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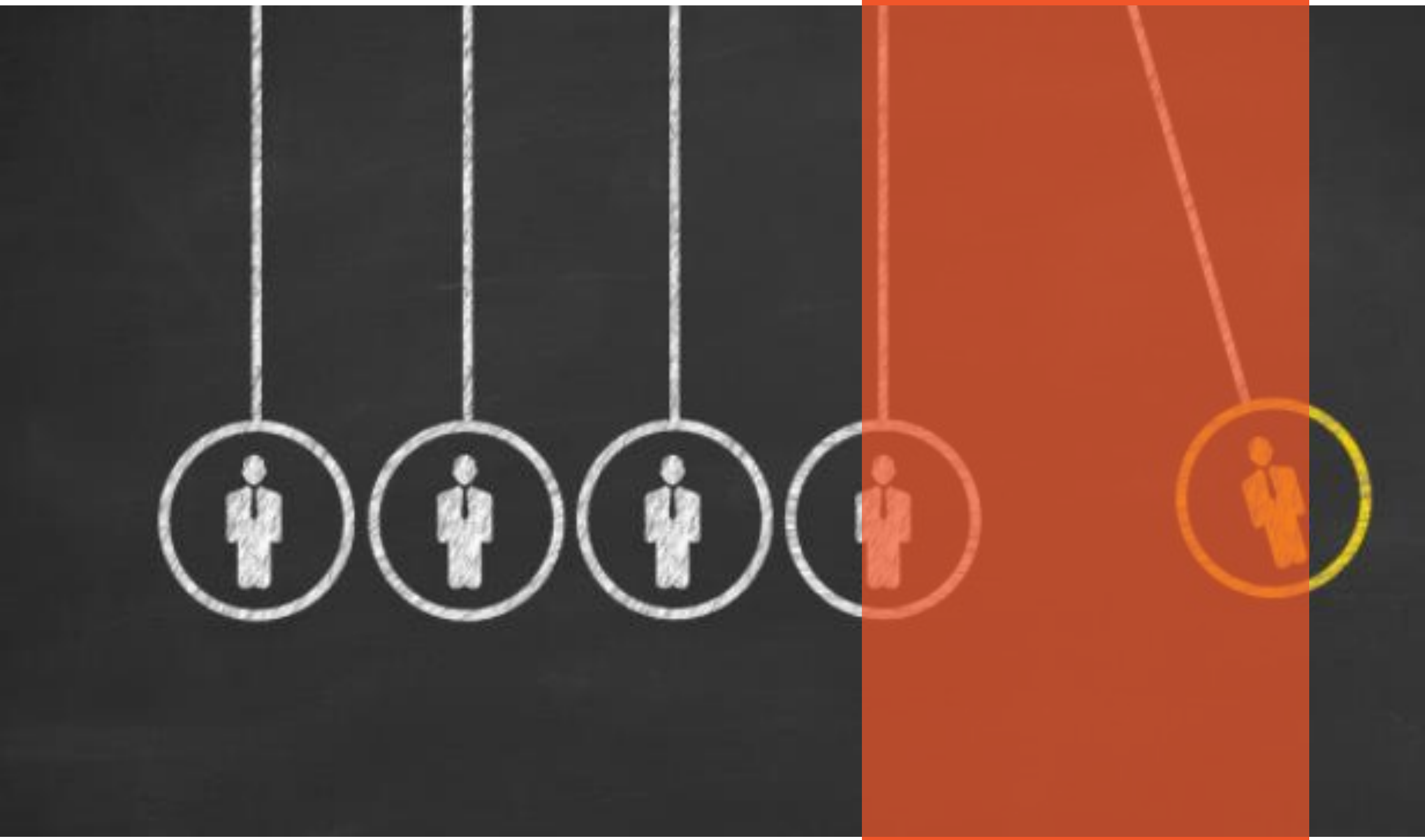
Investment Research Report
April 2021

The Bonds4Jobs Social Impact Bond



The risks and returns of innovative finance for social change

Funded by

Standard Bank tutuwa COMMUNITY FOUNDATION

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- The Impact Bond Innovation Fund
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This report was produced from a research project that was funded by the Standard Bank Tutuwa Community Foundation. It was independently researched and produced by Intellidex.

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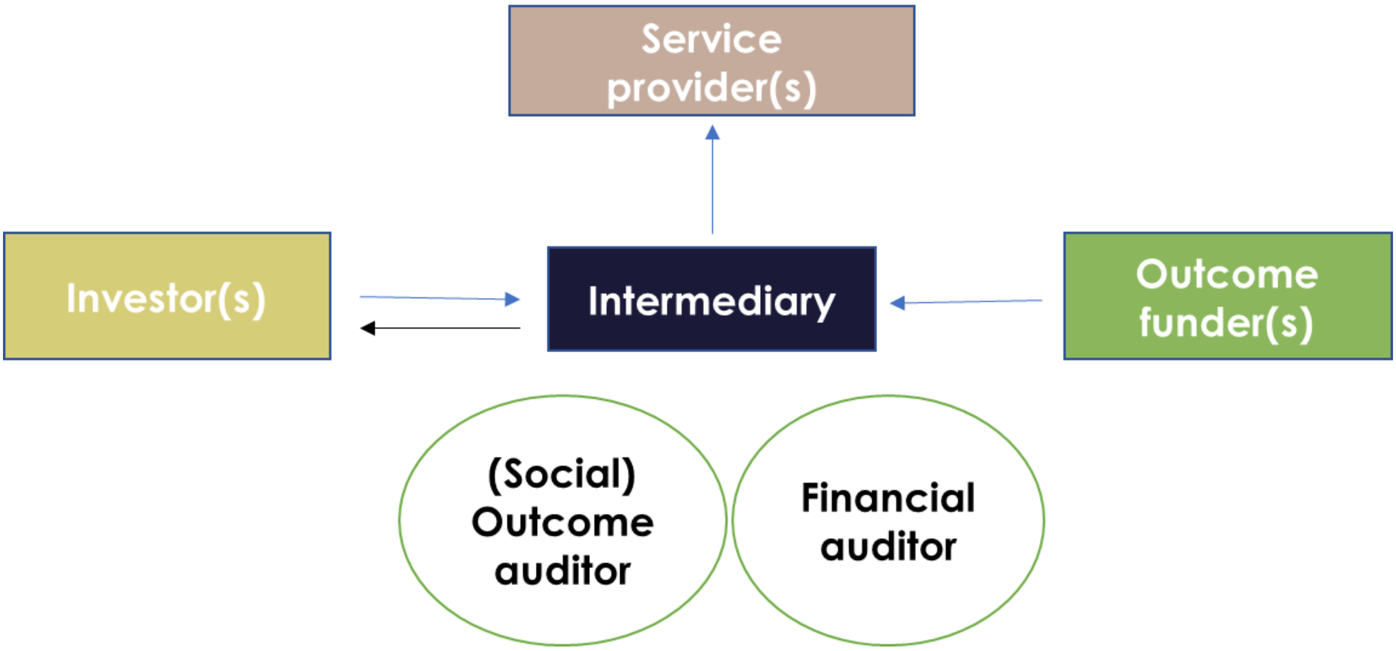
Executive Summary

Social impact bonds (SIBs) are innovative, results-based financing mechanisms for social programmes that focus diverse stakeholders on the achievement of social outcomes. Investors provide upfront working capital to implementing agents, typically NGOs, to provide social services to people in need. If the NGO successfully meets predefined outcome targets – such as placing a certain number of work-seekers into jobs – outcome funders repay the investors. Outcome funders in SIBs always consist of government entities, with or without the additional presence of private actors like donors or philanthropic foundations. If unsuccessful, outcomes funders do not pay, investors do not earn returns and could also lose their capital[1]. Success or the lack thereof is confirmed by an independent outcome auditor and financial management is audited by a financial auditor. An intermediary typically manages the relationships between the different participants, as shown below.

Figure 1: General SIB structure



The first social impact bond (SIB) to launch in South Africa was the Inclusive Youth Employment Pay for Performance Platform (also known as Bonds4Jobs, or B4J)[2]. In this report we assess its social and financial performance. Launched in April 2018, the SIB was scheduled to run for four years, providing employment services to young work-seekers from disadvantaged backgrounds. But the Covid-19 pandemic and the ensuing national lockdown ended the SIB in July 2020, approximately halfway through the implementation period.

Despite ending early, investors suffered no losses and made competitive returns on their investments, as summarised below.

[1] In practice, NGOs rarely fail completely. Payments from the outcome funders to investors are typically in proportion to the amount of success achieved.

[2] This is the full name of the SIB. It is commonly referred to by the various participants in a shorthand way simply as "Bonds4Jobs", that is, the name of the financial intermediary and SPV which housed the SIB. In this report we will also refer to the SIB as "Bonds4Jobs" or "B4J". Where the context requires, we distinguish between the SIB and the SPV.

Table 1: Summary: the Inclusive Youth Employment Pay for Performance Platform Social Impact Bond term sheet

Instrument type	Social Impact Bond	
Issuer	The Bonds4Jobs NPC	
Issuer credit rating	None	
	Cycle 1	**Cycle 2**
Issued amount	R33,964,200	R90,500,000
Price	R33,964,200	R90,500,000
Issue date	April 2018	January 2019
Number of investors	3	6
Maturity date	January 2019	June 2022, but terminated early in July 2020
Coupon rate	Variable, depending on the investor's profile in the capital stack.	Variable, depending on the investor's profile in the capital stack.
Annual coupon rate achieved to termination date	0% (+ inflation) for the capital preservation investor	0% (+ inflation) for 50% of the capital preservation investor's investment; 5% on the other 50%
	11% (the maximum) for the commercial investor	11% (the maximum) for the two commercial investors
	7.5% (the maximum) for the first loss investor	6.5%, 7% and 7.5% (the maximum respective rates) for the three first loss investors
Coupon frequency	Quarterly or annually, as per investors' preferences	Annually, semi-annually or quarterly, as per investors' preferences
Callable?	No	Option to withdraw at annual points
Tradeable?	No (investors can be bought out but there is no liquid market to trade SIBs)	No (investors can be bought out but there is no liquid market to trade SIBs)
Early redemption options?	Yes	Yes
Issuance procedure	Private placement	Private placement

The SIB also achieved notable social outcomes. The service provider – the Harambee Academy - **fully met the SIB's target of placing 600 young people into formal jobs in its first year. In the second year, Harambee Academy, and two additional service providers, placed 1,209 youth into jobs against a target of 1,400 (86% performance).** This slight underperformance did not affect the investors' returns.

Successful social delivery was achieved despite the negative economic environment prevailing at the time due to Covid-19. It is also noteworthy that the placements were into relatively well-paying jobs: mean monthly wages were R5,500. In the absence of B4J, work-seekers would need to enrol in expensive and lengthy formal degree or certificate programmes to improve their chances in the labour market. Given that the targeted population in B4J was people from low-income households, it is highly unlikely such programmes would be within reach for them.

Beyond the SIB's immediate targets, B4J also has the potential to radically influence how youth unemployment is tackled at a systemic level. We already see this potential beginning to be realised in, for example, the ways in which provincial and national government are designing and thinking about new interventions. However, the employment targets may not have been ambitious enough, given Harambee's track record in very similar service delivery prior to B4J. If so, private investors did not assume substantial risk of intervention failure. Instead, the government paid returns to investors from public funds that could have been used to fund employment programming directly.

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Abbreviations

ALMPs: Active Labour Market Programmes. These include employability training programmes, employment services, public works programmes, and policies like employment tax incentives.
B4J: Bonds4Jobs (refers to either the SPV set up for this SIB, or serves as shorthand for the SIB itself).
BBBEE: Broad-Based Black Economic Empowerment
BPO: Business Process Outsourcing
CSI: Corporate Social Investment
DFIs: Development Finance Institutions
DIBs: Development Impact Bonds
EPWP: Expanded Public Works Programme
ESG: Environmental, Social and Corporate Governance
GDP: Gross Domestic Product
GPG: Gauteng Provincial Government
IBIF: Impact Bond Innovation Fund
ICT: Information and Communications Technology
IRM: Installation, Repairs and Maintenance
JIBAR: The Johannesburg Interbank Average Rate
NGO: Non-governmental Organisation
NPO: Non-profit Organisation
PbR: Payment by Results
SES: Socio-economic status
SETA: Sector Education and Training Authority
SIBs: Social Impact Bonds
SLAs: Service-level agreements
SMMEs: Small, Medium and Micro-sized Enterprises
SPV: Special Purpose Vehicle
T1M: The GPG's Tshepo 1 Million programme
T500K: Tshepo 500 000, the predecessor to T1M.
TVET: Technical and Vocational Training (typically refers to the institutions where this happens)
YEPs: Youth Employability Programmes
YES: (The Presidential) Youth Employment Service

Introduction

In April 2018, Africa's first SIB – the Inclusive Youth Employment Pay for Performance Platform, or B4J – was launched. Its design and implementation, from launch to early termination in June 2020, are the subject of this report.

B4J and the Impact Bond Innovation Fund (IBIF), South Africa's second SIB that ran at roughly the same time as B4J, represent important milestones in the trajectory of sustainable investing in South Africa. Recent regulatory guidance encourages institutional investors to consider environment, social and governance (ESG) issues in respect of their portfolios more explicitly[3]. Intellidex research with pension funds shows that this FCSA guidance has motivated many of them to start reviewing their policies[4]. This is represented by movement from the far left rightwards in the figure below – that is, from traditional investing towards the consideration of more socially responsible and sustainable investing practices.

However, active impact investing – which can be seen further to the right in the figure - is still a marginal practice. Impact investments, like SIBs, are defined as investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return, or at least return of capital[5]. Though there are innovative projects in South Africa – like the first two SIBs and the issuance of green bonds - the impact investment market in South Africa is still relatively small by global standards.

South Africa's enormous developmental challenges justify an increased and more efficient role in social delivery for the private sector. B4J is an illuminating case study demonstrating how private sector actors can take on such a role – meaningfully contributing to social development while maintaining solid financial returns.

[3] FSCA, "FSCA Guidance Notice 1 of 2019". In this report we use abbreviated footnote references which are expanded fully in the bibliography section at the end of the report, as per Chicago Manual of Style Online, "Notes and Bibliography".
[4] Theobald et al., *Investing for Impact*.
[5] GIIN, "Impact Investing".

Figure 2: The Spectrum of Capital[6]

	Traditional investing	***Socially responsible investing***	***Sustainable investing***	***Thematic investing***	***Impact investing***	***Impact first investing***	***Philanthropy***
Objective	Seeks financial return regardless of ESG factors	Investments are screened out based on ESG risk in order to protect value	Financial returns and sustainability factors that may enhance value drive investment selection	Targeted themes and financial returns drive investment selection	Seeks to generate competitive financial return, may deliver below market return for investors	ESG factors take precedence over financial returns, will deliver below market return for investors	Seeks ESG solutions that cannot generate financial return
Approach	Mainstream investment analysis and due diligence	Negative screens for tabaco, alcohol, weapons, gambling, pornography, nuclear energy	Considers carbon footprint, resource use, waste reduction, compen-sation, product safety, gender equality	Seeks solutions for climate change, population growth, urbanisation, water scarcity, food systems	Augment and expand proven commercial models that deliver ESG outcomes	Aims to support innovation and risk taking, proof of concept/ pilots, enabling environments, commercial capital leverage	

The purposes of this report on B4J, our report on the IBIF SIB, and a third report summarising both SIBs and their broader implications for impact investing and social delivery, are as follows:

- To promote transparency in the nascent SIB sector.
- To define a standard for assessing the performance of SIBs, thereby building knowledge around these innovative finance and project governance mechanisms among investors, governments and the NPO sector.
- To assess performance rigorously along financial and social dimensions.

[6] Modified from G8, *Allocating for Impact*.

Investment report

The business model

The Harambee working model and Tshepo 1 million

B4J was developed by Yellowwoods, a private investment group with a longstanding interest in youth employability. In 2011 it established Harambee Youth Employment Accelerator as an independent, non-profit social enterprise dedicated to promoting youth employment via various employment services. These services involved (a) working with employers to identify what their skills needs were, (b) designing training programmes[7] to fill those skills needs and close work readiness gaps, and (c) recruiting and training young work-seekers from disadvantaged backgrounds who, after training, would be placed with the employers for whom the training was designed.

This was a radically different approach to similar youth employability programmes (YEPs) at the time. Whether run in the formal education system or outside of it, YEPs tended to be long, costly, and conducted without a concerted effort to identify if the skills imparted aligned with what employers needed (market demand). The people who conceptualised Harambee recognised that youth unemployment was unlikely to be solved if the approach to tackling it did not change.

By 2017, Harambee's innovative services had placed nearly 100 000 young people into work opportunities, demonstrating the success of their model. But by and large the public and private skilling system in South Africa had not changed. Billions of rands (R200 billion, by Harambee's estimates) were being spent in the skilling sector, chiefly on input-aligned programming. That is, on funding college and university infrastructure, teachers, and the costs of delivering degree and non-degree programmes. In a context of massive youth unemployment, the Yellowwoods team thought more attention needed to be paid to whether all this spending was leading to increased employment. They regarded a social impact bond as an ideal mechanism to promote this outcome focus, and began designing B4J and engaging with potential participants at the end of 2017.

The Gauteng Provincial Government (GPG) shared a desire to focus more explicitly on employment outcomes. Eventually contributing to the SIB as an outcome funder, the GPG had a working relationship with Harambee prior to B4J. This relationship began in 2016, when the GPG contracted Harambee to take over the running of its flagship youth employment programme, Tshepo 500 000 (T500K). Impressed by Harambee's track record, its data capabilities, and its shared commitment to shorter, less costly demand-led employment services that target a population that cannot afford expensive post-secondary education, the GPG hoped Harambee would streamline and improve T500K. T500K's implementation was, at the time, managed in a fragmented way by several implementors, and interviewees at the GPG felt it was not sufficiently accountable to outcomes.

T500K thus evolved into Tshepo 1 million (T1M), which was initiated in April 2017 and is ongoing. Harambee is the implementer, running its programmes in the same way as before but with a much larger infusion of government funds. It also has a more ambitious target for beneficiaries: 1 million Gauteng youth rather than just 500 000. At the centre of T1M's design are two major components. The first is the 'pathway manager', also known as the 'clearing house'. This refers to the registration and profiling of work-seekers (competences, aptitudes, knowledge, personality), and then matching them to opportunities that best suit

[7] The direct delivery of services to young people is carried out by the Harambee Academy, a separate division within the Harambee Youth Employment Accelerator. For the rest of the report, when we refer to "Harambee", we are referring to the entire organisation. The specific sub-divisions are named where required.

them based on these profiles: either through the provision of information about potential opportunities, or running "close the gap" bridging (training) interventions to train them for specific opportunities. The second component is the placement of youth into various opportunities. Opportunities may be short-term work placements or longer-term formal jobs (that is, contracted for at least a year), in large or small businesses or the public sector.

Importantly, and in contrast to most other YEPs, T1M was not conceptualised as a training programme, and rather as a workforce development programme. Training is instead regarded as incidental to the needs of the job– if a specific job requires that candidates are trained, they'll do it; if not, they won't.
The timing of the early negotiations around B4J was fortuitous. At the time the GPG was approached to act as an outcome funder, several within the GPG had already been investigating the possibility of innovative financing mechanisms that might draw in additional private sector capital to the skilling sector. This was because it was spending substantial amounts on T1M, but realised that to scale its impact, it needed a lot more funding that national government was not necessarily willing or able to provide. Various levels of government are also keen to have more cost-sharing with the private sector in the employability sector.

The GPG and Harambee thus agreed to set aside part of the GPG's committed funding to Harambee for T1M to fund the outcome based B4J component, with funds released only when job targets were reached. B4J was effectively a small part of T1M, and placements under B4J were counted towards T1M's targets. In the first year, B4J's target of 600 jobs represented 12% of the T1M's overall target of 5 000 jobs[8].

Aside from the different funding mechanism, the ring-fenced B4J carve-out from Harambee's regular programming for the GPG would also differ in the type of interventions provided to work-seekers. They would be slightly more complex, and therefore more costly for certain job families such as digital and artisanal. These would end in job placements that were better than the average placements made through the wider T1M clearing house. The higher cost and the experimental nature of targeting higher-level jobs leant itself to the SIB model, which encourages risk-taking and provides upfront working capital to service providers to take these risks.

The aims of B4J were thus:

- To redirect existing public and private skilling funds to quicker, cheaper and more inclusive models.
- To increase the return on these investments through outcome-based funding arrangements and demand-led training.
- To test whether short training delivered through a SIB could lead to meaningful jobs that are more complex and higher-paying than the norm a young work-seeker might otherwise expect.

Since its inception, Harambee had always been funded by a mix of private, public and social funding. But B4J was their first experience of a SIB financing mechanism that deployed private investment capital.

The Bonds4Jobs SIB and SPV

The diagram below maps all the stakeholders that participated in B4J and how these stakeholders relate to each other.

[8] A minority of B4J's placements were made *outside* of the Gauteng province. For example, in year 1, 80 of 600 placements were in jobs in the KwaZulu Natal, Eastern Cape and Western Cape provinces.

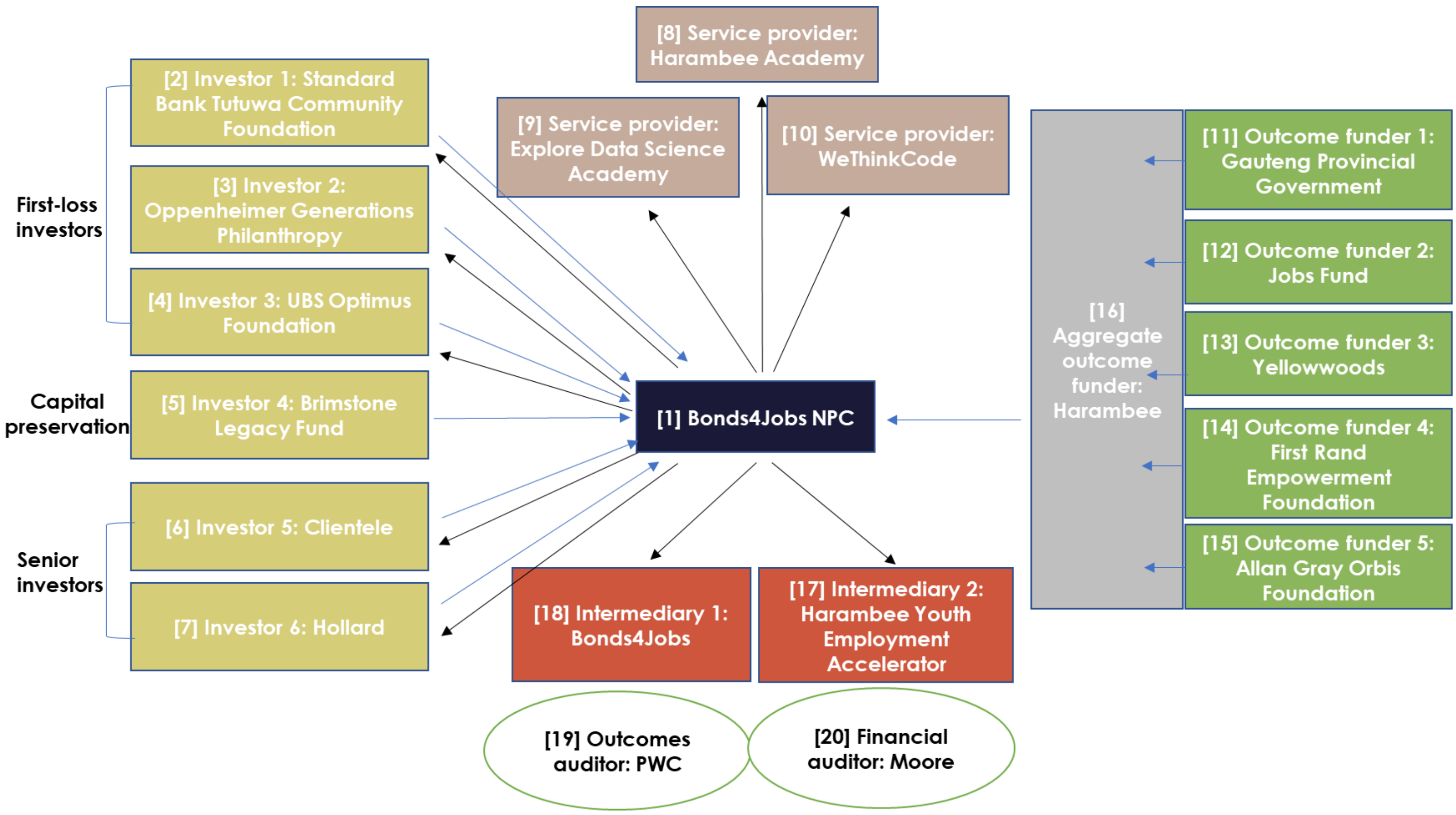


Figure 1: Bonds4Jobs governance structure

The Bonds4Jobs NPC [1] – a special purpose vehicle (SPV) created specifically for this SIB - is at the centre of the B4J transaction. It was set up by Yellowwoods, and has a board consisting of three directors from Yellowwoods (including the chair) and two independent directors. All participants signed contracts with the NPC, which managed the governance of the SIB. All payments flowed in and out of the NPC, and were audited by Moore [20]. In total, six investors [2-7] provided money in the form of loans to the NPC. The NPC then handed over this money (excluding management fees) to three service providers [8-10] to be used as working capital to deliver employment services (including training) to young work-seekers.

The lead service provider was the Harambee Academy [8], founded by Harambee Youth Employment Accelerator (Harambee Accelerator) as the operational delivery division that designs and runs training. Harambee Accelerator acted as the technical intermediary [17]. Technical intermediation involved identifying and selecting other service providers to strengthen and enable the ecosystem, supporting service providers in reorienting their services to a more results-based system, determining the rate cards, as well as managing reporting on the SIB's implementation and performance. It also involved market research to gauge and secure market demand, which informed the development of job placement targets.

B4J participants agreed upfront that the social outcome targeted by the SIB would be the placement of trainees from disadvantaged socioeconomic backgrounds into formal, long-term jobs of medium to high complexity by the service providers. The service providers each contributed to the achievement of overall job placement targets in B4J. These targets were set by Harambee Accelerator in its capacity as the technical intermediary. Harambee Accelerator also measured performance against these targets on a quarterly basis and compiled reports detailing who had been trained and who had been placed into jobs. These reports – and the outcomes within them - were verified by the outcome auditor, Price Waterhouse Coopers (PWC)[19]. Audited performance against the job targets determined how much in outcomes payments were payable by the three private [13-15] and two governmental [11-12] outcome funders to the six investors.

Outcome funds were aggregated by Harambee [16] which also took a third role as aggregate outcome funder. This is because Harambee had pre-existing grant-funded relationships with each of the outcome funders. As with the GPG relationship, portions of each of these grants were set aside for B4J. Harambee thus pooled the funds from the five outcome funders and paid them into the NPC account, according to the extent to which job placement targets had been met. These funds would then be paid over to investors as interest, at intervals chosen by each investor (typically quarterly), and as capital repayment at the end of each investor's term. If the service providers failed to make any placements, this money would be returned to the outcome funders.

Participants in each round of B4J

B4J's planned four-year implementation period was divided into two rounds. The first, one-year round ran from April 2018 to January 2019, ending three months early due to Harambee meeting the jobs targets early. The second, three-year round with annual performance cycles thus began early in January 2019. It was projected to run until June 2022, but ended early, in June 2020, due to the coronavirus pandemic. During the first round – which was smaller in terms of job targets and investments - Harambee Academy was the only service provider. This cycle was intended to test the B4J model.

Following success in round 1, for round 2, financial intermediary B4J [18] brought in more investors, and technical intermediary Harambee Accelerator brought in one more outcome funder [15]. Round 1 investors recycled their capital into round 2.

The table below describes the investors and the outcome funders participating in each round of B4J.

Table 2: Investors and outcome funders by round

Investor	Description	Round 1	Round 2
The Standard Bank Tutuwa Community Foundation	Founded in 2016, Tutuwa is a non-profit organisation capitalised by a broad-based black economic empowerment (BBBEE) transaction concluded by Standard Bank. Its CEO has a background in teaching and is committed to finding solutions to South Africa's unemployment problem through innovate social services and innovative financial instruments to fund them.	✓	✓
Hollard	A private insurance group and Yellowwoods investee, with a desire at the start of B4J to pursue more purposeful impact investments in addition to screening out investments that do not comply with ESG criteria.	✓	✓
Brimstone Legacy Fund	A fund with capital contributions from Old Mutual, Nedbank and Brimstone. It is an impact fund dedicated to funding interventions to expand employment and entrepreneurship.	✓	✓
Clientèle Life	A private insurance group and Yellowwoods investee, interested in engaging with impact investing.		✓
Oppenheimer Generations (OG)	Family foundation established by the Oppenheimer family, with a desire to experiment with new financial mechanisms.		✓
UBS Optimus Foundation (UBS)	The foundation arm of a large wealth manager headquartered in Switzerland. It is an experienced		✓

	impact investor with a mandate to support youth employment programming.		

Outcome funder	Description	Round 1	Round 2
Gauteng Provincial Government (GPG)	Carved out a portion of its funding for the Tshepo 1 million programme which Harambee manages to test the B4J SIB. **R50 million** in funding provided overall.	✓	✓
The Jobs Fund	Located within National Treasury, its mandate is to test innovative job creation models. As with all other outcome funders, it had a pre-existing grant relationship with Harambee. **R100 million** in funding provided overall.	✓	✓
Yellowwoods	The entity that developed the B4J idea and oversaw its design. It chose to be an outcome funder because, in the words of an interviewee, "the entire bond only existed to the extent that there were outcomes payers. If we could bring some of the outcome money, we could encourage more innovative parts of the state to go along with the experiment with us". **R22.6 million** contributed in total.	✓	✓
The First Rand Empowerment Foundation (FREF)	A non-profit organisation founded in 2005 as part of a large BBBEE transaction concluded by the FirstRand banking group. Its focus area is education and the post-schooling skilling system. FREF redirected **R50 million** in existing grant funding to Harambee to B4J.	✓	✓
The Allan Gray Orbis Foundation Endowment	Comprises three independent but associated trusts, including E-squared and the Allan Gray Orbis Foundation. It also has a focus on promoting employment and entrepreneurship. Committed **R12.5 million** in total to B4J's second, three-year round.		✓

Investment details

The next table describes the details of the investments. From this point onwards we anonymise the investors.

Table 3: Investment details

	Investor	**Type of investor**	**Principal**	**Annual interest rate**
Round 1 (year 1)	1	First loss	R11,321,400	7.5%
	2	Senior	R11,321,400	11%
	3	Capital Preservation	R11,321,400	0, + inflation
	Total round 1 investment: R33,964,200		*Blended interest rate: 6.17%*	
Round 2 (years 2-4)	**Investor**	**Type of investor**	**Principal**	**Annual interest rate on three-year investments**
	1	First loss	R15,000,000	6%, serviced semi-annually
	4	First loss	R10,000,000	7.5%, serviced annually

	5	First loss	R15,500,000	7%, serviced quarterly
	2	Senior	R20,000,000	11%, serviced annually
	6	Senior	R10,000,000	11%, serviced quarterly
	3	Capital Preservation	R20,000,000	Split: R10,000,000: interest free R10,000,000: 5%, serviced quarterly
	Total round 2 investment: R90,500,000		*Blended interest rate: 8.29%*	

The different returns for each investor reflect an important design feature of this SIB. Investors were arranged in a **blended capital stack** with three different investment profiles. The *capital preservation* investor, as the name implies, was guaranteed a return of its capital, plus inflation, at the end of each investment round. No interest accrued on these investments. The *senior investors'* returns were – unlike the capital preservation investor – linked to the performance of the social providers against the job targets. They could earn a maximum of 11% interest. Finally, the *first loss investors'* returns were also linked to the social providers' performance, but they would be the first investors to take losses. At around 70% performance against the job targets – for example, only 420 of 600 placements in year 1 – the first loss investors would not earn returns and lose their capital. It is only below this 70% number that commercial investors would begin to take losses.

Returns were negotiated on an individual basis. They were fixed and not linked to prime or any other benchmark, because, in the words of a financial intermediary, "we didn't want to create a mismatch between inflows and outflows. Because our inflows were fixed, we wanted our outflows to be fixed". Interest rates were capped at the amounts shown in the table. This meant that if service providers over-achieved in terms of the placement targets there would be no bonuses attached to that.

Finally, investments were made in full at the start of each round. For the three-year round 2, investors could disinvest at yearly intervals, though none expected to or did do so.

Service providers

In year 1, Harambee Academy was the sole service provider. From year 2, additional service providers were brought on board: Explore Data Science Academy and WeThinkCode. These service providers both run training courses for jobs in the information and communications technology (ICT) sector. We spoke to one of these additional service providers. Like Harambee, it also commits to demand-led training. Its motivations for participating in B4J were (a) the SIB gave them access to upfront funding, which took some pressure off both the service provider and the small businesses they partner with for placements to fund the training, and (b) B4J's focus on economically excluded youth allowed for it to target this group of people more explicitly.

The additional service providers largely ran their training programmes as they were prior to B4J. There was however a more explicit targeting of economically excluded youth (as detailed in the next sub-section). Harambee Academy's soft skills modules were also incorporated into curricula. These modules focus on work readiness skills, like communication and self-confidence, that enhance general employability.

Performance targets

Each cycle had overall job targets: 600 for round one and 5,400 for round two. Targets were defined annually, based on Harambee Accelerator's forecasts for labour demand from partner employers and historical performance. In round 2, each of the three years had its own target: 1,400 for 2019/2020, and 2,000 for each of 2020/2021 and 2021/2022. Progress against the targets was measured quarterly. If annual targets were reached early, a cycle would be closed and a new one opened.

For a job to count as a placement, it had to be a very specific type of job:

- A **contract** of at least 12 months (and at least 24 months in the case of the Jobs Fund) was required;
- Prior to placement the candidate had to go through training (**work readiness**); and
- The person placed had to be a **young** person aged 18-35 who could reasonably be categorised as **economically excluded**, based on indicators such as having gone to a poor school, or coming from a family that received social grants.
- Jobs also had to belong to one of three "job families" or sectors: Business Process Services (BPS), Installation, Repair and Maintenance (IRM), and Information and Communication Technology (ICT).

Table 4: B4J Job Families

Sector	Name of B4J 'job family'	Typical job titles	Service provider
BPS	Advanced Sales and Services	Call centre agent, financial services/ human resources services agent.	Harambee Academy
IRM	Creating and Manipulating	Plumber, welder	Harambee Academy
ICT	Digital and Technology	Junior software developer, data analyst	WeThinkCode, Explore Data Science Academy

These job families were chosen based on market research and "action labs" (workshops convened by the GPG and Harambee with employers, sectoral bodies and service providers under the T1M programme) showing that these sectors were growing despite the broader, negative economic outlook (quarterly GDP growth in South Africa averaged just 0.7% between the beginning of 2016 and the end of 2019[9]). Within the sectors, the jobs that showed the most growth potential were medium- to high-complexity jobs requiring a skilled workforce. But the most economically excluded youth in South Africa are typically unskilled, due to either poor schooling or post-secondary education being too expensive. The B4J planners believed they could make better jobs accessible to this cohort of youth by providing alternative skills training more quickly and more cost-effectively than traditional university and technical college programmes.

Each young, economically excluded young person, that had been trained and then placed into a formally contracted job, categorised as belonging to one of the three job families, counted as a successful outcome for the purposes of the outcome payments. The price of each placement or outcome was determined by a rate card. The rate card calculated a cost per job based on weighted averages of the cost of delivering the different interventions in the different job families and the forecasted mix of these jobs. For example, based on its market research and "letters of demand" from employers (written commitments to absorb people who had been trained that Harambee secures prior to starting any training), for the next quarter Harambee could predict that 70% of jobs would be in the advanced sales and services family, 10% in creating and manipulating, and 20% in digital and technology. The aggregated price for job would reflect this weighting. It also included (a) an amount necessary to make the maximum interest payments to

[9] Trading Economics, "South Africa GDP".

investors, (b) a sustainability and contingency reserve, and (c) a management fee for intermediation for B4J and Harambee of roughly R10 000.

Employers who agreed to place B4J graduates also contributed to the costs of B4J through employer fees. The total average cost per job was therefore approximately R75 000 (paid by outcome funders), plus employer fees of roughly R15 000. Each outcome funder paid a portion of the R75 000 and did not choose between different job families (though the Jobs Fund only paid for placements with a contract of at least 24 months).

Targets were lower in the first year partly because they needed to build in time for the training interventions (typically eight weeks for BPO, and 10 weeks for IRM), and partly because they were testing the model. In the second year intermediaries more than doubled the target and added untested interventions in ICT, run by the two additional service providers, of six month and two year duration respectively. But Harambee assumed overall responsibility for the risk of not meeting the targets, and if the additional service providers underperformed, they could compensate for that with extra BPO and IRM placements which Harambee had more experience in.

Investment appraisal

Introduction

In this section we review the financial performance of B4J. In doing so we compare the risks perceived by investors against the returns earned up to the end of year 2 (the first year of round 2), when the SIB was closed. We also highlight the design features of the SIB as well as actions taken by the intermediaries that mitigated the risks. Our analyses are derived from interviews with 23 participants in B4J. For details of our research methodology please refer to the appendix of this report.

Risk

Social performance risk

The risk that inadequate performance against the social impact targets in the SIB would derail the financial returns was the most substantial risk perceived by investors. Harambee's impressive track record in getting young people into work over the preceding decade alleviated this concern markedly, for all investors.

But investors and outcome funders also recognised that job placements did not hinge solely on Harambee's efforts. They noted the negative macroeconomic environment, even before Covid-19, as potentially obstructing the hiring of enough young B4J graduates. But even in good times, hiring is a very firm-specific decision. It is affected by a multitude of factors, and not directly under the control of any B4J participant. In the words of one of the governmental outcome funders:

> *"It is not easy to create a job…demand is fluid. Let's use Intellidex for an example. You will say, OK, I need four analysts. Harambee, please find me four people, train them and give them to me, OK? But the business situation, at Intellidex, as you will appreciate, is fluid. One month you have a very good month. Then you have six poor months. So there is a risk that your demand degenerates, like we've seen over the last six months, with Covid."*

Others noted employers' aversion for hiring young people, due to limited work experience and untrusted qualifications. However, Harambee's interventions are designed to bridge these gaps and improve the fit between employers and candidates through its screening and matching processes. Harambee also reduces the risk of trainees not being placed by asking the employers they work with to make certain commitments. The first is the signing of a letter of demand, stating that the employer requires x employees with *y* skills. This leads to a process of identifying appropriate candidates and designing skills interventions. Harambee then signs service level agreements (SLAs), where the employer commits to hiring the trained graduates. According to interviewees at Harambee, SLAs are good indicators of future placements, with compliance among employers estimated at 80%-90%. Failure to honour the commitments is typically the result of an unforeseen circumstance affecting firm-level demand. This usually translates to employers not taking on as many trainees as they'd committed to, rather than no trainees at all.

A similar device that Harambee traditionally uses to secure placements of its trainees is the levying of employer fees. Described in the preceding section, these fees defray some of Harambee's costs of sourcing, screening and then training work-seekers. Employers are incentivised to pay them because of the possibility that they will end up with employees better suited to their particular needs than employees they would otherwise source themselves or through an employment agency. This might also improve the odds that employee performance is good and that employers can retain these employees over the longer term (and in this way cut recruitment costs). It is reasonable to assume that having paid for the skills, employers would want to make use of them by hiring the trainees. The employer commitments and employer fees were both deployed in B4J. Yet none of the investors or outcome funders mentioned this as mitigating the SIB's social performance risk.

Investors were also protected to an extent by the way in which drawdowns from the investments for the service providers were structured. Requests for working capital were directly proportional to the demand for trainees: if no demand letters had been secured, no training would take place and no costs incurred for that. The investors' capital would then remain in the SPV.

Social performance was also – after round 1 – the domain of two additional service providers in the ICT space. Harambee Accelerator and Harambee Academy managed this additional performance risk in several ways. The first was through taking the service providers through an "incubation phase". This was "to build their credibility and track record … because if the investors realized that they were directly responsible for delivery, they would price the risk higher and the cost of the bond would go up."

The job families targeted by the additional service providers were also regarded as riskier:

> *"[Where] it was a known sector like the global business services sector, we have been doing that for eight years. It was known to us, it was reliant on our own delivery. That risk was obviously low. It was where we were going to a new sector, like digital. And you are testing and piloting and experimenting with a model that hasn't been tested before… the risk there of non-delivery is higher because it hasn't been tested before."*

The incubation consisted, chiefly, of (a) assisting service providers with securing demand from employers, and (b) training for that demand. This also involved capacitating the service providers to run some of Harambee's general workplace readiness modules (that is, not specific ICT technical skills). After incubation, Harambee maintained close contact with service providers, assisting them with reporting and monitoring their performance. Finally, Harambee maintained overall responsibility for targets. The additional service providers contributed to meeting the targets and had specific targets to fill themselves. If service providers under-performed against those targets, an operator penalty would be imposed by Harambee such that not all service providers' costs would be recovered. Nonetheless if the additional service providers underperformed Harambee could fill the shortfall with their own placements.

Novelty risk

For investors in South Africa's first SIB, there was no local track record to assure them of the viability of this type of financial instrument, and the SPV within which the investment was housed was a new structure without a credit history. The South African impact investing market more broadly is very young and experience among investors of engaging and managing social impact is limited.

To act as senior, commercial investors in the blended capital stack, the intermediaries therefore targeted funds describing themselves as impact investors. However, they found that several impact funds and development finance institutions (DFIs) had a narrow view of what constitutes an impact investment:

> *"When they talk about impact investing, they're talking about things like solar farms…it's also common with DFIs [the infrastructural view of impact]. They do affordable housing, stuff like that."*

These infrastructural mandates automatically excluded investing in an intervention like B4J, despite its tackling of what many regard as South Africa's most urgent social challenge. Others didn't find the R10 million to R20 million investments large enough to warrant the effort that would have to go into conducting due diligence on a new instrument and SPV.

Yellowwoods (which created the B4J SPV and played a key role in designing the SIB and soliciting investment) ultimately "use[d] the fact that we were a private sector, you know, investment company ourselves, to mobilise peers to participate". In the first year, one of their investee businesses took on the commercial investor role (Hollard). In the second year, another (Clientele) also came in in this capacity. Neither of these investors had made a prior impact investment. But having the Yellowwoods name associated with B4J mitigated the novelty risk for these two investors, who remained more concerned about the social performance risk. However, this was alleviated by the end of the first successful year of B4J implementation, making the investment decision somewhat easier for Clientele (and the reinvestment decision for Hollard).

For the first loss investors, Yellowwoods and B4J approached several foundations. UBS is an experienced impact investor (for example, it had already invested in two large development impact bonds (DIBs) in India), with a mandate to promote youth employability. Tutuwa and OG did not have this experience, but both were keen to become active impact investors. Tutuwa's commitment to impact investing was evident in its negotiations to invest in the IBIF SIB – negotiations which were taking place simultaneously.

For all three first loss investors, the primary motivation for investing was not financial return. The South African investors were keenly aware of the dynamics in the youth skilling system: chiefly, that a lot of money was being spent without much success. A representative of OG said:

> *"This was not a returns expectation. This was about - can we find more innovative and efficient ways of getting people into employment? So long as I was comfortable and we were comfortable that they were working really hard to innovate and to understand what the market looks like, we would have backed them."*

Similarly, the CEO of Tutuwa said:

> *"We invest to achieve social change… I was very much attracted to the solution of joblessness to young people and doing things differently and innovating in terms of ensuring that it's not one of those other programmes where people are pumping money into it and it delivers very little in terms of the outcomes."*

For both, the innovation inhered not only in Harambee's demand-led training system and pathway management. They felt that participation in B4J represented an evolution in the kind of role non-profit foundations can play in social delivery. For Tutuwa, this included deploying funds differently to the norm of non-recoverable grants. Making interest-bearing investments as a foundation in a social enterprise carried the potential of recycling and reusing funds for social causes.

This potential was realised at the end of round 1, where the capital repayment and interest earnings on their initial investment was recycled into round 2. They also saw themselves as having a role in developing a new market, having already agreed to participate in the IBIF on quite different terms (in the IBIF, all investors earned the same commercial rate and there was no blended capital stack). B4J thus provided the opportunity to test the SIB concept again but in a different way. There was however some uncertainty for the local foundations about regulation around impact investing, and the potential for conflict with their tax exemption status.

The foundations also recognised that commercial investors are more constrained in their pursuit of social impact given their fiduciary duty to their shareholders. They saw the acceptance of lower returns and a subordinate position in the capital stack as crucial for crowding in more financially oriented investors.

The capital preservation investor played a similar role. The fund's mandate is to create new entrepreneurial businesses and new jobs, so B4J fell squarely within that purview. Our interviewee from this firm said:

> *"Our sweet spot is to be a facilitator of commercial funding… we provide patient capital in the form of loan funding, typically, interest-free, with patient repayment terms, patient in the sense that typically we will be subordinated below more commercial funders, but with the mandate that the capital must be recovered because the fund operates on a recycling basis… so no grant funding, no equity. It's loan funding. It's recoverable within three and five years with patient terms of repayment and interest free."*

Finally, getting outcome funders on board can also be a fraught process. But in B4J, the strategy of targeting partners with whom Yellowwoods and Harambee Accelerator had existing relationships extended to the outcome funding as well. As noted earlier, Harambee Accelerator had bilateral grant agreements in place with all the outcome funders at the time of B4J negotiations for round 1. This simplified and shortened negotiating timelines considerably.

Governance risk

For several investors and outcome funders, the multiple roles played by Harambee and Yellowwoods created confusion. Yellowwoods anticipated this confusion by creating the B4J SPV. This was viewed positively by the senior investors, one of whom said: "given its [B4J's] bankruptcy remote from the rest of the balance sheet, given the governance, and the directors there, we thought that was an important level of protection".

But not everyone was completely reassured by this. For an outcome funder,

> *"…it [B4J] felt like it was a department within Harambee that had its own legal structure. And it was managed by Harambee, that's what it felt like to me. But I don't know if that is what it was in reality. It wasn't really communicated very well what the governance for Bonds4Jobs was."*

One investor went as far as negotiating additional contracts outside of the SPV:

> *"We did, for example, require additional tripartite contracts with Harambee because of the nature of the B4J existence solely as an SPV. That didn't give us enough reps and warranties around the underlying actual work being done."*

The blended capital stack

The blended capital stack structure merits its own sub-section given its importance as a protection against the social performance, novelty and governance risks. For the commercial investors, being paid first when things went well, and being the last to suffer losses if they didn't, was a critical safeguard. Targets would have to be missed by quite a substantial margin (around 30%) before the commercial investors made any losses.

The blended capital stack also proved an important design feature for the governmental outcome funders, who confessed they would have found it a lot harder to pay returns of 10% or more to private investors. Having different layers of investment meant that overall, the interest payments averaged to an acceptable rate (roughly 6 % in round 1, and 8% in round 2).

Nonetheless, this structure extended the diligence process for most investors. One noted that:

> *"We needed to also make sure that the cash flow stacked up. So it wasn't a case of using one person's investment money to pay returns to another investment or another investor, but that in fact, the flows would stack up and would give the returns that could be paid back to the investors."*

Similarly:

> *"[the] multilayer funding structure was easy to understand on paper, but quite difficult to due diligence, if I can call it that, because it meant that we [needed to do] a lot of checking the solidity and credit worthiness of other partners in the different layers."*

Set-up costs

B4J estimate it took between six and nine months from early deal- structuring to contract-signing and first disbursements for round 1. This is substantially shorter than many other SIBs that have high technical and administrative costs. Yellowwoods absorbed these (unquantified) costs and used in-house corporate finance skills to structure deals. But post set-up, large (again, unquantified) costs of intermediation remained; costs in excess of the approximately R10 000 intermediation fee per job priced into the cost per job and covered by outcome funders.

Close-out

B4J ended due to Covid and plummeting demand for labour, and Harambee's (and B4J's) commitment to only train young people when there is a job waiting at the end of the training. Being unable to secure enough demand (and thus also enough *outcomes*) would also lead to financial losses for investors. But continuing with training even if there had been sufficient demand would have been impossible due to the lockdown and the impossibility of conducting virtual training. Most B4J work-seekers (and certainly most South African youth) do not have laptops or affordable internet access.

So, a decision was taken by Harambee and B4J:

> *"It would be more responsible of us to actually exit the bond now while we were in a position to repay investors. Initially we thought we could recalibrate targets. But as you know, it's going to take time for the economy to recover".*

This was universally seen as a good decision and the only reasonable decision given the circumstances. One of the investors encapsulates this sentiment:

> *"I can really commend B4J [because] they called it early and they did it in a neat, very responsible fashion… lots of others would have just carried on and halfway through next year would have been like, 'damn, actually we can't get people into jobs.'"*

All investors and outcome funders would participate in a future iteration of B4J if given the opportunity.

Return

The table below shows the returns earned by investors up until the end of June 2020, when B4J closed:

	Investor	Type of investor	Principal	Annualised interest rate	Full repayment of capital and interest?
Round 1 (year 1)	1	First loss	R11,321,400	7.5%[10]	Yes
	2	Senior	R11,321,400	11%	Yes
	3	Capital preservation	R11,321,400	Zero, + inflation	Yes
	Total round 1 investment		**Total interest payments**		**Blended rate**
	R33,964,200		R2,094,459		6.17%
Round 2 (years 2-4)	**Investor**	**Type of investor**	**Principal**	**Annual interest rate on three-year investments**	**Full repayment of capital and interest?**
	1	First loss	R15,000,000	6%, serviced semi-annually	Yes
	4	First loss	R10,000,000	7.5%, serviced annually [confirmed with Bridget Fury]	Yes
	5	First loss	R15,500,000	7%, serviced quarterly	Yes
	2	Senior	R20,000,000	11%, serviced annually	Yes
	6	Senior	R10,000,000	11%, serviced quarterly	Yes
	3	Capital preservation	R20,000,000	Split: R10,000,000: interest free R10,000,000: 5%, serviced quarterly	Yes
	Total round 2 investment		**Total interest payments (up to the end of year 2)**		**Blended rate**
	R90,500,000		approx. R7,500,000		8.29%

The commercial investors found the 11% return commensurate with the risks. One said:

> *"At the time I guess, seven or eight percent for three years would have been fine. Or six percent if you were very, very confident of the risk. That's probably what JIBAR [The Johannesburg Interbank Average Rate] was, or the sort of risk-free issuing rate. [But] we thought there was risk that we didn't get our money back, and therefore we required a higher return."*

Another reiterated the need to price in the extensive due diligence, saying:

[10] It is noteworthy that the first loss investors here earned lower interest than the senior investors. In typical blended finance structures this is the other way around due to the higher risk profile of first loss investments. In the SIB context, the lower rate for first loss investors reflects their more philanthropic motives.

> *"Eleven percent might sound a lot, but… at the time, we could get, let's say, six or seven percent with like zero risk, buy a government bond without doing any work. So you're actually getting four percent extra, or five percent extra, and you've got to do a load of work…that's where the economics don't stack up."*

The six or seven percent referenced in the quote above is indeed what similar tenor instruments (ie of three years to maturity) would have yielded over the same period as B4J's second round. Three-year interbank swaps would have seen an annualised return of 7.39%, and interpolating an equivalent point on the government bond curve would yield annual returns of 7.68%. Similarly, annualised returns on the South African All Bond Index (ALBI) were 6.25%[11].

The same investor noted, however, that this was partly due to the underdeveloped state of the market:

> *"If you build a track record and you get better at doing these diligences, and there's a few investors that are doing it, then absolutely [a lower rate could be acceptable]."*

The first loss, philanthropic investors were also happy with their returns, noting that financial return wasn't their primary objective.

Beyond the financial returns, both commercial investors were pleased with the social returns as well. One of these investors said:

> *"You would read that audit report and it would be pretty boring. But then there would be an annexure of all the individuals with their names and ID numbers that were placed. And that's when it becomes tangible. You don't get that [in normal investments], they just say that we made x amount of profit. This, the sort of upside, is that these 500 individuals were placed, PWC has put their stamp on it… you don't get that with other investments. Where you see that transformational impact, or that social impact, it can be very rewarding."*

Social impact

In this section, B4J's social impacts are discussed along the six dimensions of the OECD-DAC framework for evaluating developmental effectiveness[12].

Relevance and coherence

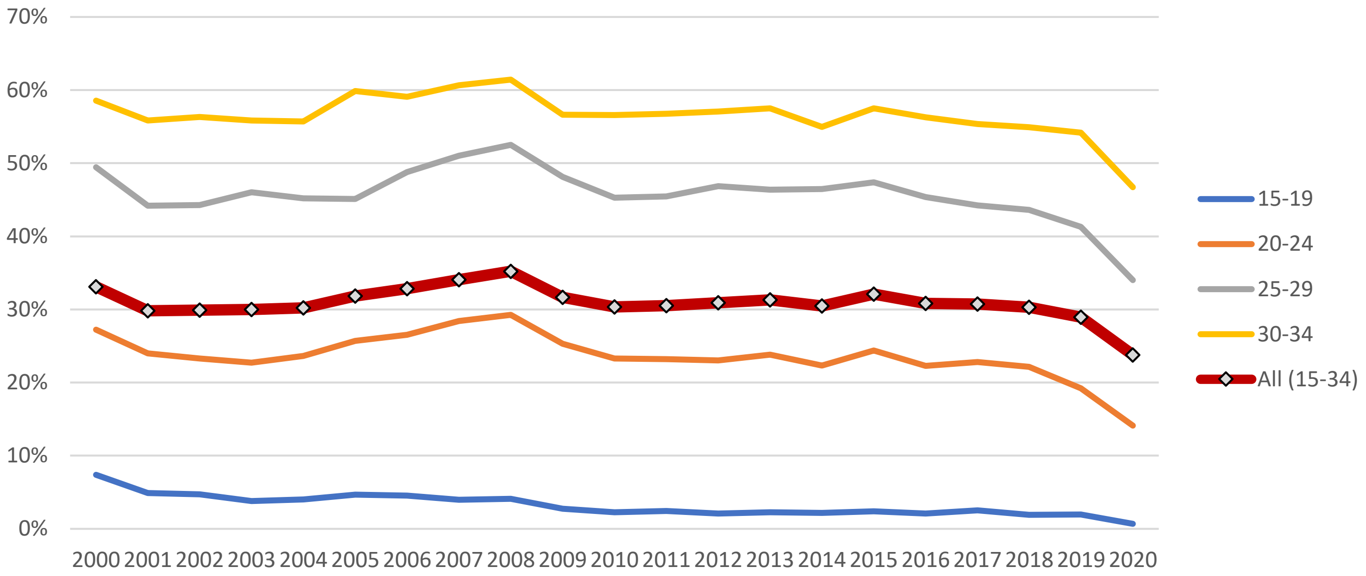
B4J is, without question, relevant to South Africa's developmental needs. The country faces a jobs crisis. Though the upswing in unemployment in 2020 due to the Covid-19 pandemic has led to new ceilings being breached, the graphs below show that for young people, large-scale unemployment has been the norm for at least 20 years. A remarkably stable statistic is the labour absorption rate[13] for 15–34-year-olds, which has hovered around 30% since 2000 (save for the dip in 2020 due to Covid-19, and the uptick from 2004 to 2008 - the best years of GDP growth):

[11] Data from https://www.bloomberg.com/markets/rates-bonds

[12] OECD, *Better Criteria for Better Evaluation*.

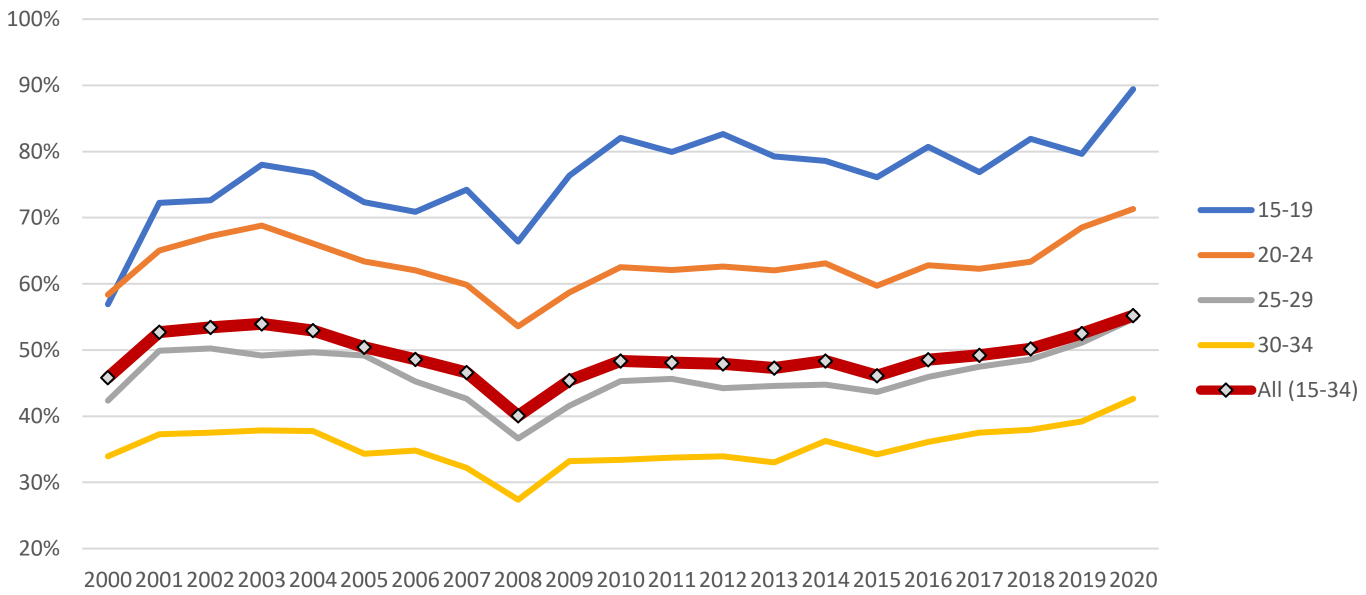
[13] The labour absorption rate is the proportion of the working age population that is employed.

Figure 3: Youth labour absorption rates, 2000-2020[14]



This reflects the chronic inability of the economy to create jobs for 7 in 10 young people. The expanded unemployment graph below shows the proportion of people in each age group who are not working and are in the labour market. That is, they are not in schooling and are willing and able to work, even if discouragement has reduced work-seeking activity.

Figure 4: Expanded youth unemployment rate



[14] We used labour force data from Statistics South Africa to conduct time-series analyses of employment. From 2000 – 2007, data from the second data collection point for the biannual Labour Force Survey (LFS) were used. From 2008 – 2019, Quarterly Labour Force data (which replaced the Labour Force Survey) from the third quarter were used, and from the second quarter for 2020. For all calculations we have used the appropriate survey design and population weights.

Here we see that the trends for all age groups are very similar. For the whole group (the dotted line), expanded unemployment declines during the high growth years (2004-2008) to a low of 40%, reverting to the prior norm of around 50% during the 2009-2010 recession and staying there until 2015, where another steady incline begins, ending at 55% in the second quarter of 2020. These figures make South Africa a global outlier[15].

There are several structural reasons for continued mass unemployment[16]. These include inadequate schooling and expensive post-secondary education; lack of support for work-seekers who incur work-seeking expenses well in excess of average per capita household income; and over-concentration of the economy and an underperforming small business sector. Moreover, training programmes for work-seekers are mostly not outcome-oriented. This means they are typically not accountable for placing trainees into jobs, nor are they designed in consultation with employers.

Harambee's work over the years has shown an understanding of these issues. It has demonstrated a commitment to being demand-led, to running interventions quickly and cheaply, and to providing multi-faceted support to vulnerable work-seekers through its pathway management approach. This implies doing more than training. This includes profiling youth and directing them into options that best suit their specific aptitudes, and also providing trainees with transport stipends. The partnership with the GPG in the form of the T1M programme has expanded the reach in this province significantly and hence its already impressive employment impacts. An independent evaluation has shown that Harambee's approach is significantly better than its competitors at getting youth into jobs[17].

The B4J iteration of Harambee's programming had a more ambitious target than just getting excluded youth into jobs. It expanded this outcome to include a focus on working conditions. This was of particular interest to the GPG, who were keen to target what an interviewee termed "more aspirational jobs". This given the fact that the bulk of employability programming – including in the broader T1M programme – get youth into jobs that are at or not much better than minimum wage[18].

B4J would test whether it was possible to instead go for medium to high complexity jobs, contracted for 12 to 24 months. These are the types of jobs that are usually imparted through lengthy, formal training at universities or technical colleges. For many young people, this training is inaccessible due to the cost or due to having had poor secondary schooling that renders them ineligible for enrolment. Planners at B4J and the GPG believed this had led to a skills shortage in the three target sectors (BPO, IRM, and ICT); a shortage that was hampering the growth of these sectors. B4J thus tested whether these skills could be imparted more quickly and more cheaply, filling skills gaps constraining sectoral growth. These more aspirational, higher paying jobs also carried the potential of transforming the circumstances of the young people placed and of their families[19]. Finally, B4J would include a component to test whether other service providers in the youth employability space could be capacitated to adopt Harambee's proven methodology. Given the scale of the unemployment challenge this seems a logical next step.

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[15] Source: World Bank, "Data portal". The World Bank collates unemployment data for member states. In 2018, for countries that reported reliable data in that year, South Africa is the only country, with the exception of Kosovo, with a youth unemployment rate (well) above 50%. Figures for comparable middle-income countries include Greece (40%); Egypt (25%); Namibia (38%); Indonesia (16%); India (23%); Brazil (29%); Peru (8%) and Colombia (19%).

[16] For an overview, see Khan et al, "What could help young people", and Khan, "Youth speak out".

[17] See Graham et al, *Siyakha Youth Assets*.

[18] Though even securing a job at the minimum wage would leave one better off than half of the working population (see Isaacs, *National Minimum Wage*; BusinessTech, "How much the poorest are living on"; and SALDRU, "Income comparison tool"), reflecting the extent of working poverty and non-compliance with minimum wage legislation in South Africa.

[19] Especially because each wage in South Africa supports an average of three and a half other people (BusinessTech, "How much are the poor living on").

B4J is therefore an intervention that is highly relevant to South Africa's context. It is also coherent with South Africa's major developmental policy framework, the National Development Plan, which aims to achieve full employment by 2030 through an expansion of Active Labour Market Programmes (ALMPs). It is important to note however, that one of B4J's aims was to disrupt the normal ways in which these programmes are delivered. As explained in the 'sustainability' section, this aim has been fulfilled in various ways.

Effectiveness and impact

Like South Africa's other SIB that started in 2018, the IBIF, the impacts of B4J are not derived via an impact evaluation that rigorously assesses cause and effect, isolating aspects of the intervention that work well or that work differently for different subgroups. Instead, we have "social audits". These are audits of reported outcomes: checking that the numbers reported by Harambee are accurate. In this section we discuss B4J's achievements against the social targets. We also discuss what remains unknown.

The B4J performance targets and evaluation methodology

To recap, the target outcome in B4J was placement into a job. To qualify as a placement, three criteria needed to be fulfilled: (1) the person placed had to be categorizable as youth, excluded from the economy; (2) the job had to be in one of three job families defined as 'medium to high complexity'; and (3) a contract had to have been awarded to the new employee for a period of at least 12 months (and 24 months for the Jobs Fund).

The table below shows the targets per year:

Table 5: B4J placement numbers

	Year 1	Year 2	Year 3	Year 4
Target placements	600	1400	2000	2000
Actual placements	600	1209	N/A	N/A

In each year, disproportionate targets per job family were set. Advanced sales and services (BPO) jobs in year 2, for example, constituted 82% of the total target. This was due to Harambee's greater experience in this area. But as long as overall targets were reached, it didn't matter for the outcome payments which job families placements fell into, or which service providers were responsible for the placements.

In the first year, the target was met three months earlier than scheduled. The second year thus began three months early. At the end of this second year, 86% of the target was reached. Year 2's performance per job family is shown below:

Table 6: Year 2 placements

Job Family	Target	Actual performance
Advanced Sales and Services	1150	1168
Creating and Manipulating	100	10
Digital and Technology	150	31

Underperformance on the second two job families was due to a combination of falling demand in the three months prior to June 2020 due to lockdown and the fact that one service provider still hadn't completed its two year training programme by the time B4J ended prematurely.

Evaluation methodology

Outcome funders and investors would receive (a) a report from PWC verifying the placement numbers, and (b) a supplementary report from Harambee containing additional, non-verified information about the placements (job titles and wages).

The purpose of the PWC report was, in a representative's words: "to give everyone comfort that [the performance reported by Harambee] that is being put forward is credible, and based on that credible information, the funds can flow as appropriate". The audit covered three areas. First, it checked the eligibility of candidates. This involved checking documentation provided by Harambee about each candidate (initially supplied to Harambee by these candidates), and judging whether based on these documents, this person could reasonably be classified as an economically excluded young person (the documents themselves were not authenticated). Documents checked included copies of identity documents (which filled the dual role of verifying the identity of the candidate and checking for "ghost beneficiaries"); matric certificates (which state the name of the school – on which basis public databases can be checked to see if the school is classified as a poor/wealthy school), as well as signed affidavits claiming current or previous child grant receipt.

Secondly, there had to be evidence of a "close the gap" intervention, i.e., evidence that the candidate had been trained prior to placement. PWC thus checked scores on the same literacy and numeracy tests conducted before and after training/placement. Again, this did not involve verification of the scores themselves, but rather a check for evidence that someone had been tested at two points. The reason for this check was to assure investors and particularly outcome funders that the working capital was being used appropriately (interventions were estimated by Harambee as costing 80% of the total cost of placement).

The third and final aspect of the audit was confirming the placements. Contracts sent by Harambee were checked to ensure they specified either 12- or 24-month minimum durations. They also checked that the job description matched one of the three job families. A subset of the contracts was verified via email and telephone with the employers themselves, but not with employees. PWC also had to check that candidates were not double counted in different quarters, and in that way being counted as a successful outcome twice in one cycle. Besides minor data capturing errors, PWC did not find any problems with any of the quarterly reports compiled by Harambee.

Notwithstanding the threat of double counting, a candidate appearing as "in a job" in different performance cycles is a measure of job retention. Tracking retention was however not part of PWC's remit, nor done by Harambee. Other features of the jobs that made B4J an especially well-designed intervention (or relevant, as per the previous section), such as wages and the exact nature of the jobs, were similarly not verified by PWC. "Medium to high complexity" was defined *ex ante* by classifying job families in that way, rather than looking at the actual jobs secured and whether the specific duties were of medium to high complexity (though some job descriptions may have made this obvious – like "junior software developer"). Payments from outcome funders were dependent only on the placement criteria (in a job in one of the three families, with a contract, and from a disadvantaged background).
However, wage data were collected by Harambee. Mean annual wages for B4J placements were R66,000, or R5,500 per month. This compares to the national minimum wage of approximately R3,500 per month. And – low as these wages may seem – they place B4J graduates near the top of the youth income distribution[20].

Harambee has therefore done very well in meeting the placement target in year 1, and only missing it by a small margin in year 2 despite very negative economic conditions. They also seem to be high-quality jobs, or, looked at from another angle, a lot better than the average young worker in South Africa from a similar

[20] Our analysis of Statistics South Africa's Quarterly Labour Force Survey data (appropriately weighted for sample design) from the second quarter of 2017 (the latest data point for which we had earnings data) shows that at this point in time, monthly earnings of R5,500 would place an 18–35-year-old in the 65th earning percentile (that is, she'd be earning more than 65% of the youth population).

background could expect. But the failure to track job retention is concerning (though the presence of a contract of at least a year mitigates this concern somewhat)[21]. Theoretically, if someone were to be placed and lose their job three months later, this would not affect the schedule of outcome payments in any way.

The views of B4J graduates

In February 2021 we interviewed 11 B4J graduates. Harambee sent an SMS to the whole group of graduates about our research, asking the group to contact us via email should they wish to be interviewed about their experiences.

We received over 400 requests to participate. We selected people to interview by picking every thirtieth email. Interviews were conducted telephonically and had an average duration of about ten minutes. We made a token R100 payment to interviewees as an incentive to participate. We were careful to stress to interviewees that their interviews would be anonymised and that there would be no way of anyone (except the small Intellidex research team) knowing (a) who we interviewed and (b) which individual said anything that we cite in our reports. This is obviously not a representative sample of the almost 2,000 B4J beneficiaries. But learning about their experiences from their own point of view provides us with valuable insights that help us arrive at a more well-rounded view of this SIB.

The general impression of Harambee among the interviewees was good[22]. All eleven interviewees placed the most value on the work readiness training they had received. This is having been provided with general workplace skills that are transferable from one job to the next. They include time management, how to fit into the corporate environment, how to handle stress, and how to communicate better. Several noted how this had made them more confident and optimistic about the future:

> *"They gave me confidence; they gave me something to believe in."*

> *"I'm able to speak in front of everyone now. I wouldn't do that before Harambee to tell you the truth."*

Importantly, this training included simulations of the workplace:

> *"They set you up for the environment you're going into. Most of the people there just have matric and no work experience. At Harambee you actually get to experience what it's like to be in the work environment. They prepare you, so that when you go into the job you know what is expected of you and you know how to behave."*

Support also included the use of Harambee's facilities on the weekends for job search. Many South African youth live in informal settlements where these amenities are absent. Finally, Harambee includes more personalised support to work-seekers. One interviewee mentioned the value of having two staff members stay in touch with him to see how he was doing and to encourage him:

> *"For a guy from Soweto who had nothing, you see, someone believing in you…they kind of pushed me into the right direction."*

The importance of feeling supported and feeling more confident for young people who face an extraordinarily difficult labour market cannot be understated.

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[21] Harambee Accelerator informed us that the reason for not tracking retention was that the primary aim of the first phase of B4J was to achieve higher throughput from training to job placement.

[22] Note that even if work-seekers were trained by one of the additional service providers, everyone's primary point of contact was at Harambee. This is where work-seekers register for support, it is the platform that communicates with them about job openings, and Harambee staff take mentorship roles for individuals separately from any training. In our sample, none of the interviewees were trained at an additional service provider (WeThinkCode or Explore Data Science Academy). Ten were trained for business process outsourcing roles. The remaining interviewee was trained in Installation, Repair and Maintenance (IRM), for a job at a panel beater.

When asked if there was anything that they didn't like about their experience, just three people mentioned the following – all of which were framed by the interviewees as minor when weighed against the benefits:

- Time-management techniques: lateness would often be punished by having the whole class come in half an hour earlier the next day. This seems punitive considering South Africa's unreliable public transport system and the length of typical commutes. But at the same time, this could be seen as necessary preparation for the workplace, where many employers would not tolerate tardiness.
- Two shy interviewees expressed a dislike for the "coming out of your shell" modules/aspects of their training. This is where trainees are encouraged to be more expressive and more outgoing.
- Finally, one of our unemployed interviewees said not everyone received individual follow-up: "They should try to follow up with everyone… how they are doing, and what they can do to assist".

The overwhelmingly positivity and optimism is despite pervasive unemployment. That **nine of the eleven interviewees are currently unemployed** is the most disappointing aspect of these interviews. All nine of these interviewees were placed after their respective training courses. This reflects Harambee's commitment to only train work-seekers for concrete opportunities. But eight of nine did not have their contracts renewed by their employers. One left his learnership before the end of the contract due to being unable to sustain the daily commute of three hours. Average earnings in these jobs (mostly learnerships[23]) were R4,000 per month[24]. Two were at or below minimum wage.

Several of this group were informed near the end of their contracts that the companies' budgets had shrunk, and this is why employers could not renew their contracts. Two graduates were told that Covid-19 was the reason for the smaller budgets. It is highly likely that this played a role at other companies too. But there are likely other factors at play. Previous longitudinal research on youth in the labour market (concluding in 2019) shows that work experience is not a great predictor of employment after having been through an employability training programme[25]. This fits with the observation here (albeit in a small sample) that despite being trained and getting a foothold in the labour market, this hasn't translated into better longer-term employability for the majority.

There are some successes though. Two of our interviewees are still employed. The first now works at a bank earning R6,000 per month as an assistant. Her first job was as a petrol attendant. Like several others, she sees Harambee's greatest benefit as having providing her with skills that she would be unable to afford via enrolling for an expensive formal qualification. She is now a permanent employee, enjoys her work and feels there is a lot of room for her to grow in this job.

The second employed interviewee, also at a bank, was made permanent three months ago. His work experience prior to Harambee consisted only of piece work in construction. His salary has more than quadrupled from R4,500 during an initial learnership to R21,000 now as a risk analyst. For these two young people, B4J has clearly had a transformative and life-changing impact.

[23] Learnerships carry tax incentives for employers and grants from Sector Education and Training Authorities (SETAs) can be claimed at the end of the learnership period (typically one year).
[24] This is for seven of the nine currently unemployed interviewees. The remaining two did not share this information.
[25] Graham et al, *Siyakha Youth Assets*. This evidence is in marked contrast to the current consensus in the South African discourse on youth unemployment which is informed by evidence from outside South Africa (eg, Attanasio et al., "Vocational Training" and World Economic Forum, *Skills and Labour Market Needs*).

Wider impacts

Ambition

An evaluation of B4J's impacts is yet to be conducted. Such an evaluation might analyse whether different groups of youth (eg, by race, age, measured aptitudes) benefit in different ways, or whether different aspects of interventions (eg the length of training, the amount of time spent on general work readiness preparation, class size) are more or less associated with gaining employment.

An impact evaluation might also compare B4J's social outcomes against an estimation of the counterfactual: what outcomes young people might have faced in the absence of B4J. One very loose way of looking at this is to compare Harambee's job placement targets in the year prior to B4J. This also addresses the concern raised by two investors that they didn't know how good the targets were, and that there were no benchmarks against which to measure B4J's performance.

The table below shows the numbers of placements achieved by Harambee in the three B4J job families in the year immediately preceding year 1 of B4J:

Table 7: Prior placements by Harambee

Job Family	Total, April 2017 – March 2018
Advanced sales and services	591
Creating and manipulating	310
Digital and technology	21
Total	**922**

The total of 922 placements is well above the target of 600 set for B4J's first year. However, some interviewees argued that the pre-B4J and B4J jobs are qualitatively different and hence incomparable. Recall that the iterations of these jobs in B4J would be "medium to higher complexity". The digital and technology jobs would also be delivered by external partners. But the absence of comparative data on, for example, job descriptions, training curricula and wages makes it difficult to assess how different the jobs in the two periods are, and in turn, just how ambitious these targets were.

However, we do know that if Harambee did not exist at all, the group of youth in B4J would have faced very different prospects. The odds of being placed in decent jobs for young people who live in townships on the peripheries of major cities, who have not had the best education, and who come from low-income households, are vanishingly small.

General equilibrium effects

The international literature on employability training programmes cautions against a commonly observed phenomenon where the training does not lead to changes in the aggregate employment rate[26]. It is argued that newly trained workers are typically not placed in new jobs, thus increasing aggregate employment. Instead, the work-seekers queue is "reshuffled". Trained workers are moved to the front of the queue, and face better odds of being placed in the existing pool of vacancies. This leaves aggregate employment and unemployment (general equilibrium) unchanged. Trainees benefit, and those not trained see their employment odds reduce.

[26] See Crepon et al, "Do labour market policies have displacement effects?" and Gautier et al, "Estimating Equilibrium Effects" for discussion of this phenomenon in France and Denmark, respectively.

But in South Africa, two interviewees argued persuasively that reshuffling the queue in a highly unequal society is positive in itself. An interviewee from the GPG noted, correctly, that the bulk of the evidence on unchanged general equilibrium comes from European countries where systematic social exclusion for the majority of the population is not the norm. In written correspondence, he notes:

> *"Filling existing vacancies certainly doesn't mean the employable workforce isn't expanding, and doesn't mean the programme isn't doing what it's supposed to do (breaking down barriers for young people who would otherwise not have access to opportunities)."*

An interviewee from Yellowwoods had similar thoughts, and highlighted the social justice implications of reshuffling the employment queue:

> *"In a society that is as structurally unequal as ours, and where social immobility is so entrenched inter-generationally, then changing the queue does actually matter… the idea that changing the queue doesn't matter is not true, even if it's on an available number of jobs. So, if all the digital jobs are going to go to people who are already effectively part of the economic elite, and no poor people, kids from the townships or poor communities are going to become citizens in the digital economy in the same way as was true of finance 20, 30 years ago, that has a significant impact on the ability to grow the talent pool and manage social capital, to manage the economy actually."*

She also argued that B4J was doing more than reshuffling and was actually creating new jobs. This was due to B4J's targeting of sectors with latent (unrealised) demand for labour due to the shortage of skills in those sectors:

> *"We specifically focused Bonds4Jobs on sectors where there is demand, there's latent demand that is not being realised because of a gap of skills… so there are specific subsectors of jobs where that is true, global business services is one of them. Digital tech is one. There are others. Installation repair and maintenance is one of them. Where the inefficiencies and constraints on the supply side and the way the system works on the supply side [long, expensive training funded on an input basis and thus less effective] actually creates a bottleneck of skills, and therefore you don't have enough skills coming through, and therefore the demand growth, when there is potential for job growth, it doesn't happen because employers can't grow jobs, because they can't find the skills. [This is] not true in every other sector. It's not like the retailers are saying, we're not growing jobs because we don't have skills. That's not true. Or we're not growing jobs because we don't have consumers with enough money. That's a different problem that we have. But in certain job families that Bonds4Jobs focused on then there is latent demand. Those areas will grow jobs if the skills problem is sorted out."*

Collaborations

A potentially lasting impact of B4J will be the continued development of intersectoral partnerships. Every interviewee noted having enjoyed working with very different partners and a desire to continue to engage with them in their attempts to contribute to solutions to the country's social challenges. This includes some investors working with NGOs and government entities for the first time.

Changing the skills system

The South African skills system privileges long, expensive degree or certificate programmes. B4J aimed to change this and to build trust in shorter programmes that, while not conferring formal qualifications, could be equally accurate signals of candidates' abilities:

> *"[We wanted to prove that] if a person didn't have a university degree, they could still do a job, which the employers traditionally would assume you needed a university degree for. So, for example,*

computer programming, could you do computer programming without a university degree? So on the credentialling basis, to be able to get the system to be more market responsive to the, not credentials, but the competencies that are required in the market and new proxies for those competencies. So yes, I don't have a university degree. But that doesn't mean that there is no other proxy to use to know that I'm competent to do this job".

This has certainly been proven in the advanced sales and services jobs. In the other two job families this potential has not yet been realised due to external circumstances (having to close early due to Covid before the benefits of the interventions could be proven).

Changing the way existing money is deployed is another impact that B4J has already begun to achieve. The Presidential Youth Employment Intervention, for example, has committed to using pay for performance principles in the administration of funds to service providers that provide employment services to young people. It has also committed to using Harambee's pathway manager as a mechanism to register and profile work-seekers and connect them with appropriate opportunities. These systemic benefits are in addition to the capacitation of other B4J service providers to operate in a demand-focused and outcome-oriented way.

These successes have been achieved despite a difficult working environment. Besides the once in a generation economic crisis event, Harambee has done a good job of playing many different roles, and managing multiple outcome funders with differing grant timeframes, reporting periods and also reporting requirements.

Efficiency

Efficiency analyses assess how well resources are used in achieving programme outcomes. This section is thus an assessment of B4J's cost-effectiveness.

By comparing B4J with other types of skills training interventions, we can conclude that B4J does exceptionally well along the efficiency criterion. There are two types of comparison that can be made. The first is a comparison between B4J's costs of placing work-seekers in the three, relatively complex B4J job families, and the costs of acquiring similar skills elsewhere. This comparison is shown in the table below.

Table 8: Cost per job comparisons

Job family	Approximate working capital needs per job contributed by outcome funders	Working capital contributions through employer fees	Total working capital needs per job	Industry benchmarks per job
Advanced Sales and Services	R23,000	R10,000	R33,000	R43,000
Creating and Manipulating (Installation, Repair and Maintenance)	R98,400	R10,000	R108,400	R300,000 – R1,000,000
Digital and Technology	R153,000	+-R20 000	R173,000	R600,000
Weighted average (using a forecasted mix of job families)	R58,000	R15,500	R73,500	

The second column shows the amounts per job provided by the B4J outcome funders. These amounts were supplemented by employer fees. The figures in the industry benchmarks column were provided by B4J. They were derived by averaging the costs of enrolling in post-secondary skills training programmes (including at universities and technical colleges) dedicated to the respective disciplines.

B4J is more efficient at getting people into jobs. In addition, on average, 50% of working capital costs are used for paying stipends to trainees. B4J is thus more efficient while it provides work-seekers with resources that maximise the odds of them finishing the courses (they can cover transport, buy food, etc).

The second comparison is between the costs of delivering a B4J job and the costs incurred by the provincial government on similar training programmes that are not necessarily in the same job families. T1M (the broader youth employment intervention funded by the GPG within which B4J falls) directs youth into various opportunities. These range from very basic, short-term work experiences and public works programmes to higher complexity, more permanent jobs. The cost of a B4J placement cost roughly five times as much as T1M's higher quality placements.

But a GPG interviewee noted that this was potentially comparing apples with oranges:

> *"[The T1M work-seekers] will wind up in a job that maybe pays minimum wage plus 10 or 20 percent. In most generic companies. A B4J placement at the level they were talking about, was going into a job that would pay, certainly for the IT stuff, four to five times minimum wage, potentially".*

The data on mean wages earned by B4J graduates (R5,500 per month) bears out the assertion that jobs would be paid substantially more than minimum wage (which is roughly R3,500 per month).

We can also compare the costs of B4J with other government-funded initiatives outside of T1M. Again, B4J performs very well (keeping in mind the generally more complex jobs targeted by B4J):

Table 9: Costs of various government-funded ALMPs per placement[27]

Intervention	Cost
Basic public works placement	R43,000
Youth Employment Service (YES) work experience placement	R55,000
Average Jobs Fund placement	R57,000
National Student Financial Aid Scheme (NSFAS) cost per learner per year (covers fees, part of living expenses)	R67,200
B4J average	**R73,500**
Average of Sector Education Training Authority (SETA) learnerships and internships	R286,000
Vocational training at Technical and Vocational Education and Training (TVET) institutions	R650,000

Sustainability

In this section we discuss whether B4J's immediate benefits are likely to carry into the longer term.

Firstly, all the investors signalled their willingness to reinvest in B4J, were B4J to pick up where it left off. This is a reflection of their confidence in the B4J structure and in the individuals that managed it. For some, the desire to reinvest is due to wanting to scale up B4J's job achievements and to begin to meaningfully reduce

[27] The data in this table was supplied by the GPG.

unemployment. This is also understandable from a purely financial perspective and the returns earned on a per-placement basis: more placements would mean more returns.

However, interviewees from B4J and Yellowwoods were keen to stress that their intention was never to scale up B4J:

> *"We never set up Bonds4Jobs to scale, we set it up as a demonstration effect. The next step of it was always for government adoption on a larger scale… so if government adoption meant that the SETAs [Sector Education and Training Authorities] and the National Skills Fund and whoever, are doing this thing in a different way [the outcomes focus], that would still be success for us, because we focused on the outcome and not on whether they use us for our vehicles".*

In other words, B4J has achieved what it set out to in terms of demonstrating that training for three specific job types in sectors with latent labour demand could be done more effectively and efficiently. If a similar problem in other sectors or areas of the country were to present itself, and if the B4J structure lent itself to solving that problem, they would be open to using it again.

Another aspect of changing the system was initiated in B4J and is being taken forward. This is Harambee Accelerator's reconceptualization of its role as an "ecosystem enabler". The first part of this is the incubation and capacitation of other service providers to provide more effective employment services to young work-seekers. This is by their own admission difficult work, "a muscle" that needs building. This new role recognises that Harambee cannot do everything themselves given the scale of the unemployment challenge. And encouragingly, they have committed to incubation of small, community-based NGOs, and building networks of small businesses.

The experience of one of the additional B4J service providers (we weren't able to get hold of the other) shows that the incubation process is workable. They found the process supportive rather than controlling or intrusive. It has allowed them to experiment with how they reach disadvantaged populations and how they deliver training that is tailored to individuals' needs. The pay for performance aspect has also focused their efforts more explicitly around ensuring trainees get jobs. They feel a SIB would be a useful instrument to employ in future because it would allow them to scale. This is due to the ability to access working capital upfront, without feeling pressurised to fundraise extensively or charge employer fees. The latter would be especially useful in their plans to make more placements in small businesses.

Being an ecosystem enabler also means conducting advocacy around the kinds of systems change highlighted in the previous section. This includes lobbying for changes to the public credentialing system and to how existing skilling funds are deployed, and encouraging employers to practice inclusive hiring. Inclusive hiring is moving away from traditional hiring practices that favour well-off youth who have social connections and academic records reflecting enrolments in exclusive universities. Harambee has been doing this already for a long time, but here too are beginning to pivot into a new, more expansive iteration of this role by working with sectoral organisations (like employer associations and skills institutes) rather than individual employers.

Another potentially game-changing aspect of B4J was its demonstration of getting young people from disadvantaged backgrounds into well-paying, more complex jobs quickly and relatively cheaply. Similar programming that is aimed at this segment of the population typically prepares them for roles that are low paying without significant prospects for career progression. So, if more youth were to be provided with B4J-type services this could have significant impacts on social mobility and hence inequality.

However, this requires a trade-off. Of the approximately 150,000 young people registered on Gauteng's T1M platform, around half are high school dropouts. A GPG interviewee explains:

> *"If you've got R50,000, then do you spend it on ten times R5,000 increments so that kids without a high school qualification can get their first meaningful job via a work readiness programme, or do you spend it so that one kid can earn R20,000 a month as an IT programmer?"*

The former option would likely reduce unemployment, but the latter would be more likely to meaningfully reduce inequality and lead to more transformational changes at the household level.

Whichever path is chosen, the GPG maintains that more resourcing from the private sector is necessary. A key goal for the GPG of participation in B4J was to test delivery models "with some degree of risk sharing, of cost sharing from the private sector". They feel this has been achieved with B4J and would like more of this to happen. This could take the form, for example, of operating the entire T1M platform using a B4J-like structure rather than just a portion of it (but with the GPG represented on the board of the independent NPC structure).

Another potential growth area for SIBs or other blended finance instruments is the small, medium and micro-sized enterprise (SMME) space. Several interviewees felt that B4J and Harambee were currently biased towards large employers. However, the employment-creating potential of existing large businesses is limited:

> *"Your big companies keep GDP kind of where it is, and keep your employment numbers kind of where they are. Your growth doesn't come from there. Your growth comes from firms in the first five to 10 years of their lives. If you don't have that ready pool of SMMEs... your youth unemployment problem doesn't get solved".*

Another reason for expanding the SMME focus was provided by an investor: it is far easier hiring and training in large businesses with extensive human resourcing departments and big budgets, compared to in small businesses. Demand-led, tailored employment services would thus be relatively more useful for them.

Finally, one of the investors noted that payment by results models are not always appropriate:

> *"You might want to do skilling of, let's say, handicapped youths in rural areas, you can't capture that in an impact bond, but it's super important. So within the spectrum of employability, we think there is a large middle part where you can bring in new structures and you can bring in some efficiencies and you can seek to do it through results-based [structures]. But on top of that, you will need to have, let's say, specialised programs to ensure that there's no one falling through the cracks, you know? It has its part in the spectrum."*

Analysis and opinion

We conclude with a short discussion of B4J's strengths and weaknesses.

B4J proved an excellent investment for all three investor types. For the more socially oriented investors (the first loss investors) it offered the opportunity to recover their expenditures, plus interest (at one to two percent more than what was achievable on government bonds at the time), and to put these earnings to work for other social causes. B4J also ticked all the boxes required by the senior investors, whose primary concern was to create and maintain shareholder value. In this way B4J has proven that impact investments can be viable for traditional, risk-averse asset managers.

Importantly, it appears that the money invested by the senior investors was *additional*: it is money that in the absence of B4J would *not* have been invested in the youth employability area. This quote from one of the senior investors reflects the feelings of these investors:

> *"The money obviously that we invested was not CSI money, right? It's money that was going to go... if it wasn't going to go here, it was going to go to some other illiquid, high-yield opportunity."*

The social impacts, though nice to have, did not motivate the investments: they were doable purely on financial terms.

The use of a blended capital stack was important in making this a viable investment for them. It was also a desirable design feature of the SIB from the outcome funders' perspective, particularly the governmental entities. A representative of the Jobs Fund said:

> *"It's not government's modus operandi to pay investors a return… if you only had one funder, [and] if that funder was a commercial funder, then obviously you'd have a problem because that rate is quite high. If you though, blend it, with various other funders, capital preservation, a zero-based funder, then the rate blends to a very acceptable level."*

From the perspective of the outcome funders, their expenditures in B4J were also efficient: compared to most other employability interventions, the cost of getting someone into a job was quite low.

However, we still feel B4J could have been more ambitious, and that the investors could have taken more of the risk off the outcome funders. There were two aspects of B4J that were designed to be different from Harambee's normal programming. First, it would target more complex, higher-paying jobs. Second, additional service providers, running untested training programmes, would be brought on board. Both these factors substantially increased the social performance risk: the risk that the placement targets would not be met and investors would not earn their full returns.

But targets were met easily in year 1, and in year 2, targets were almost fully met too (86%), despite the Covid-19 pandemic (and investors received their full returns regardless). Moreover, almost all the placements were made by Harambee. One of the investors had this to say:

> *"Because it only lasted a year, obviously, they met their targets and they made them quite quickly. So, again, I guess that's a bit of a red flag to say were the targets stringent enough … I wanted to make sure that the targets that had been set for job placements were sufficiently high that the additional first loss money which in turn supported more senior debt was really enabling bold and ambitious targets. To be honest, I suspect they were pretty conservative about the numbers because they wanted it to succeed… we have to get to the point at which this concessionary money [the first*

> *loss capital] is actually not just derisking the commercial money, but also pushing the numbers and looking at the cost models, [and] actually creating this additionality versus just derisking".*

We are also unsure if the jobs created were significantly qualitatively different to what Harambee was doing immediately prior to B4J, when they were placing substantially more young people in the same three sectors.

However, the preceding discussion should not be taken to imply there was no risk, as the quote below from an intermediary shows:

> *"In the end, you cannot force an employer to take a person that they're not happy with. So I'm just saying there is genuine risk in the process, which is why it lent itself to this kind of model. So the way the current system deals with that risk is it avoids that risk. The way it avoids that risk is it just pays the training and doesn't care whether anybody gets absorbed into a job or not. And the net effect of that is that the conversion rate of training to jobs in South Africa is pitifully low, because no one is incentivised to care about that conversion. They're just incentivised to pay for the training. And the training organisations are rewarded for just doing the training, irrespective of whether that translates into employment. So that's the significant risk."*

We already see changes in the ways in which unemployment is being tackled in South Africa that have been inspired by B4J. The expansion of demand-based training and inclusive hiring – especially in the SMME sector – is where we hope the sector develops.

Nonetheless, the difficulties in job retention for young work-seekers that we found in our interviews with them point to the possibility that there are structural blockages in the labour market that were evident prior to Covid-19 and that will remain after Covid-19. This suggests that there are limits to what interventions focused at the micro-level – that is improving individuals' skills profiles and helping employers get better employees – can achieve. This implies, in turn, that mass unemployment is *not* chiefly because (a) organisations doing employability work are doing it badly and (b) young work-seekers do not have the appropriate skills. Instead, there are factors outside of trainers' and work-seekers' control that limit sustained employment. These include persistently low economic growth, a highly concentrated economic structure, and an under-performing small business sector. Urgent work needs to be done in ensuring these problems are tackled too.

Appendices

Methodology

This impact investment report, with its companion report on the Impact Bond Innovation Fund (IBIF), seeks to:

a) Promote transparency in South Africa's nascent SIB and impact investing sector and build knowledge for diverse audiences, including investors, governments and the NPO sector.
b) Define a standard for assessing the performance of SIBs.
c) Bring together analysis of financial and social performance.

A case study methodology was used to collect data and analyse it. Case studies are well-suited to the study of new and underexplored topics (like SIBs) and their application and unfolding in a specific context[28]. The depth of information obtained from multiple sources typically provides a comprehensive understanding of the phenomenon under study and of the contextual particularities that influence the ability to generalise insights.

Data collection involved the following:

a) Interviews with representatives of organisations involved in each of the two South African SIBs.
b) Reviews of publicly available documentation about the South African SIBs.
c) Desktop research on academic, policy and financial literature relating to SIBs around the world.

The table below summarises the interviewees with the various B4J participants:

Table 10: Interviewees

Participant type	Number of people interviewed
Intermediaries	4
Service providers	3
Investors	7
Outcome funders	8
Outcome auditor	1
Beneficiaries	11
Total	**34**

All interviews were conducted using Microsoft Teams, Zoom or WhatsApp and ranged from 45 minutes to an hour and a half in duration. Interviews were recorded, transcribed, and in most instances anonymised as per the interviewees' preferences.

We conducted thematic analysis of the interviews. To improve the validity of these analyses we (as per Yin) triangulated sources of data, asking similar questions of different participants to arrive at a view of the SIBs that was as complete as possible. Triangulation also involved comparing respondents' answers with written documentation (reports, articles, media statements) about the same themes. We also developed a conceptual framework, based on published literature on SIBs, regarding how we envisioned a SIB would achieve success. In the summary report for the IBIF and B4J[29] we outline this conceptual framework and compare it against the empirical findings from both SIBs. We then make recommendations and discuss the development of SIBs and impact investing in South Africa and beyond.

[28] Yin, Case Study Research.
[29] Available at www.intellidex.co.za/reports

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