at creating long-term sustainable jobs which suggests that the it is not only the presence but the relevance and depth of the activities that drives job creation.

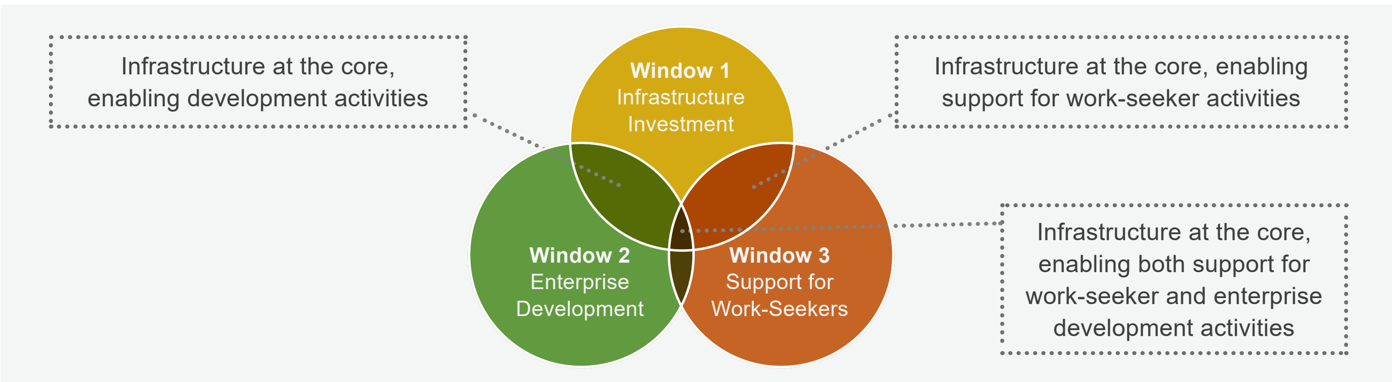
This suggests that for the job creation potential of infrastructure projects to be fully realised, they need be accompanied by these types of secondary activities. These activities should form an explicit part of the overall design of the intervention, and while they may only form a small part of the budgetary allocation, they should be carefully appraised during any approval process.

RECOMMENDATION

Explicitly appraise and monitor the supporting services components of infrastructure projects

When engaged in infrastructure intervention design, packaging and origination, ensure that explicit attention is paid to any secondary supporting activities which will ensure that there are sufficiently strong links to sustainable job creation: what they are and how they are linked to the light infrastructure component. If these supporting activities are missing or not included in the project scope, it is important to then check whether the theory of change that leads to job creation still holds. The same holds for appraisal and approval processes – an infrastructure project with a clear and well-defined set of secondary supporting activities is more likely to lead to job creation than a "build it and they will come approach".

Figure 2: Overview of the Infrastructure Investment Portfolio



2.2. UNDERSTANDING IMPACT HOLISTICALLY IS CRUCIAL

This evaluation illustrated the importance of understanding and measuring impact holistically, to avoid under-estimating the overall job creation impact of infrastructure investment projects. These holistic measures should include direct, indirect and induced effects of any investment. This is particularly important when, as with the Jobs Fund, the aim is to fund infrastructure that is enabling and catalyses investment and economic activity in other sectors. It is exactly these impacts which are missed when measuring only direct impact over the grant funded period.

Measuring impact holistically involves the use of various qualitative and quantitative methodologies. Whilst this may initially seem challenging and complex, in reality they are simple to use once they are set up and integrated into the processes of the Fund.

RECOMMENDATION

Take a holistic approach to impact measurement at all stages of the project cycle: origination, appraisal and implementation.

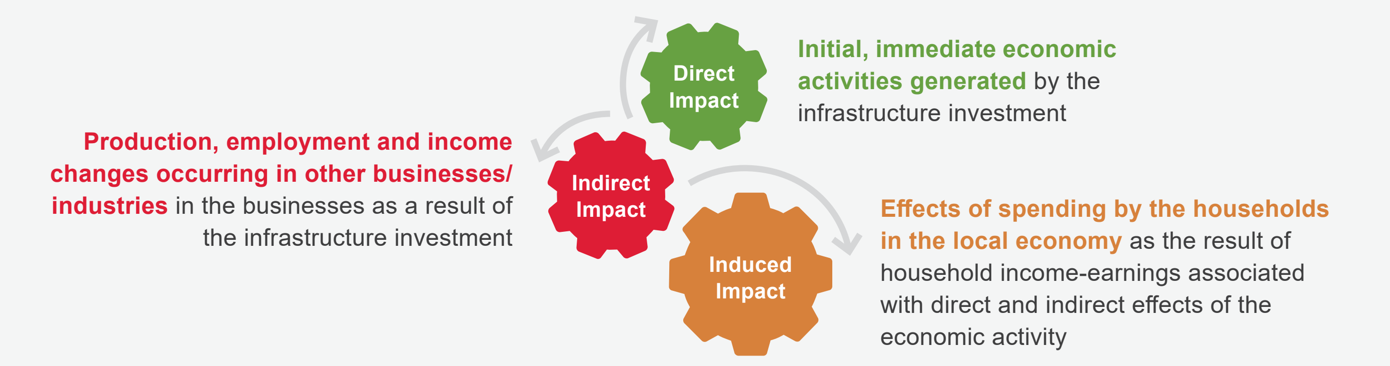
It is important that the total employment impact and potential of each infrastructure investment is estimated when making funding decisions, monitored during implementation, and tracked after the project has completed disbursements. As most investments already track direct impact, this implies that the assessment of indirect and induced impact should be incorporated.

Indirect impact can be assessed and documented qualitatively during site visits and quantitatively using provincial and municipal employment statistics and Lightstone reports. Induced impact can be assessed using the Social Accounting Matrix (SAM) model which calculates GDP and employment multipliers. A description of the SAM model is below.

Box 1: Overview of the SAM Model

A Social Accounting Matrix (SAM) can be used to determine the impact of the infrastructure investment on GDP and employment. A SAM is a static modelled representation of all transactions that take place within an economy, providing a matrix that maps the relationships between all economic sectors. A SAM captures all interactions and monetary flows between productive activities (economic sectors), commodities, factors of production (labour land, capital) and institutions (business, government, households) within the economy. In order to simulate the investment impact on the economy, the infrastructure and other spend components for each project is mapped to an economic sector and used as the shock item for the SAM model. The SAM model groups the impacts into two groups - Type I (direct and indirect impact) and Type II (direct, indirect and induced impact) multipliers. The impacts are calculated using matrix multiplication of the SAM.

Figure 3: Overall impact of infrastructure investment



2.3. INFRASTRUCTURE WITH SHARED ACCESS AND VALUE CREATION HAS THE POTENTIAL FOR GREATER IMPACT

The evaluation found that a number of projects in the infrastructure investment window have crowded-in investment by public and private sector actors in transport infrastructure, housing and the development of social and economic amenities, resulting in indirect job creation. There is also evidence that the infrastructure projects have catalysed small business development in the immediate surrounding areas.

Where there is potential for light economic infrastructure to act as a catalyst for additional investment and in some cases, urban regeneration, the extent to which this is possible depends partly on who is able to access this infrastructure. Investment into the development of assets that are held and enjoyed by a single enterprise is likely to enhance the business capability and improve the asset share value of that enterprise, but is then unlikely to crowd in significant economic activity.

It is therefore important, particularly in a publicly funded programme, to adopt an investment approach that promotes shared access and benefit. This might include joint ownership (through multi-stakeholder consortiums) to improve the likelihood of shared benefit beyond a single entity, or by ensuring that the beneficiary has strong upstream and downstream linkages. Investment in infrastructure that allows shared access enables a greater catalytic effect for crowding in investment and creating sustained job creation.

RECOMMENDATION

Consider the potential for infrastructure investments to crowd in additional investment and catalyse further job creation.

Funders should explicitly consider the extent to which infrastructure investments allow the possibility for additional crowding in of other actors. This might entail ensuring that investments leverage off, and align to existing developmental plans, as well as considering to whom the primary benefits will flow and who is able to access the funded infrastructure. This can be included as a criterion for funding in the origination, application and appraisal processes.





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