

INEQUALITY AND ECONOMIC MARGINALISATION



Identifying appropriate interventions to support the transition from schooling to the workplace

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November 2011

TIPS is an independent, economic research institution active in South Africa and the region. The organisation facilitates policy development across six theme areas: Trade, African Economic Integration, Industrial Development, Inequality and Economic Marginalisation, Sustainable Growth and Rural Development.

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ABOUT THIS RESEARCH

The 2007 Annual Report of the Accelerated Shared Growth Initiative of South Africa (AsgiSA) identified a need to focus on what was then called 'the second economy', and on mechanisms to ensure shared growth reaches the margins of the economy. The Second Economy Strategy Project was initiated in this context. It reported to the AsgiSA High Level Task Team in the Presidency, but was located outside government in TIPS.

A review of the performance of government programmes targeting the second economy was completed in early 2008. The project then commissioned research and engaged with practitioners and policymakers inside and outside government. A strategic framework and headline strategies arising from this process were approved by Cabinet in January 2009, and form part of the AsgiSA Annual Report tabled on 16 April 2009.

In South Africa, people with access to wealth experience the country as a developed modern economy, while the poorest still struggle to access even the most basic services. In this context of high inequality, the idea that South Africa has 'two economies' can seem intuitively correct, and has informed approaches that assume there is a structural disconnection between the two economies. The research and analysis conducted as part of the Second Economy Strategy Project highlighted instead the extent to which this high inequality is an outcome of common processes, with wealth and poverty in South Africa connected and interdependent in a range of complex ways. The different emphasis in this analysis leads to different strategic outcomes.

Instead of using the analytical prism of 'two economies', the strategy process placed the emphasis on the role of structural inequality in the South African economy, focused on three crucial legacies of history:

- The structure of the economy: its impacts on unemployment and local economic development, including competition issues, small enterprise, the informal sector, value chains and labour markets.
- Spatial inequality: the legacy of the 1913 Land Act, bantustans and apartheid cities, and the impacts of recent policies, looking at rural development, skewed agriculture patterns, and the scope for payment for environmental services to create rural employment.
- Inequality in the development of human capital: including education and health.

TIPS's work around inequality and economic marginalisation is built on the outcomes of this strategy process.

The research undertaken under the auspices of the Second Economy Strategy Project continues to be relevant today as government explores policy options to reduce inequality and bring people out of the margins of the economy. This report forms part of that research.

A list of the research completed is available at the end of this report. Copies are available on the TIPS website: www.tips.org.za.

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Acronyms

ALMP Active Labour Market Policy

EPWP Expanded Public Works Programme NSF

National Skills Fund

Executive Summary

Youth unemployment is extremely high in South Africa, approximately double the national rate. While this is not uncommon internationally, it poses a special problem in South Africa where at least half of young school leavers are unlikely to find work before the age of 24. In many other countries, the youth unemployment problem sits on the margins and is not experienced by the majority. This poses very serious concerns in respect of social and economic integration.

Higher rates of economic growth will ultimately be the answer to this problem. If the SA economy were growing at 6% or 7% pa, this unemployment problem would visibly diminish. Over the past decade, youth from the age of 20 are just as likely to get work as other age groups. Those in the age group of 24-35 are more likely to get work than the average. The problem is that the actual quantum of job creation is simply too small. This rate of job creation is likely to slow from 2008 as a result of the global economic crisis, as well as a range of domestic problems such as electricity shortages.

Nevertheless, the commitment to expanding employment should not be abandoned, even when growth slows. Special interventions are clearly needed.

Active labour market policies (ALMP) can play a role in improving labour market matching. Such policies can have a special role in SA where the majority of labour market entrants have not had access to the essential resources needed to successfully participate. This is especially the case for the majority of black South Africans. These resources include: effective basic education, socialisation, work-readiness attitudes, previous part-time or temporary vacation work experience as a youth, communication skills, IT skills, search skills, and labour market-appropriate networks. While many of these may be absent in other countries, the gap is particularly severe in SA due to the apartheid legacy, and subsequent missteps in education, IT and labour market policies.

ALMP should not be seen as a panacea. It can offer only so much. It cannot create millions of vacancies. Only a growing economy can do that. But it can deepen the rate of job creation at any rate of growth by improving labour market matching.

The difficulty with ALMP interventions is that they often have high deadweight loss, and are highly uncertain in their impact. This means that only a portion of the spending, often much less than 50%, will ultimately have the intended impact. There are few convincing evaluations, which makes choosing interventions even more uncertain. They can nevertheless be successfully pursued with careful design and targeting.

The international experience does not bode well for wage subsidy interventions particularly those offered to firms directly. The only successful programme is the US Earned Income Tax Credit however this was paid to the worker and was aimed at drawing more people into the labour force by essentially raising the returns to working in a context of extremely low pay being offered.

There is more positive experience with interventions that improve the capabilities of work-seekers and which improve information and matching of workers to employers. These may be more complex to implement, but have more chance of having the desired impact.

The good news is that South Africa has a plethora of innovative private (for profit and not-for-profit) services that can be leveraged for this purpose. The policy instruments might include financial or tax incentives to these delivery agents, accreditation services and solid regulation to contain abusive or fraudulent behaviour. There are also substantial pools of publicly gathered funds, such as the National Skills Fund, that could be applied here.

We organise our recommendations around two main areas of intervention, namely that which incentivizes employers to hire more school leavers, and those that intervene to strengthen employability of school leavers. Given the uncertain impact of these programmes, we strongly recommend that properly structured large demonstration projects be set up to test their potential impact. These are pilots that compare similar populations that do and do not receive these benefits.

A wage subsidy has been proposed in various forms over the years in South Africa. This author proposed a labour induction allowance in the dti investment incentives to offer additional support to labour intensive firms (which was not implemented), plus a training allowance for new investors (which was implemented). A tax learnership allowance was introduced some years ago, and still needs to be evaluated. The National Treasury proposed a wage subsidy as part of its retirement reform recommendations.

The Harvard Panel proposed a wage subsidy of a different sort (or Jim Levisohn from the University of Michigan who sat on the Harvard Panel). This differs from the usual wage subsidy in that it is offered only to encourage a first work experience for a limited period. The main goal is not to reduce the price of labour per se, but rather to overwhelm the apparent disincentive to hire young people who lack any work experience. The idea is that worker and employer would get to know each other, and this would improve matching. As an initial idea, he recommends that all 18 year olds be given a credit card, loaded with R 5000 that can be deducted by the employer against wages paid. While in theory, this could have a substantial impact on raising employment, there are some caveats. First, it may be that employers simply do not want to hire many more school leavers at any price. The starting capability (and therefore trainability) might be more important to them than the price. In our interviews, we found that only manufacturing firms responded well to the idea of a wage subsidy. It resonated poorly with services employers, perhaps because stronger inter-personal skills are needed in those sectors. Second, a school leaver might get a first experience, but this does not necessarily translate into follow on work opportunities. It may improve their chances (which is a good thing), but it does not generate large numbers of vacancies in the economy.

If a wage subsidy were being proposed, we would instead recommend that it be targeted at matric graduates. The matric group is highly marginalised from the perspective that black graduates have a less than 50/50 chance of being employed before the age of 24. However, they have better long term prospects and more chance of successful placement. We believe the deadweight loss would be lessened.

The matric graduate group, especially those from disadvantaged backgrounds and often in difficult learning circumstances, have identified themselves as a self-motivated group that want to succeed. Having passed the matric exam should indicate some basic starting skills have been acquired. A subsidy to matrics that improves their employment prospects would give a useful signal to younger students who rationally might believe that finishing high school will not improve their prospects. Our initial estimate shows that such a programme might potentially generate 35,411 additional opportunities, at a cost of R 1.24 billion pa or R 35,000 per opportunity (excluding admin), taking into account deadweight loss. This would raise the rate of annual job creation by 12%, assuming that all first opportunities translate into subsequent ones.

We further recommend that an employment subsidy to non-profit organisations be considered, which may fit with the EPWP Phase 2 wage subsidy proposal and community works proposal. In this, communities or non-profit organisations would submit their proposals and access funding directly from a central pool.

It is then suggested that more marginalised youth who do not finish matric be targeted with special employment programmes. The programme cost is similar, but is direct and therefore has more chance of success with this group.

We estimate that the cost per job of EPWP and of the wage subsidy to be roughly similar, especially if second round results are taken into account.

In terms of pre-employability interventions that focus on improving capabilities and work-readiness, we propose two interventions. The first offers support in improving foundational skills such as math, English and communication. The second focuses on employability skills such as job search skills, job expectations, behaviour at work, CV preparation, personal presentation and so forth. This would be linked to a placement programme. The programme would leverage existing institutions such as placement centres, and existing funding mechanisms like the National Skills Fund or the Learnership Tax Allowance. We estimate that if such a programme were targeted at matric graduates, it could cost R 5 billion per annum if the per person cost were R 30,000, excluding curriculum development, administration and other indirect costs. This appears more costly and the employment impact is highly uncertain and difficult to measure. However, given the gaps in education and networks, a well structured programme cannot really go wrong all labour market entrants must have these skills.

1. Introduction

The HSRC has prepared a series of papers focused on developing insights into potential interventions aimed at improving the employability of school leavers. The work began in February 2007, with a think tank type session with top experts and policy makers to develop key questions. This led to the production of a series of background papers and a second think tank session in June 2008.¹ The final question posed in the June workshop was:

Are there active labour market policies that can raise employment levels of school leavers, and reduce the potential for long term employment? This intervention targets groups in the approximately 500,000 to 750,000 entering the labour market this year and next year .

It is clear that some of the most important interventions will involve strengthening the education system, offering second chances , and raising the growth rate. Yet, here we are concerned with short term and immediate labour market interventions that might reduce potential youth unemployment by some targeted amount. The Second Economy Project funded by DFID supported this project, which sought to identify possible scalable interventions.

For this project, we prepared three background papers that link the causes of high youth unemployment to potential interventions, taking into account the institutional context and global experience with such interventions². The three papers explore the current systems in place to enable young people to make the transition from schooling into the labour market and identified the challenges that young people experience in navigating these processes as well as certain systemic issues that compound these difficulties experienced by youth.

The aim was to develop a decision-making framework, recommend interventions that might have a high chance of success, and propose an approach to testing these interventions. Testing is recommended since these types of interventions all tend to be expensive, take time to have an impact and often have a high deadweight loss.

Demonstration projects are proposed: these are large pilots implemented with scientific rigour that offer relatively solid evidence on the potential isolated impact of an intervention.

This paper draws together the central findings from the background papers, laying out an approach to policy choices, and recommending potential interventions and approaches to them being tested.

¹ These papers included: Charles Simkins (labour forecasts); Nick Taylor (dinaledi), Martin Gustafsson and Andrew Bartlett, The Labour Market Significance of the Grade 9 Certificate, and Miriam Altman, Youth Labour Market Challenges. These papers were jointly funded by the HSRC and the dti.

² The background papers prepared for this project include: Burns (2008), Burns (2008a), Carmel Marock (2008)



This paper begins with an overview of the youth unemployment problem (section 2) and youth labour market challenges to be addressed (section 3). These are the critical challenges that young people experience in their transition from schooling to the workplace. Section 4 reviews the objectives of relevant labour market interventions and some underlying principles. Section 5 reviews the institutional context into which an intervention might be implemented. Section 6 outlines what the potential interventions might be, and an approach to comparing them. Section 7 explains approaches to designing demo projects. Section 8 proposes possible demonstration projects to test a series of interventions. Their purpose is to provide insights as to whether these programmes could be efficiently and effectively expanded upon to address these challenges at the requisite scale. Section 9 offers some concluding remarks about the processes to be followed once the workshop has taken place.

2. Youth unemployment

Unemployment and associated poverty are amongst the greatest socio-economic challenges facing South Africa. Approximately one-quarter of the South African labour force is unemployed by the strict definition. In a context of extremely high unemployment, is there a reason to focus on youth, rather than adults?

Youth unemployment is a global problem, partly because high unemployment is found in almost all regions of the world (with the exception of the US, South Asia, and East Asia (ILO, 2004; ILO 2007). Globally, youth aged 15-24 are three times more likely to be unemployed than are adults (ILO, 2006).

In South Africa, youth are twice as likely to be unemployed. Table 1 shows that 58% of young people aged 15-19 and 50% aged 20-24 were unemployed in 2005. These unemployment rates are much higher for African youth. Those aged 15-19 are a very small proportion of the labour force (3%), since they are mostly studying. Those aged 20-24 account for 14% of the labour force, but 27% of the unemployed. Employment has been stagnant for this age group.

The South African concept of youth might not be very helpful to a discussion about labour markets. About 30% of those aged 25-34 are unemployed, a rate that is far closer to the national average. This is also a much larger group, accounting for 35% of the labour force and 40% of the unemployed. This group is accessing a large portion of the new jobs being created in the economy. About half a million jobs were taken by this group between 2001 and 2005.

While the ILO definition of youth is restricted to individuals aged 15-24, the convention in South Africa is to define youth as all individuals aged 15-30 (or even 15-35) due to the fact that African youth in particular tend to enter the schooling system late, and exit late due to slower throughput rates. However, within this broader youth cohort, available evidence suggests that the experience of those aged 15-24 is distinctly worse than that of the cohort aged 25-30. This should be borne in mind in relation to the design of any intervention programme (Altman, 2007). This paper therefore concentrates on those aged less than 24 years.

Both youth and adults find it hard to live with unemployment, particularly where there are dependents. In a context of very high unemployment, the main argument for focusing on youth relates to wanting to contain the creation of a new generation of long-term unemployed. Generally, the longer one is unemployed or underemployed, the harder it is to reverse the effects on self-esteem and work readiness. In 2005, a quarter of unemployed had been searching for a job for one to three years. 35% had been looking for three or more years. In addition, there are those who have given up looking for a job, and are defined as discouraged. There is a high chance of long-term unemployment amongst youth who have weaker searching skills and resources.

Peer groups can have an important impact on learners sense of their prospects. A slightly older cohort that finds opportunities will send a message back to those in school. A very large proportion of African school leavers struggle to find work. Although education does improve labour market chances, it would be difficult for the individual to see this given that unemployment is so very high for young African school leavers.

There is an even more important long-term perspective. South Africa has a large young population. This should offer what is known as a demographic dividend, where a large proportion of the population is economically active, thereby reducing dependency ratios and poverty rates, and promoting growth. However, this dividend can only be earned if these young people are actually working. The larger the group of marginalised young people who remain un- or under-employed, the larger the threat that dependency ratios will rise as the demographic bulge passes. Over the longer term, a large group of adults who have been unable to save or accumulate through their productive years may now be dependent on a smaller group of younger people.

3. What causes high youth unemployment?

There may be a rationale to focusing on youth: but is it practical? There are many approaches to reducing unemployment and expanding employment, but these would benefit all unemployed and not necessarily the youth. It is critical that the specific explanations associated with high youth unemployment be identified, so as to identify appropriate interventions that address those specific causes.

What causes youth unemployment?

There are a number of explanations for why youth specifically have higher unemployment rates. These include:

- The economy is not growing fast enough. This can be a special problem in a downturn, as youth tend to be last in, first out
- The lack skills that underpin employability these might include foundation skills such as math and English, or other capabilities such as communication or personal presentation and work readiness.

- ② They lack job experience
- ② They lack mobility and resources to look for a job. They therefore stay close to home where jobs may not be that readily available. They lack job search capabilities and networks that are relevant to the labour market.
- ②② They are shopping around for a job that meets their expectations. This argument might be most relevant for young people coming from well-resourced families.

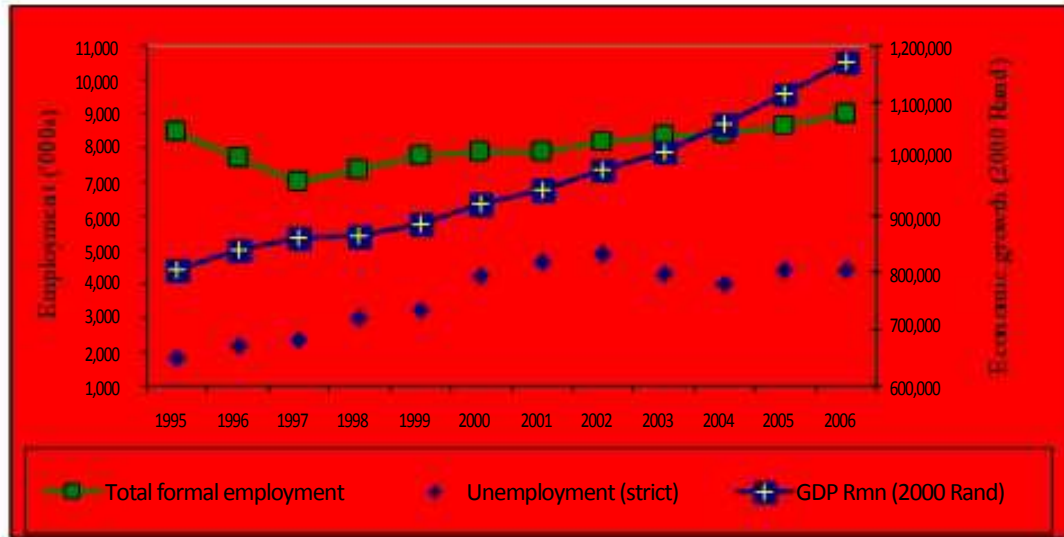
Economy is not growing fast enough

Since 1997, the economy has generated large numbers of jobs relative to the rate of economic growth. Employment growth of youth from age 20 has been at least as fast as the national average, if not faster. The problem is that the growth rate, and therefore the rate of job creation, is simply not high enough.

The ratio of jobs created to labour market entry is quite close. For example, between 2001 and 2005, about 1.2 million jobs were created, and the labour force grew by about 934,000 by the strict definition, and 1.2 million by the broad definition (including discouraged work-seekers). Unemployment did fall from 29.5% to 26.5% over that same period. The rate of employment growth relative to economic growth has been surprisingly high in the 2000s. For every 1% in GDP growth, the SA economy generates 0.6% to 0.7% growth in employment (see Figure 1). Internationally, the norm is around 0.3% to 0.5%. This strong relationship between GDP and employment growth is surprising in a capital intensive economy, and may be due to freeing up of economy in 2000s, with new industries and activities, and a strong growth in the services sector.

It is also often assumed that the economy is skills biased, and is not generating jobs for entrants. Employment of 15-19 year olds stagnated between 2001 and 2005. In contrast, employment of 20-24 years olds grew by an average of 2.5% per annum, which was just a little lower than the national average of 2.7% per annum. The average rate of job creation over this same period for 25-34 year olds was much higher, at 3.5% per annum. The economy definitely favours the older workers where the number of jobs created is not sufficient to employ younger labour market entrants. However, the pace of job creation (from a low base) is closely linked to the general growth rate in the economy and in employment.

Figure 1 - Growth, employment and unemployment



The problem is that there is such a substantial pre-existing pool of unemployed: in 2005, there were 4.4 million unemployed by the strict definition. Moreover, the participation rate is still very low, especially for young people and for the black population. In 2004, about 53% of the working age population participated in the labour market³. This is very low by global standards: in SA, the extent of labour force participation has a strong urban/rural and racial dynamic. In 2004, 50% of Africans participated in the labour force, as compared to 64% of other race groups. This is partly explained by the very slow rate of job creation for Africans and high rates of discouragement. Moreover, low rates of participation are also partly explained by geography, networks and cost of job search: the labour force participation rate in the rural areas was only 41.6% as compared to 63.5% in urban areas. If employment expanded more rapidly, it is probable that the labour force would also grow more rapidly people would move to urban areas in search of work, and people who are currently discouraged would start looking.

If there were a small pool of unemployed, the rate of job creation seen in the 2000s would not have been a problem. However, the HSRC employment scenarios shows that for unemployment to be halved between 2004 and 2014, an average of 500,000 net new jobs would be needed annually, as compared to the average of 300,000 created annually between 2001 and 2005. The rate of job creation has been rising, reaching the target rate for two years, but is likely to fall to much lower levels as a

³ Of those who did not participate, approximately 14% would have liked to work, but were discouraged and not searching: they fall outside of the official measurement of the labour force. A further 16% said they were studying. The remaining 17% had other reasons such as being disabled, involved in child care, saying they were too young or old to work (Stats SA: Sept LFS 2004).

result of the global economic downturn, as well as local constraints such as that posed by electricity shortages. This is likely to persist at least until 2010. An average growth rate of 5% had been achieved, and had SA moved into a similarly labour absorbing growth rate of 6% to 7% or more, it is possible that the Asgisa objectives could have been met. That now seems unlikely in the absence of large special interventions.

It is far more likely that the average growth rate between 2004 and 2014 will settle around 3% to 4.5%. This means that unemployment could rise to 28%, or fall as far as 21% and no further, in the absence of no additional employment interventions. As an example, the HSRC employment scenarios show that at an average of 3% GDP growth, 2.8 million public works and special employment opportunities would be needed annually by 2014. Naturally, it is absolutely critical that stimulators of labour absorbing growth be implemented such as those in core network infrastructure.

There are important implications for active labour market policy (ALMP) aimed at raising employment levels of youth school leavers. An ALMP aimed at improved skills or labour market matching cannot in itself raise the level of aggregate demand, and thereby dramatically expand the number of vacancies. It can have some noticeable impact in reducing the level of youth unemployment, but it should not be expected to generate millions, or even hundreds of thousands, of opportunities. ALMP that emphasizes direct job creation in the public service and in special employment programmes may be a critical component of a youth employment agenda when economic growth is low.

Youth lack the education and occupational skills demanded by the labour market

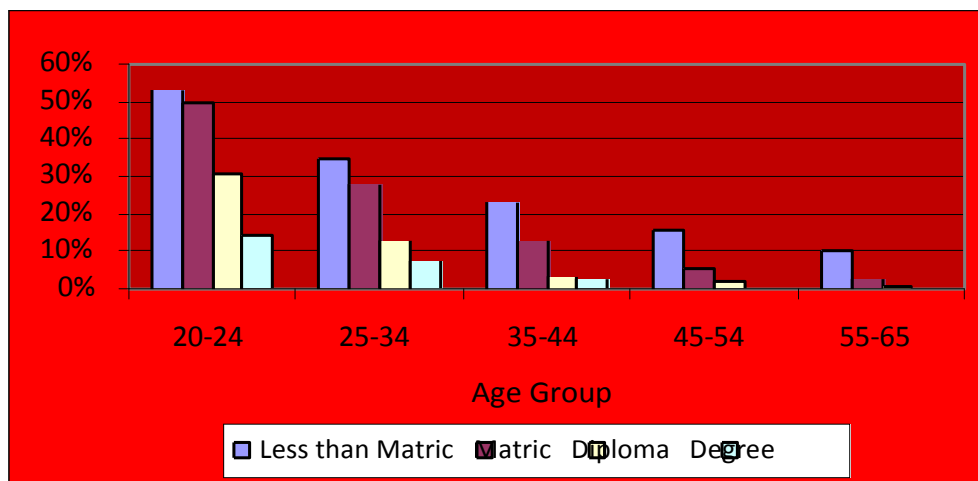
There have been substantial sectoral shifts in South Africa, in evidence since the 1980s. There has been a substantial contraction in mining and agriculture, and slow growth in manufacturing. The main source of new employment growth are found in the services sector, such as retail, hospitality, business services, finance, or IT. While there has been skills intensification within sectors, the ratio of high skill to low skill across the economy has remained around 30:70 (according to the October and September Labour Force Surveys). There is a perception that services generate mainly high skill employment, but this is misleading. A large number of low and semi-skilled jobs have been created in areas like office cleaning, security, taxi driving, personal services, restaurants and the like.

There is anecdotal evidence that matric may have become a minimum expectation for many employers. Historically, factories expected skilled operators to have a Standard 6. Now a restaurant worker might need a matric, or even a diploma. Qualification inflation is not unusual where a population is obtaining higher levels of education attainment: this is especially so if there is high unemployment or unchanged sectoral distributions.

The evidence does show that education definitely helps employment prospects. The unemployment rate falls dramatically with rising educational attainment, especially if a post-matric qualification, as seen in Figure 2.⁴ For example, about 30% of those aged 25-34 with matric or less were unemployed, compared to only 13% with a diploma or 8% with a university degree. Unemployment tends to fall with age, so a higher level of education at an earlier stage in one's career is definitely helpful to young people.

However, it would be rational for a young student to believe there is little point in finishing school. The unemployment rate for 20-24 year olds with matric and without matric is about 50%. It is even higher for African workers. This means a student might believe there is less than a 50/50 chance of being employed. If the schooling process is frustrating, this may entice dropping out. However, as noted, the rate of unemployment falls dramatically with age, and education (see Figure 2).

Figure 2 - Unemployment by age and educational attainment



Source: Statistics South Africa, September Labour Force Survey 2005

Employers do not seem to differentiate between matrics and those with less than matric until they reach 25 years of age or more. This may either indicate that matrics ultimately navigate the labour market better, or alternatively that qualification inflation has already set in.

Evidence on the returns to education demonstrate sharply increasing returns to education for those with post-school training of some type, but declining returns to those individuals who hold a matric or lower qualification (Keswell & Poswell, 2004).

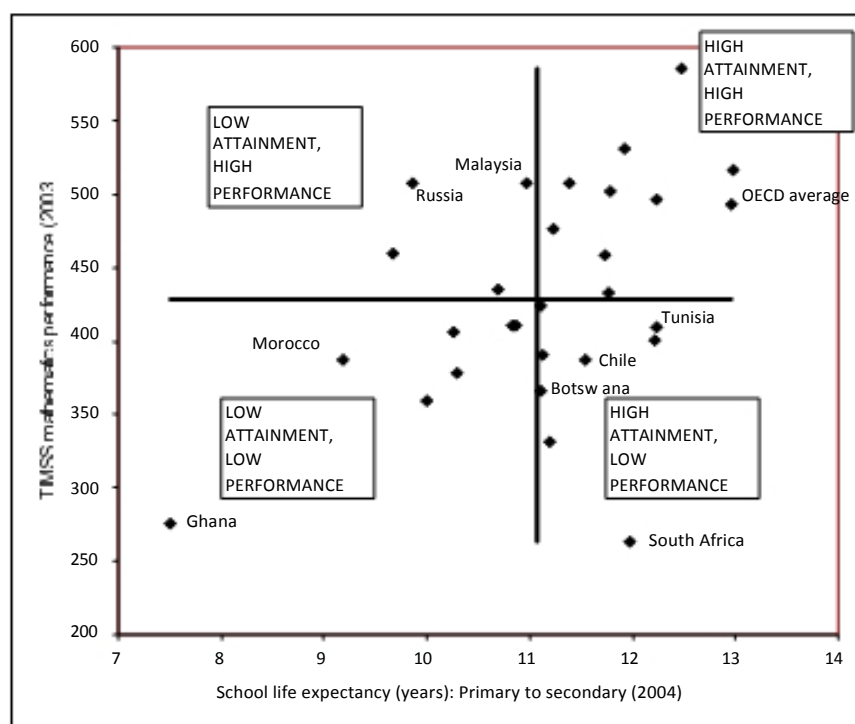
⁴ It should be remembered that matric refers to those who sat in matric, not necessarily those who actually obtained a matric certificate.

This is consistent with an increase in the demand for skilled labour, and/or a shortage of skilled labour, and with weak bargaining power of low skill service workers. It may also be consistent with employers negative perceptions of the quality of education in the post-apartheid era, which cause them to ratchet up the minimum requirement for any particular job, in order to ensure that applicants have basic literacy and numeracy skills in place.

Figure 3 shows that South Africans have a relatively high educational attainment by global standards lower than the OECD, but higher than Chile, Malaysia or Russia. On the other hand, the performance or contribution of that education is the lowest in this global comparison. While there is a high skills shortage in SA, and it is desirable that there be better access to higher education, it is a fact that the majority of school leavers are unlikely to move to tertiary education.

By way of a global example, Gustafsson and Bartlett (2008) show that in the United States, 24% of youths do not complete upper secondary education (whether general or vocational), and yet have extremely low unemployment. In Turkey and Mexico, 52% and 60% do not complete (figures from <http://www.oecd.org/dataoecd/17/16/39245042.xls>). The South African figure was around 40% in 2005.

Figure 3: Years of schooling and quality of schooling



Source: Gustafsson and Bartlett (2008)

Lack of job experience

Obtaining a first job is quite a challenge in any context. However, in SA it is especially so, especially for historically disadvantaged groups. The first challenge relates to not having effective labour market networks that can help guide job search behaviour and skills acquisition choices.

This challenge relates both to the practical skills and competence that young people acquire through work experience as well as the imperative for networks which has been highlighted specifically in Marock (2008).

Burns (2008) notes that in the context of static labour demand and excess labour supply, employers are able to be more selective in their employment choices, and may place greater weight on educational qualification and prior job experience. In relation to the latter, youth, especially recent graduates, are at a distinct disadvantage relative to older cohorts, not only due to lack of work experience, but also because employers may stereotype younger workers when faced with imperfect information about individual characteristics. Mlatsheni and Rospabe (2007) use the OHS of 1999 to examine the differences in employment outcomes for youth (15-30) versus non-youth. They find that 73% of the employment gap between youth and non-youth is attributable to differences in productive characteristics, and they speculate that this is largely driven by differences in job market experience. This makes attainment of a first job vitally important for a longer-term positive labour market trajectory. Banerjee et al. (2006) provide evidence that just under 60% of the unemployed have never worked before, and the majority of these are young people. Furthermore, individuals who have never held a job before are 35% more likely to be unemployed than workers who have had prior work experience. Data from the South African Young Persons Survey (SAYPS)⁵ conducted in 2006 show that the median age of entry into a first job was 24 for men and 27 for women. Young people with better educational qualifications and better networks experience more a rapid transition into their first job.

Early labour market experience in the form of part-time employment eases the school-to-work transition. It assists youth in choosing career paths, and may instil qualities considered desirable by employers, such as punctuality, reliability, self-confidence, increased understanding of consumer and money matters, and responsibility. In turn, these characteristics may have positive feedback on school performance (Bowles & Gintis, 1976). Early participation in labour markets may also provide youth with opportunities to learn important skills such as putting together a CV, how to engage in effective job search, how to build networks of contacts, and how to conduct themselves during a job interview. International evidence from developed countries suggests that high school graduates who work while at school subsequently experience lower unemployment and obtain better quality jobs than those who don't (D'Amico, 1984; Johnston & Bachman, 1973).

⁵ SAYPS (South African Young Persons Survey) was conducted between July and November 2006. It traced the history of more than 1 000 young individuals, aged between 20 and 35, and mostly African, recording their life histories from the age of 15 (see CDE 2007).

Using the CAPS data, Lam et al. (2007) trace the school-to-work history of the youth cohort aged 23–25 in 2005 back in time, from age 12. During the ages 12–23, the school-work possibilities for these individuals were as follows: (i) engaged in study only; (ii) engaged in work only; (iii) engaged in school and work; (iv) engaged in neither school nor work. Within these life histories, work is broadly defined to include vacation work and part-time work, so youth classified as being engaged in both studies and work need not have been overly burdened. Lam et al. (2007) document large differences in the school-to-work histories across race groups. While being in school and not working is the predominant activity for all individuals at age 14, by age 17, significant numbers of white males (45%) have work experience compared to very few African males (5%). By age 20, 20% of African females and 31% of African males had ever done any paid work in contrast to 86% of white females and 90% of white males (with similar figures for coloured youth). These low work rates amongst African youth during adolescence are in line with results for African youth more broadly in South Africa, as documented by Anderson et al. (2001), and likely reflect the limited labour market opportunities open to African youth and the high costs of job search driven by the spatial legacy of apartheid. Hence, to the extent that employers might be willing to hire youth, white youth will be at a significant advantage due to higher incidence of prior job experience.

High costs of job search for youth in particular

A further possible explanation for high rates of unemployment may have to do with the high costs of active job search. The material costs of job search in South Africa are exacerbated by the relatively few high-density urban centres in the country and the spatial isolation that many unemployed experience (Banerjee et al., 2006; Mlatsheni & Rospabe, 2007). The spatial legacy of apartheid means that distances between areas where business opportunities are located and the communities where people, particularly Africans, reside, are large. This raises the costs of job search considerably, both in terms of material resources expended to travel in search of opportunities, but also in terms of the kinds of information flows that individuals may rely on to find out about available openings. Youth in particular tend to lack mobility and the resources required to engage in active job search, or to relocate in order to take advantage of job opportunities elsewhere. Consequently they may restrict job search to opportunities available close to where they reside, thereby restricting the scope of their opportunities. In a survey of unemployed youth, Kanyeze et al. (2000) report that almost a quarter of respondents said they could not afford the transportation costs associated with job search, and of those unemployed youth who had become discouraged, 47.1% said they had given up searching because they had found no opportunities in their area. Finally, high turnover rates and potential employer prejudice concerning the productivity of workers from particular groups (in this case, younger cohorts compared to older cohorts) reduce incentives for potential employees to invest a lot in the job search process.

High search costs discourage active search, and favour passive search methods, predominantly in the form of relying on word-of-mouth from friends and family. Amongst youth interviewed in the SAYPS, 60% of those in wage employment reported that they had found their jobs through network search in the form of friends, family or relatives. Only 12% reported that they had responded to job advertisements, and 9% indicated they had physically enquired at firms about available

openings. Similarly, 55% of respondents in the CAPS data reported finding their current job through relatives and friends (Mlatsheni 2007). In their survey of unemployed youth, Kanyeze et al. (2000) report that while 57% of these unemployed youth had enquired at firms or workplaces about job openings, only 6.9% had registered formally with employment agencies or trade unions. The low utilisation of public or private sector employment agencies is confirmed in studies by Noble et al. (2008) and Surender et al. (2007), both of which point to high registration fees and/or large wage deductions, coupled with the numerous administrative requirements imposed by such agencies, as being key factors in the low utilisation of these centres. Noble et al. (2008) report that many survey respondents regarded these kinds of labour centres, particularly public sector labour centres, as a hindrance rather than a help in finding employment. Hence, the evidence on the kinds of search strategies employed suggests a lack of transparency in the market, where potential employees and employers are unable to connect effectively in a low-cost way to advertise available jobs or their skills.

Since network search appears to offer the most successful method of finding a job, it is therefore important to have good-quality networks. Youth may face a disadvantage here in terms of having fewer network contacts to call upon, given their lack of exposure to the labour market. Youth interviewed in the SAYPS were asked about the number of individuals they could rely on to help find them a job and provide references, and the majority reported a maximum of two such contacts, indicating a very thin network. Moreover, to the extent that better labour market outcomes may be a product of network contacts obtained through parental business and social networks (Magruder, 2008; Rees, 1986), black youth face a distinct disadvantage, given the limited employment and occupational opportunities available to their parents. Hence, employers may be more likely to rely on their own subjective criteria (and possibly even prejudice) in evaluating these potential applicants.

High labour costs and labour market rigidities

One of the issues highlighted is the concern raised by some commentators that rising wage costs and labour market rigidities in the form of bargaining councils have prevented employment creation in the context of an expanding labour force (Fedderke, 2006; Natrass & Seekings, 2003). Burns (2008) suggests that while there may be truth in this argument, it is difficult to argue that these factors explain youth unemployment per se, as opposed to unemployment more generally. Burns (2008) argues that at best, the link is indirect in the sense that employers, faced with high labour costs and labour market rigidities, become more selective in their hiring decisions, placing greater weight on prior experience, and it is in this regard that young work-seekers are disadvantaged.

Wage expectations are too high

A further possible explanation for high rates of youth unemployment might be that youth expectations concerning wages are too high, or put differently, youth reservation wages are too high. In part, this may be driven by unrealistic expectations concerning job market opportunities and the returns to education on the part of young people. Given the significant changes in the post-apartheid labour market, as educational attainment has risen, returns to education, especially for those obtaining a

matric, have fallen. To the extent that youth have not internalised this, they may hold unreasonable expectations as to their own prospects, especially if they compare their qualifications to those of their parents and other role models in their communities.

The evidence in support of this hypothesis is very thin. Firstly, the notion of a reservation wage is not empirically supported by survey data. When respondents are asked why they are not working, insufficient wages are not quoted as the reason. Typically, respondents report that they simply cannot find work. This is distinct from whether they can find suitable work (which might imply some kind of reservation mentality). Moreover, data from the South African Social Attitudes Survey, commissioned by the HSRC, showed that survey respondents uniformly placed a high value on being in paid employment, reporting that working promoted dignity (Noble et al., 2008). Even in the context of high unemployment rates, respondents said that being out of work was not considered normal, and that unemployment led to social isolation and shame (Noble et al., 2008).

However, Banerjee et al. (2006) do argue that reservation wages of the youth may be too high owing to the presence of pension income within the household. The unemployed are able to survive without taking on work as long as the elderly are prepared to support them. This may cause potential job-seekers to become more selective about the kinds of jobs they will search for, and the kinds of wages they will accept. The empirical evidence concerning this hypothesis is mixed. Bertrand et al. (2003) use cross-sectional data to demonstrate that household members in pension-eligible households work less than their counterparts in non-eligible households. Ranchod (2007) finds similar results using LFS data, demonstrating that when a household loses a pensioner, employment rates increase, especially amongst adult women. This accords with the notion that young people only engage in serious job search once their parents die, which translates into higher employment rates amongst cohorts aged 30 and above. Age also correlates with changes in other life events, such as marriage and childbearing, which may also make it more difficult to continue to rely on parental income. An important caveat to this body of evidence is that the results focus only on the behaviour of resident household members, giving rise to sample selection bias in the results. Work by Posel et al. (2004) demonstrates that once one expands the definition of the household to include non-resident household members, pension receipt facilitates the departure of prime-age women from the household in order to search for work. Edmonds et al. (2003) show a similar result.

Finally, it is also possible that youth remain unemployed and continue to search for alternative jobs because the costs associated with taking on a job exceed the wage associated with that job. In the South African Social Attitudes Survey (2007), survey respondents indicated that high costs of transport, not only for job search but for actually getting to and from work, imposed a significant barrier to employment. A smaller percentage of respondents also pointed to the high costs of childcare as imposing similar constraints (Noble et al., 2008). This kind of behaviour is typically included within the realm of high reservation wages, but it is worth distinguishing it, since the underlying motivation for not accepting a job is not due to unrealistically high wage expectations, but rather stems from an inability of work-seekers to find employment that pays a wage that allows them to cover the associated costs of taking up such employment.

Lack of entrepreneurship

Entrepreneurship was actively discouraged under apartheid, and even with current educational reforms, remains an inadequate focus in educational curricula. Indeed, the majority of youth interviewed in the SAYPS reported a preference to be employed by someone else as opposed to self-employment, citing risk aversion and credit constraints as the primary reasons for their preference. Mlatsheni and Rospabe (2007), using the 1999 OHS data, find that 85% of the gap in self-employment probabilities for youth versus non-youth can be attributed to differences in productive characteristics held by these groups, and they argue that this most likely reflects differential access to credit and the accumulation of financial assets over time by older cohorts. Moreover, men are more likely to opt for self-employment than women, and while educational attainment may be a significant factor in obtaining formal sector employment, it does not appear to be a significant predictor of entry into self-employment (Mlatsheni & Rospabe, 2007). Hence, the low engagement of youth in entrepreneurial self-employment activities is unsurprising, given that youth are more likely to face credit constraints and, given their relatively weak asset position, may experience higher anxieties over assuming risk. Moreover, to the extent that most entrepreneurial activity is likely to occur in the informal rather than the formal sector, therefore yielding lower potential returns, it is perhaps not surprising that youth may exhibit a preference for formal employment over possibilities for self-employment in the informal sector.

Mlatsheni and Rospabe (2007), using the 1999 OHS, find that despite this, the Global Entrepreneurship Monitor research project found that young people aged 18-34 were the most likely to become active as entrepreneurs, with one-third of all successful entrepreneurs coming from this group (Leibbrandt & Mlatsheni, 2004). Hence, promoting entrepreneurial skills and improving access to credit would allow youth (even those with less than a matric qualification) to successfully take advantage of the opportunities offered by self-employment. An important caveat, though, is that success typically requires some experience, or exposure to role models who are able to provide mentoring and advice in this regard. African youth in particular are less likely to have grown up in households with business people as role models who could shape their understanding of market opportunities, access to networks and know-how. Mlatsheni and Rospabe (2007) demonstrate that the presence of other self-employed individuals in the household has a large and significant positive impact on the probability that a young person will also choose to enter self-employment, and they attribute this to a role-model effect. Hence, efforts to promote self-employment as a viable employment alternative amongst youth will require access to credit as well as mentoring programmes to be in place (possibly accompanied by some form of insurance in case of business failure).

4. Some principles in identifying interventions

Some principles or criteria have been applied by the research team in identifying labour market interventions that could have a noticeable employment impact on a target group. These include:

- ☐ The intervention addresses a challenge that has been identified as substantive;
- ☐ The intervention is practical to implement. This suggests both that the interventions are practical and that they build on existing delivery mechanisms. Such innovations are more amenable to being rolled out and less costly than setting up entirely new delivery systems.
- ☐ The intervention could reach an identifiable group, and its impact could therefore be measurable.
- ☐ The intervention has the potential to have a significant impact if taken to scale – that is, that they can enable a significant number of young people to access the workplace.

A key concern is to identify what impact is being sought. From earlier sections, it is clear that an active labour market intervention is unlikely to raise the level of aggregate demand, or if it does, it would not be very noticeable. This can only be done through macro-economic interventions, or policies that promote new investment or dramatic increases in demand. Alternatively, the state needs to implement large scale employment creation programmes. An ALMP can not be expected to dramatically raise the level of general employment, nor to dramatically reduce unemployment, even for an identified sub-group such as matriculants. It should be seen as one amongst a number of interventions. Our estimates in the case studies in section 8, show that if there is a full market response to the intervention, employment might grow by 6% to 15% pa more than it would otherwise have – this equates to 17,000 to 44,000 additional opportunities. However, it is unrealistic to expect a full market response. Even half this impact should be seen as a substantial contribution, albeit not the panacea solution.

So, what are the possible impacts sought?

- ☐ To raise aggregate demand: as noted above this is an improbable impact and an ALMP is unlikely to have the impact of dramatically expanding vacancies. In fact, in any economy-wide intervention, it needs to be understood that displacement effects may be hard to measure. What appears to be improved employment opportunities for participating groups, may simply mean that the opportunities were shifted away from another group.
- ☐ To shift employment decisions, as the reduced price induces more hiring. (like a shift down the demand curve).

- To shift existing number of employment opportunities towards youth, for social objectives.

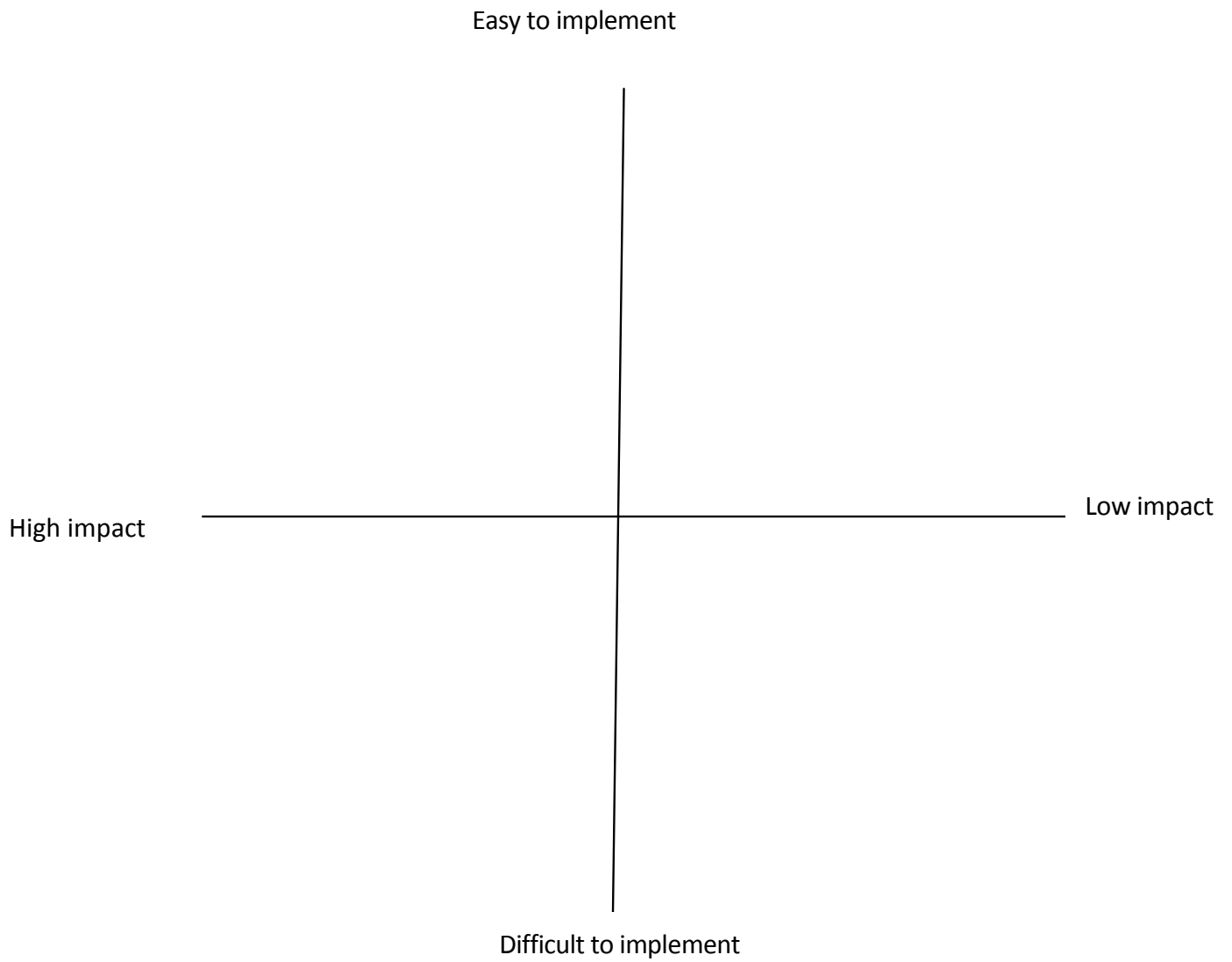
How should ALMP interventions and target groups be prioritised?

- o In a context of extremely high unemployment, even black matriculants have a high probability of unemployment, generally a less than 50% chance of finding work before the age of 24. Should the target of ALMP be the most marginalised, or the most potentially employable amongst a marginalised group? In our proposals, we recommend that matriculants be targeted. We think this will reduce the potential for deadweight loss, as it is a highly motivated and clearly identifiable group. They have more chance of successfully securing market employment, in comparison to those without matric. This can also offer a signal to younger students that it is worth completing matric, whereas the signal is currently very weak. Public works and special employment schemes might be more appropriate interventions for those without a matric.
- o It is important to compare alternatives within a decision-making framework. first best is not necessarily sought, since second best might be more workable or easier to implement in institutional context. It should be assumed that there will be deadweight loss, although attempts should be made to minimise it.
- o Special thinking might be needed in respect of growth slow down from 2008. It is clear that youth will be especially affected since they are last in, first out

Figure 4 shows how this thinking might proceed. One would plot the range of possible labour market interventions by the extent to which they might have a high or low impact, as compared to how easy or difficult they might be to implement. Clearly, interventions falling into the top left quadrant would be chosen.

As the evidence is so thin, especially in the SA context, we did not fill the chart in. Instead, this will be filled after the November workshop, having received feedback from participants.

Figure 4: Example of decision making matrix (to be plotted in workshop)



5. Institutional context

The chance of success for any intervention could be raised if existing institutional mechanisms are used to implement a labour market intervention. This is seen as critical both in terms of the viability of implementing these projects and in terms of their potential to ultimately reach a significant scale.

This section outlines some of the key institutional mechanisms that are already in place that are either currently, or with the potential to, support these projects. It then outlines the existing funding mechanisms that are in place.

Existing institutions for the provision of employabilityenhancing services

The range of challenges as well as possible interventions point to the type of institutions that could be involved in aspects of these interventions which includes: Foundational skills, Employability skills, Job Search Information, Employment Subsidy, Cover transport costs (and other associated costs related to job search), EPWP/transitional jobs programme and Support for self-employment.

Marock (2008) highlights the range of institutional forms that exist which the scale of the individuals that are reached through their interventions. These are wide ranging given the nature of the interventions outlined but include:

The Department of Labour s labour centres offer services around the Unemployment Insurance Fund, Inspection and enforcement-related services, training (both by labour centre staff and through outsourced relationships with private providers) and placement. Labour centres are expected to act as repository of data on jobseekers. School leavers can register their information with the labour centre and, based on requests from employers, the labour centres will seek to match them to job opportunities. Marock (2008) states that interviewees within these centres indicate that at present the Labour Centres do not have the capacity to go out and talk to employers as there is only one Employment Services Practitioner in each centre. In addition, the database function in each labour centre is largely manual and therefore not linked into any central database. Therefore the centres function in a fragmented manner. One of the frustrations that result from this situation is the inability of labour centres to respond efficiently to requests from employers for staff. Further, it is indicated that the Department of Labour select candidates off the database but are not consistently able to screen these candidates and it is indicated that many of the candidates referred to employers may have changed contact details, already found a job or not be interested in working in the particular area to which they have been referred. The Department of Labour report that they are busy piloting the development of an electronic system, which will potentially speed up the process of response and allow the labour centres to be more proactive in their interactions with employers. There is also a proposal to introduce regulations which will require employers to register all vacancies with them every 24 hours and that this information will then be disseminated to all labour centres. However it is not clear

whether resources will be allocated to these centres to allow for the job preparedness activities to take place as well as a thorough screening process.

Umsobomvu Youth Fund, while a separate entity from the Department, reports to the Ministry of Labour and also directly manages a Youth Advisory Centre and supports other organisations, some which are in local authorities and others which are NGOs, to implement Youth Advisory Centres. These offer a combination of career guidance and life skills that are specifically targeted at youth. However, these centres cannot generally provide placement figures and many do not have very strong contact with employers. An area in which these centres are able to add value is that through Umsobomvu they are able to direct young people to entrepreneurial support including business development services and loans.

The Department of Social Development is another national government department that plays a central role in related processes. The Department supports unemployed young people to access lifeskills and career guidance and has a number of programmes to channel these young people into skills programmes as well as the initiation of small businesses.

Of the government programmes that provide opportunities for work experience, though its purpose relates more to poverty alleviation, the most significant is the Expanded Public Works Programme (EPWP). The EPWP is being implemented through various government departments, providing access to short-term work opportunities, with the aim of exposing unemployed people to the workplace and thereby opening opportunities for further employment. In this regard government views the EPWP as the employer of last resort, aimed at addressing large scale structural unemployment. Increasingly the EPWP is attracting large numbers of school leavers, although this was not its original primary focus. A key principle of the EPWP is that it can pay below the minimum wage rate (for up to two years) to attract new entrants into the labour market rather than attracting people who are already employed.

The EPWP works in tandem with the National Youth Service (NYS), where youth will be drawn into projects, provided with skill training (for example trade skills or skills related to health work or early childhood development) and be allowed to work on the projects. Lifeskills training would be provided through the Umsobomvu Youth Fund and the funding for the training would be provided through the Department of Labour. Further, as indicated previously EPWP is exploring ways in which it can contribute to an increase in the scale of volunteer activities within the NGO sector.

In addition to these programmes: provincial and local government has a number of related activities which take place through mechanisms such as the MPCCs and social development. These institutions focus on the provision of lifeskills services and they also offer support in related areas. Local government is also increasingly seeing access to career guidance and placement of individuals in employment as a responsibility of local government as part of their social and local economic development strategy.

Many NGOs offer broad life skills training, which often includes a form of career guidance and CV and interview training and in many cases this includes computer training. However, the research conducted as part of this process suggests that these

organisations have not managed to develop a network of employers and so have limited placement success.

The Association of Personnel Recruitment Organisations (APSO) quotes recent research (2006/7)⁶ which found that there were around 3,500 private recruitment agencies. On the placement side, these private employment services provide a range of services, including assessment, counselling, placement, training and advice on legislative issues. It is reported that they place on average 800,000 daily average temporary staff in SA on any day of which it is estimated that on average, 15% of temporary assignees are converted to permanent staff. The report further indicates that 83% of these assignees are black persons and many of these are youth and female.

There are also Adult Education Centres and FET Colleges many of which offer a range of foundational learning programmes. The FET Colleges also offers the newly introduced National Certificate Vocational (NCV) offered by FET Colleges. The NCV is intended to provide learners with general vocational education and the Department has made bursaries available to learners to undertake these programmes. With the recognition of the different routes to becoming an artisan this creates the possibility for learners to attain an NCV and then undertake an internship so as to be able to acquire a trade qualification. The FET Colleges also offer learnerships and skills programmes and the Department of Education reports that these combined programmes reach approximately 430 000 learners with a target of 1 million by 2016. FET Colleges have also introduced a Life Orientation Programme and are exploring other mechanisms to support the transition to the workplace. This includes innovative partnerships with employment services in certain cases, as well as the development of relations with workplaces directly.

Over and above the learnerships and skills programmes offered by FET Colleges, these are also those offered by a range of private providers. Department of labour⁷ reported that during 2005/2006 a total of 46 676 unemployed people entered learning programmes and 4 256 successfully completed the programmes. The numbers for those entering decreased a little in 2006/2007 to 41 011 with a total of 12 251 for those completing. During the first quarter of 2007/2008 a total of 8 506 entered learning programmes and 1 272 completed. The accumulating total for this period is 96 193 for those who entered learning programmes and 17 779 for those who completed.

Funding Mechanisms

The broader institutional framework to enable funding for many of these activities is provided below. This is not a comprehensive analysis but provides an overview of some of the key features of this environment.

⁶ Taken from APSO website: www.apso.co.za

⁷ Department of Labour, NSDS Implementation Report, 2006

The National Skills Authority (NSA) is responsible for the National Skills Development Strategy (NSDS). The NSDS is currently being revised and forms the basis for determining the funding windows for the National Skills Fund (NSF). The NSF itself has been under review and there are recommendations that this structure be established as a separate entity from government however it is likely that the core focus will remain on the unemployed and for this reason those interventions related to pre-employability may be particularly compatible with the work of the NSF. The NSF grants are paid through Sector Education and Training Authorities (SETAs), or through the Provincial Department of labour officers. In addition there were allocations made to Premier's office and there appears to be surplus funding available from which additional funding may be sought. Certain of the Provinces, such as KZN, have already taken a decision to fund the development of the fundamentals and it may be that these structures can be convinced to also fund these foundational skills.

In addition to this, EPWP is specifically identified as a priority for the funding window. However, many of these programmes have experienced difficulties accessing these funds and meeting the requirements of the NSF. It is anticipated that prior to finalising decisions related to how demonstration projects will be funded a clear agreement and disbursement mechanism should be in place. Otherwise there is a concern that this will derail the implementation of the projects: particularly as there is a view that many of these changes may not be agreed upon until the elections have taken place. It will then be necessary to establish mechanism to access funding against priorities in the interim if there is a need for additional funding for the demonstration projects.

In addition to the NSF mechanisms the SETA can also allocate additional monies through the Discretionary Grant mechanism. This would be particularly useful for supporting young people to undertake different programmes in the workplace.

It is noted that there have also been changes made with regards to the tax incentives and companies can now claim an equitable amount for learnerships and for apprenticeships. Recent changes to the Revenue laws also creates incentives where the initiative is in an agreed upon area as defined in terms of programmes within the Department of Trade and Industry.

6. Possible interventions aimed at identified challenges: what evidence that they might work?

The global evidence on labour market interventions is thin, but nevertheless worthwhile reviewing. We must also consider interventions that have been tried in SA. In considering the different possible causes of unemployment for young people it is necessary to reflect on the nature of the interventions that could be put in place to address these and the extent to which these interventions appear to have yielded an impact. This is not an exhaustive discussion but focuses on those that emerged as most significant in the background research. In addition this discussion draws on some additional references where it was felt that there was a need to understand the possible impact of an intervention more fully.

At the back of the paper are three tables worth reviewing. These include:

- 📄 Table 1 reviews global evidence on firm-side wage subsidies
- 📄 Table 2 reviews global evidence on worker-side subsidies
- 📄 Table 3 links possible causes of youth unemployment, to appropriate forms of intervention. We would like feedback on this table in terms of expert or practitioner views on their potential impact and ease or difficulty of implementation.
- 📄 Table 4 offers a matrix that links policy options to policy instruments

The reader is referred to an HSRC article produced as part of this programme of work by Chris Smith (2006).

Employment subsidies

The weight of available evidence suggests that firm-side subsidies may not be that effective at stimulating employment (Dar and Tzannatos, 1999; Smith, 2007), particularly in developing and transitional economies (Betcherman et al., 2004). The limited success of firm-side wage and employment subsidy schemes may be attributable to the relatively high administrative burden that is borne by the firm, both in applying for the subsidy and in verifying the eligibility of the potential new hire in the case of a targeted subsidy. This is likely to be exacerbated where subsidy amounts are low, and where eligibility may be difficult or time-consuming to verify. Firm utilisation of wage subsidy schemes may also be dampened where the availability of the subsidy and details thereof are not widely known. This is more likely to occur with a targeted subsidy than an untargeted subsidy, since targeting inevitably limits the scope of applicability.

Marock (2008) provides an indication of firm side incentives that are currently in place in South Africa which are intended to enable training to take place. In particular this

includes the tax incentive for training which allows firms to claim for both learnerships and apprenticeships (since the paper was written the Final Revenue Law Amendment Act (2008) has been published which extends these incentives to a range of other initiatives). While there has not yet been a comprehensive review of the take up of these incentives, interviews with large companies suggest that they are using these incentives most effectively though a number of interviewees indicate that there are sometimes delays in terms of the processes that they are required to follow. The extent to which medium sized and smaller firms are taking up these subsidies is not as clear⁸. The SETA system also allows firms to claim a number of grants, and recent reports suggest that there has been increased uptake of these grants and that initial concerns about the size of the surplus are diminishing as increased number of companies claim their grants. This confirms that as the systems become more known and established, then companies are able to more fully take advantage of these mechanisms.

An alternative to firm-side subsidy schemes is to pay the wage or employment subsidies directly to the newly hired workers. The principle underlying a worker-side subsidy is to increase employment by stimulating an increase in the aggregate supply of labour to the economy, since larger numbers of workers are now willing to work for the pre-subsidy wage rate. An additional benefit of worker-side subsidy schemes over firm-side subsidy schemes is that since the subsidies are paid and administered directly by the government, potential employers do not face significant administrative burdens in this regard. However, the key to the successful implementation of a worker-side scheme is the state's capacity to administer such a system.

Job Search Assistance

The bulk of available evidence concerning job search assistance programmes suggests that provision of such programmes not only improves the labour market outcomes of participants relative to non-participants, but that these kinds of programmes may be more effective than other ALMPs such as subsidy schemes. Typically, job search assistance programmes are shown to have significant short-run effects in reducing unemployment, with the added bonus that they are relatively cost-effective to implement (particularly since success implies a reduction in the amounts being paid out by the state in unemployment insurance). This is confirmed by a recent study which considered factors pertaining to the transition from school to work in Flanders (Vanoverberghe J et al, 2008) which found that a decisive factor for a speedy transition process (ibid, page 329) is the level of search intensity. Their research also suggests that those who start their job search prior to leaving school have a substantially shorter period of joblessness and highlights the role that schools could play in this process through the provision of information about job search strategies.

With regards to work experience, the Vanoverberghe study also points to the importance of this and notes that those young people that have prior work experience

⁸ It is noted that a study to review this was set to take place but has not yet been completed and so the results of this study could not be incorporated into this report.

find work significantly more quickly than others. This is confirmed in Burns(2008) and is discussed in the previous section of this paper where the work of Mlatsheni and Rospabe (2007) and Banerjee et al. (2006) is discussed. Marock (2008) highlights the existing programmes that already support the attainment of experience such as the National Youth Service Programme as well as other less formal initiatives implemented by NGOs. It is noted that under the auspices of the Second Economy Project there is also the Community Works Programme that provides work experience. Marock (2008) also notes the implementation of the learnerships as a key mechanism for learners both attaining experience and exposure to the workplace. With regards to the latter it allows the young people to develop their networks and where these interactions are successful, the paper cites initial studies which have been conducted which suggest this is having a positive impact on the young person attaining employment.

There is other evidence, as reviewed in Smith (2006) which shows that job search assistance is particularly beneficial in reducing short-term unemployment, where workers are between jobs.

Capabilities appropriate to employment

The limits posed by education quality and attainment are well known, albeit not fully understood in relation to immediate employability. Marock (2008) highlights the initiatives already in place in this regard both at the level of schooling and then with regards to second chance learning. The Vanoverberghe study suggests that this is a decisive factor and cites a body of research internationally which confirms this perspective. This is a subject well debated in South Africa, and Marock (2008) confirms that the Grade 12 certificate on its own is increasingly not sufficient, that the requirement from employers is mathematics and that individuals can demonstrate an ability to communicate effectively. While there is variance across the economic sectors in terms of this requirement it is clear that it is a growing trend and particularly as the numbers of opportunities do not increase relative to the number of matriculants the demand for increased requirements beyond a matric is likely to grow. The kinds of interventions that are in place to address this are documented in Marock (2008) but many of these focus on those who have not attained the formal qualification. There are however programmes implemented by NGOs as well as the private placements that are more focused and may need to be considered.

7. What is a demonstration project?⁹

Both government and the non-governmental sector have been involved in a number of projects to enable young people to move effectively from school to the workplace. Such initiatives range from real system interventions such as the introduction of Life Orientation in the schools which has a significant career guidance component as well as the focused attention the Department of labour is giving to the Labour Centres as institutions that can access data about vacancies and match this with possible candidates. The research completed as part of this project found that there are also around 3,500 private recruitment agencies which place on average 800,000 daily average temporary staff in SA on any day.¹⁰ There are also less systemic initiatives such as a number of Youth Advisory Centres which Umsobomvu is supporting, some of which are in NGOs and others in municipalities as well as broad life orientation programme that is offered by NGOs across the country. In addition it was found that many local authorities have social development sections which have prioritised the provision of life skills and support services to young people. These support services focus on directing young people to placement agencies and labour centres. There is also funding available to support these different initiatives through SETAs as well as the National Skills Fund (NSF) and proposals on the table to consider the possibility of a wage subsidy to be offered to all 18 year olds.

This highlights the number of activities already in place: however despite this, a large percentage of young people who enter the labour market each year fail to secure employment. The idea of the demonstration projects is therefore to consider interventions that could use these existing mechanisms and through a strategic change increase the impact of these current interventions. These projects will be implemented on a limited scale so as to provide an opportunity to assess the potential of different delivery mechanisms. This approach has the advantage of enabling implementers to attain an indication of whether the interventions could work prior to committing large scale resources. To enable policy makers to reach an understanding of the effectiveness of the intervention requires that the demonstration projects be structured as social experiments which are designed to the highest methodological standards.

The methodological standard includes the imperative that implementation must be carried out in a standardised manner so that it can be repeated by others once the demonstration project has proved its worth. The project therefore has fidelity

⁹ A demonstration project is aimed at testing best practice . A pilot or experiment is a project where an innovation is tested, and compared to a control group. In other research communities, the term demonstration is used widely as a generic term that envelopes many different possible methodologies. A pilot might be seen as a test of a new idea in a small area, without necessarily implementing any controls.

¹⁰ Based on a report produced by the Association of Personnel Recruitment Organisations (APSO) which cite recent research (2006/7)¹⁰ that was completed under the auspices of APSO.

(wherever it is used, it is delivered in the same way), and integrity (the programme is delivered as intended). Demonstration projects are generally informed by preceding evidence that shows that the intervention has a good chance of producing the chosen outcomes, and there is a sound understanding of why it is likely to work. A key criterion of a demonstration project is that it must be designed in such a way that the effectiveness of the intervention can be tested in comparison with an alternative.

A final key element of demonstration projects is that they are designed to test the effects of an intervention on a specific and critical problem of considerable policy relevance. It follows therefore that prior to even considering the use of a demonstration project, it is necessary to understand the problem one wishes to address as fully as possible, and to focus the intervention as carefully as possible on a priority issue that is likely to be subject to change and which can in fact be measured.

Standards for research evidence on interventions

The gold standard is the Efficacy Trial. The study has rigorous design and sampling procedures. Its key characteristic is that the participants (these can also be units such as clinics, schools, communities etc.) are randomised to one of two conditions – the treatment group which receives the intervention, and the comparison group which does not. Randomisation ensures that the groups are most likely to have no systematic differences that can bias the results.

This form of design asks the question: Does this intervention work under ideal circumstances (with all the necessary supports in place)? The effects of the intervention must be evident at least six months after completion. If possible, one should not rely on one study only. The efficacy trial also helps us to explain why the intervention works as it does.

Effectiveness Trials meet all standards of efficacy trials and are normally conducted after the intervention has been shown to have a positive effect in an efficacy trial. That is, we know from the efficacy trial that it works, and why it works under stringent conditions. The effectiveness trial then applies the method under conditions that are less ideal and that therefore might alert us to the factors that could undermine the efficacy of the intervention.

These forms of intervention study are expensive, and are often not possible due to our inability to randomly assign study individuals or other units such as schools or clinics to different conditions for ethical reasons.

In such cases, when we want to test the intervention, we should at least have both treatment and comparison groups, where the latter does not receive the intervention, and where the two groups are matched as far as possible at the start of the intervention. The design possibilities are too numerous to list here, but they would include quasi-experimental designs (where participants are not randomised, but baseline and follow-up measures are taken), which should be the minimum standard for evaluations of demonstration projects (Campbell & Russo, 1999; Campbell & Stanley, 1966; Lipsey & Ross, 2007; Rossi, Lipsey, & Freeman, 2004).



Demonstration projects to enhance the ability of young people to make the transition from schooling to the workplace in South Africa should ensure the best research design possible, so as to provide a robust test of the intervention.

Rutter (2007: 140) makes six points related to the design required within the context of a demonstration project:

- ❑ programmes that lack an explicit curriculum¹¹ and that are varied across areas in a non-systematic fashion are impossible to evaluate in a manner that gives answers on what are the key elements that bring benefits. If the evaluation is to be informative on how to improve services in the future, it is essential to identify the mechanisms mediating efficacy;
- ❑ randomised controlled trials provide a much better test than non-experimental methods (however rigorous the statistics applied to the latter);
- ❑ it is always desirable to determine the efficacy of an intervention under optimal research conditions before launching on a large-scale multiple communities wide effectiveness study of whether the results of the former can be implemented in the much more variable and less controllable circumstances of the latter;
- ❑ for programmes intended to make a real difference in the long term, the research evaluation must also be long term (provided that the initial findings suggest that there is a reasonable chance that there might be long term benefits);
- ❑ it must be recognised that there may be subgroups who require something different and the design used must be able to detect such groups;
- ❑ research must check the extent to which findings apply across a range of difference contexts.

Poor design not only produces confusing results, but may also lead to expensive consequences when untested and possibly ineffective interventions are rolled out.

¹¹ Note that in the context of these interventions curriculum should be read as a clear set of agreed upon steps and activities.

8. Possible interventions that could be piloted

Ideally, any major intervention should be tested first, especially since these interventions have a high potential for deadweight loss. However, it is also recommended that the likely potential for success in terms of pace of implementation and impact on the target group is likely to arise where there is already an institution in place that either works well, or could work well with small innovation. It is therefore recommended that a demonstration work be implemented through the agency likely to ultimately deliver it, so that, if proven successful, scaling up will be rapid and institutional learning would already have been done. The caveat arises where there is concern that burdened institutions might not be able to cope, or where the existing institution is not functioning optimally at this point. Although the ideal randomised control trial might want to isolate the intervention, a more rapid and practical approach might favour testing how the intervention might work in actual circumstances. The main concern in this case would be that the intervention itself could get bogged down in bureaucracy. It is essential that the demonstration test the idea, and be able to compare to control groups, as discussed in the previous section. While the demo is in operation, it should be possible to extrapolate any emergent issues that suggest the need for policy change or innovation.

One benefit of implementing demonstration projects is that a number of interventions could be tested without major fiscal implications. As far as possible, it is recommended that existing institutions be leveraged, and that the demo not require the establishment of a new delivery institution. For example, it is noteworthy that in South Africa, many of the kinds of training programmes that suggest themselves as potential solutions to the youth employment problem are already in place, thus it will not be necessary to fund the costs of these activities. Instead, the focus would be on those additional interventions proposed within this paper as well as on the imperative of ensuring that these are effectively evaluated using a range of alternative techniques (such as propensity score matching, or CV field studies) as opposed to necessarily relying on a randomised control trial.

It should be noted that a demo would not be able to reveal aggregate impacts. In other words, a youth intervention might have a positive impact on the target group, but a negative one on another group. It would be near impossible to ascertain the aggregate employment impact since there are simply too many factors involved. The only way of assessing this, could involve a review of total employment in participating firms. For example, these firms might lay off older workers and hire younger ones on the scheme.

Our critical question was posed at the end of the HSRC s last roundtable on this topic, which is: are there active labour market policies that can raise employment levels of school leavers, and reduce the potential for long term employment? This intervention targets groups in the approximately 500,000 to 750,000 entering the labour market this year and next year . It is clear that some of the most important interventions will involve strengthening the education system, offering second

chances, and raising the growth rate. Yet, here we are concerned with short term and immediate labour market interventions that might reduce potential youth unemployment by some targeted amount.

Below, potential interventions are grouped into two categories, namely: pre-employment interventions and employment interventions. Employment interventions focus on directly linking young people to their first work experience. Pre-employability interventions aim to improve capabilities that would make youth more attractive and work-ready. The focus is on foundational skills such as maths, communication and English, and on employability skills such as personal presentation, job expectations, work-ready behaviour, IT skills, etc.

To simplify the process of designing an intervention, each of these proposals relies on an approach where:

- We focus on matriculants (although we give the example of Levinsohn's proposal focusing on 18 year olds). The unemployment rate of matrics is already very high (for Africans it is more than 50% before the age of 24), it is a clearly motivated group, and therefore a programme is likely to have more chance of success and less deadweight loss.
- A subsidy or non-transferable voucher is offered to the matric upon graduation to be used against employment subsidisation or towards a training opportunity. It is therefore tied to the workseeker. However, the provider (whether employer, placement agency or training institution) is the one who is paid against successful delivery of services. We believe this approach has less chance for fraud, less incentive to pump up delivery numbers, and encourages competition between providers. The main form of abuse anticipated might arise where the provider pumps up reporting on delivery, and the work-seeker acquiesces where there is an agreement to split the amount.

Employment Interventions

An employment subsidy and a wage subsidy are often used interchangeably: however they are not synonymous. An employment subsidy is intended to reduce the cost of employment, whether directly to the account of the employer or the work-seeker.

A wage subsidy might be made available to the employer where it is believed that the cost of labour is higher than the demand for that labour. In this case, the cost of employing a school leaver, whether in terms of wages or initial training needed, or even expected costs or hassle, exceeds what the employer is willing to pay. They might hire some school leavers, but it is believed they might hire more if the costs (whether real or perceived) were reduced.

Subsidies can be paid either to the firm or to the newly hired worker, and theoretically, it makes no difference which party receives the subsidy (Smith, 2007). However, the mechanism through which employment outcomes are affected under these subsidy schemes differs, and this is important for the applicability of a youth wage subsidy to the South African context. If the subsidy is awarded to the firm, employment increases via increased aggregate demand for labour on the part of firms

who now face lower labour costs. Hence, if the primary cause of high youth unemployment in South Africa is considered to be high labour costs and extensive labour regulations, then a firm-side wage subsidy scheme may be an appropriate response.

Concerning worker-side subsidy schemes, here the mechanism for reduced unemployment appears to operate by inducing greater labour force participation on the part of work-seekers. However, part of the problem of high youth unemployment in South Africa is attributable to the large influx of young work-seekers into the labour market against a context of static labour demand (Branson, 2007).

An employment subsidy might be made available to a work-seeker to reduce the costs of job search, to improve access to training while in employment (as a way of improving prospects for vulnerable workers) or to raise the worker's earnings when they find a job, where wages are so low that there is a disincentive to take the available opportunities.

a) Youth Wage Subsidy for 18 year olds (Harvard proposal)

A wage subsidy has been proposed for sometime, initially by National Treasury as part of the retirement reform recommendations.

Levinsohn (2007) proposes a wage subsidy targeted at all 18 year olds. It is important to note that Levinsohn's proposal is not a standard wage subsidy since it does not reduce the general price of a group of labour. Instead, it is an active labour market policy that tries to improve labour market matching in a context of imperfect information. It provides a short term subsidy that induces the employer to take a risk, in the hope that some labour market matching occurs that would not otherwise have taken place due to lack of experience or ability of the employer to see the qualities in the labour market entrant. It is also worth noting that the subsidy follows the worker and is only paid to the firm upon employment.

The proposal entails the following:

- ☐ Every 18 year old has R 5000 deposited into a subsidy account . This can be accessed by use of wage subsidy card much like a credit card. It can only be used by a registered firm that employs the person, against wages paid. The subsidy is tied to the worker, not to the firm, and is entirely portable.
- ☐ The R 5000 was proposed as it was seen to be about half of a minimum wage . In September 2007, about 22% of working people earned less than R 1000 per month, but only 11% earned less than this in the formal sector. In contrast, 45.7% of all working people, and 34% of working people in the formal sector earned less than R 2500 per month (Stats SA: Labour Force Survey, September 2007).
- ☐ The R 5000 does not expire it gets used up in some proportion to the wage paid. This is suggested so that 18 year olds that might otherwise study are not enticed into the labour market prematurely. Interest would be paid to maintain the real value of the initial deposit. An additional recommendation

is to increase the subsidy in real terms for every additional year of post-matric studies, until the completion of a technical degree or diploma.

- As the wage elasticity is not known (ie how employment might rise depending how large the subsidy is), Levinsohn recommends that this programme be piloted to test different subsidy rates to test their employment outcomes.
- Alongside the subsidy, Levinsohn proposes a probationary period that enables no questions asked dismissal policy. The idea is to enable an employer to see whether there is a fit. The probationary period would be shorter than the subsidy period (eg less than one year), so that if there was a poor fit, the worker could find an alternative opportunity. This was a highly contentious recommendation. It should not become a red herring that overwhelms debate about the core recommendation. If an employer is correctly informed of labour regulation, probationary rules can be implemented that enable separation during the period in question. If there is a problem with the actual implementation of probation, that should be addressed separately.

Levinsohn proposes that the maximum cost to Treasury in present value terms might be about R 3.75 billion pa. This is based on the idea that 75% of the million 18 year olds actually use the subsidy, and the others continue to study, find work in the public sector or informal sector, or simply don't find work. This cost covers only the subsidy and not administrative costs.

A more detailed calculation is needed, but by our estimate, Levinsohn's proposal would theoretically generate up to an additional 130,000 jobs for 18 year olds, assuming that there is an employment elasticity of about 0.6 to 0.7: this would mean that firms respond fully to this price incentive and have no other major concerns in hiring. While the subsidy per worker is R 5000, the actual cost would be about R 10,000 due to deadweight loss, since the payment is made for people who would otherwise have found a job, and for those that would not have. This is still a low cost labour market intervention, even with such high deadweight loss, assuming it actually has this impact. It is essential to note that it assumes that the subsidy has the impact of raising the general rate of job creation by 44%. This would be an excellent result if it were possible: however it does seem improbable given that the rate of job creation relative to GDP growth is already very high (about 0.6 to 0.7, as compared to an international norm of about 0.3 to 0.5).

We think that Levinsohn's estimated impact and cost is considerably more than what it might be in reality. This is mostly because Levinsohn does not consider that the labour force participation rate of 18 year olds is actually very low. This may be due to discouragement or other factors, and an improved probability of finding employment might induce more 18 year olds to search for work. However, a labour market intervention can have only so much impact in relation to the general size and growth rate of the economy. A simple spread-sheet model that we prepared for this project shows the following:

- The labour force participation rate of 18 year olds is around 20%, rising to an average of about 50% for those aged 20 -24. Since the subsidy does not

expire we can assume that 18 year olds might use their card when they enter the labour market, even if it is a couple of years after awarded. Therefore, the population reached by the subsidy is about one million (or it was 979,599 in 2005 which was the year we used in our calculation) $\times 0.5 = 489,800$. This means that from the initial cohort, 489,800 18 year olds may try to use their subsidy at some point. (We are sure that people who do not enter the labour force will not use the subsidy). Say, 50% of them find employment, so that 244,900 find work anyway. This is high especially for black school leavers, but we use this for simplicity.

?? If the subsidy manages to generate 10% more opportunities, then about 48,980 additional opportunities would be created at a cost of R 1.469 billion pa once the programme gets to scale over a period of say 3 or 4 years. This works out to about R 30,000 per job opportunity, taking into account deadweight loss associated with paying for jobs that would have happened anyway. This would raise annual employment growth by 16%, which is a substantial amount and probably as much as might be possible. If the subsidy manages to generate 20% more opportunities, then about 97,960 additional jobs would be created, at a cost of R 1.7 bn pa, working out to about R 17,500 per job. This would raise the rate of job creation by about 32% pa. which seems implausible.

?? This assumes that the first work experience translates into further work experiences. This will probably occur for only some portion of beneficiaries. What if the initial opportunities created through the subsidy programme generate subsequent employment opportunities for 30% of participants? In the 10% case study above, 48,980 additional opportunities are created: if this translated into about 15,000 longer term jobs, then the actual cost would be R 100,000 per additional job, and the true addition to the rate of employment growth would be about 5%. In the 20% case study above, 97,960 additional opportunities are created: if this translated into about 30,000 longer term jobs, then the actual cost would be R 58,000 per additional job, and the true addition to the rate of employment growth would be about 10%. This is still impressive.

?? Again, this assumes that firms would want to employ more 18 year olds, but they can't judge quality, and that the low price makes up for that lack of information. It does not take into account that firms may simply not be able to cope with the weak skills and capabilities at any price.

b) Wage subsidy for matriculants

An alternative to the subsidy proposed by Levinsohn would involve targeting those who have passed their matric exam. In the first year, it might target those who have passed in the calendar year, and in the previous calendar year. From then, it would target those who had just passed their exam.

This would offer a signal to young people to finish and would reward completion (as opposed to simply giving it for the fact of being 18). It is rational for young people to believe it is not worth finishing high school, given the unemployment rates for

matriculants to age 24. As noted, the current probability of finding employment before the age of 24 is less than 50/50 for black matriculants. Such a subsidy might offer some inducement to finish. The second benefit of targeting matriculants is that, in practice, it is more likely to have the intended consequence of matching a worker to a job. It is proposed that in current SA conditions, young people from disadvantaged backgrounds who manage to pass matric have shown themselves to be highly motivated. This rewards motivation, rather than simple being a certain age.

It could work as follows:

- ❓ Anyone who passes matric below the age of 24 get the subsidy until it is used up (ie it does not expire).
- ❓ The subsidy would need to be set at a higher rate than that proposed by Levinsohn. For the purpose of this exercise, we set the subsidy at 10,000 per person.
- ❓❓ In 2006, 354,111 people passed matric. We assume that 50% participate in the labour market at that point, so the number of people that might actually want to use the subsidy is 177,056. Then about 50% of these people find jobs anyway.
- ❓❓ If the subsidy generates opportunities for 10% more matrices, then about 17,706 additional opportunities would be created annually at a cost of R 1.06 billion, costing about R 60,000 per opportunity, taking into account deadweight loss. This raises the general rate of employment creation by 6%. If 60% of participating matrices managed to translate this into subsequent job opportunities, then 10,623 additional opportunities are sustainably created: the actual cost would be R 100,000 per additional job, and the true addition to the rate of employment growth would be about 3.5%.
- ❓❓ If the subsidy generates opportunities for 20% more matrices, then about 35,411 additional opportunities would be created annually at a cost of R 1.24 billion, costing about R 35,000 per opportunity, taking into account deadweight loss. This raises the general rate of employment creation by 12%. If 60% of participating matrices managed to translate this into subsequent job opportunities, then 21,246 additional opportunities are sustainably created: then the actual cost would be R 58,000 per additional job, and the true addition to the rate of employment growth would be about 7%.

To further contextualise, 500,000 net new jobs are needed on average between 2004 and 2014 to halve unemployment. If the final example of the matric subsidy were realised, the programme would contribute 7% of the net new jobs needed annually to achieve a halving of the unemployment rate by 2014. This is about twice the impact that the current EPWP is having, at about half the total programme cost. If sustainable jobs are emphasized, then this case study shows that the subsidy programme might contribute to about 4% of the net new jobs needed to halve unemployment by 2014. If it were successful, the subsidy programme would be deemed more effective as it is a once-off intervention, whereas EPWP is not sustainable without continued government funding.

The reader should not be misled by these figures however. The deadweight loss in the EPWP should be very low, as it directly generates jobs. The deadweight in the subsidy for 18 year olds is extremely high, particularly since it is unclear to what extent they would actually be hired off the subsidy or find subsequent work opportunities. The first opportunity may be the important starting point, but does not necessarily mean they are correctly orientated. Both subsidy programmes appear to have the impact of reducing unemployment from about 50% to 30%. While the figures for deadweight loss for the matric subsidy seem to be the same, in reality they are likely to be lower. The matric graduate group are a self-identified motivated group, that are more likely to have labour market success after the subsidy expires. Employers do not seem to sufficiently recognise this, and so the subsidy might induce a first experience that enables the grad to show this motivation.

Marock (2008) found that programmes resonated differently for different sectors. Her small set of interviews indicated that manufacturing employers were quite keen to get the subsidy. On the other hand, employers in services industries were more interested in interventions that would improve the capabilities of workers. This may be explained by the different character of work, where interpersonal skills may be more important in services than in manufacturing.

c) Employment subsidy to non-profit organisations

A third proposal would entail an employment subsidy paid to non-profit organisations. This might fit well with the EPWP Phase 2 wage subsidy proposal and community works proposal. In this, communities or non-profit organisations would submit their proposals and access funding directly from a central pool. We believe there is less room for labour displacement, as NGOs often struggle to finance the level of human resources needed.

Pre-employment Interventions

Pre-employment interventions focus on getting young people work-ready . It does not refer to job-specific skills, but rather to the basic capabilities needed for job training and incorporation into a workplace. There are two main types of policy interventions: the first focuses on strengthening foundational skills such as math, English and communication. The second intervention improves work readiness such as IT skills, job expectations, orientation to expectations at the workplace, etc.

It is anticipated that this improved matching will increase the willingness of employers to absorb additional young people. These policy interventions are discussed in more detail below in terms of a brief description of each, the instruments that could be used to give effect to these policy interventions and the institutional mechanism that could be drawn upon. It is unclear what impact this might have on employment. However, it is certain that if effectively implemented, it would contribute to enhancing economic and social participation. These are capabilities that every labour market participant needs.



Likewise the cost of the programmes is not known. The administrative costs are likely to be higher than for a wage subsidy. Suppose the programmes were targeted at all matriculants, and the average cost per person were R 30,000 pa. If 50% of those who passed matric in 2006 participated, then the programme would reach about 177,056 people at an annual cost of about R 5 billion.

d) Foundational Skills

Marock (2008) shows the emphasis that employers place on the ability of young people to have communication, numeric and life skills. It is well known that a large proportion of those completing Grade 12 do not have sufficient capabilities in this regard.

This points to the need for an intervention that is aimed at those young people that have a Grade 12 but that require foundational skills to enable them to operate in the workplace and to form the foundation for effective access the technical skills training required for their different occupational stream.

As an example, most placement agencies interviewed for this project noted that poor English substantially raise the cost of placing low skill workers. Already, the fee for these placements is low simply because it is a percentage of the wage paid. Some placement agencies do offer job-specific training for matriculants. It is expected that the cost of placement would be lower if the basic capabilities were higher, thereby potentially enabling placement agencies to take on more low skill work-seekers.

While the length of these programmes may vary depending on the level of competence at which the young person enters the programme it is anticipated that they would typically run for a duration of between 3 6 months. Depending on the length of the programme the costing for the programme would vary.

The idea would involve accrediting a number of programmes, so as to appropriately offer development where it is needed. It could be offered by a range of delivery agents such as placement agencies, education institutions, or employers. It would apply to all matrics whether employed or unemployed, until the subsidy is used up, or by the age of 24, whichever comes first.

The instruments could include a subsidy, a voucher or a tax break. However, a tax break would be least beneficial to small providers and non-profit providers. As with Levinsohn s proposal, it would be attached to the worker and not to the provider. This would enable the matric to choose the programme most appropriate for her needs. However, only an accredited agency would be able to recoup the funding, so this might reduce potential fraud. Ideally, such a programme would be preceded by an employability assessment that reviewed the matric s existing capabilities and interests against job prospects.

The institutions that could support such an initiative include those that will be required to provide the programme and the institutions that will be involved in assessing the young person and referring them to the foundational skills programme. Marock (2008) has noted the existing institutions that provide this form of support such as the adult learning centres but has also highlighted the limited success these interventions are having. The FET Colleges offer foundational skills development

programmes to young people and others in the community. These programmes fall outside of the official Department of Education programmes, which means that there are high levels of funding uncertainty associated with these programmes. There are also a range of private providers that offer related programmes but there would need to be a quality mechanism in place as a number of reports have highlighted the limitations of many of these programmes

There is also the need to consider the existing mechanisms within the system to fund this: the Department of Education currently funds schooling and is exploring the manner in which it supports Second Chance learning for those young people that have not yet completed their Grade 12. Those young people that are the target of this project fall outside both of those categories and it is anticipated that a potential source of funding could include monies allocated through the social window of the NSF. The NSF already has a mechanism for funding such interventions (though at the point of writing this report this has been frozen because of uncertainty as to how funds should flow suggesting that unless these issues are resolved this may not be the ideal source of funding at least until the longer term institutional issues pertaining to the NSF are resolved).

e) Employability Skills

Employability skills refer to those more associated with work-readiness . Examples include job expectations, CV preparation, job search skills, behaviour at work, acquiring an ID book where necessary and IT skills. It might also include acquiring a drivers licence. We sometimes call this a youth starter pack . If effectively delivered, they could fill an important gap, where labour market appropriate networks for the majority of school leavers are extremely weak or non-existent.

There are many such programmes in place often as short as 3 days, which according to Marock (2008) experience mixed success. The concern is that many placement agencies and employers are not especially motivated to invest heavily in matrices since the expected return is low. A subsidy, attached to some minimum quality requirement, might improve the impact of these programmes.

This programme is intended to include a focus on the development of a defined set of employability skills and would be premised on the successful matching and placement of individuals into a work opportunity. Thus this process would involve a process for determining the vacancies that exist in the area and then offering counselling to the Grade 12 graduate which would enable the individual to determine the occupation they wish to enter. Based on this it would be necessary to establish whether the individual has the necessary technical skills to enter this occupation, if not then the individual should ideally be referred to the relevant learning programme (learnership, apprenticeship, NCV or skills programme) and/or whether the individual requires additional foundational skills (in which the person would be referred in terms of the programme described above). It is anticipated that the young person would also receive some basic counselling about expectations related to the workplace. It would also offer the young person training to apply for a job and to manage the application process.

As with the other recommendations, the primary instrument would be a voucher or

subsidy which would be given to the matric which could then be used in payment for services from accredited providers. Only an accredited provider could collect the funds, so this might reduce potential fraud.

Assessing quality and delivery in this particular programme would be tricky, as it is not clear how success might be defined. As with the employment subsidy, there would be some deadweight loss where someone might have been placed anyway, so placement could not be a measure per se. On the other hand, a pilot could tease out measures for example, a first placement might be a basic measure that enables partial payment, with subsequent employment enabling full payment. Many placement agencies, for example in the business process outsourcing sector, already work on this basis.

It is anticipated that this programme would rely on the existing institutional networks described in Marock(2008): that is the Department of Labour Centres, NGOs and the private placement agencies. These agencies could play different roles in the referral, counselling and training process.

With regards to funding it is noted that the NSF has prioritised the funding of the training of career guidance practitioners. It may be possible that out of a related window (depending on the changes that are ultimately agreed upon with regards to the NSDS) it is possible to fund such an activity. The mechanism to pay these monies would need to be determined together with the process of establishing the details of the voucher. Critically, the voucher should not be limited to the network of providers linked to the DoL or the SETAs though these institutions could all play various roles in such a programme. Alternatively, Department of Social Development provide aspects of these services and may be able to expand their initiative. Similarly, Umsobomvu funds a network of youth advisory centres which fulfil certain of the roles anticipated in this programme. However if funding was sourced through this network it would be critical that it could not be limited to the UYF network of providers but would need to be allocated in terms of the agreed upon criteria.

9. Conclusion

Youth unemployment is extremely high in South Africa, approximately double the national rate. While this is not uncommon internationally, it poses a special problem in South Africa where at least half of young school leavers are unlikely to find work before the age of 24. In many other countries, the youth unemployment problem sits on the margins and is not experienced by the majority. This poses very serious concerns in respect of social and economic integration.

Higher rates of economic growth will ultimately be the answer to this problem. If the SA economy were growing at 6% or 7% pa, this unemployment problem would visibly diminish. Over the past decade, youth from the age of 20 are just as likely to get work as other age groups. Those in the age group of 24-35 are more likely to get work than the average. The problem is that the actual quantum of job creation is simply too small. This rate of job creation is likely to slow from 2008 as a result of the global economic crisis, as well as a range of domestic problems such as electricity shortages.

Nevertheless, the commitment to expanding employment should not be abandoned, even when growth slows. Special interventions are clearly needed.

Active labour market policies (ALMP) can play a role in improving labour market matching. Such policies can have a special role in SA where the majority of labour market entrants have not had access to the essential resources needed to successfully participate. This is especially the case for the majority of black South Africans. These resources include: effective basic education, socialisation, work-readiness attitudes, previous part-time or temporary vacation work experience as a youth, communication skills, IT skills, search skills, and labour market-appropriate networks. While many of these may be absent in other countries, the gap is particularly severe in SA due to the apartheid legacy, and subsequent missteps in education, IT and labour market policies.

ALMP should not be seen as a panacea. It can offer only so much. It cannot create millions of vacancies. Only a growing economy can do that. But it can deepen the rate of job creation at any rate of growth by improving labour market matching.

The difficulty with ALMP interventions is that they often have high deadweight loss, and are highly uncertain in their impact. This means that only a portion of the spending, often much less than 50%, will ultimately have the intended impact. There are few convincing evaluations, which makes choosing interventions even more uncertain. They can nevertheless be successfully pursued with careful design and targeting.

The international experience does not bode well for wage subsidy interventions particularly those offered to firms directly. The only successful programme is the US Earned Income Tax Credit however this was paid to the worker and was aimed at drawing more people into the labour force by essentially raising the returns to working in a context of extremely low pay being offered.

There is more positive experience with interventions that improve the capabilities of work-seekers and which improve information and matching of workers to employers. These may be more complex to implement, but have more chance of having the desired impact.

The good news is that South Africa has a plethora of innovative private (for profit and not-for-profit) services that can be leveraged for this purpose. The policy instruments might include financial or tax incentives to these delivery agents, accreditation services and solid regulation to contain abusive or fraudulent behaviour. There are also substantial pools of publicly gathered funds, such as the National Skills Fund, that could be applied here.

We organise our recommendations around two main areas of intervention, namely that which incentivizes employers to hire more school leavers, and those that intervene to strengthen employability of school leavers. Given the uncertain impact of these programmes, we strongly recommend that properly structured large demonstration projects be set up to test their potential impact. These are pilots that compare similar populations that do and do not receive these benefits.

A wage subsidy has been proposed in various forms over the years in South Africa. This author proposed a labour induction allowance in the dti investment incentives

to offer additional support to labour intensive firms (which was not implemented), plus a training allowance for new investors (which was implemented). A tax learnership allowance was introduced some years ago, and still needs to be evaluated. The National Treasury proposed a wage subsidy as part of its retirement reform recommendations.

The Harvard Panel proposed a wage subsidy of a different sort (or Jim Levisohn from the University of Michigan who sat on the Harvard Panel). This differs from the usual wage subsidy in that it is offered only to encourage a first work experience for a limited period. The main goal is not to reduce the price of labour per se, but rather to overwhelm the apparent disincentive to hire young people who lack any work experience. The idea is that worker and employer would get to know each other, and this would improve matching. As an initial idea, he recommends that all 18 year olds be given a credit card, loaded with R 5000 that can be deducted by the employer against wages paid. While in theory, this could have a substantial impact on raising employment, there are some caveats. First, it may be that employers simply do not want to hire many more school leavers at any price. The starting capability (and therefore trainability) might be more important to them than the price. In our interviews, we found that only manufacturing firms responded well to the idea of a wage subsidy. It resonated poorly with services employers, perhaps because stronger inter-personal skills are needed in those sectors. Second, a school leaver might get a first experience, but this does not necessarily translate into follow on work opportunities. It may improve their chances (which is a good thing), but it does not generate large numbers of vacancies in the economy.

If a wage subsidy were being proposed, we would instead recommend that it be targeted at matric graduates. The matric group is highly marginalised from the perspective that black graduates have a less than 50/50 chance of being employed before the age of 24. However, they have better long term prospects and more chance of successful placement. We believe the deadweight loss would be lessened. The matric graduate group, especially those from disadvantaged backgrounds and often in difficult learning circumstances, have identified themselves as a self-motivated group that want to succeed. Having passed the matric exam should indicate some basic starting skills have been acquired. A subsidy to matrics that improves their employment prospects would give a useful signal to younger students who rationally might believe that finishing high school will not improve their prospects. Our initial estimate shows that such a programme might potentially generate 35,411 additional opportunities, at a cost of R 1.24 billion pa or R 35,000 per opportunity (excluding admin), taking into account deadweight loss. This would raise the rate of annual job creation by 12%, assuming that all first opportunities translate into subsequent ones.

We further recommend that an employment subsidy to non-profit organisations be considered, which may fit with the EPWP Phase 2 wage subsidy proposal and community works proposal. In this, communities or non-profit organisations would submit their proposals and access funding directly from a central pool.

It is then suggested that more marginalised youth who do not finish matric be targeted with special employment programmes. The programme cost is similar, but is direct and therefore has more chance of success with this group.

We estimate that the cost per job of EPWP and of the wage subsidy to be roughly similar, especially if second round results are taken into account.

In terms of pre-employability interventions that focus on improving capabilities and work-readiness, we propose two interventions. The first offers support in improving foundational skills such as math, English and communication. The second focuses on employability skills such as job search skills, job expectations, behaviour at work, CV preparation, personal presentation and so forth. This would be linked to a placement programme. The programme would leverage existing institutions such as placement centres, and existing funding mechanisms like the National Skills Fund or the Learnership Tax Allowance. We estimate that if such a programme were targeted at matric graduates, it could cost R 5 billion per annum if the per person cost were R 30,000, excluding curriculum development, administration and other indirect costs. This appears more costly and the employment impact is highly uncertain and difficult to measure. However, given the gaps in education and networks, a well structured programme cannot really go wrong all labour market entrants must have these skills.

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Table 1 - Summary of evidence on firm-side wage subsidy schemes

Name	Country	Years	Author	Type/Design	Effect
New Jobs Tax Credit	USA	1977-78	Hamersma 2003; Katz 1998	Untargeted wage subsidy paid to employer. Tax credit of 50% for first \$4 200 of wages per employee for all employment at least 2% above previous year's level. Total tax credit capped at \$100 000 per firm.	Not properly evaluated since rollout was national. Claimed by 50% of firms that participated, and subsidised 4 million workers. Given cap on subsidy amount claimable, it is unclear if it contributed to expansion of employment in larger firms, which may have expanded irrespective. No rigorous evaluation evidence, despite 65 000 jobs being subsidised. Low take-up in first year since subsidy amount insufficient to compensate for hiring and retention of potentially low-productivity workers.
Employment Tax Credit Programme	Canada	1978-81	Gera, 1987	Targeted subsidy paid to employer, aimed at medium-term unemployed (8 weeks+). Minimum employment of 3 months (35 hours per week) required. Subsidy granted for up to 9 months.	Fewer than 10% of hired workers who were eligible were certified and claimed by hiring firm. Under-utilisation due to lack of knowledge of scheme by firms; perceived small benefit of subsidy relative to risk of hiring worker from target group; and high administrative costs associated with verifying eligibility. Of firms who knew about credit, fewer than 50% took eligibility into account in hiring decision. Firms that claimed credit tended to hire from target group ex-ante. Subsidy treated as bonus realised after hiring decision. Katz (1998) exploits lowering of age eligibility for economically disadvantaged youth from 24 to 22 in 1989 to evaluate policy and shows it reduced unemployment among economically disadvantaged 23-24-year-olds by 3.4 percentage points
Targeted Job Tax Credit (TJTC) and Work Opportunities Tax Credit	USA	1978-84 (TJTC)	GAO 2002; Hamersma, 2003; Katz 1998	Targeted economically disadvantaged youth, poor Vietnam veterans, handicapped individuals receiving vocational training, SSI recipients and welfare recipients. TJTC subsidised 50% of wages in 1st year, 25% of wages in 2nd year as long as employment lasted minimum 90 days. Subsidy amounts later revised downward to 40% in 1st year only. WOTC subsidy rate of 40% for those who work 400 hours or more per year; 25% for those working 120-400 hours. Eligible workers received voucher/certificate from Employment Service Office, or firm sent request to ESO to verify eligibility.	Employment rates of eligible 18-24-year-olds increased by 5-11 percentage points at end of 4-month job search assistance period; approx. half of this attributed to subsidised employment.
New Deal for Youth Employment	UK		Van Reenen 2004	Targeted at youth (18-24) unemployed for 6 months + and receiving UI. Thereafter, required to enter job search assistance programme for unsubsidised employment. If unsuccessful, then begin search for subsidised employment. Subsidy granted for up to 6 months of employment & employer must provide at least 1 day's training per week. In event no employment found, work-seeker obliged to enter 1-year full-time education, 6 months employment in voluntary sector, continue to search for subsidised employment, or take employment with govt. environmental task force.	No proper evaluation conducted. Half of programme participants remained employed 90 days after training; 55% had job related to training. Between 33-50% had a job with
Chile Joven	Chile	1991	Marshall, 1997	Firms willing to hire and train unemployed youth (15-24) received subsidy to cover training costs; participants received transportation subsidies during classroom and on-the-job training.	

					firm that gave them on-the-job training.
Proyecto Joven	Argentina	1993	Marshall, 1997	Training subsidy govt. fully subsidises 6 months of training at participating firm as long as firm retains worker for 6 months thereafter.	No proper evaluation conducted, but 24 000 youth participated in this programme in 1996.
Jobstart	Australia	1985	Knight 2002	Subsidised employment for long-term unemployed, homeless, disabled, ex-offenders and elderly. Subsidy amount depends on characteristics of unemployed, and unemployment duration. Subsidies available for first 13 weeks of employment; additional subsidies for next 26 weeks, and at end of 1 year of employment. Firms post adverts at Commonwealth Employment Service (CES) office. CES then refers job-ready candidates to this vacancy list.	Employer take-up low; attributed to significant employment time required & strict dismissal laws, thereby increasing hiring risk. Covariate matching studies suggest employment rates of participants increased by 30 percentage points at end of subsidy period, making this more effective than other ALMPs such as retraining.
Public Employment Programme (PEP)	Germany		Eichler & Lechner, 2000	Targeted subsidy to youth under 25 without college degree, long-term unemployed, disabled and elderly. Recipients had to be unemployed and eligible for UI for 6 months prior. Partially subsidised wage and upfront training costs faced by employer. Subsidised employment required to last a year or until worker found non-subsidised employment. Interested employers posted vacancy notices at local labour offices; labour office decided which workers received job. Neither firm nor worker could influence matching process.	Unemployment rate is 25% lower for PEP participants than for similar non-participants 6 months after PEP participation ended (large effect expected since job-matching explicit part of programme).
Socially Purposeful Jobs Programme	Slovakia	1990s	Lubyova & Van Ours, 1998	Interested employers notify employment offices which then announce opportunities to registered unemployed. Subsidised employment position required to last for 2 years.	25 000 jobs subsidised through this in 1992.
	Hungary	mid-1990s	O Leary, 1998a	Wage subsidy programme targeted to long-term unemployed (6 months+). Subsidy was 50% of wages, available for a year. Employer required to retain worker for at least length of time for which subsidy received or else repay full amount of subsidy.	No difference in employment rates between subsidised workers and non-subsidised workers with similar characteristics after end of subsidisation period.

Intervention Works	Poland	1990	Kluve et al, 2001; Puhani, 1998	Local labour offices refer unemployed job-seekers on UI to private employers willing to hire these individuals at subsidised rate. In first 6 months, subsidy amount equals UI benefit of worker; after that, rises to minimum wage and govt. pays social security contribution of worker in every 2nd month. If firm retains worker past 12 months, receives additional bonus equal to 150% of average wage in economy.	Participation has negative effect on employment outcomes; attributed to labour offices referring workers with poorest prospects to subsidised employment in order to extend length of time they re able to claim UI benefit.
Proempleo Experiment	Argentina	1998 2000	Galaso et al, 2002	Randomised evaluation of individuals on UI. Treatment group 1 received voucher to display to employers informing firm that by hiring worker, firm would receive wage subsidy of \$100 150 per month for 18 months, depending on worker s wage. Firm had to register worker as formally employed and make social security payments. Treatment group 2 received same voucher plus 3-day job search workshop, and training voucher for 200 300 hours of free skills training.	After 18 months, treatment group 1 had employment rates 6% higher than control group. However, very few firms claimed on the vouchers, suggesting vouchers improve supply-side search as opposed to affecting hiring decisions of firm.

Source: Smith, C (2007)

Table 2 - Summary of evidence on impact of worker-side subsidy schemes

Scheme	Country	Year	Author	Description	Impact
Re-employment bonuses	USA (Illinois, NJ, Washington, Pennsylvania)	1980s	Meyer, 1995	Re-employment bonuses paid, worth 2.6 times the weekly benefit the individual would receive by staying on UI.	Randomised evaluation: bonuses encouraged faster exit out of unemployment but effect not large. Bonuses reduced number of weeks individuals unemployed by 0.51 week (average length of UI is 15-20 weeks). No programme impact on earnings once employed i.e. individuals not going into lower-quality, lower-paid work. No evidence that size of the bonus induced faster exit from unemployment.
Re-employment bonuses	Japan and Korea			If individual receiving UI finds employment for at least 20 hours per week before exhausting some fraction of benefits (0.5 Korea; 0.67 Japan), receives re-employment bonus equal to fraction of remaining UI benefits (0.5 in Korea; 0.2 in Japan).	No proper evaluation of this scheme.
Earned Income Tax Credit (EITC)	USA	1975	Blundell & Hoynes 2004; Eissa & Leibman, 1996	Tax credit for low-income families with children to offset worker contributions to social security.	Evaluations of EITC suggest positive impact on reducing poverty and increasing labour force participation. Using difference-in-difference techniques, expansion of EITC in 1986 shown to raise labour force participation (especially amongst eligible women) by over 8% over 4 years.

Working Families Tax Credit (replaced in 2003 by WTC and CTC)	UK	1999	Blundell et al., 2005	Tax credit contingent on amount of labour supplied for wage earners with children. One earner in family required to work at least 16 hours per week; credit paid by employer via increased take-home pay (employer reimbursed by govt.), not through reduced annual income tax. Also provided childcare credit reimbursed 70% of childcare costs (max. of £100 per week for 1 child; £150 per week more than 1 child).	Labour force participation of single men (women) with children increased by 4.6 (3.6) percentage points; 3.6 percentage points for single women with children. Accounts for most of increased labour force participation by targeted groups.
Self-sufficiency project (SSP)	Canada			Weekly wage subsidy to single parents who d been on income assistance for at least one full year. Only available if individual had worked at least 30 hours per week.	Randomised evaluation of programme, 1992-96. Treatment group received subsidy. Significant short-run effects: labour force participation in treatment group double that of control group at end of first year. No significant difference in wages of jobs of treatment vs. control groups, suggesting treatment participants not taking lower-quality jobs. Programme effect diminished over time at end of 3-year subsidy period, labour force participation rates almost identical for treatment and control groups. Large increase in first year due to design eligibility for programme over 3 years contingent on finding employment in first 12 months.

Table 3: Linking cause to intervention

Possible cause	Results	Extent to which this is specific to youth	Intervention	Anticipated Impact of intervention	Difficulty of implementation
Inadequate economic growth and aggregate demand	Insufficient job creation: Job rationing allows employers to be more selective in hiring choices, placing greater emphasis on education and prior work experience.	Low but since youth may lack work experience and required skills, may be disadvantaged. At same time, it is relatively easier to fire younger workers with less job tenure than older workers.	Stimulate economic growth via macroeconomic and industrial policy Special employment programmes (eg public works)	This column to be filled in workshop	This column to be filled in workshop
High labour costs and labour market rigidities	Inadequate labour-intensive production resulting in fewer employment opportunities	Low but since youth may lack work experience and required skills, may be disadvantaged. At same time, it is relatively easier to fire younger workers with less job tenure than older workers.	Subsidise cost of labour e.g. wage or employment subsidy schemes for youth		
			Relax labour market regulations, especially during probationary period		
			Restructure bargaining council agreements to facilitate flexibility		

Possible cause	Results	Extent to which this is specific to youth	Intervention	Anticipated Intervention	Difficult to implement
Inadequate core skills and education	☐ Employability increases with educational attainment, esp. tertiary training	High Current educational quality perceived to be low by employers	Implementation of GEC for exit after Grade 9 to improve labour market signaling)	e Impact	
	☐ Matric with Maths & Science increasingly not meeting minimum requirement		Improve incentives to remain in school and complete matric achieved through GEC and/or matric, but will also occur via signaling from competition for jobs in labour market		
	☐ Poor educational quality (real or perceived) encourages early exit from school by learners, and ratcheting up of minimum qualifications by employers		Improve school quality		
	☐ Increases competition with foreign migrants for jobs		Consider role of teachers and schools in providing base for core curricula, with supplemental after-school programmes run by NGOs.		
Limited job related skills	Skills mismatch incl. trade-off between investment in general vs. job specific skills; exacerbated by lack of role models and insufficient exposure to wide range of careers for school-going youth	Current youth generation seek employment in economy that favours high-skill workers	Increase post-school training opportunities (subsidize training costs; revisit learnerships and apprenticeships to enhance effectiveness; improve mechanisms to ensure flow of funds from NSF through SETAs and community channels)		
			Link educational curricula to needs of private sector, both in terms of job-specific skills and to ensure skills attained by learners match job vacancies.		
			Also need to improve basic literacy, numeracy and life skills and basic comprehension.		
			Increased role for job placement centres, adult basic education centres and youth organisations in providing work readiness skills; enhance visibility and information about these organisations; consider vouchers/subsidies to finance placement costs of work-seekers		

Possible cause	Results	Extent to which this is specific to youth	Intervention	Anticipated Intervention	Difficult to implement
High job search and placement costs, and inadequate information about labour market opportunities	<ul style="list-style-type: none"> ☐ Reliance on passive search (network contacts esp. friends and relatives) as opposed to active search; limits information about potential jobs ☐ Potential employers and employees unable to connect effectively in low cost way to advertise available jobs or skills 	Medium Youth may be less financially and geographically mobile than adults, and their networks may be less developed.	Increased role for job centres and youth employment organisations; improve information about these organisations and enhance visibility	e Impact	
			Increased role for placement agencies, possibly through provision of voucher to finance costs of placement		
			Reduce financial costs of job search through transportation subsidies for youth (e.g. photo IDs allowing free access to public transport)		
			Programmes to improve geographical mobility to access employment		
Lack of job market experience	<ul style="list-style-type: none"> ☐ With static labour demand and increased labour supply, employers place greater weight on prior job experience. ☐ Inadequate opportunities to decide on a career path, or learn work-readiness skills 	High Youth relatively disadvantaged	Programmes to encourage part-time employment for school-going youth e.g. internships.		
			Subsidise cost of youth workers through wage or employment subsidies		
			Increase training opportunities and provision of counseling services to improve work-readiness skills (through accredited agencies and through easing access to NSF funds)		
			Encourage participation in voluntary organisations and services as a way of gaining experience and life skills		

Possible cause	Results	Extent to which this is specific to youth	Intervention	Anticipated Intervention Impact	Difficulty of implementation
Unrealistic wage expectations	<ul style="list-style-type: none"> ☐ Evidence in support of this hypothesis is thin. ☐ Survey respondents report they are unemployed because they cannot find work, not that they refuse work because wages are too low ☐ Evidence concerning access to pension income is mixed: some suggests that access to pension income encourages active job search through out-migration. 	Low	Improve counseling programmes at schools so youth have better information about employment and wage prospects.		
Unrealistic job expectations	<p>Lack information about kinds of jobs in high demand by private sector</p> <p>May result in qualifications in wrong area</p>	Medium	<p>Improve counseling programmes at schools so youth have better information about employment and wage prospects.</p> <p>Feed private sector demands and needs re expertise directly into school curricula</p> <p>Revisit learnerships with a view to encouraging career trajectories, as opposed to stipend maximisation</p>		

Possible cause	Results	Extent to which this is specific to youth	Intervention	Intervention impact	Difficulty of implementation
Cost of taking a job too high (e.g. transport costs & childcare costs exceed expected wage)	<ul style="list-style-type: none"> Work-seekers may refuse available low wage jobs because the associated transport and childcare costs exceed the wage, making it unaffordable 	Low	Integrated subsidised transport system; subsidised childcare		
Inadequate health status, esp. high HIV prevalence	<ul style="list-style-type: none"> Lowers employment prospects due to higher absenteeism, and lower productivity. May also hinder active job search 	High incidence of HIV amongst youth make this high impact for youth, especially young women	Ensure access to ARVs, support and counseling, with emphasis on prevention.		
			Increase care dependency grant, to free up time of youth trapped in caregiving obligations to search for work		

Possible cause	Results	Extent to which this is specific to youth	Intervention	Anticipated Impact of intervention	Difficulty of implementation
Lack of entrepreneurship	☒ Actively discouraged under apartheid; remains inadequate focus of educational curricula.	Low	Improve access to credit for youth, combined with entrepreneurship training		
	☒ Preference to be employed by others as opposed to self-employment due to risk aversion and credit constraints		Provide bailout insurance for youth business initiatives to limit risk		
	☒ Lack of exposure to role models who have business expertise, especially amongst disadvantaged youth.		Increase training opportunities and provision of mentoring services (through accredited agencies)		

Table 4 Overview matrix of policy instruments and options

	Policy Options										
	Pre-employment				Employment						
	foundational skills		employability skills		job search information	employment subsidy				EPWP/ transitional jobs programme	support for self- employment
	to employer	to worker	to employer	to worker		to employer	to worker to look for work	to worker if find work	cover transport costs		
Access to information		x		x	x					x	
Cash	x	x	x	x		x	x	x	x		
Vouchers	x	x	x	x		x	x	x	x		x
Tax rebate			x			x					
Credit											x
Direct job creation										x	