

YOUTH UNEMPLOYMENT

AN AGENDA FOR ACTION



CITIZENS IN ACTION

How to build constructive business-government relationships in urban areas



CENTRE FOR
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About CDE

The Centre for Development and Enterprise (CDE), an independent policy research and advocacy organisation, is South Africa's leading development think tank. Since its establishment in 1995, CDE has been consulting widely, gathering evidence and generating innovative policy recommendations on issues critical to economic growth and democratic consolidation. By examining South African and international experience, CDE formulates practical policy proposals outlining ways in which South Africa can tackle major social and economic challenges. CDE has a special focus on the role of business and markets in development.

CDE disseminates its research and proposals to a national audience of policy-makers, opinion formers and the wider public through printed and digital publications, which receive wide media coverage. Our track record of successful engagement enables CDE to bring together experts and stakeholders to debate the policy implications of research findings.

Series Editor: Ann Bernstein

This report was written by Stefan Schirmer, Ian Steuart and Evelien Storme; and edited by Alexander Johnston. Sibongile Nkomana provided research assistance.

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Youth Unemployment

An agenda for action

Youth unemployment is the country's most pressing socio-economic crisis. This devastating reality for millions and millions of young people is the result of the malign legacies of apartheid and the failure of a democratic society to adopt policies that respond to the extent and severity of the crisis. South Africa's economic strategy has not produced the growth or employment that we desperately need. There have been numerous targeted initiatives to address the challenge but they have had only limited impact on the vast numbers of young people without work.

CDE's Youth Unemployment project has involved engagements with key stakeholders in the 20 municipalities that have the largest number of unemployed young people, workshops with experts and academics, as well as commissioned research into the impact of the policy choices and actions prioritised to date.

This report is one of three in a series on youth unemployment:

- **No country for young people:**
The crisis of youth unemployment and what to do about it
- **Business, growth and inclusion:**
Tackling youth unemployment in cities, towns and townships
- **Citizens in Action:**
How to build constructive business-government relationships in urban areas.

The key recommendation is that the scale of youth unemployment in the country must shape a bold, new agenda for action. Most of the current projects, initiatives and approaches are useful but they only make a small contribution relative to the scale of the challenge.

South Africa needs millions of new jobs for the workforce we actually have, not the workforce we wish we had. If we are to move the dial, the country needs system-wide reforms that produce accelerated inclusive growth that is urban-led, private sector driven, enabled by a smart state and targeted at mass employment. This requires strong national leadership by politicians, business and civic leaders and a recognition that more of the same will not result in change for the better.

The 20 youth unemployment “hot spots” in South Africa.



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CITIZENS IN ACTION

How to build constructive business-government relationships in urban areas

This short guide for local stakeholders in smaller cities and towns provides ideas on how to think about youth unemployment and what might be possible to do to respond to the country-wide crisis of youth unemployment. The main target audience is not stakeholders in the large metros, as they have greater capacity and resources to address the crisis than stakeholders in smaller urban areas. Readers in large metros will therefore probably find the policy-focused reports in this series more useful, although we encourage everyone to read, and make use of the guide. This guide does not presume to know the role and obligations of local government better than those who work in it. The goal is to provide municipal officials and local stakeholders with greater clarity on how to think about policymaking in the key area of building more constructive business-government relationships in secondary cities and towns with some economic potential.

Introduction

Youth unemployment in South Africa is a human tragedy and a waste of economic potential. Finding ways to get young people into the formal economy is the only viable and sustainable way to improve the lives of millions of South Africans.

This guide, along with two companion policy reports, is the product of engagement and consultation carried out by CDE with stakeholders (young people, businesses, local officials and NGOs) in the 20 municipalities with the largest numbers of unemployed young people.

In thinking about the challenge of youth unemployment in local municipalities we must recognise that all areas across South Africa are not equal in their economic potential:

- Policy makers must prioritise connecting young people to economic opportunities in the places where these opportunities can most easily be generated. The focus of interventions should be to make young people across the country more employable, more informed, and more mobile.
- Though the potential of each locality varies significantly, local officials should prioritise maximising economic growth. One key to this is building constructive relationships with existing businesses. Another is finding ways to reduce the costs imposed on all kinds of firms by unnecessary red tape and by restrictive zoning laws.

These strategies will help young people in the areas outside the metros where youth unemployment rates are often extremely high. It is important to stress, however, that such interventions will be much more effective if they are accompanied by a broader package of reforms at national level that will create many more job opportunities for the young workforce we have. To achieve that the country must adopt a plan for action:

“Finding ways to get young people into the formal economy is the only viable and sustainable way to improve the lives of millions of South Africans.”

- The essential priority in tackling a crisis of youth unemployment as large as South Africa's is faster growth driven by firms. For this to happen, policy makers need to take on a facilitating role that encourages the rapid expansion of private firms operating in competitive markets and under a conducive regulatory regime.
- Growth will make the difference we need only if it is much more labour intensive. This will only happen if reforms are undertaken that encourage employers to take on new staff. Policy-makers need to recognise that minimum wages (which are set to rise) are already too high to make it worthwhile for employers to take a chance on unskilled, untested young work seekers. In these circumstances, firms prefer to hire older, more experienced and productive workers or look to replace workers with machines.
- To create jobs for South Africa's disproportionately unskilled workforce the country needs to strengthen and massively expand labour-intensive sectors such as tourism, light manufacturing (clothing, toy assembly, agro-processing) and some public services. Appropriate infrastructure projects, many of which would be supported by the state and implemented through the EPWP, might also absorb large numbers of unskilled workers.
- South Africa's future is in its cities: to capitalise on urban-led and employment-rich growth we need a better strategy for managing urbanisation and the development of our cities so that they become centres of hope and opportunity, especially for young people.
- We need to expand opportunities for young people to acquire skills that will make them more employable, focusing in particular on getting the incentives right for employers and private sector providers to expand workplace-based training.

These recommendations are fleshed out in two accompanying reports in this series: *No Country for Young People: The crisis of youth unemployment and what to do about it*; and *Business, Growth and Inclusion: Tackling youth unemployment in cities, towns and townships*.

In this report, we focus on how to promote and sustain a momentum for growth and change at the municipal level.

In Part One, we start by assessing what municipalities are empowered to do, and how they have different capacities to initiate solutions to the youth unemployment challenges in their regions. We reflect on what we learned in the discussions CDE facilitated between young people, businesses, local officials and NGOs across the country. We explain why there is an urgent need for these local actors to become much more focussed on promoting economic growth driven by dynamic firms.

In Part Two, we set out recommendations for how municipal officials, local business leaders and business groups, as well as local activists and organisations concerned about ending youth unemployment, can contribute to solving the youth unemployment crisis in their regions.

“We need to expand opportunities for young people to acquire skills that will make them more employable.”

Part one: Reflections on engagements in 20 youth unemployment 'hot spots'

In this first part of the guide we summarise the capabilities of various kinds of municipalities, and how officials, organisations, businesses and young people we met understood the challenges of youth unemployment. Our reflections on these issues lead us to the recommendation that building more constructive business-government relationships in secondary cities and towns with some economic potential is the best way forward.

The powers and capabilities of municipalities

There are currently 278 municipalities in South Africa, comprising eight metropolitan, 44 district, and 226 local municipalities. In 2016/17 CDE travelled across eight of South Africa's nine provinces and held discussions with over 750 local stakeholders in the 20 municipalities with the largest numbers of unemployed young people. This included all eight of the country's metropolitan municipalities but most of the workshops were in secondary cities such as Rustenburg, Mbombela (Nelspruit), Emalahleni (Witbank), Matjhabeng (Welkom), Madibeng (Brits), Emfuleni (Vereeniging), Msunduzi (Pietermaritzburg), or in smaller towns like Makhado (Louis Trichardt), Greater Tubatse (Burgersfort), Bushbuckridge and Thulamela (Thohoyandou).

Since this guide aims to offer practical advice to local actors and other stakeholders on what they can do to improve the prospects of young people in their area, it is important to consider what municipalities are legally empowered to do.

All municipalities in South Africa have the power to:

- Pass by-laws in areas in which they have responsibility (although they may not contradict national law);
- Approve budgets and development plans;
- Impose rates and other taxes other than income tax, value-added tax, general sales tax or customs duty;
- Charge service fees for use of municipal services like water, electricity and libraries;
- Impose fines on anyone who breaks municipal by-laws or regulations; and
- Borrow money in terms of the Municipal Finance Management Act.

Within these local government categories, metropolitan municipalities have the most power in that they are responsible for the development and delivery of all local services within the metropolitan area. Local municipalities share that responsibility with district municipalities. This is especially the case in rural areas, where district municipalities often have more influence over development and service delivery. Metros also tend to have substantial revenues from local sources and are less dependent on allocations from national and provincial government.

One way to get a sense of the capacity of municipalities to discharge their responsibilities and use their powers is through the annual Auditor General findings. In the table below, the 20 municipalities CDE visited during the course of this project are assessed according to their financial performance in 2014/15 (the most up to date figures available).

“Building more constructive business-government relationships is the best way forward.”

Audit Summary of 20 'hot spots' (2014/2015)		
Municipality	Audit Opinion 2014/2015	Unauthorised, irregular and wasteful expenditure (Rands)
Buffalo City (East London)	Qualified	724 980 000
Bushbuckridge	Qualified	119 700 000
City of Cape Town	Clean	1 000 000
City of Johannesburg	Unqualified with findings	1 038 940 000
City of Tshwane	Unqualified with findings	1 886 200 000
Ekurhuleni (East Rand)	Clean	88 300 000
Emalaheni (Witbank)	Unqualified with findings	30 270 000
Emfuleni (Vereeniging)	Unqualified with findings	454 200 000
EThekweni (Durban)	Clean	212 300 000
Greater Tubatse (Burgersfort)	Disclaimer	133 100 000
Madibeng (Brits)	Qualified	1 507 700 000
Makhado (Louis Trichardt)	Qualified	83 600 000
Mangaung (Bloemfontein)	Unqualified with findings	1 014 310 000
Matjhabeng (Welkom)	Disclaimer	821 200 000
Mbombela (Nelspruit)	Unqualified with findings	221 600 000
Msunduzi (Pietermaritzburg)	Clean	1 150 000
Nelson Mandela Bay Port (Elizabeth)	Qualified	1 805 300 000
Polokwane	Unqualified with findings	818 200 000
Rustenburg	Unqualified with findings	3 075 540 000
Thulamela (Thohoyandou)	Unqualified with findings	16 780 000

CDE, 2017, based on figures drawn from Auditor General South Africa,
Consolidated General Report on the Audit Outcomes of Local Government 2014-15, 2015

A clean audit means that a municipality was able to produce financial statements free of material misstatements as well as report on its performance in line with its integrated development and/or service delivery plans in a useful and reliable manner, in compliance with key legislation. From the table we can see that only four of the 20 municipalities achieved clean audits. Nine municipalities managed to achieve unqualified audits with findings. This means that they were able to produce financial statements without material misstatements, but struggled to:

- Align their performance reports to the predetermined objectives committed in their integrated development plans and/or service delivery and budget implementation plans;
- Set clear performance indicators and targets to measure their performance against their predetermined objectives;
- Report reliably on whether they had achieved their performance targets;
- Determine which legislation they should comply with and implement the systems needed to do so.

The four municipalities that achieved qualified audits face similar challenges as those in the previous category with respect to reporting on performance and compliance

“This guide aims to offer practical advice to local actors and other stakeholders on what they can do to improve the prospects of young people.”

with key legislation. However, they were also unable to produce credible and reliable financial statements, and their financial statements contained misstatements which they could not correct before the financial statements were published. The two municipalities with disclaimers, Matjhabeng (Welkom) and Greater Tubatse (Burgersfort), could not provide evidence for most of the amounts and disclosures in the financial statements, and had not complied with key legislation.

These assessments provide a sense of how limited the capabilities of many municipalities are. They may also point towards large-scale corruption, especially with regard to unauthorised and irregular expenditures. Overall, across 287 municipalities, R16.3 billion in municipal expenditure could not be accounted for in 2014/15.

Pointing in the same direction as these findings, the South African Cities Network reports that there is widespread conviction that “corruption is endemic in some municipal functions including many of the law enforcement, vehicle licensing and supply chain management departments”.¹

All of this has enormous impact on local governments’ capacity to drive development effectively:

- Corruption, or even the perception of corruption, destroys the legitimacy of local governments and the institutions they manage.
- Corrupt officials cease to be accountable to the people they govern and instead shift allegiance to those who pay the biggest bribes. Corrupt mayors and managers will invest scarce public resources in projects that will line their pockets rather than prioritising the benefits to the community. They will tend to prioritise high-profile projects such as dams and power plants, over less spectacular but more urgent infrastructure projects such as schools, hospitals and roads.
- Corruption also undermines fair regulation of businesses and markets, and distorts competition, which, in turn, deters investment.

What we heard

In the places we visited, we set out to build some momentum for change and to gain insights into what kinds of intervention could work to get the young people in these places into jobs. We were particularly interested in encouraging actions and partnerships at the local level to bring down youth unemployment levels. The more discussions we held, however, the clearer it became to us how challenging it will be to achieve such outcomes. One reason for this is that there appears to be a high level of mistrust between local stakeholders, a failure to work together and to share information, as well as a dearth of viable ideas about what to do about youth unemployment.

The challenge of patronage and corruption

In many places information on work and learning opportunities has been turned into a political tool to be shared only with those who show party political loyalty or who have paid a bribe. A young person in Madibeng (Brits) told us that “political affiliation in the municipal office seems very important. So a lot of unemployed youth don’t get access to information on where opportunities may be located.” Variations of this

¹South African Cities Network, State of South African Cities Report, 2016, pp. 237-275, Retrieved from: http://www.socr.co.za/wp-content/uploads/2016/06/SoCR16-MainReport_07Finance.pdf

“In many places information on work and learning opportunities has been turned into a political tool.”

complaint were mentioned several times in different places by forum participants. Other participants testified how ward councillors would come around and ask for their share of the profit in a newly established business. Political manoeuvring, patronage and corruption are a major barrier to constructive cooperation in many municipalities, not to mention its impact on growth and inclusion.

An unhealthy focus on projects and procurement opportunities

We took away another important concern: the approach of too many municipalities to reducing youth unemployment was through a series of small, disconnected projects and initiatives. In our view this is the wrong way to go about reducing youth unemployment – the issue needs to be tackled in a much more integrated and comprehensive way.

A number of the municipalities we visited have established a “youth desk” attached to the mayor’s office. Others have opted for a different structure, preferring to locate youth issues within a “special programmes” unit or, in the case of eThekweni, in the Community Participation and Action Support programme as well as the mayor’s office. In Nelson Mandela Bay (Port Elizabeth), there is a youth desk attached to the mayor’s office while youth is also a focus of the municipality’s Sport, Recreation, Arts and Culture Directorate. Our engagements with municipalities across the country as well as local stakeholders, suggest that, outside the biggest metros, these entities achieve very little.

The trust deficit between business and government

We began the project with the idea that the most important way to generate solutions for youth unemployment at the local level is to establish better, more constructive relationships between local governments and local businesses. Together, they could identify ways to grow the local economy, to expand enterprise, entrepreneurship and job creation, and to become more active in lobbying for policy reforms that would promote more investment in job-intensive growth across the country.

At present, however, too few municipalities appear to understand what is needed for business to prosper. This is not just our perception from the engagements but from the research we commissioned into this phenomenon. Many of the businesses and business organisations interviewed in Johannesburg asserted that the municipality does not understand the needs of business and does not prioritise economic development. In Mbombela (Nelspruit) too, many businesses and business organisations claimed that the municipality is poorly managed and accountable neither to residents nor businesses.²

There is a general perception of a “trust deficit” in the context of public-private engagement. One problem is the loss of institutional memory caused by high levels of churn in municipal establishments. Business people can seldom afford the time, energy and resources that are needed to rebuild relationships with officials every time one is promoted, redeployed or leaves her position. As a result, the quality of municipal-business relations tends to decline over time even if officials are willing and able to work with business. Many are not, seeing business less as a partner in development and a driver of economic growth than as an obstacle, or even an opponent.

“Too few municipalities appear to understand what is needed for business to prosper.”

²RebelGroup Advisory Southern Africa, Local Economic Growth Study: Johannesburg & Mbombela, Research commissioned by CDE as part of the Youth Unemployment project, June 2017

Misplaced faith in youth entrepreneurship as a panacea

Ironically, the one area of focus in which discussions are often very pro-business is destined to fail: whatever its advocates in business and elsewhere might say, it is simply not plausible that the promotion of youth entrepreneurship will be a significant driver of lower rates of youth unemployment.

The conviction that the promotion of youth entrepreneurship is important reflects some muddled thinking. Almost everyone we spoke to wanted to encourage young people to become entrepreneurs. What is much less obvious is the limited extent to which the skills required can be formally taught. For example, few people we spoke to seemed to appreciate that the best training for entrepreneurship is a job, at least the sort of entrepreneurs that are able to grow and expand their businesses. In addition, officials and others could be critical and/or unsupportive of existing businesses in their municipalities, while at the same time believing that young unemployed people should become business owners. There is some dissonance between engaging in anti-business rhetoric and practices and professing yourself to be in favour of entrepreneurship as a route to employment creation.

CDE's discussions with young people in the 20 municipalities convinced us that it is not lack of enthusiasm that prevents young people from becoming entrepreneurs, but a lack of opportunity, education and experience. In a forum in Polokwane, for example, almost every young attendee expressed a desire to run a business in the future, but most found themselves without any kind of job, while the only attendee who actually ran his own company explained that his parents had their own construction company. In general, these deficiencies cannot be fully addressed through training, mentorship or access to preferential finance. What is needed is the opportunity for would-be entrepreneurs to gain know-how through employment and initiatives to reduce the impact of obstacles all entrepreneurs, but especially young ones, face in finding their market niches. Many young people languishing in unemployment learnt very little about entrepreneurship at school; they have had very little or no exposure to the intricacies of running a business and have no real understanding of what a risk-taking enterprise is all about. They are unlikely to set up successful business ventures, even with substantial financial support and well thought out training programmes.

Demands for protectionism

At our workshops, local entrepreneurs, officials or unemployed people sometimes demanded what amounted to some form of protectionism from competition. The clearest expression of this was distrust and animosity towards immigrants from other countries in Africa, but it was sometimes also made in relation to South Africans who came from other parts of the country. In Tshwane, for example, an unemployed young man said "It is unfortunate that we have to share those limited jobs with everybody else in the country. Actually everybody in the continent as we have Zimbabweans and Nigerians fighting for the same space."

However, others pointed to the fact that many foreigners manage to run a successful business where their own people have failed and in time, employ local people. Some local sectors, such as retail, are somewhat over-traded, with the implication that one shop's success is at the expense of another. However, restricting competition would lead to higher prices and would be to consumers' disadvantage. Evidence has also shown that migration is beneficial for the development of an area, with "outsiders" introducing innovation and new expertise. Understandably, these wider benefits may not matter very much to someone who is unemployed and feels, rightly or

"What is needed is the opportunity for would-be entrepreneurs to gain know-how through employment."

wrongly, that outsiders are taking advantage of opportunities. South Africa needs to manage migration issues far more effectively than they do at present and many local communities need more resources, such as better schooling, more clinics, more housing and more work opportunities. Local leaders need to guard constantly against the easy temptations of xenophobic populism and recognise that the collective interest is not always articulated by those who shout loudest. They should also become more effective in documenting what is happening in their communities and linking this to wider policy discussions.

A lack of information and the challenges of mobility

Young people in our forums lamented the lack of information available to them on employment opportunities, whether within their areas or outside them. There is also very little information on training programmes locally or elsewhere and whether they are likely to make participants more employable. Here, the local Labour Centre – the government’s key service delivery interface with work seekers in the provision of public employment services intended to improve the functioning of labour markets and thus contribute to reducing the country’s very high unemployment levels – should be the first stop for young people in search of work. Unfortunately, specialised and personalised service packages are not what the labour centres offer, with many lacking the capacity to identify even local job opportunities, never mind those further afield.

Many of the young people we spoke to in places such as Bushbuckridge and in areas that appear to be in terminal economic decline like Matjhabeng (Welkom) recognized that their best hope of finding employment lies outside the areas where they reside. At the same time, they were also acutely aware of the challenges of moving long distances to access labour markets they dimly understand and where they will be at a distinct disadvantage in relation to residents who are closer to jobs and have more extensive and relevant networks through which information about job openings might flow.

Concluding remarks

During the discussions that CDE organised in the 20 youth unemployment ‘hot spots’ across the country, we came across a lot of enthusiasm and many well-intentioned people. At the same time, we were increasingly struck by the enormous challenges of finding ways to help young people in these towns and secondary cities. It is important to recognise that it will be extremely difficult to generate local-level collective action that might lead to a significant reduction in youth unemployment levels. Even if one ignores the sheer complexity of the task, it seems clear that in many places there is too much distrust, misinformation, confusion and bad politics to hope for rapid progress.

The challenge of diversity in a large, urbanising country

In our engagements with and research on the different towns and cities where youth unemployment is concentrated we were struck by the enormous diversity of many of these places. Some places have so little economic potential that the only real hope for young people there is to move away, to go to the places where economic growth and more opportunities are concentrated. In this context a one-size-fits-all solution cannot work.

Bushbuckridge is an example of a town with very little potential to generate local jobs for young people. In this remote settlement, there were over 78 000 unemployed

“Young people in our forums lamented the lack of information available to them on employment opportunities.”

people between the ages of 15 and 34 in 2011. Although later data is not available it is reasonable to predict that this number has grown in the seven years since then. They live in a region characterised by high levels of poverty and crime, a deep backlog of services, bad roads, and generally poor infrastructure, as well as a skills shortage and low rates of literacy. Due to its proximity to the Kruger Park, the region attracts some tourists to its shops, petrol stations and craft markets. Of those who have jobs, most work in trade (23 per cent) and in community services (42 per cent), which includes teachers, nurses and municipal workers. Thus, apart from the fact that almost 80 per cent of the 134 197 households in the region depend on state-provided grants for their income, a large percentage of the relatively scarce jobs in the area is provided directly by the state.

Most people live here as a result of apartheid's dismal spatial legacy, not for reasons of any economic logic, and this remains an area without meaningful economic potential. The painful truth is that it is unlikely that many jobs will ever be created here. The plans devised by the local municipality largely prove the point. In their latest development plan municipal officials identify agriculture as the best sector in which to promote jobs and growth. The plan does not go into any detail, but argues that the best strategy is to 'convert family farming into commercialised agriculture'. Even if this were possible, only a few would benefit. The vast majority of households in this densely settled rural area are in fact landless: less than 5 per cent of the people with jobs currently work in agriculture.

Similarly, in Matjhabeng, the municipality centred on the town of Welkom, the economy is in a state of long-term decline led by the falling output of gold from its mines. During the boom era there were 40 shafts in operation in the area; now the number has fallen to 12. The result is that the local economy has shrunk by an annual average rate of nearly 2 per cent over the last 15 years.³

The municipality's development strategy once again offers very little hope that local government interventions will do anything to turn the situation around. Commercial agriculture probably provides some hope of generating growth and jobs in the region and there are a few positive initiatives in this regard. Some of the other strategies are less likely to bear fruit. The municipality hopes that foreign investors would want to set up call centres and/or similar operations in the region. However, the region's attractiveness to investors is compromised by the fact that less than 6 per cent of people aged between 20 and 24 have a post-matric qualification. The municipality is aware of a shortage of skilled workers in the region, but, in a clear case of wishful thinking, they believe that once the call-centres have been established, the region will attract the necessary skilled workers to make up this deficit. It is much more likely, unfortunately, that investors will put their money into the regions that already have the skilled labour and that some of the people with skills will move out of Matjhabeng (Welkom) to the places where there are jobs.⁴

A region's economic potential is influenced by a range of factors, including the size and density of the population, how educated the local population is and how much money local consumers have to spend. In addition, the complexity of the business

³L. Marais, The Impact of Mine Downscaling on the Free State Goldfields, Retrieved from: <https://www.researchgate.net/publication/235554252>

⁴Lejweleputswa District Municipality, Local Economic Development Strategy, 2015, Retrieved from: <http://lejweleputswa.co.za/wp-content/uploads/2010/11/LDM-LED-Strategy2015.pdf>

“Some places have so little economic potential that the only real hope for young people there is to move away.”

sector, the range and diversity of supporting institutions and businesses (banks, insurance firms, etc.), the depth of entrepreneurial talent, the potential of local businesses to add value, and their location with respect to other regions all combine to make some regions more likely to generate growth than others.

Big cities will have most of the advantages when it comes to developing and attracting new businesses. It is significant that major metros like Johannesburg and Cape Town have experienced considerable population growth and yet have smaller percentages of the population in unemployment than elsewhere in the country. Globally, cities produce more than 80% of economic output and 72% of cities grow their GDP faster than their national economies. Cities are the places where most people have the best chance to find employment. This is the case because our cities benefit from 'agglomeration economies'. Due to their large size and dense concentration of people they are able to generate more business initiatives as well as more complex, more productive activities. They contain more educated people and therefore attract more talent, and they are much more likely to attract local and foreign investment. Foreign direct investment tends to go to areas that have market access as well as better infrastructure, services, and other financial incentives. Those places are almost always large cities.

Smaller cities and towns therefore need to consider their advantages and be realistic about their potential to compete when thinking about ways to grow their economies.

Policy approaches that will not work

Many approaches to addressing the crisis of youth unemployment are built on the assumption that people will remain where they now live and therefore they must be helped where they reside. Thus, they seek to involve unemployed people in communal activities like garden farming or sewing groups. Working at their best, these projects do help some people: they give beneficiaries something to do, they generate some goods and services for local consumption, and they may even produce items for sale outside the immediate area. The hard truth, however, is that, precisely because of their distance from markets and the absence of appropriate infrastructure, these activities almost never achieve commercial viability and sustainability, with most dependent on grants and philanthropy. In any event, there is almost no prospect of such projects achieving the kind of scale needed to address local youth unemployment meaningfully.

Interventions need to focus on, and have the ability to go, to scale. Experimentation is good, as are pilot projects, but interventions should be planned with a difficult question in mind: if all goes well, could this approach go to scale? The goal is to find ways to fundamentally turn around the structural impediments that keep young people from participating in the economy. Generally, this is achieved not through isolated projects – whatever their scale – but by integrated reforms that permit and encourage large numbers of incremental changes across society and throughout the economy. The growth of existing firms and the establishment of new ones operating in competitive markets are the only ways to create jobs on the scale needed. Policy reforms need to facilitate this evolution; small, ad hoc interventions and projects will seldom achieve this.

The public sector is frequently seen as the best generator of new job opportunities, partly because there has been a large increase in these jobs (from 2.16 million in 2008

“The growth of existing firms and the establishment of new ones operating in competitive markets are the only ways to create jobs on the scale needed.”

to 2.69 million at the end of 2014) and because these are relatively well-paid jobs. The real monthly wage of an average public sector employee is R11 668 compared to R7 822 for an average private sector worker.⁵ But the public sector leaves a large number of people behind (the millions of unemployed) and there is now very little scope for expanding the size of the sector, or of rapidly raising public sector wages. New job creation can, in the near term, only be generated by private firms and will only come about as a result of a rising economic growth rate. Both local governments and young people languishing in unemployment need to become supportive of a rapidly expanding private sector. That is their only hope for a better future.

Concluding remarks

Building a momentum for change in most towns, secondary cities and some metros will be extremely challenging. This is evident from the difficult politics and mixed abilities of municipalities, the complex realities we unearthed during the discussions we held across the country, the challenges of diversity and the propensity to adopt approaches that, at best, help at the margins rather than address the problems at scale. There is certainly no one-size-fits-all solution to these challenges. However, if we could build some momentum for higher economic growth and the generation of new jobs from within some of these places, something important could be achieved. For this reason, CDE is convinced that the focus should be on building more constructive business-government relationships in secondary cities and towns with some economic potential. We will explore how to achieve this in Part Two of this guide.

Part two: Promoting enterprise-led development

Diversity and lack of capacity in many places means that it makes no sense to have a general guide on everything a municipality could do to address youth unemployment in their regions. Instead, in this section, we focus on how better relationships with business could emerge in some municipal regions, with positive consequences in terms of economic growth and job creation. In the sections that follow we look at why business-government relations are crucial for solving youth unemployment, how municipal officials and other stakeholders should think about business and markets, the importance of getting the basics right, and how to build a better business environment. We outline what can be done to launch constructive dialogues and relationships between municipalities and business representatives, and point to other opportunities for cooperation between private and public sectors.

Building better business environments and creating jobs for young people in cities and towns

Making the case

Municipal leaders who want to reduce levels of youth unemployment significantly should prioritise growth and promote local business. This is the best way to tackle the scale of the crisis, and the task must be approached in full awareness of the limited capacity of local governments, limited powers and functions, and the scale

⁵South Africa's civil servants are the country's new labour elite, February 19, 2016 Thecoversation.com

“Municipal leaders who want to reduce levels of youth unemployment significantly should prioritise growth and promote local business.”

of the challenge of promoting local growth. This is why, later on, we emphasize the importance of lobbying and advocacy, so that people who understand the needs and challenges of their local regions begin to demand a better deal from provincial and national governments.

Unlike programmes and projects that target specific numbers of beneficiaries and largely leave the underlying conditions that create youth unemployment unchanged, supporting the growth of the local economy has the potential gradually to address the youth unemployment crisis. The two main reasons for this are:

- A growing economy makes all firms more viable, allowing more successful firms to expand faster and saving some firms that might otherwise have gone under;
- Economic growth facilitates the entry, survival and growth of new firms, which are more likely to prosper in a growing economy than in one that is stagnant or shrinking.

In other words, economic growth and employment growth will be the product of an expanding private-sector which hires more people. This has the knock-on effect of increasing local incomes, in turn supporting the growth of firms supplying consumer goods, as well as personal and household services (e.g. haircuts and plumbing, child care, and transport).

The approach to achieving these desirable effects should not revolve around the provision of subsidies or special protections for certain firms or industries. Instead, municipalities should work more closely with existing businesses to stimulate and attract investment. The goal should be to develop a growth vision and a supportive, constructive relationship over time, by building trust and by establishing a working relationship that goes beyond fruitless “talk-shops”, introduces reforms, and leads to real change.

The state of government – business relations in municipalities

While business-government relations in some metros have sometimes been fraught and levels of cooperation have been uneven, in many secondary cities, the level of engagement between local governments and local business is often worse.

For example, in Madibeng (Brits), there is an active business chamber (Brits Industrialists Association) that meets regularly with local government. Business people report, however, that attendance by officials is sporadic with the result that proper relationship-building has stalled. Meetings are perceived as “talk shops” with little or no follow through and implementation. Apart from these meetings, public-private engagement is generally weak and business has little faith in the willingness or ability of local officials to drive changes that would accelerate growth.

Many emerging black business-owners are disillusioned with the municipality because past consultations led to nothing. Although some initial interest is shown from time to time, there is generally no follow through, nor indeed feedback on, or even acknowledgement of, correspondence. Coupled with a lack of appreciation of how economic growth is generated by firms, the municipality tends to focus on small-scale projects with limited impact. Nevertheless, there have been some discussions on the regeneration of the town and a rehabilitation programme involving all local stakeholders, public and private. For this to work, effective governance mechanisms

“A growing economy makes all firms more viable.”

and platforms need to be established where all stakeholders can come together under the guidance of leadership teams representative of all industry growth sectors, as well as both established and emerging businesses. Given that governance in the municipality is currently in a state of flux due to the dismissal of a large number of senior officials, this programme may prove difficult to establish successfully in the short term.⁶

This unsupportive environment has probably been a factor in motivating local firms and employers to move elsewhere (see box on *Companies can move*).

In Mbombela (Nelspruit), the situation is more positive, but still not ideal. CDE research reported mixed perceptions by business of the municipality's willingness and ability to engage with the private sector despite the establishment of the Local Economic Development Community Forum. Some businesses describe their relationship with the municipality as generally good and note that the municipality is open to engagements, while others asserted that the local government does not understand the needs of local businesses, and attempts to micro-manage business-related processes.⁷

In Rustenburg, the municipality has tried to facilitate business-led growth, but without much success. In 2015, the Municipality acquired 110 hectares to establish a Special Economic Zone (SEZ) as a way to promote local businesses (mainly small- and medium-sized enterprises) and local job creation. According to the annual report from 2016, however, this initiative has not taken off because local companies have been unable to find a way to compete with large, established companies located outside Rustenburg. One has to ask what was special about the zone and whether local firms – of all types – were consulted before the zone was established? The municipality did set up a Business Advisory Council, which was supposed to facilitate formal engagements with local businesses. Our research indicates that commitment to this process has been limited. According to the 2016 annual report, most of the engagements have been with senior management from large mining companies. While this is clearly important, there have been almost no engagements with smaller companies that have a more local focus, although there was some consultation between the municipality and the local tourist company, Rustenburg Adventures, as part of the attempt to raise the tourism profile of the region.⁸

Thus, while there are initiatives to improve the relationships between local governments and local businesses in some of the municipalities CDE visited, much remains to be done. Improving this situation is challenging, especially in an environment of political turmoil and almost no national leadership or economic growth. Nonetheless, CDE's work indicates that a true business-government partnership or working relationship is the area with the most potential for creating more dynamic, employment-generating local economies.⁹

⁶ Karin Badenhorst, Local Economic Growth Study: Cape Town & Madibeng, CDE commissioned paper, 2017

⁷ Nadia Kruger-Levy and Andreas Bertoldi, Local Economic Growth Study: Johannesburg and Mbombela, CDE commissioned paper, RebelGroup Advisory Southern Africa, 2017

⁸ Rustenburg Local Municipality, Integrated Development Plan 2016-17, 2016, Retrieved from: <https://www.rustenburg.gov.za/document-category/idp/>

⁹ Karin Badenhorst, Local Economic Growth Study: Cape Town & Madibeng, CDE commissioned paper, 2017

“A true business-government partnership or working relationship has the most potential for creating more dynamic, employment-generating local economies.”

Understanding business and markets

Too often, “business” is regarded by officials purely as an interest group dedicated to preserving as large a slice of economic output as it can get its hands on. Officials then take on the role of trying to ensure that policy reallocates some of the earnings that would accrue to business to other stake-holders: workers, the poor, the community, the local government. From this perspective, the goal of ‘development’ is sometimes understood to be the reallocation of the value that businesses generate. This amounts to a fundamental misunderstanding of how development works and what business does.

Stripped to its core, business brings people together to coordinate their efforts in the cause of producing some good or service for profit. Tasks are divided between different people and managers ensure that individual workers get the inputs they need and do their own work well. Entrepreneurs and managers plan what is to be done and coordinate the efforts of others to make sure it happens. This allows for what one development economist describes as “the miracle of productivity”, in which the labours of ordinary human beings, which for millennia produced no more than the equivalent of US\$1-2 of value per day, to generate output worth many, many times that amount.¹⁰ This is the essence of development (which is closely correlated with increasing prosperity), and the core task of South Africa’s policy makers and officials is to try to find ways to increase the volume and value of business activity taking place in the jurisdictions for which they are responsible.

Successful firms (or any successful organisation for that matter) make people more productive in a number of ways:

- They learn to absorb, share and coordinate information and knowledge more effectively;
- They incorporate new technologies into making things in a more cost effective way;
- They cut out wasteful processes and inefficient methods of producing; and
- They find ways to become bigger and more complex in order to achieve economies of scale.

These are the activities that municipalities need to encourage and facilitate if they want to expand local economies and create jobs for young people.¹¹

Government (nationally and locally), of course, plays a critical role in making business expansion possible, but ultimately, growth is driven by private firms that solve two problems:

- Identifying a good or service for which there is a market or creating such a market; and
- Finding a way to sell its goods at a price that is low enough to attract customers, but high enough to cover all the costs of production and generate a return for owners and investors.

Solving these problems is not easy, which is why most new businesses fail. However, firms that succeed make an enormous contribution to society because they take

“The core task of South Africa’s policy makers and officials is to try to find ways to increase the volume and value of business activity.”

¹⁰For more on this, see P. Collier, *Why Africa needs its private sector* (CDE, 2013) available at <http://www.cde.org.za/why-africa-needs-its-private-sector-paul-collier/>

¹¹A. Bernstein, *The Case for Business in Developing Countries* (Johannesburg: Penguin Books, 2010).

Companies can move

Pasdec Automotive Technologies

Founded in 1969, Pasdec Automotive Technologies (PAT) has been one of South Africa's leading automotive component manufacturers focused on the design and manufacture of world-class automotive wiring harnesses. The company became part of the Pasdec Group in 2000 and among its clients are Nissan, Mercedes Benz and Toyota. The company was based in Brits and employed 550 people from the region. In 2015 PAT decided to move its automotive component manufacturing plant from Brits to Botswana.

There were several reasons for this, but an important consideration was the Botswana government's strong support for business. Botswana's government went the extra mile to accommodate the relocation process and provided assistance for operational requirements. When the company's directors arrived in Botswana to open the new plant they were welcomed by Trade and Industry Minister, Vincent Seretse. Botswana's political and economic stability, lack of exchange controls and low corruption rate creates, according to PAT, a welcoming and enabling environment for growth. Botswana also has one of the lowest tax rates in the region and its workforce is relatively educated and productive. Substantial financial assistance to potential investors is provided through entities such as the Botswana Development Corporation.

International Ferro Metals in South Africa (IFMSA)

International Ferro Metals Limited (IFM or IFL) is an integrated ferrochrome producer with its South African subsidiary International Ferro Metals (SA) (Pty) Limited ("IFMSA") currently under care and maintenance in the business rescue process. IFL is listed on the London Stock Exchange (LSE: IFL), however as of 26 August 2015 trading in the shares of IFL was suspended on the LSE. IFL has up until recently produced ferrochrome from chromite ore located in the Bushveld Igneous Complex, one of the largest ferrochrome producing regions in the world. IFL's Lesedi chromite mine and integrated beneficiation and smelting operations are situated at Buffelsfontein, in the Madibeng municipal region. The Company owns the nearby Sky Chrome deposit in which it holds an 80% interest.

Since the beginning of the 2015 financial year, the combination of low ferrochrome prices, rising electricity prices, interruptions to power supply, and other costs and losses of ferrochrome production strained IFMSA's liquidity to the point that it became financially distressed.

According to the company, the lack of support from Eskom, with its extremely short-term view on planning, was one of the key contributory factors leading to this company's demise. Further, rather than support the business during the electricity debacle, the opposite happened with inspectors visiting the plant and demanding closure of parts of the plant. The impact on production in an already challenged commodity market, contributed to the company's distress and eventual closure.

CDE 2017

"Government plays a critical role in making business expansion possible, but ultimately, growth is driven by private firms."

scarce resources of various kinds – different kinds of labour, different kinds of material and non-material inputs – and transform them into something for which customers are willing to pay more than they would pay if they bought and transformed those inputs themselves. This is what creating value means, and firms that achieve this are making their societies better-off. Policies should encourage these activities, not inhibit them.

Enterprise-led growth will emerge if the number of firms increases and existing firms become more productive. The best way that municipalities can encourage such outcomes is to make it as easy as possible for private businesses to establish themselves within their jurisdictions and to expand their activities when they are profitable. The key question is how to do this.

Step one: Getting the basics right

In most of South Africa's secondary cities and smaller towns, simply maintaining appropriate infrastructure, especially roads, is essential to letting people and goods move within the municipality as well as in and out of it. Services such as water and sewerage (which have major health implications) are also all vitally important for both the community and local business. Zoning and rezoning processes should be as fluid and painless as possible and the collection of rates and taxes as transparent and predictable as possible.

Corrupt and/or dysfunctional local governments can inflict serious harm on local businesses, if, for example, they fail to provide some essential services or fail to pay the municipality's electricity bill. This was the case recently in Standerton, when the municipality's failure to pay Eskom threatened the closure of two large employers which would have led to the destruction of over 4 000 jobs.¹²

Getting the basics right would help to strengthen the legitimacy of local governments and could create a foundation for building better relationships between local firms and the municipality. On that basis, municipalities could then take their activities to promote enterprise-led growth further by finding ways to build a better business environment and initiating constructive growth dialogues with local businesses.

Step two: Build a better business environment

A number of municipal-level practices, licencing requirements and zoning laws make it difficult to set up and run businesses. All by-laws that the municipality enacts (including those related to sanitation, health and traffic flow) need to be assessed in terms of the (often unintended) barriers to business, especially small and medium businesses, that they create. This is particularly true for the way informal trade is regulated. Municipalities often like to create controlled spaces, away from centres of activity where they would like their informal traders and small businesses to set up shop. The intentions behind these plans may be well-meaning, but the locations chosen often remove firms from their customers. Conversely, zoning laws in some residential areas may make it impossible for a business to operate legally, in turn making it impossible for it to obtain bank loans for expansion or working capital. The inability to register formally may also make it impossible to obtain licenses – e.g. to sell liquor – that further inhibit the business's prospects.

“Getting the basics right would help to strengthen the legitimacy of local governments and could create a foundation for building better relationships between local firms and the municipality.”

¹²M. van Wyngaardt, (13 January 2017), 'Astral says Eskom cutting municipal electricity supply would be 'catastrophic' for Standerton operations', Engineering News, Retrieved from: www.engineeringnews.co.za/

The costs that by-laws and zoning requirements impose should be assessed in terms of:

- Zoning and rezoning activities that force businesses to relocate away from economic centres;
- Unreasonable restrictions on putting up signage;
- Excessive requirements in terms of health and safety standards;
- Licences and clearance certificates that lead to difficulties with filling out complex forms, standing in long queues, and waiting for permits to be issued;
- Land restrictions, building regulations and unproductive public land ownership that make it difficult for investors to find affordable spaces to set up a factory; and
- Excessive restrictions on public spaces, including pavements, which are sometimes the best places from which small traders could operate.

Clearly not all regulation should be abandoned, and there are conflicting interests within business as well, but the impact of every regulation on the ease of doing business has to be factored into the legislative process from the start.

To properly ascertain how municipal regulations and practices have an impact on businesses it is necessary for municipalities to engage local business communities (all firms, big, small, emerging) on the costs imposed by red tape. At the same time, care must be taken to ensure that existing businesses do not support certain kinds of restrictions to prevent a new firm from entering the market and becoming a competitor. For example, formal businesses may be opposed to informal or unlicensed traders because they regard them as unfair competition. Municipal leadership is required, to mediate between the demands of different business interests and promote the wider public interest.

Another important issue for municipalities is encouraging clear ownership title for land and buildings. Municipalities should do everything they can to ensure property rights are clearly demarcated and deeds are properly registered. The absence of clearly defined, individual property rights often acts as a barrier that traps people in poverty. People who cannot sell their land and/or buildings and need to occupy it in order to retain their rights to it will clearly be more disadvantaged in terms of mobility than those who can sell.

Step three: Building better relations between business and municipalities

Structured interactions between public- and private-sector stakeholders to promote the right conditions for enterprise-led development, improvements to the business climate, and economic development are vital for local economic growth.¹³

These dialogues and alliances should bring stakeholders together to define and analyse problems, to devise specific reforms and to work together to implement them. These dialogues do not have an impact if they are regarded as once-off events by either the municipality or business participants. Nor will they work if municipal officials lack a proper understanding of the role of business in generating jobs and growth, or if businesses are suspicious of officials' motives in the process. Building up trust takes time but is necessary. A genuine and common commitment to improving

¹³D.W. te Velde, *Effective state-business relations, industrial policy and economic growth*, 2010, Retrieved from: <https://www.odi.org/sites/odi.org.uk>; A. Kilroy, M. Mukim, S. Negri, *Competitive cities for jobs and growth : what, who, and how* (Washington, D.C. : World Bank Group, 2015)

“Municipalities should do everything they can to ensure property rights are clearly demarcated and deeds are properly registered.”

the city or town and the opportunities for its inhabitants has to be the bedrock of a successful interaction.

A World Bank report¹⁴ on local growth dialogues and alliances concluded that they produce positive results when they:

- Combine the capacity and leverage of private- and public-sector actors to improve the business environment and help businesses to exploit growth opportunities more fully;
- Ensure that interventions are aligned with the needs of local businesses by providing a platform for organised business and individual firms to communicate their needs to government;
- Secure private sector support for reforms and assistance in their implementation; and
- Make trade-offs explicit and thus prioritise policies according to their overall merits.

After evaluating effective city level dialogues across the world, the World Bank provides the following advice on how to structure these dialogues for maximum impact:

- High-level city leaders, preferably the mayor, should initiate and lead the dialogues to ensure that all parties take them seriously. Where the municipality is weak and unlikely to initiate or lead such a process, private sector groups can take the lead and seek to draw positive elements within the municipality into the process, but success is rare in these cases.
- Narrow them down to sectoral dialogues which tend to be more focused, less fragmented, and easier to manage. This is because businesses within a sector have a lot in common in relation to opportunities and constraints.
- Establish short-term state-business alliances with clear goals that will attract committed participants.
- Efforts must be expended to include SMEs and emerging businesses.
- The dialogues and alliances must not allow participants to lobby for private interests that will have a negative impact on the general benefits generated by the alliance.¹⁵

These dialogues and alliances have most potential in the large metros, but can also play a vital role in promoting growth or revitalising the fortunes of some secondary cities. This has been demonstrated in great detail through research undertaken in the USA (see box on *Working with business revitalises small towns in America*).

Step four: Public-private partnerships and privatisation

Not all service delivery and provisioning need be done by the municipality itself. Once relationships become increasingly constructive and levels of trust between public and private actors grow, it is worth exploring new ways in which private providers can be brought into the delivery of some essential services.

To avoid corruption and nepotism it is also vital that clear tendering processes are in place, and that these are monitored and enforced at the municipal level. Although

“A genuine and common commitment to improving the city or town and the opportunities for its inhabitants has to be the bedrock of a successful interaction.”

¹⁴D. Sivaev, B. Herzberg & S. Manchanda, *Public-Private Dialogue for City Competitiveness*, Companion Paper 7, (Washington D.C. : World Bank Group, 2015)

¹⁵D.W. te Velde, *Effective state-business relations, industrial policy and economic growth*, 2010, Retrieved from: <https://www.odi.org/sites/odi.org.uk>; A. Kilroy, M. Mukim, S. Negri, *Competitive cities for jobs and growth: what, who, and how* (Washington, D.C. : World Bank Group, 2015)

this may be difficult to achieve in smaller towns with small business communities, competition is an excellent way to promote efficiency and effectiveness. A good way to think about this is ‘the yellow pages test’ pioneered many years ago by Mayor Goldsmith in the American city of Indianapolis. Inheriting a city in financial trouble, Goldsmith and his team developed the practice of looking at the city’s yellow pages. If the phone book listed three companies that provide a certain service, the mayor decided that the city probably should not be in that business, at least not exclusively. The best candidates for delivering services effectively are those for which a bustling competitive market already exists. Goldsmith came to realise that a private monopoly, like the water company, might be less bureaucratic and more efficient than a government monopoly, but without the spur of competition, the difference in what could be expected in price and service is often not very exceptional.¹⁶

Working with business revitalises small towns in America

David Ivan of Michigan State University recently undertook research on over 300 small communities in 22 states in order to ascertain the economic potential of these types of places. He found that places like Grand Rapids, Michigan, and Dubuque, Iowa, are laying the groundwork for sustainable economic futures. Members of these communities worked with local government and business leaders to forge an alliance and develop ways to attract investment and talent to their cities.

In the 1980s, Dubuque had the highest level of unemployment in the region. Now, however, it is engaging young, university talent – despite the fact that this small city does not host any colleges or universities. In conjunction with its Chamber of Commerce, the city established Young Professionals organisations at each college and university within about a 60-mile radius. These offer an extensive internship program, and for graduates in certain high-demand fields who relocate to Dubuque, the city created a college loan repayment programme.

Ivan’s research finds that successful communities identify and engage residents to help craft and implement a long-term vision. Not everyone likes to go to community meetings. That is why Marshall, Michigan created an online “meeting in a box” for those who have great ideas but don’t show up to meetings. Repeatedly, the research found that successful, thriving cities were active and determined to push their community forward, no matter how small the steps. Simple, short-term reforms and initiatives can test concepts and build momentum for larger revitalisation efforts.

CDE 2017, adapted from A. Maher, Five Factors Driving Economic Growth in Small Cities, 2016

“Competition is an excellent way to promote efficiency and effectiveness.”

¹⁶See CDE, Creating Urban Citizens: Stephen Goldsmith & America’s new urbanism in the city of Indianapolis, 2003

Concluding remarks

The aim of business-government dialogues and alliances at the local level is to bring stakeholders together to identify challenges and opportunities, define and analyse problems, discuss and agree on specific reforms, and work to ensure that the suggested solutions are implemented. Ideally, they should become increasingly formalised. Critically, they must be inclusive. All kinds of businesses should have a voice and need to have their concerns considered when developing partnerships and local economic strategies.

It is important to stress that these dialogues should not become fora in which business tries to tell the local government what to do. Instead, the municipality needs to consider the broader public interest when deciding between competing demands. Ultimately, the local government is responsible for collective decision-making and it must lead the process to ensure that the public interest is as well served as possible. Nevertheless, local governments will have the most impact on their economies' growth if decisions about where to invest, how to provide services, what to lobby MPs and provincial and national governments for and which by-laws to enforce and which to scrap, are informed by an understanding of the needs of the economy and local business.

At the same time, effective government-business relations also depend on how businesses choose to become involved in the process – and how effectively and extensively they are organised. This is the issue we explore next.

Business's role in a local growth coalition

In this section we present some ideas for local businesses to consider in thinking about economic growth and job creation. How these ideas are adopted (or whether they are adopted at all!) depends on what is being done already within local business sectors across the country, and the extent and nature of the relationship between businesses and other local actors in the municipality concerned. They will not be helpful for everyone, but we hope that some firms in some of the cities and towns find these ideas useful and are willing to act on them in some form in the future.

Our starting point is that one of the foundations of enterprise-led growth and employment creation is the kind of relationship business forges with local government. For some time, however, the business sector in many if not most local areas has not been organised in a way that would maximise its chances of developing the effective, durable, mutually respectful and beneficial relationships with local government upon which higher, job-rich growth is predicated.

A key reason for the disorganisation and fragmentation of the business sector in many municipalities (both metro and local) is the large gulf between, on the one hand, established, largely white-owned, businesses and, on the other hand, emerging black businesses. There are many reasons why black- and white-owned businesses often believe that their interests diverge. It is also true that there are many issues on which they will disagree. For example, black-owned businesses in the townships will have a different set of infrastructure priorities to those that firms located outside the townships might have. In addition, it is likely that there will be suspicions among black business owners that white firms prefer to trade with each other, while white-owned firms may believe that black firms have an inside track to municipal contracts and tenders.

**“Ultimately,
the local
government is
responsible for
collective
decision-making
and it must lead
the process.”**

Another dynamic may be that some bigger businesses view SMEs as unworthy of their time and attention, while smaller businesses suspect that larger ones operate anti-competitively. There is also an increasing tendency for large corporate businesses to go straight to the national level of government with their concerns and ideas, as opposed to engaging at the municipal level together with their small business counterparts.

Addressing all these issues is not easy, but there are also significant areas in which all businesses in an area have shared interests. It is critical, therefore, to build a process that enables local business to speak with one voice when it can, but also allows for divergent interests to be debated where these exist. Unless and until this happens, it will be difficult to establish meaningful partnerships with municipalities and a solid foundation for enterprise-led growth. It would be a good idea to find ways of representing all the businesses, across sectors and sizes within a municipal region and then developing a clear and informed strategy for engaging with local, provincial and national governments. This will require intensive negotiations, locally informed research and commitment to a process of building trust and understanding across all sectors of the business community.

On the whole, business organisations nationally, and in particular localities, must get better at making the case for much higher and more inclusive growth as the precondition for addressing unemployment, poverty and inequality. They also need to focus on advocating effectively for the reforms that are needed to create an environment in which new firms can prosper and existing firms survive and expand.

Firms should not assume that the municipality knows how adverse regulations hold them back and how this affects their hiring decisions. The case against these regulations needs to be made and business should seek to work with the municipality to prioritise the reform of “high impact” by-laws. The list should also contain a clear analysis of how particular by-laws are constraining business activity as well as recommendations for how they could be reformed.

In itself, the list is a necessary but not sufficient step in clearing the way for growth; business must collectively be prepared to invest time and effort in supporting the municipality through the process of regulatory review and reform. A priority list is a useful first step but prolonged engagement and lobbying may be required to reform regulations in sensitive areas. Fundamentally, it is in the interests of the businesses to invest resources into regulatory reform processes. Apart from the gains in improving the business environment this could be the starting point for stronger public-private partnerships.

“Business organisations must get better at making the case for much higher and more inclusive growth.”

Accelerating enterprise-led growth: what to do and avoid doing

Prioritise	
<p>x If everything is a priority then nothing gets prioritised. Given the sheer scale of the unemployment crisis, municipalities cannot afford to indulge in a long list of little projects.</p>	<p>✓ To tackle youth unemployment at scale, municipalities must prioritise growth. This means, first and foremost, creating an enabling environment for business-led growth.</p>
Get the basics right	
<p>x A failure to deliver basic services, maintain roads and pay the municipality's bills imposes costs on businesses and undermines trust. A failure to receive a clean audit is indicative of a serious problem with the way the municipality is managed and will not inspire confidence from investors and local citizens.</p>	<p>✓ Starting with the basics and avoiding over-reach can help to attract investment, raise the quality of life in the region, and encourage greater cooperation between business and municipal officials. Avoid an unhealthy obsession with small-time, non-value adding vanity projects at the expense of public infrastructure maintenance.</p>
Know what you own	
<p>x Poorly maintained asset registers point to poorly established data collection routines and general record-keeping. In order to make the right decisions about where to invest scarce resources to facilitate economic activity and spur growth, municipalities need to know what they own. Without this knowledge, all municipal planning and service delivery will be based on faulty assumptions and will undermine local growth prospects.</p>	<p>✓ Municipalities are the custodians of infrastructure assets on which their future growth prospects depend, the replacement value of which, even in a small municipality, can amount to several hundred million Rand. All municipalities should therefore maintain detailed asset registers supported by robust general record-keeping and data collection processes.</p>
Stop patronage and cadre deployment	
<p>x If government is serious about growth and creating employment, then it must stop its reliance on patronage and cadre deployment when hiring new officials for key positions. A key consequence is placing unsuitable people in important positions as well as high staff turnover, which erodes institutional memory.</p>	<p>✓ Getting the right people with the right attitudes and capabilities in the right positions is key to addressing many of the key growth challenges at the local level. However, in some municipalities staff turnover will continue, and will undermine institutional memory. To mitigate this, a permanent record or database should be established that details partnerships created with business in past and summarises key success factors, lessons learned, etc. This should be easily accessible to all potential partners (including businesses and municipal officials) and should be circulated to all new municipal officials.</p>

Ignore infrastructure maintenance at your peril

x South Africa's municipal assets are being run down in some places at alarming rates due to inadequate maintenance, which then significantly raises future maintenance and replacement costs. The more infrastructure maintenance is neglected, the greater the risk of catastrophic breakdown of component parts and the reduction of future growth potential.

✓ Increase the proportion of spending going to maintenance and other essential infrastructural functions in your municipality, reduce the backlog in infrastructure maintenance, and ensure effective planning and execution of maintenance and upgrading projects. Start with public transport and improve road infrastructure between the main towns and townships in the municipality and neighbouring villages. This will increase the frequency and ease of trips between them. More trips mean more interaction between different areas within the municipality, and the potential for increased economic activity.

Value creating partnerships with business are vital for growth but depend on trust

x Growth depends on effective partnerships between government and business at all levels of government but especially at the local level, where business actually gets done. Without trust, there can be no basis for the establishment of meaningful, mutually-respectful, value-creating partnerships between the public and the private sectors from which durable growth prospects can emerge.

✓ Forge constructive relationships with all businesses in your area. This includes large employers, local business owners/entrepreneurs, international firms with local headquarters, firms in key growth sectors, and small business associations. Meet them regularly and work on understanding their most pressing constraints and how they might be eased.

Reduce red tape

x There are too many regulations driving up costs for business in SA. Some, like basic health and safety are essential, but others create unnecessary barriers for business growth. Red tape refers to superfluous municipal by-laws and unnecessarily complex regulatory processes surrounding activities related to business operations. The more red tape there is in a municipality, the higher the costs of doing business in that municipality and the less competitive affected firms become. It also becomes more difficult for municipalities to enforce the by-laws that really matter.

✓ All municipalities should embark on a fundamental review and interrogation of their by-laws, remove those considered unnecessary, and ensure the enforcement of those that remain. Zoning in towns, townships and villages should be simplified so that there are many areas where business can take place. Municipalities should also increase their "process efficiency" wherever possible. Improved turnaround times for building plan approvals, getting title deeds to new commercial property owners quickly, would have a positive impact on businesses.

Find the right balance between public and private

x Municipalities have a tendency to overreach and to overregulate. Municipalities should not do the things local private firms can do more efficiently. By not working to overcome the ignorance that may exist about the relative strengths and weaknesses of both the public and the private sectors, municipalities are prevented from playing the roles they could play in supporting businesses and developing opportunities for economic growth.

✓ Municipalities should look at how to involve markets and competitive enterprise in delivering on local urban needs. It would be far better to allow housing and commercial property markets to function efficiently than to build and manage housing stock. Governments need to have compelling reasons for entering these markets, whether as landlords or developers, before committing scarce public resources and managerial talent to doing so. Under the right circumstances, there could also be plenty of other opportunities to involve the private sector in delivering public goods and services, including refuse removal, water, schooling and public transport.

Play an active role in the investment decisions of SOEs in your municipality

X State Owned Enterprises (SOEs) own a lot of land and in some regions take decisions about its use and disposal without consulting municipalities. Municipalities should avoid letting SOEs make their investment decisions without considering implications for spatial and economic prioritisation and planning.

✓ Municipalities of all sizes must play an active role in SOEs' investment decisions. In particular, municipalities should develop proposals for how vacant land and buildings owned by SOEs could be put to better use to boost local economic activity. MPs, provincial and national government, and other key actors should be drawn into discussions if required.

Don't be afraid to experiment and innovate

X Municipalities should avoid simply "aligning" themselves with prevailing policy. Growth will not emerge from "box ticking" exercises but from the collective identification of unique strengths and advantages, the development of a strong local identity, and the exploration of, and appropriate experimentation with, different approaches informed by an understanding of local conditions and capabilities.

✓ Be brave. Test new ideas through pilot schemes with the potential to go to scale and designed and executed with the support of the local business community. Work with local actors to define the municipality's unique sectoral competitive advantage and develop an ambitious yet targeted vision for an economy that all stakeholders wish to see.

Create resilient businesses by focusing on core competencies in procurement

X Municipalities should avoid selecting suppliers for local government contracts based on 'jobs for pals' instead of core competencies. This acts as a disincentive to other, potentially more efficient businesses and promotes the spread of (growth-retarding) corruption.

✓ Objective procurement processes that focus on the core competencies of tenderers will, over time, develop resilient businesses that can stand on their own and that are more likely to expand, innovate and invest as their competencies develop.

Look beyond your borders

X Facilitating economic activity within municipal borders does not mean focusing solely on the identification of economic opportunities within your municipality.

✓ Be aware of the potential for opportunities in neighbouring municipalities that should be identified and linked for connections, partnerships, value addition, joint promotion with common purpose and concerted efforts towards a common benefit. Also make your business environment as attractive as possible to keep the businesses you have and to attract business investment from elsewhere.

Strengthen local voices for reform

Municipalities have a role to play in transforming the business environment in South Africa even though most of the regulations that raise the costs of doing business and/or increase uncertainty emanate from the national government. Municipalities, led by the mayor and senior officials and supported by the business community, could play a larger role in documenting the negative impact of these national laws, regulations and policies. They could together raise their collective voices in a city or town or region to push for national reforms. By pointing out that new proposed national regulations will likely lead to the closure of a local industry, for example, a mayor of a town could at least make these kinds of costs more visible and costly for legislators.

Careful consideration and a lot more research could go into putting together a 'lobbying strategy' for a city like Mbombela (Nelspruit), for example. The aim would be to use the combined muscle and influence of council, political parties' local branches, leading businesses and their local and national organisations, as well as churches, NGOs and other local organisations – especially those representing the interests of young and unemployed people – to develop a clear strategy around negotiating the best policy outcomes from provincial and national governments. Such strategies could explore all possibilities: pressure on local MPs and members of provincial legislatures or perhaps a cabinet minister who comes from the area. Can forums and structures, like the South African Local Government Association (SALGA) and the South African Cities Network (SACN) help strengthen their case and their 'voice' for change? What are the possibilities of linking up with other regional groupings of towns in similar positions, to strengthen their negotiating position? Are there senior business leaders from the area now in national positions that could be of assistance? Can they find professional advice in designing and implementing an effective media (including social media) strategy in the province and in the country?

Youth organisations as well as those local organisations concerned to give unemployed young people a stronger voice, should also become much more vocal in demanding the reforms that will generate jobs. Local youth organisations should demand more of organisation like the National Youth Development Agency, whose engagement with young people in local areas is patchy at best and who have in the past pushed for high-wage policies that are contrary to the best interests of the vast majority of young unemployed South Africans.

Youth organisations should explore ways to work together with businesses and educational institutions in their regions to create a network of job opportunities, apprenticeships and volunteering programmes. The more the private sector is involved in the design and execution of such programmes, the more likely they will succeed. Organisations should remember that businesses offer young people a direct link to the labour market and the best prospects for long-term prosperity.

Business, jobs and young people in South Africa

Youth unemployment is a national crisis. It leaves millions and millions of young people in limbo, unable to lift themselves out of poverty, unable to make a proper, dignified transition into adulthood and unable to contribute positively to building a better, more cohesive and prosperous South African society.

“Youth organisations should become much more vocal in demanding the reforms that will generate jobs.”

South Africa has to achieve higher and more labour intensive growth in as many local areas as possible, as well as nationally. This is the only way our society will be able to create the numbers of jobs required to start turning the tide on the ever expanding unemployment crisis for young people.

In addition to their fundamental and immediate contribution to earnings, jobs affect other dimensions of well-being. Not having a job undermines mental health and encourages anti-social and self-destructive behaviour. More than two decades of international research on poverty dynamics shows that jobs are the main escape route from poverty. The head of a household taking a new job, family members starting to work, working family members earning more from their labour, these are the ways in which households have primarily pulled themselves out of poverty.

Concluding remarks: Citizens in action

Activists concerned about youth unemployment in the country and in their communities need, therefore, to organise and demand the reforms that will produce many more of the kinds of formal jobs for which those who are currently unemployed can qualify. Private firms will generate most of these jobs. The private sector is the main engine of job creation and the source of roughly nine of 10 jobs in the world. We need dramatically to multiply the number of private firms that create jobs for the workforce we have rather than for the abundance of skilled workers we would like to have. To do that we need a broad reform programme that makes it easier for firms to become established, to grow, and to hire the large numbers of young, inexperienced, relatively unproductive people who are currently languishing in unemployment.

Activists, business leaders, business organisations, government officials and political parties who really want to confront the country's crisis should all focus on achieving the reforms that would spur a new era of enterprise-led growth in South Africa. And in the smaller cities and towns with economic potential, where many young unemployed people find themselves, enterprise-led growth opportunities will emerge if municipalities and local businesses begin to build better, more constructive relationships.

Officials and business representatives need to come together regularly to define and analyse problems, to devise specific reforms, and to work together to implement them. Such interactions cannot deliver results if municipal officials do not have a proper understanding of the role of business in generating jobs and growth, or if businesses are suspicious of officials' motives in the process. Building up trust will be challenging, but it is absolutely vital for South Africa's future.

In this guide, CDE has reflected on what actions local citizens concerned about youth unemployment in their regions could undertake to tackle the crisis. In the context of municipalities with widely varying capacities and huge differences in economic potential, CDE advocates that citizens, business leaders and local officials put more energy into building local growth coalitions and place less emphasis on projects and programmes that sometimes make local people a little better off but fail to address the root causes of the unemployment crisis.

“Jobs are the main escape route from poverty.”

We are not arguing that all projects are bad and should be abandoned, nor do we believe that building better business-government relationships will create millions of new jobs overnight. What we are convinced of, is that, where such efforts bear fruit, undertaking the kinds of initiatives that we have outlined in this report will move the country in the right direction: away from the failing economic system in which we find ourselves, towards a more dynamic, labour-intensive, enterprise-led system in which more and more excluded people and especially young unemployed South Africans will have an opportunity to participate and prosper.

To get to that point many reforms and initiatives, on a large scale, are required. To understand what needs to be done at a local and a national level, this guide – which is the third report in CDE’s series Youth Unemployment: an agenda for action – should be read in conjunction with the other two reports in the series:

- *No country for young people: The crisis of youth unemployment and what to do about it;*
- *Business, Growth and Inclusion: Tackling youth unemployment in cities, towns and townships.*

“Building up trust will be challenging, but it is absolutely vital for South Africa’s future.”

Youth unemployment 'hot spots'

Municipality	Major Towns	Youth unemployment-broad (%), 2011	Youth unemployment-broad (number), 2011	Youth unemployment-narrow (%), 2011	Youth unemployment-narrow (number), 2011	Total unemployment, narrow (%)-2011	Economic growth rates, 2011	Population density, per square kilometre	Poverty Levels		Human capital	
									Income poverty (%)	Multi-dimensional poverty (%)	Matric (20-24), number	Higher Edu(20-24), %
Bushbuckridge	Bushbuckridge	75.6	78 113	64.6	46 000	52.1	1.3	53.7	84.0	34.8	23 464	2.8
Thulamela	Thohoyandou	71.9	70 028	58.3	38 000	43.8	1.7	105.5	79.9	38.9	22 424	7.2
Greater Tubatse	Burgersfort	66.8	47 296	59.6	35 000	50.3	1.9	72	74.0	44.4	10 420	4.0
Makhado	Louis Trichardt	63.7	52 942	49.6	30 000	36.7	2.1	61.9	78.8	37.7	15 443	4.7
Matjhabeng	Welkom	57.6	53 618	49.7	39 000	37.0	-0.8	78	62.0	29.4	16 342	5.8
Nelson Mandela Bay	Port Elizabeth	55.7	146 719	47.3	105 000	36.6	3.6	585.7	57.6	26.2	47 038	7.0
Buffalo City	East London	55.1	91 253	45.1	61 000	35.1	2.6	295.8	60.9	30.7	28 559	6.9
Emfuleni	Vereeniging	52.4	94 411	45.0	75 000	34.7	1.0	740.8	52.8	20.4	38 794	9.6
Msunduzi	Pietermaritzburg	50.0	70 000	43.1	53 000	33.0	1.5	955.5	57.7	23.7	33 729	7.8
Polokwane	Pietersburg	49.6	68 040	42.0	50 000	32.4	1.7	164.3	62.5	26.5	30 701	9.2
eThekweni	Durban	49.1	466 193	39.0	309 000	30.2	4.0	1 474.8	52.5	22.7	207 434	7.3
Mbombela	Nelspruit	48.4	71 549	37.6	46 000	28.1	1.5	109.5	62.8	25.0	30 497	4.9
Mangaung	Bloemfontein	45.6	79 146	37.2	56 000	27.7	2.9	117.7	54.5	25.2	37 585	9.3
Madibeng	Brits	44.8	58 090	38.2	44 000	30.4	2.0	121.8	52.9	34.9	19 652	3.9
Ekurhuleni	East Rand	43.9	414 333	36.9	310 000	28.8	4.4	1 588.6	44.2	23.6	164 699	8.1
Emalahleni	Witbank	43.1	48 953	36.0	36 000	27.3	2.4	145	40.3	27.0	19 682	7.3
Rustenburg	Rustenburg	40.9	64 393	34.7	49 000	26.4	3.4	158.9	40.6	27.7	25 187	4.4
City of Tshwane	Pretoria	39.9	325 644	32.6	237 000	24.2	3.6	457.5	38.9	19.9	161 419	13.0
City of Cape Town	Cape Town	39.8	392 583	31.9	277 000	23.9	3.9	1 519.5	42.4	22.5	154 339	8.9
City of Johannesburg	Johannesburg	38.4	524 410	31.5	387 000	25.0	3.7	2 660.1	39.0	19.1	237 765	10.6

CDE 2017, Based on StatsSA Data & SALDRU Research¹⁷

¹⁷The source for much of this data is Census 2011 (which in many cases is still the most up to date regional data available). Youth covers those who are aged 15-34. The narrow unemployed numbers are taken from the StatsSA website (<http://www.statssa.gov.za>); the broad definition numbers were emailed to us from StatsSA. Economic growth rates are from: HSRC's The City of Johannesburg Economic Review 2013; D. Wilson, A regional Economic Overview: Focusing on rural and concentrated economies, 2012; South African Cities Network Emfuleni: Stealing the River City (2014); City of Polokwane's Performance of the Local Economy Brochure (2014); Mbombela Local Economic Development Strategy Review (2015); Housing Development Agency: Municipal Profile (2015). The poverty data we present shows, firstly, both the percentage of the population living on an income below the Stats SA's 2015 upper-bound poverty line of R779 per person per month in 2011 prices. We also present the multi-dimensional poverty levels for each region, based on criteria developed by SALDRU. For an explanation of these measures see: Arden Finn, Murray Leibbrandt, Ingrid Woolard, The significant decline in poverty in its many dimensions since 1993, 29 July 2013. Numbers for population density, poverty levels, and human capital are taken from Youth Explorer (<https://youthexplorer.org.za/>).

Background Research Papers

These reports are available at www.cde.org.za/unemployment/

CDE Commissioned research

Active Labour Market Interventions for Youths across the World: Evidence on Overall Effectiveness, Decentralization, and Implementation

Jochen Kluge, Humboldt-Universität zu Berlin and RWI

A Review of Entrepreneurship and Entrepreneurship Policy: Lessons for Emerging Economies

Ross Brown, University of St Andrews

Public Funding to Address Youth Unemployment

Jonathan Carter, Cornerstone Economic Research

Review of Government Labour Centres

Angela Biden and Conrad Barberton, Cornerstone Economic Research

Rustenburg Municipality Case Study: Examining the Pathways to Employment

Angela Biden and Conrad Barberton, Cornerstone Economic Research

Is it Possible to Promote Entrepreneurship at Scale in South Africa? A Review of the Evidence

Gareth Roberts, University of the Witwatersrand

Local Economic Growth Study: Johannesburg and Mbombela

Nadia Kruger-Levy and Andreas Bertoldi, RebelGroup Advisory Southern Africa

Local Economic Growth Study: Cape Town & Madibeng

Karin Badenhorst

Apprenticeships for Youth Employment

Ken Duncan, Swiss-South African Co-operation Initiative

Think pieces

South Africa's youth Employment Tax Incentive (ETI) as a solution to unemployment

Neil Rankin, University of Stellenbosch

The UCT Poverty and Inequality Initiative's Youth Explorer: Understanding Youth Well-being at the Small Area Level

Ariane De Lannoy, University of Cape Town

Evidence-based innovations: Can they go to scale? A perspective from J-PAL Africa

Laura Poswell, J-PAL Africa

What are the Missing Puzzle Pieces to Build Real Scalable Solutions to the Youth Unemployment Crisis?

Maryana Iskander, Harambee Youth Employment Accelerator

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CDE Publications

These reports are available at www.cde.org.za

Jobs and Growth

CDE Growth Agenda: Priorities for mass employment and inclusion, 2016. This is a series of seven reports:

- Insights and Key Recommendations, 2016
- Jobs, 2016
- Accelerating Inclusive Growth, 2016
- Cities, 2016
- Skills, 2016
- Business and Government, 2016
- An Export Processing Zone for the Nelson Mandela Bay Metro, 2016

A dozen questions about the National Minimum Wage, 2017

Job destruction in the South African clothing industry: How an alliance of organised labour, the state and some firms is undermining labour-intensive growth, 2013

Rethinking South Africa's labour market: Lessons from Brazil, India and Malaysia, 2013

Graduate unemployment in South Africa: A much exaggerated problem, 2013

A fresh look at unemployment, 2011

5 Million Jobs-A job for every South African: Practical proposals, 2009

The Skills Revolution: Are we making progress? 2007

Labour-intensive public works: Towards providing employment for all South Africans willing to work, 2003

Why is South Africa failing to get the growth and jobs that it needs? 2001

Unemployment: The numbers and implications for South Africa, 1996

Youth Unemployment

Cities of Hope: Young people and opportunity in South Africa's cities, 2014

Coping with unemployment: Young people's strategies and their policy implications, 2012

Routes into formal employment: Public and private assistance to young job seekers, 2012

Jobs for young people: Is a wage subsidy a good idea? 2010

South Africa's 'door knockers': Young people and unemployment in metropolitan South Africa, 2008

Paths to Employment: Challenges facing young people in accessing the job market, 2007



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5 Eton Road, Parktown, Johannesburg 2193, South Africa | P O Box 1936, Johannesburg 2000, South Africa
Tel +27 11 482 5140 | Fax +27 11 482 5089 | info@cde.org.za | www.cde.org.za