RESEARCH BRIEF

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SA-TIED

Southern Africa – Towards Inclusive Economic Development

Finding optimal solutions for efficient youth labour policies

– what kind of firms employ young people in South Africa?

According to South Africa's National Development Plan Vision 2030, serious action needs to be taken to reduce poverty and encourage economic growth. One of the main challenges involves reducing the unemployment rates in South Africa, particularly among youth.

High youth unemployment is problematic in many ways

Evidence indicates that youth unemployment is a costly burden to the society. Youth unemployment contributes to lower productivity, which has the potential of having a negative impact on growth. In turn, low economic growth can result in loss of jobs in the labour market, perpetuating the unemployment problem.

In South Africa, youth unemployment rates were on average 51.4% during 2013–16, only a little lower than in 2003 (54%).With the presence of a youth bulge in the current demographic structure, policy makers should pay special attention to the sluggish recovery in youth employment rates.

The slow rise in the share of employed youth is a concern for policy makers, as youth unemployment means:

- there is a proportion of young workers that could contribute to the productivity of the country but are either failing to find employment or are discouraged job seekers. Both can result in intergenerational poverty and social exclusion
- young people are not gaining the skills and experience necessary to improve the productivity of the country
- there is a high risk of social conflict, such as juvenile delinquency, which can incur high social costs to the country
- unemployed youth represent a social welfare challenge to the country, not only through reduced productivity and economic growth, but also due to dependency on active labour market interventions, such as the Expanded Public Works Programme, which offers short-term work opportunities.

To support policy design which could bring better results for youth employment, it is important to understand what kind of firms employ young people in South Africa.

FINDINGS

In South Africa, young and large firms are more likely to employ young people than the more established or smaller companies

Firms with lower labour costs are more likely to employ young people

Firms which are entitled to learnership benefits employ more young people than others, but often do not keep them after the learnership is completed

Wholesale and retail, communication, and recreational sectors are most likely to employ young people

Firms that do not participate in the international market are more likely to employ young people than the international companies

Firm age and size

Young firms are more likely to employ young people than the more established companies. Firms that are less than 26-years-old are more likely to hire young people, with firms between the ages of one and five years contributing the most to creating youth employment. However, younger firms are also dynamic and exit the market at a higher rate than older firms; therefore this result may indicate instability in the labour market.

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Large firms employ more young people. Firms with a bigger workforce are more likely to have at least 10% youth in their employment. This proportion increases to at least 50% when the company has over 1,000 employees.

Labour costs and learnerships

Firms with lower labour costs are more likely to employ young people. One of the disadvantages to the firms hiring youth is the additional costs of training them and the lost productivity per employee during the training period. If the firms already have high labour costs they may be unwilling to employ young people without some form of compensation. Wage subsidies and the Employment Tax Incentive (ETI) programme, which allows firms to claim back some tax for employing young people, are targeted towards such cases.

Firms which are entitled to learnership benefits, funded by the 21 Sector Education Training Authorities (SETA), employ more young people than the firms which do not have these benefits. However, research findings imply that the firms benefiting from SETA-funded skills development interventions are not retaining the young people who participate on the programme once they have completed the learnership.

Sector and market

The wholesale and retail, communication, and recreational sectors are the most likely to employ young people compared with manufacturing. These industries generally require initially less experienced, low-skilled labour that they train on the job. Therefore, youth employment is relatively high in these sectors.

Firms that do not participate in the international market are also more likely to employ young people compared to the international ones. This may also suggest a skills constraint faced by the young, as trading firms in South Africa tend to be involved in technological inputs.

Steps for a better future

The results above should help policy makers in identifying firms to be targeted when designing and improving interventions — such as the youth wage subsidy and the ETI.

The relationship between labour costs and the likelihood of a firm employing more young people suggests need for policy interventions that promote youth wage subsidies. For the incentive to be successful, the subsidy needs to be high enough to cover the training costs, to encourage even small firms — which would otherwise be excluded by the programmes' administrative burden — to absorb more young people.

The performance of the ETI thus far also suggests that targeting firms which are more likely to employ young people could lead to better outcomes. With respect to firm age, younger firms need support in the initial stages as they employ more young people. Firms also need incentives to retain young people once learnerships have been completed. These incentives could include SETAs prioritizing the short-term training and skills development needs of firms that have a track record of retaining young people.

IMPLICATIONS

The relationship between labour costs and the likelihood of a firm employing more young people suggests a need for youth wage subsidies

For wage subsidies to be effective they need to be high enough to cover the training costs and to encourage small firms to absorb more young people

With regards to employment tax incentives, targeting them for firms which are more likely to employ younger people will lead to better outcomes

Firms benefiting from registered learnerships also need incentives to retain young people once learnerships have been completed

This brief is based on WIDER Working Paper 2018/82 '**Employer characteristics and youth employment outcomes in the formal sector in South Africa**', by Stewart Ngandu and Carolyn Chisadza.

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