



Review of the current skills development system and recommendations towards the best model for delivering skills in the country.

TECHNICAL TASK TEAM NAME: Skills System Review

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This brief report was compiled by the **Skills System Review Technical Task Team** for the HRDCSA Secretariat, as an input for the work of the HRDCSA Technical Working Group and Council.

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Acronyms and abbreviations

AG	Auditor General
ANC	African National Congress
ASGISA	Accelerated and Shared Growth Initiative for South Africa
ATR	Annual Training Report
BUSA	Business Unity South Africa
CAD	Computer Aided Design
CVET	Continuing Vocational Education and Training
DHET	Department of Higher Education and Training
DOL	Department of Labour
DPSA	Department of Public Service and Administration
ETQA	Education and Training Quality Assurance
EU	European Union
FE	Further Education
FET	Further Education and Training
HE	Higher Education
HET	Higher Education and Training
HRDC	Human Resources Development Council
HR	Human Resources
HRD	Human Resources Development
HSRC	Human Sciences Research Council
ILO	International Labour Organisation
ITE	Industrial and Technical Education
IPAP	Industrial Policy Action Plan
IVET	Initial Vocational Education and Training
JIPSA	Joint Initiative on Priority Skills Acquisition
M&E	Monitoring and Evaluation
MNC	Multi-national Company
MQA	Mining Qualifications Authority
MTT	Ministerial Task Team
NAMB	National Artisan Moderating Body
NDP	National Development Plan
NGP	New Growth Path
NEET	Not in Employment, Education or Training
NQF	National Qualifications Framework
NSDS	National Skills Development Strategy
NSA	National Skills Authority
NSF	National Skills Fund
NVC	New Venture Creation
NVQ	National Vocational Qualification
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay As You Earn
PCHET	Portfolio Committee on Higher Education and Training
PIVOTAL	Professional Vocational Technical and Academic Learning Programmes
QA	Quality Assurance
QCTO	Quality Council for Trades and Occupations

R&D	Research and Development
SACCI	South African Chamber of Commerce and Industry
SAQA	South African Qualifications Authority
SARS	South African Revenue Service
SDF	Skills Development Facilitator
SEDA	South African Economic Development Agency
SETA	Sector Education and Training Authority
SIC	Sector Industry Classification
SIPs	Strategic Integrated Projects
SSA	Sub-Saharan Africa
SC	Skills Council
SSC	Sector Skills Council
SMME	Small Medium and Micro Enterprise
SME	Small and Micro Enterprise
SSP	Sector Skills Plan
SSR-TTT	Skills System Review Technical Task Team
TVET	Technical Vocational Education and Training
UK	United Kingdom
US/USA	United States of America
VAT	Value Added Tax
VET	Vocational Education and Training
WIL	Work Integrated Learning
WSPs	Workplace Skills Plan

Table of contents

Executive Summary.....	1
1 Background and purpose.....	2
1.1 Background.....	2
1.2 Purpose	2
1.3 Content	3
2 Problem statement.....	3
2.1 Education and training and the economy	3
2.2 Skills needs and size of enterprise	4
2.2.1 Medium-sized enterprises.....	4
2.2.2 Small and micro-sized enterprises.....	5
2.2.3 The unemployed and the informal sector	6
2.3 Low and unmet expectations	8
2.3.1 General disappointment with SETA performance.....	8
2.3.2 Expectations are low.....	8
2.4 Poor linkages between the formal education and skills systems.....	9
2.5 Accessibility	11
2.6 Addressing current and future needs.....	11
2.7 Qualifications versus competence	13
2.8 A confusing quality assurance system.....	14
2.9 Funding and management of funds	15
2.10 Public service skills development framework	15
2.11 Governance	16
2.12 Bureaucratic inefficiencies	17
2.13 Effectiveness and efficiency	18
2.14 Structural issues	18
2.15 Challenges in the management of the skills system.....	19
2.16 No single or simple solution to the problems	20
3 Skills development in the context of a developmental state	20
4 Overview of international skills systems literature	23
4.1 Brief overview of four country case studies	23
4.2 The importance of demand-side planning	26
4.3 The shift to knowledge intensity.....	27
4.4 Learning in the workplace.....	27
4.5 Local and regional initiatives.....	27
4.6 Community colleges	29
5 Vision and mission of the skills system.....	29
5.1 Vision	29
5.2 Mission.....	29
6 Fundamentals of an effective skills development system.....	30

6.1	Identification of sector skills needs	30
6.2	Strategic skills planning	30
6.3	Learning interventions: development & implementation	30
6.4	An inclusive system	31
6.5	Provider profile.....	31
6.6	Policy alignment.....	31
6.7	Monitoring and evaluation.....	31
6.8	Quality assurance	32
6.9	Governance and leadership.....	32
6.10	An effective and credible funding model.....	32
6.11	Human capacity	33
6.12	Brokering partnership and collaborations	34
6.13	Functions and their effectiveness	34
7	Key outcomes of the skills development system	34
7.1	A ramping up of skills development provision.....	35
7.2	Strong partnerships	35
7.3	Buy-in from business	35
7.4	Skills needs of enterprises by size.....	35
7.5	Skills as part of a wider agreement on the economy	35
7.6	Linkages between formal education, the skills system and the workplace.....	35
7.7	Meeting current and future needs.....	36
7.8	Balance of employer skills needs and national developmental prerogatives ..	36
7.9	Real skills needs addressed	36
7.10	Contributing to economic growth, productivity & creating meaningful employment	36
8	Models	36
8.1	Model 1 – Sectors (status quo).....	37
8.2	Model 2 - Voluntary system	39
8.3	Model 3 - Occupation-based system	41
8.4	Model 4 – A value chain-based system	42
8.5	Model 5- Regionally based system.....	46
8.6	Model 6 - Broad clusters system	47
9	Recommendations.....	48
9.1	Principles and framework for decision making	48
9.1.1	Start with the problem statement, vision, mission, fundamentals and outcomes	49
9.1.2	Focus on the desired system not the change process	49
9.1.3	Confirm the importance of the economy	49
9.1.4	An 'integrated skills system' debate.....	49
9.1.5	Agree a time frame for the business case	49
9.2	Skills system recommendations	50

9.2.1 Approach to models.....	50
9.2.2 Is the sector based skills system the best approach?	50
9.2.3 Key findings that inform the proposed hybrid model.....	51
9.2.4 The proposed hybrid skills system.....	53
9.3 Managing change	56
9.4 Building human capacity.....	57
9.5 The way forward	57
9.6 Responsibility for the business case.....	58
10 Conclusion	59
References	61
South Africa	61
International.....	61

Executive Summary

The Skills System Review Technical Task Team (SSR-TTT) was established by the Human Resources Development Technical Working Group (HRD TWG) in June 2011, to conduct a review of the current skills development system in South Africa in order to ascertain whether the sectoral model for delivering skills is still the best model for the country. The SSR-TTT was further asked to develop proposals for the best model for delivering skills in the country.

The SSR-TTT commissioned two research projects, one looking locally at the current system and its challenges and another examining the experience of skills systems internationally. The purpose of this report is to provide the HRD Council with a set of options and recommendations for the national skills development system so that it meets the skills needs of South Africa both now and in the long term.

The SSR-TTT crafted a proposed vision for the skills system - *An inclusive and integrated skills system that is responsive to the needs of the economy and society now and in the future* - with an accompanying mission to implement the vision.

Examining international experience as well as the positives and strengths within the South African skills system and after engagement with various stakeholders, a number of key fundamentals have been set out that must be in place for skills development, irrespective of the type of skills development system implemented. The fundamentals have been discussed in relation to their relevance in achieving a set of outcomes for a successful skills system.

At the forefront of the research and the debates in the SSR-TTT has been the question of whether the sector based approach to skills development is still relevant for South Africa. A model that would respond to or address skills development challenges and also support economic development objectives has to be considered. Various models were explored and the conclusion reached is that a single focus (either sectors, or one of the other organising principles) cannot be the only organising principle for the system. In the fast changing environment that characterises the global economy, there is a need for a flexible and responsive system and therefore a hybrid model is proposed.

If this report is approved by the HRD Council, the next stage will be the development of a business case for the proposed hybrid model. There will be a national structure (known internationally as a Skills Council) that will be responsible for skills planning, funding, governance and stakeholder engagement, quality assurance and a number of “shared services” such as HR, HRD and IT. It will also be responsible for establishing structures to address sector, value chain, and occupational needs. There will be a specific focus on access to services via locally established “one stop shops”.

There will be an examination of the different options for achieving each of the fundamentals, including where each of the functions will be located within a flexible structure. These options will be explored in a process that will include in-depth consultation with stakeholders over each decision that needs to be made. The aim

will be to turn the consensus that exists over the problem statement and key fundamentals into a similar level of consensus on the long term sustainable skills system that can achieve these.

The business case will be accompanied by an implementation plan that will set out the process for moving from the current system to the envisaged system in a manner that will build on what is effective in the current system and involve as little disruption as possible.

The focus must be on the challenge of building a skills system capable of meeting a higher set of expectations of the skills system than currently exists, mobilising available resources to create a sustainable and integrated system that will have a real impact on the economy, development and society.

1 Background and purpose

1.1 Background

The Skills System Review Technical Task Team (SSR-TTT) was established by the Human Resources Development Council (HRDC) to conduct a review of the current skills development system in South Africa and to develop proposals for the system in the future. The SSR-TTT commissioned two sets of research, one looking locally at the current system and its challenges and another examining the experience of skills systems internationally. This paper draws on the research done to date. The research is continuing as new issues are identified. The intention is that the report should be kept brief, but that the substantial research will be available for reference.

1.2 Purpose

The purpose of the report is to provide the HRD Council with a set of options or models for redesigning the national skills development system so that it better meets the skills needs of South Africa both now and in the long term. In doing so, the report draws on various international case studies including the UK, the Netherlands, Germany, the OECD, EU, Singapore and Brazil. It also evaluates the effectiveness of the current skills development system in South Africa.

Recognition must be given to the generally held view that the current skills development system has largely failed to adequately address the skills needs of South Africa. Thus, the report intends on being bold in its approach to providing a fresh look at the skills development system.

The options paper has been discussed at four stakeholder workshops, and takes into account the responses of stakeholders that have been considered by the SSR-TTT. These workshops should be regarded as focus groups assisting the SSR-TTT in its task, rather than formal consultation. Stakeholder input has been valuable, in that it has helped shape the recommendations, but the recommendations are those of the SSR-TTT and have not yet been subject to any form of consultation.

This paper develops the argument for a substantial rethink of the way that the skills system is set up. There is a need for a more flexible, responsive, inclusive, and accessible skills system. If there is agreement on the recommendations in this report

then the skills system review will go into another phase - the development of a detailed proposal for the future skills system for South Africa. It will be during that phase that detailed consultation will take place with all stakeholders.

1.3 Content

The paper starts by setting out the problem statement. This is derived from an examination of various reports as well as analysis within the Department of Higher Education and Training (DHET). There is a large degree of agreement on the problems with the current system. The paper sets out the current thinking within government on the role of the state in the economy and the role of the skills system within that. A very brief summary is provided of the international research (the South African research informs the entire report). The paper then sets out a proposed vision and mission, some of the key fundamentals of the skills system that are needed, as well as the desired outcomes. There is again a large degree of consensus on these.

This is followed by an examination of various possible models for structuring the skills system. There is less agreement on the benefits of the different organising principles set out in the form of the six models. Some stakeholders argue strongly for two of the models to be brought together. Others see the merits of each of the six models and motivate for a hybrid model. What is clear is that stakeholders value the review, acknowledge the timing of the review – half way through the NSDSIII cycle and SETA licensing period that ends in March 2016 – and wish to actively engage with the process of developing a system that will be durable and able to adapt to change in the future.

The final section makes a number of recommendations for taking this process forward. It is not possible at this stage to make detailed recommendations as to the future shape of the skills system. This can only be done once there is firm agreement on the need for change. It is proposed that once there is that agreement, more detailed structural proposals can be developed for consideration by the HRDC during 2014.

2 Problem statement

2.1 Education and training and the economy

There is a concern in South Africa about the economy and its ability to achieve the inclusive growth that will enable serious reductions in unemployment and poverty. Education and skills levels are a key enabler of economic growth. Highly skilled people create jobs and suitably skilled people can be absorbed into employment when jobs are created. Entrepreneurs also create jobs, particularly when the entrepreneurs are themselves skilled. Skilled people can become self-employed and form income generating entities that sustain livelihoods, and expand to provide employment opportunities. In addition, in an environment of accelerating structural change in the economy, people with skills are more likely to be able to adapt to the changing needs of the economy and thereby remain in employment.

Currently, the South African labour market is characterised by low levels of education and skills. Various global indices show this. Many of those leaving formal education do so without adequate foundational education. Those entering the labour

market with acceptable levels of education (Matric or a Bachelors degree for example, but also occupational qualifications at various NQF levels) are viewed by employers as not being adequately prepared for the world of work. The cause of this problem is twofold. First, problems within the schooling system mean that the foundational education base is low. Second, the skills system is not performing well. It is generally viewed as not providing the skills needed for either new entrants or existing employees.

A very large proportion of young people are now unemployed and not engaged in education or training and this is a major problem. Many of them are in disadvantaged areas, including rural areas where opportunities are in any case limited. Both the education and training and the skills systems are failing the youth of this country.

Even when access to education and training opportunities are obtained, dropout rates at our education and training institutions and in vocational programmes remain high and throughput rates and work placements low. Whilst the reasons for this are complex and include socio-economic and historical challenges that are not the responsibility of the education and training system alone, there is general agreement that the education and training system could do better with the available resources.

2.2 Skills needs and size of enterprise

There is general agreement that the skills system is not meeting the needs of current enterprises. Large companies are believed to be spending more than the 1% levy and are not as dependent on the skills system as other companies. Most large companies would typically spend between 3% and 5% on HRD and are unlikely to be either dependent on, or accountable to, the skills system when allocating these resources. Large companies have tended to have a strong say in the skills development programmes of their respective sectors, and have been able to at least obtain some level of engagement with their line SETAs. Very often they have been unable or unwilling to play a strategic role in the system (for reasons explored in this report) but they have the capacity through their HR and HRD departments to address their skills needs.

Large companies can also allocate resources to engaging with their SETA and comply with all the bureaucratic requirements for engaging in SETA funded skills development. Large companies are critical of the system, but are at least able to obtain some benefits, and contribute to the training of unemployed people seeking entry to their industries. However, the current skills system has visibly failed to adequately address the skills needs of medium-sized, small and micro-sized enterprises, the informal sector and the unemployed.

2.2.1 Medium-sized enterprises

According to the International Labour Organization (ILO, 2013), in 2011, 86 per cent of those who were in employment in Sub-Saharan Africa (SSA) were considered 'poor' (either moderately poor or extremely poor). In South Asia, this figure was 92 per cent. However, in East Asia and Latin America, the corresponding figures were 41 per cent and 23 per cent respectively. The reason for this huge discrepancy between SSA and South Asia on the one hand, and East Asia and Latin America on the other, is that in the former, employment is largely in small and micro-enterprises, and the informal sector, and in the latter group, they are increasingly in medium and large enterprises.

Employment only plays its intermediary role between growth and poverty reduction if it is productive. Therefore, sustained reduction of poverty requires increasing the labour-productivity of workers earning wages or in self-employment. SSA's labour productivity is still very low. To achieve higher levels of labour productivity and enhanced 'value-adding' activity, the employment focus must continue to be on medium and large enterprises. Both types of enterprises are crucial for economic growth because of their investment potential and their innovation capacity. However, in the South African context, it is becoming increasingly evident that large enterprises are unlikely to be absorbing large numbers of workers, given the capital-intensive nature of their activities, and so the focus must increasingly turn to medium-sized enterprises and assisting small enterprises to expand.

Productivity was a key focus of the skills system from 1999, but the focus during NSDSII (2005-2010) shifted to a great extent and productivity became just one of a wide range of goals and responsibilities. NSDSIII has reasserted the importance of productivity with its prioritisation of PIVOTAL programmes to address scarce and critical skills, but it remains to be seen whether the system as a whole will manage to play its role in achieving significant productivity improvements and consequential growth. The system must reassert improved productivity in medium-sized enterprises as an important focus of its strategy, efforts and resources.

2.2.2 Small and micro-sized enterprises

Small and micro-enterprises (SMEs) can absorb large numbers of unemployed people in a country. However, experience has shown that large numbers of them are unable to earn incomes that will enable them to escape poverty. The challenge in Sub-Saharan Africa generally and South Africa specifically, is to improve labour productivity, conditions of work and the returns and benefits people derive from their work.

As is the case with medium-sized enterprises, the skills development needs of small and micro-sized enterprises have not been met. Often, these enterprises fall through the gaps as they do not see value in submitting Workplace Skills Plans (WSPs) and Annual Training Reports (ATRs), as the amounts that they are obligated to pay (the 1% of their salary bill) are small. The amounts that they are entitled to claim through the mandatory grant are nominal and not worth the administrative burden.

The law exempts small and micro enterprises from having to submit WSPs and ATRs and encourages them to claim discretionary grants, and so it is not the legislation or regulatory framework that is behind the failure. The administrative effort that is required to engage in SETA-funded training is so complex and difficult that the vast majority of small and micro enterprises do not engage at all.

In spite of investing vary large sums in programmes (such as the Business Administration and New Venture Creation qualifications and associated learnerships) the current skills system has failed to address the skills needs of such enterprises despite their potential for creating jobs. In fact, there is considerable evidence that small business training has not generally been aimed at established businesses at all, but rather unemployed people seeking to establish businesses. Small businesses generally find it difficult to have their small teams of staff engage in long term training

programmes, but rather seek short term interventions that speedily address challenges as they arise. Support needs to be provided over a period of years but the interventions themselves need to be fit for purpose, not the full qualification programmes that have been funded in recent years.

Small enterprises do not generally understand the link between skills and sustainability, and there are particular problems for small businesses accessing and participating in skills programmes. Whether it is through lack of understanding of small business needs or through poor collaboration between the SETAs and other agencies such as SEDA, the performance of the skills system in relation to such enterprises has been largely ineffective.

2.2.3 The unemployed and the informal sector

The structural problem of unemployment continues to plague the South African economy. Statistics South Africa's unemployment figure for the first quarter of 2013 is 4.6 million people. Many put the actual figure closer to 6 million when those that have given up seeking employment (the so-called 'discouraged workers') are included. This challenge is most pressing amongst the youth of our country. There are approximately 3.2 million youth between the ages of 18 and 24 years who are not in employment, education or training - the so-called 'NEETs'. This presents itself as an explosive situation that requires urgent attention within the skills system.

The current skills system has spent large sums of money on learning programmes aimed at both the unemployed and the informal sector for various learnerships and short skills programmes including New Venture Creation (NVC) programmes. Such programmes have had little or no real impact in terms of improving the skills sets of those participating. Very often, business skills training is not linked either to occupational skills or to the wider assistance that small enterprises need to get established.

Large numbers of unemployed people have been trained, only to remain unemployed. Many have accessed such programmes mainly to obtain the learner allowance. Moreover, a rigid and heavily bureaucratized quality assurance regime adopted by the ETQA units within SETAs has stifled the responsiveness and innovation of providers with regards to meeting real skills needs, particularly skills needs on the ground within communities.

The National Skills Fund (NSF) was originally set up as the main institution responsible for addressing the skills development needs of the informal economy and the unemployed. This was intended to complement the role of other government agencies and departments, such as the Department of Trade and Industry. In more recent years, many SETAs have taken on this developmental role. The impact of programmes funded by SETAs and the NSF has been rather uneven. They have been effective in some SETAs and ineffective in others. Little evaluation has been undertaken of the programmes but where there is evidence, it points to very ineffective provision in most sectors.

The duplication of efforts in this area has resulted in overlaps, double funding (for example, learners engaged in two learnerships at the same time, two institutions funding the same programmes), the spreading of resources even more thinly than is

necessary and an almost complete absence of effective monitoring to enable an understanding of what works and what does not work. There is a general acceptance within the SETAs and the NSF that very little real impact in the informal sector or on the employability of unemployed people has been achieved. Whilst learnerships and internships are two success stories of the skills system (see HSRC report on NSDSII implementation), and have involved quite large numbers of unemployed people (though low as a proportion of the unemployed population), the important thing to note is that the end result is absorption into jobs in the formal economy, usually medium and large companies. Emergent micro enterprises have generally not benefited.

There has also been a significant amount of provider driven demand whereby training providers opportunistically, and for their own business purposes, submit unsolicited proposals to the NSF and to SETAs to fund programmes for the unemployed, even going to the extent of acquiring endorsements by local, provincial and national government departments to support specific programmes. These are easy programmes to run because the target audience is unemployed people and learner allowances guarantee high levels of enrolments. However, there is no evidence that those participating gain either the skills or qualifications that enable them to be absorbed into employment or create businesses.

This is not a uniquely South African experience, and some of the models for entrepreneurial training have been developed in the US and EU and promoted globally. Their value is being questioned in the countries where they were developed (see, for example, Box 1).

Box 1

Weak labour market qualifications

Many of the new vocational qualifications introduced since the 1990s (the NVQs) offer very low returns and currently have little or no apparent labour market value. Effective systems require real alignment between initial vocational training and employment thereafter. Unfortunately, many VET systems world-wide fail to establish this underpinning prerequisite for an effective system. 'Parity of esteem' between academic and vocational qualifications is often spoken about but rarely achieved in weak and ineffective SSC and VET systems globally.

Quote from Professor Alison Wolf, Institute of Education and Chair of Government Review of the VET System in the United Kingdom in 2011.

There would be few people engaged in the South African skills development system who would disagree with the above (Wolf) analysis. Yet the South African skills system continues to give priority to qualifications that do not have value in the labour market. In some sectors there has been no uptake in 75% of qualifications in spite of large sums being spent, first to develop, and then to 'incentivise' participation. In one SETA there has been a policy in place of awarding double the amount of grant for 'XSETA qualifications' than for other qualifications and yet the uptake has been equally low.

2.3 Low and unmet expectations

2.3.1 General disappointment with SETA performance

There have been a number of studies of the skills system that have focused on the performance and functioning of the key institutions of the system. These include the Singizi Report of 2007, the Nedlac Report of 2008 and the Ministerial Task Team report of 2012. There is a general consensus that the SETAs as skills system structures are not working well.

A range of measures has been put in place to address particular systemic problems such as governance, planning and financial management. Smaller boards have been established; independent audit committees are functioning in most SETAs; Auditor General reports are being treated seriously; training has been provided in strategic planning; guidance and support is being given to research and skills planning; and the Portfolio Committee on Higher Education and Training (PCHET) in Parliament is scrutinising SETA performance. However, in spite of all the reforms and improvements, the system is still not viewed as being effective in addressing the skills needs of the economy.

Where the problems in SETAs have become so great, the Minister has been persuaded to disband the boards of those SETAs and place them under Administration. Some of the largest SETAs have been treated in this manner. The Administrators seeking to bring about changes have found the task to be very difficult. In some cases, the outcome of Administration has not been encouraging. Improving performance is proving to be very difficult.

Other SETAs have been given credit for being well managed and efficient. However, some of these very SETAs appear to be having limited impact in their sectors. The system as a whole has been unable to effectively research and identify skills needs, to properly analyse and address the causes of the mismatch in supply and demand, and to put in place programmes that address identified skills needs. As importantly, the system has been very ineffective in planning ahead, and anticipating future skills needs.

2.3.2 Expectations are low

There have been a number of attempts to address challenges in the skills and vocational education and training space. Some have achieved success, and there are examples of the system working. Current investments in FET colleges are resulting in colleges reaching out to SETAs and employers with many partnerships and innovative programmes starting to emerge. However, overall there have been many more instances of expectations that have been raised than examples of expectations being met.

This is in spite of the fact that - in relation to international efforts to build effective skills systems - South African stakeholders have very low expectations. Even the success stories of the system (e.g. 50,000 learners in learnerships in some years, a large proportion of these obtaining work after qualifying, according to HSRC research) demonstrate a relatively low level of success, given the scope and size of the unemployment problem and the overall skills needs of the country. Expectations should be much higher, given the levels of investment from levy income. The system

appears to be trapped in a cycle of low expectations that have to be lowered further as even these low expectations are not being met.

2.4 Poor linkages between the formal education and skills systems

The problem starts with the calibre of young people leaving the schooling system, continues with a weak vocational education and training system, expresses itself in the low numbers of skilled people emerging from either the formal education system or from skills development programmes, and finally in the mismatch between the skills of those qualifying and the skills needs of employers. There are a number of role players in the pipeline from school to work and the biggest failure is that they are not able to coordinate their efforts to be more effective in either re-skilling existing employees or preparing new entrants for employment. Some lessons in this regard could be derived from the Dutch experience (see Box 2).

Box 2

Institutional alignment in the Dutch sector skills system (SSC)

The Netherlands SSC system exemplifies 'best practice' in terms of alignment between the skills councils and the regional colleges. Employers are essentially the 'starting point' of this joint system. They work through sectoral skill bodies, called the 'Kennicentra' (Knowledge Centres) to identify and express the skills that are required by the sector. Their diagnoses of what skills and curricula are needed is then fed through to BVE Raad (the Dutch Council for Vocational and Adult Education, the umbrella body for the regional technical colleges), which then feeds this through to the regional colleges in order to develop a curriculum primarily based on the standards and requirements set by the employers. The neat alignment here between employer need and college curricula – in short, between demand and supply – is unique in the world. The Dutch system works because of the cooperative and collaborative relations built between the key institutions and actors involved in national skills provision.

It needs to be acknowledged that vocational education and training (both in South Africa and globally) is not generally viewed positively by parents, learners and employers. It is often not a first choice learning pathway. It is only in countries that have 'ramped up' the vocational system, and worked to raise expectations that the vocational system has become one that is recognised as being effective. Where this occurs, not only do parents, employers and learners seek to engage with and participate in the vocational system, but significant proportions of those choosing the vocational learning pathway progress to the university system before entering the labour market.

The poor performance of the South African skills system is partly the result of a general failure to 'ramp up' vocational education and training, both in terms of resources, capacity and quality, but also, importantly, winning buy-in from key stakeholders (particularly employers). The skills system has significantly failed to support the vocational education and training sub-sector, particularly public FET colleges, despite the fact that a key role of the system is to facilitate linkages between education and training providers and employers.

Poor articulation between education and training (especially public FET colleges, community training centres and universities) as well as these institutions and the world of work has been a prominent feature of the broader post-school education and training system (including skills) in the country. Existing vocational education programmes have often resulted in learning pathways with dead-ends. The role of vocational colleges is twofold. Firstly, they should provide a pathway into higher education, mostly Universities of Technology. Secondly, and probably more importantly, colleges have a major role in providing vocational education as an alternative to the academic route to higher education. (See Box 3 for a brief description of the challenges in this regard in the UK.)

Box 3

Weak progression of VET graduates into Higher Education in UK

There is a danger that some apprentices and vocational students will hit a form of vocational glass ceiling. There is little evidence of successful progression to higher education for apprentices and others who acquired intermediate level vocational qualifications. One study shows that only 6% of Level 3 apprentices go onto study in higher education within four years of completing their apprenticeship.

Quote from Professors Alison Fuller and Lorna Unwin, Institute of Education.

In summary, the problem is of various parts of the post school education and training system not working together to achieve more effective supply of appropriate skills for the labour market. Part of this problem has been philosophical, in particular relating to the differences that emerged during the so-called 'NQF debate' between the pre-2009 Departments of Labour and Education. That has now been addressed in the bringing together of Higher Education, Vocational Education and Skills within the Department of Higher Education and Training. The forthcoming White Paper on post school education and training will provide a conceptual framework for the three to work together. However, the perception remains that the skills system continues to operate in silos that are not effectively linked to the formal public education and training system.

An interesting development - mainly in response to the difficulties employers experience in interacting with the skills system - has been the emergence of what have become known as 'external SDFs'. The original intention of the legislation was that companies would appoint Skills Development Facilitators who would work with SETAs to identify needs, help conceptualise and develop programmes to address needs, and act as the link between the enterprise and the SETA over funded programmes. Over time, a number of SETAs have promoted the appointment of external SDFs who act as intermediaries between the SETA and the enterprises, sometimes being funded by SETAs, sometimes by taking a percentage of grants obtained for a company. These types of arrangement have assisted SETAs to achieve numerical targets, but their role is problematic as they have effectively taken over the intermediary role of the SETA. A number of Industry Bodies, including SACCI, advised that they also assist SMEs to complete plans, as many of their

members find the process too complicated and time consuming. One of the key roles of successful skills structures is their brokering or facilitation role, and SETAs have been weakening their capacity to play that role by contracting the role out to others. It would seem that rather than tackling the problem of inaccessible systems, a range of mitigating measures (all of which have a cost) has been devised to enable a level of access to be achieved.

2.5 Accessibility

One of the key failures of the skills system is that it has become known for its inaccessibility. The concentration of SETA resources in Gauteng is part of the access challenge. Decentralised services are viewed as uneven with the Western Cape (specifically Cape Town) and KZN (specifically Durban) seen as benefiting more than other provinces and centres. SETAs are trying to address the geographical challenge by opening offices in other provinces and linking across the country to FET colleges, but the perception at regional or municipal level in general is of distant and inaccessible structures.

As SETAs try to extend their footprint, this creates financial challenges as they push against the limit of the 10% allowable for administration. Some SETAs are now funding regional offices and staff through their discretionary funds. This problem will increase as the pressure for decentralisation, and for skills development to be more accessible locally, increases. A major redistribution of resources from Gauteng to the regions will be needed, as well as coordination to avoid overlap and duplication of efforts locally, if decentralisation is to be achieved in a rational manner.

Access is not solely a geographical issue. Key stakeholders (for example, the Department of Environmental Affairs and environmental stakeholders) find it difficult to have their concerns addressed. Key industrial strategy role players cannot engage with the skills system, including their line SETAs, to achieve alignment between industrial strategy and skills. Many large employers have 'disengaged' and write-off their levy as a tax. Those that do engage get frustrated with the levels of bureaucracy and poor systems that they have to contend with.

Public education and training institutions have been largely sidelined from accessing the pool of funds for skills training. Experience shows that private provision has benefitted disproportionately and that the exclusion of public colleges has resulted in reduced access, particularly in rural areas. Efforts are being made to rectify this, but this is happening on the basis of encouraging 21 SETAs interacting with 50 FET colleges, not on the basis of trying to achieve the systemic alignment that exists in countries where the system is working well. The challenge is not so much 'delivering skills through FET colleges' but rather building a coherent post schooling system that learners and employers can relate to and understand.

2.6 Addressing current and future needs

One of the criticisms of the system is that it is not responding to change. Fifty years ago manufacturing was the future, with large numbers of people being trained as artisans who would be guaranteed employment in the manufacturing sector. Today, this is no longer the case. Manufacturing is declining in South Africa (even though, globally, more goods are being manufactured than ever before). However, the processes used for manufacture have changed significantly (automation, CAD, re-

programming rather than re-tooling) which has changed skills needs. Also, product lifecycles are much shorter – so skills needs are proportionately more in R&D, design and programming, and less in traditional production processes.

At the same time, the services sector is growing and requiring a completely different set of skills. The skills system needs to meet both the needs of manufacturing and services, recognising that they have very different skills needs. The nature of skills is also important. There is a challenge in providing higher level skills and services and changing the balance between high and low skilled services. Yet the system is not forward looking nor preparing young people for a different set of realities. There is inflexibility in the system that is making it irrelevant to some important sectors of the economy. Singapore provides an excellent example of how the education and training system has evolved in line with changing economic policy and priorities (Box 4).

Box 4

Singapore's four phases of economic development

Singapore's socio-economic success today has a lot to do with the direct link made in government policy between education and the economy over the past five decades. This linkage has traversed four distinct development phases:

- 'Coupling' education to meet the needs of 'Import substitution industrialisation' in the early 1960s by creating a single standardized school system which produced a low-skill labour force with the basic literacy and numeracy skills for the newly arrived MNCs. The first vocational institutes and polytechnics were also established in this period.
- The shift to 'export-oriented manufacturing' (1970s and 1980s) – the beginnings of moving up the value chain to higher value-added exports. Singapore made this shift as a response to the emergence of other South East Asian countries who could offer MNCs low-skill labour at costs lower than those in Singapore.
- A deliberate move in the 1990s towards higher value added products which required greater investments in R&D, post-school VET, and applied tertiary education offered by the polytechnics and universities.
- Reaching the final phase, and becoming a first-world 'knowledge-based economy' and regional services 'hub'. This requires strong innovation and entrepreneurial capabilities with more and more young people completing schooling and obtaining a higher education qualification (Kuruvillea *et al*, 2002: 1463-4).

A major part of this carefully phased linkage and alignment was the ability to plan skill requirements years in advance. The Singaporean state has been able to successfully manage and change the education system and the demand for skills in tandem with each other over five decades.

What stands out in assessing what has been done in Singapore is the extent to which planning (not just for skills) is a long term process. There is long term

commitment to growth and the development of education and training is planned to support those long term goals.

2.7 Qualifications versus competence

Perhaps the most serious criticism levelled by employers is that people emerging as qualified (either from school, FET colleges or universities) are not able to be employed. In many ways the skills system mirrors the education system in prioritising the 'paper chase' for qualifications. Part of the reason for this is that incentive systems reward qualifications more than proven competence. Employers require people who are competent as well as qualified. They cannot assume competence from qualifications. Essentially, this means that the skills system has to find a way of ensuring that qualified people also have experience and proof of competence. The system is singularly failing in this, though again there has been an increase in internships, a key mechanism for addressing this problem. According to HSRC research into the impact of training during NSDSII, internships have increased in number and those who enter have been generally successful in obtaining employment at the end of the internship. However, the numbers remain low. Moreover, internships have not generally been properly structured and interns have not been adequately supported by mentors. There is potential to both expand and improve the quality of internships. The system has not yet been successful in motivating enough employers to put in place mentorship opportunities for young graduates who seek to achieve the competencies and experience required.

So the challenge in South Africa is not simply developing improved learning pathways, that might include learnerships and internships where they do not currently exist, but also the whole relationship between schooling, the VET system and skills development. (See Box 5 for a brief description of the Singaporean experience.) Collaboration cannot just be about expanding workplace provision (important though this is) but about coherence in the schooling and post schooling sub-systems.

Box 5

Singapore's post-basic education system

What is significant about the Singaporean school and post-school structure is that all Singaporean school students do a compulsory phase of 10 years primary and junior secondary education. They then need to choose between the three routes of the post-school system: 25% of school leavers proceed along a vocation route to the Institute of Technical Education (ITE), a further 40% enter the Polytechnics, and a final group of 25% enter university.

The difference here with the South African model is that key choices are made after 10 years and not 12 – allowing the polytechnics and Institute of Technical Education to use 65% of the graduating school cohort to build up a highly trained vocational and career-oriented middle category of intermediate- to highly-skilled workers.

Another concern raised by stakeholders is the approach to qualifications and programme development. There is agreement with the QCTO approach of engaging

industry experts in communities of expert practice. However, this only works where the appropriate experts are identified. There is a concern that in practice, the process is consultant driven, with high fees being charged that SETAs are obliged to pay.

2.8 A confusing quality assurance system

There has been recent criticism from organised business of the SETA Grant Regulations that require SETAs to pay 0.5% of their levy income to the Quality Council for Trades and Occupations (QCTO). The understanding when the QCTO was established was that it would take ETQA work away from the SETAs. However, in practice, the amount of ETQA work done in SETAs has increased, and yet the SETAs are required to fund the QCTO as well.

The Quality Assurance or Quality Management regime that has evolved focuses primarily on achievement of unit standards within registered qualifications and uses a system of assessors, moderators, and verifiers and complex database requirements to monitor quality.

There are serious questions being raised by stakeholders about the efficiency of such a system. However, an even more important discussion revolves around effectiveness. The QA system for skills (which is very different to that for HE institutions and FET colleges) is viewed as based on compliance. Providers have to be 'accredited' and have their programmes 'approved'. This involves lengthy bureaucratic processes. Then, before learners can be certificated, lengthy processes of assessment, moderation, external moderation and verification are required.

Apart from the huge cost involved, there are many who argue that there has been no real improvement in quality derived from the system. In fact, the focus is not any more on the quality and effectiveness of the training provided but on compliance. Even the objective of removing 'fly by night' providers appears to have failed. Many providers only build internal capacity once a contract has been won, and contracts for trainers and assessors are linked to those contracts. The system is viewed as actually encouraging such practices, rather than supporting sustainable quality education and training institutions.

There is general support for the creation of the National Artisan Moderating Body (NAMB) but some concern that the roles of NAMB and the QCTO could overlap and create confusion. There is also concern over the dual accountability to QCTO and the HEQC over qualifications at level 5 and above, as well as uncertainty over the role of SAQA since the establishment of the QCTO. These may be simply communication challenges, but given the history of the 'NQF debate' and the deeper concerns over what exactly quality assurance entails, there is a need to look more closely at how the quality assurance system is evolving within the skills system.

It should be noted that as a result of the policy decision to expand workplace or work integrated learning (WIL) there is now a focus on how the quality of such learning can be assured. A particular form of quality assurance has been applied to apprenticeships historically, but it is far from clear to stakeholders whether such an approach is appropriate to the current expansion of workplace learning within occupationally directed programmes. If the complex quality assurance practices

described above are extended to include workplace provision then it can be anticipated that this will further discourage participation, particularly of small businesses.

The challenge of articulation remains. Qualifications gained through the skills system are not recognised within the higher education system. Some SETAs do not fund modules of higher education qualifications because they are not unit standard based. Credits in unit standard based qualifications cannot be credited towards full qualifications in universities. It was one of the principles of the system that there should be articulation but this has still not been achieved.

2.9 Funding and management of funds

There would appear to be broad agreement that the levy is a valuable means of raising funds and ring-fencing the funds for skills development. However, there is extensive criticism and concern over how money is managed within the skills system. Many express the view that there is no incentive for SETAs or the NSF to operate efficiently, as funds are automatically allocated when received by SARS and there are no consequences for poor performance. There is some disagreement on the status of levy income and whether it is 'employer money' or a tax and therefore part of the fiscus.

Increasingly, there is an understanding that the funds - originally intended to address strategic national needs - have become the focus of contestation between stakeholders representing personal and narrow institutional interests. Overall, there is almost unanimous agreement that the country is not getting value for money, even though virtually no attention has been given to conducting value for money or cost benefit reviews. In general, the skills system is viewed as not being accountable for funds spent, with the Auditor General reports becoming increasingly critical of SETAs and their ability to spend to achieve pre-determined objectives.

2.10 Public service skills development framework

There have been many problems in the way the skills system relates to and impacts on skills development in the public service. There are sector based SETAs (such as those in education, health and security) and there is a general public service SETA. So, overall responsibility for skills development in the public service is not easy to locate. There is often an overlap of accountability between DHET and the DPSSA. The Skills Development Levies Act (SDLA) provides for the ring-fencing of 1% of salary costs by government departments. The recent Cabinet decision to require the payment of 30% of that 1% to their line SETAs should address the funding challenges (i.e. how learnerships and internships will be funded in government departments), but whether there will be expansion of public service training as a result remains to be seen.

There are academies such as Palama and a number of regional academies that play an important coordinating role and whose functions often overlap with those located within SETAs. Most government departments have their own HRD units, and some have their own academies, and they spend substantial amounts on training. There is a general sense that the skills system in the public sector is complicated, that it is not really building the level of capacity needed, and that there needs to be some rationalisation.

2.11 Governance

There is a problem at a governance level in the skills system structures. The levy system has been effective in mobilising resources for skills development. However, the result has not been the allocation of all the funds for the intended purpose. The intention was for stakeholders to come together in structures to shape skills development strategy within each sector. In reality, the focus of stakeholders has been on how that 1% levy should be spent - a contestation over resource allocation often linked to meeting individual stakeholder interests. It is interesting that employers pay a significant percentage of income in taxes, along with VAT and PAYE, and there is no contestation over how it is spent, but the 1% is viewed as a sum that has to be contested. In other words, the combination of the way the levy-grant funds are managed and the way stakeholder structures have been established and evolved has resulted in lobbying, bargaining, and in fighting, that distract governance structures from the strategic discussion on how to support sectoral growth and transformation.

Not only is this contestation unhealthy (as it inevitably invites corruption and misuse of funds), but strategically it is unhelpful as the focus should be the economy, sector growth and transformation and how skills development can address supply and demand mismatches.

Box 6

The Dutch employer-initiated training levy

In the Netherlands, the funding of VET entails a combination of public funds, which is tied to the volume of training in any one sector, and private provision in the form of a small levy on employers in the sector. The training levy is initiated by employers and is intended for the up-skilling of employed adult workers. The decision to impose a levy is made as part of the wider industrial relations bargaining system in each sector of the economy. In 2009, there were more than 140 sector-focused levies covering 85% of employees in the labour market.

Even though important changes have been achieved since 2011 in relation to governance, the contestation over resources remains an obstacle to effective skills development. Removing this contestation will be important to the project of refocusing the system on skills for economic development. It is noteworthy that in most countries with relatively successful skills systems, the system is mainly not funded from a levy, but rather from the fiscus. Government creates the framework within which employers and trade unions can then agree to mobilise additional funding to support strategic interventions. In South Africa, a pot of money has been created in each sector and stakeholders have been invited to contest how it should be spent. When a government line department or DHET intervenes and provides direction, this is often perceived as 'political interference'. There is overwhelming agreement that this is one of the fundamental problems in the system, and that whatever system is agreed in the future, systemic changes are needed to stop this unproductive contestation over resources.

2.12 Bureaucratic inefficiencies

Instances of mismanagement and corruption have affected the skills system. In trying to manage risks in relation to large sums of money being fought for, the NSF and SETAs have introduced 'safeguards' such as tender processes, contracts for grants, and processes that have to be followed to obtain funds. Some SETAs are managing these processes efficiently but many are not. The consequence of poor systems and processes, or over-bureaucratic rules created to address fraud, is a system that is viewed as completely incompetent by many crucial stakeholders, particularly employers. The time taken from making an application to a SETA for a grant and having the grant approved and paid can be anything from six months to (in worst cases) over 18 months. By the time a grant is approved, the skills need may either have been met by other means or have changed. Again, this is not unique to South Africa as Box 7 shows.

Box 7

Massive bureaucracy in UK system

The strongest criticisms of the UK VET system have to do with its obsession with regulation, control and central planning. A government commissioned report acknowledged the problem:

A recent reportidentified the plethora of government agencies with which apprentice employers are required to liaise as a major obstacle to participation. The report revealed a truly staggering amount of submission writing, documentation, data recording and data returns required of employers receiving public funding for apprentice training.

Quote from the Learning and Skills Improvement Service Report, UK Government, 2011.

Employers have to make a judgement: 'Should we get involved with all this bureaucracy, when we can do much of what is needed without engaging a SETA? Is it worth it?' Very often, the answer is in the negative, and employers cease to have contact with their line SETA. These are the employers who are needed for skills development, both in terms of identifying and addressing needs and providing opportunities within their workplaces to train and provide experience for unemployed people. It is also a problem as it increases the funds available to be contested. Discretionary funds in SETAs rose to over R3 billion in 2010. Measures are now in place to stop the build-up of reserves but the fact that so much money available for skills development is not spent, partly because of bureaucratic inefficiency, is a concern.

Box 8

Employer buy-in

'City and Guilds' argues that attempts at engaging employers are more likely to succeed 'if the surrounding systems and structures give sector bodies, and therefore the employers who engage with them, real power within the system'. David Ashton, expert on the UK VET System agrees:

Firstly, with the help of unions or professional associations, ensure that employers' sector needs are used to shape the curriculum. Secondly, ensure that employer-led bodies have some control over the funding of training. This will enable employers' sector needs to determine the number and levels of trainees produced by the colleges and training providers. Once the system is responsive, then strong leadership from the sector councils, underpinned by public financing, can be used to push employers in the direction of the high value-added forms of production so critical to future economic success.

During stakeholder consultations, a number of large employers have observed that they are being more or less required by their SETAs to expand the number of people they train, even when the number of people needed in the occupations concerned is falling. Instead of the system facilitating the matching of supply and demand for skills, employers view it as being driven by bureaucratically-derived numerical targets. On the other hand, government and trade union stakeholders point to the general lack of training opportunities that are made available if the market is left to operate.

So the challenge is to create a system that balances national development goals (as driven by government) and the skills needs of employers. This is not an easy issue, particularly given the need to redress imbalances inherited from the Apartheid era. This challenge clearly cannot be left to the market. However, the overwhelming view at present is that the desired balance is far from being achieved.

2.13 Effectiveness and efficiency

There is considerable scepticism over the relevance and effectiveness of programmes being offered and funded. In addition, there is evidence of programmes that are provided at extremely high cost. There is very little cost-benefit analysis, and so the system has a reputation (whether justified or not) of being both wasteful of resources and ineffective. The fact that neither SETAs, the NSF, nor DHET can provide evidence to contest this generally held view is a concern in itself. Monitoring and evaluation in the system has been extremely weak, which means genuine accountability is not possible. In the future, it will be necessary to put in place some indicators and measures that can be used to assess the value obtained from the more than R10 billion a year being invested and to intervene where it is clear that value is not being achieved.

2.14 Structural issues

The question has been asked about whether the very structure of the skills system as a whole is appropriate in the light of the country's skills needs and whether the

current sectoral approach to organising SETAs is appropriate to current and, as importantly, future needs.

Over and above the performance and effectiveness challenges, there are others that need to be considered. These include the following:

2.14.1 The difficulty in establishing appropriate sectors. Industrial sectors are not easy to define and whatever demarcation is agreed there are inevitable overlaps with other SETAs and anomalies that place certain industries in sectors that do not make sense in terms of the real economy. Some industries have felt left out of the system entirely.

2.14.2 Many occupations, including some of the expanding occupations, do not align to sectors. There is a need to consider occupations located in many different economic sectors and whether these are being addressed adequately by SETAs whose focus is sectoral.

2.14.3 There is an increasing focus on skills development along supply or value chains. For example, in the Mining Charter a key focus is beneficiation and strengthening local involvement in the minerals supply chain. When taking skills development to rural areas, many SETAs are now realising that skills development cannot be narrowly focused on a particular sector, but needs to be organised along rural supply chains. The current system militates against cooperation along value chains, and so many opportunities are being lost.

2.14.4 There has been increasing pressure to make skills development more accessible - in all parts of the country and in particular in rural areas. The centralisation of the system's resources in Gauteng militates against this. As SETAs decentralise, their resources are stretched. Some of the SETAs that most need to be located in rural areas are the least able to do so because of their limited levy income.

2.14.5 An overall challenge across the system is the lack of coordination, and the absence of processes to address anomalies and inadequacies as they are identified. Obtaining redress when wrong occurs is not generally possible.

2.15 Challenges in the management of the skills system

One of the challenges in the current skills system is providing effective management of the system. The skills system is an extremely complex one involving a large number of legally established entities, each with their own accounting authorities. Over R10 billion passes through the system annually. There are then the complex relationships and linkages required for the system to function well. This is inevitably very difficult to manage.

There are a number of crucial areas of work that need attention in the Skills Branch of the Department to which all these institutions are accountable. These include: policy and strategy alignment (making sure that policy is consistent and that it is accurately reflected in legislation, regulations, strategies and plans); organisation development (the capacity to step in and assist when functions fail or need support); systems development (with a particular attention to monitoring systems and the management of data within the system); financial monitoring and control (and in

particular measuring cost effectiveness and stepping in when value for money is not achieved).

Although the Department addresses all of these work areas to some extent, there are skills gaps. The most obvious gap is the absence of a labour market economist. A less obvious, but equally serious, challenge is the lack of an M&E specialist in the Branch. There are other examples of posts that either do not exist, or where they are at a post level that is too low to attract the required skills. Whilst it is possible to outsource some of the specialist work of the Department, it is important that a level of in-house capacity is also built. There is need for a review of the capacity needs in the Department as well as in SETAs and other structures to enable effective management of the skills system.

2.16 No single or simple solution to the problems

It is important to note that many of the challenges listed are well documented and are generally acknowledged by the DHET, and by organised employers and trade unions. Many of them are being tackled in recent reforms. There are disagreements on some of the measures being taken (for example, over the reduction in the Mandatory Grant) but in general there is support for NSDSIII, many of the policy goals set out in the Green Paper on the post-schooling system, and for Administrators when action is taken to intervene in a failing SETA. Stakeholders have expressed their ongoing support for processes to address the many systemic problems that exist. Many stakeholders have expressed the view that it is not the system itself or the structure of the system that is at fault. The view expressed is that there is no guarantee that restructuring SETAs will either improve performance or address the challenges. However, in the view of the SSR Technical Task Team it is clear that the status quo is neither appropriate nor sustainable. There is simply too much evidence that the system as it is has failed in its objectives. It is therefore necessary to undertake a thorough assessment of the various options that are available in terms of restructuring the skills system.

3 Skills development in the context of a developmental state

It is important to note that the skills system review is taking place at a critical time for the country in terms of the economy and the economic and industrial strategy that is emerging, and which will guide the work of labour market stakeholders over the coming decade and beyond. After 1990, the South African economy rapidly became integrated into the global economy, and this resulted in some significant adjustments. As in other developing and developed countries, agriculture, minerals and manufacturing employment started on a long term decline, and the services sector became the sector where growth could be expected. The economy expanded by some 3% per year over a lengthy period but because of these structural changes this was jobless growth, with expansion in services being offset by a 'jobs bloodbath' in textiles and some parts of manufacturing.

In 2008, the global financial crisis started to impact. This was partly mitigated in South Africa by the 2010 Fifa World Cup. Huge spending on infrastructure and the income generated during the tournament helped cushion the economy to some extent. However, since 2011 the impact of downturns in global markets has impacted

and continues to impact. Investment has dropped, markets have shrunk, and competition has been tough. As a result, inequality has increased, as has unemployment. The indications are that investment in the country is not increasing at a level required to restore growth levels of 3%, let alone the generally accepted target levels of 5-6%. Tax revenue has fallen and so the significant role of the expanding public service, whilst continuing to be significant, is unlikely to grow as fast over the coming decade.

The impact of dashed expectations and the real hardships being experienced in townships and rural areas have resulted in increased pressure for government to take action. The strikes in the textiles, manufacturing, mining and agriculture sectors are a symptom of a growing groundswell of concern about the socio-economic trajectory of the country. Pressure is growing for the government to intervene to strengthen certain industries and to invest in expanding sectors. There is growing consensus within government and within the ruling party that the state must play an expanding role in the economy. This finds expression in the NDP, the NGP and IPAP. Whilst there continues to be debate around the precise role of the state and the type of intervention there will be in the economy, there is no doubt that the state will be more involved in the coming decade than it was in the previous two decades.

This changing role has not come about through a resolution or sudden policy shift within the ANC. A number of processes have fed into the change. Skills system stakeholders will be familiar with the ASGISA and JIPSA processes, where opportunities were identified and blockages targeted and removed. Since then a number of sector charters have been agreed as well as various accords between government, business, labour and other structures. The general approach is that in each sector of the economy efforts are made to reach agreement on the strategy for expansion and job creation and the key pillars and interventions that will be needed.

Currently, there are significant efforts being put into achieving strategic agreement in the mining and agricultural sectors, and although it is not possible to claim that consensus has been achieved, no one could doubt the seriousness of government in working to achieve the levels of agreement needed to position these two important sectors to withstand the various pressures that they have been experiencing in recent years. The expectation of all stakeholders is that the state will play an important role in these two sectors, and that there must be better coordination of government efforts and resources in these sectors. These are just two of many sectors that are or will be the focus of intense stakeholder engagement facilitated by government departments and agencies. All stakeholders will be required to strategise and act within an agreed framework.

Wherever agreement is reached in a sector, one of the pillars that emerges is skills. Skills are needed to adjust to change, to position workers to change work practices or move to other jobs, for an industrial sector to attract inward investment, and to address the social and economic challenges in areas affected by change. The development of skills is never a simple matter, where certain occupations are targeted, or certain skills developed. Skills interventions have to be linked to other interventions such as investment and/or access to finance, as well as practical interventions around markets and transport. One of the consequences of this is that skills cannot be targeted narrowly in a sector. Skills are needed along value chains

and in sub-sectors that are linked to the main sector. For example, it is one thing supporting a farm with skills, but a farm must package, transport and market the goods produced, and so skills are needed in each of these areas. This clearly poses problems for a skills system that is structured along quite narrowly defined industrial sectors as defined in SIC codes.

The other challenge of sector agreements is that they impact on other related sectors. The challenges cannot be addressed solely in the sector where agreement has been reached. For example, the Mining Charter views beneficiation and mining value chains as key to sector transformation, but beneficiation is primarily a manufacturing challenge not a mining challenge. Skills development to support the mining value chain and beneficiation cannot be delivered by the narrowly demarcated MQA. Partnerships and other arrangements are needed to address this issue, and it has been proving extremely difficult to put such arrangements in place.

As will be seen from the international research into effective skills systems, the consensus that the South African government and stakeholders are seeking to achieve tends to be formalised into structures and legally underpinned agreements. In Germany and the Scandinavian countries there is a long history of formal agreements between the social partners backed by legislation. In Germany this takes the form of works councils in all major companies. Agreements cover long term investment, employment, and skills. Skills development is part of a wider set of agreements where skills development supports the wider strategy. In South Africa, the formation of Nedlac is a step in this direction but there has been limited progress in terms of formal sector structures or structures at company level that have anything like the remit in the countries mentioned. The NDP, NGP and IPAP are seeking to drive an agenda of more formal sector wide agreements, and whilst such things will take time, it is important to envisage more formal arrangements in the future within which the skills system will be able to function. In conceptualising a future skills system, it should be possible to envisage it as part of a wider set of structures and agreements. Care will need to be taken in moving towards this approach not to put in place lengthy decision-making processes that act as an impediment to speedy adaption to global changes and challenges.

Box 9

Singapore as 'Developmental State'

Singapore has been defined as the archetypal 'developmental state'. Key components of this trajectory include:

- At least four phases of state-led industrial policy to move Singapore continuously up the value chain.
- A number of very effective key state agencies capable of driving continuous improvement, including the Economic Development Board (EDB) and the Workforce Development Agency (WDA).
- A highly efficient state bureaucracy able to implement effective cross-sectoral horizontal coordination – a key ingredient required for long-term planning.
- A two-pronged approach to investment capital, comprising the encouragement of multinational corporation (MNC) investments whilst buttressing this with public investments in infrastructure and government-owned companies.

This report and the recommendations derived from the research conducted during 2012 and 2013 are therefore based on the premise that stakeholders are committed to achieving greater levels of consensus over the needs of the economy and the role of skills development in supporting economic growth. The report envisages a state that will be intervening with labour market stakeholders to facilitate agreement on economic and industrial strategy and the role of skills development within that. Legislation will increasingly underpin stakeholder agreement, and provide the framework within which the skills system will be required to function effectively and efficiently to meet government and stakeholder expectations.

4 Overview of international skills systems literature

The focus of the research internationally has been primarily about 'skills systems' and the role Sector Skills Councils (SSCs) play within these systems. SSCs are usually small components of the much larger national skills systems which have evolved over many decades. They should be evaluated in that context.

Skills systems have played a critical role in the evolution of different forms of capitalism across the globe. Variety in the socio-economic evolution of different countries has much to do with the differing social foundations (including the skills system) that underpin capitalist development in these countries.

4.1 Brief overview of four country case studies

This report has adopted an international typology of skills regimes globally using two dimensions: (1) the degree of enterprise involvement in the provision of initial VET; and (2) the degree of state commitment to vocational training. The four typologies are:

- The market model (for example, the UK)
- The collectivist model (for example, the Netherlands)
- The development state model (for example, Singapore)
- The state-dependent market model (as has evolved in Latin America, for example, Brazil)

There are other axes of differentiation in skills systems highlighted in the international literature. For example, a number of institutional and structural factors have emerged historically which have a great bearing on the shape of the VET system in each nation state globally. The most important of these is the precise balance between the two most important demands on the VET system:

- To provide pre-employment initial vocational education and training (IVET) schemes for young people and
- To provide continuing vocational education and training (CVET) for adult employed workers.

Table 1 captures the diversity across skills systems globally. This table tries to summarise the major features of the four country case studies discussed in more detail in the international research report.

TABLE 1: FOUR 'SKILL SYSTEMS' COUNTRY CASE STUDIES

		United Kingdom	Netherlands	Singapore	Brazil
Wider contextual factors					
1	Macro political economy of country	Liberal market economy	Collective or coordinated market economy	Developmental state (with one-party rule)	State-dependent market economy
2	Role of state	Minimal role in terms of neo-liberal doctrine, but in reality the state is very 'centrist', imposing qualifications and targets on SSCs without real employer buy-in	Governance based on a wider social compact between government, employers and unions which determine most social services including training	Hugely interventionist in directly linking education and training to industrial policy needs over 5 decades	Primarily a market economy but state has played a strong role in the economy, especially during the military coup era
3	Employer role	Has little say over operations and expenditure of SSCs	Employers have a strong say over the SSC system – they occupy the driving seat of the VET system	Large employers have a big say, especially the government-linked companies and MNCs, less so SMEs	Large family-owned Brazilian companies and multinational corporations have big say
Operation of the SSC					
4	Demand-led or supply-side	A supply-side model, made up of FET colleges and a large pool of private providers who offer NVQs	Strong employer input of their skill needs, including the changes in demand which are effectively communicated through to the supply side	Strong demand-side input from MNCs and employers. Also long-term state-led manpower planning determines future skill needs (a strategic supply-side intervention)	A demand-side system – the 'S-system' is run by employers to meet employers' training needs
5	Alignment of system, especially the linkages between	Not well-aligned	Strongly aligned	ITE-Polytechnics, universities and continuing	Brazilian education and training highly segmented – higher

	colleges, SSCs and employers			VET system very well aligned	education for the elites has nothing to do with the S-system. Poor articulation
6	Labour market value of VET qualifications	Little purchase in labour market	High value of VET qualifications	ITE and polytechnic certificates well received in labour market. It has taken 3 decades to improve the labour market worth of vocational certificates	S-system qualifications are respected but no training is offered to the bulk of workers in the informal sector
7	Work-experience placements	Not a strong feature of system	All trainees get placements – 200 000 enterprises provide these internships	ITE and polytechnics organise very effective work-experience placements, even internationally	S-system cooperates with employer associations to provide internships and practical work experience
8	Employment rates of trainees	Not high	Employment uptake is very high	High uptake of ITE and polytechnic graduates	Good uptake

In attempting to place South Africa amongst this diversity of skill systems, it most closely approximates (in spite of the attempts made to position the skills system as part of the developmental state) the UK model – a model which has been replicated in most of the former British colonies such as Australia, New Zealand, Canada and South Africa. As with the UK, South Africa is trapped in a market-led model of skills development. Moving from a market approach to either a collaborative or developmental state model will not be easy and will require substantial ‘systemic’ change. For example, the ability to ramp-up skilling outputs requires state institutional capabilities and employer buy-in which are currently not present in South Africa – certainly not in the way they are in Singapore or the Netherlands.

South Africa has struggled – like the UK - to implement the dual challenge of IVET and CVET provision. The Further Education and Training (FET) colleges are the primary means of providing IVET in South Africa, yet throughput rates and quality of learning are extremely low and real work experience opportunities limited – as in the UK. Similarly, continuing VET opportunities are dependent on the efforts of employers to provide customised training for employed workers, or to enrol existing workers in higher level learnerships. The numbers put through these opportunities over the past decade are disappointingly low.

Brazil provides a different perspective on all of these issues. It is primarily a market-led economy, but it has also had a history of strong state intervention, firstly during the Vargas Presidency in the 1930s and 1940s when import-substitution industrialisation (ISI) policies first started, and then again the 1960s and 1970s, when the military junta aggressively promoted ISI.

Nonetheless, Brazil is still a market-led economy, and this is reflected in its training system. On the positive side, a strong employer-led system of vocational training was begun in the 1940s and still operates today. It is known as the 'S-system' because all its many bodies have names starting with the word *Serviços* (services). During the 1940s, with the surge towards industrialisation in Brazil, employers decided they wanted control over the training of skilled and semi-skilled workers. The government agreed that employers' associations would do the training funded by a 1% levy tax on payroll. The first institution launched was SENAI which trained industrial workers. Over time, the SENAI model grew to most other Brazilian economic sectors, with SINAR being the last to form in 1992 for the agricultural sector. The S-system has been exported to most other Latin American countries over the past 6 decades and is a distinctive feature of education and training in that region.

With a longer history than the more contemporary SSCs in our other case studies, the Brazilian S-system today still provides training of high quality. However, its weakness is that it trains employed workers and new young entrants, but not workers in the informal economy, who make up the major part of the Brazilian national economy. The S-system is also independent of the state, and cannot be used as easily by the state to steer industrial and R&D policies, as has been the case in Singapore. In general, apart from the S-system, employers in Brazil do not have a legacy of up-skilling their employees and seeking paths to higher value-added production. The continued export of natural resources with minimum beneficiation taking place does not require this gear change in skilling.

The upshot of all of this is that Brazil still suffers from a large pool of untrained workers in both the formal and informal sectors, with both local and multi-national employers not doing much to ramp-up education and training rates. Brazil therefore shares this human capital constraint with South Africa in terms of future economic growth. The Lula era had a significant impact on schooling, with attendance rates growing significantly after the introduction of the 'Bolsa Familia', a social grant paid to poor parents and linked to the school attendance of their children. Almost 13 million Brazilians benefited from these grants. However, the Lula era has not changed vocational education provision significantly, and the S-system is still the dominant tool.

4.2 The importance of demand-side planning

Another major theme in the international literature is the question of whether skill systems are supply-side driven or demand-led. The dominance of supply-side responses in countries such as the UK have received considerable criticism in the VET literature recently because the vast investments in building the supply-side architecture (including SSCs and the National Qualifications Framework [NQF]) have

not produced an equivalent outcome with respect to increased numbers of skilled people.

This critique argues, firstly, that it is the product market or competitive strategy of an enterprise that determines its demand for skills – and not national government's skills policy. Secondly, the way in which this competitive strategy shapes the utilisation of skills on the factory floor is determined by the choices made by individual companies with respect to: (1) the technologies they choose to use, and (2) their management of production systems and their choices with regard to the adoption of high performance work practices. Improvements in skill are not sufficient on their own to move a company's product market strategy up the value chain, as this requires investments in capital equipment, product development and managerial innovation.

4.3 The shift to knowledge intensity

An important tendency in the economic innovation process globally is the shift towards greater knowledge intensity in production – where the basis for new economic rents is not so much found in the material production sphere as it is in value-adding activities such as design, branding, and marketing. Tangible resources such as land, technology and capital have become increasingly widespread. Because of this, the new competitive advantage lies with the intangible resources of companies. This development has impacted across the globe in a highly uneven way, with intangible activities such as design, R&D, branding, marketing, logistics and financial services being concentrated in the industrially developed countries and tangible activities (actual production) being contracted out to a large band of middle-income developing countries such as China, India, Mexico, South Korea and Singapore.

4.4 Learning in the workplace

A key focus of interest in the critique of the dominance of supply-side approaches is the role played by learning within the workplace in the global economy. This is because the greatest value-add in production is increasingly being generated by the dynamic capabilities of companies and their ability to absorb new technologies and work organisational techniques, introduce new processes and products, and operate in newly diversified fields of the economy.

All these developments have important ramifications for skills development. Skills development in this new context is not only derived on the supply side in terms of increasing the stock of working people with new or upgraded qualifications. It is more importantly derived on the demand side in terms of the way in which human capability, once achieved through education and training, is utilised, deployed in the workplace, and further enhanced over time. The tacit knowledge of production workers and the strategic design, engineering and management skills of middle to senior employees deployed at the enterprise level are the key determinants of economic success in today's knowledge-driven economy.

4.5 Local and regional initiatives

Although the supply of skilled labour is important, it is the way in which production processes are organised and institutionally supported within localised networks that is crucial. There are a number of important factors underpinning the formation of company networks in a local economy, cluster or industrial district. Firstly,

companies benefit from localised external economies (pools of labour skilled in a particular industry, or the existence of specialised competent suppliers in the vicinity). Secondly, proximity between companies in the same industry reduces transaction costs. Thirdly, the division of labour between a large number of small, specialised companies, located close together, facilitates innovation, collaborative technological development and collective learning. These companies benefit from informal institutions and conventions that create high levels of trust and social capital.

The model of workforce development in the USA today has inspired many policy planners regarding alternate models of VET. In the USA, there are over 600 local workforce investment boards and 3000 one-stop-shops which provide a range of employment, training and social services. They operate in decentralised settings and often join partnerships across state-level agencies responsible for economic development and educational operations. This has entailed partnerships with non-profit organisations such as charitable foundations to help finance and deliver specific skills programmes.

The OECD has given this focus on local and regional economies its full support. A key aim of the OECD initiative in jobs and skills is to promote job creation on a scale which can begin to reduce the high unemployment levels experienced currently, particularly amongst post-school youth. Skills development is increasingly being viewed by the OECD as a key component of local strategies aimed at creating new jobs through the facilitation of firm restructuring to increase productivity as well as through the creation of new jobs in the 'green' economy.

Box 10

The OECD approach to building firm competitiveness and skills in localised settings

The OECD is playing a major role globally in persuading countries to adopt a more pro-active skills policy in place of the more traditional passive labour market model of matching jobseekers with vacancies, training the unemployed and subsidising employment for the most disadvantaged workers. The OECD argues that this approach should be superseded by a more active labour market intervention where employment and skills agencies become major economic players through interacting with companies to build their competitiveness and skills base at local and regional levels:

The ability to fuel local growth by cultivating relevant skills is the best guarantee that the business sector will thrive in a given region and, as a result, throughout the whole country. The local adaptation of policies is therefore of paramount importance (OECD, 2008).

What the OECD is proposing is that skills development should be pursued through the prism of local and regional economic development policies - and vice-versa. Skills are at the core of what drives local economies.

4.6 Community colleges

Community colleges in the USA, over the past 15 years since the passing of the Workforce Investment Act in 1998, have been aggressive and entrepreneurial in working with companies to provide customised training for incumbent workers and new entrants. Many colleges have created separate administrative divisions that offer non-credit courses to adults seeking to improve their skills. These divisions engage in a wide range of entrepreneurial activities with companies such as business support and product improvement.

Box 11

The American experience of workforce development

The significant feature of American VET policy is not that it is an entirely voluntary model, but that the federal and state incentives and levers appear very successful in establishing the 'policy integration' of economic development and workforce (skills) development since the late 1990s. This focus on 'integration' emerged with the passing of the federal-level Workforce Investment Act (WIA) in 1998. The WIA requires each state government to fund workforce development in their region. The Act also established the institutional device of 'Local Workforce Investment Boards' (LWIBs) which make bids for the funding of local and regional training initiatives. Today, there are over 600 LWIBs which emerge only if employers take the initiative to start such bodies. Many states have used the WIA and its funds to forge partnerships across state-level agencies responsible for economic development and educational operations, including the community college system, NGOs and charitable foundations who help finance and deliver special training programmes. In doing this work, the LWIBs have developed significant expertise and understanding of the workforce needs of businesses and providing customised services that meet their needs.

Community Colleges have 'enviable locational assets' because of their regional distribution in the states and their ability to provide job training and placements for cluster companies. Also, sector strategies are designed to serve hard-to-reach populations at the lower end of the wage scale. The colleges have a regional and local infrastructure that can reach these at-risk communities.

5 Vision and mission of the skills system

5.1 Vision

The following is proposed as the vision for the skills system:

An inclusive and integrated skills system that is responsive to the needs of the economy and society now and in the future.

5.2 Mission

The following mission is proposed:

The skills system aims to:

- Develop relationships and partnerships that assist in achieving the vision

- Coordinate with other education and training sub-systems to ensure an integrated approach to vocational education and training
- Create an enabling environment for matching supply and demand within an expanding labour market
- Develop and implement evidence-based plans for meeting the skills needs of the current and future economy
- Build effective structures and capacity to develop, fund and implement relevant programmes to address skills needs; and
- Monitor and report on skills development, and evaluate its impact on economic growth and development.

6 Fundamentals of an effective skills development system

This section of the report addresses the questions, 'What should a successful skills system be doing? What functions must it do well? What key competencies does it need?' Examining international experience as well as the positives and strengths within the South African skills system, there is a level of clarity as to what a skills system should consist of. There are a number of key fundamentals that must be in place irrespective of the type of skills development system implemented. In other words, regardless of the structure, the system must do certain things well. These are necessary for the proper functioning of the system overall and are described below.

6.1 Identification of sector skills needs

Effective skills planning and development are dependent, amongst other things, on: collecting accurate supply and demand data; conducting thorough and reliable research; effective data collection, management and analysis; labour market forecasting; reliable scarce and critical skills identification; and a central institutional mechanism that coordinates these processes and provides a national view of the skills needs of the country.

It is important that research is properly resourced and that it is given the status and space within the system to be effective. Very often in the current system, research is managed in a crisis manner and seen as a compliance matter rather than being a serious endeavour designed to support strategic thinking and planning.

6.2 Strategic skills planning

The skills development system requires the development and implementation of proper strategic planning processes that clearly illustrate its strategic direction.

6.3 Learning interventions: development & implementation

The development of learning programmes must be based on an assessment of actual skills needs, especially scarce and critical skills needs. There is a need to clarify terminology in relation to these terms as they have different meanings. Some stakeholders use the term 'critical' skills to describe what other stakeholders call 'scarce skills'.

Learning interventions and programmes funded should address these needs so as to have greatest impact. It is important that programmes address not only current needs but future skills needs. Training providers should not be allowed to drive the skills development agenda. Training must be based on actual need. Currently,

SETAs are the interface between the employer and the provider. Such an interface is important no matter how the skills development system is organised as it enables a better fit between the types of learning programmes provided and the skills needs of the economy. Greater impact is also dependent on the utilisation of appropriate implementation levers that are best placed to meet the strategic objectives of the skills system.

6.4 An inclusive system

It is critical that the system is built on the basis of inclusion. The system cannot be one that caters for large companies only, or those located in large urban centres. It must be accessible both geographically and in the way that it reaches out to those who find it difficult to conduct business online. This does not necessarily mean opening offices in all parts of the country, but it does mean allocating significant resources to putting in place local access, whether in the form of offices or in the form of partnership arrangements with existing local structures. Whatever system is adopted, the issue of coordination within the system and with partner organisations and structures will be important.

6.5 Provider profile

There needs to be a balance of high quality public and private providers. Where skills systems are successful the public vocational system plays a significant role. The skills system must seek to develop partnerships with local and regional providers in the post-schooling education and training environment, particularly public FET colleges and public universities. Particular emphasis should be placed on building capacity in rural areas so as to ensure sustainable provision in these areas. This may require direct intervention on the supply side in rural areas.

6.6 Policy alignment

Policy alignment within the national skills development system is crucial as is alignment between policy, strategy and implementation plans. The international literature points to the need to have clarity on what is expected from the system both on the demand and supply sides. For example, having a very detailed and structured National Qualifications Framework and structures but a free market approach to demand does not work. Equally, having very well coordinated and articulated demand but no real coordination of supply also results in weaknesses. Policy must address the need for improved service delivery.

6.7 Monitoring and evaluation

M&E is about monitoring the performance of the skills system with respect to it implementing its strategic intent. M&E is also about evaluating the impact of the system with respect to skills development in the economy. The focus of M&E should not simply be on implementing large numbers of learning programmes and achieving large numbers of enrolments and qualifications but on implementing quality learning programmes that achieve predetermined outcomes and have impact. Evaluations need to be conducted to assess the impact of learning programmes. Such evaluations must be used to inform better planning and implementation within the system. M&E should ultimately be used as a tool for improving service delivery.

It is a serious criticism of the current system that effective M&E has not been done, and continues not to be in place. The 2012 MTT report repeats the concern expressed in the Nedlac report of 2008. There will be skills system stakeholders who

will express the view that many of the criticisms of the current system are not based on hard evidence, and that had there been effective M&E some of the problems being experienced would have been addressed. Whilst this is probably true, it is important to point out that M&E is a legislated requirement of SETAs that has largely not been addressed either by SETAs, the NSF or the national department. The future system must have a strong M&E framework and system built in from the outset.

6.8 Quality assurance

The skills system must include thorough quality assurance and quality management where necessary. The system must not adopt a purely bureaucratic approach whereby quality assurers become consumed with compliance processes with no real understanding of, or focus on, the actual skills development needs of the economy. In other words, the system must not use quality assurance in such a way that it prevents real skills development needs from being met. Work will be needed to develop a quality assurance regime that is simple to understand, properly resourced, cost effective to administer and above all focused on quality and impact, not on compliance.

6.9 Governance and leadership

The skills system must be strongly led by both organised business and labour and relevant government departments and, importantly, involve independent sector specialists who have expertise within their respective sector or industry. The system should avoid structures that encourage stakeholders to fight over resources, representing narrow interests and distracting those structures from doing effective work. A more holistic approach to meeting national skills development needs can only be achieved if role-players in governance and leadership capacities are able to drive the national skills development system in the long-run, in such a way that it is not confined to individual sector or economic interests. Good governance and leadership must also ensure that the financial undertakings of the system are above board.

There is a need to consider carefully what national stakeholder structure is needed. The MTT report recommends the dis-establishment of the NSA. The NSA is a stakeholder structure that has been unable to act strategically in fulfilling its mandate of advising the Minister. The problem of representing interests other than the national interest is one that has been evident in the NSA as well as in SETA boards. In dis-establishing the NSA it will be important to put in place a structure that enables different stakeholders to participate in and own the emerging skills development strategy. In establishing stakeholder structures there is a need to ensure that there is a greater emphasis on skills and knowledge to carry out the role of stakeholder oversight.

6.10 An effective and credible funding model

Although there is general support for the levy grant system as a mechanism for funding skills development there is less support for the way that it is managed. Stakeholders talk about a 'lack of trust' and a belief that funds are not being used for what they are intended. If an effective skills system is to be built that is sustainable, it must include a funding model that is fit for purpose and that has the support and buy in of stakeholders.

6.11 Human capacity

A feature of successful skills systems is the calibre of people employed in the system. Skills systems are complex structures required to do exceptionally difficult things in changing economic circumstances: research and planning is difficult, and supply and demand forecasting exceptionally difficult; brokering agreement between labour market stakeholders is not easy; designing programmes that integrate theory and practical learning is highly skilled work; project managing implementation of such programmes requires a mix of a number of high level skills; monitoring and evaluation requires high level expertise. The system needs to attract and retain people of exceptional skills in a wide range of functions.

In the South African system there has been little attention paid to the quality of people employed within the system, and there are many examples of inappropriately skilled people being employed. A recent skills audit conducted in one of the SETAs placed under Administration showed a complete mismatch of skills and functions, with most managers and senior officials not having the qualifications or experience for the functions they were performing. Stakeholders consulted for this review reported a concern that when seeking advice they get different advice from different people in a SETA and from different SETAs. Employers and providers engaging the system find the people they interact with lack the knowledge and skills required. There are also well documented skills gaps in critical functions. When the HSRC conducted an evaluation of NSDSII they found that most SETAs could not provide data, highlighting an almost complete absence of skills in relation to data management and analysis. A review of evaluations conducted for the MTT on SETA performance found limited evidence of capacity to conduct, or even contract service providers to conduct, evaluations. The MTT also found that most SETA lacked research capacity to produce a sound SSP. The many bureaucratic delays in disbursing grants point to serious gaps in administrative skills.

This is not an easy matter as many of the skills can be classified as 'scarce' and there is competition in the labour market for such skills. Many SETAs find themselves needing to contract in skills and are criticised for doing so, but have little choice if they cannot recruit or if they lose key staff at critical times. The future skills system needs to address this challenge, possibly even developing specialist qualifications and sponsoring programmes at Masters level for key occupations within the system. Recruitment and retention strategies will be needed to staff the system with people capable of raising the bar in relation to performance and impact. The system that is built for the future must be based on a realistic assessment of whether adequately skilled people can be recruited to enable it to achieve its stated goals. One of the challenges cited in some SETAs is the perceived temporary nature of employment, with contracts being tied to the five year NSDS cycle. There may be a need to review this approach if highly competent staff are to be recruited and retained.

There are also capacity challenges in relation to governance. In SETA accounting authorities as well as the NSA there are challenges in selecting the right people to be able to engage strategically, and to bring such people up to speed with policy, legislative and other developments. In addition to establishing effective recruitment and selection criteria, there is a need for more effective training.

6.12 Brokering partnership and collaborations

A key role of successful skills systems globally, and one that lies behind many of the success stories within the South African skills system, can be described as brokering. Skills Councils do not train or employ, but broker or facilitate employers and training providers working together to achieve integrated learning. Brokering takes place at the level of the national economy, at a sectoral level, across sectors, regionally and locally. There are various mechanisms and incentives used as part of the brokering process, and the result is generally practically focused partnerships and collaborations, often underpinned by formal agreements or contracts, based on shared interests and commitments. There are many examples of effective brokering in the existing system that will need to be built on and strengthened in the future system. Any transitional processes from the existing to the new system will need to pay particular attention to maintaining the strong partnerships that have been established by skills structures that have developed the brokering role effectively.

6.13 Functions and their effectiveness

It is not the purpose of this report to delve deeply into structures or organisational design either in the current system or in the skills system envisaged for the future. It is proposed to engage with this in much more detail in the next phase of this review. However, it is worth noting a number of structural challenges related to the structuring of the above fundamentals within the current system:

- There are functions that consistently attract the attention of the Auditor General and which seem to be problematic across much of the skills system. These include value chain management and accounting for grant disbursements.
- Some of the most important functions such as research, skills planning, and programme design have been assessed as not being reliable and there are existing plans to centralise these.
- Much of the skills system struggles to establish basic administrative processes that enable services to be accessed. This includes the IT and database challenges and the need for an integrated system that enables data and information on system functioning to be accessed and used for management and monitoring purposes.
- There is increasing pressure to establish specialist functions in skills structures. These include M&E, economists and industry specialists, company secretary, and communications specialists. It is very difficult for the range of high level skills required to be replicated across 21 SETAs.

Overall, there is a strong case to be made to rationalise the functions into back office functions, specialist functions and front office functions, and to review where each can best be located. Whilst centralisation will not be the answer to all the problems outlined, there are many functions that could be shared across the system and which would achieve efficiencies as well as enabling resources to be better focused to improve access.

7 Key outcomes of the skills development system

The national skills development system must seek to achieve the following key outcomes:

7.1 A ramping up of skills development provision

Without a concerted effort to ramp up provision, the supply of skills will continue to fall behind demand. Emphasis should be placed at a policy level on strengthening and expanding vocational education and training. Only in countries where this strategic choice has been made have real and lasting successes been achieved. Where policy is either inconsistent or half-hearted the result is often a vocational system that has no credibility or stakeholder buy in.

7.2 Strong partnerships

The sheer scale of our skills development needs requires a recognition that no single department or institution can achieve what is needed. Strong and lasting partnerships are needed. Such partnerships should be at the national, regional and local levels. There are different types of partnerships that work, including state legislated, incentivised voluntary partnerships, and institutionally embedded schemes. In the South African context, care will be needed to clarify how partnerships can be put in place.

7.3 Buy-in from business

As employers in the economy, the business sector needs to buy into the skills development agenda. Business stakeholders need to drive this agenda and do so in a manner that is more than pursuing company or sectoral interests. In successful skills systems, employers are providing strategic leadership, providing important information and direction on how the skills system can contribute to meeting national economic interests, now and in the long-term.

7.4 Skills needs of enterprises by size

There is a need for a targeted, focused approach to large and medium-sized businesses, small and micro-sized enterprises, the informal sector and the unemployed. The skills system must address the skills needs of each, recognising that the nature of such enterprises differs in each sector of the economy. Particular emphasis must be placed on medium-sized enterprises where the greatest potential exists for the creation of reasonably well paid jobs.

7.5 Skills as part of a wider agreement on the economy

Given the history of the country and recent policy shifts towards promoting a more collective process of economic policy engagement between government, organised labour and business, the development of a formal agreement between labour market stakeholders is needed. It is not necessary that there should be replication of tripartite structures throughout the skills system, but there is an urgent need for a strategic agreement on what the system is intended to contribute to the economic agenda.

7.6 Linkages between formal education, the skills system and the workplace

It is important that the skills system plays its key role at the interface between the world of work and the formal education system. At a school level, learners need to have more information about learning and career pathways. FET colleges must have strong linkages with local employers and programmes that address the needs of learners and employers. Universities must also have such links, with students having continuing access to the workplace experience and learning appropriate to their studies and career plans. Learners achieving qualifications with FET level outcomes

should be able to access programmes at higher education level. A critical focus of the system must be continuous increases in the number and quality of work placements, learnerships and internships.

7.7 Meeting current and future needs

The skills system must develop a long-term vision for the country and must not be hindered by short term demand. Ways must be found to anticipate the needs of the labour market in the medium term and position the economy to attract investment in industries and services of the future. This is not solely about skills demand forecasting (e.g. how many artisans will be needed for the Strategic Infrastructure Projects?) but also about strategising on future industry opportunities (for example, green industries or telescope development) and ensuring that the country has the skills that will give potential investors confidence that capacity exists to establish viable businesses.

7.8 Balance of employer skills needs and national developmental prerogatives

Employer skills needs are largely short-term and focussed on individual business needs. Whilst it is important that such needs are addressed by the skills system, there must be measures in place to drive the broader, national skills development agenda of the country. This skills development agenda is also closely tied to the transformation agenda and the creation of a more equal society.

7.9 Real skills needs addressed

The skills system must ultimately address real skills needs, based on thorough research and skills planning, and must have the ability to be flexible and adaptable. The system must address the skilling, upskilling and reskilling of our population, with a renewed focus on the youth.

7.10 Contributing to economic growth, productivity & creating meaningful employment

The skills development system is essentially the engine for driving economic growth, increasing productivity and creating meaningful employment. Its success can be attributed to achieving each of these outcomes jointly. The system must make, and be seen to be making, a difference to the lives of people engaging and the enterprises taking part in programmes.

8 Models

There are various ways in which countries organise for skills development. South Africa should consider a model that would respond to, or address, skills development challenges and also support economic development objectives. In developing various models, there are a number of capabilities or fundamentals that should be inherent in the system. The models below assume these capabilities and fundamentals in each of the models, though there are some that make the fundamentals more achievable than others.

The models below have been structured to depict a specific focus with a purist approach. In other words, the motivation is based on the strengths of a particular model without exploring the possibility of including aspects of other models. The intention is to provide stakeholders with the opportunity to explore the strengths and

weaknesses of the various models and to determine what the ideal system would look like. In reality aspects from the various models would be combined to develop a hybrid model that would enable the country to achieve a step change.

8.1 Model 1 – Sectors (status quo)

The current institutional arrangements could be maintained, with efforts directed towards building capabilities within existing structures. There would continue to be some adjustment based on natural ‘fit’ and to address challenges in specific sectors. The mandate and expectations would have to be reviewed and reaffirmed and some new skills injected into them. All the deficiencies of the system would need to be dealt with and efforts made to ensure stronger collaboration with, and buy in by, employers.

It needs to be emphasised that many of the criticisms and weaknesses in the current system are not caused by structural challenges. Some (such as the move to decentralisation and associated costs) are structurally linked, but many such as poor administrative systems and supply chain management processes are not. In fact, such problems, if not addressed, are likely to be replicated in any new system that is put in place.

There is a danger that having identified the problems, the wrong solution will be found. Having identified the key weaknesses in the current system, and the key characteristics of the future system, the answer presented is to ‘restructure’. Such a response to addressing some of the more obvious systems weaknesses would be an error. Restructuring will not in itself address the problems, and could exacerbate them during what would be a lengthy period of transition.

Whilst it is difficult to argue with the overall critique of the system as a whole there are pockets of good practice within the system. For example if we look specifically at SETA’s there are some that are doing a good job in some sectors and in some regions. Some argue that it would be more productive to build on those strengths and address the weaknesses where they exist. Continuous learning and improvement may be a more successful strategy than restructuring or building an entirely new system.

However, some of the SETAs, despite being afforded adequate support and opportunity to implement turn-around strategies, have proven to not have the required commitment to take advantage of such initiatives. It is to be expected that change would be met with some level of resistance. However, it is observed that in some of the instances there is simply lack of capacity and even willingness to allow for better methods that would enable effective functioning of the organisation. Institutionally, a significant number of SETAs do not have the human capital required to effect change with the level of aggression and pace required by the system.

Whilst appreciating the benefits of continuity and not having to overhaul the system, it would be negligent to overlook the extent to which numerous previous interventions aimed at supporting the current institutions to function better have failed. There is very little positive outcome that can be acknowledged from a majority of very well designed interventions aimed at addressing strategic and operational

shortcomings currently prevalent in the system. These have often come at a huge financial cost, resulting in inefficient use of a budget that is already overstretched in enabling the system to deliver on its core business.

Should the current system be maintained, there remains doubt about its ability to provide for skills planning for future skills needs. The lack of relevant expertise to research and analyse labour and economic dynamics within the SETA system compromises skills planning that would meet the evolving needs of the economy. The current system is simply not designed to plan effectively for long-term supply. The development of a central institutional mechanism for skills planning will address this challenge, but it needs to be acknowledged that this will have an impact on the functions and structure of SETAs. Significant change will result from the establishment of the institutional mechanism.

Generally, the current system does not address the needs of small and micro enterprises. This is a serious weakness. A further prominent weakness of the current system is its limitation in supporting regional-based skills development. As a result, the opportunity for strong and effective skills planning that is organised around well pronounced regional skills needs is left unexploited. A successful skills system should not undermine the strength of a regional component of skills planning.

Some of the persistent challenges confronting the system could stem from the lack of organisational and structural uniformity of the SETAs. There is a lost opportunity in cross-sharing of information and expertise that would elevate the performance of all SETAs to a similar level of performance. An effective skills system should ideally be based on standards that require uniformity in how the organisations are designed to operate.

In addition, some of the SETAs are structured in a manner that results in the wastage of financial resources through bloated management structures which do not seem to contribute constructively to the functioning of the organisation. In some instances, these structures are a glaring hurdle in the smooth running of the SETA. The confusion seen in some of the SETAs on the role of the head office of the SETA and its regional office is a result of the poorly designed organisational structure. The internal contestation for roles leads to a poor service to member companies and further weakens the system in delivering on its objectives.

There is a conspicuous disconnect in many sectors between the SETAs and industry which is largely a result of industry losing confidence in the system due to the persistent shortcomings of the SETAs to support employers in skills development. It would require a significant amount of effort to forge better and stronger ties with employers under this current model. There are even instances of levy paying employers who are committed to the national skills development imperative but who chose not to participate in skills development initiatives of the SETAs purely due to the incapability of the SETAs to deliver on their commitments. Such wastage of financial resources is unnecessary and represents a lost opportunity in the advancement of skills development.

Any attempt to rectify the problems of the current system should reflect on the causes of failures of previous efforts and seriously consider both the financial and

non-financial opportunity cost that come with such an effort. It should be considered whether further 'shocks' to the system would achieve the desired effects or would simply further hamper the ability of the system to function effectively.

8.2 Model 2 - Voluntary system

The voluntary system of skills development would retain the levy, with access to funds for structures being based on voluntary collaborations between stakeholders. The voluntary system is premised on the notion that employers know what their skills needs are and are best placed to coordinate their own training without the bureaucratic burdens brought about by SETAs. This model views state intervention in the form of SETAs as failed institutional arrangements for skills development and lacking the requisite capacity and efficiencies to drive skills development in South Africa. The voluntary system can therefore be understood as a market-led skills system with minimal state intervention.

Box 12

Brazil's S-System

Brazil has no public sector VET system. Instead, it has an entirely employer-owned system of vocational training known as the S-system which was started more than 70 years ago in 1942 (see page 33 of this report for further details). Ever since this date, the private sector has been largely responsible for providing vocational education and training for the Brazilian workforce. Brazil's S-system is now one of the largest of its kind in Latin America.

SENAI, the National Service for Industrial Apprenticeship, was the first agency to be established in 1942. There are eight other agencies operating in other sectors. The objective of SENAI is to train and qualify personnel for industrial sector jobs. It has branches in 26 states. A central SENAI unit exists to coordinate across the state branches.

In the 1980s, SENAI was modernised, acquiring the latest technology to set up teaching centres for R&D. With the help of international donor assistance, this modernisation was very successful, and the SENAI network now comprises 765 operational units. There are 230 vocational education centres, 38 technology centres, 369 mobile units and 128 training centres. In 2003, SENAI enrolled 1 918 363 trainees.

The SENAI Innovation Program aims to encourage partnerships between its technology centres and industrial companies. The Innovation Programme seeks to integrate the significant capacity of its professional staff with the research, development and innovation needs of industry.

In this voluntarist system, government's role is that of being responsible for development of policy on skills development and creating an enabling environment for skills development to take place in the economy. A national skills planning mechanism funded by the state is being established to harmonise national economic policy with the needs of the economy to identify trends and skills need forecasts. This national mechanism informs employers, education and training institutions and government on the areas of scarcity and future skills needs. In turn, government's qualifications body develops qualifications that employers voluntarily adopt for training.

As seen internationally, employers within a business cluster may come together to discuss issues of common interest such as logistics, skills development and

safety/security issues affecting their businesses. Similarly, businesses such as those involved in the construction sector may establish a body to discuss issues of common interest, including advancing development of specific skills where they are experiencing skills gaps.

The model assumes that some employers are training anyway, and in some instances spending much more than the 1% of their payroll costs on training. Because employers know what their skills priorities are, and will be further informed by the national skills planning mechanism, they will inevitably focus on training in skills that are critical for the economy. In order to encourage employers to train employees voluntarily, a regime of tax incentive packages would be made available to employers conducting training, especially in the occupations identified by the national skills planning body. The voluntary system would do away with all the negative perceptions and inefficiencies associated with the current skills system. In the quest for tax incentives, employers would be motivated to train and in that way they would be advancing skills development in a voluntary way.

It would be possible to envisage a system where funds could be made available to structures applying for funding through a fund established for this purpose, such as in Singapore (Box 12).

Box 13

Singapore's Endowment Fund for training

Singapore's Lifelong Learning Endowment Fund was set up in March 2001, with an initial capitalisation of \$500 million. Following further contributions from the government, the fund has now reached \$5 billion. Annual interest earned on the Endowment Fund is used to finance and expand vocational education and training infrastructure. The strength of this fund is that it continues to contribute annually to improving training even during recessionary conditions.

A voluntary system by its very nature goes against the founding principles of the current system which included bringing on board the previously disadvantaged people who were marginalised pre-1994 and could not access education and training opportunities. South Africa is currently faced with a problem of unemployed youth who are not in education and training and the voluntary system does not seem to cater for absorbing them into the labour market. There is therefore a need for the state to make alternative arrangements to address national development challenges or incentivise this area of need.

The voluntary system assumes that employers would voluntarily train and while this could hold true for larger employers with sufficient capacity, medium sized to smaller employers are not likely to volunteer to train. They are more likely to expect to employ ready-made skills from the market and this could be problematic, as it would limit workplaces available for experiential learning, which is necessary in the development of entry-level skills. Moreover, smaller and medium sized employers generally do not have the capacity, infrastructure and resources to engage in training

and development as they often still grapple with the mere survival of their businesses.

This model does not take into account the regional development agenda of government and the development of the informal sector. Smaller employers require support in terms of skills development to be able to grow and potentially employ more people. A voluntary system lacks the capability to support smaller businesses and those in the informal sector. It is more suited for larger employers. The system is not likely to support regional economic development because smaller rural based employers would find it hard to engage in skills development without any kind of support.

This model also depends on there being capacity and quality of vocational education and training institutions being in place in all provinces. The danger of a fully voluntary system is that existing inequalities and disparities between regions could be deepened rather than reduced.

8.3 Model 3 - Occupation-based system

An occupationally-based system of skills development will have a number of occupationally-based skills development bodies. In organising around occupations, the focus would be on developing core occupations that are critical for the economy. This would take into account the country's economic structure as well as its development trajectory. A number of these core occupational groupings (e.g. artisans, professionals, engineers, nurses, doctors) would be identified through consensus with stakeholders and social partners. The skills development bodies would be supported by a national skills planning mechanism whose role would be to identify trends and skills needs forecasts in the economy.

The skills development bodies would broker partnerships with employers to achieve agreement around priority skills and will use information from the national skills planning mechanism to facilitate the development of qualifications. The bodies would further work with public and private HET and VET providers to ensure that such qualifications are being provided to learners in line with the requirements of employers. Employers would belong to an occupational body that best represents its workforce. The occupational bodies would further be responsible for ensuring that quality provision is achieved through their work with providers.

SETAs have typically developed qualifications based on information from employers and in some instances on the insistence of training providers. As a result, there have been some qualifications that became obsolete due to lack of take up from employers.

Employers find that they often have to straddle various SETAs or training providers to access training programmes located across various sectors. The occupational system will present some predictability in this respect because qualifications linked to specific occupations would be located within one body and quality management would be the same. The occupational bodies would also be more market focused instead of sector focused as they would be responsible for occupations across the entire economy.

This approach would enable easier provision of work integrated learning or experiential learning opportunities by employers and ensure absorption of graduates by employers as skills development would be focused on key occupations that are required by employers. Furthermore, the occupational system ensures relevance of qualifications by working with employers and ensuring that they drive skills development. This approach could see large numbers of qualified people being produced by the skills system and with skills that are relevant for the economy. There have been concerns relating to a lack of development of various occupations including artisans and professionals. Occupational bodies could potentially drive the development of a large number of such skills where there is high demand and low supply.

The approach could be problematic in relation to regional economic development as well as in the development of the informal economy. The current skills system has generally not been able to drive skills development at a regional level, with most training inevitably taking place closer to major centres. The occupational system is likely to perpetuate the same problem if they do not have a clear plan for ensuring regional representation.

Smaller employers and medium sized employers could find it difficult to access skills development unless there are easier ways for them to access available support. Those in the informal economy could also be left out of the system as they may find it difficult to navigate the technical processes as is typically the case with SETAs. Unless smaller businesses are supported through skills development, they are not likely to grow to a point where they are sustainable and able to generate much needed employment opportunities.

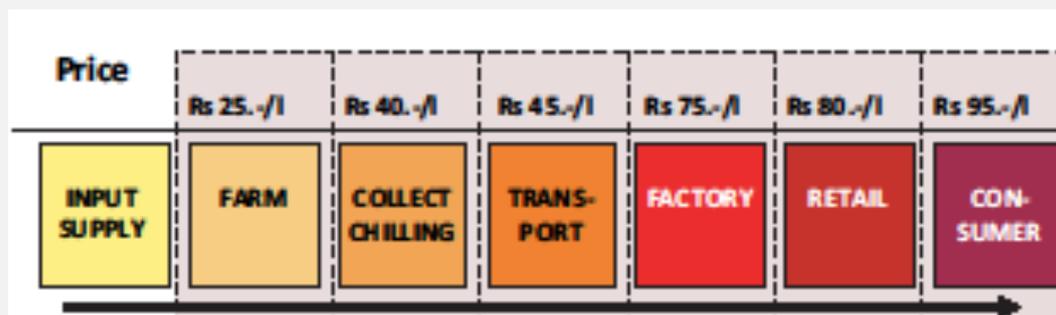
The sectoral focus would also be lost and this could frustrate the development of such sectors. It is likely to be difficult to organise especially if employers have their occupations belonging to multiple organising bodies. The occupational bodies would have to be flexible in their approach to qualification development as certain sectors may require some customisation to suit certain contexts. A lack of such flexibility would be risky to the setup and could compromise their existence.

8.4 Model 4 – A value chain-based system

A value chain-based system will result in the establishment of skills development bodies that are based on value chains existing in the economy. Organising around this model will require mapping of different economic value chains and focusing on developing skills along each and every aspect of the chain. This would ensure that all systemic blockages to skills development are eradicated and there is a skills development connection from primary resource production, through to manufacturing and the tertiary sectors of the economy.

Box 14**What is a value chain?**

A value chain describes the full range of activities that are required to bring a product or service from conception, through the intermediary phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use. This includes activities such as design, production, marketing, distribution and support services up to the final consumer (and often beyond, when recycling processes are taken into account).



The activities constituting a value chain can be contained within a single firm or divided among different companies, as well as within a single geographical location or spread over wider areas. The term 'value chain' refers to the fact that value is added to preliminary products through combination with other resources (for example tools, manpower, knowledge and skills, other raw materials or preliminary products). As the product passes through several stages of the value chain, the value of the product increases. (Source: Herr, M and T J Muzira (2009) *Value Chain Development for Decent Work: A Guide for Development Practitioners, Government and Private Sector Initiatives*, International Labour Office, Geneva).

In this system, the skills development body works with various employers along the value chain to identify skills needs and to facilitate skills development. In other words, the skills structure becomes a value chain body. A value chain for the production of food could have agricultural employers, transportation and storage and food processing. A value chain-focused skills development body would work with the employers within such a value chain to facilitate skills development, with a view to improving effectiveness and competitiveness of the entire value chain.

Box 15**Improving entire 'value chain' systems in Queensland, Australia**

The Australian state government of Queensland adopted a series of value chain or 'skills eco-system' pilot training projects in 2002. Over 60 such value chain strategies have since been established.

One success story is the Western Downs regional mining pilot – the success here being largely due to the mining boom across Australia during the 2000s. Prior to mining, the Western Downs region was rural, agricultural and sparsely populated. Today, the region is among the highest local government growth areas in Australia, and the economy continues to grow, again mainly due to mining.

Significant industrialisation has taken place in Western Downs over the past decade – including a power station and mine, an ethanol bio-refinery, several gas plants and a railway line were all developed in relatively rapid succession, attracted by large natural resources, with other large, multi-national companies following.

Given this rapid industrialisation, the Western Downs Regional value chain/skills ecosystem was established in 2005 to build regional capacity so that the community could develop the skills needed across all of this industrialisation activity from within the pre-existing population. The strategy forged a community and industry culture of taking ownership of skills issues and coming up with endogenous solutions. Initially the most active player was the economic development sector but over time representatives from multiple government departments came together and became involved in implementation. More specifically, the strategy helped local businesses by building them into new supply chains as the major industries embedded themselves. This was achieved by linking skills policy into broader regional planning and economic development.

The SETA demarcation has in some instances resulted in a cocktail of subsectors that do not relate and which are hard to connect falling under one SETA. This invariably leads to a sector that has certain contextual understandings not being advanced or disharmony existing amongst the various chambers.

South Africa exports most of its natural resources with little value having being added. With increased efforts to improve value added to national output and to improve competitiveness, it is vital that skills development is focused on supporting competitiveness, especially in growth areas.

While not much progress has been achieved in the expansion of the manufacturing sector and the economy is currently dominated by the services sector, a value chain focus could enable more dedicated attention to areas requiring skills development intervention.

This approach could enable skills development to be focused on national strategic industrial areas as articulated in the country's industrial policy, e.g. to support industrialisation, and beneficiation of natural resources. Organising around value chains could help nurture such national imperatives and ensuring that national policy in this regard is clearly translated into actionable activities.

Box 16

Building the value chain through partnerships between industry and polytechnics:

The case of footwear in Italy

The Riviera del Brenta industrial district is located across the Venice and Padova provinces. It has a long history of artisanal production in cottage-based industries, including footwear. In the 1990s a decision was made to reposition the footwear industrial district to focus on top-of-the range products in high-quality women's footwear. In undergoing this transition, the companies decided to privilege the high-quality 'Made in Italy' brand as part of the promotion of their own footwear products.

This production shift required changes in the composition of the labour force, most particularly the skills needed in the utilisation of intangible services such as R&D, design, marketing and advertising.

Given the barriers experienced by SMEs in accessing new global markets, a local employers association, ACRIB, was launched with the aim of expanding the global brand of the Rivera del Brenta district. But another key institution was the local education and training institution. The area had a 'School of Arts and Crafts' created in 1923 for professional training in various crafts, and then specialising as a school for footwear designers. In 2001 the school was restructured and became the *Politecnico Calzaturiero*, a private company started by ACRIB (the local employers association).

The principal mission of the polytechnic is the training of entrepreneurs, managers and craftsmen. However, the *Politecnico* also provides key business services to companies. For example, it offers support in technological research and quality control of materials for companies throughout the supply chain. The support of the ACRIB employer network and the establishment of a shared interest in developing the global brand has been instrumental in making this partnership a success.

The challenge with this approach is that there could be sectors of the economy that interface with multiple value chains and there could be some stand-alone sectors that do not necessarily interconnect with any value chain but are on the periphery. Within a value chain, certain employers whose outputs become inputs for the next employer in the value chain could find that they are linked to more than one value chain. For example, a mining house could be producing outputs, which go into both the agriculture and the chemicals sector. In other words, mapping the value chains and demarcating the landscape could prove problematic.

If some aspects of the informal economy are not part of a specific value chain, they are likely to be excluded. The SETA system often disregards some of the smaller subsectors within a sector. This results in little development taking place in such subsectors and this could re-emerge in a value chain system whereby stronger or larger stakeholders could want to dictate the agenda of the skills body at the expense of the smaller players along the value chain. Although in a value chain system such players could be persuaded to understand the broader value chain objectives, the experience of SETAs is that some win and some lose.

Whereas in a value chain system, smaller employers and those in the informal economy could find a place by virtue of being associated with a particular value chain, it could prove difficult ensuring that their skills needs are addressed optimally.

Value chains are typically spread across the entire economy. And while value chains by their very nature are likely to link with rural areas where the primary sector is generally located, the lack of a coordinated regional skills development effort could result in some missed opportunities. As experienced with the SETAs, there are employers that are excluded from the skills development system due to lack of information and generally not understanding what a SETA is about. A value chain-based system would need to understand where its members are located and have ways of accessing them and supporting them. A loose approach of waiting for the employers to approach the skills body is likely to miss certain employers.

8.5 Model 5- Regionally based system

A sound skills system should be both accessible and responsive. Through a regionally based skills system both these requirements are met. In a regionally based skills system, all skills development needs are facilitated and addressed at a regional or provincial level. Consequently, demand and supply needs are more easily articulated and agreed upon, resulting in skills development interventions that respond to these needs.

It is envisaged that within a region, skills development bodies responsible for planning across all sectors present in that region would be established. These would comprise all key stakeholders, including government representatives, employers across all sectors, small business, labour representatives, experts in labour and economic matters and other groupings with a role to play in skills development. In this system it is expected that working relationships amongst the different role players would be favourable due to the locality advantage. Consequently, it would be easier to reach consensus on issues and thus skills development imperatives can be addressed with the required level of focus and speed.

Often, a skills system can be perceived to be ineffective as it falls short of addressing the specific and unique needs of a region. Even where some form of regional presence is in place in a skills system, the regional body is sometimes not correctly structured to function to its potential or is given a limited role. It is expected that regions will have a better understanding of their skills needs and economic and labour market dynamics.

As a result, there is a strong case towards affording them the space to take advantage of their familiarity with the regional dynamics in ensuring that a relevant and responsive skills system is built.

Changes in the economic dynamics of the region can be easily responded to by the system as the time lag that often accompanies a centrally based skills system is not present. The system is designed to easily assume a different shape that would speedily and effectively meet the needs of a changing economic environment.

This could further herald a reduction in red tape and bureaucracy and lead to a system that is effective in planning, decision-making and execution. Whilst the need for an element of a central function may arise, the core activities of skills development in this system will be housed in the regions.

As with all the other models, the regional co-ordination focus has disadvantages. Specialised sectoral focus that is required to ensure growth within various sectors at a national level could be compromised. A regional focus could be seen as segmenting the economy in a manner that is not intrinsically linked.

Moreover, a regionally based system does not provide for an integrated national strategy on skills development. This could give rise to inconsistencies with regards to issues of quality, certification and other aspects of skills development that should be based on a common standard. The absence of central co-ordination in a regional system is a serious weakness as a good skills system should not place priority on one locality at the expense of another. Instead, it should enhance the various

competitive advantages found in each locality through the proportionate allocation of resources.

In addition, if the regional bodies are not filled with skilled human capital, they are bound to fail. Due to socio-economic variances across regions, some regions may not have access to qualified resources. It would therefore be important to ensure that risks associated with incapacity of resources are adequately addressed as a pre-requisite for a successful system.

Whilst the regional system embodies a number of positive attributes that are absent in most systems, it is not adequate on its own. If regional bodies are set-up correctly and resourced adequately, they can function effectively under a centrally located co-ordination function in delivering on skills needs that do not compromise on sector specific requirements or other concerns of a skills system. Central to an effective network of local structures would appear to be the provision of support from a number of centrally located “back office”, shared services and specialist functions.

Another disadvantage is that national enterprises will find themselves having to work with different structures, rules, processes and so on, potentially increasing the time required on unproductive bureaucracy.

8.6 Model 6 - Broad clusters system

Whilst this model calls for the retention of the sector-based approach, its vastly different clustering gives it a largely different look and structure. If implemented, the system would function differently from the current system of 21 SETAs. In this skills system, the sectors as we know them today would cease to exist and instead there would be fewer and broader sectoral clusters. An approach on how the clustering should be effected, would have to be logical and take into account a number of factors including whether the sector falls in the primary, secondary or tertiary part of the economy; the type of skills required within the sector; strategic alignment of the sector to national economic growth policies; and where applicable, elements of regional clustering of common economic activities. The SETAs already have a number of informal clusters that discuss and engage on various topics. This could inform the new clustering of the SETAs where it makes sense. Key to this criterion is that many of the structural challenges experienced by the current system should not creep into the clusters.

It may be argued that this system does not propose any drastic measures to resolve the failures of the current system. However this model offers an opportunity for skills development planning that is better organised and informed by key economic drivers; it introduces an innovative element of agility and dynamism in the planning and generation of skills for the economy. It provides for economies of scale and the development of effective “back office”, shared services and specialist functions located within a broad sector framework. Any good skills system should be designed to effectively respond to the dynamic nature of the skills needs of the economy within a short period. This model arguably goes a long way in enabling the need for easier ability to focus skills generation where it is required and at a larger scale. Larger institutions imply larger budgets and through effective implementation of programmes, this could result in a positive impact in the economy.

One of the key challenges facing the current system is the staffing of the skills system with human resources that possess the required skills. Some SETAs are known to employ unqualified people to perform highly technical functions such as labour market research and the analysis of economic data. In addition, there is lack of brokering skills, which should be the core functions of these institutions. By organising skills planning through fewer and bigger structures, there is a better chance of recruiting staff that are qualified and are experts in their respective sectors. An important benefit of implementing a logical clustering of sectors is that there would be an increased opportunity for sectors to benefit from information sharing and innovation in the same related sectors. This would resolve some of the challenges seen in the current system which could to a large extent be addressed through cross-sharing of lessons learnt from the SETAs as currently structured.

There is concerted effort and financial commitment to promote economic growth through rural development interventions in South Africa. Currently, the skills system is fragmented and thus weakened in addressing this critical imperative of the South African government. Each SETA is left to decide on its rural development strategies which undermine the benefits that could result from a focused approach; the logical clustering of sectors aim to address instances such as these. For example, each SETA is expected to respond to the Strategic Integrated Projects (SIPs) and these have proven difficult and cumbersome for some SETAs.

It is clear that the reduction of the number of SETAs does not necessarily address the current challenges precluding the SETAs from functioning effectively. As a result, there is a possibility that even in the restructured model, the existing inefficiencies may merely be transferred to the new model. The challenge with larger organisations is that inherently, they could have challenges of slower decision-making and more bureaucratic processes. Although currently SETAs experience these challenges, in larger organisations, the problems could be exacerbated.

The rationale for a reduced number of sectors and logically grouping them into stronger institutions operationally would bode well for a skills system in the South African context.

There will be room for much more corroborated engagement between various sectors of the same cluster which would facilitate the much needed generation of skills that are flexible and can respond to the changing needs of the economy. Other institutions in the system such as FET colleges will also benefit from addressing skills demand that is defined by a consolidated and better organised sector.

9 Recommendations

9.1 Principles and framework for decision making

When engaging with stakeholders it is clear that there are different understandings about what the skills system review project is intended to achieve. Stakeholders are keen to engage in a discussion that has the possibility of a long term solution to problems around which they generally are in agreement. However they also seek stability and ask whether this process is aimed at reforming the system or

fundamentally rethinking the system in relation to the needs of the country. In view of these stakeholder questions the SSR-TTT would like to present a number of principles to guide the decision-making process.

9.1.1 Start with the problem statement, vision, mission, fundamentals and outcomes

It is the view of the SSR-TTT that there is a large degree of consensus on the problem statement, the vision and mission, the key fundamentals and desired outputs for the skills system. It will be important to maintain a focus on these broad areas of agreement in taking the process forward.

9.1.2 Focus on the desired system not the change process

A number of stakeholders have crafted their responses on the basis that change is being proposed and that change is disruptive. The SSR-TTT is concerned not to address the change issue at this stage, but to focus on what type of system we want to create. It is important to have a vision for the type of skills system we want for the future success of the skills development system. It is proposed that the road map for moving from the current system to the new one should be part of the business case and implementation plan development (see timeframe below). It is at that point that the very genuine and reasonable concerns on the change process should be addressed. But to focus on the problems of change when determining the most effective system for the future would be an error.

9.1.3 Confirm the importance of the economy

It is important that the basis of the skills system is agreed. This review has not been about specific weaknesses in the system (though clearly these are important), but more fundamentally on whether the current system is capable of meeting the needs of the economy. There is a need for the HRDC to confirm this as a key strategic challenge for the skills system. If the centrality of the economy is agreed, then the recommendations in this report make sense. This is not just about rectifying problems, it is about fundamentally repositioning the system to do what is expected of it, and in particular position the system to address the needs of the economy, so as to create the conditions for growth, development and expanded employment.

9.1.4 An 'integrated skills system' debate

When approaching a review of the skills system, it is tempting to equate this to 'SETA landscape' discussions. The SSR-TTT is proposing not to frame the discussion in that manner. There is a need to look beyond the SETAs, and to include the NSF, NSA, regional skills committees, the QCTO, the levy grant system, the relationships between the skills, VCET and HE sub-systems. In other words, it is important to keep the discussion at a relatively high (system as a whole) level before going into the detail of what the 'landscape' would look like.

9.1.5 Agree a time frame for the business case

Given the preceding points, the proposal is that the HRDC takes some in-principle decisions, and that more time is spent developing a detailed business case before a final decision is taken towards the middle of 2014.

The proposed time frame is:

Timeframe	Activities and outputs
September 2013	<i>Decision in-principle on the future skills system</i>
June 2014	<i>Presentation to the HRDC of a detailed business case and implementation plan</i>
June 2014 - March 2015	<i>Planning the process of moving to the new system</i>
April 2015 - March 2016	<i>Building the new system and managing the change process</i>
April 2016	<i>Full implementation to coincide with the launch of NSDS IV</i>

9.2 Skills system recommendations

9.2.1 Approach to models

The models were developed as ‘purist’ models, each emphasising a different principle, or basis, for organising the skills system. This was done to enable the case for each to be developed and to explore some of the draw backs of each model. All the models, including the alternatives based on different organising principles, have been shown to be inappropriate (on their own) for meeting the current and future skills development needs of the country.

9.2.2 Is the sector based skills system the best approach?

This central question has been at the forefront of the research and the debates in the SSR-TTT. Given the lack of any obvious alternative to the sector based approach should the sector based approach be retained? The conclusion reached is that the sector based approach **cannot** be the only organising principle for the system. The reason for coming to this view is that a system based entirely on sectors is going to lead to inflexible silos. In the fast changing environment that characterises the global economy, there is a need for a much more flexible and responsive system.

There is clearly going to be a sector focus within the system. Industrial planning is done sectorally, there are declining sectors and sectors where growth can be planned for, and sectoral strategies are needed focusing on specific skills needs of sectors. However, there are other organising principles that speak to other needs. These include:

- Structuring skills development within broader sectors - not narrowly defined sectors - enabling the system to address the needs of broad economic sectors.
- Structuring skills development to address the needs of entire value chains. Whether or not this is a logical framework for the system as a whole, this is a critical challenge that the system has to be able to meet.
- Structuring skills development interventions to address the skills needs of occupations located across sectors (for example, ICT skills, accounting skills, management skills).

- Structuring the system to meet provincial, regional and in particular local and community skills needs.
- Structuring the system to meet public service skills development needs.
- Structuring the system to meet the needs of medium and large business and small and micro businesses, including enterprises operating in the informal economy.

So whilst the research conducted for this review does not rule out sectoral structuring of the system, it clearly indicates that an over-emphasis on the sector as the main organising principle is not appropriate. Retaining the sector-based system, particularly in the current framework where it is reinforced by stakeholder structures, will make it extremely difficult for the system to respond to these diverse needs. There is a rigidity or “silo” character in the current system that makes it unlikely that it will be able to adapt to the changing demands of an increasingly fast changing economy.

9.2.3 Key findings that inform the proposed hybrid model

There are compelling arguments for the different organising principles and frameworks. Stakeholders have even motivated for the voluntary system or at least an element of voluntarism. This should not be ruled out, though the nature of the voluntarism would need to be defined carefully. It should be possible within a carefully designed and flexible system to enable some level of voluntarism, for example, for small and micro enterprises. Just as the current sector based approach seems to be inflexible and militates against working along value chains or doing effective work in regions, so too would the adoption of another organising framework militate against addressing sector and other needs. There really is no single ideal system, particularly in a space where the tendency is towards silos. The overwhelming response of stakeholders is to propose a ‘hybrid’ model.

Given the level of agreement on the fundamentals that need to be included in the skills system, a useful approach is to look at a system that has responsibility for different functions located at different points of the system. The system should include national functions, sectoral functions, occupational and value chain functions and local (either regional or district based) functions.

In motivating for a new system, the following key findings from the internal and external research need to be noted:

- The problem statement shows that the challenges go way beyond problems in individual SETAs, the NSF, NSA , the QCTO or the DHET Skills Branch. The system as a whole is not performing, whether examined for effectiveness or efficiency.
- One of the central challenges is the relationship between the skills system and the two other post-schooling sub-systems (CVET and HE). In countries where the skills system is most effective there is a degree of alignment between the sub-systems, that is close to being viewed by stakeholders as integration - at least from the user or learner perspective. Individuals can enter CVET or skills system programmes and progress into work, and then into continuing vocational education or higher education

programmes. The articulation between programmes in the different sub-systems is not what was envisaged and needs to be reprioritised, with the skills system playing an important role in achieving this. This is only going to be achieved through system-wide interventions and linkages, which can only really be pursued if there is central direction being provided. In South Africa efforts are being made to bring individual SETAs closer to FET colleges and universities, but the results are inevitably going to vary across sectors and the levels of systemic alignment are unlikely to be substantial or sustained. A single skills council would be able to drive the alignment agenda much more effectively.

- Some of the key fundamentals of an effective skills system are only achievable across sectors if they are established centrally. There is universal acceptance of this in relation to skills planning. Agreement has been reached that some form of central institutional mechanism is needed to enable and support solid research-based planning. There is also a commitment to centralising quality assurance in the QCTO, though currently this is simultaneously being replicated in all the SETAs. Given that the most serious criticisms of the system relate to the handling of money, the SSR-TTT would argue that the time has come to centralise the funding of skills development. There is also an argument for centralised HR and HRD functions for the skills system, as well as a number of “back office” functions or “shared services” that need to be improved if services provided in localities are to be expanded and strengthened.
- An important new demand is being placed on the skills system that is very difficult to address within the current sector based approach. This is to address scarce skills occupations (or in the language of the economic cluster of government - critical skills required in the economy). These occupations span the entire economy and are located across the sectors as currently defined. There is neither coherent planning for such occupational development, nor sound implementation arrangements for these to be addressed. Efforts are being made to achieve a level of coordination in relation to occupational needs within Strategic Infrastructure Projects (SIPs), but even within the SIPs this challenge is going to be extremely difficult to deal with unless a much greater degree of flexibility within the skills system can be achieved than exists at present. SIPs is only one of many examples of where the needs of the economy cannot be neatly or easily packaged to enable sector structures to respond effectively. Similar problems arise when examining occupations such as specialists in the legal professions, accountancy and book keeping occupations, as well as some of the artisan trades that do not fit neatly into a currently defined sector.
- One of the most difficult pressures on the system at present is for decentralisation. The skills system is universally viewed as inaccessible, and this is particularly the case in rural areas, where SETAs are being urged to establish a presence. SETAs are also being urged to establish offices in FET colleges. It makes absolutely no sense for all 21 SETAs to be opening offices in all provinces (or all FET colleges). What is becoming

clear is that even the establishment of provincial offices by all SETAs would not respond to the access challenge. Only by having a presence at regional or district level will the skills system start to respond to local needs and improve access. There is a strong case to be made for skills offices (or partnership arrangements to establish the presence in the offices of partner organisations) that are 'one stop shops' serving the needs of the local areas, not specific sectoral interests. Economies of scale achieved in centralising some "back office" functions could be used to fund shared infrastructure at local level to address the access challenge much more efficiently than will be possible in a situation where each of 21 SETAs attempt to address this.

- Finally, the case has been made for a system that is flexible. The current system is based on sector silos, reinforced by stakeholders defending their individual, organisational and sectoral interests at the expense of wider national and cross-sectoral needs. There have been moves towards clustering of SETAs in relation to establishing a presence in FET colleges, and some discussion on establishing clusters for broad economic sectors. These moves are welcomed by the SSR TTT as this will go some way to dismantling the narrow sector silos in the current system. However, even when these clusters are established and addressing the needs of wider sectors, other adjustments will be needed to address economy-wide occupations and value chain challenges. Whatever structure is established there will be a need for further rationalisation to respond to changing needs. The SSR-TTT has come to the view that a flexible national structure is required, within which changes can be brought about without the need to make fundamental changes to the system.

9.2.4 The proposed hybrid skills system

Given these findings the recommendation is for a hybrid model. The following is a summary explanation of what a single unified but flexible system might look like.

Structure	Main functions
National	National planning (institutional mechanism) A single national governance framework National stakeholder engagement Receipt of levy income, funding and financial accountability Quality assurance Shared services (HR, HRD and IT)
Sector	Sector planning and prioritisation Programme design and implementation Sector stakeholder consultation
Occupation	Development of occupational qualifications Development of occupational programmes Liaison with QA structures and professional bodies
Value chain	Convening of relevant stakeholder engagements Value chain research

	Coordination between relevant sector offices and occupational desks Management of value chain focused projects
Regional and local	Local planning One stop shops for accessing skills development programmes

The proposal is to establish a single national skills council. This council would be responsible for a number of central functions, including:

- **Planning** - the central institutional planning mechanism. There is already agreement at a policy level that there will be a central skills planning function. The focus during business case development will be to clarify the research and planning resources required centrally, sectorally, along value chains, for occupations, in SIPs, provincially and locally in order to achieve well researched plans that are owned, and made use of, by stakeholders. Once the precise nature of the central mechanism is agreed the linkages within the skills system and between the skills system and other sources of data will be an important focus. Importantly there must be serious attention given to research that enables planning for future needs, addressing for example challenges in relation to green Industries, adjusting to climate change and skills to achieve economic expansion using environmentally sustainable production processes.
- **Funding** - levy income would be managed by, and distributed from, the central body. This does not mean that all funds will be located centrally, but that there will be one location of accountability. The situation currently is one where large sums of money can be accumulated in SETAs. In the future funds will be allocated to agreed plans and will be disbursed as needed to fund those agreed plans. An important part of the planned skills system business case will be to spell out how funds will be distributed to meet the needs identified in the different parts of the system. There will also need to be a review of the National Skills Fund, and its location within a single flexible system. There are serious concerns amongst employers and other stakeholders about the current perceived waste of funds, and in particular non-spending of discretionary grants. It will be important to address this concern in consultations during the development of the business case so as to agree funding models and systems. It is essential that the new system is able to deliver value for money and have credibility amongst stakeholders.
- **Governance and stakeholder engagement** - there would be one central governance structure to replace the many governing structures that currently exist. This body would plan and oversee appropriate stakeholder engagements throughout the skills system. A proportion of the national budget will need to be allocated to enable effective stakeholder consultation at sector, provincial and local levels, as well as within occupations, SIPs and along value chains. The focus of stakeholder engagement must be fundamentally changed to ensure that contestation of resources is minimalised. Those engaging as stakeholder representatives within the system must do so on the basis their expertise and industry knowledge.

Their role must be to ensure sound governance and accountability, to inform strategy and strengthen the capacity of the system to make an impact.

- **Quality Assurance** - the QCTO should be either part of, or linked to, the central body. The establishment of the QCTO was envisaged as the centralisation of the qualifications development and quality assurance functions. In practice these two functions have largely been delegated back to SETAs. The QCTO is not adequately funded and the main resources available for QA are located in SETA ETQAs. SETAs are therefore being required to also provide funding for the QCTO in addition to carrying out its work. This is a reasonable short term measure, but ideally the QCTO should be properly funded to carry out its agreed role. Further engagement is needed with the QCTO to clarify its QA functions, the required processes for each, and where they should be located.
- **Other shared services** - the HR function and HRD function needs to be centralised to some extent to enable better management and development of human resources in the system. There will need to be an element of decentralisation and flexibility, but accountability needs to be centralised so as to ensure that this critical weakness (human capacity) in the current system is addressed. Increasingly there is an understanding that some basic processes and systems are being built at great cost in numerous institutions acting independently. One obvious problem is in IT, where the absence of a single integrated database has made it difficult to monitor and manage resources in the current system. There is an urgent need to develop both a centralised IT function and a number of other “shared services” for the skills system. It is also important to note that local structures will only be able to provide quality services efficiently if back office functions and specialist functions located at the centre are working well. The pooling of resources that are currently located across the different structures of the skills system would enable some of the weaknesses in back office and specialist functions to be addressed.
- **Establishment of sector structures**. There will be sector structures, but they would be implementation structures not “Authorities”. There will be an ongoing need for sector based research and sector engagement with stakeholders to agree priority programmes. However these should no longer be opportunities for contestation over resources or the creation of business opportunities. The focus should be on achieving effective implementation and impact.
- **Establishment of occupational and value chain** operational structures as required. The case for planning and implementation of skills development along value chains is a strong one. It will not be necessary in all cases to establish structures, with much such work being possible within defined projects. However where a supply or value chain is agreed as being a medium to long term priority it will be necessary to establish structures to address these.

- **Establishment of local “one stop shops”** in localities as appropriate. The current process of expanding local structures when most of the system’s resources are located in sectors is not viable. There is a need for a decision to be made on the model of provision at local level, for the number of one stop shops to be agreed, and for properly funded structures to be established. The local resource will have available all the centrally developed “products and services” of the system, not just services relating to a particular sector.

It is important to note that the detail of all of the above has not been addressed in the current phase. Detail is required in relation to each of the fundamentals and functions of an effective system, with various options for structuring of these being considered. This is the detailed work being recommended for the business case phase of the project.

9.3 Managing change

There is a strongly held view amongst stakeholders that the reason for the skills system not functioning well is partly because of the frequency and extent of change that it has had to deal with. Change has been both in relation to the purpose and outputs of the system and its “landscape”. In 2000, the focus of the system was very much on improving productivity levels. By 2005, the focus had shifted to employment and placement, as well as new venture creation. In 2011, the changes brought in by NSDSIII included working more with FET colleges, and establishing a rural presence. These changes resulted in periods of lowered performance whilst planning took place and adjustments were made in operational practices. Restructuring - from 25 SETAs to 23, then 23 to 21 - also caused disruption. The placing of SETAs under Administration, whilst generally accepted as being necessary, has also caused disruption. The view expressed is that further change will cause further disruption.

Whilst the SSR-TTT accepts these arguments as valid, it is important to maintain a focus on the wider picture, namely, whether the system is impacting adequately on the economic and industrial development of the country. Given that there is general agreement that it is not, then the argument not to cause disruption is weakened. It is further weakened when some of the larger employer bodies state bluntly that if the skills system were to be closed down completely, they would not notice or be affected by it. Some major employer bodies have stated quite openly that they currently take no notice of sector skills plans and their training strategies are not influenced at all by their line SETAs. In such circumstances, it is difficult to understand how disruption can be viewed as a problem.

It is also difficult to understand why change is a difficult issue to address. In the world of business and commerce, companies are merging continuously, product lines are ceasing and being replaced, production processes are changing from labour intensive to capital intensive, and in some industries whole sub-sectors are closing due to cheap imports from China. Massive change is occurring and being managed. A responsive skills system should also be capable of change.

Nevertheless, the approach to change has to be considered carefully. The SSR-TTT has been examining good practice in 11 of the 21 SETAs as well as engaging with the DHET, the NSF, the QCTO and regional skills committees. There are examples

of good practice in relation to most of the fundamentals listed in this report. This research can be used to move from the current system to the new without disrupting what is working. It is proposed that in developing an implementation plan, efforts should be made to build on current strengths. Given a reasonable period to plan for change once decisions are made, it is the view of the SSR-TTT that the changes can be introduced in a manner that addresses stakeholder concerns.

Furthermore, if the new skills system is designed and built carefully, and achieves the flexibility that is being recommended, it should be sustainable over a long period, thereby avoiding disruptive change in the future. Part of the challenge is to build a responsive (learning) system that can adjust to change without seeing it as a threat or reason to disrupt service delivery. So for example when a value chain or occupation emerges as critical to the needs of the economy the system will be able to respond speedily. If a sector structure is not functioning well accountability will be with the central structure to address the challenge, consulting stakeholders as necessary. Adjustments to structures should be achievable without the trauma associated with closures and mergers.

9.4 Building human capacity

Greater attention will need to be dedicated to building skills system staff expertise. Among the key capabilities identified in the international literature which senior staff in skills councils should display include:

- expert understanding of the dynamics of their specific sectors;
- an ability to read and interpret labour market intelligence and use this information for skills planning;
- the ability to 'broker' skills partnerships with employers, colleges and government;
- the ability to 'customise' training programmes to client's specific requirements; and finally,
- the ability to build employer networks that provide trainees with job-placements and aftercare.

The lack of staff development in the FET colleges and the skills system is a major weakness. There is no 'VET Institute' dedicated to the professional training of this management and teaching cohort. In contrast, Switzerland has an excellent system for the professional development of VET teachers and trainers provided by the Federal Institute for Vocational Education and Training (SFIVET). Such a system is urgently needed locally. The proposed skills council will have a specific focus on the HRD needs of the skills system.

9.5 The way forward

If this report is approved by the HRD Council, the next stage of the review will involve the development of a business case for a flexible and responsive system. It is acknowledged that this report is proposing radical change. There is currently a high degree of consensus on the challenges and the key fundamentals of the skills system needed in the future. There is also a level of agreement on the need for a hybrid system that is not purely sectoral.

However there is no firm agreement on the precise nature of the hybrid system. There are many questions that still need to be addressed in relation to where the different functions should be located and the ability of the fundamentals to be achieved within the available funds. It is important that a comprehensive business case is developed. This is not only needed in respect of skills stakeholders, who will want to see the logic of the proposed structures, before giving it their endorsement. There will be a need to motivate the proposed changes to National Treasury and to Cabinet, and the expectation would be for a thorough business case that answers all the questions that will arise from the proposed new system.

The research conducted by the SSR TTT into current functioning of fundamentals indicates a diverse variety of approaches. In some sectors the approach is to develop the functions in the SETA. In others there is an outsourcing or partnership approach. The business case will set out the options for each of the functions outlined in this report as fundamental to the system, will set out detailed recommendations, including financial implications for the new system. The development of the business case must be an inclusive process, with in-depth consultation with stakeholders over each decision that needs to be made. The aim should be to turn the consensus that exists over the problem statement and key fundamentals into a similar level of consensus on the long term sustainable skills system that can achieve these. It is a key finding of the international research that the system must have strong buy in, and the business case should demonstrate that the future system will have the confidence of stakeholders.

The business case will be accompanied by an implementation plan. This will set out the process for moving from the current system to the envisaged system in a manner that will build on what is effective in the current system and involve as little disruption as possible. An important message to send out to current staff employed in the system is that this is not a “SETAs will close” proposal. Sector planning will continue to be important, as will sector implementation, though the emphasis will be (as currently is increasingly the case) on planning and other shared services being located centrally and implementation being mainly located at the local level (one stop shops).

The approach will be to focus stakeholder engagements on the challenge of building a skills system capable of meeting a much higher set of expectations of the skills system than currently exists. The process should not be seen as tinkering with structures to address operational problems, but mobilising available resources to create a sustainable and integrated system that will have a real impact on the economy, development and society.

9.6 Responsibility for the business case

It should be noted that the SSR TTT has completed its work in reviewing the sector based approach to skills. However the TTT recognises that the final decision must be based on a sound business case. It would not have been sensible to design a whole new system in all its detail without there being agreement on the need to move away from the current sector based approach. This would have created the impression that agreement had already been reached and that the case for a new approach was not needed. The SSR TTT has deliberately held back from the detail

of a proposed new system, so as to focus attention on its mandate to review the current sector based skills system. We believe that the case has been made to move from the sector based approach, and that a decision should be made to endorse that position. In doing so, the HRDC will then give the SSR TTT a further mandate in relation to the next phase of the review.

It is proposed that the HRDC give the SSR TTT a further mandate, namely: **to develop a business case for a single, flexible skills system.**

The business case would need to be assisted by contracting a suitably qualified service provider, and so the SSR TTT would need to be allocated a budget for this.

It is proposed that the business case should be presented to the HRDC by June 2014.

10 Conclusion

The SSR-TTT research and engagement with stakeholders has clearly highlighted that the current skills system is not effectively meeting the current and future skills development needs of the country. The lack of integration between sub systems, the skills system's incapacity to address skills demands, the short-term view and focus of the system, the current marginalisation of key stakeholders, and the inherent inflexibility of rigid sector structures, is hampering the building of an effective skills system.

Those engaging with the SSR-TTT have almost unanimously agreed to the problem statement, to the extent of wanting to strengthen it and place before policy makers in clear and unambiguous terms the breadth and depth of the challenges. There is also general agreement that being locked in sector silos (a very common term used by stakeholders) is a major constraint on the system as a whole and in particular the ability of the skills system to respond dynamically to the needs of the economy.

There has also been discussion on being cautious in making fundamental changes which will cause disruption. This is a very real concern and one which the SSR-TTT has given careful thought to in compiling this report.

The SSR-TTT wishes to reemphasise how important it is to remain focused on the future **skills system**, and positioning it to play an increasingly important role - within a framework of significantly raised expectations - over the next twenty to thirty years. It is important to think in terms of National Development Plan timeframes not SETA licensing periods. We believe that such a framework for discussion is possible, provided care is taken in setting up the next phase of the review process, and that the focus is on designing and building a long term sustainable system rather than restructuring the existing one. Adopting a whole new vision, and incrementally building a completely new system with flexibility built into the system, would reduce the need for disruption in the future.

There is a strong case for focusing on the fundamentals and putting increased effort into making them work across the skills system. Essentially that is what NSDSIII and

the various reforms that have been put in place since 2011 have been designed to achieve. There is no doubt that this should be the focus of our collective efforts in the period to March 2016. This report supports that approach and there must be a continued effort to strengthen the current skills system.

This report should not be viewed as suggesting the current system will come to an end on 31 March 2016, or that “SETAs will close” at that point in time. The research conducted in the various structures of the skills system has identified a lot that is working well. There are a number of the “fundamentals” set out in this report that are being managed well in various parts of the system. There is some imaginative thinking, and creative ideas, and signs of real potential that need to be nurtured. These should be seen as the bricks and mortar of the evolving system. The future system will be built from, and be shaped by, the strong elements of the existing system. More work is needed to evaluate the effectiveness of these elements, and to clarify the reasons behind successes where they have occurred, but the principle should be to build on strengths.

Whilst the report does not set out the details of a proposed new skills system, it sets out the need for a new system that is flexible and that makes provision for various demands on the system to be met. Whilst the report does not set out the road map for moving from the current to the future skills system it sets out an approach to building the new system which takes account of stakeholder concerns. The approach is to agree a vision, and build a solid understanding and consensus on the type of system that is needed. Once that is achieved then the debate on “how” should start with the focus on building a new and sustainable system.

The advantage to stakeholders - of agreeing a long term vision for a flexible system - is that there would not be a need to be constrained by the current sector approach. There will be the opportunity to create occupational and value chain structures and even adopt a completely different approach to certain HRD challenges. For example the challenges of skills provision in the public service and in local government could be considered without being constrained by the rigidity of sector structures. The challenge of local accessibility will become one for the skills system, not sector structures, and could therefore be addressed in a much more rational manner than is currently the case. A flexible system, as proposed, in this report, would enable a number of different approaches. The intention should be to examine carefully what works and build structures that are logical and effective and which have the confidence of stakeholders. If these structures can be developed without being influenced by stakeholder contestation over funds, then they are more likely to be fit for purpose vehicles for achieving impact.

In conclusion the recommendation is for a new skills system, that will build on what is effective in the current system. This can be achieved without major disruption, by engaging intensively with stakeholders, keeping focused on the vision, and using both local and international best practice as a guide.

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