

**THE**

# GROWTH AGENDA

Priorities for mass employment and inclusion

## SKILLS



**GROWTH SERIES**  
Report 5



CENTRE FOR  
DEVELOPMENT  
AND ENTERPRISE



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The Centre for Development and Enterprise (CDE), an independent policy research and advocacy organisation, is South Africa's leading development think tank. Since its establishment in 1995, CDE has been consulting widely, gathering evidence and generating innovative policy recommendations on issues critical to economic growth and democratic consolidation. By examining South African and international experience, CDE formulates practical policy proposals outlining ways in which South Africa can tackle major social and economic challenges. CDE has a special focus on the role of business and markets in development.

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## The CDE Growth Agenda Series

Series editor: Ann Bernstein

Reports in the Growth Agenda series are based on CDE's many policy initiatives, commissioned research and think pieces, as well as consultations and workshops with experts and stakeholders. They were written and edited by Ann Bernstein, Antony Albekker and Professor Alexander Johnston. The entire project has been guided by a reference group of CDE Board members, supplemented by other senior advisers. We are grateful for the advice and assistance of many other people in helping CDE to produce this series of reports.

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# The Growth Agenda

## Priorities for mass employment and inclusion

For the past two years the Centre for Development and Enterprise (CDE) has been working on a major project to identify national priorities for faster economic and employment growth.

More than 20 years after apartheid far too many South Africans live in poverty, largely because far too few have jobs. This has serious implications for our society; South Africa's considerable democratic achievements are being put at risk by the political, social and economic consequences of low growth, unemployment, poverty and inequality.

As we have worked on the project – commissioning research, taking soundings and consultations, testing ideas with stakeholders – concerns about the country's trajectory have deepened and been more widely expressed by people from all walks of life. There is a broadening consensus that we are in deep trouble; this is an opportunity to focus on priorities for action.

This report is one of the CDE Growth Agenda series of publications. We have identified the catalytic priorities which form the essential building blocks for a fundamentally new approach to accelerating growth and employment in South Africa. These priorities comprise a basis for encouraging a wide conversation across South Africa, by offering a diagnosis of what is going wrong and focused recommendations for getting the country back on track.

The CDE Growth Agenda series consists of seven reports:

- Summary overview: Insights and key recommendations
- Jobs
- Accelerating inclusive growth
- Cities
- Skills
- Business and government
- An export processing zone for the Nelson Mandela Bay Metro

*“The bottom line is this: South Africa needs accelerated growth that is urban-led, private sector-driven, enabled by a smart state, and targeted at mass employment.”*

# SKILLS

## INTRODUCTION

The only way out of the cycle of unemployment, poverty and inequality which is undermining South Africa's future is to achieve higher and more labour-intensive levels of economic growth. Among other things, this requires dramatically expanding the pool of skills available to the South African economy. There are two main ways of achieving this. The first, and most important, is to equip South Africans with a solid foundation of knowledge and skills, and the ability to use them productively. This will enable them to reach their full human potential, and contribute to national development. The second is to compensate for South Africa's existing skills shortage by recruiting skilled people from abroad.

Some countries – notably Australia – are good at harmonising these two approaches. South Africa has been bad at both. Indeed, the strategies for developing our own skills base and encouraging skilled immigration are often perceived as contradictory, falsely portraying skilled immigration as damaging to the development of South African skills. This has contributed to an enormous skills deficit which the government has recognised for more than a decade, but failed to reduce.

Much attention has been focused on the degree to which our skills shortage is caused by our poorly functioning basic education system. It is widely recognised – by the government, among others – that at most public schools, little effective learning is taking place amid serious challenges of inadequate infrastructure, as well as shortcomings in teacher supply, qualifications and performance. The results include high drop-out rates from schools and post-school institutions, low pass rates, poor pass marks and poorly skilled graduates. In international comparative tests, South African learners consistently perform badly, often worse than those in poorer developing countries.

Indeed, as a government-sponsored website about the SETA system has noted, 'more than half of the Grade 12 learners who leave school every year don't have sufficient basic skills to get work in any sector of the economy'.

CDE has done extensive work on the country's basic education system and the reforms needed to improve its contribution to the country's skills pool. (See CDE website [www.cde.org.za](http://www.cde.org.za)) These reforms centre on improving teacher effectiveness, which lies at the heart of South Africa's very low level of learning achievement in mathematics and language, especially among disadvantaged learners. This will require quality teacher education, performance assessment and capacity-building.

However, this report focuses on two aspects of skills development other than basic education: technical and vocational education and training (TVET); and the role of immigration in augmenting the South African skills pool. We have chosen vocational education because South Africa has both a chronic shortage of mid-level technical skills and a crisis of youth unemployment. In order to address these growth constraints, the country needs a viable educational route

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accessible enough and of high enough quality to be an attractive alternative to degree or diploma studies. Government's plans for post-school education heavily emphasise expansion of the technical and vocational education and training route, accessed through TVET colleges and the sector is targeted for greatly increased expenditure. The expansion of student numbers in TVET is to be welcomed, but sufficient attention has yet to be paid to strengthening the public colleges that will carry forward this policy choice.

We have chosen skilled immigration because globally it is regarded as a growth multiplier, often bringing not only technical skills but entrepreneurial energy and innovation to economies that do not produce enough of these things from their own resources. For more than a decade, South African policy-makers have acknowledged that skilled immigration could help the country achieve its growth ambitions, but too little has been done to follow through in policy and delivery.

## EDUCATION AND TRAINING

After 1994, skills development evolved in two streams: an employer-financed system, managed by statutory Sector Education and Training Authorities (SETAs) falling under the Department of Labour, and technical and vocational training, undertaken by further education and training (FET) colleges and falling under the Department of Education.

*“Post-school education policy favoured universities and chose their rationalisation and transformation as the key task of policy for post-school education.”*

With few exceptions, these systems were poorly articulated with each other and with the world of work. By and large, both the SETAs and FET colleges were poorly managed, and the colleges were underfunded. Post-school education policy favoured universities and chose their rationalisation and transformation as the key task of policy for post-school education. Not nearly enough effort was put into developing FET as an attractive alternative route to employment for young people, their parents and potential employers, who preferred universities over what they perceived as second-rate institutions.

Since the establishment of the Department of Higher Education and Training (DHET) in 2009, the government has sought to reverse its previous bias in favour of universities, and greatly expand FET, now called technical and vocational education and training (TVET) and rationalised into 50 colleges across 264 campuses.

However, the allocation of public financial resources still favours universities: in 2015-16 the National Student Financial Aid System (NSFAS) was meant to disburse just more than R4 billion to about 200 000 university students, compared to R2.2 billion to roughly the same number of TVET students. Even allowing for the higher cost of university education, this seems to indicate a continuing bias towards higher rather than intermediate skills. The political fallout from the 'fees must fall' campaign will also encourage favouring universities. In any case, although government policy formally favours TVET, the 2014 White Paper for Post-School Education and Training still envisages the expansion of university intakes from about 950 000 currently to 1.6 million by 2030.

## Financing skills development

Public expenditure on skills development has two main components: disbursements by DHET to public TVET colleges and a statutory skills levy on employers that finances the SETA system.

The government prioritised skills development spending in its four-year spending plan for 2013-14 to 2017-18. According to the Medium Term Budget Policy Statement for 2014, expenditure on post-school education and training was set to rise by 6.8 per cent a year. Allocations cover universities and colleges, SETAs and the National Skills Fund. The only item of expenditure due to rise more rapidly is debt service.

## Expansion of student and staff numbers

Enrolments in the public TVET sector almost doubled from 345 000 in 2010 to 657 690 in 2012, but levelled off in 2013 to just below 640 000. Adding enrolments in private TVET colleges of 154 632 (probably an underestimate) and for SETA-supported training of 150 853, yields a total of 945 103 for 2013, the most recent year for which official figures are available.

However, in his budget speech in May 2015, the minister of higher education stated that DHET was targeting 725 000 enrolments for 2015. This is lower than the 2014 White Paper's target of one million enrolments in post-school education and training. Numbers of lecturing staff have increased, but not in proportion to the increase in student enrolment. The lecturer-to-student ratio in public TVET colleges worsened from 1:47 in 2011 to 1:64 in 2013. If DHET's targets continue to escalate without substantial increases in staff, the ratio will climb again. Depending on the subject and on staff demands and shortages, lecturers may have technical qualifications, workplace experience, pedagogical training and/or higher degrees. Too few have all of these desirable attributes, or even some of them. At least 25 per cent of current lecturers in the TVET sector have no teaching qualifications, more than half have no industry experience, and few have experience of working as artisans.

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The White Paper, supported by subsequent policy speeches and special reports, proposes to build capacity in the TVET sector, and the latest budget speech acknowledges the need to focus on quality as well as expansion. However, these statements lack precision, an implementation plan and are largely silent on the challenge of instructor supply. Without a firmer and more specific commitment to improving the quality of training as well as expanding access, linked to specific plans for mobilising both private and public resources and a detailed road map for supplying good instructors, growing student numbers will outstrip improvements in performance and quality.

## Value for money?

The large-scale expansion of enrolment at TVET institutions has been accompanied by stubbornly high drop-out rates. These are hard to calculate across the whole TVET system, because of the range of courses and qualifications on offer, and other factors such as students carrying subjects into subsequent

years. Moreover, DHET's methods for compiling statistics seem to vary from year to year. For these reasons, the National Certificate Vocational, or NC(V) – the TVETs' flagship qualification – is the best indicator of current throughput.

The NC(V) is conferred at levels 2-4 of the National Qualifications Framework (NQF). NC(V) level 4 is equivalent to matric, and if passed well enough can lead to university entrance for higher certificate, diploma or degree studies. NC(V) curricula combine foundation subjects (including language and mathematics literacy) and theoretical and practical studies in one of 18 vocational areas. Entry is gained via a year-end school report for Grade 9 or higher. Although the NC(V) is equivalent to matric, the fact that it has a strong vocational bias and learning takes place in colleges which are administered by DHET, makes it legitimate to regard it as 'post-school' training.

The massive expansion of TVET in recent years is reflected in the rapid growth in the number of students qualifying for the NC(V), albeit off a very low base. In 2010, 28 602 students passed at levels 2, 3 and 4: of these, 3 715 passed at level 4. In 2013, 43 414 passed at levels 2-4, 8 114 of them at level 4. In both 2010 and 2013, the pass rates (calculated as a percentage of those who wrote) were the highest for level 4 at 37.5 per cent (2010) and 37 per cent (2013) respectively.

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However, in 2013 there was massive wastage in the system (especially at levels 2 and 3), signalled by high numbers of students who did not write examinations. For this reason, the true pass rates, expressed as a percentage of registrations, were a mere 23.3 per cent (level 2), 26 per cent (level 3) and 33.2 per cent (level 4). Expressed differently, of 170 316 students registered and eligible to complete their courses in 2013, a total of 43 413 (25.5 per cent) actually qualified, and only 8 114 at level 4, the level qualifying them for tertiary study. Because DHET's figures for 2010 do not include registration for examinations and only cover those who wrote, a similar calculation is not possible for that year, and it is not possible to say whether the rate of wastage has remained constant, or grown in line with student numbers.

There are no recent, comprehensive figures on how many TVET graduates actually get jobs. An HSRC study in 2009 found that of 280 000 'graduates in technical fields' in 2000, only 34 per cent got jobs in industry. However, there is much anecdotal evidence that employers have little respect for the training provided by TVETs, merely regarding certification as an indication that graduates may be trainable.

The wastage is extremely expensive. One year of NC(V) education at a TVET college costs 3.7 times as much as a year at a senior secondary school, and one year of apprentice study 12.5 times as much as a year at senior secondary school.

Students at TVET colleges are often poorly taught, and dropout rates are affected by factors other than academic performance, including learners' economic circumstances. However, the main reason why completion rates in apprenticeships, learnerships and courses at TVET colleges are so stubbornly low is because many learners are functionally illiterate in English and maths, and therefore cannot cope with technical and theoretical concepts encountered in the course of their training. Given rapid advances in information technology, bridging/remedial education, even for those who have passed Grade 12, has to be placed on the TVET agenda.

Another weakness of the system repeatedly mentioned by employers is that qualifications are of little practical use in the workplace (partly due to limited access to workplace training), and that students who qualify therefore have limited prospects of finding a job.

## The private sector and TVET

The private sector is involved in TVET in three ways: through private sector colleges, either for-profit or not-for-profit; training provided by employers and support for managing the public TVET sector.

Information about private-sector training providers is unreliable: figures are sparse and terms are used inconsistently. This makes meaningful comparison between the private sector and the 50 public TVET colleges, 264 campuses and 640 000 students (2013 figures) well-nigh impossible. DHET statistics for 2013 record 627 registered private providers, 155 000 students, and 'more than 3 000 staff'. This may be an underestimate, and the number of private providers may run into the thousands. In general, the government is sceptical about the value of private-sector providers. The 2014 White Paper virtually ignores the potential of private sector providers to expand access to training, and stimulate innovation and competition. Instead, the government assumes that the demand for large-scale and high-quality TVET can only be met by the public sector. This ignores options for creative public-private partnerships, which have succeeded in other countries.

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## International best practice

South African policy-makers have paid significant attention to international developments in TVET. Since 1994, foreign governments and other agencies have provided the South African government with support and advice in this field, which policy-makers and planners have readily accepted. The expertise on offer has come from a fairly narrow range of developed countries in Europe and Australasia, examples which can be difficult to translate into a developing country setting.

There are lessons to be learnt from other countries, without necessarily adopting their policies wholesale. China offers some thought-provoking examples:

- China's vocational education system is remarkably open. International providers are allowed to operate and partnerships with foreign providers of technical education are encouraged. Many Chinese students are sent abroad for technical education, and the Chinese authorities seek best practice from many other models.
- Surprisingly, no less than 23 per cent of vocational colleges are private institutions. The top 11 training firms are listed on international stock markets, having raised foreign venture capital to support their activities. The system does not only comprise traditional public and private institutions: 54 per cent of colleges are government institutions, but seven per cent are owned by state-owned enterprises, and 15 per cent by industry associations. This has helped to align training with the needs of specific industries and facilitate workplace links, which are central goals of South African policy.

- Although a majority of colleges are government-owned, government support made up only 34 per cent of college revenue in 2009, while tuition fees accounted for 52 per cent.
- The Chinese ministries of education and finance have identified 100 vocational colleges as national exemplary vocational institutions, giving them greater autonomy as well as more funding.

## Employer contributions to TVET

Employers, especially large ones, contribute substantially to TVET as individual companies and indirectly through bodies such as the National Business Initiative (NBI), as well as interventions with government such as the Joint Initiative on Priority Skills Acquisition (JIPSA), which ran from 2006 to 2010.

Perhaps the most significant source of skills in South Africa is the training of workers by employers themselves. There are many examples of best practice in fields ranging from finance and retail to hospitality and the automotive industry. However, except for sporadic corporate public relations exercises, business has done little to highlight this contribution, or to think creatively about how it could be extended to the benefit of the general skills pool.

Besides training for their own needs, employers are helping to revive the apprenticeship system, advising on the NC(V) and joining SETA boards as non-executive directors. Partnerships with TVET colleges and participation in 'dual training systems', which involve a combination of classroom and workplace learning, are other areas of employer contribution.

Despite these contributions, there is a huge gap between the government's high-profile invitations to business to participate in skills development, and the privately expressed disillusionment of people in or close to business who have actually responded to these calls for partnership, invested heavily in TVETs, and committed themselves to making the system work. It is hard to exaggerate their frustration about wasted time, money and effort. Several factors contribute to this problem. Some are the fault of businesses themselves: their participation in SETAs in particular is often half-hearted, and tends to lack strategic preparation in contrast to union representatives, who tend to outnumber and outmanoeuvre business on contentious training issues. Government and the educational institutions themselves have often so far lacked the capacity to serve as robust and reliable partners. As a result, the government's insistence on a top-down model of skills provision which focuses on the state as the major provider is unhelpful and misguided.

According to the NBI, since 2004 business involvement with TVET has centred on partnerships between business and TVET colleges. However, information about these partnerships is lacking, and what is available is often out of date.

According to a 2014 report of the Human Resource Development Council for South Africa (HRDC), a department of education audit in 2003 noted that there were 1 852 partnerships between FET colleges, industry organisations and businesses, as well as various other stakeholders such as NGOs and other educational institutions. The raw number of partnerships across the 50

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colleges and 264 campuses, without meaningful information on their content and status, hints that there may be problems of coordination, delivery and follow-through. Indeed, the report goes on to ask how it is possible for virtually all colleges to have partners and yet have such poor results and a credibility problem with industry. The report provides its own answers when it says that the partnerships remain projects and do not permeate the core operations of the colleges. It also records a business view that while industry remains prepared to support TVET colleges, there should be a reciprocal commitment to deliver quality training.

## The SETA system

Almost all role players sharply criticise the SETAs, funded from employer levies to the tune of about R15 billion a year. Critics say they:

- Take training money out of the private sector and funnel it back in inefficient ways;
- Burden the system with excessive administrative costs;
- Pursue quantity in skills training rather than prioritising the most needed skills that may take longer and require more money to develop;
- Work in their own interests rather than focusing on their core mandate of supporting post-school training institutions;
- Are poorly governed and managed; and
- Have mandates that are too wide and should be more narrowly focused on skills development relevant to their sectors.

Reforming the SETAs is one of the main challenges facing policy for post-school training. SETAs were established to give employers a role in determining sector skills priorities: monitoring and evaluating skills development; allocating skills development levies to contributing firms, as well as determining training standards, programmes and quality assurance. SETAs have also been responsible for distributing training grants to firms in accordance with regulations and priorities set by DHET and the SETA boards.

The SETAs have been extensively reviewed, and the minister of higher education and training has made his dissatisfaction with them clear. Although the 21 existing SETAs have been re-registered for the period 1 April 2016 to 31 March 2018, far-reaching proposals for reforming them thereafter were published for comment in late 2015. Key proposals include:

- SETAs will be absorbed into DHET, renamed as Sector Education and Training Boards (SETABs) with the status of specialised service delivery units under Section 7B of the Public Service Act, thus becoming permanent structures rather than temporary ones with renewable five-year life-spans.
- They will remain 21 in number, but will be clustered into five groupings.
- SETA boards will remain unchanged, but will have greater representation from government departments, in line with a stronger public sector focus.
- SETA administration costs will remain at 10 per cent of the skills development levy, but this will probably be reduced over time as a shared services unit realises bulk savings and other bodies take up previous SETA functions, such as skills planning.
- SETABs will be monitored and evaluated by the National Skills Authority (NSA) and the skills planning process will be co-ordinated by DHET.

*“Reforming the SETAs is one of the main challenges facing policy for post-school training.”*

- The skills levy distribution model will change from a sector-specific model to a centralised, cross-sector funding model, managed by the National Skills Fund (NSF).

Effectively, the SETAs will become instruments of central government and most of the funds generated by the employer levy will be at the discretion of DHET, through the NSF.

While the proposals represent a major effort to improve the skills development system, they do not take cognisance of the need to secure employer ownership and buy-in, for employer participation in the strategic management of the system and in defining skills requirements. There are also questions about DHET's capacity to manage such a large bureaucratic system, as well as accountability for the expenditure of very large sums of money, not to mention turning an employer levy into what is effectively a tax.

## Key insights about TVET

If TVET and its contribution to the economy are to be improved, the sector should be guided by clearer and more realistic thinking. Such thinking should focus on four areas: basic education; system capacity; accountability and business involvement:

*“A major problem for TVET is that many students who possess the formal qualifications for entry do not possess the skills that should go with them.”*

- **Compensating for basic education:** A major problem for TVET is that many students who possess the formal qualifications for entry do not possess the skills that should go with them. Without effectively assessing the educational standards of entrants to TVET and providing them with bridging courses to compensate for poor basic education, much of the skills training effort will be in vain. In this respect, it should be recalled that a year at a TVET college is about 3.7 times more expensive than a year in school. There are good assessment models in use in the private sector, including Harambee.
- **Building capacity:** The success of TVET should be measured in terms of levels of graduation and the employability of graduates, rather than numbers of registrations only. Improving the capacity of trainers and managers must be prioritised. A detailed and realistic plan for providing enough teachers and managers is urgently needed, with incentives used to mobilise both public and private sector resources. If the demand for trainers and managers outstrips supply, the government should have the courage to recruit suitable trainers and managers from abroad or if need be to reduce enrolments.
- **Improving accountability:** The national norms and standards for funding TVET colleges enable DHET to hold colleges accountable for their performance and use funding sanctions where appropriate. However, given the fragile state of most colleges, DHET has been reluctant to apply these provisions. As an alternative, the state could provide incentives and rewards for good performance, allied to changes in financing, so that funding follows students. Besides this, business should participate more actively in planning and governing the colleges, and monitoring their performance.
- **Increasing the role of business:** Employers and business associations need to showcase instances of effective training. The government should learn from these, and provide employers with incentives to train people beyond their own needs. Business needs to be better organised and more

assertive in putting forward its own recommendations for improving the quality and quantity of the skills the country needs and in demanding accountability as a condition for forming partnerships with public skills training systems and institutions.

## RECOMMENDATIONS

### 1. Private sector training provision should be encouraged

Incentives – including public funding in the form of subsidies for providers, and support for trainees – would dramatically increase supply and drive better quality and accountability in a competitive market. The entry of international providers should also be encouraged.

### 2. Quality issues at public colleges must be addressed

- The supply and quality of instructors should be improved, with strong emphasis on recruiting instructors who have workplace experience, or supplying existing staff with such experience.
- Deficits in basic literacy and numeracy in entrants to public colleges, arising from poor secondary education should be addressed. Colleges should assess the potential and performance of entrants, in order to minimise fruitless training efforts. The issue of where to locate bridging programmes should be high on the planning agenda.

*“Deficits in basic literacy and numeracy in entrants to public colleges, arising from poor secondary education should be addressed.”*

### 3. The funding and regulation of public colleges should be overhauled

This should reward good performance, and penalise poor performance.

- Special support for colleges that are poorly equipped with human and physical resources should be accompanied by performance measures. Support for struggling institutions should be balanced by competitive funding for colleges that excel.
- Accountability should be bolstered by funding students rather than institutions: colleges could be given an initial sum per student upon registration, and further sums in line with the retention of students, as well as their eventual success (this system works well in the United Kingdom).

#### 4. Regulations should be improved

Changes should include:

- More active business involvement in college governing bodies, including curriculum committees.
- Ongoing dialogue between college managements and employers, who are of course the key customers, about skills needs and priorities.
- A funding regime that makes colleges accountable for the quality of their outputs (including the relevance and employment of graduates).
- A review of the skills development levy to restore its original purpose, namely to encourage work-based learning.

#### 5. Organised business should make a more strategic investment to influence and help determine the skills agenda

This should include:

- Developing their own view and recommendations on how best to deal with South Africa's skills development. This should include business refusing to continue to fund poorly-managed and poorly-performing TVET colleges.
- Appointing a high-profile and respected skills champion, supported by an expert technical team, which would help to give business a stronger voice in social dialogue and policy interactions with government and labour.
- Creating a greater awareness to relevant audiences of the past and present contribution of business to skills development and showcasing good training practice (for example, by means of annual awards).
- Giving the highest priority to incentives for employers to provide workplace experience as part of TVET programmes in government-business skills interactions. Incentives for employers with good training schemes to take in trainees beyond their own needs should be strengthened and extended.
- Industry carefully considering ambitious new plans for centralising SETA resources under DHET. If they believe the changes proposed will lead to better training quality and supply, they should look at how best to define the private sector role. If they do not support a more state-driven system of skills delivery and the abolition of all SETAs then they should make their views known and put forward an alternative approach.

*“Until efforts to improve local skills bear fruit, South Africa needs to supplement its skills pool in the short to medium term.”*

## SKILLED IMMIGRATION

Until efforts to improve local skills bear fruit, South Africa needs to supplement its skills pool in the short to medium term. Policy-makers have acknowledged this need for more than a decade, but have failed to deliver effective policies to meet it.

Attempting – as we are at present – to micro-manage skilled immigration by assessing shortages in specific job and skills categories and admitting only numbers and types of skilled people to fit them, is an entirely misguided approach, even in countries with well-resourced bureaucracies.

Dynamic, innovative, and fast-growing economies do not work in this way. The experiences of other countries, especially the United States, point to a much larger growth and employment dividend to be gained from innovative and entrepreneurial immigrants. As early as 1990, more than one third of the engineers and other IT professionals driving the global information revolution were born outside the United States. Companies founded or co-founded by immigrants include Intel, Sun Microsystems, Google and Yahoo. Immigrants also disproportionately contributed to patent applications and in 2008, received 33 per cent of all doctorates in the United States, including 60 per cent in engineering.

### The extent of skilled immigration

There has been substantial progress in increasing the numbers of South Africans with tertiary qualifications (a useful indicator of the depth of the skills pool). In the case of degrees, numbers increased from 571 892 in 1995 to 1 227 607 in 2011 (115 per cent): over the same period, the number of diplomas rose by 99 per cent to 2 109 425. However, the percentage is still very small for a country with South Africa's aspirations to a skilled growth path and the need for skilled immigrants persists.

In 2011, people in South Africa with tertiary qualifications totalled 3.3 million, or 10.6 per cent of the workforce of 31.3 million. In 2012, according to the OECD, people in the G20 group of countries with tertiary qualifications totalled close to 40 per cent of 25-34 year olds, and more than 20 per cent for 55-64 year olds. Given the post-apartheid expansion of access to higher education, it is reasonable to suppose that the 10.6 per cent of South African workers with university degrees is heavily concentrated in the younger age group, so the key comparison is between South Africa's 10.6 per cent and the G20 average of close to 40 per cent of 25-34 year olds.

Another indicator of South Africa's shortage of skills is the 12 million adults and young people who have less than Grade 9. This is the government's target group for 'second chance' learning opportunities, announced in March 2015, to be offered in community education and training colleges. StatsSA household surveys show that only one per cent of youths who do not hold a matric certificate, hold some other non-Grade 12 school certificate or diploma issued by a college of further education for instance.

*“Attempting to micro-manage skilled immigration by assessing shortages in specific job and skills categories and admitting only numbers and types of skilled people to fit them, is an entirely misguided approach.”*

In the face of these persistent shortages, numbers of skilled immigrants have also increased. Statistics show that annual permits granted to skilled immigrants nearly doubled from 11 781 in 2003/4 to 21 848 in 2007/8. However, between 1994 and 2003, South Africa lost more than 9 000 skilled people a year, and in 2008 the Department of Labour's National Scarce Skills List estimated South Africa's overall skills deficit at more than half a million people (502 335), including a deficit of 51 390 educators at both school and post-school levels. It seemed clear that, at best, we were breaking even on skills, and making inadequate progress on deepening the skills pool. (See CDE website [www.cde.org.za](http://www.cde.org.za) for earlier reports on skilled migration.)

Most of the improvement was achieved in the mid-2000s. There has been less certain progress since. Between 2011 and 2013 (the latest years for which official figures are available) an average of 26 000 temporary work visas and an average of 1 600 temporary business visas were granted. Permanent residence permits granted on work or business grounds were far fewer, with the latter numbering only in the hundreds annually, an indication of only tiny numbers who would be making a long-term investment to South Africa's growth. Numbers of both temporary and permanent visas fluctuated greatly from year to year, and the trend is not uniformly upwards. In 2013, one quarter of temporary work visas and 40 per cent of permanent residence permits were granted to Zimbabweans.

*“Instead of worrying about whether we might end up with too many engineers, we need to aggressively recruit skilled people in order to dramatically increase the size of the economy.”*

Some progress has therefore been made in meeting government promises to respond to the calls by business, economists and other experts to increase the supply of skills to the South African economy. However much more could be done to compensate for the present state of South Africa's education and training and in dealing with the backlog of skills that is such a drag on growth.

## The economic potential of skilled immigration

Migration is primarily an economic issue, with enormous potential to contribute to South Africa's economic growth, and should not be dealt with by the Department of Home Affairs alone; economic policy-makers should play a much bigger role. Skilled immigration is vital to the functions overseen by the National Treasury, National Planning Commission, Ministry of Economic Development and Department of Trade and Industry. Until now, interdepartmental co-operation seems to have been more concerned with enumerating shortages in fine detail, in order to limit the numbers of skilled people allowed to enter South Africa. The latest of many iterations is the *List of occupations in high demand, 2015*, released by the Department of Higher Education and Training in January 2016. This policy is based on the fallacy that the economy is a fixed size with a finite number of skilled jobs.

Instead of worrying about whether we might end up with too many engineers, we need to aggressively recruit skilled people in order to dramatically increase the size of the economy, remembering that skilled and entrepreneurial people, whether immigrant or local, create jobs for unskilled people too. This is vital for economic development, and must be based on a far better understanding of the domestic and global labour markets, in particular that the more skills we have the bigger and more dynamic our economy will be, and people will find ways to use their skills productively.

In practice, this means that South Africa needs to welcome anyone with skills who wishes to migrate to this country, with a minimum of conditions. This should include anyone with formal tertiary qualifications from a recognised institution, as well as people with entrepreneurial abilities. Moreover, our need for entrepreneurs is not confined to large investors; we should also welcome smaller entrepreneurs who want to start new businesses in this country, and have the drive and expertise to do so.

Something missing from policy development and public debate on skilled immigration is recognition that people might need to be persuaded to bring their skills and/or their entrepreneurial drive here. A useful example of incentives in this field is a scheme of the Chilean government called 'Start up Chile'. With suitable adjustments to South African conditions, including strengthening and extending the links between immigrant and local entrepreneurs, a version of this plan could boost entrepreneurship, both South African and immigrant, to the benefit of the growth prospects in the whole economy.

### 'START UP CHILE'

In 2010, the Chilean government began an incubator and accelerator programme for business (mainly IT) innovation, aimed at attracting skilled immigrants. More than 25 countries are represented in the current round. Among them are Argentina, Canada, China, India, Spain, Sri Lanka, the UK, the USA, Uruguay and Venezuela. The goal of the programme is to build a more diversified Chilean economy, reducing its dependence on commodity exports. The Chilean government wanted a competitive IT sector that would give talented Chileans good jobs and boost the national economy with companies not tied to boom and bust cycles of natural resource exploitation. The programme (with an annual budget of \$15 million) gives \$40 000 to selected foreign entrepreneurs to start up in Chile for six months. Assistance includes resettlement help, subsidized office space and Spanish lessons. There is no recrimination if they fail. The programme attracted 1 600 applications from 70 countries, the largest number from the USA and has sparked a spread of Silicon Valley style entrepreneurship in Chile. Local participation was ensured from the start by pairing locals with immigrant entrepreneurs, so that locals could learn from the expertise of the immigrants and it has now been opened to Chileans to compete with the immigrants for funding.

**CDE 2016**

*“We urgently need immigrants to revitalise our faltering public health, education and skills production systems, and boost innovation and entrepreneurship.”*

Our policies should also aim to do more than just fill existing skills gaps in the corporate sector; we urgently need immigrants to revitalise our faltering public health, education and skills production systems, and boost innovation and entrepreneurship. There is a widespread belief in South Africa, doubtless a hangover from a history of colonially-owned extractive industries, that anyone who comes here to do business is intent only on taking resources out of the country and excluding South Africans from the fruits of enterprise. There has to be a wider understanding of what Zimbabwean and Indian doctors, nurses and teachers, traders from across the African continent and Asia, factory managers from China, and investors from West Africa can do for our skills pool and for our levels of economic activity.

## The politics of immigration

We will not be able to benefit from a reformed policy on immigrant skills unless the politics of immigration are addressed. Migration is a politically sensitive issue throughout the world. South Africa already has a deserved reputation for xenophobia. A determined effort needs to be made to separate the uncontrolled influx of unskilled people from skilled immigration in the minds of officials as well as members of the public.

Skilled immigration is often seen as something to fear; as a result, officials can often be too cautious when exercising their discretion in processing immigrants, and show a lack of initiative in recruiting the necessary skills. By contrast, skilled immigrants would contribute to economic growth, thus helping to create the social cohesion that would in turn lower levels of xenophobia, and improve the capacity of the state to control our borders.

Allowing fear to inhibit policies aimed at procuring skills for growth is both misguided and short-sighted.

## Key insights about skilled immigration

*“Myth: There is a finite number of work and business opportunities in South Africa, and they should be available only to citizens.”*

- **South Africa’s skills crisis should be much more openly and extensively debated**, in terms more closely tied to growth and employment creation. The facts about and consequences of South Africa’s dysfunctional skills training and education systems should be acknowledged, and the beliefs of immigration sceptics – especially that immigrants ‘steal’ jobs and business opportunities from skilled South Africans – should be challenged.
- **Among the mistaken beliefs that need to be dispelled** is the myth that there is a finite number of work and business opportunities in South Africa, and that they should be available only to citizens. In fact, even in this time of stagnant growth, levels of unemployment among skilled South Africans of all races – including African university graduates – are very low. Moreover, skilled people command a premium based on their scarcity value, more so than their peers in other middle-income developing countries, a major reason why inequality is so stubbornly high in South Africa.
- **We need to publicise success stories of foreign entrepreneurs** who have created jobs in the course of establishing new businesses, as well as the contributions of foreign doctors and other health professionals to the rural public health system.
- **The way in which the country conceives its skills shortage needs to be rethought.** We need to move away from seeking to micro-manage skills categories and abandon the attitude that there is a fixed and precisely-calculable shortage of skilled people in each category of work. Instead we should base policy for skilled immigration on the idea that we need ‘skills to create skills’, that additional skilled people will help create economic opportunities and jobs for South Africans, and recruit as many highly-skilled people as we can.

## RECOMMENDATIONS

The challenge here is not so much to change legislation as to change people's attitudes. In practice, this means:

### 1. Skilled immigration is not only compatible with but essential for developing local skills

This fact needs to be accepted throughout government and then effectively and widely communicated throughout the bureaucracy and to the general public. We should for example actively recruit foreign skilled trainers with industrial experience, capable of upgrading the teaching resources of TVET colleges.

### 2. Portray skilled immigration as a form of FDI

Foreigners will use their hard-won skills and capabilities, often obtained at considerable cost, to help build the South African economy; create more jobs; develop cities, towns and rural areas and improve service delivery in public services such as health and education. Focusing on public health as an 'easy win' can highlight the importance of foreign skills for service delivery, especially given the crucial importance of improving public health resources to the future of National Health Insurance. An initial target should be the wider African diaspora of medical professionals in OECD countries, whose services are already lost to their home, African, countries.

*"We need to ensure that bureaucratic attitudes, processes and requirements make coming to the country as welcoming as possible."*

### 3. South Africa needs to energetically recruit foreign skills

We need to market the country as a desirable destination for skilled people in a wide range of economic sectors. We should place dedicated people with the appropriate knowledge and positive attitudes in embassies and consulates in countries where we can recruit skilled people, as we do with trade, rather than relying on existing diplomatic staff. We need to ensure that bureaucratic attitudes, processes and requirements make coming to the country as welcoming as possible.

### 4. Take specific steps to attract foreign entrepreneurs

The number of visas issued in this category is very small (less than 5 000 in the three years 2011 through 2013). If the country is to grow at a much faster pace, we need to dramatically increase the entrepreneurial nature and capacity of our economy. Foreign entrepreneurs bring new skills, innovative ideas, and technology. By doing so they will expand economic opportunities for the local population. Steps to be taken should include actively recruiting entrepreneurs, with growth as the goal, rather than the overriding aim of protecting South Africans from competition. Chile's incentive programme, 'Start Up Chile' is a useful example.

## 5. Administer the skilled immigration system far more rapidly and effectively

Even after several turnaround exercises at the DHA, the processing of immigration is still a problem. According to StatsSA's review of work visas granted in the period 2011 to 2013, fluctuations in numbers have nothing to do with supply and demand, but 'are largely a reflection of the processing procedures and regulations in place at the time of considering the applications'. Among other things, the discretion of officials to approve or reject applications for entry should be reduced.

## CONCLUDING REMARKS

*"Everywhere, skills transform lives, generate prosperity and promote social inclusion... we cannot simply bail ourselves out of an economic crisis, we cannot solely stimulate ourselves out of an economic crisis, and we cannot just print money to ease our way out of an economic crisis. We can only grow our way out of bad economic conditions and, in the long run that depends more than anything on equipping more people with better skills to collaborate, compete and connect in ways that drive our societies forward."*

Universal Basic Skills: What countries stand to gain (OECD May 2015)

*"South Africa simply cannot afford the repetitions and catch ups that poor basic education forces on higher levels of skill learning and training."*

The OECD's words are a timely reminder of the connections between skills and growth, and the fundamental importance of taking skills seriously. There are three priorities we must stick to if we are to do this.

The first priority is to tackle all obstacles, including obstructive vested interests, to fixing basic education. All acquisition of skills, practical and theoretical, depends on the basics of language and numeracy. We simply cannot afford the repetitions and catch ups that poor basic education forces on higher levels of skill learning and training. The last twelve months have exposed how strained the budgets are for all post-school education and training and we can no longer afford the wastage and double expenditure that poor basic education forces on colleges and universities.

The second priority is to expand post-schools training into a system that takes due account not only of numbers, but quality and accountability. An effective system will make use of all resources, private as well as public, and will welcome not only influence, but investment from outside.

The third priority is to finally make good on the promise – repeated at the highest levels of government for the last ten years – to make greatly increased use of foreign skills. The key change in mind set is to understand that foreign skills will not simply occupy those positions that at present we cannot fill with our own skilled people, but will also grow and expand the economy and our skills and training capacity. All of this in turn will help create more economic opportunities and employment for South Africans both with and without skills.





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