



South Africa Siyasebenza

10th ANNIVERSARY

A DECADE OF INNOVATION AND PARTNERSHIP



Ushintsho Olughakazile

Jobs Fund Webinar

***Innovative Funding Instruments for
Achieving Great Social Impact –
The Case for Challenge Funds***

15 November 2022

The event will start at 10h00



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



National Treasury
REPUBLIC OF SOUTH AFRICA

Welcome

Najwah Allie-Edries

Deputy Director-General: Employment Facilitation
(Head of the Jobs Fund)

Overview of the Jobs Fund

Nazeem Hendricks

Technical Financial Analyst (Jobs Fund)

- The Jobs Fund (JF) was established to inspire innovation in the face of challenges government was experiencing, including:
 - Lack of innovative and flexible public instruments to leverage private sector resources and test solutions to social challenges.
 - Limited impact, despite a number of interventions in government.
- JF was designed as a challenge fund to focus on specific barriers to job creation, and in 2011 was capitalised with R9 billion.
- The Jobs Fund is a programme of the National Treasury and is located in the Government Technical Advisory Centre (GTAC).
- The Jobs Fund is government's R&D Pilot on innovative job creation models:



Test innovative approaches to job creation - supply and demand side of the labour market



Encourage wider market adoption of challenge fund funding instrument over the medium to long term



Share risk - catalyse social return



Encourage adoption of successful Job creation Models by organisations

- The Fund works with intermediaries, leveraging their networks to access and provide support to the targeted beneficiaries, through four funding windows:



- The Jobs Fund was established with **knowledge sharing as one of its foundational pillars** and has a rigorous monitoring, evaluation, reporting, and learning framework. In this regard, the Jobs Fund regularly hosts and participates in knowledge exchange sessions, such as this one, together with its partners.

Innovative Funding Instruments for Achieving Great Social Impact – The Case for Challenge Funds

Part 1

Fidelis Hove

Senior Technical Advisor (Jobs Fund)

Overview of the Challenge Fund Instrument



- A Challenge Fund is an instrument through which financial resources (usually grants) are provided to support innovative solutions to challenges, and to engage new actors in addressing these challenges. The key defining features of a challenge fund are that it:
 - Is a financing mechanism that uses **competition** to identify and support the best solutions to a pre-defined challenge
 - Aims to identify **innovations** and new ways of solving the challenge – as a Challenge Fund is used where solutions do not yet exist
 - Intends to **engage new actors** both as implementors and financiers
- In practice this means that a challenge fund is implemented:
 - (i) Through the **transparent selection** of grantees against **pre-determined criteria**, which always includes an assessment of additionality (i.e. would this have happened anyway without the support of the fund)
 - (ii) By **risk sharing** with the grantee, usually through co-investment i.e. the provision of matched funding. This allows a challenge fund to **leverage other financial resources** beyond their own grant contribution.



Vodacom MPESA (Kenya) - Financial Deepening Challenge Fund

Context

Partnership: Vodafone Kenya and FDCF
Offering: Co-funding of a pilot to test technology to use cell-phones for money transfer to remote areas using air-time retailers as ATM networks

Participation

- Millions of rural Kenyan and Tanzanian households and SMMEs
- Banks & microfinance institutions improving products at the Base of Pyramid

Outcomes

- Dramatically reduced transaction costs & improved security for 8 million poor users
- Improved productivity across the economy
- Barriers between banks and MFIs overcome
- FDCF input UKP 1m; Vodafone UKP 15 m after roll-out

Great Lakes Cotton (Malawi) - Business Linkages Challenge Fund

Context

Partnership: Great lake Cotton, Syngenta, the Associate of Smallholder Farmers
Offering: Improved quality and availability of seed and other technical inputs to pre-registered farmers

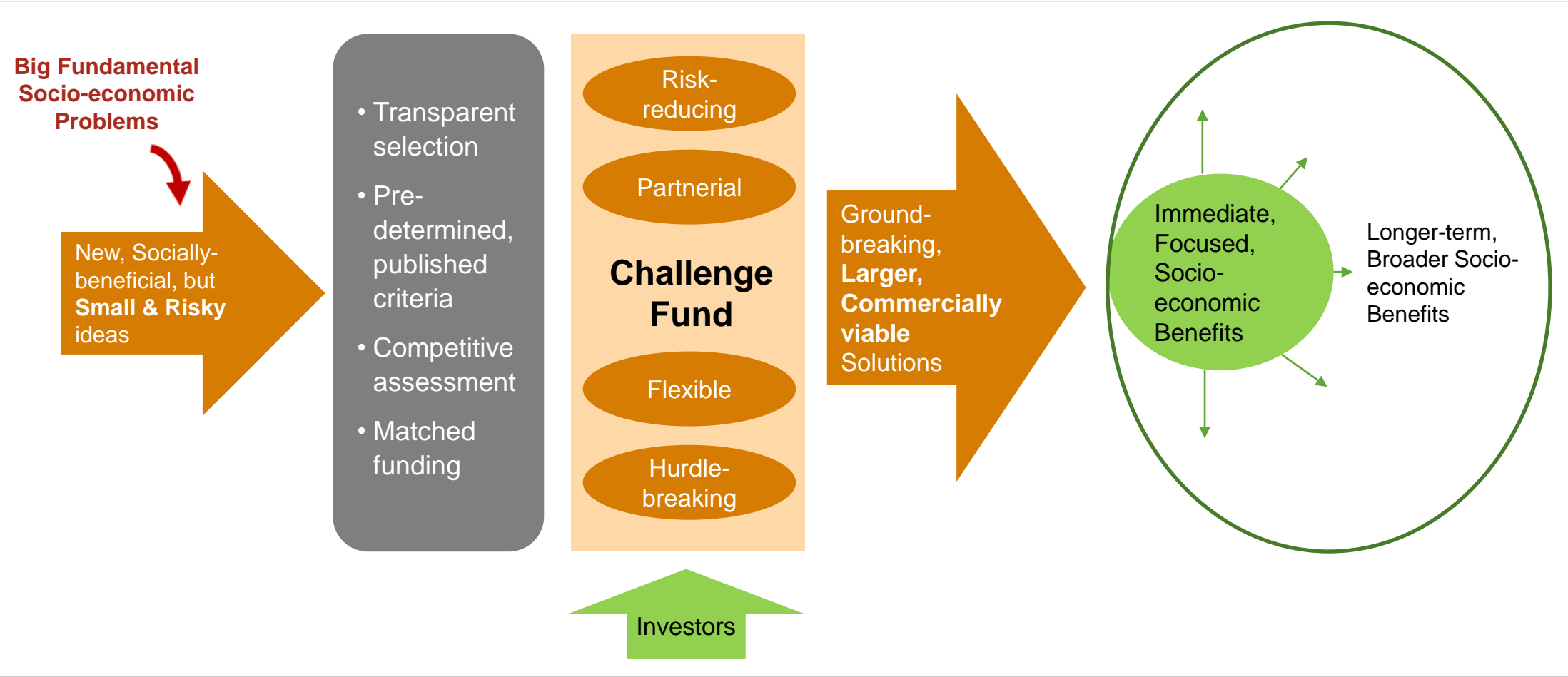
Participation

- 180,00 smallholder farmers
- 35,000 “ganyu” (casual labourers)
- 500 private extension workers

Outcomes

- 2 seed-treatment plants installed
- 43,000 tonnes smallholder cotton production in 2003/4 vs 16,000 tonnes in 2002
- +265% in productivity attributed to the project
- Spin-off activity (transport sector) already apparent
- BLCF input UKP 0.29 m; private input UKP 1.3m

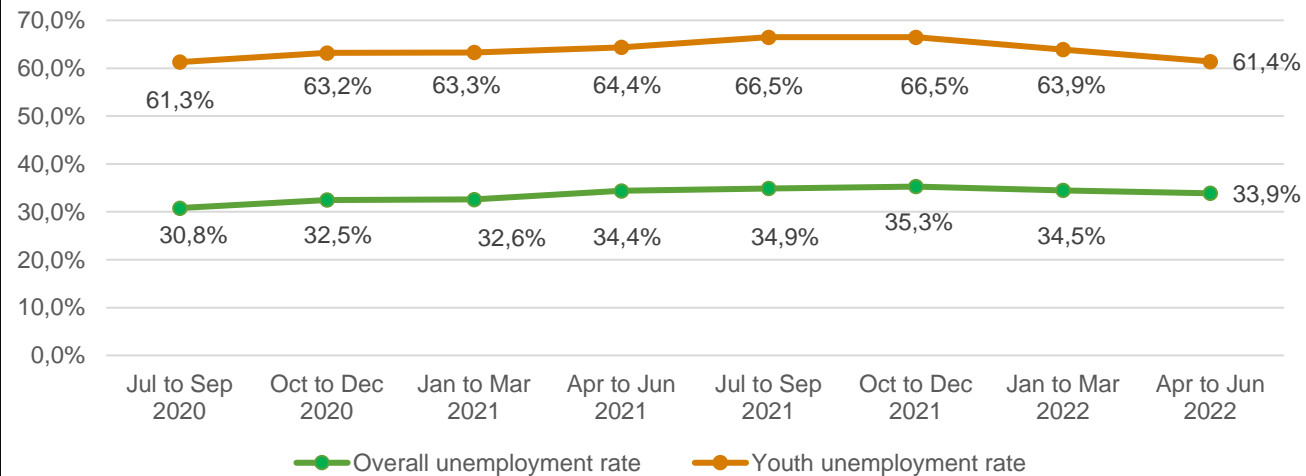
- While challenge funds have been in use in the UK since the early 90s, more prominent, recent examples include:
 - The Financial Deepening Challenge Fund (FDCF),
 - The Business Linkages Challenge Fund (BLCF)
 - The Financial Education Challenge Fund
- All funded by UK-DFID
- Another example is the Africa Enterprise Challenge Fund (AECF):
 - This fund is implemented by the Alliance for a Green Revolution in Africa (AGRA) on behalf of a number of donors.



Source: Adapted from Redflank (2019)

Current Challenges in South Africa and How the Challenge Fund Instrument Can Assist

Unemployment Rate Over the Last 2 years



Source: StatsSA QLFS

Unemployment rate:

33.9% overall

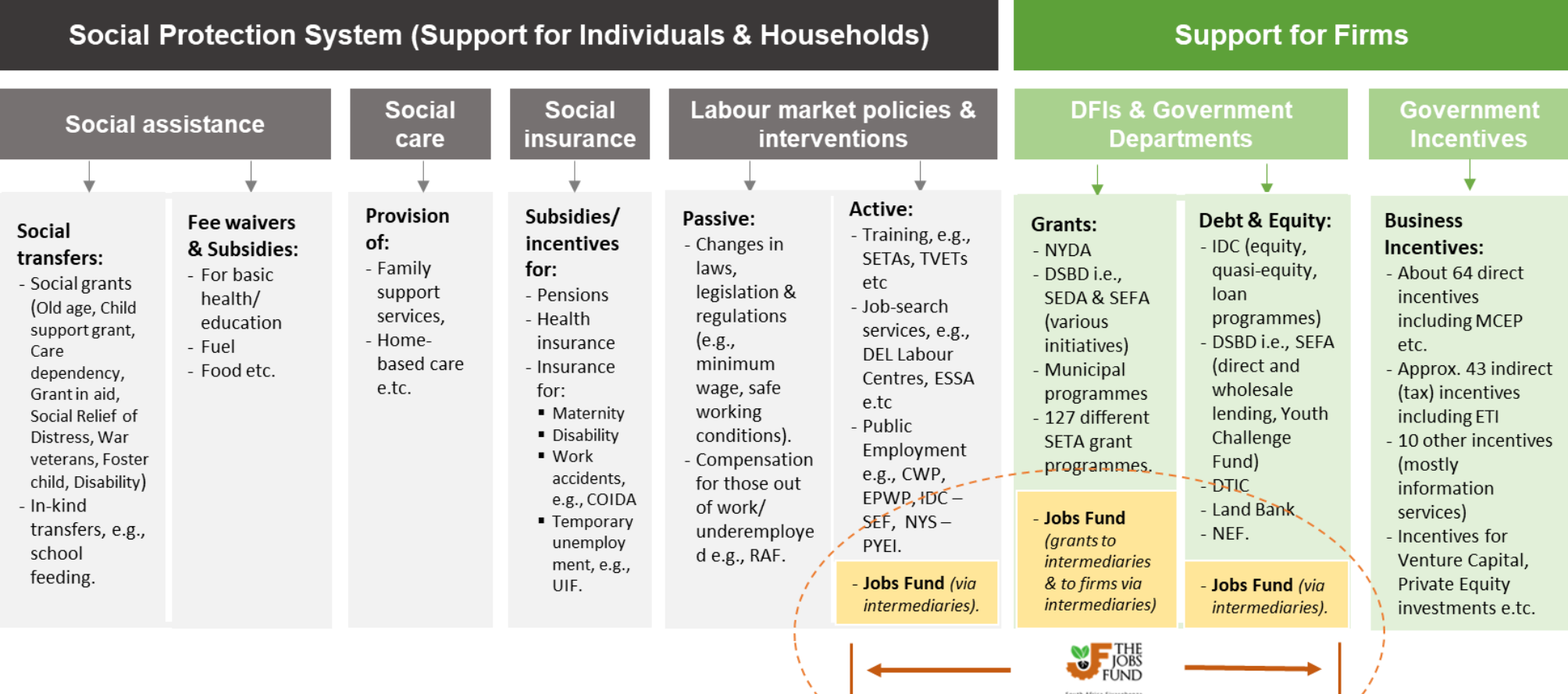
61.4% of young people (15 to 24 years old)


35.5% of women

- The country faces significant challenges:
 - Slow growth.
 - Unemployment.
 - Women and youth are disproportionately affected.
- Tried, tested and innovative solutions are needed to address these challenges and effectively create earning and employment opportunities for the unemployed.
- We need a sustainable partnership-based solution:
 - Leverage private sector funds
 - Promote outcomes-based payments to manage government risk
 - Crowd-in technical knowledge & expertise
 - Share knowledge for replication and scale

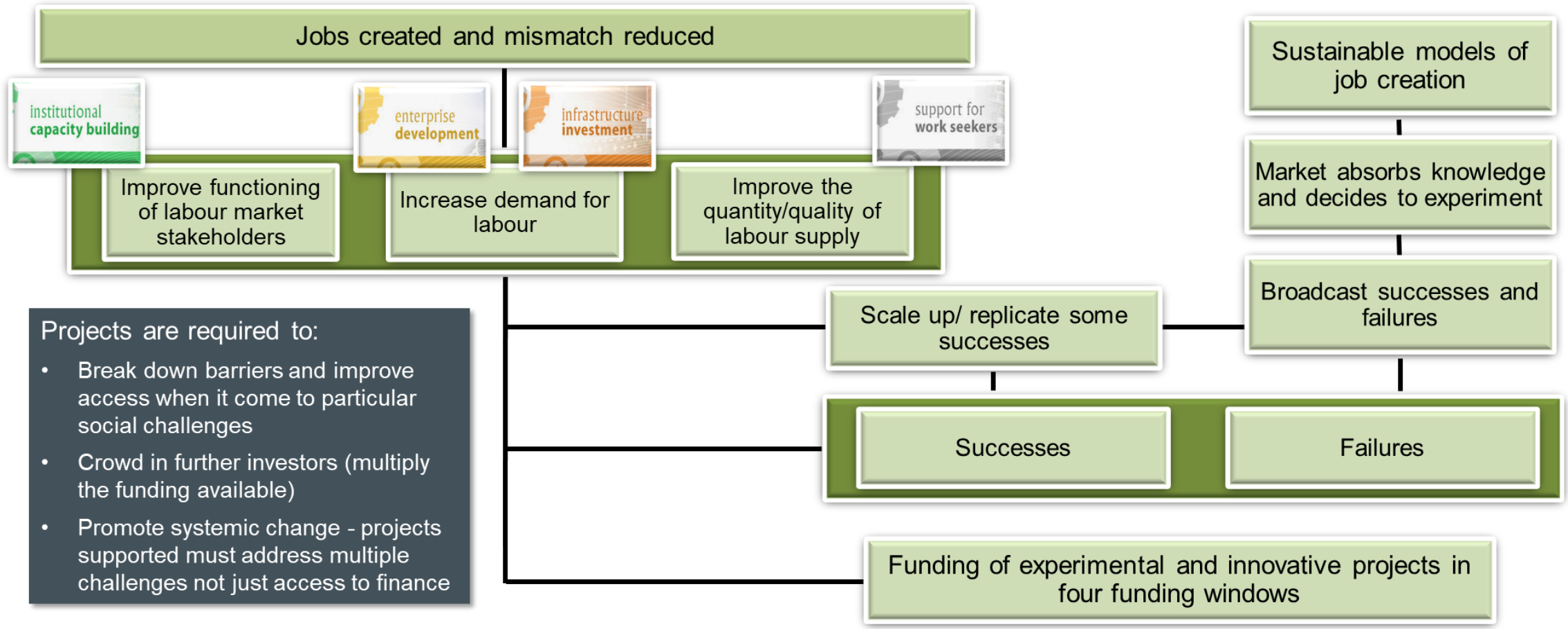


Jobs Fund's Experience in Using the Challenge Fund Instrument

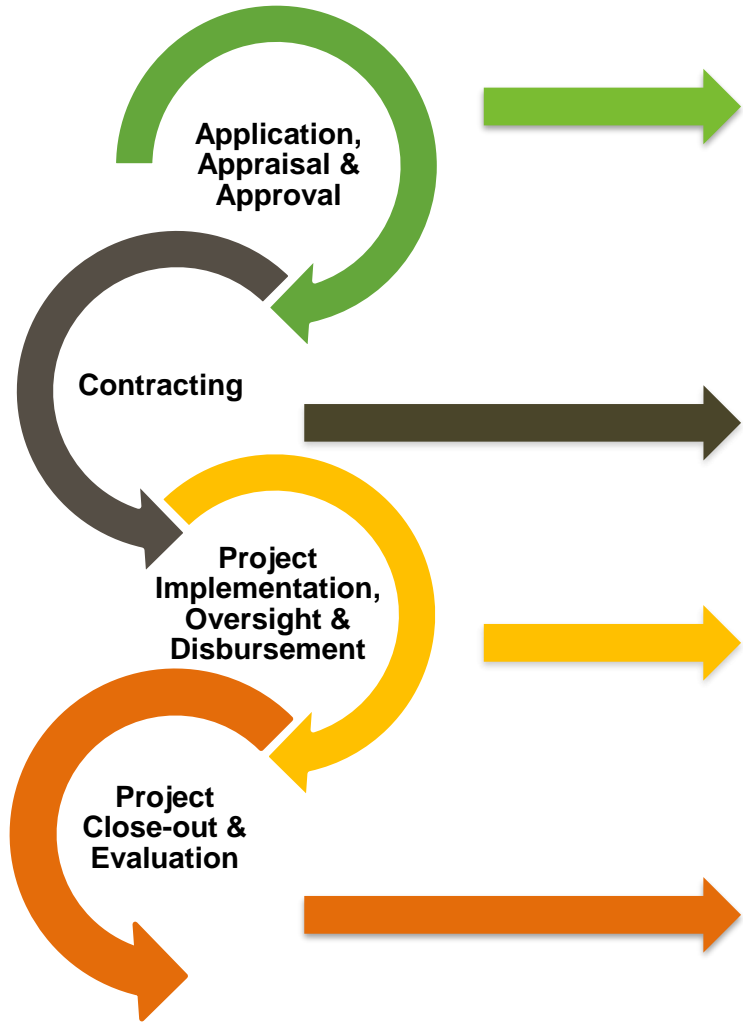




 The Jobs Fund partners with **intermediaries** to **co-finance** and **test** innovative **demand-side** and **supply-side** approaches to employment creation



Jobs Fund Project Lifecycle



- **Research into the constraints in the market** which informs the term sheet for a funding round.
- The funding round is announced to the market – **calling for proposals on solutions** to solve for the constraints in the market and to break down barriers to job creation and placement.
- Interested organisations apply by setting out their proposals and **project results chains**.
- Projects are approved funding based on various tests: applicant viability, project feasibility, capacity to implement, value for money, systemic impact, job creation potential, etc. (rigorous due diligence to safeguard public money).

- During contracting, the specifics of the project are finalised (the results chain): **inputs, activities, outputs outcomes, impact, indicators** and the contribution of each party to these costs.

- Monitor and **assess progress against the results chain** (key activities planned, outputs, milestones, outcomes) and the cost
- Conduct independent **Annual financial and performance audits** and **regular evaluations** (Formative and Mid-term) and extract learnings.
- **Promoting the effective utilisation of scarce public resources.**

- Assesses the outcomes (results, cost) of the project via **Close-out audit** and Partner **Self Evaluation Report**.
- Conduct an independent **Summative Evaluation** on the project to assess outcomes and impact.
- Post-implementation reporting.
- Knowledge sharing and extracting good practice.

Let's pause for any questions

Facilitated by: Najwah Allie-Edries (Head of the Jobs Fund)

Innovative Funding Instruments for Achieving Great Social Impact – The Case for Challenge Funds

Part 2

Nazeem Hendricks

Technical Financial Analyst (Jobs Fund)



Jobs Fund Performance

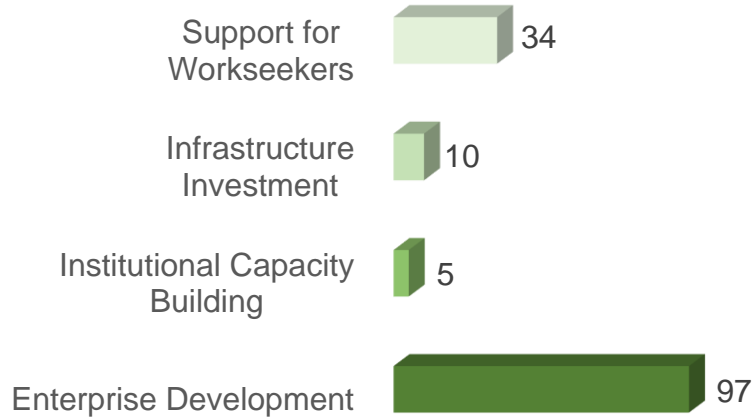
Jobs Fund Partners

146
contracted projects

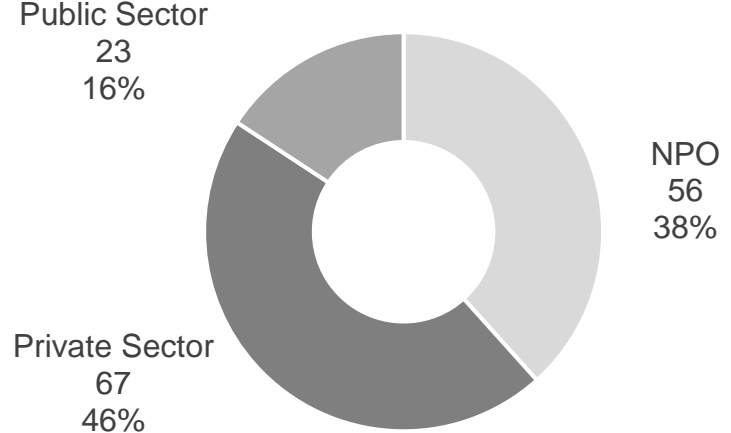


National Footprint
68% of projects operate in more than one province (of these 10% operate nationally)

Projects by Funding Window



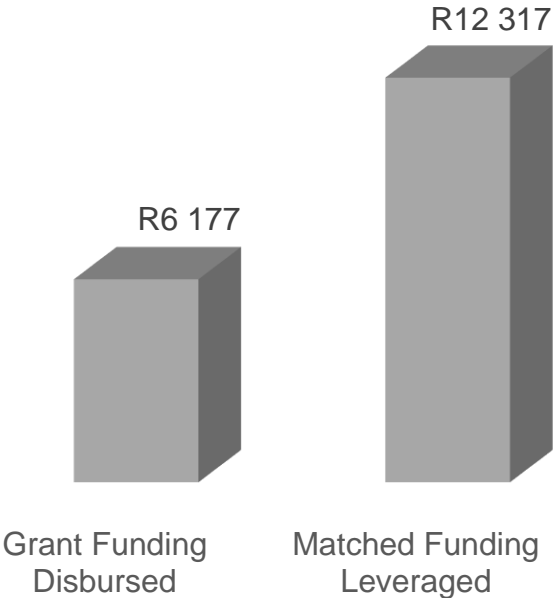
Projects by Implementer Type





Funding

Total Funding for Job Creation (R m)



R18.5 billion
total portfolio funding leveraged

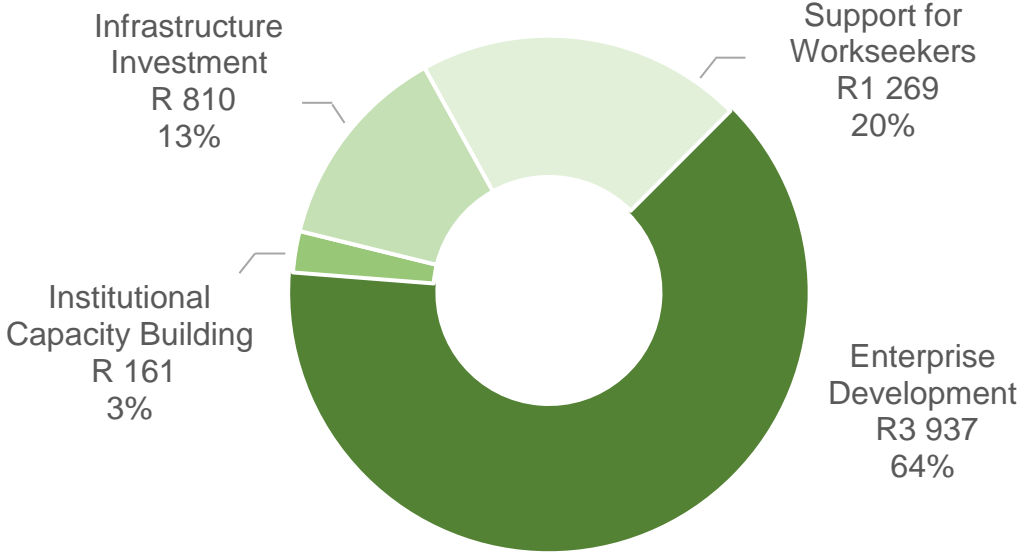
R6.17 billion
grant funding disbursed

R12.32 billion
Matched funding leveraged from partners

1: 1.99
matched funding ratio

R42.3 million
average grant disbursed per project

Grant Disbursed by Funding Window (R millions)





SMME Support

70 018
SMMEs and smallholder/emerging farmers supported

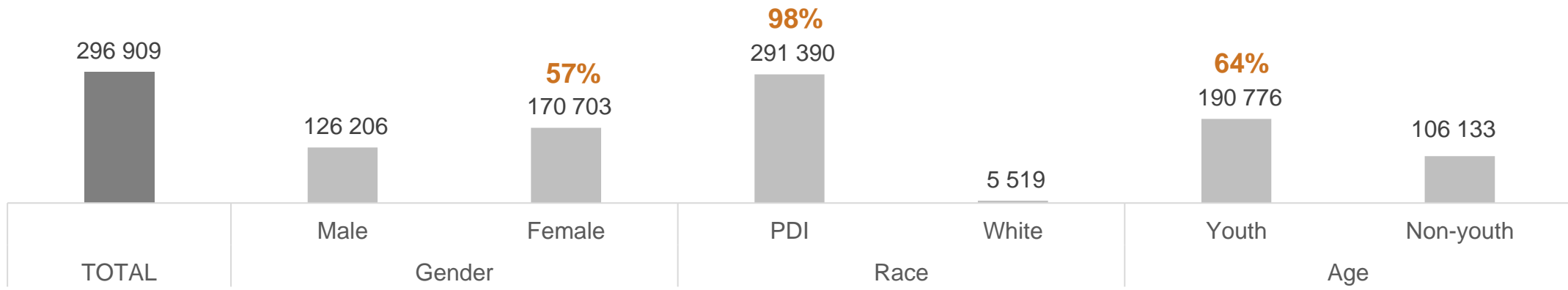
Training

297 997
people trained

657 572
beneficiaries reached through JF C19 support package

Job Creation

Total Jobs, Placements & Internships Facilitated





Challenge Fund Name	Funder	Fund Value (R millions)	Projects (#)	Ops costs as a prop. of expend.
Responsible & Accountable Garment Sector (RAGS) CF	DFID	57	12	15%
Financial Deepening CF	DFID	310	36	19%
Energy and Environmental Programme CF	MFA Finland	441	274	20%
Business Advocacy CF	Danida	34	151	23%
Business Linkages CF	DFID	302	53	20%
Enterprise CF	AusAID	200	21	27%
Africa Enterprise CF	Multi	5 340	268	28%
Jobs Fund CF	Gov't of SA	9 000	146	11%

- Operational Costs vs Project Costs:
 - The Fund's operational costs have remained low in relation to total project costs.**
 - Direct cost to fiscus (as a percentage of grants disbursed) are 11% from the inception of the JF to date.
- Operational Expenditure – JF's 11% is low compared to other Challenge Funds (refer to the table):
 - This 11% includes additional value-added services such as: governance and technical support (high-touch project management, M&E, development finance, online Grant Management System).
- Job tenure and cost per job is competitive:
 - On average JF permanent jobs have a duration of 3 years.
 - The JF's cost per job is competitive (R21k to R23K).

Source of stats for other CFs: Oxford Policy Management, 2017



Jobs Fund Impact



- **Effective partnerships with the private, public and NPO sectors**
 - Collaboration on 146 job creation projects aimed at addressing systemic challenges in the market.
 - Diverse intermediaries = ability to work across sectors and deliver varied beneficiary support models.
- **Significant investment from predominantly the private sector**
 - R12.3 billion in matched funding leveraged from partners off the back of R6.17 billion in grant funding (attracts partners with deep pockets).
- **Innovative and cost-effective job creation models across the economic spectrum**
 - Sector-specific insights on job creation models
 - Models that respond to both supply & demand side constraints in the labour market. Examples of projects:
 - **Blended finance:** combining grant and commercial sources of funding to reduce the cost of capital for emerging farmers and SMMEs:
 - *DFPT's Hortfin Fund* – R600m funding mechanism for emerging farmers
 - *Citrus Growers' Association's Citrus Development Fund* – Establishment of a Citrus Development for black-owned citrus farmers.
 - **Informal economy support:** Supporting interventions that graduate small and micro enterprises out of dependency into viable enterprises:
 - *A2Pay* – Tech-driven approach to support spaza shops to grow.
 - *Phakamani* – Administers group micro-loans and provides mentorship support (based on the Grameen bank microfinance model).
 - **Social franchising:** Applies principle and applies this to organisations that are tackling social issues (education, health, child development, etc.):
 - *Unjani Clinics* – Created a network of community clinics that are owner-managed in low-income areas.



- **Benefits to the end beneficiary**
 - Funds have benefited youth workseekers, women, and SMMEs/ smallholder farmers (SHFs).
 - Reaching targeted beneficiaries, in collaboration with intermediary partners (64% youth; 57% women, 98% PDI).
- **Sustainable jobs and businesses**
 - Beneficiaries are likely to remain in jobs for at least 3 years (JF Tracer Study [2019 to 2021]).
 - The majority of supported SMMEs are still in operation 3 years on (JF Tracer Study [2019 to 2021]).
- **Low grant cost per job**
 - Over-achieving on its job creation targets at a low cost per job.
 - Competitive relative to other employment incentives and DFIs.
- **Return to fiscus significant**
 - Return to Fiscus by way of PAYE: R6.823 billion return to government
- **Contributed to improved implementation capacity of the public, private and NPO sectors**
 - Robust institutions and ecosystems of support.
- **Flexible challenge fund instrument**
 - Positive social and economic outcomes - effective utilisation of scarce public resources.
 - Instrument can be used to implement initiatives beyond just job creation.

The Case for the Challenge Fund in South Africa

The Relevance of the Challenge Fund in Response to Socio-economic Challenges



- **Can Challenge Fund (CF) target socio-economic challenges in a way that results in positive impact?**
 - The Jobs Fund’s experience has demonstrated that it is possible to create jobs; and in the process prove models for job creation that are capable of scaling, replication and enabling systemic change.
 - Such an approach provides the potential for making an impact on unemployment and redress - effective utilisation of scarce public resources.
 - Systemic change is possible – project address multiple challenges not just access to finance.
- **What are the required capabilities for a successful Challenge Fund?**
 - A successful CF requires Good Design; Advanced Fund Management skills (sound systems and processes in the effective disbursement of funds that ensure appropriate financial oversight and control); Advanced Monitoring & Evaluation systems; Security of Funding; Long-term funding availability; Organisational credibility; a Multi-skilled personnel (experience and expertise that spans project management, financial analysis, project appraisal, monitoring and evaluation, research analytics and other disciplines).
 - With these capabilities a CF can:
 - Develop and implement a large number of innovative job creation ventures across all sectors, regions and firm sizes in SA
 - Catalyse innovative and breakthrough change thus laying the foundation for systemic socio-economic improvements
- **What overall approach is required for the Challenge Fund contribution to be worthwhile?**
 - For the catalytic and innovative change to result in systemic change, it is important that sufficient implementation resources, capability and capacity is made available to scale and replicate the solutions proven by the Challenge Fund.

Where can the SA Government Employ the Challenge Fund Instrument for Greater Social Impact?



Some examples:

- **Education & Early Childhood Development provision**
 - Assisting marginalised populations and communities access quality education
- **Primary health care provision**
 - Assisting underserved communities in accessing health care (more than 80% of South Africans are dependent on an overburdened public system)
- **Tech innovation**
 - Assisting in closing the digital divide that exists in SA
- **Job creation**
 - Assisting in creating solutions to curb unemployment
- **Energy provision**
 - Assisting in addressing the energy crisis in South Africa



In Conclusion



Conclusions (1)

- Challenge Funds (CF) are powerful tools in focussing resources and expertise toward solving for specific socio-economic challenges, **without dictating the means by which to solve for the challenges.**
- **The competitive and transparent application processes** of Challenge Funds allow for the best ideas to be supported. These ideas typically hold the promise for replication and scale.
- **Competitive ideas are de-risked** and proven commercially viable through the application of grant funding support, along with partner contributions.
- Based on the Jobs Fund's experience, the Challenge Fund instrument brings significant value for money for government. The **CF instrument can be applied to a number of socio-economic challenges**, including in Health, Education, etc.
- **CF can deliver both immediate and focused benefits** to SMMEs and work seekers, as well as broader, longer-term benefits:
 - Jobs Fund-run CF has demonstrated superior short- and longer-term socio-economic benefits in various sectors at a competitive cost.
 - 1:2 grant to matched funding ratio: tripling government's investment - better allocative efficiencies for government.
 - A competitive operational cost when compared to other CFs.

Conclusions (2)



- **Proven CFs attract reputable partners** with both the requisite matched funding and expertise (including niche knowledge, market reach and networks, systems and processes) to successfully roll-out and manage pilot solutions (effective utilisation of scarce public resources).
- Although there are a number of emerging CFs within government, it is important that CFs have the following requisite capabilities to promote success: **Good design, Advanced fund management skills, Security of long-term funding, Good organisational credibility, and a Multi-skilled personnel.**
- There remains a challenge for policy formulation - where public entities use different matrices to define and measure success (thus comparisons between programmes may become tenuous).
- The **Challenge Fund mechanism has been able to produce positive impact and benefits:**
 - Given that these benefits continue to have relevance in addressing persisting socio-economic challenges, it would be remiss of the fiscus not to support such instruments.
 - Should the fiscus choose not to pursue Challenge Fund instruments, a key question is whether there is an alternate mechanism to enable breakthrough innovation that catalyses fundamental socio-economic improvement at scale?

Q&A

Facilitated by: Najwah Allie-Edries (Head of the Jobs Fund)

Closing Address

Najwah Allie-Edries

Deputy Director-General: Employment Facilitation
(Head of the Jobs Fund)



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Thank you



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