



South Africa Siyasebenza



Jobs Fund Proposal to NEDLAC Colloquium

The A2Pay Job Creation Initiative

Promoting Inclusion through Technology

1 Problem statement

Please provide no more than half a page providing an outline of the impediments to job creation that exist and how the proposal will meet the challenges.

In developing markets around the world, it is the informal economies that serve as the inconspicuous engines of growth. By way of example, the informal economy accounts for over 70% of total employment in sub-Saharan Africa – an economy that includes street vendors, traders in open-air markets, subsistence farmers and fishermen, personal drivers, roadside barbers, and more.

Technology solutions have until recently been viewed as being on opposite ends of the development spectrum. Technology has typically been associated with high and inhibitive costs. However, with the rapid spread and proliferation of mobile phones, telecommunications towers, and fibre optic cables, technology has been brought within reach of poor operators in the informal sector of Africa's economies.

These developments have triggered an array of technology based innovations that can greatly benefit (especially early-stage) low income consumers and entrepreneurs alike; promoting economic inclusivity at the base of the pyramid.

South African owned spaza shops face significant operational and market threats. Operators struggle to grow and maintain thriving, sustainable businesses on account of several factors:

1. Lack of access to quality goods and services to on-sell to customers
2. Lack of access to connectivity enabling technologies
3. Poor business management skills and discipline
4. Lack of access to business intelligence on daily business performance
5. Lack of business management tools to curb stock theft, monitor transactions and manage operating cash
6. Poor buying power by operators as they tend to run in isolation
7. Crowding out by unregulated operators or big business looking to expand their market share, offering superior products

Left unresolved, these barriers to local traders stifle growth in the informal sector and hinder the unlocking of job creation at scale.

2 Jobs impact

Indicate the impact on employment of the proposal and what is required to make sure that there will be a positive impact on employment.

Please also indicate other anticipated benefits from the proposal, if any.

The *Innovation and Application of Technology* project is a micro-franchising technology platform that provides aspiring spaza traders the means to sell a wide array of virtual products such as pre-paid electricity, airtime, insurance products, DSTV, money remittances, National Lottery, etc., to peri-urban and rural customers.

This proposal seeks to successfully train and support about 2,800 spaza shop owners country wide. The majority of these operators would be existing traders. The terms of support by the project would, however, require that each spaza shop employs at least one additional staff member (South African) to operate the vending machines installed at the spaza shop. This would result in at least 2,800 additional jobs over an envisaged three (3) year period.

There would be further jobs created through the expansion of the existing businesses. Where one in three spaza shops successfully expand their business to open an additional shop with a vending machine, this would enable a further 800 jobs.

The selected candidates for the programme will enjoy the following key benefits:

1. Access to expert training on the technology offered by the project;
2. Free access to and installation of the vending machine at their spaza shop premises;
3. Access to a support network with other spaza shop operators through the project implementing company A2Pay, which organises periodic conferences and other Fast Moving Consumer Goods (FMCG) events;
4. Access to daily business performance information, including sales and turnover figures;
5. On-going business mentorship and coaching;
6. Collective bargaining and marketing through the franchise group, improving product prices and operator margins.

Benefits to customers include:

1. Access to quality goods and services
2. Reduced transport costs to big centres to purchase these goods and services
3. Fast and reliable services

At a macro level the project allows for the re-circulation of money within the target communities thus benefiting them further. This model is also easily replicable across different peri-urban and rural environments.

3 Theory of change

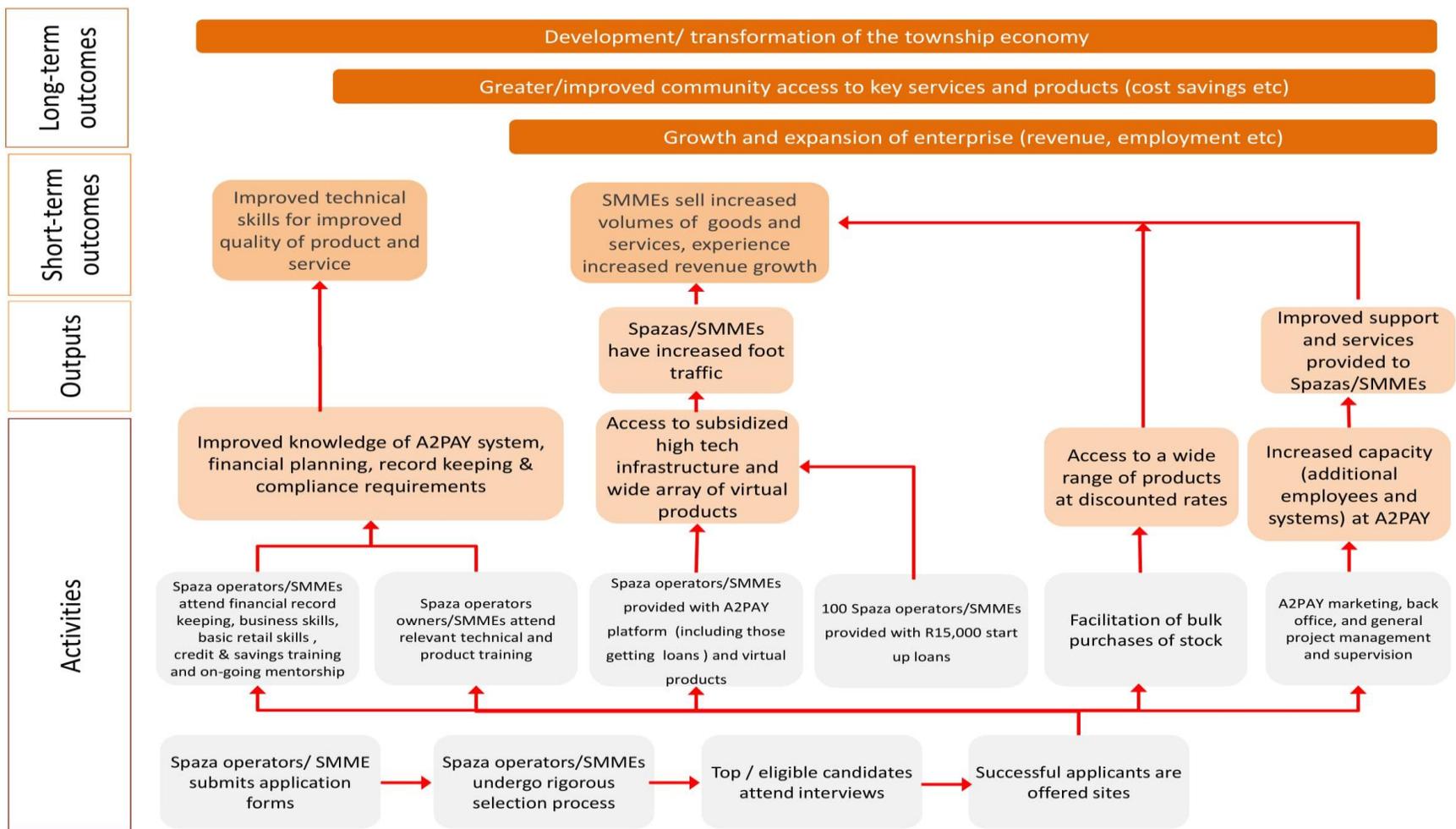
Please provide no more than half a page that indicates in practical terms, how the proposal would work – what has to be done, what the outputs would be, how that would lead to the desired outcomes.

A2Pay recognised a gap in the retail market in the provision of high demand products and services to peri-urban and rural communities, who had to travel long distances, at great expense, to purchase these goods and services. A2Pay believed that if local traders were provided with the right training, business mentorship along with access to the right trading technology platform, they would fill this gap, improving community access to these services, grow their businesses, create employment opportunities and contribute to the transformation of township economies.

The *Innovation and Application of Technology* project therefore seeks to identify qualifying aspirant South African entrepreneurs who operate spaza shops across the country through a rigorous selection process and enrol them onto the A2Pay implemented project. The successfully selected operators will then undergo a gap assessment which will look to ascertain training needs and put together a training schedule for each operator.

The operators will then undergo a six (6) week customised hybrid training programme. Once they have successfully acquired these skills, operators will then be given access to the A2Pay technology platform through the installation of the vending machine at the operator's premises. The operators will be able to trade the virtual products immediately from the platform and their daily, weekly and monthly business performance statistics will be tracked through the system. Operators are expected to grow on aggregate at a rate of about 15% per annum. See the accompanying project Results Chain.

A2Pay Project Results Chain



4 Existing initiatives/experience

Indicate if the proposal has been attempted or piloted, and broadly what was learned.

The *Innovation and Application of Technology* project is being piloted through a partnership between the Jobs Fund and A2Pay. This partnership is in the second phase of the pilot with the first phase having successfully run over at least a three (3) year period. The second phase of the pilot is nearing its second year of implementation as at 31 March 2018.

Phase one of this project was awarded a grant of R78 million which was matched funded by the project on a one-to-one basis. The project was contracted to successfully train over 3,000 participants and create as many jobs. The project reported the successful creation of 3,123 jobs over its implementation period. Through this first pilot the Jobs Fund helped to establish the project in the target communities having rolled out its technology platform to over 1,000 spaza shops (an informal convenience shop usually in townships) across the country.

In its second phase the A2Pay project was awarded a matched funded grant of R85 million. The project was contracted to train over 2,800 participants and create as many jobs. The project is currently on track to creating these jobs being over 91% of its inception to date target. With the second pilot the project has sought to adapt and improve its technology. The new software includes additional features that augment value added services such as new high margin, cashless virtual products that will improve traders' income and cashflows. The improved software also allows for information exchange and communication between spaza shop owners, suppliers, and customers which will encourage an optimal and cost effective relationship between them.

5 Constituency participation in implementation

What is the potential for constituencies to participate in the implementation of the proposal?

The project seeks to support 2,800 Black South African spaza shop owners over a three year implementation period. About 100 of these participants will be start-up enterprises with a strong focus on supporting the youth and women. Specific participation criteria for spaza shops are that each spaza must:

1. Be owner managed by an owner that is at least 18 years of age;
2. Be a general dealer/convenience store selling all daily consumption products - anything from soft drinks, bunny chow ("kota"), milk, bread, Russian sausages, fried chips, burgers, mealie-meal, rice, toiletries, etc.;
3. Permit access to children under the age of 18 years to purchase goods and services;
4. Have relatively high foot traffic and must operate between 06h00 and 22h00 at least 6 days a week;
5. Not be within walking distances from shopping centres;
6. Have a certified electrical power connection or proper/legal supply of electricity;
7. Be in a location with telecommunication connectivity for proper software functionality;
8. Have an owner who is willing to formalise their business operations;
9. Have rough records of turnover, costs and gross profit per month.

6 Benefits

What social/economic groups would benefit from the proposal directly and indirectly? Please use the following table, and do not list more than 5 groups. Please describe the benefits as precisely as possible.

Group	Job creation	Other benefits	Time frame for success
<p>The Machine Operator (employee)</p>	<p>Formalising the hire retention and management of the operator in this environment is critical.</p> <p>Employment of one machine operator per recipient Spaza Shop resulting in at least 2,800 jobs.</p> <p>Employment of a second machine operator in the event of scaling of business will result in a further 800 jobs.</p> <p>The operator will primarily be the recipient of training</p>	<p>The Merchant will in conjunction with their coach define what (out of a schedule of modules) he or she wishes the machine operator to understand about their business.</p> <p>The coach will typically train the operator on, but not limited to:</p> <ul style="list-style-type: none"> • Customer service • How to use the machine • How to take stock • Understanding the market and its potential / size • How to make your boss happy • How to earn more money 	<p>90 – 120 days and then on-going support and customer care.</p> <p>Job creation over 3 year period</p>
<p>South African Spaza Shop Owner (recipient 1)</p> <p>There are about 70,000 Spaza Shop operators in the country with around 20% of whom being South African. The project looks to contract in 20% of the South African cohort (2,800)</p>	<p>Capital transfer of the equipment (vending machine) which addresses the barrier to entry problem for the participants.</p> <p>The Shop owners will not be counted as jobs as they are already working on their enterprises.</p>	<p>Training – on the hybrid model – incorporate business and personal financial literacy – Fast Moving Consumer Goods (FMCG) and related retail disciplines and integration of the technology into existing business.</p> <p>Build competencies to manage Staff – utilising the machine and training.</p>	<p>90 – 120 days and then on-going support and customer care.</p>

Group	Job creation	Other benefits	Time frame for success
		<p>Daily business performance reports.</p> <p>Assistance on planning for scaling of existing business.</p>	
<p>The South African Spazarette</p> <p>There are about 30,000 Spazarettes of which 10% are South African – we expect to contract in 10% of these (300)</p>	<p>Capital transfer of the equipment which resolves some of the significant pain points for the business.</p> <p>Employment of one recipient – operator per machine – sometimes these shops have 2 or 3 aisles.</p> <p>Employment of a second recipient in the event of scaling / opening a second shop.</p> <p><i>These employment numbers are included in the job numbers cited for the machine operators above.</i></p>	<p>Training – on the hybrid model – incorporate business and personal financial literacy – Fast Moving Consumer Goods (FMCG) and related retail disciplines and integration of the technology into existing business.</p> <p>Build competencies to manage Staff – utilising the machine and training.</p> <p>Daily business performance reports.</p> <p>Assistance on planning for scaling of existing business.</p>	<p>90-120 days.</p>

7 Cost and potential sources of funding

What social/economic groups would bear the cost of implementing the proposal directly or indirectly? Please use the following table, and do not list more than 5 groups. Please describe the costs as precisely as possible. In the case of financial costs, who would pay them?

Group	Anticipated costs	Potential sources of funding to implement the project	Time frame for impact
<p>A2Pay and Matched Funding Partner</p> <p>Jobs Fund public funds to subsidize the cost of equipment (vending machines)</p>	<ol style="list-style-type: none"> 1. Operating costs of R91 million including salaries and wages for a team of 63 employees (R46 million), 53 who will be new 2. Goods and services i.e. Assembly, marketing, site distribution and roll-out costs of R60.5 million (investment in stock of R36 million and R22 million in advertising, branding, training, transport and deployment). 3. Computers and Hardware – R88 million (expansion of spaza shop network i.e. installation and assembly of point of sale units, media screens, routers, smart communication hub, cash recyclers). 97% of this will be financed through grant funding 4. Software – R7.1 million (enhancement of the FX20 software platform i.e. the back-end system which needs to be upgraded in order to allow it to handle the scale and take on new features). 5. Funding for SMMEs – interest free loans will be extended to the 100 ne Spaza shops (estimated at R15,000 per Spaza shop). 	<ol style="list-style-type: none"> 1. A2Pay with Matched Funding Partner 2. Jobs Fund Grant or other alternative small business development Fund 3. International source of funding such as the current one we have with <i>Synergyworx</i> provided at very favourable rates 4. The merchant itself after 2-4 years they can transition from recipient to client – a version of micro franchising relevant to this market 5. Once Scale is achieved (2000 – 3000 sites) revenue can be materialised commercially – such as advertising, sale of data, bulk buying and other services the FMCG key players will want to pay for (inclusivity). 	<ol style="list-style-type: none"> 1. Raising funds capital takes anywhere between 8 – 18 months 2. Transitioning a merchant from recipient to customer will probably take 12-18 month as long as we have the suite of services and offers that make real and material difference to the merchants life. 3. Commercialising the possibilities presented by Scale will also take roughly 6 months to 2 years to fully commercialise the opportunity.

8 Risks

What are the main risks that would prevent the proposal from achieving the anticipated outcomes? Describe *at least two*.

Two major risks associated with this project proposal include:

1. **Political instability and xenophobia** which may spill over onto the operations of participating Spaza Shops.
2. **Collapse of the Rand** which would affect the purchase price of products from China.

9 Risk mitigation

What should be done to mitigate the identified risks? Which stakeholder would be responsible for the risk mitigation activity?

The following potential mitigations are currently employed by the project:

1. **Political instability and xenophobia:**
 - 1.1 The project tries to avoid politically related activities and associations.
 - 1.2 The project does not align itself politically or commercially with any particular FMCG company or stakeholder.
 - 1.3 The project also trains its participants on how to handle money and also takes them through advanced driving courses which include handling adverse situations such as hijacking.
2. **Collapse of the Rand:**
 - 2.1 The project buys in bulk at least two months in advance from its product suppliers in China.

10 Additional comments

The technology platform has the ability to promote better economic inclusion of the informal market and the lot of South African spaza shop operators. It can enable these operators to improve their product offering, the efficiency with which they manage their businesses allowing for higher levels of growth and ultimately job creation in the target areas. The technology also has the potential for being scaled for other solutions such as grant payments, cash management, card purchases and other prepaid services.