

Unemployment interventions have not proved to be sustainable or scalable

Roughly 25% of the South African population is unemployed. If those that have been searching for employment but have given up are tallied the number of people that are not productive in this country rises to a staggering 40% of the population. Unemployment heralds the country's most significant challenge however the solutions attempting to address this crisis fall far short.

Acknowledging that the pace of job creation in the formal sector is insufficient, the policy landscape has increasingly touted the "the small business sector" as the critical catalyst for employment creation. The country's New Growth Path (announced in December 2010) earmarked job creation as a priority with a target of 5 million additional jobs in the next 10 years – equivalent to a reduction in the official unemployment rate by 10% (to 15%).

The intended focus of small business policies target businesses with the potential to employ at least 5 people. Technically, these are actually medium-sized businesses and there are only 300 000 companies that meet these criteria in South Africa. The plethora of SME policy and strategy pays little attention to micro-enterprises that in reality provide self-employment to the majority of South Africa's unemployed.

Most interventions to catalyse micro-enterprise development have fallen to the developmental (NPO, NGO and philanthropic initiatives) sector. The prevailing intervention employed by most is broadly termed Enterprise Development (ED): a host of initiatives aimed at unlocking sustainable economic empowerment through the upliftment of South Africa's marginalized.

However, the underwhelming rate of successful new businesses being established at a micro-level points to a concerning gap in the effective implementation of enterprise development. The growing number of organisations focused on recruiting, training and financing entrepreneurs do not seem to be creating scalable, sustainable opportunities for aspiring business owners. Thus far, micro-enterprise development initiatives attempt to empower those individuals with a natural aptitude for entrepreneurship. That percentage of the population that can be classified as "naturally entrepreneurial" is generally much lower than expected at around 10%. In fact, research has shown that the predominance of any population tends to be better suited to structured, formal employment.

Developing economies such as South Africa cannot provide nearly enough formal employment opportunities thus forcing most (who would be better suited to a structured employment opportunity) into self-employment – a landscape requiring entrepreneurial aptitude to thrive. The result: a plethora of small copy-cat businesses that only compete on price leaving the business owner etching out a subsistence-based living.

The conduciveness of the environment to new business is a factor that has been well interrogated across a number of stakeholders contributing to the unemployment dialogue, largely a consequence of the failure rate of new businesses in South Africa that measures over 80%.

A more relevant measure would be to juxtapose the number of people with natural entrepreneurial aptitude against the failure rate of new businesses in South Africa. The notably narrow segment of the population that could benefit from Enterprise Development/Entrepreneurial development/SMME investment leaves the widespread impact of these initiatives questionable. Specifically, the potential number of unemployed South African's likely to benefit from these interventions tallies just under 600 000, notably lower than the 5 million that these interventions are collectively targeting. Perhaps before trying to solve the challenges that

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prevent our country from being conducive to entrepreneurship the basic question of what form of job creation would best serve the majority should have been asked. The answer is not the creation of entrepreneurial opportunities but the scaling of structured, well-designed, well-supported opportunities that provide access to a sustainable income source. The process of beginning to innovate such a solution requires the acceptance that the majority of the intended beneficiaries of unemployment interventions are not entrepreneurial. Cajoling entrepreneurial abilities out of people that, were the opportunity available, would better fit into structured environment is largely superfluous.

Microfranchising has the potential to be among the most impactful solutions to unemployment

According to the Franchising Association of South Africa (FASA), failure rates of independent start-up businesses can be as high as 90% as opposed to the under 10% in franchising. The significantly higher success rates of establishing new business in a franchise is largely due to having a proven business model and business system. It offers a roadmap to a franchisee: from access to supply chain, equipment and product to routes to market, marketing and brand awareness; all already pre-defined and refined by the franchisor. The support of a franchise brand with its necessary discipline and oversight is critical to the ongoing success of the business.

Franchising has been deemed one of the most successful business expansion mechanisms known. The strength of its sustainability in establishing new businesses provides a powerful reference to adapt and leverage off in achieving developmental objectives. Specifically, micro-franchising is a developmental tool that adapts the proven operational principles of traditional franchising to the needs of very small businesses located in developing markets.

The state of South Africa's unemployment (official statistics)	
Official unemployment rate	25%
Population of South Africa	51,8 million
Number of officially unemployed	12,95 million
The potential reach of traditional enterprise development	
Number of people in a population with natural entrepreneurial aptitude	10%
Success rate of establishing new independent businesses	20%
Number of unemployed that could be entrepreneurial	1,295 million
Number of potentially successful new businesses that can be established independently	259 000
Number of people employed in these new businesses	259 000
% of unemployed that could gain sustainable employment through traditional enterprise development	4%
The potential reach of microfranchising as an unemployment solution	
Number of people in a population more suited to formal/structured employment	80%
Success rate of establishing new businesses within franchise models	90%
Number of unemployed that could succeed in a structured opportunity	10,36 million
Number of potentially successful new businesses that can be established in a franchise	9,324 million
% of unemployed that could gain sustainable employment through microfranchising	72%

Source: MFA, FASA, Statistics SA

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By not requiring franchisees to be naturally entrepreneurial through the nature of well-designed operating systems and rigorous monitoring and support, franchise opportunities have the potential to impact far more unemployed South African's than traditional enterprise development initiatives. Specifically, 9 million sustainable self-employed franchisees could be established based on both the known success rates of franchise mechanisms as well as the percentage of the population more inclined to succeed in a structured opportunity. A staggering 72% of South Africa's unemployed could gain sustainable employment through a micro-franchise (were the opportunity available) versus a meager 4% of the unemployed that could gain sustainable employment through traditional enterprise development or entrepreneurial focused initiatives.

The Microfranchise Accelerator

The Microfranchise Accelerator (MFA) is a project borne out of a deep understanding of the core components to establishing successful, self-sufficient, independent business owners within a franchise system. A subsidiary of The Clothing Bank, the MFA's mission statement is to provide a sustainable, scalable solution to South Africa's unemployment crisis by innovating, piloting and establishing micro-franchise opportunities for unemployed women from low-income communities. The replicable franchise opportunities offer unemployed women a roadmap to social and financial independence without needing to be naturally entrepreneurial.

The MFA intends for the franchise opportunities to be replicable at scale. The types of franchises developed will include commercially viable franchises providing quality, affordable products and services that are not easily accessible in low-income communities but also for which there is a clear demand. The current portfolio of franchises developed includes a beauty micro-franchise (developed and implemented in partnership with Sorbet); a bakery micro-franchise and an Early Childhood Development micro-franchise.

A platform to partner in implementing true economic empowerment

The creation of each micro-franchise model involves strategic partnerships with funders, non-profit organisations and importantly private sector companies within the relevant industries.

A potential investment: The MFA provides an innovative, scalable, sustainable employment creation solution and a potential investment opportunity for development funding specifically focused on employment creation, youth and women empowerment, sustainable enterprise development.

A platform to partner in sustainable economic empowerment: In conjunction with capital, crucial to the sustainability of each franchise model is partnerships with reliable, quality wholesale equipment and product providers. The most fundamental link in creating competitive, commercially sustainable franchise opportunities is tapping into a supply chain of products/key inputs to the business.

Access to resources within low-income communities is one of the key challenges in establishing sustainable micro-enterprises. The geographic remoteness and general inability to secure wholesale priced inputs leave micro-enterprises uncompetitive either failing or loss-generating. Addressing this challenge through a variety of micro-franchise models, the MFA is constantly seeking private sector stakeholders willing to engage in true economic empowerment and inclusion by opening access to supply chains. Sectors of particular focus

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include: bakery/food; IT/internet access; Early Childhood Development (ECD); tourism and financial education.

A platform to impart skills: The induction process into each franchise model includes job-shadowing to allow potential franchisees the opportunity to work in a relevant professional environment ahead of establishing their own microenterprise within the franchise. A very practical component of the franchise training, job shadowing grounds the induction process fostering learnings for franchisees that cannot be garnered through theoretical training. Sectors of particular focus for job shadowing include bakery/food; IT/internet access.

An opportunity to partner in innovating micro-franchise models: The MFA aims to act in an agency capacity researching, developing, piloting and then implementing micro-franchise models that ultimately should be adopted by private sector companies within the relevant industries. The role of “franchisor” is best placed with a company that is operating within the relevant industry with integral links into supply chains of product/equipment and intimate knowledge of industry dynamics. Companies that aim to be at the forefront of innovating an inclusive economy are the thought-leaders MFA would seek to partner with in designing micro-franchise models across sectors including bakery/food; IT/internet access; tourism; financial education; healthcare/hygiene.

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