

Employment tax incentive

Are jobs being created?

Trade unions have been sceptical about the Employment Tax Incentive (ETI) scheme. But is this founded? **Jenny Grice** investigates.

Rose (not her real name) has been employed at the same workplace for more than 20 years. As a shop steward for most of those years, she together with other worker leaders, built a strong union so that today the wage for the general worker in her workplace is more than double the sectoral determination.

That was until the employment tax incentive (ETI) was introduced in January 2014. Now her workplace is full of young workers. 'Young workers with post-matric qualifications, they come here to work because it's difficult to get a job. Lots of mines are retrenching.' They are paid R3,600 per month, R900 more than the sectoral determination for general workers but about R2,000 less than the older workers. They work side by side doing the same job. So 'now those young workers ask us, 'why do we need to join the union?' says Rose. 'They feel we are not doing enough to assist them. Some have joined "fly

by night" unions,' she says and the workforce is divided.

'They are not new jobs,' she says. 'Every month about 20 to 30 older workers are resigning. They have heard of the [provident] preservation issue, even though we told them it's not happening now.' In December 2014 about 200 resigned out of a workforce of about 2,800.

MONITORING THE ETI

Phumza Macanda, Treasury's director of media management and communications says currently they are 'monitoring the Employment Tax Incentive with data from the SA Revenue Service (Sars). We're not involved with any other attempts to evaluate the programme.' They are considering a 'more formal feedback mechanism' which will provide information for the review of the incentive which will be completed before December 2016.

This is where President Jacob Zuma's figures quoted in his State of the Nation address in February

2015 came from: 'R2-billion has been claimed to date by some 29,000 employers, who have claimed for at least 270,000 young people.'

With the current monitoring there 'is no way to tell if a worker has been displaced as a result of the incentive or for another reason,' says Prakashnee Govender, former Congress of South African Trade Unions (Cosatu) parliamentary officer. 'Also in respect of compliance with wage standards, there is nothing provided for in the legislation against which Sars should measure compliance,' she says. 'This is aside from the complications of assessment that may be associated with different sectoral wage rates as well as differentials arising from actuals as opposed to collective bargaining agreements,' as in Rose's case. Measures to assess 'deadweight loss, namely where employers benefit from the subsidy but would nevertheless have hired the worker in the absence of access to the incentive,' are also lacking.

WHAT IS THE ETI?

The ETI is a government incentive which allows pay as you earn (Paye) registered employers (excluding government) to receive reimbursements for hiring young workers between the ages of 18 and 29. Young workers must earn less than R6,000 per month. Employers receive 50% of the wage back for those earning below R2,000; R1,000 per month for those earning between R2,001 and R4,000; and a lesser amount for those earning between R4,001 and R6,000. In the second year of its operation, all of the amounts are halved.

Rose's employers, for the first year the young workers are employed, pay workers R3,600 per month and receive R1,000 back each month from Sars. In the second year of the young worker's contract, the employer will receive R500 per month, if the worker is still paid less than R4,000 per month.

EVIDENCE ABOUT JOB CREATION

National Union of Metalworkers of South Africa (Numsa)'s research department analysed Stats SA's quarterly labour statistics for the 1st Quarter 2014 compared to the quarters in the previous year. They found that 'the youth labour market employment is in decline over the 1st Quarter of 2014, and the incentive's impact cannot be seen.'

Vimal Ranchhod and Arden Finn of the Southern African Labour and Development Research Unit (Saldru) at the University of Cape Town, examined government statistics from January 2011 to June 2014. This covered the first six months of the ETI's operation in 2014. They found 'no evidence that the ETI had any substantial, positive and statistically significant effect on aggregate youth employment probabilities.' However, they said this could be because it was too soon to tell.

Mustak Ally, the Steel and Engineering Industry Federation of South Africa (Seifsa's) skills development and human capital executive, senses that no new jobs have been created in Seifsa companies and that Seifsa members are only taking up the incentive because of the economic climate - 'any kind of assistance is welcomed.'

Nevertheless, the engineering sector has a constraint that other sectors like food, textiles, security and other services don't have. The bulk of the workforce is earning above the R6,000 threshold for the ETI and since the incentive they receive is so small, some companies are saying, 'it's not really worth the effort,' says Ally.

In any case he believes that job creation won't come from multinational corporations or bigger companies but that 'we have to start mobilising small businesses and the informal sector', precisely the groupings that are currently excluded from claiming the ETI.



Happy at work: Young worker analyses data. Credit: William Matlala.

Angela Dick, chief executive officer (CEO) of Transman, a labour broker that places 10,000 temporary workers across a variety of sectors daily, is uneasy about the condition of the economy and its ability to create jobs. 'For the first time we are getting deep concerns from our clients,' says Dick. 'They are having to do things that they haven't done before like retrenching 25% of their staff. When this happens, the first jobs to go are the temporary workers.' This is reflected in their average daily uptake which has not shown any noticeable increase beyond 10,000 over the past few years.

The other constraint, she believes, is the nature of business. 'The majority of employers are just focused on production efficiency... sometimes employers just take on a worker for two to three months. If an employer is faced with a choice of an 18-year-old or a 45-year-old with a family and slightly better experience, they would take the 45-year-old.'

Nevertheless she concedes that the ETI is 'getting some of the youngsters into employment.' In fact in her own company, they have four workers on the ETI - three in the IT department are

now part of their permanent staff, the fourth is an intern on a one-year contract in the recruitment section. The ETI 'probably enabled us to put three youngsters in our IT division as opposed to one with more experience,' says Dick.

Their wages are lower than those they work next to who 'are far better qualified, infinitely more experienced and skilled, and have all been with us in excess of 10 years. These youngsters are on a very big practical and theoretical learning path and as soon as we see that they can perform to the standard required, we will then increase salaries,' says Dick.

Security company, Imvula, recently advertised for security personnel - (see box with advert on page 7). The response was overwhelming, 'especially from women,' says Imvula. They are clear that these are not new jobs but the normal jobs that are needed by their clients. By focusing on the youth and with the minimum wage at R3,628.80 they are well placed to get the full benefits of the ETI.

Acting CEO of the South African Chamber of Commerce and Industry (Sacci), Peggy Drodskie, says that 'their members are finding [the ETI] very useful and

encouraging.' She believes that the incentive is creating new jobs. In addition, the 'ETI makes it possible for skills to be developed at an affordable cost, and additional skills mean greater productivity and improvements in the bottom line.'

Information from trade unions is sketchy. Patrick Phelane, policy coordinator at Cosatu, says that 'no affiliate has reported on the effect of ETI. No request has been sent to them.' However, unions like the Southern African Clothing and Textile Workers Union (Sactwu), South African Commercial, Catering and Allied Workers (Saccawu) and the Food and Allied Workers Union (Fawu) report that it is happening but that they don't have consolidated details.

Apart from analysing employment statistics, Numsa also instituted a survey in 2014 for its local offices to complete by getting information from shop stewards. This is not an easy exercise – shop stewards say unless management is open about the fact, it is hard for them to know whether a young worker is on the ETI or not. There is nothing on young workers' pay slips that indicates whether they are on the ETI. Numsa plans on following up with another survey this year.

LABOUR BROKERS PROFIT FROM ETI

On 27 July 2014, *City Press's* Dewald van Rensburg reported how labour broker Workforce's

major division, staffing and recruitment, had 'increased its operating profit in the first half of this year by 28% to R63-million compared with the first half of 2013.' It said the ETI had had a 'substantial' effect on its results. It did not pass on the ETI to the direct employer.

On 31 August 2014, Van Rensburg cited another giant labour broker, Adcorp, who had benefited from the ETI. Its annual report released in July 2014 reported that in the first two months of the ETI operating, it 'had already made R7-million from the scheme, which it accounted for as part of "other income".'

Cosatu was so outraged that it marched on labour brokers to show their displeasure. Govender says the enthusiastic take up by labour brokers of the ETI is not surprising given that the labour law amendments now require a labour broker after three months of employment, to 'apply the same employment conditions' as those employed directly by the employer. With the ETI 'companies may be happy to pass on the incentive so that it may be claimed by the broker instead, which can use the incentive to undercut directly employed workers.'

However, keeping all the incentive is not uniform across the labour broker industry. One labour broker approached, who did not want to be named, was adamant that the 'ETI is not ours to keep,' and that they always pass it on to their client. Transman negotiates with the direct employer and they usually share the ETI.

WHAT TO DO?

Dick suggests the incentive should run 'for three to five years to see what results come through. But my real concern is what has Treasury provided for the Unemployed Insurance Fund (UIF) for people who are

unemployed? Are there sufficient funds to support those who really, really can't afford to support themselves?'

Seifsa's members, says Ally, want the threshold raised and the age category lifted to 34 so that it coincides with the existing StatsSA age categories.

The only training that Rose's new young workers receive is on-the-job training like hygiene. 'Some [young] workers end up leaving, absconding or getting dismissed,' says Rose. But they are no better trained than they were before to find another job.

Ally highlights the need to 'bridge the process between school leavers and work readiness' along the lines of Germany and its successful artisan development. Govender similarly favours 'the use of apprenticeships linked to a formal education and training programme' with parastatals taking an active part in effecting this. Coupled with internships, this strategy could boost specific skills required in the labour market.

Without these additions, the ETI, says Govender, is nothing more than 'one of the strategies to undermine centralised bargaining.' Numsa Nigel local administrator, Johannes Mofephe, is more cynical about the matter. 'Government could see that there was a big anti to the youth wage subsidy so they introduced the idea of preservation of pensions. Now they are trying to force old people to leave [by taking their pensions] to make place for the young ones,' he says. In the meantime, Rose and her fellow shop stewards, will struggle to rebuild decades of organisation in her workplace so as to try to raise the wage levels of the young workers. ¹⁸

Jenny Grice is a former official of the National Union of Metalworkers of South Africa and this article is based on research she carried out in March 2015.

'In IT when you want a job you have to have experience,' says Anastacia Maponya, one of Transman's young recruits. '[This job] is giving me experience. It feels good just to get experience.'