



South Africa Siyasebenza

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CREATING JOBS THROUGH ENTERPRISE DEVELOPMENT

Lessons from an impact study on selected projects
from the Jobs Fund enterprise development portfolio

Learning Brief



South Africa Siyasebenza

The Jobs Fund is a R9 billion fund established by the South African Government in 2011 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 partnerships with the private and public sectors as well as NPOs by awarding once-off grants to partner organisations through a competitive process. The Jobs Fund operates on challenge fund principles and aims to incentivise innovation and investment in new business approaches that contribute to long-term sustainable employment creation.

www.jobsfund.org.za

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1. INTRODUCTION

Widespread unemployment and poor economic growth are two of the most pressing obstacles to South Africa's development. South Africa's unemployment rate is currently at 27%,¹ making it an international outlier, significantly higher than other upper middle-income countries in Africa such as Botswana and Gabon, which have unemployment rates of 18.4% and 18.5% respectively.²

Small, medium and micro-enterprises (SMMEs) have been acknowledged as important contributors to economic growth and vehicles of job creation in both developed and developing countries. Furthermore, local communities can benefit from the presence of SMMEs as they assist in stabilising local economies, improving resilience, and providing a base of economic activity.³ However, SMMEs tend to face a number of constraints that prohibit them from growing into sustainable businesses. These include human capital constraints such as a lack of business management skills or specialist technical knowledge related to crucial business functions,⁴ and physical capital constraints such as a lack of access to quality infrastructure and a lack of appropriate funding products and mechanisms.⁵ Additionally, SMMEs typically face high barriers to entry in accessing viable domestic and international markets.

It is within this context that Enterprise Development (ED), defined as the investment of time and capital in establishing, expanding or improving the operations of enterprises with the aim of enhancing business sustainability, has emerged as a strategy for government and the private sector to promote employment and socio-economic change. ED programmes attempt to address the constraints faced by SMMEs to help them grow into sustainable businesses.

One such programme is the Jobs Fund, a ZAR 9 billion challenge fund, launched by the South African National Treasury in 2011, that aims to catalyse job creation in South Africa. The Fund operates through four distinct

funding windows: **(1) Enterprise Development, (2) Infrastructure Investment, (3) Institutional Capacity Building, and (4) Support for Work Seekers.** The ED window, which makes up approximately 60% of the Fund's portfolio, is aimed at partnering with the public, private and not for profit sectors to establish or expand ED programmes that incubate and grow job creating enterprises across a variety of sectors. An overview of the ED portfolio and jobs created through the ED window is provided in Figure 1 below.

Now in its eighth funding cycle, the Jobs Fund is starting to better understand the impact that has been achieved through the ED window to date, and through working with over 70 ED programmes, has accumulated key insights as to which ED models work best and why. In order to further explore and capture these lessons, the Jobs Fund appointed Genesis Analytics ("Genesis") to conduct an impact evaluation on three selected ED projects, as well as a comprehensive review of the entire ED portfolio. This evaluation has produced insights into the relevance, effectiveness, scalability and replicability of ED models that are applicable to a variety of audiences including ED practitioners, SMMEs, governments and funders of ED programmes.

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

Please note that a more detailed version of this paper is available on www.jobsfund.org.za

¹ "StatsSA, Statistical Release: Quarterly Labour Force Survey, Quarter 2, 2018, July 2018

² The lesser known and scarier facts about unemployment in South Africa", Mail & Guardian, accessed June 7, 2018, <https://mg.co.za/article/2017-09-04-the-lesser-known-and-scarier-facts-about-unemployment-in-south-africa>

³ Candace Campbell, "Change Agents in the New Economy: Business Incubators and Economic Development." *Economic Development Review* (1989): 57.

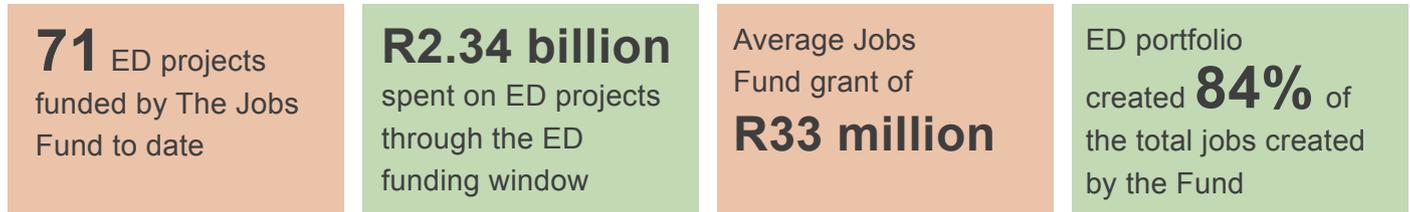
⁴ Tendai Chimucheka, "Challenges Faced by Small, Medium and Micro Enterprises In The Nkonkobe Municipality" *International Journal of Economics and Business Research* (2015)

⁵ Ibid

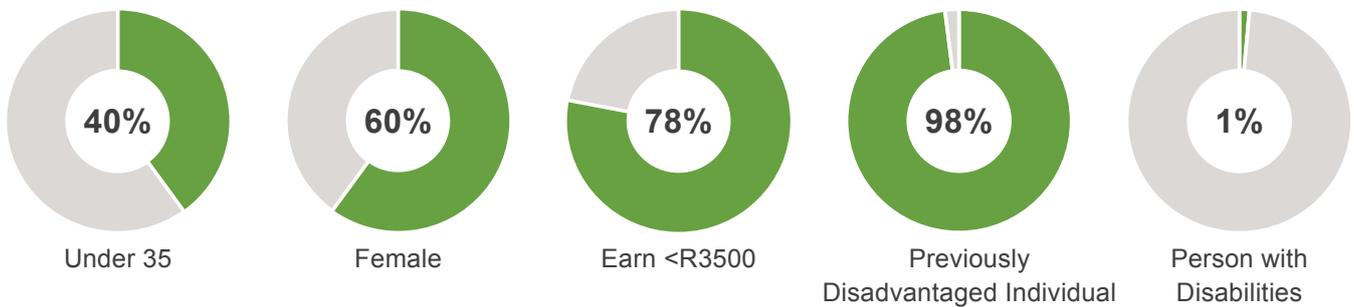
Figure 1: Overview of the Jobs Fund ED portfolio



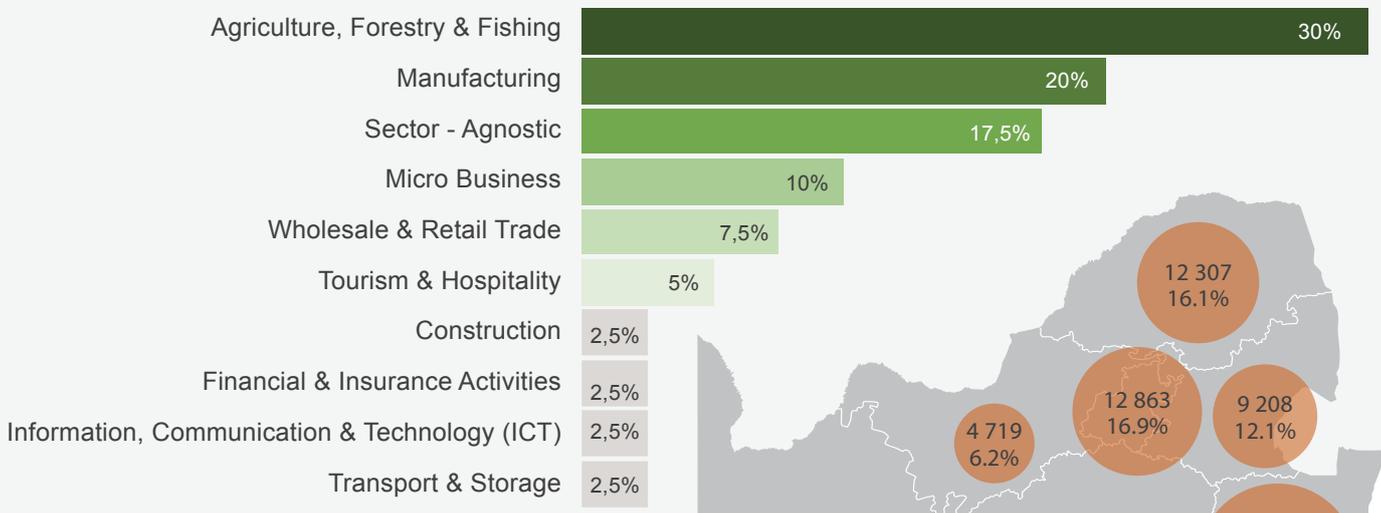
SNAPSHOT OF THE ENTERPRISE DEVELOPMENT PORTFOLIO



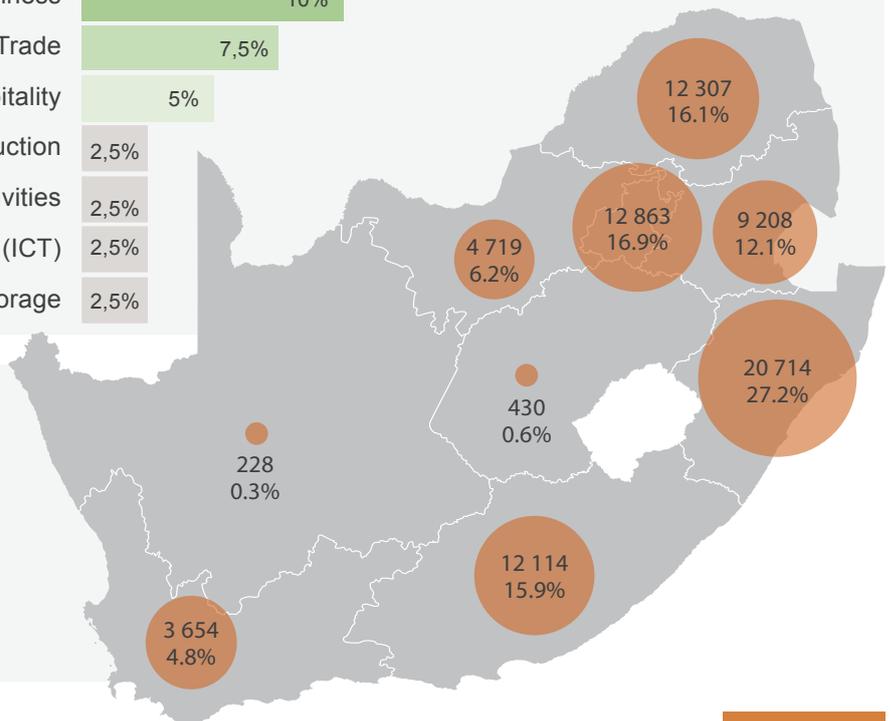
DEMOGRAPHICS OF THE JOBS CREATED BY THE ED PORTFOLIO



SECTORAL DISTRIBUTION OF JOBS CREATED



GEOGRAPHIC DISTRIBUTION OF JOBS CREATED BY THE ED PORTFOLIO



2. HOW CAN ENTERPRISE DEVELOPMENT PROGRAMMES BE CATEGORISED?

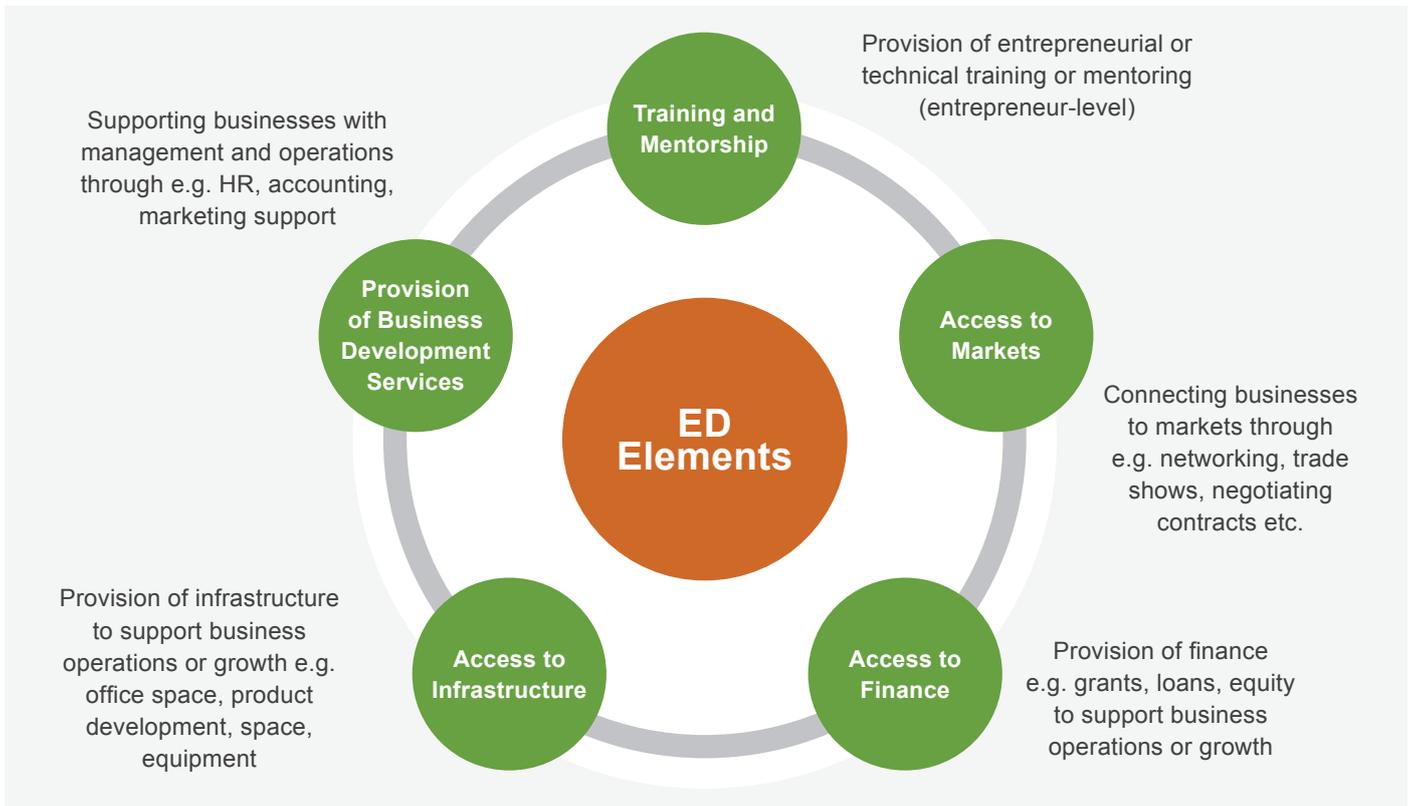
In recognition of the importance of SMMEs to economic growth, a number of ED models have emerged in an attempt to support business growth and create employment. These programmes take various forms, depending on the particular constraints being faced by the targeted SMMEs, and can vary significantly in the type and level of support provided. Initiated by governments, donors and some private sector players, these include incubators/accelerators, SMME financing programmes, entrepreneurship training programmes, and value chain development interventions.

Although these models are generally accepted as standard methods of ED support, there can be significant variation within each category – there is no standardised framework, definition or even consensus on what support packages should be provided in each model, and at which stage of business growth. This poses a particular problem when attempting to compare different ED programmes and draw conclusions about which models work well, and in which contexts.

In order to mitigate this problem, the evaluation on which this paper is based reviewed other ED programmes and examined the international literature to identify a set of

five core support elements which are common across all ED programmes. Using this analytical framework allows any ED programme to be broken down into its core elements, providing a degree of granularity not possible when simply categorising by type of model. The Jobs Fund ED portfolio for example, is made up of interventions that consist of many different combinations of elements, ranging from projects with just one element to some that include all five. Understanding the way in which the combination of elements impacted on the success of the programmes was a key theme of the evaluation. The five ED elements, along with a brief description, are depicted in Figure 2.

Figure 2: ED Elements Framework



Box 1: Description of the three ED projects selected for evaluation

To better understand the impact that the Jobs Fund has achieved through the ED window to date, Genesis conducted an impact evaluation on three selected projects from the ED portfolio. The projects selected for evaluation were the Cape Design Institute (CDI), CuraFin Owner Driver Programme, and Microsoft BizSpark (“BizSpark”). Examples from these projects have been used throughout this report to illustrate certain points. The projects are explained in more detail below.

Cape Design Institute

CDI is a not-for-profit organisation that supports enterprise development in the craft and design sector. Entrepreneurs interested in receiving support from the CDI through the Jobs Fund programme were required to develop their own intervention plan and put down 20% of the total cost themselves, which was passed on to the Jobs Fund as part of the matched funding.

The CDI’s Jobs Fund programme comprised four core support services: (1) Business support: The CDI provided workshops, informal mentoring and coaching, and networking events for enterprises. This was intended to capacitate entrepreneurs to efficiently run their businesses; (2) Market support: The aim of the market support was to facilitate commercialisation of existing products. The CDI assisted businesses to access market opportunities through local and international trade events, craft markets, pop-up stores and match-making between producers and buyers; (3) Product support: The CDI provided access to a product laboratory space for product refinement, prototyping and sample making using a range of hand, mechanical and digital tools; and (4) Financial support: The CDI provided financial support to entrepreneurs based on a goal-based, entrepreneur driven intervention plan.

1 2 3 4 5

According to the ED framework described in this report, CDI had four of the five elements:

Training and Mentorship, Access to Markets, Access to Finance, and Access to Infrastructure.

CuraFin Owner Driver Programme

CuraFin is a management company operating in the transportation and logistics sector. CuraFin negotiates contracts with between drivers and large retailers who outsource their logistics as part of their enterprise and supplier development strategies for B-BBEE. CuraFin then secures vehicle finance on behalf of the drivers on the basis of these contracts and the drivers pay back the loan on a monthly basis for a term of 3-5 years (depending on the length of the contract), after which they own the vehicle. In addition to contract and finance negotiation, CuraFin also supports the drivers with services such as accounting and fleet management support, and the drivers are trained in basic business management.

CuraFin received funding from the Jobs Fund from 2013 - 2016 to set up a revolving fund that would support owner drivers on an ongoing basis, such that the loan repayments by the drivers would go into a fund to purchase additional vehicles for other owner drivers. The CuraFin Owner Driver Programme is thus an empowerment model, providing individuals with access to finance to purchase vehicles and establish their own enterprises as owner drivers.

1 2 3 4 5

According to the ED framework described in this report, CuraFin had four of the five elements:

Training and Mentorship, Access to Markets, Access to Finance, and Provision of BDS.

Microsoft BizSpark

BizSpark was a global programme run by Microsoft that provided access to software development tools such as Microsoft Azure Cloud Services to start-ups, free of charge. In South Africa, Microsoft accessed funding from the Jobs Fund to tailor the BizSpark model for local conditions. A specific challenge that the South African programme sought to address, that the global programme did not, was the lack of business skills in the South African ICT sector. The South African programme therefore included a mentorship component tailored to the needs of a technology business. Start-ups receive access to software, mentorship from industry experts, and advice on business development.

1 2 3 4 5

According to the ED framework described in this report, BizSpark had two of the five elements:

Training and Mentorship and Access to Infrastructure.

3. KEY DRIVERS OF SUCCESS IN ED PROGRAMMES

Using this framework, Genesis conducted detailed evaluations of the three selected projects as well as a review of the entire ED portfolio. This analysis identified four key drivers of success for ED programmes, outlined in the section below. These are sector expertise, tailoring the combination of ED elements, the alignment of objectives, and the importance of tailored support. Case studies from the evaluation are used to illustrate each finding.



3.1. SECTOR EXPERTISE

Challenges experienced by small businesses can differ significantly depending on the sector in which they operate, with generic support approaches less valued by businesses and having fewer prospects for success. ED programmes that include strong sector expertise are therefore more likely to provide a package of support that is adequate for the context and reflects the needs and abilities of the sector to support small businesses. This is important to note for *Access to Markets* interventions, which in many cases are driven by the existing professional networks of the implementers.

In addition, any *Training and Mentorship* support provided is then especially valuable. Across all three ED programs that were evaluated, entrepreneurs consistently indicated the value of having access to input from experts in their particular industry. In the case of BizSpark, the mentors were recruited from Microsoft’s existing network and brought their own experiences in the technology sector into the program and the support that they provided to entrepreneurs.

Box 2: CASE STUDY – How CDI successfully used sector knowledge in ED design

While the craft sector has immense potential for growth off the back of tourism, many small businesses face challenges relating to accessing new markets and moving into commercial, as opposed to artisanal production. CDI has 15 years of experience in support small and medium businesses in the creative sector, and deep networks within the sector.

The biggest success of CDI’s ED programme was the market support provided to entrepreneurs, with a number

of supported entrepreneurs indicating that this facilitated their entry into exports markets. The specific activities that were undertaken included trade shows, retail spaces, and matchmaking between supplier and buyers: all activities which required a nuanced understanding of the craft sector. CDI developed an ED programme that was relevant to the needs of the entrepreneurs and resulted in the creation of 464 new permanent jobs and a net profit increase of 5.9% across the CDI’s portfolio.



3.2. CUSTOMISED COMBINATIONS OF ELEMENTS

While the Jobs Fund ED portfolio review did not yield an optimal “silver bullet” combination of ED elements, it is clear that elements of an ED programme should be combined in a way that is mutually reinforcing in order to maximise impact and sustainability. This means, for example, that when providing *Access to Finance*, consideration should be given to what other support might be necessary – often *Training and Mentorship* support enhances the impact of the financing support on the business.

This combination will differ depending on the enterprises and sectors being supported, as well as the context in which the programme is being implemented. As noted in the portfolio review, these combinations must be driven by the needs of entrepreneurs and where they are in the business journey. CDI for example, supplemented *Access to Infrastructure* (a prototyping space) with *Access to Markets*, which meant that the products developed through experimenting had a market where they could be sold or at least tested with consumers. Special consideration should also be paid to quality and depth of support as the number of elements increases – not all training and mentorship elements are equal.

Box 3: CASE STUDY – The importance of correctly combining elements

The importance of correctly combining elements was clearly seen in the case of the BizSpark programme. BizSpark combined two elements: access to infrastructure (in the form of software) and training and mentorship. While the entrepreneurs appreciated the opportunity to experiment with the software and try to provide new products and services, they battled to access potential clients.

The impact that providing access to software may have had was diminished because the entrepreneurs did not have a pathway to markets: the new products and services had nowhere to go. This weakness was recognised, and has been addressed in a second iteration of the programme, with the launch of TechNvst by Microsoft, which supports technology entrepreneurs in taking their products and services to market by connecting them with relevant blue-chip companies.



3.3. TAILORED SUPPORT

In the same way that small businesses in different sectors need different forms of support, so too do individual entrepreneurs. This recognises that there is no linear path to growth for businesses, even if they are in the same sector and at the same stage of development. Tailored support packages ensure that entrepreneurs are provided with the exact support that they need, and are not simply provided with a generic approach. This is particularly important when small businesses have moved from incubation to growth, as the challenges that they face become more unique.

All of the case studies completed highlighted the importance of this. In the case of CuraFin, it became clear that while there was a training component to the programme, it was not sufficiently tailored to the needs of the drivers or their existing literacy and numeracy skills, and so was of limited value. CDI on the other hand, allowed businesses to specify the kind of support that they required (including financially), ensuring that the support they provided was demand-led.

Box 4: CASE STUDY – Using gap assessments to provided tailored support

At the beginning of the BizSpark programme, some entrepreneurs completed a gap assessment to help them understand the needs of their businesses. Of those that completed gap assessments, 67% felt that it was useful tool for understanding the business' strength and weaknesses.

Entrepreneurs on the BizSpark program then had access to mentors, partly chosen based on the results of the gap analysis, who were able to advise them on their business needs as and when they needed it. This was cited as a strength of the program because the support responded directly to the challenges being faced by the entrepreneurs, which was more impactful and useful than generic business advice.



3.4. ALIGNMENT OF OBJECTIVES

While ED programmes often have clear goals and indicators of success for the programme as a whole, this is not always translated into a clear outcome goal for the businesses that they support (or even, in some cases, output goals). Having a clear and well-articulated vision for what each business should achieve as a result of the support provided ensures that expectations are aligned, and provides a clear framework for assessing success.

There are several examples of where this has been successfully implemented. For example, CDI required entrepreneurs to provide a detailed intervention plan with clear job creation targets and to provide 20% of the funding required, with CDI providing the remaining 80%. Some accelerator programs are focused on making businesses “investment ready”, with a clear goal of accessing debt or equity finance by the end of the programme.

These forms of alignment compel entrepreneurs to think critically about the support that they require in relation to where they are in their business journey and avoids a situation where entrepreneurs use the support that they don't need simply because it is available and not because it addresses a specific need that they have.

Box 5: CASE STUDY – Aligning incentives with owner-drivers at CuraFin

CuraFin’s core business and source of revenue is providing BDS to the owner-drivers that are part of the owner-driver scheme. The fee for the service is 5% of the value of each contract secured and is paid for by the owner-driver’s clients (the retailer). The success of the drivers and the success of CuraFin are therefore strongly related: if an entrepreneur does not have a contract, then CuraFin also loses some revenue. There is also an incentive for CuraFin to manage the relationship with the client and intervene should conflicts arise.

4. CONCLUSIONS AND RECOMMENDATIONS

Running through all four of the success drivers discussed above is one key theme: the more closely enterprise development support is customised and tailored to the needs of the target market, the more successful it is likely to be. The success drivers themselves therefore contain clear recommendations on the kinds of practices which ED programmes should be incorporating, and which funders of ED programmes should be encouraging.

Although these overarching recommendations may seem self-evident, the evidence collected during this review suggests that ED programmes in fact reflect these characteristics to varying degrees, meaning that there is room for improvement. The following provides a more high-level set of recommendations aimed at providing a way forward in using these findings when either designing, implementing or evaluating an ED programme. They are therefore aimed both at ED programmes and at funders of ED programmes.

RECOMMENDATION ONE

The ED elements framework should be used to analyse and assess ED programmes, but there is no “silver bullet” combination that ensures success

Although the analysis concluded that there is no “one size fits all” combination of ED elements which can guarantee success, the ED elements provide a useful organising framework with which to analyse and assess the variety of forms that ED programmes take. As it covers all possible forms of support, the framework has the advantage of allowing for a degree of comparison, which is often difficult when considering different programmes. In programmes with specific target beneficiary groups, it is also worth considering what the ideal “offer” under each of the elements would be for the target market.

Practically, both designers and funders of ED programmes could make use of this tool, in order to ensure that there is a clear logic and basis for either including or excluding each element. In the same way, evaluators could use this as a framework for assessing the components of programmes. However, it is important to note that it is not so much the presence of an element that is important as the depth of the element. We should therefore be cautious of adopting a tick-box approach, and instead carefully unpack what is actually provided by the ED programme, and in combination with which other elements.

RECOMMENDATION TWO

ED programmes should be sector focused, or should make provision for support tailored to a sector

This review has discussed the importance of a sectoral focus, both in selecting the ideal combination of elements for a programme, and in providing tailored support within each of the elements. Importantly, this does not necessarily mean that an ED programme should not cover more than one sector, but more that it is critical to ensure that there is not a “one size fits all” approach or a situation where only very generic advice and mentorship

is provided. The potential for impact is maximised when the support that is being provided is rooted in a deep understanding on how the sector operates, and when the beneficiary is able to access support customised to their unique situation.

RECOMMENDATION THREE

Iteration is important through the programme lifecycle, and should be accommodated in both project planning and in assessing “success”

It was striking that in all three detailed evaluations, the initial model being evaluated had subsequently been continued in a slightly different form. These new iterations have taken into account many of the issues that the evaluation identified with the original model. This suggests that although ED programmes may deploy sectoral expertise to develop a combination of elements for a programme, which has every prospect of success, this is not guaranteed in implementation – especially given the complexities of the environments in which small businesses operate. As a challenge fund, the Jobs Fund is designed to take risks and stimulate innovation that ultimately contributes to job creation in South Africa. This kind of iteration is evidence that Jobs Fund support has done exactly this, and by catalysing innovation in the way their Partners support enterprise development, this has started to contribute to systemic change in the sector.

It is therefore important to build in space for iteration of the model during implementation, and for ED programmes to adopt an explicitly adaptive management approach. In parallel, funders of ED programmes should be open to change and should encourage iteration and learning during implementation in order to maximise development impact. This in turn should be reflected in how success

is assessed, with less emphasis on meeting job creation targets or other business level metrics, and the inclusion of assessments of how programmes have adapted or innovated in response to learning.

RECOMMENDATION FOUR

Recognise that sustainable job creation takes time in enterprise development programmes

Success of ED programmes can be measured by a variety of indicators. In cases where job creation is a priority, such as in the Jobs Fund, it is important to recognise that job creation will almost always lag other indicators. This is because ED programmes should (and often do) focus first on strengthening the fundamentals of a business, and moving it to the point where it is able to expand in a sustainable way – and it is only after this point that jobs will be created. Placing too much focus on early job creation can actually be counter-productive, incentivising small businesses to expand in an unsustainable way to meet the needs of a funder.

This means ED funders need to understand that there has to be an upfront investment before job creation is able to be seen, and that they may want to continue to monitor job creation after the actual implementation of the support package. Programmes which promise large numbers of jobs soon into implementation should be reviewed carefully – and especially through an additionality lens.





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