



# EXECUTIVE SUMMARY

## ROUTES INTO FORMAL EMPLOYMENT



Public and Private Assistance to Young Job Seekers

July 2012



**Y**outh unemployment in South Africa is at crisis levels. According to the National Treasury, the unemployment rate among people under the age of 25 who want work is about 50 per cent. The absolute number of people unemployed in this age group is nearly 1,4 million, and they account for 30 per cent of all unemployed people. Including those aged 25 to 29 into estimates of the number of young people who are unemployed, raises the number to almost 2,5 million.

The main reason for large scale unemployment is the slow pace of job creation in South Africa over the past few decades. Surveys find that 50 per cent of unemployed people between the ages of 16 and 30 years who have given up looking for work say this was because there were no jobs in their area. Similarly, the Labour Force Survey has reported that 85 per cent of all unemployed respondents said they were unemployed because they had not been able to find any work at all, while less than two per cent said they were unemployed because they could not find 'suitable work' – a phrase explicitly defined to include jobs in which wages were deemed to be too low.

While unemployed people cannot find work, employers often struggle to determine which of the (often numerous) applicants for a particular job is most suitable for the position. As average starting wages and other employment costs are high, and because dismissal and replacement procedures can be onerous, employers tend to see the employment decision as risky, and may be reluctant to employ unskilled, inexperienced people. This is a particular challenge when hiring young people – especially those who have never worked before – and it is compounded by the fact that employers do not regard the qualifications and results achieved by many school-leavers as a reliable signal about the relative merits of job-seekers.

To manage their risks, employers tend to favour those who have been referred by someone working in the business already. They will also usually hire someone with work experience before they hire someone without this experience. In this context, poorly-educated young people with no previous work experience and with little connection to the job market through friends and relatives, are least likely to find work. Within this group, women have a harder time than men.

## THE RESEARCH

It is in the interest of both job-seekers and employers to make sure that the mechanisms that help people find work are functioning optimally, and that the most effective of the various routes to employment are deepened and broadened. In order to understand the issues better, CDE commissioned research looking at how people find work in South Africa. This included:

- Summaries of what is known about the Expanded Public Works Programme (EPWP), Sector Education and Training Authorities (SETAs), learnerships, routes into and out of the informal sector, as well as the activities of the Umsobomvu Youth Fund; and
- Original empirical work on how temporary employment services (TES) firms – colloquially known as 'labour brokers' – affect people's chances of finding work. This research assessed the characteristics of over 10 000 people who registered with a branch of the largest TES firm in South Africa, Adcorp. The research compared the profile and employment prospects of TES beneficiaries against data from StatsSA. Comparisons were also drawn between the TES data and data from the Jobs and Opportunities Seekers (JOBS) programme at the National Youth Development Agency (NYDA).

Our investigation of the various routes that young people use to find employment is instructive and, as far as we can tell, it is the first of its kind to be undertaken. However, without comprehensive panel data, which would have to be collected over a period of years to permit in-depth comparisons between individuals following different routes into the world of work, it is not possible to produce definitive findings on the comparative efficacy of these various mechanisms for matching workers and employers.

South Africa needs much better data on the volumes of people using various services and institutions, their immediate and subsequent job prospects, and the costs of offering these services. The research reported on in this publication had to deal with these



limitations in what data is available in the country. To overcome these limitations CDE recommends more comprehensive surveys that follow young people as they move through the labour market, as well as much more effective monitoring and evaluation of government programmes.

## FINDINGS

The EPWP is the country's largest and best-funded state initiative aimed at getting people into work. The programme has resulted in more than a million "work opportunities" between 2004 and 2009, and has achieved significant successes in providing short-term, last-resort employment to relatively large numbers of people. It is widely recognised, however, that the EPWP has done very little to increase the employability of beneficiaries, and, therefore, has not improved their future job prospects significantly.

Similarly, SETAs provide some people with valuable training and access to job opportunities, but what evidence there is suggests that they may be of most benefit to people who are most likely to find employment, even without any assistance. Thus, while more than

10 000 learnerships had been completed four years after the SETAs were established, with the majority resulting in full-time employment, these were overwhelmingly based in the finance sector. Beneficiaries in this sector were typically drawn from circumstances that were not the most desperate, and their demographic characteristics (for example, their typical household income, household size and earners per household) matched those of people who were most likely to be employed. Beneficiaries may do better with the training than without, but SETAs are unlikely to have expanded the number of people who have work.

The informal sector appears largely to be a trap for young people. The research shows that people working in this sector typically report having been in the same "job" for considerably longer than is typical for people who have jobs in the formal sector. It is, in other words, difficult to transition into formal sector employment, and the evidence suggests that young people take informal jobs as a last resort.

Umsobomvu Youth Fund programmes have tackled the unemployment problem from a number of angles, including the provision of training to make young people more job-ready and creating links between job-seekers and potential employers. The incomplete data and information available make it impossible to assess the effectiveness of these programmes. However, CDE's review of the JOBS data does show that this is a relatively modest programme, now run by the NYDA, which is helping some young people into jobs. This information combined with facts from the World Bank Investment Climate Assessment (which collected data from manufacturing firms in the metropolitan areas of Gauteng, Eastern Cape, KwaZulu-Natal and the Western Cape in 2007/8) and the Cape Area Panel Study (which collected data annually from 2002 until 2006 from a large and representative sample of young people in Cape Town as they became adults), paint an interesting picture of how people find work and what role TES firms play in this process.

As one might expect, all these surveys show that the majority of people in work find their jobs without using any kind of employment agency. Instead they primarily rely on information from friends and relatives already in employment, send out CVs, and respond to advertised jobs. The Cape Area Panel Study found that only about five per cent of all work seekers in that city employed at any given time had found their job through an agency. Although relatively small, this is still significant in terms of the numbers of people nationally who use this route to employment. In 2009, for example, the Confederation of Associations in the Private Employment Sector claimed that TES firms place over 500 000 job seekers every year. More recent estimates suggest the number of placements per year is closer to one million.

TES operate at a significantly larger scale than comparable government programmes. In 2008/9, nearly 1 500 people found work through the NYDA's JOBS programme. One large TES, Adcorp, from which our TES data is drawn, claims to place over 25 000



assignees per day. Our finding that 1 000 individuals were placed each month by one Adcorp branch (of which it has 34) shows that the monthly placements of this one TES branch are equivalent to two thirds of the NYDA's annual placements.

Comparing the TES data with data about the general labour market suggests that the TES jobs represented in that database did not pay unusually low wages, with average earnings of about R3 500 per month. Median earnings, which makes for a more sensible comparison, among TES workers are R2 934, a figure that is close to the median of R3 000 in the Quarterly Labour Force Survey.

On the whole we found no evidence that either the JOBS programme or the branch of Adcorp studied by CDE researchers, were placing people in jobs that were markedly less desirable than is typical of the economy as a whole. It is true that the assignees from Adcorp typically worked for a shorter period than is usual in the economy (a fact that may say more about employers' needs than about the TES firm), but there was no evidence that wages were significantly lower than was typical.

Other notable findings included:

- Some employers – especially those who run large, capital intensive firms and employ some low skilled workers – rely more heavily on TES firms than others;
- The services that TES firms provide appear to help companies to grow and compete globally;
- Much of the reliance on TES firms reflects seasonality in demand for labour and broader international trends towards more flexible (and temporary) forms of work.

As routes into employment, TES firms may have important advantages. They appear to be of use to unskilled, inexperienced workers whose connection to the labour market is particularly tenuous. In this respect, TES firms may help bring excluded households and workers into the economy. In so doing they help make our economy more inclusive. In effect they help to expand opportunities and democratise job search.

## CONCLUDING REMARKS

Given South Africa's massive unemployment crisis, it is vital that the mechanisms that link available jobs and job-seekers from all backgrounds be as effective and efficient as possible. These have to help both firms and job-seekers, but particular attention should be paid to ensuring that mechanisms exist to help workers who are least connected to the labour market. Young people with no work experience who come from households in which no one works have a very slim chance of finding a job unless they are assisted in some way.

It is important to recognise that, on its own, improving the efficiency and effectiveness of these institutions will not solve the crisis of unemployment. Far more important, in this regard, is ensuring that many more jobs are created through sustained, more rapid and more labour-intensive growth.

Nevertheless, broadening access to available opportunities (especially to young, unskilled and inexperienced job-seekers, most of whom come from poor households), must be one component of the fight against unemployment. Getting this right may not dramatically increase the number of people in employment at any given time, but it could lower employers' costs of finding suitable employees as well as job-seekers' costs of finding work. Improving the efficiency of the labour market in this way would help reduce unemployment on the margins.

TES firms do help a significant number of people, especially young, inexperienced workers and those who have the most tenuous connections to the labour market. These firms have become controversial in South Africa today, and there are interests that would



seek to have them closed. The research reported here indicates that closing these firms down would result in costs and consequences that many currently participating in this debate may not have considered.

Critically, if – as our research indicates – TES firms are a vehicle that people least connected to the labour market are able to use to access jobs, this must be factored into the policy debate. Those who argue for an outright ban of labour-broking need to ask themselves whether whatever gains they think may accrue to the already-employed are worth the cost of reducing access to the labour market – and the economy – for those who are most excluded.

South Africa needs to deepen and broaden the links that unemployed and marginalised people have with the formal economy. Closing down vehicles that increase access to work should not be a serious option.

This is an executive summary of a CDE Report, ROUTES INTO FORMAL EMPLOYMENT: Public and private assistance to young job-seekers. (July 2012). The full-length publication is available from CDE, and can also be downloaded from [www.cde.org.za](http://www.cde.org.za).



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