THE JOBS FUND

siyasebenza

SEPTEMBER 2021

A NOTE FROM NAJWAH

What stands out for me when I reflect on the past quarter are issues related to the empowerment of women, food security and the devastating effects of the COVID-19 pandemic on our economy and the impact on the healthcare sector.

Women remain underrepresented at all levels of the labour market, at 34.4 per cent. South Africa has one of the highest unemployment rates globally; however, the unemployment rate for women is higher at 36.8 per cent. At the Jobs Fund, we continue to focus on women empowerment. To date, more than 57% of the jobs created are filled by women, and our project partners continue to prioritise the employment of women in micro enterprises (Phakamani Foundation); SME's (Ashburton Fund Managers); Asset Management (27four Investment Managers); Digital jobs (CCI SA Umhlanga); and in Early Childhood Development (SmartStart). We applaud these projects for their sustained work in building a more inclusive society.

Our economic recovery continues to be severely hampered by the third wave of the COVID-19 pandemic and was dealt a further setback by the recent civil unrest. During the unrest, several medical facilities, pharmacies and vaccine sites were destroyed or looted. This had dire consequences on the provision of essential medical services, vaccine rollout, and medication availability. All of which put further strain on the healthcare sector.

Food insecurity remains a concern, and issues related to production and access disproportionately affects the poor. The United Nations' Sustainable Development Goal 2 calls for an end to world hunger and aims to achieve food security and promote sustainable agriculture. World Food wDay (16 October) brings into focus the challenges and responses to this global challenge. A single mother of three confessed after her micro-business was hit hard by the initial lockdown last year. She said: "Watching people with money buying food items in bulk made me feel insecure, and food prices increased", emphasising the reality that, although South Africa may be food secure at a national level, the same cannot be said at a household and community level.

APPROPRIATELY STRUCTURED PUBLIC, PRIVATE PARTNERSHIPS CAN BE A KEY CATALYST FOR SUSTAINABLE DEVELOPMENT

South Africa's National Development Plan (NDP) emphasises the importance of smallholder farming as a critical driver of poverty reduction through improved food security, rural development and job creation. These farmers play a crucial role in the agriculture value chain. They must be assisted with appropriately designed support packages comprising technical assistance, access to the market, and finance. Appropriately structured public, private partnerships can be a key catalyst for sustainable development in the sector and require traditional financiers to adopt a more nuanced approach to risk.

So, as we enter World Food month we should critically reflect on our development approach in the sector, assess the reasons why we have not had the desired impact, terminate programmes that are not delivering, strengthen what is working well and have the courage and determination to support innovative solutions that can contribute to the development and sustainability of this sector.

Najwah

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REMARKABLE PERFORMANCE FOR LA VOUERE STONEFRUIT

South Africa has about 2 121 hectares under nectarine production, the majority of which (42%) are in Ceres, Western Cape. Over the years, hectares under nectarine have seen some fluctuation, with a steep decrease in 2015 (-4%) from the previous year and a 2% decrease in 2017. However, from 2018 onwards, hectares under nectarine production have stabilised and experienced a 1% increase in 2019. This is mainly due to improving and favourable climatic conditions in major producing regions. One of the contributors to this increase, even though a tiny player, is the La Vouere farm in Ceres. The 110 hectare (ha) farm planted 40 ha of nectarines in three years.

In 2015, after several years of struggling to get the farm up and running with nectarines, Raymond and Mary Koopstad bought out their shareholders and started a new venture called La Vouere Stonefruit Pty Ltd. The couple then entered into a joint venture (JV), La Vouere Stonefruit Pty Ltd, with Verdun Estates, a private sector initiative by farmers in cooperation with the community that targets black farmers towards transforming the fruit industry.

La Vouere Stonefruit joined a Jobs Fund initiative involving the Western Cape and Eastern Cape Departments of Agriculture, and the Deciduous Fruit Development Chamber (DFDC), which aimed to commercialise black entrant farmers in the fruit industry by securing market access (local and export), enhancing farming skills to improve the quality of the produce and competitiveness of the farmers for long-term sustainable growth.

“What attracted the Jobs Fund to the initiative was its ability to not only secure and enhance market access for smallholder farmers by linking each farmer with a pack-house, a mentor and a market, but actively address social and ecological issues through the promotion of good agricultural and ethical trading practices”, says Najwah Allie-Edries, Head of the Jobs Fund.

Through this initiative, La Vouere StoneFruit received funds to establish 37 ha of young orchards and infrastructure development. Their strategic partner provided production capital and funded the shortfalls. It also assisted the JV with sourcing loan funding to acquire additional land and water.

In 2017 the first 15 ha of nectarines were planted on the farm. Typically, with stone fruit, farmers only start to harvest in year 3. However, Raymond harvested their first crop in year 1 (2018), with a remarkable income of over R3 million. In 2020, Raymond harvested 19ha at an average yield of 33 tons/ha, with 75% of his yield classified as class 1 produce. Out of that, 41% was sold to export markets and the rest sold locally. That season the Koopstads made a total income of R11 million.

Raymond Koopstad indicated that the amazing work that has gone into growing the business and the results it is bearing, is “through collaboration with the right partners”. Koopstad cannot stress enough how having the right partners in the operations, bringing in various technical knowledge, administrative assistance, and willingness to be there when needed can assist in many ways.

La Vouere Stonefruit (Pty) Ltd is a testament to the DFDC Commercialisation Programme’s success and its ability to commercialise black farmers. The project has supported 21 farming black-owned fruit producers in Grabouw, Langkloof, Greyton, Villiersdorp, Paarl, Vyeboom and Ceres.

The Koopstads are currently packaging their fruit under the Verdun brand but wish to establish their own brand under the La Vouere name. To make this a reality, they will start by co-branding with Verdun and once the market is familiar with their name, they will market the farm’s fruit under it.

In the past few years, the South African export market has grown, with most exported produce sold to the European Union and the Middle East. La Vouere Stonefruit is intent on riding this wave on its own terms.

NO SIGN OF RECOVERY IN THE LABOUR MARKET

The recovery of the South African economy and the labour market continue to be sluggish. According to the latest Stats SA Quarterly Labour Force Survey (QLFS), the level of employment in the second quarter of this year declined by 54 thousand when compared to the first quarter. This means that total employment was still down by 1.4 million compared to pre-pandemic levels in 1Q 2020. Over the same period, the number of unemployed people increased by 756 thousand to 7.8 million.

The official unemployment rate worsened to 34.4% and when you include discouraged work-seekers, the rate increases to 44.4% the highest rates since the dawn of democracy in 1994. Furthermore, South Africa’s unemployment rate is now the highest on a global list of 82 countries monitored by Bloomberg.

Unemployment has had a disproportionate impact on youth for those aged between 15 and 34. The unemployment rate for this cohort of youth has surged to 48.1%, while for those aged between 15 to 24 the unemployment rate was 64.4% in Q2. In the second quarter, the unemployment rates for Black Africans and women were also above the national rate at 38.2% and 36.8%, respectively.

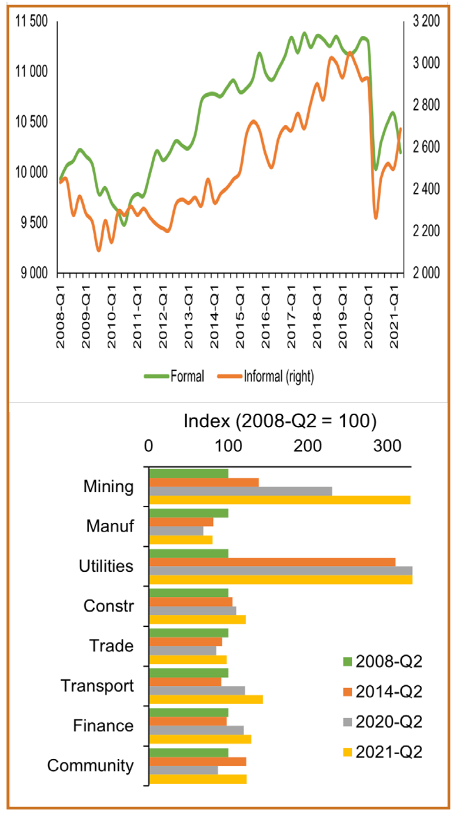
South Africa’s overall youth unemployment rate is still unacceptably high. Significant work needs to be done to create a supply pipeline of future-fit and skilled young people that match industry demand. Government has recognised this as a priority area and has responded with the Presidential Youth Employment Intervention . The Jobs Fund will be supporting the implementation of this programme.

Informal sector employment constitutes a significant proportion of total employment (18% of the total). To put it differently, one in every six South Africans employed works in the informal sector. Moreover, the informal sector is estimated to contribute about 6% to gross domestic product. Notwithstanding its employment creation and poverty-reducing impact, the informal sector remains at the margins of economic analysis and policy considerations. Additionally, there has been some relative resilience in the informal sector, with gains in employment in Q2, whereas the formal sector continues to shed jobs.

It will likely take some time for businesses to recover from the hard lockdown and protest disruptions, and meaningful employment recovery will only return once corporates have once again become profitable and balance sheets have been strengthened.

However, firms will likely remain hesitant to expand operations and hire additional staff until there are clear signs of a recovery.

Figure 1: Formal & informal employment (thousand, top), informal employment by industry (index, bottom)



Source: Stats SA, , Author's calculations

Table 1: Key labour market statistics

Measure	Employment (thousands)							Graph	Q-o-q change
	2019-Q4	2020-Q1	2020-Q2	2020-Q3	2020-Q4	2021-Q1	2021-Q2		
Labour force (15-64 yrs)	23 146	23 452	18 443	21 224	22 257	22 237	22 768		2.4%
Employed	16 420	16 383	14 148	14 691	15 024	14 995	14 942		-0.4%
Formal sector (non-agri)	11 331	11 282	10 064	10 306	10 495	10 574	10 200		-3.5%
Informal sector (non-agri)	2 918	2 921	2 280	2 456	2 521	2 502	2 686		7.4%
Unemployed	6 726	7 070	4 295	6 533	7 233	7 242	7 826		8.1%
Unemployment rate	*29.1*	*30.1*	*23.3*	*30.8*	*32.5*	*32.6*	*34.4*		
Discouraged work-seekers	2 855	2 918	2 471	2 696	2 930	3 131	3 317		5.9%
Labour absorption rate	*42.4*	*42.1*	*36.3*	*37.5*	*38.2*	*38.0*	*37.7*		
Labour force participation rate	*59.8*	*60.3*	*47.3*	*54.2*	*56.6*	*56.4*	*57.5*		

Source: Stats SA

ABOUT JOBS FUND

THE NATIONAL TREASURY ESTABLISHED THE JOBS FUND IN JUNE 2011 TO SUPPORT INNOVATIVE INITIATIVES AND APPROACHES TO JOB CREATION. THE R9 BILLION FUND OPERATES ON CHALLENGE FUND PRINCIPLES, AND ALL FUNDING ALLOCATIONS ARE MADE ON A COMPETITIVE BASIS IN A TRANSPARENT AND OPEN MANNER.

ONCE-OFF GRANTS ARE AWARDED TO PROJECTS THAT DEMONSTRATE SUSTAINABLE JOB CREATION POTENTIAL, AND PROJECT PARTNERS ARE REQUIRED TO MATCH THE GRANT FUND ALLOCATIONS ON A 1:1 RATIO OR HIGHER.

THE JOBS FUND IS NOT INTENDED TO TACKLE LONG-TERM, STRUCTURAL CAUSES OF LOW GROWTH AND UNEMPLOYMENT BUT RATHER COMPLEMENTS THESE EFFORTS WITH A TARGETED PROGRAMME OF SUPPORT FOR EFFECTIVE LABOUR MARKET INTERVENTIONS.

GUARANTEE MECHANISMS TO SUPPORT AGRICULTURAL PRODUCTION

The South African agricultural sector faces several challenges, with access to finance being one of the major constraints for emerging South African farmers in their quest to reach commercialisation. Financial institutions are often averse to funding these farmers due to the high risks associated with agricultural production (significant variability of production outcomes) and markets (input and output price volatility) and the fact that many emerging farmers do not have the required collateral or track record to meet the minimum funding criteria.

For the past ten years, the Jobs Fund has been testing various innovative job creation models, with more than 30% of its portfolio of projects implementing within the agriculture sector. Some of the agricultural financing approaches tested include contract farming, blended loan financing, debt funding, grant funding, and the guarantee mechanism to enable emerging farmers to access appropriately structured finance.

Guarantee mechanisms have emerged as a valuable tool to mitigate these perceived risks and enable emerging farmers to access the required funding at a reasonable rate. The guarantee mechanism assumes debt obligation on behalf of emerging farmers in the event of default thus reducing performance risk and the absence of collateral, allowing commercial banking entities to expand finance to them at a reasonable rate.

One of the Fund's projects operating in the grain and forestry sector has successfully demonstrated how the use of a guarantee mechanism (complemented with key business development and technical support interventions) can be deployed to mitigate the perceived risk presented by emerging farmers.

The project partner was allocated R50 million in Jobs Fund grant funding to implement a project which would see the establishment of a guarantee mechanism (R30 million) and provide complementary business development and technical support to selected emerging farmers (R20 million). The initiative further required off-take agreements to be in place for the farmers' production, which the project partner provided. The risk mitigation offered by the Jobs Fund grant catalysed the investment of R100 million by commercial financiers. It enabled the production and working capital finance to be extended to more than 90 farmers in Mpumalanga.

Over the past five years of implementation, the programme has issued R125 million in loans, resulting in more than 200 permanent jobs and 1,000 seasonal jobs and trained more than 200 beneficiaries. To date R7.6 million has been drawn down from the guarantee mechanism to cover defaults from farmers whose production was affected by adverse climatic conditions (such as flooding, hail damage and drought). Given the development context and the impact of climatic conditions, the level of default over this period is considered acceptable.

The Jobs Fund's experience has confirmed the importance of collaboration between public and private sector players in addressing the various social challenges faced by the country. When it comes to guarantee mechanisms, strong technical partnerships are vital for success. Government provides the funding to capitalise the guarantee portion of the fund, and the implementing private sector partner offers the requisite technical expertise and experience to manage the fund; secure financiers and offer emerging farmers business development support and access to finance. The implementing partner's profile in the market is also improved since the grant provides the added security required to de-risk the overall initiative, allowing it to approach commercial banks to source additional funding that it then makes available to emerging farmers.

From a development finance perspective, the guarantee mechanism offers a more sustainable funding instrument. If designed correctly and if accompanied with business management and technical skills development, it can bring about systems change by providing financing options that are appropriate for the development stage of the emerging farmer, gradually assisting them to be less reliant on pure grant funding, graduating to lower-priced debt financing on their journey to self-sustainability.

Furthermore, the provision of appropriately priced debt finance and the subsequent repayments ensures that funds are recycled to either provide further support to the existing portfolio of farmers or new and aspiring farmers, thereby resulting in wider impact. Most notably, there will also be farmers who will outgrow the programme and be able to access commercial funding based on their established track record.

Fundamental elements required for the successful implementation of such programmes:

- ✓ Strict farmer selection
- ✓ Solid & clear guarantee mechanism structure
- ✓ Farmer development
- ✓ Balanced, integrated approach
- ✓ Alignment of interests

The provision of funding to emerging farmers through a guarantee mechanism has an impact beyond the immediate farmers receiving the loans. The successful implementation of the guarantee mechanism can change the risk perceptions of emerging farmers and open up further financing opportunities for the emerging farmer market. Instead of applying a one size fits all approach to risk assessment for this group, traditional financiers should adopt a more nuanced approach, actively identifying the investment potential of emerging farmers and structuring support that is appropriate to the growth cycle of these farmers. Government and the Private sector should continue to work together to find innovative solutions to support emerging farmers.

THE JOBS FUND CONTRACTED PORTFOLIO

(AS AT 30 JUNE 2021)

- **146** CONTRACTED PROJECTS
- **R9 BILLION** IN GRANT FUNDING ALLOCATED
- **R5.72 BILLION** GRANT FUNDING DISBURSED
- **R11.45 BILLION** LEVERAGED IN MATCHED FUNDING FROM PROJECT PARTNERS
- **136,956** PERMANENT JOBS FACILITATED
- **59,374** PERMANENT PLACEMENTS FACILITATED
- **63,618** SHORT TERM JOBS FACILITATED
- **22,825** INTERNSHIPS COMPLETED
- **269,505** BENEFICIARIES TRAINED

Important DATE!

11 OCTOBER 2021
JOBS FUND PARTNER QUARTERLY REPORT SUBMISSION (Q2)