Oxford Policy Management

The South Africa Jobs Fund

Formative Evaluation

Final Report

6 March 2013

Acknowledgements

The evaluation team wishes to express its thanks to the National Treasury and its partners, the Development Bank of South Africa (DBSA) and Genesis Analytics, for their cooperation during the evaluation. Special thanks go to the National Treasury Project Management Unit for organising the evaluation schedule and to DBSA for facilitating the group discussions and workshops.

Full responsibility for this report rests with the authors. In common with all evaluation reports, the views contained in this report do not necessarily represent those of the organisations and people consulted.

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Preface

Oxford Policy Management (OPM) has been appointed by the National Treasury to provide evaluation services in relation to the Jobs Fund. Being a high profile government initiative, there are a number of stakeholders with an interest in the Jobs Fund's success. The primary users of the evaluations are the National Treasury as the programme owner and funder and the DBSA as the implementing agency.

The formative evaluation is the first evaluation task to be conducted under this arrangement. The aim of the formative evaluation is to assess the extent to which the early elements of the Jobs Fund have been realized as well as the effectiveness, efficiency and relevance of the governance, institutional and operational frameworks set up to date, relative to the Fund's mandate.

The evaluation was commissioned in October 2012 and the principal fieldwork took place during a two-week mission in November 2012 by the main evaluation team. A follow-up mission to gather feedback on the draft evaluation report was conducted by David Hoole and Robert Smith in January 2013. The consultants also supported a dissemination workshop, at which the findings of the evaluation were communicated, in late February 2013. During the period of the evaluation, a major restructuring of the Fund's implementing agency, the Development Bank of South Africa, was announced. During the period the portfolio of approved projects supported by the Fund also grew, from 34 to 65 projects, as the Fund completed the processing of applicants from the second Call for Proposals.

In accordance with the approach set out by OPM in its technical proposal, the evaluation placed considerable emphasis on involving staff from the National Treasury and DBSA in the evaluation and on communicating findings. The team has been impressed with the way the National Treasury has engaged with the evaluation, seeing the potential value of the study and seeking to ensure the evaluation would be as useful for them as possible. One visible result of this process has been a restructuring of this final report compared from the draft that was presented in December 2012, to a structure focussed on the major findings of the evaluation and on recommendations.

The team is encouraged by the feedback received on the draft final report which suggests that the National Treasury and the DBSA plan to use the evaluation to inform the future development of the Jobs Fund.

Executive Summary

Introduction

S1. This report provides a formative evaluation of the South Africa Jobs Fund. The aim of the evaluation is to assess the extent to which early elements of the Jobs Fund have been realised as well as the effectiveness, efficiency and relevance of the governance, institutional and operational frameworks set up to date, relative to the Fund's mandate. The formative evaluation seeks to address the following four main evaluation questions:

- Are the currently established institutional, governance and operational structures effective and are they the most appropriate to reap the highest returns in a cost-effective manner?
- Have the identified funding windows captured the relevant and most beneficial sectors to create sustainable employment in South Africa over the next five years?[1]
- Does the DBSA's operational structure effectively and efficiently address the tasks required to complete the mandate as articulated in the MoA?
- Have the various institutional and operational procedures implemented covered all aspects for good management of the Jobs Fund?

The evaluation was undertaken in November 2012 by a team from Oxford Policy Management, a UK consultancy company with offices in South Africa.

The Jobs Fund

S2. The Jobs Fund was announced by the President of South Africa in February 2011. The objective of the Fund is to co-finance innovative public and private sector initiatives that will significantly contribute to job creation. The Fund operates on challenge fund principles and aims to act as a catalyst for innovation and investment in new business approaches that directly contribute to long term sustainable employment creation. During its initial phase of operation, the Fund has identified four broad funding windows:

- **Enterprise Development –** for investments in new business models, product development, etc., designed to broaden access to economic opportunities and job creation.
- **Infrastructure Investment –** for local infrastructure investment projects which directly enable enhanced investment and job creation.
- **Support for Work Seekers –** for programmes with a particular focus on unemployed youth such as job search projects, training activities, career guidance and placement services.
- **Institutional Capacity Building –** for projects aimed at strengthening institutions through which jobs are created, including internship and mentorship programmes.

S3. The Minister of Finance is the Executive Authority for the Jobs Fund. Oversight is exercised through the National Treasury, the Development Bank of Southern Africa (DBSA) has been appointed by the National Treasury as implementing agent for the Jobs Fund programme.

[1] A sustainable job is defined as a job not requiring public funds after the period of grant funding

S4. The Jobs Fund was established by government to encourage innovation and give greater impetus to initiatives with potential to generate sustainable employment. A particular emphasis is placed on the need to create employment and skills development opportunities for young people. The Fund aims to catalyse innovation in job creation through structured and strategic private and public sector partnerships. It awards once-off grants to partner organisations through a competitive project application and appraisal process.

S5. A key distinguishing feature of the Jobs Fund is its size - an amount of R9 billion has been set aside for the Fund to be allocated over a 5 year period. The Fund portfolio currently comprises 65 approved projects across the four funding windows and nine provinces of South Africa. Currently approved projects are projected to create over 100,000 new permanent jobs (other targets include beneficiaries trained and placed in employment, completed internships and short term jobs created). To date, a total of R3.4 billion has been allocated by the Fund.

S6. The success of the Jobs Fund will be judged, by in the first instance, by the establishment of a portfolio of sustainable employment initiatives across all the funding windows, which together yield 150,000 sustainable jobs in a three to five year period. However, its longer term potential lies with the identification, development and operation of innovative models, partnerships and initiatives in different sectors from which valuable lessons are derived which inform longer term approaches to employment creation. It thereby aims to create a transformative improvement of the prospects of unemployed people in South Africa.

Findings and Recommendations

Relevance

S7. The strategic framework of the Jobs Fund is logically constructed in terms of identifying the most appropriate opportunities and sectors. The strategy identifies the context which gives rise to the logic of the Jobs Fund, namely a narrow unemployment rate has remained in the 25-30 per cent range over the last decade and an additional 2 million workers have given up searching for work. The strategy’s problem statement is well articulated and is supported by available evidence.

S8. The broad approach to addressing these issues which underpins the strategy is appropriate. The Jobs Fund aims to tackle unemployment from both the demand and the supply side, with a focus on creating entry-level jobs for those with limited skills, particularly women and young people. In its own words, the Fund aims to ‘catalyse innovation in job creation through structured and strategic private and public sector partnerships’ which creates further potential for impact.

S9. However, the broadness of the windows, and the specific instructions around which issues the projects should address, have given rise to well documented problems. These include misinterpretation and a large number of ineligible applications, diverse responses resulting which could not be compared to each other in any meaningful way, and an overall lack of innovative, scalable models which addressed systemic blockages to job creation. The team found that public sector projects constituted close to half of all approvals at a significantly higher cost-per-job created compared with the private sector. The allocation of approved projects across sectors is not currently reflective of those identified in the Fund’s strategic framework as having a high job creation potential.

S10. To ensure that these shortfalls in the portfolio are addressed, it is recommended that future rounds of the Jobs Fund should be more focussed and carefully designed. This implies that in future rounds a ‘themed’ approach should be taken in each window. Within each window selected themes would have their own eligibility criteria. There is also the need to distinguish innovation from scale up of ideas that have already been piloted.

S11. It may also be useful for the Fund to develop different criteria for awarding funding to the public and the private sector linked to the mandate and function of each from a Jobs Fund perspective.

Governance, Organisation and Procedures

S12. The Jobs Fund is structured along the lines of a challenge fund, but in practice, the delegation of responsibilities is relatively inefficient and has given rise to overlaps of some responsibilities and unclear powers in the case of changes to grant projects.

S13. The institutional set up of the Jobs Fund is encapsulated in the Memorandum of Agreement between the National Treasury and the DBSA. The practice in the early stages of the Jobs Fund placed its operations under the umbrella of the Development Fund, a separate legal body owned to the DBSA. This decision created a number of issues and tensions and some duplication of functions that added complexity with little additional benefit. We understand that recent developments tied to the restructuring of the DBSA will result in a simplification of this structure.

S14. The governance procedures are detailed in the terms of reference of the committees of the Fund, formal and informal, and are generally fit for purpose. However, procedures have only been partially adopted and additional responsibilities have been assumed, especially by the National Treasury and the Investment Committee. The early performance of the fund management gave rise to multiple practical issues and these have resulted in the development of an operations committee within the National Treasury that supplements the fund's management in a number of matters, including the quality control of concept note selection, the application of evaluation logic and reporting, and more recently fund marketing and awareness raising, especially around seeking innovation. The assumption of these functions may give rise to issues around accountability.

S15. The National Treasury looks to the IC to provide more than concept selection, grant award and grant project review services. It is also apparent that the members of the IC have views relating to a variety of issues that would perhaps characterise it more accurately as the 'board' of Jobs Fund. However, the membership of the IC in carrying out these board-style functions is not representative of the interests of the Jobs Fund with an over representation of fund manager, the DBSA, and under-representation of the National Treasury. The IC is also looking at relatively immaterial issues.

S16. Despite the proliferation of governance structures, there appear to be some key functions that are not being addressed, especially around the development of round-by-round objectives that will produce projects that more closely meet the Jobs Fund's policy and objectives. Comments received by the evaluation team suggest that the Advisory Committee of the Jobs Fund is not a body that will provide overall strategic guidance, reflecting instead the more parochial interests of Ministry members.

S17. The DBSA has not effectively ring-fenced the management of the Fund and a number of processes and procedures appropriate for DBSA operations appear to have led to adverse outcomes (e.g. overly conservative concept selection, cumbersome legal services). Some elements within the DBSA culture, especially in the Development Fund's senior management and in legal services, have interpreted the fiduciary responsibilities of DBSA too strictly leading to confusion around whether grants are repayable in the case of a project failing to meet its targets.

S18. In terms of effectiveness, efficiency and relevance, the team found the organisational structure to be currently relevant to DBSA's agenda, but not totally relevant to the overall aims of the Fund, expressed in terms of providing the capacity for the current and expected work levels and the skills required to deliver the mandate. The DBSA-led structure has led to wasted costs in terms of efficiency, through inefficient management structures and some unnecessary processes. Strict budgetary limits reflected in the NT-DBSA memorandum of agreement provide severe cost constraints which do not reflect an expected short-to medium-term management expense bulge, which will occur even if the fund is managed with more efficient processes and streamlined management and oversight.

S19. We recognise that the governance structure currently adopted has arisen because of practical issues that arose from the fund's rapid start. However, we recommend the following adjustments to be made, largely to ensure the smooth and efficient running of the fund and to align accountability to authorities:

- Create a formal mechanism that considers governance and operational arrangements. The mechanism will involve meetings between the NT and the DBSA.
- Provide for a round design function reporting to the NT, effective from the 4th call for proposals.
- Rethink the membership of the IC and streamline its functions to ensure the workload is manageable. The IC's role should exclude operational matters, and is focused on its three core functions of concept selection, grant approval recommendation and review of grantee project progress.
- Formalise the activities of the PMU's New Business Committee. The scope, competence and membership of the committee needs to be agreed with the IC, given that the committee makes recommendations supporting or not supporting concepts.
- Disband the Technical Evaluation Committee. Useful work carried out by the current members can be accommodated as expert comments or sign off, to accompany concepts and applications considered at the IC.

S20. The review team feel that it would require a combination of factors to improve the management of the Jobs Fund to the desired standard:

- A move to a project management focussed organisation chart, to improve the effectiveness of grant funded projects and perceptions of grantees regarding the professionalism and responsiveness of staff, coupled with
    - a devolvement of powers to make project managers more accountable, whilst aligning other accountabilities with responsibilities, and in the process eliminating unnecessary approvals and second guessing, and
    - Improved training to ensure that staff follow agreed processes and procedures, so improving compliance and control.

S21. The review team recommends that the PMUs organisational structure needs to move to project management mode now, and a proactive process adopted to align the structure with needs in the future. Central to the concept of efficient, risk based project management is the development of project teams.

S22. The DBSA needs more project managers at both senior and junior levels. The overall expense profile for Fund management will increase in the medium term. With an expected 250 projects, and an average outstanding number of projects of perhaps 150 over each of the next three years, this equates to about 25 senior project managers and about 20 junior managers, a substantial increase over current staffing levels.

S23. We provide a number of recommendations to improve and streamline the procedures of the Jobs Fund to improve efficiency and better enable it to meet the expected future workload of the Fund. Issues addressed include training and the use of and compliance with the Grant Management System, concept note processing and approval, improvements to due diligence at full application stage, grant contracting, project progress reporting and grant claim management.

Round Design

S24. The review team did not analyse the portfolio in detail for adherence to the strategic framework of the Jobs Fund but, at a gross level, it is clear there is a direct correlation between the four windows of the fund and the thinking present in the strategic framework document. The framework identifies priority sectors as: agriculture and agro-processing, tourism, construction, housing and infrastructure, business process outsourcing, the green economy, manufacturing and mining. That some subsectors have greater job creation potential is confirmed by the experiences of the Africa Enterprise Development Fund and McKinsey Global Institute[2], which both suggest that within agriculture there are sub-sector opportunities that would create more net jobs than others for the same level of investment.

S25. The strategic framework suggests that the DBSA should test these sectors against its own research and refine and select final priority sectors. The criteria for selection of the priority sectors relate to labour intensity, competitiveness, growth potential and secondary factors, for example contribution to food security or rural development.

S26. Comments and opinions received by the team, as well as the limited sectoral coverage of projects evident in the Fund's monitoring reports, suggest that DBSA has not responded adequately to the challenge of test the sectors and subsectors in which the Fund invests against its own research. It is recommended that The Jobs Fund adopt a different approach from calls for applications in round 4, and develop themes based on detailed analysis of economic sectors and subsectors that provides a detailed strategy for Jobs Fund engagement in those sectors and subsectors.

S27. The National Treasury should take ownership of the process of round design at least to the point of setting the themes and the term sheet. At present this process is devolved to the DBSA but has not been adopted by the DBSA. The focusing process will require some rethinking around some procedures incorporated in the operations and other manuals

Evaluation

S28. The headline performance target for the Jobs Fund is the creation of 150,000 sustainable full time equivalent jobs within a three to five year period. The key issues on measurement of this headline relate to the definition of a job, and whether gross or net jobs should be adopted.

S29. We understand that significant differences exist on whether the definition of a job should be restricted to "decent jobs" using the ILO definition of a decent job, or whether more informal jobs should be supported. The NT has decided not to over-define a job, hence allowing informal jobs to be created. Within the South African job structure, the view of the formative evaluation team is to support this measure as long as there is a detailed description of measurement. Unless there is an

[2] McKinsey Global Institute – Africa at Work – Job Creation and Inclusive Growth (Aug 2012)

alternative definition to be used across all job creation initiatives in the South African Government, NT should agree a definition with the PMU for a decent job that provides certainty in the definition of a job.

S30. We note that, as part of the measurement framework of the Jobs Fund calls on measures of gross jobs created. Whilst this is a relatively easy number to define and measure within the framework of discrete grant funded projects, there is a significant risk that the true impact of the funded projects may be considerably less than the gross jobs created due to a variety of factors. The choice of the gross job metric may also provide incorrect incentives in the selection of projects for funding, and may provide instances of projects being funded that were going to happen in any case.

S31. We recommend that the NT should adopt a net jobs measure and attempt to ascertain subsector additionality variables of deadweight and displacement as part of studies carried out for round design, i.e. at the theme level. The primary reason for selecting a net job measure probably lies in the risks that the Job Fund stakeholders could face from its critics, who might feel that the net measure is in use in many countries which have similar programmes, and which use economic additionality principles to demonstrate justification for the use of public funds and value for money.

S32. Evaluation services is a relatively minor function in the Jobs Fund and understaffed and no budget is provided for individual grant funded projects. There appear to be misconceptions in the Jobs Fund PMU around the roles of monitoring (that is, project progress assessment) and outcome evaluation. In the challenge fund environment, project progress assessment is the responsibility of the project management team, reporting issues to the Investment Committee. Evaluation is a specialist service looking at project outcomes.

S33. We recommend that the M&E department should be renamed the Evaluation Services department, reporting to the CIO and IC. The department would:

- develop independent evaluation plans and budgets for the Fund as a whole and for each individual project.
- Provide detailed definitions of “jobs” (gross and net) and the use of proxies and get this approved by NT and IC and ensure this is widely understood by all stakeholders
- Provide advice to project teams and grantees on the likely net job impact of concepts and applications and the estimated grant cost per net job created

S34. For approved concepts, Evaluation Services should work with the assigned PMU Project Manager to refine the net job calculation and ensuring that these aspects are considered as part of the evaluation plan and suitable funding request for evaluation is made at the time the application is considered by the IC.

Value for Money

S35. The Strategic Framework of the Jobs Fund effectively provides ‘a vision of how the objectives of the Fund will be pursued with a view to securing value for money and maximum impact’. References to VFM are made in the procedural and operational documents of the Fund and VFM forms part of the assessment criteria relating to the selection of concept notes.

S36. The review team were surprised by the relatively low profile given to ensuring that the Jobs Fund delivers VFM. The Fund is tasked with delivering a significant reduction in the cost-per-job created compared with other government programmes. However, in the opinion of several interviewees, a combination of the pressure to announce a pipeline of approved projects, significant failure to adopt the normal efficiency measures of a challenge fund, and a focus on measuring gross jobs created has created perverse incentives and undermined VFM.

S37. The recommendations already mentioned in the previous sections – addressing relevance, governance, operations and procedures, round design and evaluation – will significantly improve VFM of the Jobs Fund, as outlined below:

- Better targeting of future rounds of the Jobs Fund by choosing themes with demonstrated need for investment and job creation potential would deliver improved VFM across all the four Es
- To improve economy, benchmarking expert rates and overheads, strengthening procedures for calculating investment to better match these to the applicants 'need for grant', setting limits for grant as a % of project cost and including these as selection criteria, and providing advances only when required and not as a matter of routine
- To improve efficiency, designing more efficient governance and operational processes to improve responsiveness and timeliness, and ensuring staffing in DBSA is adequate to handle effectively all stages of the challenge fund lifecycle.
- To improve effectiveness, the choice of net over gross jobs as a measure of performance, providing a more proactive project management service to improve the potential of grant funded projects, and adequate funding of evaluation services. The choice of equity as a specific measure of VFM is also recommended to improve effectiveness.

S38. In the view of the review team the operational budget of the Jobs Fund, at 5% of the Fund value, does not accord with the expected level of activity required to run the Fund effectively. The measures summarised above can, however, improve the cost-effectiveness of current operations and could reduce the rate at which costs could be expected to rise as the portfolio grows

Summary of Recommendations

Recommendations	
Relevance	1. Future rounds should be highly focussed 2. The Fund should support large initiatives which themselves have the capacity to work with a large number of smaller scale initiatives 3. The Fund should consider developing different criteria for awarding funding to the public and private sector 4. The Fund should consider focusing on specific areas of the economy where innovation is likely to address specific labour market issues
Governance	1. Create a formal mechanism that considers governance and organisational arrangements ('Governance and Operations Committee') 2. Provide the round design function reporting to the NT from the 4th call for proposals 3. To speed up the process and strengthen accountabilities, disband the Technical Evaluation Committee (but retain the function of expert comment and sign off)

	4. Formalise the activities of the DBSA's NBC in agreement with the IC 5. Rethink the membership of the IC and streamline its functions to ensure the workload is manageable
Organisation	1. The DBSA PMU should move to a project management focussed organisational structure 2. The PMU needs to recruit more project managers at both senior and junior levels 3. The skills set of the DBSA PMU needs to be improved by training
Procedures	1. Provide training in the use of the GMS, populate it with key documents and ensure compliance in its use Implement the review team's specific recommendations in the following areas: 2. Concept note preparation and submission 3. Concept note processing, marking and approval 4. Due diligence and the full application phase 5. Contracting 6. Project progress reporting 7. Grant claims and payments
Round Design	1. Adopt a different approach to round design, based on themes derived from detailed analysis of economic sectors and subsectors 2. The NT should take ownership of the round design process at least to the point of setting themes and term sheets 3. The IC should agree definitions of acceptable innovation 4. Change specific procedures to support the round focussing process and improve value for money
Evaluation	1. The NT should agree the definition of a 'decent job' with the DBSA 2. The DBSA should track other jobs created that do not meet this definition 3. The NT should adopt a 'net jobs' measure and attempt to calculate subsector additionality variables of deadweight and displacement 4. Evaluation services should estimate the net job impact of each concept put to the IC 5. Evaluation services should refine the net job calculation of each full application and support the development of a suitable evaluation plan 6. The M&E Department should be renamed Evaluation Services, reporting to the CIO and IC.
Value for Money	The above recommendations would improve value for money across the 4 Es. In addition, the Fund should: 1. Adopt 'equity' as a separate assessment criteria when considering VFM

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List of Abbreviations	
ABIF	The Afghanistan Business Innovation Fund
AC	Advisory Committee of the Jobs Fund
CIO	Chief Investment Officer of the Jobs Fund
CN	Concept note
DBSA	The Development Bank of South Africa
DCED	Donor Committee for Enterprise Development
DFID	UK Department for International Development
ES	Evaluation Services
GMS	Grant Management System
IC	The investment Committee of the Jobs Fund
ICT	Information and Communications Technology
JF	The South Africa Jobs Fund
M4P	Making markets work for the poor
M&E	Monitoring and Evaluation
MoA	The Memorandum of Agreement between the National Treasury and the Development Bank of South Africa
MTR	Mid Term Review of the Jobs Fund
NGO	Nongovernmental organisation
OPM	Oxford Policy Management Ltd
PD	Project Director
PMU	Programme Management Unit of the Jobs Fund
PPP	Public private partnership
QA	Quality assurance
RPCF	Remittances and Payments Challenge Fund, Bangladesh
SA	South Africa
SE	Summative Evaluation of the Jobs Fund
SETA	Skills education training authorities
Shiree	DFID's Economic Empowerment of the Poorest programme, Bangladesh
SPM	Senior Project Manager
TEC	The Technical Evaluation Committee of the Jobs Fund
ToR	Terms of Reference
VFM	Value for Money

1 Introduction and Background

1.1 Introduction

The Jobs Fund was announced by the President of South Africa during the State of the Nation Address in February 2011. The objective of the Fund is to co-finance innovative public and private sector initiatives that will significantly contribute to job creation.

The Jobs Fund operates on challenge fund principles and aims to act as a catalyst for innovation and investment in new business approaches that directly contribute to long term sustainable employment creation. During its initial phase of operation, the Fund has identified four broad funding windows:

- **Enterprise Development –** for investments in new business models, product development, local procurement, marketing support, equipment upgrading or enterprise franchising designed to broaden access to economic opportunities and job creation.
- **Infrastructure Investment –** for local infrastructure investment projects, local market and business hub facilities, critical transport and communication links and upgrading of infrastructure services, which directly enable enhanced investment and job creation.
- **Support for Work Seekers –** for programmes with a particular focus on unemployed youth such as job search projects, training activities and support for career guidance and placement services.
- **Institutional Capacity Building –** for projects aimed at strengthening institutions through which jobs are created, including internship and mentorship programmes, enterprises and large firms or purchasing networks and enhancement of community works projects.

The Minister of Finance is the Executive Authority for the Jobs Fund and retains ultimate responsibility for the operation of the Fund. While oversight is exercised through the National Treasury, the Development Bank of Southern Africa (DBSA) has been appointed by the National Treasury to implement the Jobs Fund programme.

1.2 Status of the Fund

An amount of R9 billion has been set aside for the Fund which aims to create 150 000 self-sustaining jobs over a three to five year period. The Fund commenced with an allocation of R2 billion in the 2011/12 financial year.

A summary of progress with the application windows is attached at Annex D. At the time of the fieldwork for the formative evaluation, in November 2012, the Jobs Fund portfolio comprised 34 approved projects from the first Call for Proposals.

1.3 Background to the evaluation

Oxford Policy Management has been appointed by the National Treasury to provide evaluation services in relation to the Jobs Fund. Being a high profile government initiative, there are a number of stakeholders with an interest in the Jobs Fund's success. The primary users of the evaluations are the National Treasury as the programme owner and funder and the DBSA as the implementing agency.

The first evaluation task is to conduct a formative evaluation of the Jobs Fund. The aim of this assignment is to assess the extent to which the early elements of the Jobs Fund have been realized as well as the effectiveness, efficiency and relevance of the governance, institutional and operational frameworks set up to date, relative to the Fund's mandate. Terms of reference (ToR) for the formative evaluation are attached at Annex A.

The formative evaluation seeks to address the following four main evaluation questions:

- Are the currently established institutional, governance and operational structures effective and are they the most appropriate to reap the highest returns in a cost-effective manner?
- Have the identified funding windows captured the relevant and most beneficial sectors to create sustainable employment in South Africa over the next five years?[3]
- Does the DBSA's operational structure effectively and efficiently address the tasks required to complete the mandate as articulated in the MoA?
- Have the various institutional and operational procedures implemented covered all aspects for good management of the Jobs Fund?

1.4 Report Structure

Following this introduction, this report is structured as follows: Section 2 outlines the approach and methodology for the evaluation; Section 3 addresses the main findings of the evaluation and provides our recommendations.

[3] A sustainable job is defined as a job not requiring public funds after the period of grant funding

2 Approach and Methodology

2.1 Approach

The evaluation is based on an evaluation framework developed by OPM, based on the key issues raised in the ToR and discussion with the National Treasury. The key issues to be investigated during the evaluation and the methods used to gather evidence are summarised in Exhibit 1 below. This formed the basis for the identification of evaluation questions in each area and for preparing more detailed terms of reference for individual team members, as well as guidance for key informant interviews and group discussions. Further details on the evaluation methods adopted and evaluation questions in each focus area are attached at Annex B.

Exhibit 1 Areas of focus for the Formative Evaluation

Focus Area	Relevant Question in the Terms of Reference	Key Methods
Relevance	Have the funding windows captured the relevant and most beneficial sectors to create sustainable employment in South Africa over the next five years?	Review of published material on SA labour market and economic growth and government policies and programmes to support growth Semi-Structured interviews with key stakeholders External peer review of the above and of Fund Strategy documents
Governance	Are the currently established institutional and governance structures effective and are they the most appropriate to reap the highest returns in a cost-effective manner?	Semi-structured interviews with key stakeholder committee and contributing departments Review of documentation and management information Assessment against published material from other challenge funds
Operational Structures	Does the DBSA's operational structure effectively and efficiently address the tasks required to complete the mandate as articulated in the MoA?	Semi-structured interviews with NT and DBSA PMUs and Jobs Fund representatives Review of Jobs Fund appraisal, selection and project management methodologies Validation of Jobs Fund selection and project management processes
Administrative Procedures	Have the various institutional and operational procedures implemented covered all aspects for good management of the Jobs Fund?	Semi-Structured Interviews with key stakeholder committees and contributing departments Review of documentation and management information Focus Group Discussions with a sample of grantees, rejected applicants and project managers
Monitoring & Evaluation	Is monitoring data gathered and made maximum use of?	Quantitative and qualitative review of available M&E data, syntheses and other management information Systems analysis and benchmarking

Following a desk-based review of Jobs Fund documents and with the assistance of the Jobs Fund Project Management Unit (PMU) in the National Treasury, key stakeholders were identified to interview during fieldwork in South Africa. For the purposes of the assignment, the following main categories of stakeholders were identified:

- Members of the Jobs Fund PMU in the National Treasury and its technical advisers from Genesis Analytics
- Members of the Jobs Fund PMU in the DBSA
- Other senior officials of DBSA, and
- Members of the Jobs Fund Investment Committee.

In order to capture the effectiveness of the Jobs Fund to date in identifying suitable projects and supporting potential grantees, focus group discussions were set up with the various stakeholders involved in the first two rounds of the Fund. The following categories of stakeholder were identified for the group discussions:

- Project managers from the Jobs Fund PMU in DBSA
- A selection of applicants from the first two rounds who were successful in receiving grants and a selection of applicants who were unsuccessful.

A full list of stakeholders interviewed is attached at Annex C. A full report on the methodology adopted and findings from the group interviews is separately provided alongside this evaluation report.

2.2 Methodology

The structure of the formative evaluation is as follows:

1. **Review of literature and available documentation**

- Desk-based document review and design of detailed evaluation approach and questions. The first activity in this assignment was to review relevant studies, reports and other documentation related to the Jobs Fund. This enabled the OPM team to acquaint itself with the program and to identify the best sources to answer the evaluation questions. A list of documents consulted in the course of this evaluation is provided at the end of this report.
- The desk-based review was an on-going process extending into the field work as some of the key documents and references were accessed and better understood only during and after the visit to South Africa. With the assistance of the National Treasury PMU, OPM identified key stakeholders and institutions to interview.

2. **Field visit to South Africa**

- The second phase of the assignment involved field work in South Africa from the 19th to the 30th of November, 2012. During the field work the evaluation team conducted in-depth interviews with the agreed sample of Jobs Fund stakeholders and held group discussions with a sample of project managers and a combination of successful and unsuccessful applicants from the first two rounds of the Fund. There then followed a synthesis of preliminary findings and discussion of key issues emerging within the evaluation team.
- The evaluation team gave a presentation to the National Treasury PMU on 30th November, 2012, to share emerging findings and initial thoughts and give an opportunity to discuss these.

3. Draft Report

- The results of the information gathered during the field visit were then synthesized and organized by the study team. Key findings and issues were drawn up and from this the team collectively prepared a draft report which was submitted to the NT in December 2012.

4. Second field visit to South Africa

- Following stakeholder comments on the draft report received during January, the team undertook further fieldwork from the 21st to the 25th of January, 2013. The purpose of the second field visit was to discuss the findings and emerging conclusions of the draft report and follow up on any outstanding issues. The evaluation team gave a presentation on the draft report to the Fund's Investment Committee on the 23rd January, 2013, and held a series of workshops with the National Treasury to review the reports main findings and recommendations.

5. Final report

- A draft final report was submitted to the National Treasury on the 15th February, 2013.

- Two members of the evaluation team (Robert Smith, David Hoole) supported a dissemination workshop, attended by the DBSA and NT, during a further visit to South Africa from 25th February to 1st March, 2013.

- This final report was submitted to the National Treasury on 6th March, 2013.

3 Findings and Conclusions

3.1 Relevance

This section of the formative evaluation addresses the following evaluation question:

- *‘Have the identified funding windows captured the relevant and most beneficial sectors to create sustainable employment in South Africa over the next five years?’*

3.1.1 Current position and major issues

The strategic framework of the Jobs Fund is logically constructed in terms of identifying the most appropriate opportunities and sectors. The strategy identifies the context which gives rise to the logic of the Jobs Fund, namely that whilst the economy’s labour force participation rates have increased dramatically since 1994, at 54% they remain well below the middle income country average. The narrow unemployment rate has remained in the 25-30 per cent range over the last decade and an additional 2 million workers have given up searching for work. These discouraged work-seekers are a powerful indicator of the deeply structural nature of South Africa’s unemployment problem.

The strategy identifies the key supply and demand side characteristics of South Africa’s labour market which are:

- On the supply side, large parts of the labour market with inadequate or inappropriate characteristics and skills relative to labour demand. This results in high rates of unemployment among the poorly educated and unskilled who are disproportionately likely to be young or female. In addition, job search activities are likely to be sub-optimal and costly for these groups due to their spatial dispersion.

- On the demand side, a relatively high regulatory burden associated with employing people, institutional hurdles faced by public-private partnerships, the costs associated with moving people to and from their place of work, and infrastructure backlogs - all of which act as a disincentive to employers to take on labour

The strategy’s problem statement is well articulated and is supported by available evidence. South Africa’s output elasticity of total employment (the rate at which employment grows when the level of output rises) is not suggestive of an economy with a poor ability to absorb labour and compares well with other high growth economies (such as India and Malaysia). This means that, in principle, the economy is well placed to create jobs as it grows. As mentioned above, however, South Africa’s labour market displays certain characteristics which affect its ability to generate employment:

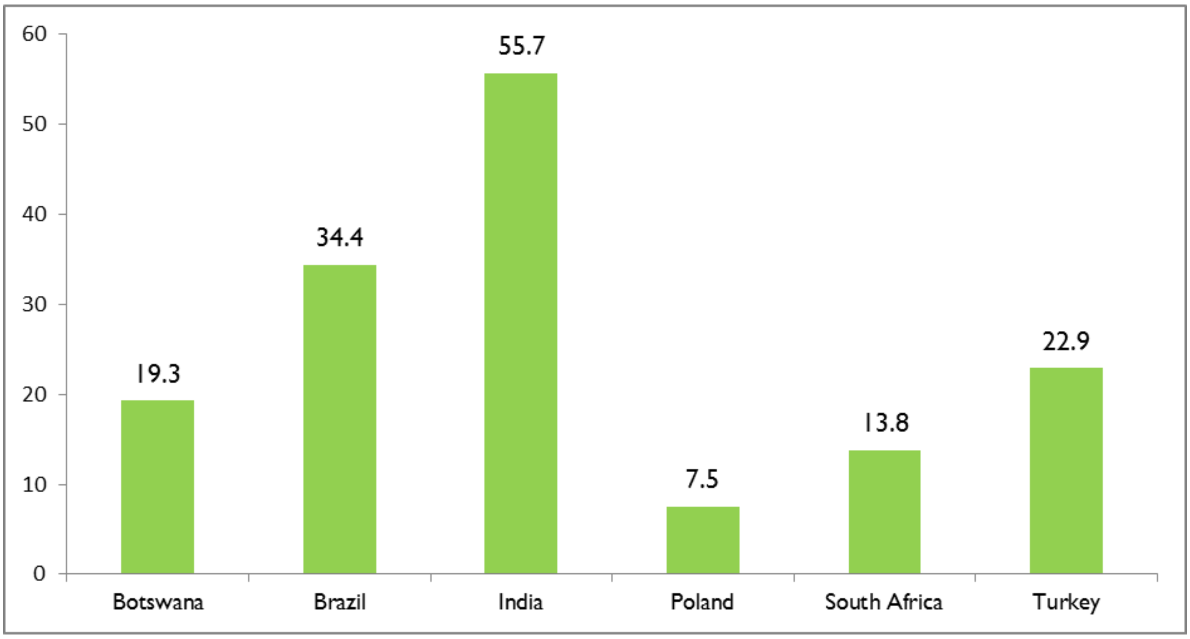
- First, labour markets are rigid due to well documented inefficiencies in labour market institutions (e.g. dispute resolution, hiring and firing rigidities).

- Second, in many product markets there are high barriers to entry and very little competitive space for new entrants.

- Third, suppliers of labour possess inadequate or incorrect characteristics relative to labour demand – in other words, they lack the skills demanded by the market.

- Fourth, those most in need of jobs and wage income tend to live furthest spatially from where the jobs are located; the cost of searching for work is unaffordable for these individuals.
- Fifth, South Africa has too few participants in the informal economy relative to comparator economies. For various reasons, partly historical, the informal economy in South Africa has arguably been growing at a rate below its employment-creating potential as illustrated in Exhibit 2 below.

Exhibit 2: Informal Employment as a Share of Total Employment



Source: ILO, Key Indicators of the Labour Market (various years)

The broad approach to addressing these issues which underpins the strategy is appropriate. The Jobs Fund aims to tackle unemployment from both the demand and the supply side, with a focus on creating entry-level jobs for those with limited skills, particularly women and young people. In its own words, the Fund aims to 'catalyse innovation in job creation through structured and strategic private and public sector partnerships' which creates further potential for impact. Challenge funds that focus solely on the private sector miss the opportunity to trigger changes in public behaviour (e.g. purchasing practice, infrastructure, regulatory norms, public institutions) while funds which focus on the public sector miss drawing on the innovation and stockpile of potential investment opportunities of the private sector. The Fund has the potential to generate innovative and new ideas to address the issues mentioned above which could, with public support, be scaled up by the private sector and influence national policy for job creation.

The review team found the strategic framework to be well understood and owned by the Funds key stakeholders - the National Treasury, the DBSA, and members of the Jobs Fund Investment Committee (IC). Some stakeholders expressed concern about the failure to appoint the Advisory Committee (AC) to comment on the relevance of the strategy and its windows. However, the view of the evaluation team is that the timing of the first meeting of the AC, in November 2012, is appropriate given where the Fund is in its development.

The funding windows of the first two rounds are acknowledged as broad but are reflective of the different drivers of unemployment in South Africa, as described above. The underlying theory of change of the windows is that additional and sustainable jobs can be created by:

- Stimulating enterprises to develop new products, markets or business processes (i.e. addressing labour demand)
- Supporting the development of infrastructure to directly enable enhanced investment and job creation (demand)
- Supporting work seekers to find jobs, through training and reducing employment risk for employers, and (supply)
- Strengthening institutions that support market and enterprise development (improving the functionality of the labour market)

However, the broadness of the windows, and the specific instructions around which issues the projects should address, have given rise to well documented problems. The following issues emerge from the quality assurance reports on the first two rounds and the review team's interviews and group discussions with various stakeholders:

- **Misinterpretation**: most applications from across all the windows were for business expansion or project extension, rather than to support an innovative approach to job creation.[4] Many of these applications were characterised by weak articulation of how the proposed intervention would lead to sustainable job creation. This reflects weaknesses in the definition of the purpose of each window and in the related guidelines and instructions.
- **Lack of comparability**: the broadness of the windows has given rise to diverse responses that could not be compared to each other in any meaningful way. This was compounded by the proliferation of small projects falling just above or below the advertised funding limits. While the Fund has adopted an approach which clusters applications according to window to facilitate better comparison, several stakeholders interviewed by the review team were of the opinion that projects did not effectively compete for available funding.
- **Lack of understanding**: in the first two rounds many institutional capacity building responses were not appropriate, in the sense that they did not generally address institutional blockages to job creation or articulate how a project might influence public policy towards job creation. The aim of the Fund in attracting large, systemic 'game changers' has not been well communicated.
- **Lack of originality**: The long term impact of the Fund lies in its ability to identify models that are sustainable and scalable. The evaluation team found widespread agreement among key stakeholders that progress in this regard had been less than satisfactory.

3.1.2 Review of Jobs Fund Projects

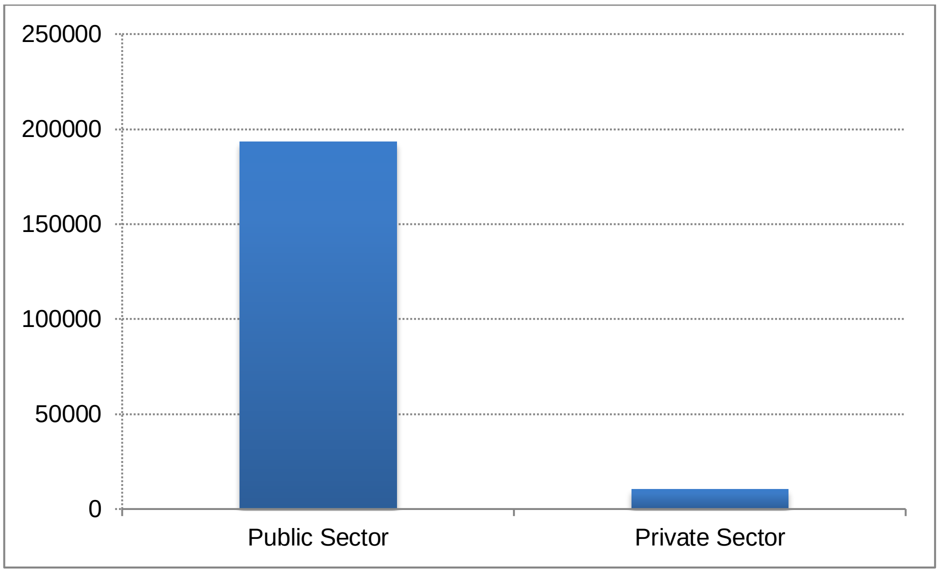
The suite of projects supported thus far by the Jobs Fund amounts to approximately R1.8 billion across 34 different projects.[5] A brief overview of the Fund's portfolio of approved projects by type of applicant (public or private), by sector, and by type of project approved (innovation, scale-up, etc) leads to the following observations:

[4] Here we refer to supporting promising new and innovative approaches and to the scaling up of proven innovations.
[5] Analysis conducted in November 2012. Source: Jobs Fund Quarterly Report, March 2012

The applicants collectively report that they will create 102,707 new permanent jobs over a three-year period. If these projections are realised this would constitute a cost-per-job of R17,526 which would be a highly effective return on expenditure. However, we have reservations about the robustness of these projections. The Fund is currently measuring gross jobs created rather than net jobs which should be the relevant measure.[6] Secondly, the quality assurance process revealed 'widely diverging definitions of what constitutes 'a job'' and how to compare different skills levels.

Public sector projects approved so far constitute close to 45 per cent of all projects approved and appear to have a much higher cost-per-job created compared to the private sector. Specifically, it costs R193,000 to create one permanent job through a public sector Jobs Fund project, whereas the estimate for the private sector is R10,351. As Exhibit 3 below makes clear, the private sector appears to be a far more efficient and effective creator of employment, according to the Jobs Fund's own reporting.

Exhibit 3: Predicted Unit cost of a Jobs Fund Job, March 2012



Source: Jobs Fund (2012) and own calculations

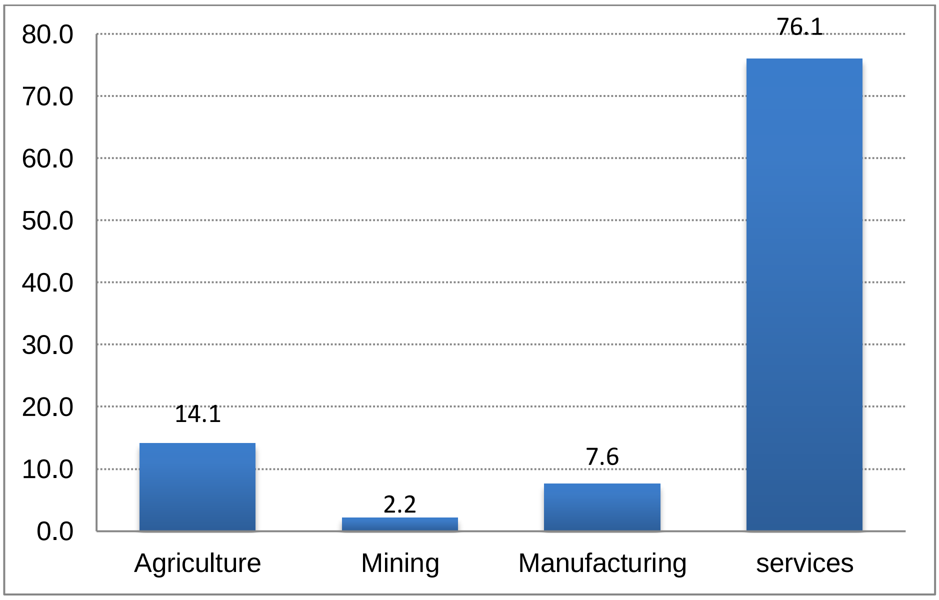
The Fund runs the risk of being seen as a portal for government departments to source additional funding outside of the normal budgeting process. Going forward, the Fund should consider requiring a minimum cost:job ratio from public sector applicants, below the current average. Not to do so would be to openly fund projects from the public sector which are not as labour-intensive as those from the NGO or the private sector. An alternative would be to limit the maximum allocation to public sector projects (to, for example, one-third of all funded projects) or redefine the eligibility and assessment criteria for public sector projects.

Turning to the allocation of projects by sector, across all projects the data indicates that whilst there has been an attempt to at least attract projects from different sectoral sources, the bias towards the services sector is obvious. As Exhibit 4 illustrates, 76 per cent of the total value of projects were allocated to the services sectors. It is important to note however, that 'Services' is a broad category used to encompass health, tourism, finance, retail and hospitality interventions. In that sense, the high value accruing to Services given this aggregation is not surprising. However, what is of concern arguably is the very low investment in manufacturing sector projects. There

[6] Previous employment creation experience in South Africa highlights the importance of including analysis of substitution, displacement, etc in relation to public sector employment creation. See McCord et al's review of the EPWP (2006)

was very limited support to the manufacturing sector, despite the Government's Industrial Policy Action Plan and the Fund strategy identifying the manufacturing sector as having one of the highest growth multipliers in the economy as well as relatively high employment multipliers. Manufacturing employment remains spectacularly low in South Africa. Arguably, the manufacturing sector requires some form of exogenous shock and interventions and support from the Jobs Fund could potentially play this role within some sub-sectors of manufacturing.

Exhibit 4: Share of Jobs Fund Project Value, By Sector, March 2012



Source: Jobs Fund (2012) and own calculations

From a sectoral perspective, Round 1 also supported the service sector over agriculture despite a strategy which acknowledges agriculture and agro-processing as one of the most labour-intensive sectors, especially for unskilled and semi-skilled labour.

There has also been a low quality response to the infrastructure window despite a strategy which identifies construction and infrastructure development as major employers of low-skilled and semi-skilled labour. Most submissions tried to accelerate the provision of infrastructure which should routinely be provided by provincial or local authorities.

Projects from the ICT industry are also absent in the current project sample. There is no question that the information technology and telecommunications sector – in fields such as mobile communications, delivery of financial and education services, and job-matching services - are critical to the economic development and employment creation process within the developing world.

In terms of the 'type' of project approved in the first two rounds, there is generally little evidence of innovative projects with significant potential for scalability. For example, there have been relatively few proposals to overcome barriers to business development which if successful would be incorporated into routine business practice. Applications from public agencies have produced relatively little in terms of socio-economic infrastructure proposals, procurement proposals, or policy and regulatory reform that would have scalable potential.

The approach to working with microenterprises could be bolder. Specifically, the Jobs Fund should find a mechanism to fund innovative, start-up firms which may have scalable interventions. In particular, firms operating in the social entrepreneurship, mobile telecommunications and non-profit sector spaces may be particular targets for good quality, high employment impact and scalable ideas. In the present context, these entities are not being funded by the Jobs Fund, and often the barriers to entry (for example the matching funding requirement) marginalise potentially innovative job creation ideas.

3.1.3 Recommendations

Recommendation #1: To ensure that projects covering the shortfalls in the portfolio mentioned above are identified, and to avoid too many large projects with relatively limited job creation potential, future rounds of the Jobs Fund should be highly focussed.

This implies that in future rounds a 'themed' approach should be taken in each window. Within each window each theme would have its own eligibility criteria that address the Fund's strategy in a more focussed fashion. Specific expertise would be required not only to identify the theme but also evaluate concepts and projects. This would allow the Fund to target specific interventions which analysis suggests would lead to innovative, job-creating, projects.

The evaluation team feel this would yield immediate benefits in terms of a reduced number of more specific applications, the development of which could be more effectively supported, and which could more effectively 'compete' for funding and be assessed against other proposals.

Priority sectors and sub-sectors should be identified – the indicative list provided in the current Jobs Fund strategy provides a good starting point. More particularly, the filling of shortfalls in the portfolio should be encouraged, such as:

- The lack of projects in a particular province
- Innovation projects, with a clear definition of what constitutes innovation
- Scale-up projects, with clear competition between competing scale-up proposals
- 'Game changer' projects. i.e. projects which provide some sector-wide impetus to increase demand for labour, improve the efficiency of institutions involved in labour market regulation, or which demonstrate an approach which unlocks the potential for wider participation in the labour market (training, job-search activities, internships, etc)
- Small projects, which might be best handled by agents who can manage the processing of large numbers of concepts

We found widespread agreement amongst key stakeholders on the need to focus future rounds based on careful market analysis. We also note that this approach is supported by the Fund's strategy, which identifies a potential need to contract specialist advice and research to focus the themes in each window and open new windows where there is potential. For priority sectors, this may involve:

- Analysis of market demand and trends
- The current and future market players
- Value chain and 'M4P' analysis[7]

[7] The term M4P refers to an approach known as 'making markets work for the poor'. The approach utilises systems analysis as a means of diagnosing and addressing the constraints that face poor and disadvantages households and communities in accessing goods and

- Job creation potential, and
- Analysis of the constraints to employment

In selecting supply side themes, the evaluation team feels that consideration needs to be given to projects which address innovative policy as well as innovative funding programmes. On the demand side, the Fund could:

- Provide some impetus to improve the efficiency of the institutions in the regulation process, such as alternative dispute resolution through private sector institutions and digitising court records and process reengineering in the court system
- Support to innovation for wider participation in product value chains by micro and small enterprises, especially those which access labour from areas of high unemployment and hence address spatial unemployment.

Recommendation #2: The evaluation team strongly supports the principle in the current strategy that the Jobs Fund 'go for scale' and support large initiatives which themselves have the capacity to work with a large number of smaller-scale initiatives or enterprises.

The Fund should encourage applications from programmes that can manage initiatives from micro and small enterprises and community initiatives, especially in high unemployment areas. This implies an approach geared towards finding and funding a limited number of big, partnership-based projects rather than (as at present) a proliferation of small unrelated initiatives.

Recommendation #3: The Fund should consider developing different criteria for awarding funding to the public and the private sector linked to the mandate and function of each from a Jobs Fund perspective. The criteria for each would differ significantly, rather than both being assessed in terms of similar criteria relating to the number of jobs created at what cost.

A fundamental question, in terms of focus, relates to the role of the public sector in direct job creation innovation. Should this be its role? Is this what the Jobs Fund wants to stimulate? Is this efficient and strategically the mandate of the sector? Or should it be addressing key constraints to employment creation in particular contexts where local innovation can address specific employment constraints? Within the public sector, the key issues which could be addressed through innovation may not be directly linked to additional employment creation but rather relating to a set of issues relating to business development and competitiveness. There could be a clear and useful differentiation between i) direct employment creation (private sector) and ii) the promotion of business development and competitiveness (public sector). The latter would need to be assessed in terms of outcomes rather than process indicators. Within the private and NGO sector, this would entail recognising that one set of interventions might be most appropriate for the Fund to support in the formal sector (taking into account ILO decent work norms etc), while another set of interventions might be appropriate in the informal sector, which might have different evaluation criteria for successful funding.

Recommendation #4: The Fund should consider focusing on areas which are specific to the South African economy where innovation is more likely to address specific economic and labour market distortions.

This recommendation relates to the vision of the Jobs Fund. The Fund recognises employment creation is bound by external constraints (relating to the functioning of the global economy and the

services. M4P is an overarching approach to development that provides agencies and governments with the direction required to achieve large-scale, sustainable change in different contexts role of South Africa within it) and seeks to challenge these constraints through small scale grant funding of innovation. But the Fund does not currently articulate its objectives in terms of which geographical areas or segments of unemployment are the priority. We recommend that the Fund consider focussing in areas where the jobs problem is most severe where innovative thinking could stimulate a change irrespective of binding exogenous constraints.

The amount of employment created by the Fund itself is not going to be highly significant, but rather the development of models for addressing key challenges will be its primary contribution. This might suggest that the specific competence of the Jobs Fund should be to focus on employment creation in the area where unemployment is concentrated and in sectors not constrained by factors outside the control of the Fund.

3.2 Aligning Accountabilities with Responsibilities

This section of the formative evaluation addresses the following two of the questions in the evaluation terms of reference:

- *Are the current institutional, governance and operational structures effective and are they the most appropriate to reap the highest returns in a cost-effective manner?*
- *"Does the DBSA's operational structure effectively and efficiently address the tasks required to complete the mandate as articulated on the NT/ DBSA Memorandum of Agreement?"*

3.2.1 Governance

3.2.1.1. Key issues

The Jobs Fund is structured along the lines of a challenge fund, but in practice, the delegation of responsibilities is relatively inefficient and has given rise to overlaps of some responsibilities and unclear powers in the case of changes to grant projects. A comparative against the governance framework of the Jobs Fund provides gross differences as highlighted in the best practice section which follows.

The institutional set up of the Jobs Fund is encapsulated in the Memorandum of Agreement between the National Treasury and the DBSA. The practice in the early stages of the Jobs Fund placed its operations under the umbrella of the Development Fund, a separate legal body owned to the DBSA. This decision created a number of issues and tensions and some duplication of functions that added complexity with little additional benefit. We understand that recent developments tied to the restructuring of the DBSA will result in a simplification of this structure.

The governance procedures of the Jobs Fund are encapsulated in the terms of reference of the committees of the fund, formal and informal, and are generally fit for purpose in the opinion of the review team. However, procedures have only been partially adopted and additional responsibilities have been assumed, especially by the National Treasury and the IC.

The National Treasury looks to the IC to provide more than concept selection, grant award and grant project review services, and it is apparent that the members of the IC have views relating to a variety of issues that would perhaps characterise the IC as the board of Jobs Fund. The membership of the IC, in carrying out these board-style functions, is however not representative of the interests of the Jobs Fund with an over representation of fund manager, the DBSA, and under-representation of the National Treasury. The IC is also looking at relatively immaterial issues, perhaps due to a lack of confidence in the DBSA PMU's performance to date – this will take up considerable time in the future as grant funded projects require changes.

The early performance of the fund management gave rise to multiple practical issues and these have resulted in the development of an operations committee within the National Treasury that supplements the fund's management in a number of matters, including the quality control of concept note selection, the application of evaluation logic and reporting, and more recently fund marketing and awareness raising, especially around seeking innovation. The assumption of these functions may give rise to issues around accountability.

Evaluation services is a relatively minor function in the DBSA PMU and understaffed and no budget is provided for individual grant funded projects.

The DBSA has not effectively ring-fenced the fund management and a number of processes and procedures appropriate for the bank's and/or the Development Fund's operations appear to have led to adverse outcomes (overly conservative concept selection – especially around innovation), or inefficient processes (cumbersome legal services) and inefficiencies (over-analysis as part of applicant due diligence). DBSA's norms have given rise to a Technical Evaluation Committee that is redundant to the tasks of the Fund, the functions of which can be better carried out through the DBSA PMU and the IC.

Some elements within the DBSA culture, especially in the Development Fund's senior management, and in legal services, have interpreted the fiduciary responsibilities of DBSA too strictly leading to confusions around potential repayments of grants in the case of project's failing to meet their timelines or job creation targets. Any accountability framework needs to be balanced with the recognition that some projects will not be as successful as planned and that some will fail. The lack of balance supports a conservative approach to project management rather than a more experimental and risk-aware approach that would be more appropriate to the objectives of the Jobs Fund. Agreement on what constitutes the DBSA's fiduciary risk in relation to the grants provided and training can overcome this issue.

Comments received during stakeholder discussions suggest that the AC of the Jobs Fund is not a body that will provide overall strategic guidance, reflecting instead the more parochial interests of Ministry members.

Despite the proliferation of governance structures, there appear to be some key functions that are not being addressed, especially around the development of round-by-round objectives that will produce projects that more closely meet the Jobs Fund's policy and objectives.

There are considerable strains that have been created due to the setting of a fixed price for the job of fund management that can be expected to create critical issues for the DBSA as it staffs up to manage grant funded projects. Despite this, there is little to no consideration to date of value for money, and this has given rise to some adverse consequences including potential over-granting of resources is excess of requirements and unnecessary advances provided to grantees. This issue is covered in depth later in this report.

Additional observations gained from the focus groups relating to the institutional set up were:

- The Jobs Fund has a weak and ineffective planning culture, especially around strategic planning
- There is a perceived conflict between the purpose of the Fund and the DBSA in respect to the disbursement of funds

- It is difficult to reconcile the risk profile of the Fund against the DBSA's aversion to risk
- The involvement of many different players (DBSA, NT, and Genesis) undermine the development of a focused operational culture
- No one is willing to rake responsibility when things deteriorate
- Communication is perceived as a major weakness
- The National Treasury is perceived to give operational direction

3.2.1.2 Best Practice and benchmarking

Challenge funds can provide a strong demonstration of efficiency where authorities and clearly aligned with accountabilities and responsibilities, and where authorities are delegated to the maximum extent consistent with prudent management, strong internal controls and effective oversight.

A typical and efficient challenge fund with good governance standards provides the key governance roles shown in Exhibit 5 that provide alignment of authority with accountability. Highlighted areas in Exhibit 5 represent significant practical departures for current Jobs Fund governance (i.e. best practice, as articulated in the exhibit, is not currently being followed). In the case of the Jobs Fund, the roles are played as follows:

- The Owner – in this case the National Treasury and its operations committee on behalf of the Ministry of Finance
- The Selector – the IC
- The Fund Manager – DBSA
- The Evaluator – the M&E department of the DBSA PMU

Exhibit 5: Challenge Fund Governance Roles

Highlighted areas represent significant practical departures for current Jobs Fund governance.

Task	Owner	Selector	Fund manager	Evaluator	Other
Setting governance arrangements	Sets arrangements, selects selectors and fund manager, including senior positions in fund manager	Selected by owner	Selected by owner	Selected by owner or part of the fund management	Ad hoc expert services Selected by fund management
Setting policy	Sets with advice from other stakeholders. Receives evidence from a variety of sources, including the fund manager	**Not involved**	Might provide evidence to owner	May provide feedback to owner for policy reformulation	
Agreeing focus and term sheets for a challenge round	**Sets with advice from other stakeholders including the fund manager**	**Not involved**	**Provides recommendations to owner/ funder. May commission research on sectors**	**Evaluator may research sectors etc., Possibly subcontracts to research**	**Subcontractors selected by owner**

Task	Owner	Selector	Fund manager	Evaluator	Other
Marketing/ awareness raising	Agrees marketing arrangement/ budget. May subcontract marketing services.	**Not involved**	May prepare marketing/ awareness raising plan		Subcontractors selected by the owner
Management of competition	Approves competition management plan	**Not involved**	Manage under management plan approved by owner		
Assessment of concepts received against	Approves evaluation criteria and marking grid system	May help in agreeing evaluation system and marking grid	Carries out initial sieve in line with agreed evaluation criteria marking grid	**Reviews evaluation issues**	Sector experts, risk experts provide comments
Selection of concepts	Receives selection memo from selector	Selects concepts for application stage	Recommends a short list of concepts based on marking system	**Provides evaluation issues to the selectors**	
Application		Provides comments on what the application should contain given the concept note information	May help applicant prepare application in conjunction with due diligence	Success measures/ indicators agreed with applicant	Subcontractors to help applications
Due diligence		Provides a steer of due diligence questions that are of concern at concept note approval stage	Carries out due diligence, prepares risk assessment and independent		Subcontractors sometimes used for due diligence
Review of applications		Recommends grant awards, evaluation plan and budget, precondition etc.	Provides a report to the selector covering comments on application and results of due diligence, plus recommendation around the grant	**Provides evaluation plan and budget for approval**	
Grant award	**Legally awards grant**	Not involved	Liaise with owner on grant award		
Contracting	**Approves pro-forma grant contract. Approves grant conditions**	Not involved	Negotiates grant contract and signs.		
Project progress reporting	Receives summary report of progress	Receives ad comments on project progress	Carries out quarterly progress reporting on each grant		
Payment processing	Provides payments		Processes grant claims and payments		Payment agent may be appointed
Changes to grant project/ budget	Not involved	**Reviews manager reports of immaterial changes and approve material changes**	**Approves immaterial changes. Recommends material changes to selector**		
Changes to grant amount	Review selector recommendation and approves changes to grant amount	Review recommendation of manager and provide recommendation to owner	Recommends changes to selector		

Task	Owner	Selector	Fund manager	Evaluator	Other
Evaluation	Receive evaluations	Receive evaluations		Provide evaluation services in accordance with evaluation plan	Subcontractors for survey work etc.
Applicant complaints					Ombudsman services

3.2.1.3 Recommendations

Improvements to the effectiveness of the management of the fund are likely to be obtained through a combination of improvements to processes, realignment of some accountability, responsibility and authority issues and robust procedures coupled with a clear understanding of and adherence to them. Some further thinking is required to determine the natural homes for some key functions, and further negotiation is required between the NT and the DBSA to make the structures work more effectively. To achieve this, a continuing negotiation process requires a place in any governance arrangement.

We recognise that the governance structure currently adopted has arisen because of practical issues that arose from the fund's rapid start. However, we recommend the following adjustments to be made, largely to ensure the smooth and efficient running of the fund and to align accountability to authorities.

Exhibit 6: Recommended Adjustments to Governance Structure

Recommended change	Expected impact
Recommendation # 1: Create a formal mechanism that considers governance and operational arrangements. The mechanism will involve meetings between the NT and the DBSA. This is referred to in this report as the "Governance and Operations Committee". The secretariat for this process will be provided by the members of the operations committee of the National Treasury PMU. The meetings will provide the opportunity for the NT and DBSA to resolve governance and operational issues as well as for the NT to formally approve the detailed processes and procedures of the Jobs Fund. This will entail a refinement to the agreement between the National Treasury and the DBSA that outlines how significant changes to the governance and operations of the Jobs Fund are to be agreed in future but also to perhaps detail areas where agreement is required, including the appointment of key personnel, etc.	Continued improvement in governance, processes and procedures. Clarity of accountabilities.
Recommendation #2: Provide the round design function reporting to the NT form the 4th call for proposals. This would involve expansion of work carried out by the operations committee of the NT PMU to provide or commission research and recommendations to the NT on the focus of the fund in future rounds of calls for proposals in line with detailed recommendations discussed elsewhere in the report.	Significant reduction in concept notes, improved quality of concepts, closer alignment to strategy, improved value for money, improved competition for grants, clearer criteria for selection
Recommendation #3: Disband the Technical Evaluation Committee. Useful work carried out by the current members can be accommodated as expert comments or sign off, to accompany concepts and applications considered at the IC.	Speed up of process, improved accountability between the PMU and the IC.
Recommendation #4: Formalise the activities of the PMU's New Business Committee. The scope, competence and membership of the committee must be agreed with the IC, given that the IC makes recommendations supporting or not supporting concepts.	Improve accountability of the PMU for the selection of short listed concept notes

Recommended change	Expected impact
Recommendation #5: Rethink the membership of the IC and streamline its functions to ensure the workload is manageable. The IC's role should exclude operational matters, and is focused on its three core functions of concept selection, grant approval recommendation and review of grantee project progress. Current aspects around the DBSA's concerns on the Jobs Funds management functioning are instead dealt with as part of the governance and operations committee meetings with the NT. The NT will also formally approve grants and authorize the DBSA to enter into grant contracts	Improved accountability and clearer lines of authority.

Particular issues requiring early resolution relate to the work load of the IC and to round design:

- Based on the experiences of other challenge funds, the workload of the IC is likely to expand rapidly, dealing with relatively minor issues around the conduct of grant projects, to the point of diminution of the effectiveness of their meetings.
- Rethinking the process of the detailed design of each round, especially around the setting of themes for the round will increase the relevance of funded projects.[8]

The outcome of the recommendations, if completely enacted would provide for a governance structure as shown in Exhibit 7 below.

Exhibit 7: Proposed New Governance Structure and Tasks

Committee/ Function	Membership/ Ownership	Tasks
Governance and Operations Committee	NT, DBSA	• Negotiation and approval/ amendments of governance, processes and procedures
Advisory Committee	As now	• As now
Investment Committee	4-5 external experts, 1 DBSA appointee, 1 NT appointee	• Approval of concepts • Approval of grants • Project progress review • Approval of project cancellations • Approval of material changes to projects
Technical Evaluation Committee	Disband	• TEC members may provide comments to be added to the concept and application assessment by the IC
New Business Committee	PMU	• No change, but formalize
Round Design Function	NT PMU and operations committee, with advice from DBSA, PMU	• Design all aspects around future rounds (calls for proposals)

[8] Round design is covered in more detail in section 3.3

3.2.2 Operations

3.2.2.1 Key Issues

The DBSA PMUs operational structure reviewed was arrived at given the needs of DBSA and the Fund to control the risks associated in the management of the fund. The structure provides for a project origination and management unit (18 positions, of which 3 are vacant), an investment structuring unit (15 positions, of which 5 are vacant) and a monitoring and evaluation unit (10 positions of which 7 are vacant), all reporting to a Chief Investment Officer, who is supported by 9 specialists and support staff positions, of which 2 are vacant.

The levels of vacancies reflect positions created for which the work load does not yet justify the filling of the vacancy, but also vacancies where the work load has to be shouldered by existing staff. The outcome of the large number of vacancies will tend to create issues where work is either skimped or deferred, and which can provide other adverse consequences including lack of proper planning for workload peaks and lack of time allocated for training to improve skills. The structure also reflects processes that have been set out which might also be carried out more efficiently without loss of quality or control.

The DBSA will be laying off a large number of staff in the near future, which may cause further staff anxiety, and pressure on DBSA to move staff into PMU positions, both current and future. The combination of vacancies and the layoffs is making the situation critical, and action must be taken to appoint suitable project managers at junior and senior levels. Key expert appointments must also be filled.

In terms of effectiveness, efficiency and relevance, the review team found the organisational structure to be currently relevant to DBSA's agenda, but not totally relevant to the overall aims of the Fund, expressed in terms of providing the capacity for the current and expected work levels and the skills required to deliver the mandate. The DBSA-led structure has led to wasted costs in terms of efficiency, through inefficient management structures and some unnecessary processes.

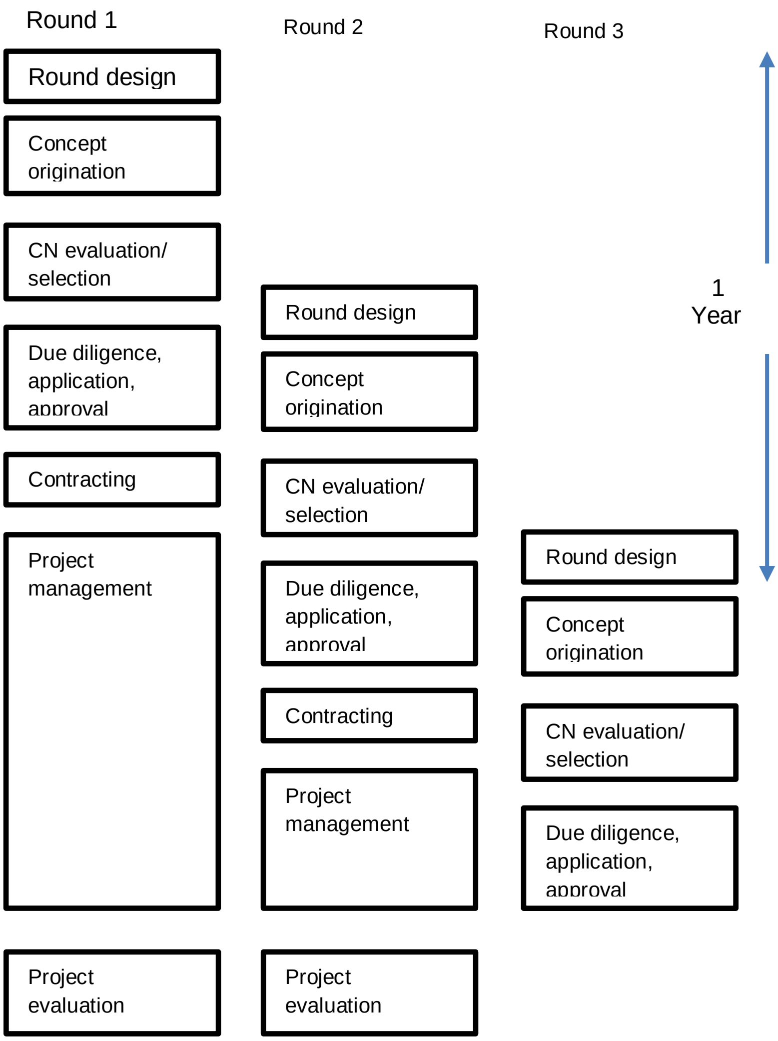
Strict budgetary limits reflected in the NT-DBSA memorandum of agreement provide severe cost constraints and these constraints do not reflect an expected short-to medium-term management expense bulge, which will occur even if the fund is managed with more efficient processes and streamlined management and oversight.

3.2.2.2. Best Practice and Benchmarking

The challenge fund process provides for a series of challenge rounds ('calls for proposals') in which there are well-defined tasks which are required to be carried out sequentially. The skill sets required at each phase of the sequence are not the same, although a good quality person can handle more than one task in the sequence. As each round commences, the level of complexity increases, as the new round will be at a different phase than the previous rounds. Exhibit 8 below shows how the work of a typical challenge fund manager might evolve.

In the early stages of the challenge fund cycle, the emphasis is on concept origination, development and approval. In the middle stages, the challenge fund requires full staffing as each new round provides an additional work load, and the fund moves more towards the extended period of project management. In the latter stages of the fund, there is no emphasis on origination and all work is on project management and evaluation, and at the end stage, there is only evaluation work to be carried out.

Exhibit 8: The Challenge Fund Process



Workloads

The Jobs Fund has two rounds in progress and a third round has recently started.[9] The Fund management function is therefore at a stage where work levels are increasing because of the additional workload provided by round 2 and the start of round 3, and it is starting to enter the project management phase on round 1. Estimates of workload required to manage the fund depend on the following key factors:

- The expected number of funded projects – a very large fund will have additional levels of management to contain systemic risks
- The expected number of rounds – each round adds an additional management burden
- The complexity of the funded projects – very large and complex projects, especially scale up projects require significant management
- The physical location of the funded projects, especially where the management unit is centralised but large numbers of projects are located at further than a 2 hour journey away

[9] A summary of progress with the application windows is attached at Annex D.

- Grantee sophistication - the fund management burden for sophisticated grantees can be considerable where innovation is being funded and is considerable where non-sophisticated grantees are funded.

- The working environment of the funded projects, which is very high in fragile states and low income countries.

It is difficult to benchmark the expected work of managing projects, as the project management workload can be expected to vary based on the factors above and the outcome of the funded projects. Projects that are poorly managed by grantees require disproportionate levels of management, even where the fund manager adopts risk based management techniques. Similarly grantees with poor fiduciary controls cause a larger fund manager workload.

Using the Bangladesh Remittances and Payments Challenge Fund (RPCF) as a benchmark for a four round fund using risk based management techniques, the estimate of total work effort spent on each phase of the challenge fund process is shown in Exhibit 9 below.

Exhibit 9: Illustrative Challenge Fund Workload

Task	% of overall staff time
Round design	1%
Concept note window management	12%
Development of concepts/ grant approval	16%
Contracting	2%
Project management	39%
Grant claim and payments	14%
General administration/ stakeholder interface	16%
Evaluation (subcontracted)	0%
Total	100%

It is clear that project management is the largest absorber of fund manager's time. Exhibit 10 below provides a benchmarking of the Fund's PMU against other scale up and innovation challenge funds, and looking at the issue of project management

Exhibit 10: Benchmarking the Jobs Fund workload

	RPCF	Shiree	ABIF	JF
Status	Compete	Mature	Into round 2	Into round 3
Type	Innovation	Scale up and innovation	Innovation	Scale up and innovation
Grant pot ($ millions)	4	100	10	1,000
Number of rounds	4	4	Expected to be 4	5-6?
Frequency of rounds	2 a year	2 a year	2 a year	2 a year
Funded projects	20	36	13 in round 1, expected to reach 30	Expected to be 250
Project size	$200,000-$1.6 million	$400,000 - $6 million	$200,000 to $1 million	$500,000 to $50 million
Project types	Non complex innovation projects requiring regulatory approvals	50% scale up (large/complex), 50% innovation (non-complex)	Non-complex innovation projects	Complex
Project location	Nationwide, all but 4 within 1 hour from manager's office	Nationwide, all within 4 hours from manager's office	Nationwide, 30% a plane journey away	Nationwide
Grantee sophistication	Largely sophisticated	Largely sophisticated	Largely unsophisticated	Largely sophisticated
Risk of negative project outcome	High	High	Very high	Medium
Total professional staff	3.5	34	7	c.50
Senior project managers	1.5	7	3	19
Junior project managers	1	2	3	6
Projects to project managers ratio	6.7	4	5	10
Grant amounts per project manager (in $ millions)	1.3	11	1.7	40

The benchmarking in Exhibit 10 suggests that, as the Jobs Fund enters project management mode, the numbers of project managers are insufficient for the task ahead, given that project management might absorb 40% of all time spent on fund management and, the perceived size and complexity of Jobs Fund funded projects

3.2.2.3 Recommendations

The review team feel that it would require a combination of the following factors to improve the management to the desired standard:

- A move to a project management focussed organisation chart, to improve the effectiveness of grant funded projects and perceptions of grantees regarding the professionalism and responsiveness of staff, coupled with
- a devolvement of powers to make project managers more accountable, whilst aligning other accountabilities with responsibilities, and in the process eliminating unnecessary approvals and second guessing, and
- Improved training to ensure that staff follow agreed processes and procedures, so improving compliance and control.

Recommendation #1: The review team recommends that the PMUs organisational structure needs to move to project management mode now. Central to the concept of efficient, risk-based project management is the development of project teams and a devolvement of powers to make project managers more accountable.

The DBSA PMU will be required to demonstrate significant flexibility to ensure the delivery of future round competitions and the management of existing and new projects. The creation of project teams would help align the organisational structure with needs in the future and would overcome a number of the weaknesses identified in the management and client focus groups, namely:

- The need for more clearly defined roles and responsibilities
- Decision making which is devolved to trained and empowered managers
- Prioritisation of effective team work
- The need to focus on rendering an effective professional service rather than complying with a political imperative to create jobs

A grant project-centric structure would comprise:

- Project Directors - responsible for allocating project management resources and for appointing project teams.
- Project Teams - comprising persons involved in due diligence and application development, contracting and proactive project monitoring
- Senior Project Managers - “big picture” persons capable of adding value to the project’s activities and outcomes. They assess the risk environment and provide leadership
- Junior Project Managers – to deal with administration and writing project progress reports

In this structure, the project team calls down expert resources as required, at their discretion. Typical terms of reference for a senior project manager and a junior project manager, with suitable devolved powers are shown in Exhibit 11 below:

Exhibit 11: Terms of Reference for Project Managers

Senior Project Manager:

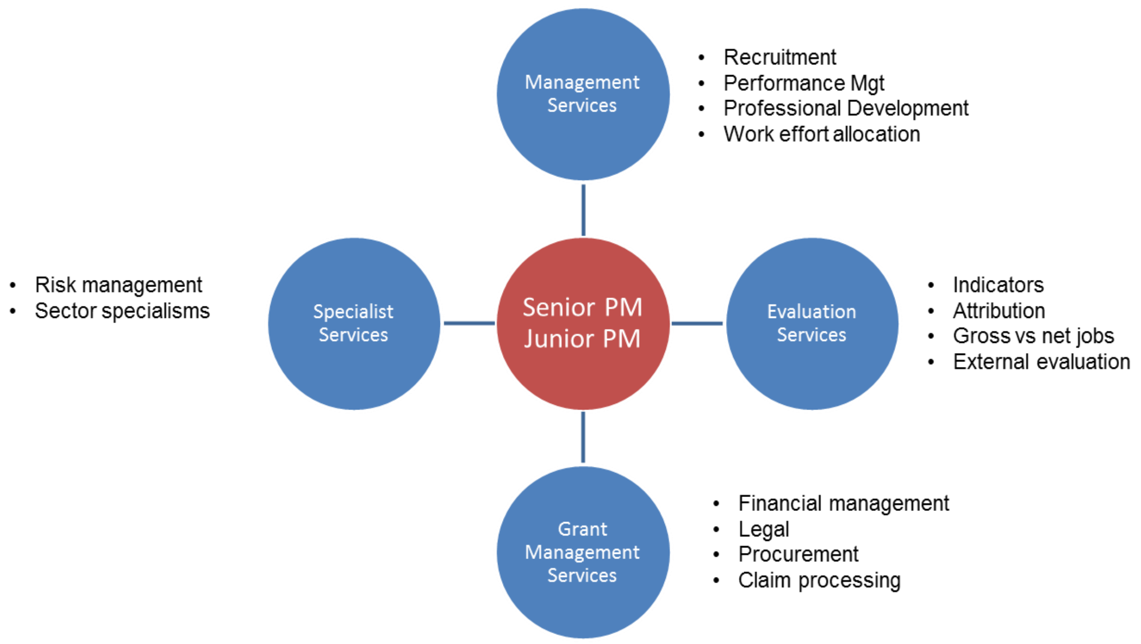
- Overall responsibility for the delivery of the grant funded project
- Primary senior contact for project and grantee
- Negotiations with would-be grantee
- Active in the development of the project design
- Primary point of contact for JF expert inputs on design (Topic, M&E)
- Grantee and project due diligence
- Review and sign off of grant application documentation
- Represent PMU at the IC meetings considering the project
- Negotiations for grant, including drafting of grant agreements
- Responsibility for timely project progress reporting to IC, including the final sign off
- Preparation of grant contract amendments, notifications, clarifications
- JF Representation at key project events
- Sign off on grant claims
- Primary point of contact for JF experts on implementation (topic, evaluation services, public relations)
- Hands-on responsibility for problem projects
- Day to day management where junior project officer is absent

Junior Project Manager:

- Assistance on grantee and project due diligence
- Drafting of key project development documents (manager's report on grant application) for review by senior project officer
- Grant project budget preparation, for review by senior project officer
- Day to day operations relating to project, (paperwork/ emails/ setting up meetings / attendance at meetings/ dealing with simple matters under guidance from senior project manager / filing)
- Representation at key project events
- Preparing project progress reports
- Relationship building with client counterparts
- Deputising for senior team member on his/her days of absence
- Management of smaller grant projects

The functions and responsibilities of a project-centric organisational chart are shown in Exhibit 12 below.

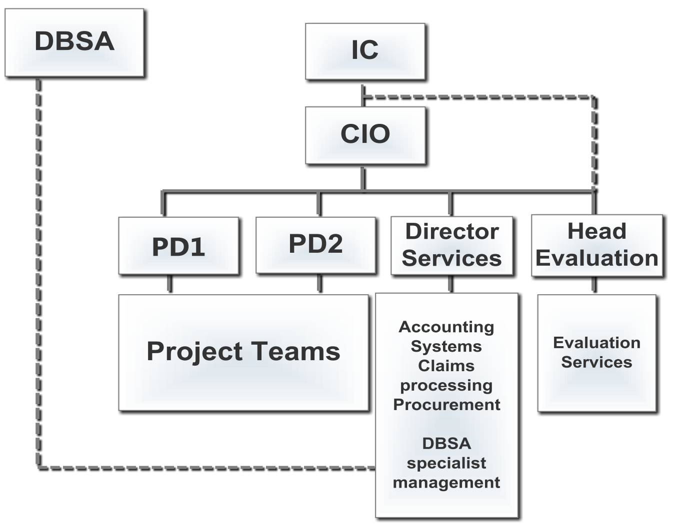
Exhibit 12: Project-Centric Organisation Chart



Recommendation #2: The PMU needs more project managers at both senior and junior levels. The overall expense profile for PMU management will increase in the medium term. With an expected 250 projects, and an average outstanding number of projects of perhaps 150 over each of the next three years, this equates to about 25 senior project managers and about 20 junior managers, a substantial increase over current staffing levels.

A suitable organogram for the PMU in the near future is shown in Exhibit 13 below.

Exhibit 13: Jobs Fund PMU – Proposed Organisation Structure



Recommendation #3: The skill sets of the DBSA PMU needs to be improved through training

It is not clear that current staff skill-sets are adequate for the task. According to comments received at the staff and grantee/applicant focus groups,

- There is a perception of poor quality management and leadership in the Jobs Fund
- Managers are not coping effectively in their roles
- Managers need leadership training as well as organisational and human resource management skills development
- The Fund has a weak and ineffective planning culture with several adverse consequences
- The Fund should develop an internal knowledge management system to improve standards of delivery
- Staff need to ensure they understand their individual and collective roles

Other observations made by the team during the course of the evaluation:

- Training has been limited due to work load pressures.
- A number of transfers from DBSA have not proved adequate for the tasks they were given

The project management skills for overseeing and adding value to challenge fund projects are not the same as the normal project management requirements in a development bank. Skills required are more akin to social venture capital project. To overcome the issues around current staff, and expected growth in the need for experience project managers, a combination of hiring against specific requirements and training of new hires and existing staff is required to maximise the return to the PMU.

The review team recommends that training is provided in key areas:

- Detailed understanding of the fund's purpose and the types of things that work
- Using the Grant Management System (GMS) to its full potential and fulfilling requirements for standards of data and document storage
- Detailed processes and procedures of the JF and understanding the roles of others
- Accountabilities and responsibilities
- Grant project development – to ensure that grantee projects are designed to maximise success
- Risk management of private sector run projects
- The grant contract
- Project monitoring and progress reporting
- Success indicators

3.2.3 Procedures

This section outlines key issues, best practice and recommendations generally, and at each major stage of the Fund's activities, namely:

- Concept note preparation and submission
- Concept note processing, selection and assessment
- Full application and grant approval
- Grant contracting
- Project progress reporting
- Grant claim and payment

The issue of round design is considered separately in the next section of this document.

3.2.3.1 Key issues

Generally, the high level operations manual reflects the correct process for a challenge fund. However, the manual is not being followed in all cases by the DBSA PMU owing to work pressures. Current practices lead to gross inefficiencies, duplication of tasks and potentially missing accountabilities. Examples noted in by the review team include:

- The IC involves itself with mundane management issues
- Project managers are not authorised to negotiate and finalise contracts
- No latitude given to amend contracts without higher approvals

There are no detailed procedures written around project changes and ensuing contract amendments and these are now urgently required. The procedures of the IC will need to be realigned as the Fund enters the project implementation phase, otherwise the Committee will be overloaded with tasks.

There were a large number of adverse observations relating to procedures made in the focus groups. General comments were:

- The target applicants the JF seeks to attract are too broad
- Managers and specialists feel there is a lack of clear procedures at the JF
- There is an absence of clearly defined procedures to guide project managers and specialists through the cycle
- The is an application bottleneck at the specialist level
- There is a lack of engagement between applicants and project managers, attributed to inflexibility and lack of will
- Queries are left hanging for a long time because people in the PMU are not communicating with each other effectively

The frustrations of PMU staff are reflected in one comment made in the focus group:

"The Jobs Fund framework documents have enough information to guide me with regards to understanding the mandate of the Fund. However, there is no support, systems, processes that enable me to do my work effectively".

The Fund's GMS is quite complex but appears to be capable to handle and control information on grants and grant projects. The system however is not in everyday use yet and the database is still being populated with historical information. It cannot be used until connectivity issues are sorted out, and this should be an urgent priority. PMU staff and applicants noted the inability to use the system for this reason. Management of a fund of this size must be based on system use

3.2.3.1.1. Concept Note preparation and submission

In round 1, very little PMU effort took place to assist applicants in preparing their concept notes. This is a function of the quick launch of the fund and the open nature of the competition, with all four windows open and no prioritisation within the windows.

The essence of this was captured in the comment of applicants in the focus group – "the support system for applicants is weak at the concept note stage"

The move to submitting the concept through the website appears to be best practice and should work in South Africa where most would-be applicants can access the internet.

Applicants are not encouraged to bid only for the funds needed, i.e. to instil the idea that the application process is competitive in terms of funds applied for.

3.2.3.1.2 Concept Note processing, assessment and selection

The concept note assessment process has undergone many changes in rounds 1 and 2, and there has been a useful quality assurance process that has provided the NT with comfort that concepts have been equitably treated. The perception of the PMU staff and the successful and unsuccessful grantees interviewed in the focus groups has been that the process improved greatly between rounds 1 and 2.

The process in place in the PMU in Round 2 complies with best practice for challenge funds, providing clear eligibility and assessment criteria, marking rules, independent marking and tie break processes, and final management review and recommendations made to the IC.

Should the review team's recommendations on round design and theme setting be accepted, the large number of concepts in the first two rounds should reduce dramatically, and the concepts improve in quality, easing the management burden in sifting concepts.

An important general message from the focus group is that there is insufficient feedback to unsuccessful applicants leading to suspicions around the process.

3.2.3.1.3. Full grant application and approval

The current process is in line with best challenge fund practice for developing full grant applications, reflecting applicant due diligence and the development of the idea into a full business plan.

However there are significant variations in the grant award structuring that can be improved, especially around permissions for advances, grant project budgeting and tagging of grant against certain expenditures, providing the PMU with room to manoeuvre on subsequent amendments. Recommendations on these are provided below:

3.2.3.1.4 Grant Contracting

There were a large number of adverse comments received in the focus groups from successful applicants as well as PMU staff:

- Inefficient contracting processes have delayed projects from kicking off
- There is no alignment between the DBSA, implementing team and the contracting team around the contracting process
- Ineffective communications between the DBSA and the legal team causing further delays in the contracting process

The delays have been significant and crippling.

Overall, the current contracting process was assessed significantly below standard and provides DBSA with reputational and operational risks. Typically, challenge fund grant contracts are signed within 2 weeks of grant award.

Procedures need to be developed urgently to tightly control contract notifications, clarifications and amendments. Contract amendments include changes to project budgets and project activities and timelines. Typically, a challenge fund grant will require 5-10 amendments during the course of the life of the grant project.

3.2.3.1.5 Grant project progress reporting

This process has only just begun and was not looked at in any detail. The monitoring and evaluation framework (portfolio management and reporting) places a primary responsibility on the grantee to provide reports of project progress.

The M&E department in the DBSA PMU have commented that grantee reporting is possibly of a poor quality and that as a result enhanced project oversight will be required.

3.2.3.1.6 Grant claims and payment

The focus groups noted that:

- The JF seems to have a greater focus on the money than the impact of grants, and despite this grants are not disbursed efficiently or in a timely manner
- The disbursement process is not clear, leading to delays

It is too early in the cycle of the Jobs Fund to review the claims and payment process, which are likely to be driven by the needs of government accounting.

Generally, the grant claim and payment process is fit for purpose addressing the major concerns of the NT as to use of funds and the DBSA in terms of its fiduciary duty.

3.2.3.2 Best practice procedures

Best practices in each of the phases of a challenge fund are:

3.2.3.2.1 Concept note preparation and submission phases

Best practice for management interaction during the concept note preparation and submission phases is very much tied to the round design process, where the needs of many potentially strong applicants are determined as part of the subsector analysis. These early contacts provide an opportunity for the PMU to continue the dialogue with the potential applicant during the period when the round is open for submitting bids.

More general assistance can be provided to the applicant in the lead up to the completion of the concept note through “concept note clinics” – an opportunity for the PMU to review the draft concept note with the applicant with the purpose of improving the quality of the document without changing the applicant’s idea.

Another best practice idea is for the PMU to provide open sessions where would-be applicants are taken through training to complete the concept.

3.2.3.2.2. Concept note processing, marking and selection phases

Best practice provides that the larger part of the selection work on concept notes is carried out by the PMU, such that the IC only receives concepts that pass both the qualifying marks set in the scoring system and also carry the full initial support of the PMU, who will be responsible for managing the approved concepts.

Efficiency in this process can be achieved if, in total, PMU should support concepts where the sum of grant bids is no more than 300% of the available grant pot for the round or theme. This provides a smaller number of concepts for consideration by the IC, but also provides that the IC with the primary responsibility for selection.

Because of potential drop out at the full application phase, best practice and efficiency dictates that the IC should select concepts that in total would provide grants at about 125% of the available grant pot for that theme or window.

3.2.3.2.3 Due diligence and full application phases

Although the procedures adopted by the PMU are close to best practice for the due diligence there is no risk-based approach, and as a result, the process is not as efficient as it might and the information provided to the IC is not structured in a way to ensure that critical issues are brought to the fore.

The PMU is also not providing its own opinions on key components of the application, including the need for the grant applied for, nor does the PMU recommend preconditions or other grant aspects nor does it draft resolutions for IC.

Many challenge funds have moved away from the simple percentage grant formula applied against all project costs, in order to simplify payment processes, to manage project cash flows and to incentivise certain grantee project costs (perhaps those that contribute directly to produce outcomes) over costs which are either soft (contributed assets), difficult or complex to document (standard costings, management overheads), or controversial (branding or license fees paid to offshore connected enterprises).

Decisions made by an IC would document at a minimum the items shown Exhibit 14.

Exhibit 14: Investment Committee Decision-Making

Typically the decision made by the IC relating to a grant award should ensure that all of the following aspects are addressed:

- The grant ceiling – the maximum amount of the grant award that is disclosed to the grantee
- A grant award contingency that provides the PMU with the discretion to increase the grant without referring back to the IC
- A project budget contingency to allow the PMU to agree to changes in the project's budget without referring back to the IC
- Any approved budget for technical assistance
- An approved earmark for project external impact evaluation
- Conditions and preconditions to the grant award to be reflected in the agreement
- Any phasing of the grant
- Approval for the involvement of PMU managers in the project's governance
- The amount of any advance agreed by the IC along with the terms for the advance repayment
- Other matters as decided by the IC

3.2.3.2.4. Contracting phase

Best practice suggests that it is possible to sign grant contracts within 2 weeks of grant award. This is achieved by a variety of techniques, the most critical of which are:

- Appointing a project manager after the concept note is approved
- Ensuring that the would-be grantee is provided with a draft contract after the concept is selected, assuming that the IC has provided a steer that the project will be approved subject to successful due diligence and an acceptable full application
- The draft contract is standard and the negotiating stance is set at the outset
- Provide full accountability and responsibility for negotiations to the project manager
- Clearly documented approval of the project with all IC-mandated conditions and preconditions.

Best practice also provides clear rules around dealing with changes to grant project activities and project budgets, especially on who is responsible and has authority to make these changes. Typical alignment would entail pushing responsibilities and accountability downwards through the management ecosystem.

3.2.3.2.5 Project progress reporting phase

Other challenge funds provide that the manager should report to the IC on a quarterly basis on the progress of the grant project unless the risks relating to the project are low, or the grant amount is small.

The purpose of the manager's report is to evidence interventions, to understand how risks are impacting the project and document progress. The form for the quarterly report is normally fixed, covering the following general headings and is rarely more than 8 pages:

- Executive summary including any recommendations
- Ratings on project progress (activity based in early periods and results based later)
- Managerial involvement and interventions (heavy, medium, light)
- Issues and observations
- Changes to risk assessment
- Progress towards targets

Given the volume of projects that most challenge fund expect to be funded – this level of information, whilst evidencing the diligence of the project manager, is too detailed for the review function carried out by the IC. The IC should instead be provided with a narrative summary of the main issues faced by the project and requests for actions relating to matters that materially alter the project (budget or activities). The definition of materiality is normally agreed between the PMU and the IC.

Many challenge funds face problems with project timelines due to the optimism of the applicant to completing the plans. Best practice is therefore for the project manager to work closely with the grantee to agree a realistic timeline and milestone setting in advance of signing the grant contract.

3.2.3.2.6 Grant claim and payment phase

There is no best practice for grant claim and payment processes, which normally follow the requirements set down by the challenge fund's owner. In the context of the Jobs Fund, the owner is the National Treasury and the requirements are those of the Public Finance Management Act.

Where possible though, the claim checking should be risked based, where risks are assessed as part of the application due diligence and therefore the amount of work involved in checking is greater for small owner-manager companies than for publicly owned or quoted companies.

3.2.3.3 Recommendations

Recommendation #1: Provide training in the use of the Grant Management System, populate it with key documents and ensure compliance in its use

Training in the use and compliance with the GMS need to be beefed up considerably. The system must also be populated rapidly with key documents and its use made mandatory.

Recommendation #2: Improvements to concept note preparation and submission

The PMU should consider whether to provide concept note clinics through experts rather than through the call centre route. The clinics would provide for a review of the quality and completeness of the concept without altering the concept itself. In the case of innovation themes, the first attempt to describe the innovation should be made by the applicant and collected as part of the submitted concept note.

Recommendation #3: Improvements to concept note processing, marking and approval

The following recommendations need to be considered in the light of recommendations on setting round themes and financial limits (available grant pot)

- Graduate the current New Business Committee's recommendations on qualifying concepts from simply supporting/ not supporting into a 5 category system (very strongly supported; strongly supported; supported; worthy but not supported; against) – see Exhibit 15

Exhibit 15: Star-system adopted by RPCF and ABIF, adapted for the Jobs Fund

Level of PMU support	No. of stars	Characteristics
Very strong	★★★★★	**A concept that can be expected to provide a significant contribution to the results of the JF. The bid is competitive and grant justification is clear**. The applicant is considered to have excellent management and financial capacity to carry out the project successfully. Cost per net job created is competitive. The concept is clearly written and understandable.
Strong	★★★★	**A worthwhile, well written concept** where most of the measures outlined for 5 stars are met, but perhaps one is of lesser quality. Projects are deemed worthy of support.
Supportable	★★★	Projects that are **worthy of support**, and have at least one and maybe more factors which are very attractive, but which do not rank as highly as concepts with 4 or 5 stars.
Worthy but not supported	★★	Worthy projects that would have **limited impact**, but also do not deliver jobs in a sustainable manner or commercially. Projects with some merit but which reinforce poor market practices. Projects with poor cost per net job created.
Against	★	Not worthy of support**. Project fails to meet one or more basic criteria, are naïve or are expected to have very limited or no impact.**

- IC should be able to approve concepts that total grant requests of 125% of the amount available in a window/ theme for the round, as some will drop out at the application stage
- To speed up contracting, IC should approved concepts into two categories:
    - those which will result in grants assuming positive due diligence and an application reflecting the concept – this will speed up the contracting cycle as this can happen in parallel with due diligence and application development phase;
    - those where the concept is contingently approved based on the concerns of the IC
- Ensure discussions of the IC are fully minuted, with decisions and subsequent resolutions around each concept fully documented in a decision memo produced within 2 days of the meeting
- Document any hidden criteria that were used to reduce the number of concepts from those with qualifying assessment marks and report these in the minutes
- Improve the feedback to failed CN applicants which is neither timely nor instructive according to applicants.
- Despite the marked improvement concept note processing in Round 2, there were enough issues arising in the Round 2 QA report for the review team to suggest a continuation of the QA process for Round 3.

Recommendation #4: Improvements to due diligence and full application phase

- Advances should be the exception rather than the rule, to improve project risk profiles and simplify monitoring. The case needs to be clearly made and documented and the advance repayment terms made clear.
- Introduce the concept of grant tagging against project cost line items to maximise impact of grant funds
- Introduce project contingencies and non-disclosed grant contingencies to improve project management responsiveness and simplify processes.
- Increase VFM and grant justification by introducing “need for grant” analysis, that looks at financial returns for private sector partners, based on an understanding of hurdle rates for corporate investment
- Reduce the size of the information pack provided to the IC, and provide instead a narrative of expert opinions around due diligence, especially financial statements and risk analyses, and concept development issues.
- Provide clear recommendations to the IC including draft resolutions for the committee to approve, covering the all aspects of the grant award (see Exhibit 14).
- The senior project manager responsible for the project should make the presentation of the project at the IC.

Recommendation #5: Improvements to the contracting phase

The review team recommend the following to improve the overall contracting process:

- Grantees and prospective grantees (concept notes approved) should be presented as largely non-negotiable, given this is a grant rather than a commercial contract
- Improved quality control can be achieved by structuring the grant agreement by separating into general conditions and special conditions. General conditions cannot be changed at all
- Legal services should be limited to issues requiring legal expertise, otherwise contract completion, and subsequent amendments are largely modular and non-contentious and should be carried out by the project team
- Conditions precedent should only be those directed by the IC
- The grant contract should deal with the advance payment and repayments
- All experts involved in the process (legal operational, risk etc.) must accept that grants are not repayable for failure to reach job targets
- The norms relating to amendments shown in Exhibit 16 should be adopted.

Exhibit 16: Recommended Challenge Fund contracting tasks and responsibilities

Amendment Task	Suitable level of responsibility	Notes
Grant amount	IC/ CIO	Many challenge funds allow the IC to approve a small grant contingency, typically 5%, that allows the PMU flexibility to approve increases without referral back to the IC. The approved contingency is not broadcast to the grantee.
Project budget total	IC/CIO	Project budgets might provide a small contingency, typically 5-10% within the project budget to allow the grantee flexibility in managing the grant funded project. Use of the contingency can be approved at the CIO level subject to recommendations of the SPM
Non material line items in the project budget	CIO/SPM	Changes that are nonmaterial may be recommended by the SPM and approved by the CIO with justification for the change provided.
Material changes to the project budget	IC/ CIO/ SPM	Where changes are material they should be analysed and supported by the SPM and CIO but approved by the IC
Change to the project timeline	SPM	Challenge fund projects especially innovation projects, often fail to meet their timelines, and the SPM should be able to determine whether the missed deadlines are justified and approve extensions and changes to the timeline, flagging this in the reporting to IC.
Changes to grant project workplan	SPM	The SPM should be able to agree changes to the workplan (ordering of activities, minor amendments to project targets or changed activities to achieve the same results without reference upwards, but flag the changes in the reporting to the IC.
Changes to grant conditions and preconditions	IC	IC-set preconditions and grant conditions can only be changed by reference to the IC
Proforma grant contract	IC/ Legal	IC should approve a proforma grant contract that has been prepared with legal expertise
Grant contract	CIO/SPM	Specific grant contracts should be drawn up by the SPM taking into account all IC-set conditions and other negotiated aspects agreed by the CIO. Legal services should only be involved on drafting changes to the proforma contract – not on negotiations.
Amendments, notifications and clarifications to the grant contract	CIO/SPM	SPM should draw up all grant contract amendments, clarifications and notifications with advice from Legal services if needed. CIO should sign all such changes.
Terminations, cancellations of grants	IC/ CIO/ SPM	The IC is the only authority to terminate or cancel grants. SPM and CIO may recommend this to the IC.

Recommendation #6: Improvements to project progress reporting

Introduce project manager reporting to the IC along best practice lines. The report should comprise:

- A narrative of the issues faced and progress on the projects
- Aspects that the IC should consider, relating to material changes to the project.

The IC and the PMU should agree on what constitutes material changes to a project's activities, milestones, timelines, budgets and targets. This will certainly include any increase in the project budget or grant over and above the amounts agreed that can be altered at the manager's discretion.

Recommendation #7: Improvements to grant claim and payment phase

Subject to the requirements of the Public Finance Management Act, It is recommended that the process might be simplified somewhat without loss of control through carrying out suitable due diligence on grantees' internal management accounting systems, financial controls and audit processes. This would allow some risk based grant claim checking where the emphasis is on those grantees with weaker systems and controls. Other challenge funds have adopted this approach successfully (see Exhibit 17) although others do not, applying a "one size fits all" process.

It is worth bearing in mind that the DBSA is a state institution and subject to different standards to the private sector, and any changes would need to be considered carefully in that light. Some benefit might also be gained from DBSA and NT agreeing and spelling out what DBSA's fiduciary duty is, through a detailed note.

Exhibit 17: RPCF claim process

Bangladeshi private sector financial governance is considered very weak by Western standards. However, some institutions are stronger than others:

- Strong – banks, telecommunications companies, very large NGOs
- Medium – large NGOs, large/ medium companies with separate ownership and management, government departments
- Weak – everyone else

The appropriate levels of claim checking were not set in stone, however the following guideline was agreed with DFID:

Financial assessment	Claim evidence	Accounting controls	Project cash flow	Audited accounts
Strong	<25% of vouchers checked	Limited review carried out	Not actively checked	Not reviewed
Medium	25%-50% vouchers checked	Review of accounting controls/ IC procedures	Project cash flow estimates reviewed	Audited accounts reviewed
Weak	100% of vouchers checked	Detailed assessment of accounting controls/ IC procedures	Project cash flow estimates dissected	Audited or other available accounts dissected

3.3 Focusing on Themes (Round Design)

3.3.1 Discussion

The formative review team did not analyse the portfolio for adherence to the strategic framework of the Jobs Fund. At a gross level, however, there is a direct correlation between the four windows of the fund and the thinking present in the strategic framework document.

The strategic framework does identify priority sectors

- Agriculture and agro-processing
- Tourism
- Construction, housing and infrastructure
- Business process outsourcing
- Green economy
- Manufacturing
- Mining

The strategic framework document suggests that the DBSA should test these sectors against its own research and refine and select final priority sectors. The criteria for selection of the priority sectors relate to labour intensity, competitiveness, growth potential and secondary factors, for example contribution to food security or rural development.

The strategic framework, through principle 4, calls for deeper analysis to be carried out to encourage good ideas that have funding potential. The strategic framework document confirms that some subsectors have greater job creation potential, confirmed by the experiences of the Africa Enterprise Development Fund and McKinsey Global Institute[10], which both suggest that within agriculture there are sub-sector opportunities that would create more net jobs than others for the same level of investment.

3.3.2 Key issues

Comments received suggest that DBSA has not responded adequately to the challenge to test the sectors and subsectors against its own research.

In the first three rounds, these sectors were not prioritised either in terms of restricting the focus of the window or through selection criteria. The unrestricted calls for proposals in the first two rounds have given rise to a large number of concepts received, which generally cannot be compared against each other, and the large number have created severe processing issues given the management capacity of the PMU.

[10] McKinsey Global Institute – Africa at Work – Job Creation and Inclusive Growth (Aug 2012)

3.3.3. Best practice

Challenge funds vary in their approach to encouraging the best concepts, but more recent funds, such as the Afghanistan Business Innovation Fund, have targeted specific sectors and subsectors, rather than accepting a broad range of concepts that meet the general criteria provided under the fund's charter.

In the case of the ABIF, the fund manager used an analytical approach to select sectors or subsectors where empirical evidence suggested superior potential for overall impact. Certainly this is the approach suggested by principle 4 of the Jobs Fund Strategic Framework.

The selection/ prioritisation of the most promising themes is based on multiple criteria, which typically for a jobs fund will include:

- The potential market for the subsector products, and whether these substitute existing products or represent a fresh market opportunity or import substitution
- The market or potential market participants and their likely interest in developing the subsector, along with estimates of capital investments required and potential sources of finance and appetite for financing
- The risk profile relating to the subsector's development
- The job creation potential, including skills demanded, likely volumes and supply side aspects
- The reasons for the current state of the sub-sector market and whether the barriers to development are natural or driven by other controllable factors
- Cultural aspects that encourage or discourage participation by women and youth
- The potential for innovation or scale up of innovative approaches to developing the subsector

The analysis at the Afghan Fund goes further, applying the M4P approach which looks to define interventions that impact a chosen a target group of people (the P in M4P is “the poor”). The interventions can be at the micro-, meso- or macro-level and provide a measurable improved outcome for the target group as consumers, producers or employees. This fuller analysis can provide a deep understanding of the risks inherent in investing at the meso level (typically provided by the challenge fund grant investments) without also intervening at the macro level (normally laws, regulations, industry standards and other aspects of the business enabling environment).

The M4P approach can be adapted for job creation, given the target of employment needs in a subsector, and the supply of unemployed persons. Because the Jobs Fund is owned by the government, and can attract concepts from public sector regulators through the Institutional Capacity Building Window, there are opportunities to also tackle the macro-level interventions that may be required from the M4P analysis. Similarly the Infrastructure Window would allow some micro-level interventions.

As already discussed in section 3.1 on ‘relevance’, there is an opportunity to provide grant funding for “frictional” projects, that provide an impetus to challenge the existing conceptions and positions within government on matters that are game changing. This is particularly apt where the major hurdle for development is in the regulatory environment that may be protecting a group of entrenched interests, whereas developments in the rest of the world would suggest that other approaches can provide for more effective outcomes. In these cases, grant funding typically helps the grantee with finance to either challenge the government department's regulatory ruling or to fund activities that allow the regulator to develop a clearer understanding of developments in the rest of the world.

The development of the subsector analysis provides not only the basis for engagement in the subsector, but also:

- knowledge of the potential applicants for grants providing the basis for the Jobs Fund's marketing and awareness raising plan for that round
- the potential applicant's capital investment needs, providing the basis for the grant funding requirements and an appreciation for the co-investment potential
- an analysis of the gross job creation potential, which, coupled with the grant funding requirement calculation gives an indication of the cost per gross job for that subsector
- an appreciation of the adjustments that might be needed to arrive at the potential for net job creation – generally this is easier to capture at the sub-sector level rather than at the grant level
- the understanding of the sub-sector specific expertise that would be required to help rank concepts and subsequent applications, allowing that expertise to be acquired by the PMU

The outcome of the analysis of a number of subsectors will provide solid practical grounding for making choices between the subsectors, thereby maximising expected results.

Many challenge funds that follow this approach go further and provide that applications for particular rounds are limited to those subsectors chosen. Furthermore, they distinguish between innovation projects and scale up projects, through specifying 'themes'. The wording for the themes is normally carefully crafted to accommodate the subsector focus but not too sharply defined to deter applicants with generic ideas that can contribute to that sub-sector's development and therefore might compete against or complement the ideas of others applying with more specific subsector ideas.

The subsector analysts will develop sufficient understanding of the subsector's needs to recommend a term sheet that captures the 'rules of the game' for a competitive challenge fund process. The rules that are captured for the 'term sheet' are captured by theme. Typical rules per theme are:

- The total grant money available for awards in the current round (note, this is not against Principle 11 - "Avoid Quotas")
- The maximum and minimum grant amounts
- Eligibility criteria – especially on type of applicant
- The maximum and minimum grant percentage that may be applied for, by applicant type
- Thematic selection criteria to complement general selection criteria

Concept notes received under any theme are assessed in competition with each other. In any one round there could be space for up to 5 themes per window, and separate competitions for innovation and scale up.

3.3.3.1. Innovation and scale-up

Best practice for attracting innovation in the challenge fund environment is exhibited where clear guidelines are provided for innovation and the applicants are required to explain their innovation within the framework of the guidelines as part of the concept note completion process.

There are several aspects to innovation which suggest that innovation should be separated from scale-up ideas:

- Innovation will often require piloting in a commercial environment and hence innovation projects are generally significantly smaller than scale up, and grants are thereby smaller
- The percentage of grant to total project cost will often be required to be a lot larger in order to overcome adverse investment criteria is the applicants mind
- Innovation often comes from start up or relatively new companies, or companies with large research and development budgets. Eligibility criteria need to be looked at carefully to ensure that innovators are not automatically disbarred from applying
- A good understanding of the industry is essential to ensure that the fund manager is able to confirm that the innovation – quite often an applicant may be misled into thinking an idea innovative where in fact the applicant is ignorant of what others in its industry is doing
- Larger companies tend to foster many innovation ideas, and these companies should be allowed to enter multiple concepts to ensure that all innovative ideas are considered
- Some challenge funds have a two-part concept note process for innovation themes to attract many ideas – the first stage is often just a 100 word description of the idea. The best ideas are then expanded into a regular concept.

Exhibit 18: Innovation classification system

X-axis

- Invention – a totally new idea in the world
- Level 1 innovation – An invention that has not been commercially developed or scaled up anywhere in the world.
- Level 2 innovation – An idea that is commercially developed somewhere in the world, but has not been tried out on a commercial basis at all in South Africa
- Level 3 innovation – An idea that has been tried out on a commercial basis in South Africa, but has not been tried out in a particular region of South Africa, or an idea that works in the cities but is not yet tried commercially in the countryside
- Level 4 innovation – An idea that has been proven to work in South Africa but is new to the applicant organization

Y-axis

- The innovation is a new product or service with positive ramifications for job creation
- The innovation is a major change in the process of developing, manufacturing or using the product or service, with positive ramifications for job creation
- The innovation is in the marketing of the product, including new methods of marketing, new emphasis to bring out characteristics of the product or service, as well as changes to pricing, any of which might have positive ramifications for job creation
- The innovation is a change in the way the organisation is structured to deliver the product to the market, with positive impact on job creation

Exhibit 18 provides an illustrative innovation classification system, based on those in use by RPCF, ABIF and Shiree and adapted for the Jobs Fund. Innovation projects would be classified according to the system shown and then scored using the matrix in Exhibit 19 below.

The Jobs Fund could fund concepts that fall into level 1,2 or 3 in Table 7 but not invention or level 4 innovation.

Exhibit 19: Innovation Qualification Matrix

	Invention	Level 1 World	Level 2 South Africa	Level 3 Regional	Level 4 Organisation
Product					
Process					
Marketing					
Organisation					

Within the framework of the Jobs Fund, innovation in job creation can also mean innovation in the way that people find jobs or are placed jobs. These are potentially game changers in that the techniques could be applied across many subsectors.

Care will be needed to ensure that the innovation ideas do not overlap with the work of other government agencies, such as the Technology Innovation Agency.

3.3.4 Recommendations

Recommendation #1: It is recommended that the Jobs Fund adopt a different approach from calls for applications in round 4, and develop themes based on detailed analysis of economic sectors and subsectors that provides a detailed strategy for Jobs Fund engagement in those sectors and subsectors. The analysis will provide:

- Justification for engagement in the sector and subsector based upon an M4P analysis
- Themes within the sector or subsector that the Jobs Fund will support
- Sector or subsector market potential, investment needs and employment potential
- Sector or subsector market or potential market participants and their appetite and need for grant funding
- Innovation and scale up potential
- Sector or subsector development issues and risks
- Likely grant funding requirement
- Expected grant size and likely use of grant
- Recommendation on eligibility and assessment criteria for selection

The final choice of themes will be informed by the following stakeholder requirements:

- The National Treasury regarding the financial aspects of medium term budgetary framework
- the Advisory Committee regarding relevance and changes to the emphases around job creation
- the Investment Committee and the DBSA PMU regarding the portfolio balance and performance. Themes that address shortfalls in the portfolio - such as lack of projects in a particular province, or small projects - might be encouraged.
- The DBSA PMU regarding the practical aspects of managing the forthcoming round

Recommendation #2: Best practice suggests that the National Treasury should take ownership of the process of round design at least to the point of setting the themes and the term sheet. At present this process is devolved to the DBSA but has not been adopted by the DBSA.

Recommendation #3: The IC should agree definitions of acceptable innovation based on OECD criteria as outlined in the Exhibit 18 above.

Recommendation #4: The focusing process will require rethinking around some of the procedures incorporated in the operations and other manuals, as follows:

- **Review and relax eligibility criteria**, in order to attract the concepts that matter - especially the 2 year trading requirement that might exclude innovation ideas and the ‘no government approval’ requirement (game changer or “frictional” projects).
- **Refine the assessment criteria** - if innovation is a separate theme, then innovation should no longer be an assessment criterion.
- **Significantly improve VFM by dropping the word “matched”** in matched funding as this implies implies 50:50. (Round 1 grants were slightly greater than the funding provided by partners) Include funding percentage as an assessment criterion – see Exhibit 20.
- **In kind contributions**, while accepted for the project budget should not be part of the calculation of cost sharing. There were exceptions to this rule in Round 1 - see Exhibit 21.
- **Financial limits for the round should be set in advance** and advertised – allow the Governance and Operations Committee to amend based on responses. This will encourage more realism in the bids.
- **There should be no more than 2 rounds per annum**, in order to manage the overall operational requirements of the Fund
- Design the operations of the round to **ensure there is adequate management capacity** to conduct the assessment process, the approvals, and application development, due diligence and grant award. This will impact the key dates for delivery in the round.
- **Consider market analyses prepared by the DBSA PMU**. For priority economic sectors this may involve analysis of market demand, the current and future market players, the job creation potential and an analysis of constraints to employment growth.
- **Approve a strategy for awareness raising and marketing for each theme**, including a budget for these activities if they are to be subcontracted. Consider how PMU staff can assist would-be applicants to develop their concepts.

- **Provide a final term sheet for each theme under each window** that lock in the decisions of the committee regarding the conduct of the round. The sheet will provide dates, grant minima and maxima, minimum project size, cost sharing, eligible applicants, theme description, eligibility and assessment criteria.

Exhibit 20: Leverage and Value for Money

The leverage achieved by a challenge fund is one of the key measures of value for money. Leverage is defined as the ratio between the grantees non-in-kind contribution and the grant amount. On a portfolio basis challenge funds typically achieve a ratio of 4:1 (RPCF), representing the average, and 2:1 as the mean leverage.
Leverage is maximised by a combination of techniques:

- Applicants are encouraged to “bid” for the grant, with the clear message given that overbidding will be penalised
- Leverage is included as an assessment criterion when comparing concept notes
- IRR hurdle rates are reviewed as part of due diligence and grant bids reduced by negotiation
- Rationing of grants is imposed by the IC across all successful grant applications on a “take it or leave it” basis

Exhibit 21: In Kind Contributions

The following costs are not normally considered by challenge fund managers as costs for the calculation of the cost to grant ratio for cost-sharing grants:

- Costs incurred before the grant agreement is signed
- Capital items (fixed assets, intangibles) contributed
- Non costs (working capital contribution, microfinance loans)
- Intergroup costs unless at arm’s length and within South Africa
- Income forbearance
- External evaluation costs

Income forbearance is sometimes allowed for risk sharing grants, where the sales price for a key good is reduced to stimulate sustainable demand

Round 1 Exceptions noted include the contributions from the Women’s Development Business Trust and the Small Enterprise Foundation

3.4 Evaluation

3.4.1 Responsibilities

There appear to be misconceptions in the Jobs Fund PMU around the roles of monitoring (that is, project progress assessment) and outcome evaluation. In the challenge fund environment, project progress assessment is the responsibility of the project management team, reporting issues to the Investment Committee. Evaluation is a specialist service looking at project outcomes.

The review team's thoughts on the role of 'evaluation services' in the Jobs Fund is shown in Exhibit 22 below:

Exhibit 22: Responsibilities for Monitoring and Evaluation

Project team	Evaluation services
The project team should be responsible for all project progress reports, and these should be available to the IC. • Given the volume of projects, a synthesis of issues is required with recommendations on solutions to issues. • ES should have no part in project progress reporting or of any approval for changes to the project. • The project team can call upon ES for advice as suited to their expertise	The M&E department should be renamed the Evaluation Services (ES), reporting to the CIO and the IC. The ES: • develops independent evaluation plans and budget for the fund as a whole and for each individual project. • provides detailed definitions of "jobs" (gross and net) and the use of proxies and get this approved by NT and IC and ensure this is widely understood by all stakeholders • provides advice to the project team and grantees in developing grantee-owned measures of jobs • provides expert advice on the theory of change associated with each grant project, and attribution of project activities to job creation measures in complex cases. • provides assessments of applications and the likely outcome on net job creation measure. • develops ToRs for detailed impact evaluations, and be part of the selection of outside resources to carry out the evaluations. • determines whether DCED standards can be provided and at what cost, for IC and NT consideration

3.4.2 Job measurement

3.4.2.1. Issues

The Jobs Fund has adopted six indicators for assessing its performance based on the four funding windows and these have been set after significant internal debate. These measures are:

- The number of trained beneficiaries

- Trained people in internships
- The number of short term jobs (<18 months)
- The number of beneficiaries in permanent positions beyond project partnerships
- The number of permanent positions created in project partnerships
- The number of permanent positions created as a direct result of grant funded projects, existing beyond the grant period.

The headline target is the last of these and the creation of 150,000 sustainable full time equivalent jobs within a three to five year period. The key issues on measurement of this headline relate to the definition of a job, and whether gross or net jobs should be adopted.

We understand that significant differences exist on whether the definition of a job should be restricted to “decent jobs” using the ILO definition of a decent job, or whether more informal jobs should be supported. The NT has decided not to over-define a job, hence allowing informal jobs to be created. Within the South African job structure, the view of the formative evaluation team is to support this measure as long as there is a detailed description of measurement.

Currently the Jobs Fund defines a job as:

> *A new job (or Full Time Equivalent) that has been created as a result of the project, for which a permanent employment contract has been signed. The new job opportunity is expected to exist beyond the grant funding period and is not maintained or paid for using Jobs Fund grant funds.*

We note that, as part of the measurement framework of the Jobs Fund calls on measures of **gross jobs** created. Whilst this is a relatively easy number to define and measure within the framework of discrete grant funded projects, there is a significant risk that the true impact of the funded projects may be considerably less than the gross jobs created due to a variety of factors. The choice of the gross job metric may also provide incorrect incentives in the selection of projects for funding, and may provide instances of projects being funded that were going to happen in any case.

The primary reason for selecting a net job measure probably lies in the risks that the Job Fund stakeholders could face from its critics, who might feel that **net measure** is in use in many countries which have similar programmes, and which use economic additionality principles to demonstrate justification for the use of public funds and value for money.

3.4.2.2 Best practice

Given that the Jobs Fund is only one of a number of South African Government’s initiatives around job creation, it is useful to look at a common definition of a job, which would allow programme to programme comparisons.

Definition of a job – Per DFID[11] a job is calculated on the basis of a qualified headcount, where one job equals one person working at least 20 hours a week for at least 26 weeks a year in conditions that comply with 8 ILO core conventions and earning at least the living wage for that country. The living wage is the greater of the national minimum wage and the wage required to take the worker and an average number of dependents above the $2 poverty line.

[11] DFID How to Note Measuring Job Creation 2 – How do we define a job?

The ILO core conventions are:

- Freedom of association and protection of the right to organise
- Right to organise and collective bargaining
- Forced labour
- Abolition of forced labour
- Minimum age
- Worst forms of child labour
- Equal remuneration
- Discrimination (Employment and occupation)

Gross vs Net Jobs - The standard techniques of economic additionality call for the following adjustments to a gross jobs measurements:

- **Deadweight** - the proportion of total outputs/outcomes that would have been secured anyway without the intervention in question
- **Displacement** - the proportion of outputs/outcomes that are reduced elsewhere in the target area. These effects can occur in product markets (e.g. among nonassisted businesses) or in factor markets (e.g. in the labour market).
- **Leakage** - the number or proportion of outputs/outcomes that benefit those outside the target area of the intervention.
- **Substitution** - this effect arises where, say, a firm substitutes a jobless person to replace an existing worker to take advantage of the public sector assistance
- the **multiplier effect** - Further economic activity associated with additional income to those employed by the project (income multipliers), with local supplier purchases (supplier multipliers) and with longer term development effects (dynamic effects e.g. induced inward migration).

The net additional impact (in this case net jobs) is measured as the product of these items as follows:

Net jobs = Gross jobs*(1-DEADWT)*(1-DISP)*(1-LEAK)*(1-SUBST)*MULT

Additional information may also be collected on the following two areas to arrive at net outputs:

- **further unintended consequences**, Consequences that were not anticipated for the targeted outputs and outcomes. The unintended effects may be on non-targeted outputs and outcomes, but may still have adverse effects on sustainable economic development.
- **crowding in and out** - This effect occurs where increases in public expenditure associated with the intervention cause other variables in the economy to adjust resulting in either a decline (crowding out) or increase (crowding in) in private expenditure.

Key to the process is the determination of the deadweight – which is the counterfactual – comprising a baseline and an estimate of likely trends in the absence of the project. The baseline is normally a quantitative description of the context at the start of the project but, depending on the nature of the project, might involve qualitative descriptions of important features. An assessment of the policy context will also normally form part of a baseline assessment. Projects with economic objectives will generally focus on describing the 'economic state' of the target group or area in terms of the level of employment, unemployment, skills, job vacancies and industrial classification of employers in the travel to work area.[12]

The best practice for determining the various factor values is:

- **Best**: bespoke investigation using various data capture methods, such as surveys or the results of bespoke economic or other modelling.
- **Good**: values chosen through a review of previous evaluations recognising differences in:
    - the policy and location (e.g. geographic, demographic or economic differences)
    - the assumptions made in the original evaluation
    - significant changes in situation (due to time of investigation)
- **Adequate**: default values chosen from available guides, where the choice has been carefully considered and the reasoning explained.
- **Not adequate**: default values without consideration of any of the above. Values used without reference to origin/fitness for purpose.

Within the Jobs Fund context, the additionality variables involved in the net jobs calculation would be best assessed as part of the round design process, where **deadweight** and **displacement** can be assessed based upon the analysis of the sector or subsectors chosen for analysis. The selection of subsectors around which future rounds of the Jobs Fund can concentrate should also take into account these two additionality variables, favouring those where the variables are likely to be small – typically subsectors with high economic value added potential replacing imports (low displacement), but where no investment has been made to date or investment issues are well known (low deadweight).

A study that looked at a large number of economic development programmes in the UK provides some insight as to the potential relationship between gross and new jobs covering three areas of interest to the Jobs Fund.[13] This is shown in Exhibit 23:

[12] English partnerships - A Standard Approach to Assessing the Additional Impact of Projects - Method Statement
[13] UK Department for Business innovation and skills (BIS) – occasional paper 1 – "Research to improve the assessment of additionality"

Exhibit 23: Assessment of Additionality in the UK

	National programmes			Regional programmes		
	Business development and competitiveness	Regeneration through physical infrastructure	People and skills	Business development and competitiveness	Regeneration through physical infrastructure	People and skills
Deadweight	47.2	7.5	26.3	45.5	33.9	39.4
Displacement	19.5	38.7	17.9	29.3	37.4	24.7
Leakage	16.3	14.1	13.5	11.5	10.4	14.2
Substitution	2.7	0.0	0.0	3.4	2.2	4.4
Multiplier	1.25	1.35	1.66	1.51	1.40	1.36
Net additionality	35.9	54.2	54.0	49.7	50.8	55.1

3.4.2.3 Recommendations

Recommendation #1: Unless there is an alternative definition to be used across all job creation initiatives in the South African Government, NT should agree a definition with the PMU for a decent job that provides certainty in the definition of a job along the lines of the following, based on the DFID definition adapted to the South Africa context:

A new job equals one person working at least 20 hours a week for at least 26 weeks a year in conditions that comply with the 8 ILO core conditions and earning at least the relevant minimum wage. The new job opportunity is expected to exist beyond the grant funding period and is not maintained or paid for using Jobs Fund grant funds.

Recommendation #2: The PMU should track other jobs created that do not meet this definition in terms of meeting the ILO core conditions or do not represent a "countable" or identifiable person, for example, where acceptable proxies for jobs are used. Acceptable proxies are those where the grant-funded project has detailed baseline and other studies that provide a high standard of correlation between the measured aspect and job creation.

Recommendation #3: The NT should adopt a net jobs measure and attempt to ascertain subsector additionality variables of deadweight and displacement as part of studies carried out for round design, i.e. at the theme level.

Recommendation #4: Evaluation Services should provide comments for each concept put to the IC providing a qualitative discussion of the likely net job impact of that concept and the estimated grant cost per net job created.

Recommendation #5: For approved concepts, Evaluation Services should work with the assigned PMU Project Manager to refine the net job calculation and ensuring that these aspects are considered as part of the evaluation plan and suitable funding request for evaluation is made at the time the application is considered by the IC.

Recommendation #6: The M&E department should be renamed the Evaluation Services department, reporting to the CIO and IC.

3.5 Value for Money

3.5.1 Introduction

Value for money is a term generally used to describe an explicit commitment to ensuring the best results possible are obtained from the money spent. The focus of the evaluation team in relation to Value for Money (VFM) has involved:

- Identifying the approach to the assessment of VFM used by the Jobs Fund, by reviewing the key strategic and operational documents of the Fund
- Reviewing current best practice in the assessment of VFM for public programmes, and the related measurement issues, based on the work of aid agencies and the UK public sector in other contexts
- Making recommendations where appropriate to strengthen the VFM of the Jobs Fund.

3.5.2 Key Issues

The Strategic Framework of the Jobs Fund provides, in its own words, 'a vision of how the objectives of the Fund will be pursued with a view to securing value for money and maximum impact' suggesting that VFM is an important aspect for the Jobs Fund.

VFM is referred to in the procedural and operational documents of the Jobs Fund as one of the assessment criteria applied to the selection of concept notes. VFM is described in the Impact Criteria Assessment and Scoring Guidelines as 'the monetary value of the requested grant in relation to the number of additional jobs that the initiative aims to create or enable'. VFM is assessed as a separate marking criterion with a maximum weighting of 10%. This is a gross jobs measure and, at 10% of the mark, means that VFM can be outweighed easily by other factors.

The Guidelines note that applying this measure simplistically will result in a bias towards the selection of initiatives associated with large numbers of low-paid jobs. This is not the aim of the Fund, so it is stated that the criterion will be applied in relation to clusters of applications which pursue similar themes or are from similar sectors. It will therefore be used to assess the *relative* merits in terms of value for money of similar initiatives, and thus take into account the context and the kind of initiative being proposed.

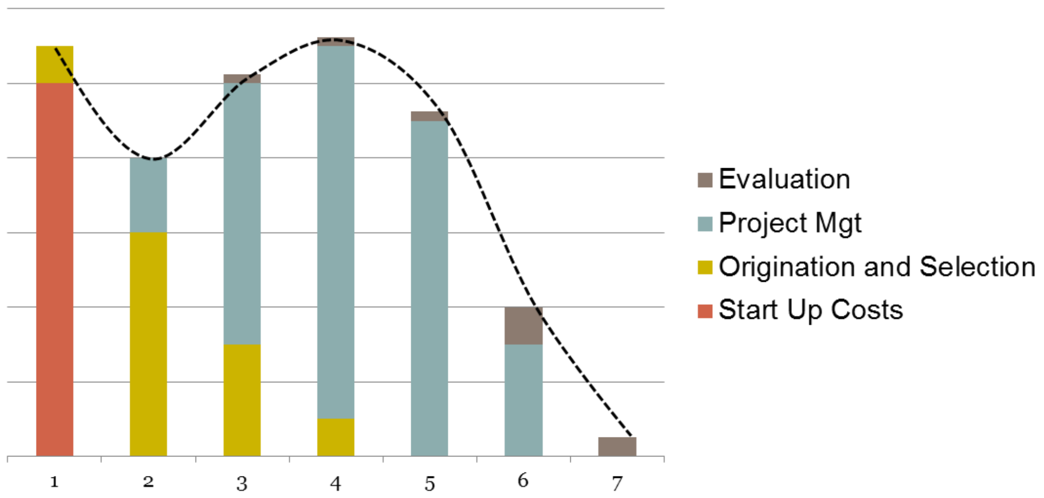
The review team are surprised by the relatively low profile given to ensuring that the Jobs Fund delivers VFM. The Fund is tasked with delivering a significant reduction in the cost-per-job created compared with other government programmes. The benchmark for job creation from other South African job creation initiatives is R100,000 per job whereas the Fund is tasked with delivering a cost per job of R25-30,000.[14] However, in the opinion of several interviewees, a combination of the pressure to announce a pipeline of approved projects, significant failure to adopt the normal efficiency measures of a challenge fund, and a focus on measuring gross jobs created has created perverse incentives and undermined VFM.

The evaluation team would regard cost-per-job as only one indicator of VFM. A VFM assessment is a summative judgement across all relevant and appropriately weighted assessment criteria. The individual assessment processes prescribed by the Jobs Fund provide some of the evidence to enable robust VFM practice but opportunities are lost in several key areas.

[14] Per a confidential minute provided by the NT. In the current Jobs Fund assessment criteria, the good practice benchmark a sustainable job created is R60,000 or less

The operational budget of the Jobs Fund represents 5% of the overall value of the Fund. This equates to a projected budget of R405million to run the Fund over a five to seven year lifespan. In, in the view of the review team, this does not accord with the expected level of activity required to run the Fund effectively. The private sector would, by comparison, bid between 12% and 20% of the Fund value for the management task. Moreover, there is an expense bulge coming consistent with the normal expenditure profile of a challenge fund, to reflect a growing portfolio of approved projects and the associated project management workload. This is illustrated in Exhibit 27 below, which shows the generic expenditure profile of a challenge fund.

Exhibit 27: Challenge Fund Expenditure Profile



Careful design of future rounds, realignment of responsibilities and authorities with associated training, improved operations and the streamlining of procedures can significantly improve the cost-effectiveness of current operations and could reduce the rate at which costs could be expected to rise in the future as the portfolio grows. Areas where this may be achieved are discussed below.

3.5.3 Best Practice

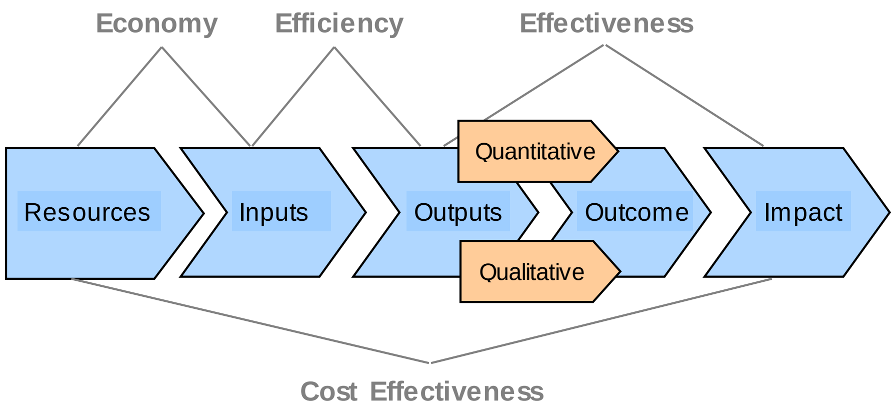
Current best practice refers to VFM as the full set of management and governance practices, procedures and assessments which are used for the appraisal, selection, review or evaluation of an organisation, function or project that is time bound.

Our recommended approach to best practice VFM is informed by the approaches of the UK public sector and various aid agencies in other contexts. Many of these describe VFM in terms of a dynamic process comprising three concepts - economy, efficiency and effectiveness - sometimes referred to as 'the 3 E's'. Sometimes a fourth E is added – equity. Given the stated objective of the Jobs Fund is to target the young unemployed and women, it would be appropriate to add this fourth E to the definition of VFM for the Jobs Fund.

VFM emphasises the importance of specifying a logical pathway from inputs through activities to outputs, outcomes, impacts and value. The goal of VFM is not the choice of goods and services based on the lowest cost but, for a given set of objectives, the achievement of maximum benefits over time from the resources available. It may be more expensive, for example, to create jobs for people who have been discouraged from seeking work or who live a long way from available jobs. Doing so, however, may be more directly relevant to the long term objectives of the Jobs Fund – and therefore justified in terms of VFM.

VFM requires a balanced assessment across the 'E's' to reach an overall assessment of 'cost effectiveness'. The framework is illustrated below.

Exhibit 24: Value for Money



- **Economy** is the process of acquiring human and material resources of appropriate quality and quantity at the lowest possible cost. Judgments about economy are made by looking at the unit cost of inputs.

- **Efficiency** is the production of maximum output for any given set of inputs (or the use of minimum inputs to achieve the required outputs). Judgments about efficiency are made by looking at the activities used to produce outputs and the cost of those outputs.

- **Effectiveness** is the achievement of desired outcomes and impact in both quantitative and qualitative terms. Outcomes and impact define what is expected to change as a result of the intervention and who will benefit. **This may also include considerations of equity**. Effectiveness thus relates to objectives and strategy.

The most important measures of VFM relate to effectiveness - the ratio of outcomes to total costs incurred. All other judgments give important diagnostic information, help identify where inefficiencies may be occurring, and contribute to the overall assessment. Understood in this way, the approach provides the basis for assessing the most cost effective way to achieve a given set of objectives when alternative options are similarly assessed.

3.5.3.1 Measurement Issues

There are a range of approaches to assessing effectiveness and VFM which are carried out in various forms by various government and aid agencies such as the World Bank, the European Commission, DFID and USAID. Many of these draw on two particular techniques for integrating these concepts into the planning, delivery and review of an organisation's activities:

- Economic analysis: this can be done via cost-benefit analysis, or cost-effectiveness analysis,
- Results-Based Management: which brings together objectives, an understanding of activities which need to be undertaken to achieve the objectives, and performance monitoring and evaluation of what has been achieved.

The assessment processes deployed by different agencies justifiably vary, from a quantitative comparison of economic costs and benefits to more qualitative or process-based reviews of results and trends, depending on the timescale under review, available data and the resources available for the assessment. A number of measurement issues arise in seeking to value the benefits of public programmes. Applied to the Jobs Fund these include the following:

- **Gross vs Net benefits**: A central consideration is the extent to which outputs and outcomes arising from the Fund are 'additional'. Estimating deadweight, and then allowing for leakage, displacement and substitution is an essential part of the process whereby gross outputs and outcomes are translated into their net additional equivalents. It is these net benefits which should be valued and then considered alongside the public expenditure incurred to create them.
- **Distribution of benefits**: Policy impacts on a diverse range of individuals across society with considerable variation by income, gender, geography and other factors. While the emphasis of VFM is to establish a unit of economic benefit, the worth of this benefit may be greater to those in certain categories or groups of beneficiaries. In VFM assessments, a distributional adjustment to benefits created can be added should this be required.
- **Indirect benefits**: Beyond the direct benefits for people or places, research recognises that public policies may also have indirect benefits that benefit society as a whole. The pathways and extent to which these indirect benefits arise are often difficult to identify and quantify. Thus, by way of example, the provision of better work opportunities to a particular community or geographic area may improve health and reduce crime or trigger economic development.
- **Benefit time preferences**: The impact of public policies and programmes often builds up over a considerable period of time and this has to be recognised in the valuation process. Some categories of benefit may develop faster than others and persist for different periods of time.

These issues imply a significant role for **indicators** in VFM assessments since they provide a measure of cost (economy), productivity (efficiency) and qualitative or quantitative increase or decrease in outcomes (effectiveness). Clearly, the quality of these indicators and the accessibility of data to support their measurement have important implications for VFM. In order to assess the benefits of a programme fully, the appropriate indicators for VFM tend to fall into the following categories:

- **Cost / Productivity indicators**, including the cost of different programme inputs (economy), cost per output (efficiency) and cost per outcome or measure of wider benefits (effectiveness)
- **Targeting indicators**, which shed light on the appropriateness or otherwise of the beneficiary group (effectiveness), unintended inclusions or exclusions (efficiency), and the benefits and drawbacks of different targeting approaches (equity)
- **Process indicators**, which assess how well a programme is being operated, covering such issues as timeliness, predictability, and accuracy of delivery systems, registration and enrolment procedures, etc. these generally provide information on efficiency
- **Impact indicators** at the level of the individual beneficiary, at the level of household, and at the spatial level (effectiveness, equity).

The general approach to the development of a VFM assessment framework involves identifying VFM criteria for each of the four Es and – within each window and theme - identifying indicators with which to assess performance against the VFM criteria. A selection of indicators will be needed to assess quantitative and qualitative benefits and progress.

Monetised indicators of benefits provide the strongest basis for reaching conclusions about VFM, as they can be compared directly to cost. Quantitative indicators of benefit ('how many'?) are the next strongest, followed by qualitative indicators ('how good' or 'how well targeted'?). Process indicators provide the weakest basis for reaching conclusions about VFM ('number of people trained') but can provide useful diagnostic information about the likelihood of objectives being attained. In all cases, the ability to compare performance of a chosen indicator with external benchmarks from similar programmes and contexts serves to strengthen the VFM conclusions which can be reached.

Exhibit 25 below provides an illustrative example of a VFM assessment framework for a Jobs Fund Project, using the current assessment criteria of the Jobs Fund. The table is not comprehensive and is not intended that it meets the 'necessary and sufficient' rule for a particular window or theme. Rather, it presents an example of how existing Jobs Fund assessment criteria can move towards a more robust and transparent measurement of VFM.

Exhibit 25: Illustrative VFM Assessment Sheet for a Jobs Fund Project

VFM Dimension	**VFM Criteria** **(& relative weighting)**	**Project Score (rating) against each criteria** **(1= very low potential, 5 = very high potential)**
Effectiveness	Theory of Change	Score descriptor, indicator and rating
	Scale-Up or Innovation	‘’
	Contribution to Systemic Change	‘’
Efficiency	Productivity Measures (e.g. Cost-per-job)	‘’
	Sustainability	‘’
	Capacity to Implement	‘’
Economy	Unit Costs	‘’
	Grant Cost:Project Cost ratio	
	Robustness of procurement process	‘’
Equity	Prioritises young people and women	‘’
Overall VFM Score		**Summative Project Score (based weighting and ratings above)**

3.5.4 VFM of the Jobs Fund

Challenge funds are becoming a popular instrument for providing government grants because the challenge fund mechanism offers opportunities to structure policies, processes and procedures to encompass a range of VFM practices, at each of the 4 "E" levels.

The review team's assessment of the Jobs Fund against these VFM opportunities is provided in Exhibit 26 below. The key to the colour codes is shown below - priority areas for attention to significantly improve VFM are shaded red, other areas where changes could be made to improve VFM are shaded pink, areas of average VFM (or where there is currently no opportunity to improve VFM) are shaded yellow, areas of good VFM in the Jobs Fund are shaded green.

Poor or not addressed and should be	
Below average and could be improved	
Average or not applicable	
Good VFM practice	
Excellent VFM practice	

Exhibit 26: Assessment of the VFM of the Jobs Fund

Process	Economy	Efficiency	Effectiveness	Equity
Selection of challenge fund manager	An open competition will provide market behaviour to keep costs low Benchmarking of expert rates and overheads of the winning bid and subsequent negotiations	Ensuring staffing is adequate at all stages of the challenge fund lifecycle	Some managers may provide a results based bid, allowing alignment between managerial reward and job creation	
Designing efficient governance and operational processes		Aligning accountabilities with responsibilities will improve responsiveness and timeliness		
Aligning the strategy with government priorities	The cost per job in other programmes provides benchmark for expected fund performance and overall target jobs to be created			Woman and youth unemployed can be effectively targeted by writing this into the strategy
Selection and definition of key targets			The choice of net versus gross jobs as a measure provides for a greater real impact	
Round design – choosing themes	Selection of subsectors with demonstrated need for	Selection of subsectors with high job creation potential	Selection of subsectors with import substitution potential means	Selection of subsectors with high job creation potential for

Process	Economy	Efficiency	Effectiveness	Equity
	investment (i.e. deadweight is low) and high job creation potential		that other jobs are not displaced	women and youth
Round design – calculating investment needs	Setting ceilings for individual grants and for themes will ensure competition for grants Setting bands for grant as a % of total project costs and including these as selection criteria will encourage competitive bids			
Awareness raising	Working through industry representative bodies and leveraging subsector analyses to target likely applicants will be efficient and economic	Working through industry representative bodies and leveraging subsector analyses to target likely applicants will be efficient and economic		
Concept note selection	Setting of marking criteria to include maximum grant and maximum grant % of total project costs	Selection of concepts with low grant cost per target jobs created	Selection of concepts from proven market players with strong management credentials	Selection of concepts focused on target groups
Due diligence	Assessing procurement processes in would be grantee Checking financial projections and benchmarking IRR projections		Assessing the quality of expected grant project management	
Full application			Tagging the grant to costs that are directly related to job creation Careful definitions of success measures Full risk analysis and assessment	
Grant award and contracting	Project phasing conditions with grant award subject to			

Process	Economy	Efficiency	Effectiveness	Equity
	successful phase completion Project preconditions ensuring readiness before funds are committed			
Project management			Proactive project management will improve the potential for successful grant funded projects	
Grant claim and payments	Providing advances only when absolutely required			
Evaluation			Independent confirmation of net job creation results from evaluation studies	Net impact on target groups evaluated

3.5.5 Recommendations

The immediate VFM issues for the Jobs Fund, based on the analytical framework discussed in this section and the assessment shown in Exhibit 25, relate to the following:

- Adopting equity as an explicit measure of VFM for the Jobs Fund, alongside economy, efficiency and effectiveness
- Better targeting of future rounds of the Jobs Fund by choosing themes with demonstrated need for investment and job creation potential. This would deliver improved VFM across all the four Es. This is addressed by the recommendations in sections 3.1 and 3.3
- To improve economy, benchmarking expert rates and overheads, strengthening procedures for calculating investment to better match these to the applicants 'need for grant', setting limits for grant as a % of project cost and including these as selection criteria, and providing advances only when required and not as a matter of routine. This objective is addressed by the recommendations in section 3.2.3
- To improve efficiency, designing more efficient governance and operational processes to improve responsiveness and timeliness, and ensuring staffing in DBSA is adequate to handle effectively all stages of the challenge fund lifecycle. This objective is covered by the recommendations in sections 3.2.1 and 3.2.2.
- To improve effectiveness, the choice of net over gross jobs as a measure of performance, providing a more proactive project management service to improve the potential of grant funded projects, and adequate funding of evaluation services. This objective is addressed by the recommendations in section 3.2.2 and section 3.4.

Documents Consulted

Jobs Fund Strategic Framework, Final Version, June 2012

Jobs Fund Disbursement Framework, Final Version, June 2012

Jobs Fund Monitoring and Evaluation Framework, Final Version, June 2012

Jobs Fund Quarterly Report, 31 March 2012

Jobs Fund Quarterly report, 31 December 2013

Jobs Fund, Technical Note on the Cost of a Job, Final Version, June 2012

Jobs Fund, Eligibility and Assessment Criteria, undated

Jobs Fund, Financial Management Framework, Final Version, June 2012

Jobs Fund, Grantee Monitoring and Reporting Guideline, Final Version, June 2012

Genesis, Quality assurance on the Jobs Fund application process, Summary report, Mar 2012

Genesis, Quality assurance on the second funding window, Oct 2012

Annex A Terms of Reference

1. Background to the Jobs Fund

The Jobs Fund was announced by the President of South Africa during the State of the Nation Address on 10 February 2011. The objective of the Jobs Fund is to co-finance innovative public and private sector initiatives that will significantly contribute to job creation. The Jobs Fund operates on challenge fund principles and aims to act as a catalyst for innovation and investment in new business approaches that directly contribute to long term sustainable employment creation.

Globally, challenge funds have emerged as an effective and versatile financing mechanism with which to channel public money to catalyse pro-poor innovation and investment, particularly in emerging markets. Challenge funds have also been recognised to provide profitable ways of improving market access for the poor. In practice, challenge funds are highly versatile, and can be deployed across a variety of contexts and sectors, targeting a range of outcomes, from financial education to enterprise-linked poverty reduction and 'pro-poor' growth.

The ultimate development goal of a challenge fund is, through a finite intervention, to stimulate a long term change in the way that local supply chains and market systems work so as to overcome cost, technology, financial and other barriers, which may have excluded poor producers and households in the past. The systemic change in the way that market systems work is typically the product of a confluence of factors (new technology, an environment conducive to investment, a strong and innovative private investor, etc.).

The Jobs Fund has identified four broad funding windows during the initial phase of the Fund:

> **Enterprise Development**: – for investments in new business models, product development, local procurement, marketing support, equipment upgrading or enterprise franchising designed to broaden access to economic opportunities and job creation.
>
> **Infrastructure Investment** – for local infrastructure investment projects such as light manufacturing enterprise zones, local market and business hub facilities, critical transport and communication links and upgrading of infrastructure services, which directly enable enhanced investment and job creation.
>
> **Support for Work Seekers** – for programmes with a particular focus on unemployed youth such as job search projects, training activities and support for career guidance and placement services.
>
> **Institutional Capacity Building** – for projects aimed at strengthening institutions through which jobs are created. Projects will include internship and mentorship programmes, enterprises and large firms or purchasing networks and enhancement of community works projects.

Within these four broad funding windows, the fund aims to stimulate good ideas, risk-taking and investment into new economic partnerships and market linkages, where the costs and risks may not in all instances be known, and where the pro-poor impact, principally in the form of sustainable job creation, may be significantly larger than with conventional approaches.

The Minister of Finance is the Executive Authority for the Jobs Fund and retains ultimate responsibility for the operation of the fund. Oversight is exercised through the National Treasury's own Jobs Fund Programme Management Unit. As the owner and funder, National Treasury:

- Has complete ownership of the fund

- Provides oversight and strategic direction of the fund
- Is responsible for high level coordination of government level input regarding the fund
- Holds fiduciary responsibility for the fund
- Controls and ensures the proper financial management of the fund
- Ensures performance against the objectives of the fund.

Further, the Development Bank of Southern Africa (DBSA) has been appointed by the NT to implement, manage, administer and close-out the Jobs Fund, in accordance with the terms and conditions set out in the Memorandum of Agreement (MoA) signed by the two organisations in December 2011. The DBSA has, therefore, been tasked with the implementation of the Jobs Fund programme.

2. Purpose of External Evaluation

Being a high profile government initiative, there are a number of stakeholders with an interest in the Jobs Fund's success, however; the primary users of the evaluations are the National Treasury as the programme owner and funder and the DBSA as the implementing agency.

It is expected that the findings from the formative and mid-term evaluations will inform the Jobs Fund management and deliver insights on Jobs Fund achievements, challenges and opportunities going forward as part of the commitment to accountability for results and assessing the Fund's effectiveness and potential impact.

On the other hand, it is expected that the findings from the summative evaluation will provide comprehensive insight**s** into the results and the impact of the Jobs Fund. Identifying effective employment creation initiatives that focus on sustainable jobs is critical to South Africa and it is anticipated that the Jobs Fund will contribute to the body of knowledge across the spectrum of similar initiatives addressing unemployment in the country to guide and inform policy and programmes into the future.

3. Formative Evaluation

Under the supervision of the NT PMU, the first evaluation task is to conduct a formative evaluation to assess the extent to which the early elements of the Jobs Fund have been realized as well as the effectiveness, efficiency and relevance of the governance, institutional and operational frameworks set up to date, relative to the JF's mandate.

This will include a review of the design, establishment and operation of the Jobs Fund to date; and provide insights into any unforeseen challenges and/or opportunities so that adjustments of any issues relating to design, delivery or strategic thinking can be considered.

The JF has only been in operation for one year (June 1, 2011 to May 30, 2012), as a result, neither Impact nor Sustainability can be fully evaluated at this point in time as projects have yet to begin implementation and thus the intended objective of job creation has not yet taken root. However, the conceptualisation of the Jobs Fund to date can be assessed in relation to the government's strategic development plans – and the placing of the Jobs Fund within the spectrum of interventions addressing unemployment in South Africa.

3.1 Current Operational Status of the Fund

In the first year of operations (June 1, 2011 to May 30, 2012), the following Jobs Fund tasks have been completed:

Governance Arrangements:

- Memorandum of Agreement between NT and DBSA signed
- Terms of Reference for Technical Evaluation Committee, the Investment Committee and Advisory Committees
- Identification of the Investment Committee members
- Policy and Procedures Manual

Key operational aspects:

- Establishment and operationalization of an Investment Committee
- Establishment and operationalisation of a Programme Management Unit (PMU).
- Establishment of the Technical Evaluation Committee within the DBSA.
- Staffing of the DBSA Jobs Fund PMU.
- Financial Management Framework.
- Monitoring and Evaluation Framework.
- Grant Agreement Template drafted and approved.
- Jobs Fund Communications Strategy drafted and approved.
- Management Information System (MIS) for the application process developed.
- Eligibility and assessment criteria used in the selection of the projects established.

Funding:

- The 1st Call for Proposals closed on 31 July 2011.
- 2651 applications received.
- Thirty four projects were approved by the Investment Committee as of 31 March, 2012.
- Second call for proposals opened on 2nd April, 2012 and closed on the 31 May 2012.

3.2 Methodology

The methods and assessment framework employed in this evaluation should facilitate the collection and analysis of data, be relevant to the research questions identified, as well as extract additional information. Namely, the following questions must be answered:

- Are the currently established institutional, governance and operational structures effective and are they the most appropriate to reap the highest returns in a cost-effective manner?
- Have the identified funding windows captured the relevant and most beneficial sectors to create sustainable employment15 in South Africa over the next five years?

[15] A sustainable job is defined as a job not requiring public funds after the period of grant funding.

- Does the DBSA's operational structure effectively and efficiently address the tasks required to complete the mandate as articulated in the MoA?
- Have the various institutional and operational procedures implemented covered all aspects for good management of the Jobs Fund?

The evaluation will entail and ensure the following tasks:

- A document review of Jobs Fund documentation;
- Maximum use of the monitoring data that has been gathered to date and collection of additional data as required; and
- Interviews to gain further insight into how the Jobs Fund is working with key stakeholders including: NT PMU, DBSA & DBSA Development Fund and Jobs Fund representatives, Members of the Investment Committee, and a sample of grantees and applicants.

3.3 Deliverables

The expected outputs of the external formative evaluation are:

- Evaluation work plan and design document including methodology, assessment questions and data collection instruments (including interview guides).
- Presentation of preliminary findings and draft outline of the structure of the report.
- Draft report.
- Final evaluation report by the evaluators of no more than 50 pages that responds to the questions outlined in the TOR, accepted proposal and incorporates feedback obtained on the draft report.
- Appendices that detail the evaluation methodology, informants, and data collection instruments.
- Presentation of results to the National Treasury PMO and thereafter the Investment Committee.

Annex B Methods & Evaluation Questions

Methods

- A review of key Jobs Fund documents
- Interviews with key individuals in the National Treasury and the Development Bank of South Africa, and relevant committees and contributing departments
- External peer review of key strategy documents and processes
- A review of published material on labour market context and key barriers to improved market access, international experience with Challenge Funds and Government interventions to support private sector growth
- Review of the Fund’s project appraisal methodology and selection processes
- A review of the Fund’s organisational processes, systems and management information
- A review of the Fund’s approach to project progress reporting and evaluation
- Focus group interviews with a selection of Fund applicants and grantees
- A review of the independent quality assurance reports of the 1st and 2nd Rounds

Evaluation questions

Relevance

- What are the primary barriers to employment for those historically excluded from the formal sector?
- What is the relative importance of these barriers and how do these relate to labour supply and labour demand constraints respectively?
- To what extent does this analysis of the relative impact of key barriers match the objectives of the fund and the conceptualisation of the four windows?
- How are these barriers addressed in each of the four windows and does this reflect the relative importance of different barriers? Is this reflected in a credible Fund strategy and theory of change underlying each of the four windows which builds on experience from past and current related initiatives?
- How was the choice of windows arrived at, was the evidence for selection robust and agreed through the governance framework and informed by private and public sector inputs?
- What is the ‘additionality’ of each window in relation to other similar initiatives?
- Is the focus on both demand and supply side factors consistent with a model based on stimulating employment creation?
- What can be learned from the application profile in terms of the appropriate conceptualisation of the JF and the intended function of each window? Does this have implications for future prioritisation in terms of i) the definition of the windows and ii) indicative resource allocations?

Monitoring and Evaluation

- Has the results chain of the Fund been clearly articulated? Have appropriate results indicators been identified from the overall results chain?
- Is capacity and funding in place to support effective evaluation? Does current practice reflect an appropriate distribution of management, monitoring and evaluation tasks between contributing departments?
- Is there a robust approach to defining change (i.e. a sustainable job created) and attributing changes to the Fund at the project level?
- Are systems and capacity in place to ensure that evaluation data is identified at project level? Is capacity and funding in place to ensure evaluation data is collected?
- How does the current approach to funding support VFM? Are VFM measures robust compared to international good practice?
- To what extent is programme evaluation integrated into management of the Fund and decision-making?

Governance

- Has the governance and management of the Fund been clearly conceptualised? Are the foundational documents of the Fund sufficient reflective of this vision and to what extent have they been adopted in practice?
- Are roles and responsibilities of key stakeholders involved in management and decision-making clearly articulated and understood?
- Is there a clear separation between the approval of grants and the management of the Fund?
- Is there sufficient independence in key decision-making bodies to ensure grants are aligned with policy objectives?
- Is there a mechanism for grant applicants to receive feedback on the process and results of their applications and lodge complaints? Is there sufficient independent oversight and feedback on this mechanism?
- Is there a procedure in place to audit the Fund to relevant standards?
- Is there an appropriate procedure in place to ensure the independent quality assurance of processes and systems for the Fund?

Administrative Structure and Operations

- Are management arrangements clearly articulated in appropriate manuals and policies that have gone through an approvals process by an authority outside the management structure of the Fund?
- Is there an approved procedure for changing the governance and operations manuals or addressing issues of non-compliance?
- Does the management structure provide a clear separation of duties between decision-making, fund management and independent quality assurance?
- Are there any gaps in the management arrangements? Do individual departments have clear understanding of their objectives, are these addressed in practice, and are they consistent with the Fund's high level objectives?
- Is there clarity of responsibilities and duties for persons involved in the Fund's operations?
- Are workloads effectively assessed and managed to ensure value for money? Is appropriate use made of ICT technologies?
- How does the ratio of the Fund's administrative cost relative to its size compare to other similar mechanisms elsewhere? Do mitigating factors explain any variances?
- Are mechanisms in place to ensure that there can be no changes to approved grants without the appropriate level of authority and oversight?

Review of the 1st and 2nd Rounds

- To what extent has the Fund's communications strategy been effective? Has there been sufficient information provided to the public to guide them through the application process? Has this been supported by a suitable enquiry process?
- Was there a system to ensure that all grant applications went through an appropriate screening process, received the same appraisal treatment and were appropriately assessed against agreed criteria?
- Was an appropriate due diligence process applied to applications at different stages of the appraisal process, up to and including award of grant?
- Is there a clear document trail on the approval of grants?
- Are appropriate governance, management, results monitoring and financial management arrangements put in place for approved grants? Are these articulated in the form of suitable templates?
- Is there a suitable grant agreement template approved outside management that provides financial and other assurances to government in relation to the grants to be provided?
- To what extent has the Fund adopted a risk-based approach to project progress reporting and evaluation (i.e. one that addresses fiduciary and project management issues in relation to the size of the grant awarded, the complexity of the project, its innovative characteristics, or other relevant criteria)?
- Are results measures established for approved projects which clearly relate to the Fund's high level objectives?

Annex C List of People Met

List of People Met	
Institution	**Persons met**
National Treasury	Andrew Donaldson, DDG Najwah Edries, Head: Employment and Social Security PMU
Development Bank of South Africa	Paul Kibuuka, Development Fund MD Dumisa Hlatswayo, CIO Zach Nanabhay, Development Fund Paul Currie, Head of Risk Hein Prinsloo, DF Risk and Compliance Nkuli Mkhize, Head of Investment Xolani Ndungane, Head Origination Vuyo Tetyana, Head of M&E
Genesis Analytics	Paul Zille, Technical Adviser Timothy Hobden, Technical Adviser, Operations Alyna Wyatt, Technical Adviser, M&E Paul Jackson, QA Second Round Mishkah Teladia, QA Second Round
Members of the Investment Committee	Frans Baleni, Chairman Brian Whittaker, Deputy Chairman
Others	Hennie Bester, Technical Adviser Bridget Fury, Independent Consultant Lesley Kahn, Praxis Consulting Liesel Eksteen, Technical Adviser, Finance

Annex D Status of the Fund

Progress with the Jobs Fund application windows has been as follows.

- The first Call for Proposals was open from the 1st June to the 31st July 2011. In the first Call, 2,651 applications for grant funding were received of which 964 applications were found to be eligible.

- Following assessments by the DBSA, 121 Concept Notes from all windows were recommended to progress to full application. The breakdown of shortlisted projects from the first Call was follows: Enterprise Development window (72 or 59%), followed by Support for Work Seekers (24 or 20%), Infrastructure (19 or 16%) and Institutional Capacity Building (6 or 5%).

- The second Call for Proposals was open from the 2nd April to the 31st May 2012. In the second Call 840 eligible applications were received. A total of 69 Concept Notes from the second Call were recommended to progress to full application.

- Full applications from the Second Call for Proposals (2nd CFP) were considered and approved by the Investment Committee, during the 3rd quarter ending 31 December 2012.

- The Third Call for Proposals was launched on the 3rd December 2012 and will close on the 15th March 2013. The third Call focuses on applications for the Enterprise Development and Infrastructure funding windows. These are the only two funding windows that have been open for the third round.

The Jobs Fund portfolio currently comprises 65 approved projects across the four funding windows and nine provinces of South Africa. Together, the approved projects are projected to create 107,753 'new permanent jobs' (other targets include beneficiaries trained and placed in employment, completed internships and short term jobs created).

To date, a total of R3.4 billion has been allocated by the Fund – to 38 projects from the1st Call and 27 projects from the 2nd Call. As at 31 December 2012, the Fund portfolio comprised 28 projects in the Enterprise Development window (grant funding R1.3Bn), 25 projects in the Support for Work-Seekers window (grant funding R1.2Bn), 5 Institutional Capacity building projects (R0.1Bn) and 7 Infrastructure projects (R0.8Bn). Jobs Fund grants are matched by R3,1 billion contribution from project partners, translating into a 1: 0.94 co-funding ratio.