



South Africa Siyasebenza

10th ANNIVERSARY

A DECADE OF INNOVATION AND PARTNERSHIP



Ushintsho Olughakazile

Jobs Fund-GTAC Webinar

*SMME Development in the Informal Economy:
Lessons from the Jobs Fund*

17 March 2023

The event will start at 14h00



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



National Treasury
REPUBLIC OF SOUTH AFRICA



Welcome

Hilton Sarukunda
Team Leader
(Jobs Fund)

- In the context of persistent unemployment, the Jobs Fund was established to inspire innovation in the face of several challenges government was experiencing, including:
 - Lack of innovative and flexible public instruments to leverage private sector resources and test solutions to social challenges.
 - Despite a number of interventions in government, the desired impact has not always been achieved.
- In 2011, it was capitalised with **R9 billion**.
- The Jobs Fund is a programme of the National Treasury and, for administrative purposes, 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 intent is to focus on addressing specific barriers to job creation.



- 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, together with its partners.

- StatsSA reports that jobs in the informal sector account for nearly one-third of the national total, demonstrating the sector's significance in reducing poverty.
- The informal economy has the potential to promote poverty reduction and generate employment for South Africa's unemployed. The NDP does acknowledge the informal sector's capacity to create a significant number of jobs by 2030, but detail on how to create an enabling and supportive environment for these enterprises needs to be fleshed out.
- Since the Fund's inception, it has supported SMME development initiatives in the informal economy and can share its learnings in this regard.
- This session's objective is to discuss the informal economy's capacity to create employment and improve livelihoods in South Africa and how projects can go about implementing effective programmes that meet the needs of micro-enterprises.
- Two of the Jobs Fund projects that operate in this area will share their experiences and learnings in delivering support to small and micro businesses.



SMME Development in the Informal Economy: Lessons from the Jobs Fund

Bawinile Peters

Programme Manager at the Project Preparation Trust



Project Preparation Trust
Est. 1993

and

Tina Mason

Programme Manager at A2Pay



Lessons and Insights from Project Preparation Trust - *Informal Economy Support Programme*

Bawinile Peters
Programme Manager



Project Preparation Trust
Est. 1993



- The Informal Economy Support Programme (IESP) is a specialised business support initiative and is the first of its kind in South Africa, managed and operated by Project Preparation Trust (PPT).
- **Target population** is the **micro and informal enterprises (MIEs) and entrepreneurs.**
- Main objective is to **strengthen and capacitate MIEs and entrepreneurs so that they are able to create jobs, wealth and opportunity which in the long term supports more sustainable and inclusive economic growth.**
- IESP provides the necessary **specialist capacity, collaborations** with various municipal departments, private sector companies and external service providers, and **systems that are necessary to unlock business growth and job creation.**
- Successfully completed two phases: Pilot phase (2013-2016); Phase 2 (2018-2021) – funded by eThekweni Municipality, Jobs Fund and Department of Small Business Development (DSBD).
- Currently in its third and upscaled phase (2022-2024) funded by eThekweni Municipality, Industrial Development Corporation (IDC) and Jobs Fund.



Sectors supported



- IESP supports MIEs across a range of sectors as long as they meet the minimum selection criteria. Some of these are:
 - ✓ **manufacturing** - clothing, fashion accessories, furniture, upholstery, block making, household detergents, etc.
 - ✓ **services** - auto industry, car wash, travel agency
 - ✓ **retail trade** - e.g. gas supply, spaza shops
 - ✓ **food and beverage** - restaurant/ fast food, bakery, health beverages
 - ✓ **agriculture** - crop production and agriprocessing, animal farming;
 - ✓ **construction**
 - ✓ **hospitality** - e.g. B&Bs



Examples: sectors supported

Upholstery

Waste recycling



Challenges faced by MIEs

- Common **challenges** faced by MIEs:
 - ✓ **Inability to access business finance** from formal banks and other development programmes
 - ✓ **Inadequate business space** which then limits production capacity
 - ✓ **Lack of business management skills** e.g. costing, pricing, record keeping, financial management
 - ✓ **Products/services not meeting industry standards** and thus limiting entry to markets
 - ✓ **Marketing the business and finding new customers** e.g. negotiating contracts





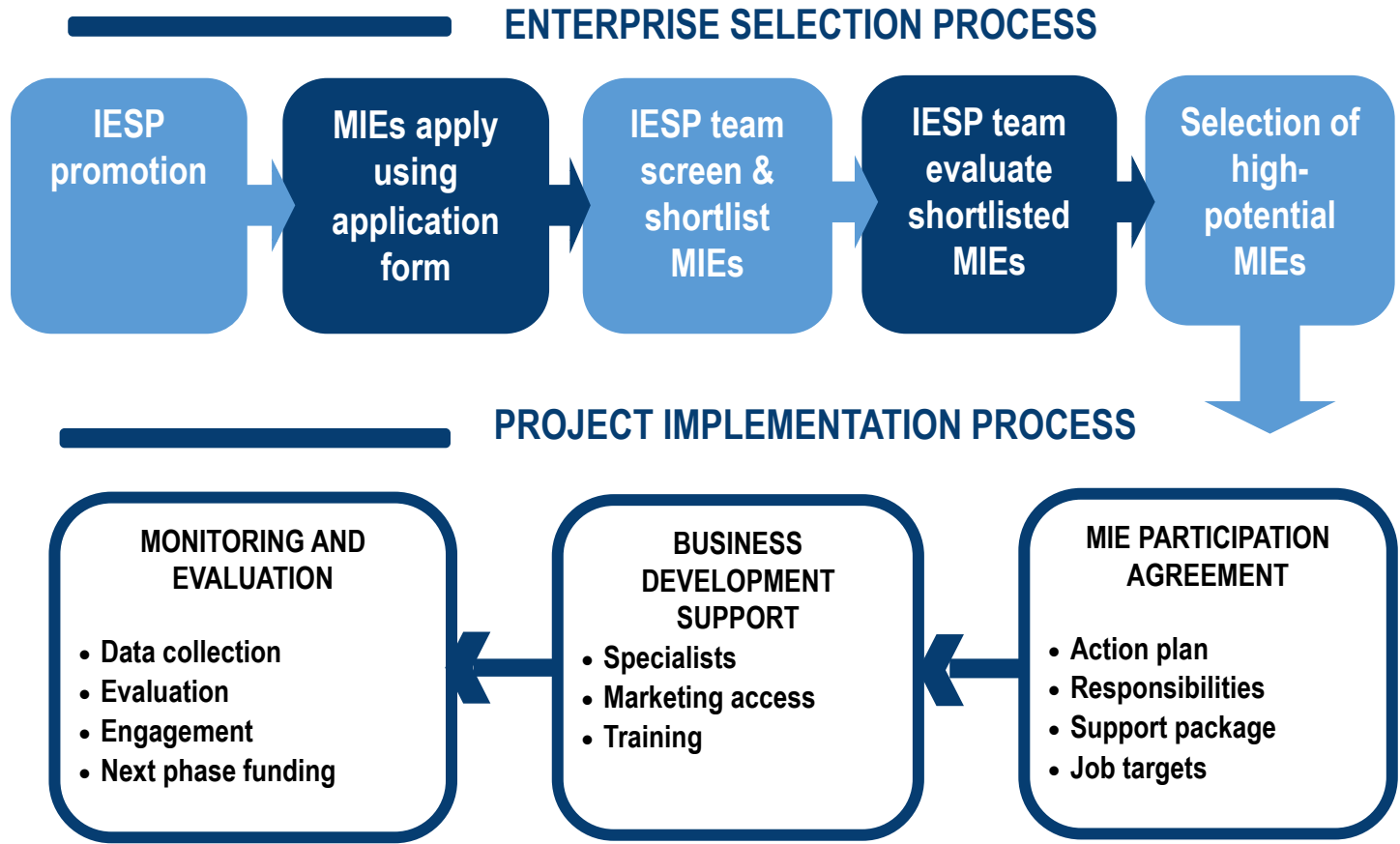
- IESP design is innovative:
 - ✓ **Focuses exclusively on micro and informal enterprises (MIEs)** – recognises that MIEs have specific characteristics and challenges and require customised approaches and solutions, therefore the IESP specialises in providing **structured, and customised business support packages** relevant to the needs of the entrepreneur and the business.
 - ✓ **Customised training** instead of standardised, off-the shelf training packages.
 - ✓ **Focuses principally on non-financial support** – this ensures that MIEs are self-motivated and not expecting capital funding handouts. **Micro-grants are linked to job creation** to avoid dependency.
 - ✓ **Pricing business support budgets based on job creation potential** – typically R12,500 per job.
 - ✓ **Numerous systems, tools and methods developed** over the past nine years informed by learning.
 - ✓ **IESP assessment and selection method/tool developed** – MIEs are selected based on specific criteria (Black-owned; located in eThekweni; entrepreneur commitment; track record; market; capacity to deliver; job creation potential).
 - ✓ **Ongoing mentorship and support is provided over a sustained period** up to a maximum cost and time input for each enterprise.
 - ✓ **Caps expenditure relative to job creation achievement** using the budget limiter tool.

Services provided by the IESP

- **Business assessment** conducted to understand the business and identify practical actions for unlocking growth and job creation.
- **Access to new markets** - e.g. assessing new markets, product development, marketing material, negotiating with new buyers.
- **Workspace access and optimization** - e.g. support in identifying better space or improved utilisation of existing space.
- **Panel of business specialists and professionals** – e.g. Limited free access to services by business coaches and mentors, marketing specialists, accountants, attorneys, labour experts, tax consultants, website developers, manufacturing technicians, and procurement and tender consultants, etc.
- **Customized on-the-ground training** - training (in the workplace) to address specific needs or carefully-targeted classroom-based training including: business management and development, recordkeeping, managing stock, cash-flow analysis, customer service, etc.
- **Access to finance** - support in accessing business finance from other institutions, provision of targeted micro-grants to high-performing MIEs.
- **Sector collaborations** - assisting groups of enterprises in a particular sector (e.g. agriculture, clothing manufacturing or food services) to access a new market by means of a joint supply agreement with a wholesaler or to achieve more cost-effective purchase of raw materials.



Enterprise selection and support process





- **900+ applications received** in last two phases, all **screened**, micro and informal enterprises (**MIEs**) with the **highest potential to create jobs selected and assessed**.
- Customised business development plans developed for each successful MIE, **182 participation agreements signed and customised support provided; 998 jobs created; internal capacity built to respond to the needs of the informal economy & MIEs; collaborations established** with external panel of specialists, NGOs and government departments; **knowledge, information and understanding of informal economy generated and shared**.
- Independent evaluations conducted confirmed that **IESP has been effective in addressing challenges faced by MIEs**. Entrepreneurs described how **both financial and non-financial support helped grow their businesses, improve productivity, and create new jobs**.
- **Non-financial support:** access to training opportunities, support with business branding and marketing, and access to finance to purchase equipment were cited most frequently by entrepreneurs as key job creation triggers.
- **Financial support:** Interviewed entrepreneurs explained how the micro-grants enabled them to purchase equipment, materials, and access new business space which contributed to businesses growth and job creation.
- **IESP Specialists assisted entrepreneurs to apply for other grant funding** such as Operation Vula Fund and DSBD's Cooperatives Incentive Scheme – used to purchase additional equipment and business vehicles.

Example 1: Magubane's Blockyard



Above: Entrepreneur, John Mhlaselwa Magubane, at the new premises with newly-manufactured blocks.

Product & services: Concrete blocks

Jobs target: 14 **Jobs created:** 28 permanent jobs

Support provided: IESP paid for product testing; trained entrepreneur and employees on how to improve quality of the blocks; entrepreneur trained in business development skills, customised record keeping and bookkeeping; advised to increase slab and buy additional block-making machines; received micro grants to buy more machines and card machine to improve customer convenience and reduce risks associated with keeping large amounts of cash on site (entrepreneur once experienced a burglary and lost a large amount of cash); assisted with marketing materials such as business cards, flyers and staff uniform.

Results: Signed offtake agreements with two large customers (AM Builders and Desai's Hardware in Mariannhill) - previously turned away customers due to a lack of production capacity; purchased delivery truck from own savings; built own offices on site where customers are received; bought computers for admin staff.



Entrepreneur, Siphokazi Manci with copies of her baking guide.

Product & services: Bakery and baking lessons

Jobs creation target: 7 **Jobs created:** 9 permanent and 1 part time

Support provided: IESP paid for the Sugar Flower Training Course which enabled the entrepreneur to diversify products and make cakes for all occasions; advised to offer baking lessons during lockdown in order to sustain the business; assistance with marketing material including banners, business cards, car magnet stickers and radio advertisements, branded golf shirts, t-shirts and branded masks, printing of 115 copies of the Cake Siphosh Baking Guide; micro grant used to buy office equipment and an oven; covid-19 training on preventative measures and protocols, covid-19 information posters and manuals, covid-19 micro grant to the value of R12,000 used to pay rent when the business could not afford as a result of the prolonged lockdown period. Assisted to compile a presentation to pitch her business at the SAB Tholoana Foundation and she made it to the finals in 2021.

Results: Business has grown significantly and moved from operating from her flat to new business premises with a professional look in December 2021.

Lessons learnt



- Evaluation findings show that the **the Informal Economy Support Programme's (IESP) innovative methodology is replicable, potentially scale-able and capable of supporting much-needed systemic (catalytic) change** within the South African economy, **and is cost-effective**.
- **IESP has created new methods, learning, knowledge and awareness** regarding the diversity and importance of MIEs and the informal economy.
- **Financial support alone does not automatically result in job creation. Instead the role of MIE Specialist, quality of non-financial support and entrepreneur commitment is critical** - some MIEs able to meet their job creation targets even before micro grants are awarded.
- **Job creation potential varies across sectors** with manufacturing, services, food and beverage, and agriculture showing the highest potential. Variations noted within the same sector attributable to quality of support and entrepreneur commitment.
- **MIEs are resilient and adaptable to shocks and setbacks** (e.g. covid-19 lockdown, looting, floods), they recover faster than big formal businesses.
- **Success rate in phase 2:** 70% (77 of 110) MIEs signed up for job creation were able to create jobs; 66% (51 of 77) created 5+ jobs each, 31% (24/77) created 10+ jobs each. Highest number of jobs created by one MIE = 65 (waste recycling).



From crop production to agriprocessing – IESP assisted with branding and product testing.



Basic equipment and tools helps speed up production, shortens turnaround time for orders and triggers job creation.



Containers are versatile and often used as production/ office space or storage for tools.



Challenges and recommendations



Whilst the informal economy is acknowledged and gaining recognition in terms of its value and contribution there still remain some challenges including:

- **Premature formalisation** - the requirement for businesses to formalise in order to gain access to support, especially financial support, results in micro and informal enterprises (MIEs) having to deal with compliance requirements when they are not ready for such, e.g. Labour, SARS, etc.
- For MIEs who are ready, formalisation can offer significant benefits in terms of **1) accessing capital funding that enables business growth** and job creation; **2) access to bigger market opportunities** e.g. registration on CSD in order to do business with the state. The Informal Economy Support Programme (IESP) prepares businesses for this kind of growth.
- MIEs need **both financial and non-financial support** even though the latter is usually not expressed unless the question is asked. Support programmes must offer a comprehensive package that provides both types of support.
- The **informal sector operates differently and 1) does not fit the “normal” working hours of formal jobs 2) rate of pay is not always calculated per hour but sometimes per output/batch of work.**
- **Regulating the informal sector’s “rate of pay” could result in negative outcomes.** An engagement needs to happen with the entrepreneurs to understand what works and what does not work for them and their employees.



Pause for Questions

Lessons and Insights from A2Pay – *Digitizing Township Businesses*

Tina Mason

Programme Manager at A2Pay



A2Pay is a digital engine targeting informal business enabling them to maintain every important aspect of their business in real time.

The founders of A2Pay were the inventors of Cash Pay Master Services designed in the 1980s including All Pay for ABSA bank and Data Core De Mexico.

The platform increases the economic capabilities of informal business enabled through digitization, finance, training & job creation.

And currently connects over 5600 independent retailers nationally, transacting R2 billion annually

A2pay's current focus is dominated by the informal township economy, with grocer shops, mini wholesalers, fast food outlets, butchers, bakeries, restaurants, salons, and hardware stores.

A2pay®

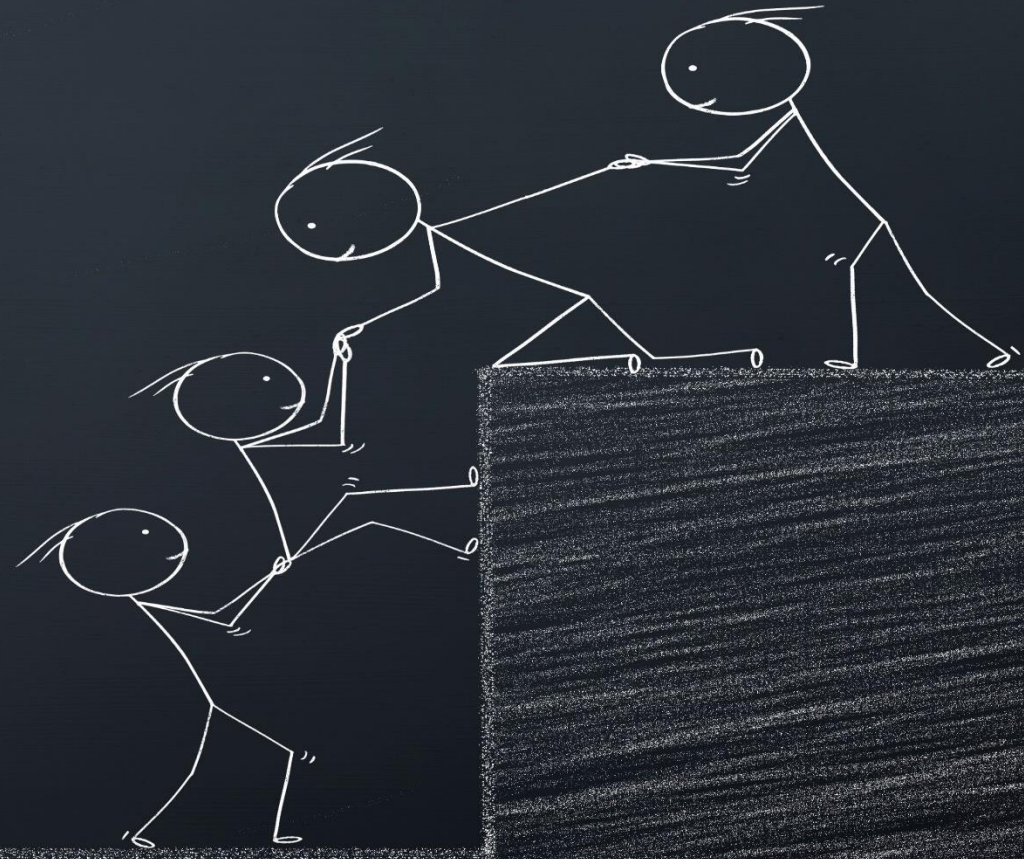
transactions of value



OUR CORE purpose is building and improving sustainable economic growth, empowering communities & SME business that serves those communities by providing them access to capital, operational efficiency and long-term resilience.

**THIS IS ENABLED THROUGH EDUCATION, TECH, FINANCE,
TRAINING & JOB CREATION AND DATA.**

The lowest common denominator of data is
behaviour.



THE LANDSCAPE



Statistics show that there are around 30-40 businesses per 1,000 people in townships.

FNB estimates that this translates into around 800,000 to one million businesses. The majority of these are survivalist businesses, with around 300,000 representing entities employing three or more people prior to the pandemic.

Small enterprises employ between 50 and 60 percent of the country's work force and contribute around 34 percent of GDP.

The total market had an estimated value of R900 billion in 2021, with approximately 60% of the market considered formal and around 40% informal.

The 2021 South African Township Marketing Report published by Roger Wilco, found that spaza shops contribute as much as 5.2% to South Africa's GDP, employing 2.6 million people. That would put the expanded economy of these informal convenience shops at around **R600 MILLION** in constant GDP numbers.





WHAT IS CRITICAL TO ANY SME IS VALUE ADD RELEVANT BUSINESS SOLUTIONS AND SKILLS TRANSFER THAT SUPPORT GROWTH & ENABLE THEIR DEVELOPMENT


Behaviour change is generally best served by a mix of interventions, delivered over a long period of time and modified in response to measured impact.


RELEVA
INF LUE N C E


SMEs in the informal sector face a range of threats, significantly exacerbated by global market shocks, political violence, inflation, unstable electricity and high unemployment. Internet access is fundamental to digitalization. Not only does it enable a merchant to sell value added services, but it's required to facilitate transactions like grant payouts, cash deposits and business management.


- 


Unstable Electricity
- 


Market shock due to the pandemic
- 


Lack of Digitalization and Market Relevant Technology
- 


Unemployment
- 


Lack of Access to Finance
- 


Inflation
- 

Isolation & Regulatory Problems
- 

Crime
- 

Lack of market relevant skills transfer and mentoring programs
- 

Gender Inequality
- 

Competition
- 

Access To Markets and Logistics





A2PAY PROVIDES A HOLISTIC SOLUTION TO RELIEVING PAIN POINTS



KEY FOCUS

KEY FOCUS



LOANS



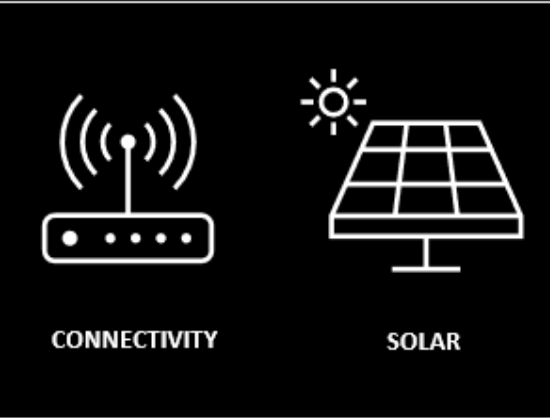
FINANCIAL
TRANSACTIONING
NETWORK



LOGISTICS



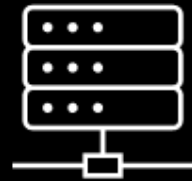
BULK BUYING



CONNECTIVITY



SOLAR



LICENSE &
MAINTANCE



INSURANCE



VALUE ADDED
SERVICES



PROMOTIONS &
ADVERTISING

SOLVING PAIN POINT



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A2Pay has over the last 6 years delivered the following

- ✓ Digitization and related training
- ✓ Detailed Business reports on performance & trend & product sales
- ✓ Enabled increased profit margins through better business management
- ✓ Provided access to training and mentorship
- ✓ Provided access to capital and credit awareness and wellness training
- ✓ Access to logistics and markets.
- ✓ Technical Support and expanding technical solutions / solar / debit card.
- ✓ Connectivity GSM
- ✓ Increase revenue through sales of Value-Added Services
- ✓ Benefiting from Partnerships established by A2Pay (SASME FUND, Jobs Fund, Discovery Medical Aid, Wholesalers)
- ✓ Access to SASA





The focus is on BEHAVIOUR CHANGE rather than training. 90 – 120 days to allow full adoption of the key areas. Using hybrid methodology.

Cash to Digital – Retail Disciplines - Numeracy

A2Pay provides access to technical skills, capital, and networks, coaching informal business owners to become self-sustainable and competitive in their local market.

Coaches are responsible for helping merchants and operators understand and implement the concepts they learn in the training modules AS WELL as establish a relationship that enables future access to capital.

A2Pay uses data and analytics to track KPIs and identify areas where merchants and operators may need additional support.

Our e-learning school consists of multiple modules that are designed to build a strong foundation of business acumen.

The modules consist of topics related to financial literacy, marketing, customer service, business operations, and more.



ACCESS TO CAPITAL IS ESSENTIAL

Ask your customers / recipients how to solve the problem.

A2pay's credit wellness program helps our merchants become financially inclusive by providing access to credit, which can be used to finance their businesses.

This could allow them to purchase inventory, equipment and other materials needed to expand their operations.

The program provides resources to help them develop and maintain a credit score, as well as access to financial literacy education and financial planning services.

All of these measures can help them become more financially included, capacitate their sustainability and leverage their ability to take up further credit to help their businesses grow.

Average loan 37k. Average 6-month term. Daily deductions. 4% default rate. 98% adoption retention vs 78% adoption retention.





Data shows an **87%** improvement in turnover after accessing capital. 90% adoption and retention of disciplines. It is one of the 3 anchoring elements that facilitate success.

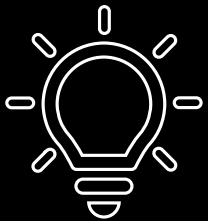
Data shows expanded operations, increased customer base, and opening other revenue streams which mitigates their risk.

Capital has to be part of any offering focusing on ED development of SME's

WHAT ELEMENTS ARE REQUIRED FOR A SUCCESSFUL INTERVENTION WITH SME'S IN THE INFORMAL MARKET?



- ✓ Inspired leadership and a long-term view. Be open to carving out a new tandem division.
- ✓ 10,000 hours.
- ✓ Strongest possible commitment to customer relations not just service.
- ✓ Awareness that the costs involved in working in the informal are often at odds with conventional commercial endeavors and thinking. Flexibility is required. Hypnosis by spreadsheet to be avoided at all costs.
- ✓ Craft a customer or member journey – evidencing meaningful measurable skills transfer (time is your friend)
- ✓ Pick a lane. You cannot be all things to all people. Partnerships are essential. Solve the pain points together.
- ✓ Technology is utterly imperative preferably transactional or real time.
- ✓ It's a balancing act. Impact, Scale, Costs, Time, R&D.
- ✓ Access to capital and credit awareness and wellness training – bridging finance, hybrid models for both ends of the trading spectrum.
- ✓ Measure everything. Daily weekly monthly annually.

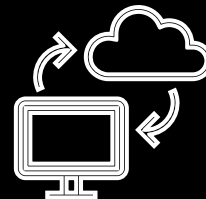
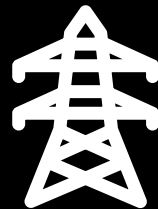




EMERGING PAYMENT METHODS

Estimates from the 2022 PAYMENT INDEX (Mastercard) found that in the last year 95% of people in South Africa have used at least one emerging payment method.

Estimates suggest that by digitizing informal businesses in South Africa, there could be a dramatic increase in their turnover. According to a 2017 report by the South African Informal Business Upliftment Strategy, turnover levels could increase by up to 40 percent. This increase is driven by improved access to markets, increased efficiency, and increased customer satisfaction. It is also estimated that the cost of doing business would decrease by up to 40 percent, as digital technologies reduce costs associated with marketing, customer service, and operations.



Estimates from the 2022 PAYMENT INDEX (Mastercard) found that in the last year 95% of people in South Africa have used at least one emerging payment method.

JET EDUCATION SERVICES were contracted by the JOBS FUND to conduct a 3-year TRACER STUDY to ascertain the impact of the interventions as well as gather insights. 2018 – through 2022.

A2Pay was part of this study.



- ✓ Continue to support ED initiatives in identified growth sectors/ areas including their value chains.
- ✓ Also support SMMEs in other sectors/areas which may not have high growth potential but can support sustainable livelihoods.
- ✓ **Prioritize** reduction of red tape which makes it onerous for SMME's to do business, be compliant, grow, employ people and contribute to the economy.
- ✓ Maintain contact and direct ED project beneficiaries to other ED support initiatives.
- ✓ Consider how to assist business owners to address the most common challenges as well as those most pertinent for participants in their programs.
- ✓ Project models should be responsive to business owners' emergent needs.
- ✓ Provide a range of types of funding support: finance should not be provided without concomitant support.
- ✓ **Where** possible use technology to enhance business efficiencies which support growth.





Combining, a scalable technology platform with products and solutions that address pain points, a mentoring & coaching relationship with skills transfer, both of which have at its core the success of the customer, delivers an unmatched ROI for grant, commercial and other investments partners in this market.

Working with leadership/partnerships that engage broader world views and alternative business models capacitates massive delivery.

Thank you to the Jobs Fund. We are more than the sum of our parts as a result of OUR partnership.

THANK YOU

A2pay®
transactions of value



Q&A

Facilitated by: Hilton Sarukunda (Jobs Fund)



Closing Address

Najwah Allie-Edries

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



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Thank you



Jobs Fund contact details:



jobsfund@treasury.gov.za



<http://www.jobsfund.org.za>

PPT contact details:



info@pptrust.co.za



<https://www.pptrust.org.za>

A2Pay contact details:



sales@a2pay.co.za



<http://www.a2pay.co.za>



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