




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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24 November 2013

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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.

The assistance of technical task team members is gratefully acknowledged.



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



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Executive Summary

The Skills System Review Technical Task Team (SSR-TTT) was established by the Human Resources Development Council through its Technical Working Group (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.

The current system was examined in relation to the agreed fundamentals, including an analysis of current and planned reforms of the system. The conclusion reached is that given the complexity of the different functions required, and the need for all of the functions to perform well in a coordinated manner it is unrealistic to expect the current system to achieve what is needed. Some rationalisation of the skills system is required.

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.

There is general support for a hybrid system that is flexible, sets standards and manages funds centrally, and implements sectorally and locally. This will involve the creation of a single national skills council with one accounting authority to take responsibility for the entire system. The central body will have responsibility for skills planning, funding, governance and stakeholder engagement, quality assurance and a number of "shared services" such as HR, HRD and IT. Structures in sectors, along

value chains, for occupations, provinces and municipalities will be approved by the national body. There will be the opportunity for new structures formed by stakeholders to be approved and funded. There will be a specific focus on access to services via locally established “one stop shops” which will serve as centres for access to the broader skills development system including providing advice on accreditation for emerging providers, providing career advice to local youth and coordinating services such as recruitment and selection of learners, RPL, trade tests etc. .

There are many details that will need careful consideration and stakeholder engagement. 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. The business case will resolve outstanding issues such as how the national skills council will be constituted, the location of quality assurance, and many other details.

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.

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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 two research reports which have been developed into annexures to this report.

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 being bold in its approach by providing a fresh look at the skills development system.

The analysis in the paper and the proposed hybrid model have been discussed in meetings and interviews with key stakeholders at a number of 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 formal consultation. Having said that, the SSR TTT is of the view that a high degree of consensus exists for the core proposals being put forward. There are concerns over possible disruption, as well as over the possibility of replicating some of the current problems in the new system. There are also a range of detailed issues that require further consultation and engagement. These are set out in the report section detailing the proposed new system.

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 in the form of a business case 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 environment informing the rethink of the skills system, including the 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 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. The current skills system is assessed in relation to the fundamentals, including some of the strengths of the current system, lessons being learned in current processes aimed at strengthening the system and broad conclusions as to why current reforms are unlikely to achieve the kind of skills system that is required.

This is followed by an examination of various possible models for structuring the skills system. In consultations with stakeholders the merits of each have been appreciated, as well as the limitations of designing the skills system making use of only one organising principle - the sector based approach or any of the other possible models. The report therefore sets out a possible hybrid model that would draw on each of the organising principles set out in the six models. There is considerable detail provided in the proposed hybrid, but also a description of some of the issues that have not yet been resolved.

The final section makes a number of recommendations for taking this process forward. The recommendation is that the business case process should be part of, and aligned to, a number of other current processes under way within DHET. It is not possible at this stage to set out the full detail of how the new system will be built and shaped, nor the detailed costings. 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 in the form of a business case and implementation plan.

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 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

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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.

HUMAN RESOURCE DEVELOPMENT COUNCIL

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.

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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 DPSA. 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 System Environment

There are a number of significant factors that are impacting, or can be expected to impact on the way the future skills system is conceptualised, structured and managed. The first relates to the economy, the second to the emerging thinking in relation to the role of the state, and the third is in relation to practical challenges that exist and can be anticipated, and to which the skills system will need to respond.

3.1 Linking skills development to national economic strategies

The importance of skills development for growth and development in South Africa has been stressed in a number of recent policy documents including the New Growth Path, the National Development Plan, the Industrial Policy Action Plan, the Human Resources Development Plan (HRD-SA) and the Green Paper on Post School Education and Training. All these documents focus on education and skills development as the major constraint to higher levels of economic growth and development in the country. For this reason, skills development remains one of the priority areas in government policy.

Skills development within a modern economy is a more challenging process than it has ever been. In the 1960s and 70s a typical product in the market would have a long life. Products could be available for decades. Today and in the future product life cycles are much shorter. A mobile phone might have a life of less than a year before a more up to date model is available. This means that the continued

existence and success of even those enterprises that – at some point - produce successful products cannot be guaranteed. Increasingly it is the ability of companies to replicate successful behaviour that is the determinant of their continued existence. Often this relates more to their business processes and intrinsic capabilities than to new product ideas – although the latter are still important. Skills are a key component of such capabilities.

Because around a third of all products and services produced in the world now travel across an international boundary at some point (i.e. they are exported from one country to another), the impact of an economy's failure to develop the necessary skills is more immediately - and keenly - reflected in the declining competitiveness of their exports. In this regard, South Africa's recent performance is not encouraging: the product categories in which global market share is being lost related to 61% of merchandise exports in 2012, and to 85% of services exports.

The shortening of product life cycles and more rapid technological redundancy, combined with increased levels of international competition, also means that economies are likely to experience more rapid structural change into the future. This will place additional pressure on the skills system to adapt more rapidly to changing skills needs.

Universities and other education providers have difficulty keeping up with the changing skills needs, and increasingly employers are accepting the need for in-company training to supplement that provided in the formal education system. The understanding of skills development being linked to formal qualifications (that may be as much as ten years old) or unit standards within such qualifications is increasingly being seen to be problematic. Whilst there is recognition within industry that employees should be able to develop and improve their qualifications, there is also a strong view that the framework for the delivery of training needs to be more flexible and responsive, perhaps focussing more on skills programmes, with a strong workplace component, in addition to learnerships and formal education through universities.

However, while recent policy documents stress the importance of skills development for the economy, there is a need to go much further than this in linking more closely economic and education planning. This is the clear lesson from countries which have succeeded to a great extent in resolving the challenges relating to skills development, and human resources development more broadly, such as Finland, South Korea, and Singapore and a number of European countries. In this regard, there is an onus on the state to take its development role much more seriously particularly with respect to coordinating economic policy on the one hand, and education, training, and skills development policy on the other. The HRDC is potentially a very important structure to take forward the 'developmental state' role with regard to the economy and education and training system.

3.1.1 Developing an effective education, training, and skills development system

It is well-known that challenges relating to skills quality and shortages cannot be solved only through 'skills development strategies' but what is needed is a more holistic education and training system that addresses the quantitative and qualitative

issues confronting the South African system as a whole. From a development perspective, the Asian experience with respect to growth, employment, education and skills in the post-World War II era is particularly relevant for developing countries including South Africa.

The Asian development experience is notable for the close links between economic policy making and developments in the education and training sphere. The following points may be considered relevant from the Asian experience for South African policymakers:

1. The challenges faced by Asian countries relate to the pathways of their **sectoral development** and the ways they are moving into the secondary and tertiary industries and the knowledge economy. As their economies change, four challenges have been identified for sustaining growth: i) building a system for training or creating a training market; ii) reducing skills mismatches and better aligning training and industry needs; iii) upgrading outdated training systems and training instructors; and iv) increasing industry participation and ownership.
2. There is a mix of approaches to skills development but four common approaches have been identified:
 - Strengthening technical and vocational education and training systems;
 - Fostering knowledge intensity through workplace training;
 - Developing local skills ecosystems; and
 - Integrating skills and technologies for green growth.

3.1.2 Youth, Skills and Employment

Youth unemployment represents one of the biggest challenges in South African society. The biggest impediment to the gainful employment of youth is the lack of education and skills. The most recent estimate of the number of young people 'not in employment, education, or training' (NEET) is 3.5 million. Estimates of unemployment in the age group 18-24 years range between 50 and 60 per cent. Unesco's 2012 'Education for All' Global Monitoring Report identifies three main types of skills that all young people need – foundation, transferable, and technical and vocational skills.

Foundational skills: These include literacy and numeracy skills necessary for getting work. They are also a prerequisite for continuing in education and training, and for acquiring transferable and technical and vocational skills that enhance the prospect of getting good jobs.

Transferable skills: These include the ability to solve problems, communicate ideas and information effectively, be creative, show leadership and demonstrate entrepreneurial abilities. Young people need these skills to be able to adapt to different work environments and so improve their chances of staying in gainful employment.

Technical and vocational skills: Many jobs require specific technical know-how in different occupations and economic sectors.

Young people can acquire the three types of skills through formal general education, or, as in many countries, through its extension, technical and vocational education. Those who have missed out on formal schooling or who have poor quality schooling can benefit from skills training opportunities ranging from a second chance to acquire foundation skills to work-based training, including apprenticeships.

In developing countries, the extent and quality of education and skills acquired is often determined by the socio-economic environment. For example, poverty and inequality are often a barrier to education and skills. In many countries, girls, individuals from rural locations, and from lower socio-economic groups are often denied access to good quality education and training. Governments, as in South Africa, need to pay greater attention to addressing these socio-economic challenges in order to ensure that education and skills opportunities can be more equitably distributed.

One of the emerging challenges for people that do manage to enter the labour market is that their work is likely to change. People need to develop a set of skills that enables them to adapt to changing needs. This again emphasises the need for the skills system to be able to respond not just in terms of funding new qualifications, but also facilitating access to programmes that build and expand skills and improves the flexibility and adaptability of employees.

3.1.3 Small and Medium Enterprises: Employment, Productivity and Growth

The critical question for successful job reallocation is identifying who is creating more productive jobs and why. For any given time span, not all sectors expand employment at the same rate. Nor do they all gain efficiency evenly. Within a sector, it is often taken for granted that small and medium-sized enterprises contribute the most to jobs and efficiency gains, whether through new entry, or through additional hiring in existing enterprises.

In some quarters in South Africa, the small and microenterprise sector is seen as a panacea to the challenges of unemployment and poverty. However, the international literature on this is inconclusive at best. Research (ILO 2013) shows that medium enterprises have the greater potential for employment creation, comparable to large firms in many instances. Small firms also have lower productivity growth than large firms, which explains why job creation does not always translate into faster growth. The research referred to above surveyed more than 49 000 formal sector firms in 104 countries over the period 2006-2010. The analysis shows that small firms are the smallest contributors to employment across countries but when combined with medium size enterprises, employment contribution is then comparable to that of large firms.

A recent ILO study also showed that small and micro-enterprises can absorb large numbers of unemployed people in a country. However, large numbers of them are unlikely to earn incomes that will enable them to escape poverty.

The challenge in Southern Africa generally and South Africa specifically, is to improve labour productivity, conditions of work and the returns and benefits people derive from their work. This is less likely to happen in the small and micro enterprise

sector because of low levels of investment and the scope for 'value-adding' economic activity is therefore limited.

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 in wage and self-employment. SSA's labour productivity is still very low because most workers eke out a living in small and micro enterprises and the informal economy.

To achieve higher levels of labour productivity and enhanced 'value-adding' activity, the employment focus must be on medium and large enterprises. Both types of enterprise 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. It makes sense therefore to focus increasingly on medium-sized enterprises, and helping small enterprises grow to become medium, as employment generators of the future and to ensure that there is a skills development strategy in place to provide the necessary skills for this type of enterprise.

3.1.4 Informal sector training

Traditionally, training for the informal sector has been provided within the sector itself. Skill acquisition may take many forms, ranging from ad hoc, unsystematic learning on the job to more formal apprenticeships. Mostly, the training is generally received within the context of the day-to-day production activities of the firm itself. The system is generally self-financing; trainees pay for training in the form of fees or low wages, and there is usually no financing role for government.

Increasingly, it is being recognized that these informal sector training markets have been too limited in meeting the broader skills associated with industrial development and growth. Apart from "learning and observing and doing", training is largely confined to initial training; continuing training and upgrading are rarely available. And the system is highly traditional in terms of skills and know-how imparted. There may be little scope for importing and teaching new methods, technologies, and entrepreneurial or management skills, all of which will be necessary to serve the growing entry flow into self-employment.

The need to meet these shortcomings through appropriate training courses by external training providers is clear; these courses would complement internal skills acquisition. Public training institutions, financed through budgetary allocations, have not been suitable for this task, focused as they are on the needs of formal sector employment; hence the need to build up a training supply response, in terms of specialized training providers geared towards the needs of the sector.

3.2 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 other 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 required target levels of at least 5-6%. Tax revenue has fallen and so the 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 ruling party. 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, the Netherlands 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.

Examples abound in Asia of the effective role the state can play in development, e.g. Malaysia, Singapore and South Korea. Box 9 illustrates this issue in a bit more detail for Singapore.

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

3.3 Other environmental factors

As set out above the two most dominant factors impacting on the building of a new system are: 1) the changing needs of the economy and the need for the skills system to be more flexible and responsive to changing need, and 2) the importance of the role of the state in ensuring that the resources available are focussed on meeting these needs. In addition there are a number of other factors that also need to be considered.

South Africa remains a country with a legacy of inequality based on race and other factors such as gender, location, disability and age. It has become clear that the economy as it is currently structured, and the associated mechanism of the market, is not putting right the wrongs of the past. In fact in some ways the inequalities and disparities have increased. More people are located in the large urban areas. The economic base in rural areas continues to reduce, and the number of low skilled people who are unemployed is not reducing significantly. This reality has to be taken into account in building a new skills system. On the one hand the system has to

address the needs of the economy, but on the other hand the system must also continue to support transformational imperatives.

Another important factor is the approach of the South African government to managing global economic instability. The 2010 Fifa World Cup cushioned the country from some of the worst impacts of the global recession started in 2008. Looking to the future, the government is emphasising the importance of infrastructure development and Strategic Infrastructure Projects (SIPs) in both cushioning the economy against further global instability and preparing the ground for expansion when the economy picks up.

The investments being made are very great and one of the lessons from the 2010 stadia building projects is that more in-country capability could have been achieved if skills development had been better coordinated. There is now much more attention being given to building capacity through the SIPs projects than was the case prior to 2010. However the challenge being faced is working through 21 SETAs to achieve this. The current skills system is finding it very difficult to respond flexibly to the needs of the SIPs. The future skills system needs to be able to grapple with major national priorities of this nature and respond dynamically.

Other examples of major national priorities requiring a coordinated approach from the skills system (i.e. challenges that cannot be addressed within a particular sector) include: the building of sustainable communities as part of expanding housing provision and reducing informal settlements; rural development, including the addressing of skills needs in land reform projects; beneficiation of raw materials (processes often located outside the sectors where the minerals or other raw materials are produced); responding to crises (for example Marikana or De Doorns) where the perception may be of a simple wage dispute, but where government, industry and community stakeholders need to address a complex mix of socio-economic problems in a holistic manner, including skills development to support agreed interventions. These are just some examples where the skills system needs to enter programmes in a coordinated manner.

Whilst more could be said about the future environment within which the skills system will be required to function, the important themes that emerge are the need for: increased flexibility in the manner in which the skills system interfaces with stakeholders, and is able to focus on changing needs; a much greater level of cross-sectoral coordination; greater responsiveness and agility - the ability to adjust interventions and funding mechanisms to address identified need, particularly in relation to addressing the skills needs of those excluded from the formal economy; increased accessibility, particularly in townships and rural areas, and in respect of small, micro and informal enterprises.

It must also be recognised that the skills system will be attempting to respond to these diverse and complex challenges in the context of limited additional funds being available either through taxation or the skills development levy. The skills system will need to fund any increased capacity from the funding currently available. Given that there is approximately R11 billion available within the system, of which R1.1 billion can be used for administration (infrastructure, staff, systems etc), then the expectation of stakeholders and the public will be that the skills system as a whole should be able to plan to meet anticipated demands.

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: SOUTH AFRICA AND FOUR 'SKILL SYSTEMS' COUNTRY CASE STUDIES

		United Kingdom	Netherlands	Singapore	Brazil	South Africa
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	State-dependent market economy, with state steering far weaker than in the Brazilian case
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	Primarily a market economy but state has tried to play a greater role through micro-economic reform (lowering of input costs in production) and ramping up investment in public sector infrastructure
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	Employers alienated, and play a minimal role in the operations of the SETAs
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	A supply-side model made up largely of private providers, with significant neglect of the public FET College system
5	Alignment of system, especially the linkages between colleges, SSCs and employers	Not well-aligned	Strongly aligned	ITE-Polytechnics, universities and continuing VET system very well aligned	Brazilian education and training highly segmented – higher education for the elites has nothing to do with the S-system. Poor articulation	Very poorly aligned
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	Little purchase in labour market
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	Not a strong feature of system
8	Employment rates of trainees	Not high	Employment uptake is very high	High uptake of ITE and polytechnic graduates	Good uptake	Low

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 in 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 benefit 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

The SSR TTT is of the view that the skills system is in need of a new vision and mission, that sets the sights of all stakeholders and roll players on the future system that is envisaged. The aim should be to mobilise the energies of all those engaged in the system, not just to focus on short term targets and outputs, but on the development of a system that will increasingly achieve what is required of it. In other words everything done today should be influenced by what the intended outcome is in the future.

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 effective strategic planning processes that clearly set out the strategy that informs the skills development interventions that are prioritised and how the allocation of resources (human and financial) are to be aligned to the strategy.

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 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 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.

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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 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, up skilling 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 and the enterprises taking part in programmes.

The logo for the Human Resource Development Council of South Africa, featuring a stylized sunburst or gear-like shape in the background.
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8 The institutional architecture of the existing skills system

During the course of the SSR TTT review extensive research was conducted on the current skills system. The aim was to find information on the way the current skills system is working, and to identify some of the systemic challenges and opportunities that exist. Systemic aspects of the skills system are viewed as the way the various functions and their related activities are organized. The focus was on capacity to deliver effectively, and the factors that impact on that rather than the service delivery challenges per se, which have been described in detail in this report and elsewhere. The challenge was to identify the underlying systemic issues that the skills system has to address to become significantly more effective.

8.1 National functions and structures

Before examining the way the fundamentals of the system are being addressed it is important to identify what makes up the current skills system. Essentially the current system is comprised of: the DHET - and in particular the DHET Skills Branch; various national structures such as the NSA, NSF and QCTO; and 21 SETAs (some of which have provincial and regional structures); there are provincial and local skills structures, but these fall outside the skills system as it is currently understood. Where they are functioning well they contribute meaningfully to creating a framework for implementation. However these structures are not well resourced and their performance is not consistent across the country. Nor are they viewed as access points to the skills system, but rather play a coordinating role. The functions located in these structures are as follows:


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8.1.1 DHET Skills Branch

The branch has responsibility to support the Minister and Director General to put in place policy, legislation and establish structures to drive skills development. There are a number of units within the branch that focus on: policy, legislation and regulation review; establishment of and support to SETAs; monitoring of SETA performance; management of the National Skills Fund; administrative support to the National Skills Authority (established in terms of the SDA to advise the Minister); managing and monitoring the QCTO; reporting. There are functions located elsewhere in the Department that support the branch (Legal, financial, HR, HRD etc). These are adequate in relation to the general functioning of the branch, but they are not able to conduct work directly on behalf of the branch - for example intervening in a SETA - they are support functions to all the DHET branches. There are acknowledged to be both structural and capacity weaknesses in the Skills Branch. Key weaknesses include:

Research, policy and strategy - there is no specialist research or labour market expertise located in the branch. There is also no specialist in planning. The task of receiving, critiquing and signing off on 21 sets of SSPs, Strategic Plans, APPs and Annual Reports is a very large amount of work for which there is limited capacity. The result is that very significant efforts made by the Branch to improve the quality of plans and reports have been undermined by a lack of capacity. What has been intended to be quality feedback has to a great extent been reduced to compliance

checklists that SETAs have to respond to. Whilst the quality of the feedback has improved much more needs to be done to ensure that plans are of a good quality.

Organisation Development. There is no capacity in the Branch to assess the organisational structures of SETAs to determine whether they are capable of implementing their plans. When a decision is taken to place a SETA under administration (as has happened with CETA, SSETA and LGSETA) there is limited capacity to plan, manage and monitor the process and so excessive reliance is placed on selecting a good Administrator and relying on the expertise of that person. There is no team of people that can be put together to address specific organisational challenges as they occur. The result (in both SETAs that have identifiable problems but are not yet under Administration, and those that have been placed under Administration) is that problems can exist for many years without the Department being able to address them effectively. There are also costs attached to administration both in terms of funding the process, and also in terms of disruption whilst major changes are brought about. Where SETAs are functioning reasonably well many have organisational challenges such as poor institutional memory and high staff turn-over. The problems are identified but there are no interventions to rectify the problems.

Systems. There is no capacity in the Branch to design (or oversee the design of) an IT system and integrated database. This means that the long-planned M&E framework and system has never got off the ground, and SETAs continue to develop their own systems or outsource them (generally to Deloitte). There is huge variance in the data systems used within SETAs as well as between SETAs. This makes meaningful, comparative data analysis difficult. In addition to the IT and database challenge there are other systemic problems across the system (HR, Grant Disbursement, SCM etc) which have been the main source of complaints from industry. The Department is aware of the problems and the need to intervene but does not have the capacity to do so. The consequence is that there is no standardised system across SETAs and the absence of a single system is a serious weakness.

Financial management and control. Whilst there is a financial section in the Department, there is no unit focusing specifically on the skills system income and expenditure. Therefore there is no cost benefit analysis, no value for money reviews, no interventions resulting from the extensive criticisms in the AG reports.

The Department is currently in the process of developing a plan to address each of these areas of concern. In the Department this plan is referred to as the “SETA Turn-around Strategy”, which in effect proposes the building of capacity in the four areas set out above.

8.1.2 The National Skills Fund

The NSF receives 20% of levy income (approximately R2billion a year). It is required in terms of the SDA to address skills development for disadvantaged groups and areas as well as to fund projects identified in the NSDS as national priorities and whatever the DG determines as priorities within the boundaries of the Skills

Development Act. Historically the NSF has had periods of funding some excellent and well run projects, as well as periods of giving away large sums without any monitoring and accountability. The history of the NSF is therefore one of inconsistent service delivery. In recent years criticism has focussed on the accumulation of unspent funds (close to R6 billion at one stage). This has been attributed to lack of capacity.

The NSF at present has a staff compliment of 55 and is managing a fund of over R7 billion. In response to capacity constraints a process is underway to set the Fund up as a Schedule 3 public entity (it is already listed as such) with all the capacity required to oversee skills development funding for those not able to benefit from SETA grant funding. Its mandate has been expanded somewhat to include government development priorities. This has enabled the fund to be accessed to support bursaries for the unemployed to attend university and FET college courses, to fund infrastructure development in FET colleges and an extensive research agenda.

Given its capacity constraints the model adopted within the NSF has centred on using existing structures across government departments to piggy-back off existing programmes that are already running. The role of the NSF is to support the strategies of government by ensuring that there are sufficient skills in place for implementation. The NSF has also developed a number of partnerships with various government departments such as the Department of Public Works, the Department of Trade and Industry and the Department of Rural Development and Land Reform. Such partnerships serve two functions. Firstly, they enable the NSF to acquire advice and knowledge on actual skills needs and secondly; it enables the NSF to form partnerships in delivering these very skills. Partnerships are one way of boosting capacity within the NSF although internal capacity must still be developed.

SETAs generally focus exclusively on the formal economy and established businesses. The MTT report into SETA performance suggests that the NSF should focus more on the informal economy as well as national government development priorities. In order to do this the plan is to increase its funding from 20% to 30% of levies - i.e. to around R3 billion. The Grant Regulations provide for unspent SETA funds to be transferred to the NSF (in 2011 the funds retained in SETAs came to over R3 billion). The medium term income for the NSF annually could be as much as R4 billion a year. Once it is functioning effectively it could also be the vehicle for additional government spending focused on skills linked to development. Currently the major focus of the NSF is on the formal economy. For example, the NSF currently funds approximately 46% of the national artisan development programme.

Currently the NSF is a public entity that has the Director General as the Accounting Authority. Systems and processes are being put in place to ensure accountability. For example, the DG has set up a project grants committee that evaluates all proposals for grant funding. There are no public tender processes followed as such. The NSF essentially approaches mainly public sector entities including universities, government departments and municipalities, directly, as part of the process of

determining what skills development initiatives to fund before such proposals are reviewed by the grants committee.

There are concerns being expressed about the levels of accountability of these funds. Some of the concerns arise from a lack of clarity in relation to scope. They question whether the NSF should be focusing more on informal economy training. Stakeholders ask whether SETAs will continue to be able to access funds to address the skills needs of non-levy payers and micro enterprises and to what extent stakeholders will be able to influence decisions on the allocation of the funds.

8.1.3 National Skills Authority

The NSA is a stakeholder structure established in terms of the SDA to advise the Minister. There has always been a problem related to the “advice” function. It has meant that the structure has never been able to act decisively. It has a membership based on what has become known as the “Nedlac model” based on stakeholder representation from government, employers, trade unions and the community constituency. The model itself has contributed to its inability to make hard decisions (or recommendations if the advisory concept is applied). The MTT report into SETA performance recommended that the structure be closed down. The Minister is considering the transformation of the NSA into an M&E structure for the skills system.

8.1.4 Quality Council for Trades and Occupations

The QCTO has been established to centralise quality assurance within the skills system. The role that the CHE plays in Higher Education and Umalusi plays in FET is played by the QCTO in relation to occupational qualifications. The approach to QA is different in the QCTO and at present is still modelled on the former SAQA model developed when the SETA ETQAs were established in 2000.

Qualifications are developed and registered on the NQF; providers are accredited through a process of meeting a set of requirements; programmes are developed and approved and providers accredited to deliver them; assessors are registered; and learner achievements are validated and certificated. There are various processes underway to adjust the way that QA is implemented. Currently SETAs continue to carry out most of the work, and in some cases their work has increased since the QCTO was established. To date there has been no simplification of QA processes, and in fact discussions are under way that could expand the focus of QA into workplaces. The policy thrust of NSDSIII is to expand workplace provision (PIVOTAL programmes and Work Integrated Learning) and one of the challenges will be to set standards and monitor quality.

8.2 Functions located in Sector Education and Training Authorities

This section of the report examines the work of SETAs, not in terms of performance, but in terms of functions. The structure provides for an analysis of the functions that

have been agreed as “fundamental”. Each of these functions is examined, not in the context of poorly performing SETAs but in relation to those SETAs regarded as functioning reasonably well. In this way the report is not so much a critique but more an OD review that identifies systemic challenges and opportunities.

One of the findings of the SSR TTT research has been that some of the functions regarded as fundamental to a well performing skills system are complex, require significant capacity and resources, and are difficult to get right - and importantly to sustain in the face of challenges such as staff turn-over and changed delivery demands. This finding takes the discussion beyond the often expressed concerns over SETA functioning, and provides insight into the causes of the problems.

A key aim of the research was to confirm the importance/relevance of key fundamentals of successful skills systems, collect evidence of good practice and try to understand and unpack the conditions that facilitated such good practice, particularly in terms of staffing and the skills sets of staff, internal operations that may contribute to promoting good practice and other organizational dynamics that may play a role.

8.2.1 Identification of skills needs

Addressing the real skills needs of the economy is largely based on the ability of the skills development system to accurately identify these needs and plan how best to meet them. This is why in the SDA the central role of a SETA is stated as the development and implementation of an SSP - in short that is the role of a SETA. Everything a SETA does is dependent on a soundly researched SSP. Yet the current skills system has often been criticized for conducting poor skills planning. The implication is that the system (as a whole, or at least in significant parts of the economy) may be devoting its considerable resources to the wrong skills needs - because the needs have not been sufficiently well researched.

Poor research and poor skills planning in the majority of SETAs and the failure to use Sector Skills Plans (SSPs) holistically so as to develop a national picture of the skills needs of the country has resulted in a policy decision to establish a central institutional mechanism for skills planning. So already the structuring of research and skills planning is under review.

It is not impossible for SETAs to develop well researched plans that have credibility and buy in. Several SETAs have done that. This includes SETAs that do almost all of their research and planning in-house and SETAs that contract out either the research and/or the writing of the SSP.

SETAs that have internal research capacity within specialized research units and are adequately staffed and skilled, perform better at identifying skills needs and conducting effective skills planning than SETAs with limited capacity. Even in the outsource model there is a need for a well qualified and competent senior manager for managing the process who understands research and skills planning and can manage contracted service providers. That person will need a sizable budget and the authority to enter into partnerships. There has to be a well-resourced research function and structure if effective research is to be produced.

Secondly, the conceptualization of the research function and its role within the SETA has important consequences. Many SETAs have equated research to the development of their SSP, and this is done as an “event” once a year, rather than as an ongoing research process. Those SETAs that work on the research agenda all year and continually improve their supply and demand knowledge achieve better results.

Finally, the research agenda needs to be driven from the top. Where senior management or the accounting authority engage seriously with the process (not just the final product) the results are better.

Many interesting and innovative initiatives have been taken, which provide a sense of what can be done if resources allow and the commitment is there. For example research partnerships have been developed with domestic and international universities. Research Chairs have been funded. PhD students have been taken on as interns to study skills needs. Partnerships with research companies and NGOs have been developed. Extensive stakeholder engagement has been put in place where research findings are tested and refined. All these examples of sound existing practice, combined with the planned central mechanism for skills planning, can provide the basis for building a reliable research and planning process that ensures that the resources of the system are appropriately focused. However it will be important to ensure that the centralisation of the research process does not lead to a reduction in quality research within sectors, particularly in the coming period when research capacity needs to be built.

8.2.2 Improving data collection and data analysis

There is a clear need for a national resource/repository of data that pulls together SARS data, data from other government departments and SETA WSP and ATR data. Some SETAs are managing data well and using the data effectively. However in such cases significant resources have been identified and allocated to both the IT system and the database. There is generally extremely poor analysis of learner throughput in programmes and very little in the way of tracing of learners post qualification. So when doing impact studies very often researchers are unable to obtain usable data from SETAs. Many SETAs have outsourced the database but this does not resolve the problem of data gathering and management. The data management challenge is and will continue to be a resource intensive one to address. DHET has been driving the process of getting employers and SETAs to organise supply and demand data using the Organisational Framework for Occupations (OFO). This is a huge task, and the system is still far from being able to organise supply and demand data in a manner that reliably assists planning.

Where SETAs have succeeded in addressing the data management challenge they have been able to make use of the data to build confidence amongst employers who have to be persuaded that exchanging information with the SETA is worthwhile. The products of success in data management include credible supply and demand forecasts (these are never scientific, but where they resonate with stakeholder perceptions and experiences a level of confidence can be built). In some sectors there is exchange of data between the SETA and industry bodies and the SETA and

university faculties conducting research in the sector. In this way data is challenged and refined and confidence built.

There would appear to be no single model for effective research based skills planning, with both internal, outsourced processes, or a mix of outsourced and internal process working. The key seems to be to ensure that the process is driven by senior managers, that the appropriate mix of skills is deployed, and that data is gathered, quality checked and the analysis done to a high standard. Research partnerships are important not only for the additional expertise brought to the process, but also in terms of building the credibility of the skills plans and building buy in.

8.2.3 Linkages contributing to effective research

In a number of SETAs there are strong relationships and partnerships, with expertise being built and sharing of research. SETAs that have built these relationships value them, though there is some unease because of the perceived requirements of the PFMA and supply chain management regulations. SETAs are obliged to tender for research work every year, rather than build on established partnerships.

HSRC has built a body of knowledge on skills, and on research methodology. HSRC is currently leading the process of developing a central institutional mechanism for skills planning. At the time of the research the central skills planning support function was not yet in existence, and this is a weakness. However there are plans in place to develop that central repository of research and the possibility of that central resource also having a role in capacity building within the system as a whole is being considered.

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DHET is also playing an important role in raising standards. DHET examines (or contracts others to examine) the SSPs submitted in August of each year. Attached to the SSP is what is called an “improvement plan” setting out the SETAs analysis of the improvements still required. The Department provides feedback to each SETA, including advising on the research plan going forward to the November draft and beyond. The Department has moved away from the previous approach of “approved” or “not approved” to viewing SSPs as continually being in need of updating and improvement. This approach is bearing fruit in that more of the SSPs are now showing signs of improvement.

8.2.4 Strategic skills planning

A concern was raised by the expert panel that reviewed SSPs in 2010 about the weakness of strategy sections in the SSPs. Many SETAs did not have a strategy for the sector and where there was a strategy it was either a repetition of NSDS outputs and targets or the reproduction of the objectives set out in Strategic Plans. Many SETAs made no distinction between the “sector strategy” and the “SETA strategy”. In other words what the SETA is trying to achieve in the sector (the SSP) and how the SETA will allocate resources to achieve this (The SP and APP).

A number of SETAs are now competently translating the key drivers that influence skills needs into sector strategies, as well as using the skills needs identified in their SSPs to inform strategic and operational plans. The guidelines and assistance

provided by the Department of Higher Education and Training and the training conducted by the National Treasury Technical Assistance Unit (TAU) have assisted in developing this competence. There has been a qualitative improvement in the plans of a number of SETAs which is attributed to the greater clarity provided to the SETAs on what is expected, improved feedback from the Department, and the training provided.

A key factor in effective planning appears to be the link between the strategy set out in the SSP and the allocation of funds within the SETA. Ideally, it's a four-step link (1) The SSP (2) Strategic Plan for intervention directly linked to SSP goals; (3) funding of programmes and (4), M&E of outcomes and impact - has the SSP achieved its goals? This 4-part link is very seldom made or achieved. When this direct link between the research, the SSP, and the allocation of funds is clear and well understood, it creates a sound framework for planning. Part of the process includes an evaluation of which learning programme is best suited to address each of the skills needs identified, and then allocating funding in a balanced way to various learning programmes/interventions.

Some SETAs have adopted a project approach to implementation of the SSP, and directly manage a range of projects that address priorities set out in the SSP. When this approach is used for the disbursement of discretionary funds (as opposed to disbursing grants to employers which is the normal approach in SETAs) it is more straightforward to align project plans to the SSP and SP. The "programmes" that are set out in the strategic plan and APP can include detailed projects. If the projects are implemented they will result in SSP and SP implementation. More SETAs are moving to this approach.

8.2.5 Learning interventions: programme development

The qualification and programme challenge

Both the development and implementation of learning programmes, and the processes followed, determine whether or not such learning programmes are successful in achieving their intended outcomes. Across the sectors there is a serious problem of unused qualifications and programmes that no one accesses. In many sectors as little as 25% of qualifications (often developed at great cost) have been accessed by employers or learners. Of the qualifications and programmes that are in use many are over ten years old. This highlights that a large percentage of the qualifications and programmes are not relevant to current and future workplace needs.

In the context of the establishment of the QCTO, it is expected that SETAs will prioritise qualifications for development or review, and that SETAs will actively engage in QCTO processes or be contracted/delegated to do the work for the QCTO. In some SETAs the ETQA function has been given this responsibility but they have moved slowly or not at all in addressing the needs of the sector. There are processes that have started in the QCTO to review priority qualifications, but it is very unclear exactly who will be doing this work. SETAs are assuming that they will be funding and supporting the process. The expectation is that in identifying suitable experts to develop the qualifications SETA sector contacts will be used. However the

exact location for this critical function is not clear, nor are the standards in relation to timeframes and costs.

.Where qualifications are well supported and used within the sector it is often because those facilitating processes are competent, not so much in curriculum design but in brokering - the ability to engage effectively and work with the contestation that often arises to produce consensus.

A large number of SETAs have outsourced the programme design and development function to providers (both public and private) who are said (by the SETAs concerned) to be better equipped to do this work than SETAs. However, there are some SETAs who have been directly involved in the design and development of learning programmes and the evidence is that they have achieved a better alignment of skills interventions with sector needs. .

Structuring internships and work experience

Various types of workplace learning are emerging. The traditional apprenticeships and more recent learnerships have included structured workplace learning leading to between 30% and 70% of the qualification. These are reasonably well established, though more rigorously monitored in some SETAs than in others. The current policy thrust of expanding workplace experience and learning is putting the focus on skills programmes (shorter programmes with a workplace component), on work placements for students engaged in FE and HE programmes, internships for graduates, and candidacy programmes linked to professional registration after attaining the required qualification. In many SETAs there is no structure to these programmes. However in some SETAs significant work has been done to define what is required of an employer, setting standards for the work experience, and monitoring. There are lessons to be learned from these SETAs that could inform a national framework for expanding structured workplace experience and learning.

Evaluation of applicability of FET and HET qualifications

Generally SETAs have shied away from trying to influence the content of HE and FE qualifications and programmes. In some SETAs there have been projects established in partnerships with colleges and universities that have reviewed programmes, and these have improved employer buy in, particularly where the review is supported by lecturer development support and other inputs to improve capacity and quality of provision. This is an important brokering role for the SETA - bringing a plan to the table and getting all role-players to agree on the way forward.

Qualification and programme content is a skilled and specialist function that needs to draw on sector knowledge and (recent) industry experience. Whether processes are driven and initiated in-house or generally outsourced, there is a need for the SETA to have the capacity to manage these processes. The unit managing these processes needs to have suitably qualified people, a clear understanding of sectoral and occupational needs, the ability to identify and select high quality subject matter experts, and effectively manage and quality check the process. The ability to communicate the process within the sector and for the process to be credible is also important.

8.2.6 Learning interventions: programme implementation

Alignment of plans to systems for implementation

A number of problems exist within the current skills system in relation to programme implementation. In some SETAs there is very limited attention given to what it takes to implement programmes because essentially the work of implementation is left to employers. The SETA allocates a grant to the employer and the employer contracts training providers to deliver programmes. In other SETAs there is a process of awarding contracts to external intermediaries who then contract providers and place learners with employers. In both cases it is difficult for the SETA to be certain what is being funded and to be able to assess the outcomes of the programmes and the impact that they have in the sector.

Some SETAs are believed to be overcoming these challenges and have put in place processes that have enabled them to report on quality programme implementation. Few have been able to measure impact, but some have confidence in their programmes and have had positive feedback from employers and learners.

It would appear that, even if skills research and qualification and programme design have been done optimally, there are a number of requirements- basic organizational or systemic necessities - for the successful implementation of learning programmes. One is a strong SETA leadership that drives its agenda - this emphasizes the need for SETA management to develop sound business cases or plans based on proper research for these to be approved for implementation. The second is for alignment of resources to achieve implementation of plans. Once the strategic direction or approach is approved the mechanisms for implementing the policy (e.g. access to grants or grant funded programmes) need to be aligned. The criteria that will be used to assess applications or proposals, and the processes and time frames for companies in the sector to either claim grants or access funded programmes all need to align to the plan. This is complex work that many SETAs seem unable to get right.

SETAs need to put adequate resources into the implementation function. SETAs are not training providers and do not deliver training. However they do broker or facilitate the implementation of programmes aligned to the SSP, and to do that capacity is needed for implementation.

There is unlikely to be a single implementation approach that can be adopted across all sectors. In fact the system needs a variety of implementation models that can be selected according to the needs of different stakeholders. The important thing seems to be to keep focused on the strategy and the objectives and to ensure that the policy and implementation framework is designed to achieve agreed outcomes and impact. Simply stating what the SETA wants to do and expecting employers and providers to respond is unrealistic, and understates the role of the SETA as a “broker”. On the other hand skills systems cannot be expected to do everything, and must ensure that what they do decide to take on is properly resourced and achieves a level of efficiency that enables stakeholders to have confidence in the implementation mechanisms deployed.

Another key lesson is the need for locally based SETA resources. Where an outsourced model is adopted monitoring is needed, and where the more hands-on or project management approach is used, local project staff will play an important role in setting up programmes in a manner designed to achieve maximum effectiveness and impact. The preparation and monitoring roles of the SETA are important functions that need to be properly resourced.

The need for competent, qualified and experienced staff with a strong work ethic has been emphasised.

One SETA, in adopting the project approach, has established a Project Management Office (PMO). The PMO focuses on pulling people together from across the SETA to deal with bottlenecks in delivery and drive implementation. At the time of the research it was not possible to assess the success of the PMO approach, but it highlights some of the measures being taken to address programme implementation challenges. It would be advisable for the skills system to consider a PMO to support improved programme and project implementation.

8.2.7 Adequate funding

The success and sustainability of any learning intervention is centrally tied to having adequate funding. Many SETAs have obtained multiple sources of funding from stakeholders such as provincial government, employers and other government agencies for a particular project. The ability of a SETA to source adequate funding is often linked to its ability to form quality partnerships with key stakeholders in the sector.

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On the other hand, many SETAs have large amounts of surplus funds that are not allocated to appropriate programs and projects, and cannot make a good case for NSF funding because of that. Surpluses have risen to over R3 billion across the SETAs, and although some of this is committed, much is not, and this is a terrible waste of available resources. This surplus challenge may be exacerbated during 2013 with the grant for WSPs decreasing from 50% to 20%, which implies a substantial increase in the discretionary pool of funds available to SETAs. This again emphasizes the critical need for SETAs to plan in advance and in detail, to ensure increased participation and buy-in from sector stakeholders, and accelerate and manage implementation.

The large variation that exists in relation to sector size and levy income among SETAs results in challenges for some of the smaller SETAs to perform all of the functions required by the various policy and legislative frameworks that drive skills development.

Models of disbursing discretionary grants

SETAs deploy various methods of disbursing discretionary grants:

- directly to employers;
- to training providers; or

- to a Project Management type company that manages the implementation process; or
- in projects that the SETA manages internally using discretionary funds.

All these models have implications for “ownership”, project management and accountability. Contracting with private providers or intermediaries may be driven by a business strategy and the profit motive, and may be difficult to monitor. Such approaches require rigorous contract management, monitoring and quality assurance from the SETA. Channelling discretionary funds directly to sector organisations and companies may increase the “ownership” that these organisations/companies take for the implementation process, and may be more closely linked to the real skills needs of the company. However it is also very difficult to monitor training conducted by an employer, and there is no guarantee that the employer funded proposals are not also developed and motivated by providers.

There is a great deal of evidence that much of what employers do is actually driven by providers. External SDFs obtain funds from SETAs, often based on proposals developed by providers. Although the programmes are notionally for the employees of the company or for learners in learnerships placed in the company, very often it is the provider that is driving the programme for business interests rather than the employer driving it for company development purposes.

There is no single or simple way of targeting funds to meet sector needs. Most SETAs seem to be struggling with the challenge of stating a certain set of objectives in their SSP and then moving to implement the plans through various models of programme implementation. Some models are effective in terms of delivering numbers but have other impacts such as excluding small and micro enterprises, creating conditions that are difficult to monitor, and placing demands on the SETA in relation to management and control that they find difficulty in meeting. One of the most serious challenges is that very little evaluation has been carried out of these various delivery models and so it is impossible to determine, without conducting primary research, what works and what does not.

Employer buy-in & support from business

SETAs that are able to build buy-in from employers are likely to be more effective in terms of achieving sustainability of their learning programmes. On the other hand, there is an acknowledgement that working through large employers makes it difficult for small employers to participate in funded programmes. In general there is limited buy in from business and relationships between SETAs and business are not strong. This is acknowledged in SETAs and efforts are being made to improve the situation.

Forming quality partnerships

Most SETAs have developed partnerships for the implementation of programmes. Industry bodies and professional associations play an important role in many sectors.

It was noted that partnership building is not a simple matter and requires inputs from senior people in the organization. In many cases the CEO makes the initial approach

and then a number of senior managers need to be involved in the detail. Very often supply chain management issues arise and have to be addressed strategically (i.e. deliberately taking the partnerships outside of the SCM process, knowing that this will need to be either motivated for to the National Treasury or explained to the Auditor General when the annual audit is conducted). Generally, brokering skills are not low level skills that can easily be delegated.

As with contracting out of functions, partnering institutions in the delivery of programmes and projects requires a review of staff skills and putting in place effective project management capacity. Partnerships have to be not only initiated but followed through. They have to be managed and monitored. That also requires capacity.

Managing a thorough process of grant disbursement requires a certain set of skills and capacity. By contrast, if the project approach is adopted, whereby the SETA manages delivery of education and training to several thousand small entities, many in rural areas, this requires a different set of skills and capacity. Where a delivery approach is adopted a function must be built in, with the required capacity. Care must be taken to ensure that the SETA can do what it sets out to do. The view in SETAs is that unless that capacity is there (whether or not a large amount of the work is outsourced) then there will be delivery challenges.

Opening up the public service as a training space

The need to expand workplace based experience and the work integrated learning component of learning programmes is highlighted in several policy documents including NSDSIII and the *Green Paper on Post School Education and Training*. The DPSA and DHET have both issued detailed circulars to government departments and SETAs on expanding provision in the public service. This followed the cabinet decision to require government departments to pay 30% of the 1% of salaries to their line SETAs and the PSETA. This addresses a long standing concern that the public sector was not playing its full role in skills development, and the lack of funding experienced by the PSETA as a result of the government departments paying to their line SETAs. DHET and DPSA are working together to achieve a major change in the way that the public sector engages with skills development.

More recently, the Public Service Skills Committee (PSSC) was established and approved by the HRDC. Stakeholders that sit on this committee include DHET, DPSA, PALAMA and PSETA. This is an integrated and collaborative structure that is seeking alignment in skills development across the public service. The structure is intended to be the implementing agency for Strategic Goal 3 of the Draft National Integrated HRD Plan: - *“A skilled and capable workforce for an efficient, effective, development-oriented and professional Public Service”*. The scope of the PSSC’s work includes the full value chain of HRD and skills development activities, from planning through to monitoring, evaluation and reporting. Seeing that this structure is relatively new, it’s success in delivering on the above mandate is too early to assess.

Through the revival of the *Opening Public Service as a training space* programme all government departments and state owned enterprises will be expected to open up their environments as training spaces. An outcome of this process is likely to be that SETAs become far more involved in facilitating learnerships and internships within

the public sector as well as developing mentorship programmes and implementation guidelines in these departments and SOEs. Until now, there appears to have been an emphasis on training for existing staff, and limited placement of learners in learnerships and internships in government departments. This is partly due to the lack of funds in public service SETAs and the fact that funds are “ring fenced” in the departments and not generally available to fund learnerships and internships. However it also appears that planning for such programmes has been quite limited. Some SETAs with large public service membership appear to work quite independently of their line departments. They engage with them at a board level and they strategise on what is needed for the wider sector, but evidence of jointly planned programmes within the public service is difficult to find.

Planning is made complex by the number of role players. The HRD plan for the public service is developed by the DPSA. There is the Public Services SETA that has overall responsibility but until recently has had no funds. There are a number of large public services SETAs linked to government departments (Health and Welfare, Education, Training and Development and Security services are the largest). There are academies such as Palama (now the School of Government) and a number of regional academies. Then there are HRD units with varying degrees of capacity, including some departments with their own academies. Provincial HRD units also exist in the Offices of the Premier. With this variety of role players, and what appears to be an absence of coordination between them, it will be interesting to see the extent to which expansion of learnerships and internships in the public service is achieved. There would appear to be a need for some rationalization of skills planning and delivery structures in the public services.

Conditions for the outsourced model to be effective

There would appear to be a contrast between those SETAs that have the capacity to project manage implementation and those that outsource to a high degree. It is important to take note that an outsourcing model for programme implementation can only work under the following conditions:

- Key partnerships with sector experts
- Well qualified & experienced SETA staff;
- Clear programme development & implementation guidelines
- Strict SCM systems and procedures and contract management, including an examination of the track record of service providers and capacity to deliver quality services
- Stringent learner selection and recruitment processes

The overall conclusion on the service delivery model appears to be that no single model is correct either for the skills system as a whole, or within a single SETA. Whilst the outsourcing model has worked well in some of the SETAs, several SETAs have had bad experiences and whilst still contracting out some aspects of their work are engaged in bringing much of their work back in house. However the key lesson is that whichever model is adopted there has to be some level of capacity internally, and it has to be appropriate for the delivery model that is in place. This implies that there must be very serious engagement on delivery models within the skills system and that decisions must be made with full information on the staffing and skills requirements of the different models.

8.2.8 Provider profile

There are two main concerns at a policy level in relation to supply. The one is that the skills system has in the last ten years largely by-passed the public education system, with 95% of discretionary funds being allocated to private providers. The second is the lack of attention to ensuring that provision is appropriate to the needs of sector industries and services. An assumption is made by sector stakeholders that “quality assurance” will provide the guarantee of both quality and relevance. This has proven to be a mistaken assumption, with widespread criticism being voiced as to the relevance and impact of much of the training funded by the skills system. The 2012 MTT report proposes that SETAs should focus more on improving supply than has been the case historically.

There would appear to be some uncertainty in SETAs as to where this aspect of work should be located. On the one hand, working with providers is part of learnership/apprenticeship development and implementation, and so the staff engaged in developing such programme naturally work with providers to address capacity issues. However it is also viewed as part of the ETQA function, whereby the ETQA sets criteria for a provider to deliver the programme, and assists the provider to put in place capacity to meet the criteria. However, it was not clear from the interviews whether this was an actual function within the SETAs (provider capacity building) or whether this was something assumed to be part of accreditation processes. The two are not the same and more clarity is needed in relation to the precise role of the skills system in relation to building supply side capacity and where that function is located. The system must focus on building sustainable supply that is of a high quality and that is flexible enough to address changing skills demand within the economy.

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8.2.9 Policy alignment

As has been identified in relation to skills planning, strategy is an area of weakness across the SETAs. This is an area where improvements are taking place, particularly in response to NSDSIII, which has been welcomed generally as providing a framework within which all structures in the skills systems can mobilize resources to achieve a common set of goals. However “strategic alignment” in many SSPs and Strategic Plans remains a table, setting out where a SETA is planning to do work in line with NSDSIII, NGP, NDP, IPAP etc. A table is developed putting NSDS objectives in one column, SSP objectives in the next, and SP and APP targets in the other columns. The focus is on compliance rather than on integrating and aligning.

The same problem exists with internal SETA policies. SETAs are aligning policies to the 2012 SETA Grant Regulations but are not necessarily aligning policies to their own SSPs. Even more problematic is that implementation processes are not always aligned to SSP and policy.

8.2.10 Monitoring and Evaluation

Monitoring and evaluation has various dimensions, from ensuring that (1) the right activities are executed, (2) in the right way and (3) programmes and projects are achieving their intended output, and (4) achieving their strategic intent, which should

be impact in the sector and in the economy. Outputs could include reasonable learner unit cost, programme completion, pass rates and throughputs. Outcomes might include such things as: percentage of absorption into employment; the establishment of successful businesses; increased production; improvement of productivity; improvement of the livelihoods of people. Impacts might include an expanded sector, new industries created, higher levels of investment, and significant change in equity profile and demographics.

Monitoring was a serious challenge during NSDSII, mainly because it focused on numerical targets. Genuine monitoring was not generally taking place, to the extent that the HSRC team researching NSDSII found that the data available from either DHET (previously DoL) or the SETAs was inadequate to make any sound assessment of performance. M&E, and the absence of a sound framework and system for monitoring performance and evaluating impact, have been identified in several reports (Nedlac 2008; MTT report 2012) and remains a challenge. Many SETAs are of the view that the priority remains (in spite of the stated intent of NSDSIII) the achievement of numerical targets, not outcomes or impact. Some SETAs are not adequately resourced to execute this function, and have until now outsourced, or partially outsourced the SSP process.

Supply chain management has become a specialised field, as has project management, whether the outsourced model is adopted, or where SETAs do programme and project management internally.

What is evident in all SETAs is that there is a challenge in recruiting and retaining competent people in all the different skills areas required. The recruitment and retention of quality staff is hampered by the short term mandate of SETAs. Those recruited are being offered contracts that come to an end in 2016, and this is not an ideal way of building capacity.

8.2.15 Brokering partnerships and collaborations

SETAs are ideally positioned to forge and maintain close working relationships with industry, and to act as a bridge between the formal education and training system and the workplace. This is critical both in terms of skills needs identification and facilitating ownership of programme implementation in the workplace. As noted, a number of SETAs are moving away from contracting providers through bureaucratic procurement processes, to entering into contracts and MoUs directly with organisations and companies within their respective sectors. However this is made difficult by the tensions that exist between SETAs and business. There has been a breakdown of trust in the system and the rebuilding of trust will need to be a key focus within the future skills system.

8.3 Conclusions

This research provides an overview of how the current skills development system is perceived to be functioning, and raises a range of issues that are relevant to the current system (based on sectors) and for any future system.

There is general acceptance that the current system suffers from a “silo” syndrome, that makes it difficult to respond outside of sectors or across sectors and into SMME’s and informal business. Service delivery challenges need to be addressed. Whether one takes the current functions within the skills system, or the fundamentals identified in international research, the things that the system has to get right are many and complex. Not one of the functions within the system is easy or straightforward - whether we are considering planning, programme design, or M&E. Each requires high level and specialist skills. In addition, these functions all need to be working in a synchronised manner for the system to deliver effectively and efficiently. In other words the challenge is not to get each function working well independently, but rather to get all of the functions working well together.

The current system is dependent on each of these functions working, all of them working together, and this functionality happening in 21 SETAs. That is a completely unrealistic expectation. Very few, if any, of the 21 SETAs are functioning well in each of the fundamentals (even taking account of support provided by DHET and other linked structures). The likelihood of even a majority getting everything right within a system of 21 SETAs is very small. Some rationalization is required if the system is to have a better chance of success.



9. 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 an “ideal type” 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.

9.1 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.

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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 not be a simple matter as the capacity to do this centrally does not yet exist. The new mechanism 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 failure in 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.

9.2 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 33/34 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 approach in the US which includes incentives to support local initiative is set out on pages 36/37 of this report. 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.

There is much that is positive to learn and adopt from the voluntarist approach. However, 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 voluntarist system is that existing inequalities and disparities between regions could be deepened rather than reduced.

9.3 Model3 - 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.

9.4 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).

Price	Rs 25.-/l	Rs 40.-/l	Rs 45.-/l	Rs 75.-/l	Rs 80.-/l	Rs 95.-/l
INPUT SUPPLY	FARM	COLLECT CHILLING	TRANS-PORT	FACTORY	RETAIL	CON-SUMER

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 eco-system 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 Riviera 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.

9.5 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.

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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 prerequisite 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.

9.6 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.

10. Recommendations on building a new skills system

10.1 Background and purpose

10.1.1 Background

At the HRD Council meeting on 26 September 2013 the outline of a new hybrid skills system was presented and discussed. The HRDC requested more detail on both the proposed hybrid, and also some of the implications of moving to such a hybrid model. The Council also requested more consultation. This section of the report sets out the proposed hybrid system in more detail, mindful of the fact that there are many important decisions needed and which require more extensive debate and engagement before they can be fully resolved. A key aspect of the business case will be to cost each part of the proposed system, and this can only be done after detailed work has been done on the specific competencies and capacities needed. There are many aspects of the proposed hybrid system highlighted in this report that need further refinement and it is proposed that a service provider be appointed by DHET to develop a full business case using the information contained herein.

10.1.2 Purpose

The intention of this section is to provide a platform for arriving at an in-principle agreement on the future skills system that stakeholders will work together to build over a period of time. In-principle agreement does not imply agreement on all the key fundamentals of the new system. There are many difficult decisions that need to be made, and it is not the intention of the SSR TTT to resolve all of these issues in the current phase. Rather, a rationale for the proposed system and its various components is set out, including identifying some of the key decisions that will need to be made. Where this is the case the paper puts forward some options that will need to be during the development of a business case.

It is the view of the SSR TTT that the development of the business case would be an inclusive process, whereby the various options are discussed with stakeholders so that all of the necessary decisions are made after careful consideration and presented in a comprehensive proposal for the building of a new system. Once there

is in-principle agreement with key stakeholders the proposal is that the HRDC approves the development of a business case which will include an implementation plan for implementation and resourcing the proposed system over a period of time. It is important to understand the business case in that light.

The development of a business case is a process that engages stakeholders in determining the detail of the new skills system, facilitating a logical and evidence based decision-making process in a systematic manner, moving from agreed strategy to an outline structure, then to more detailed structure, job descriptions and staff requirements, any legislative or regulatory changes, consideration of action required to achieve change and the road map for the changes. This includes recommendations on timeframes, and responsibilities for managing implementation.

10.2 Rationale for redesigning the skills development system

There are some key challenges that the skills system will need to address and which (in the view of the SSR TTT) will not be addressed if changes are not made in the system. In line with the vision and mission, there will be a need for:

- ❖ **Ramping up.** The new system must substantially expand skills development interventions and opportunities. This is more than adjusting targets. There has to be a strategic drive at the centre to raise expectations and deliver on those expectations.
- ❖ **Centrally driven strategy:** Whilst there will be differences in skills needs and responses to those skills needs there should only be one skills strategy. The NSDS has to be centrally driven with all structures having clearly defined roles.
- ❖ **Coordination.** There is a need for the skills system to work much more closely with both the vocational education and higher education systems. This must be done systemically, across the entire skills system and not be left to individual structures.
- ❖ **A single accountability.** The new system must be accountable. This means having one single accounting authority to replace the multiplicity of boards and structures that currently exist.
- ❖ **Focus on implementation.** Whilst there are important debates needed in relation to identifying skills needs, determining the most cost effective responses to needs, and how to measure impact, the new system must fundamentally focus on implementation. This means reducing the resources devoted to policy and strategy and increasing those devoted to meeting identified need.
- ❖ **Locating functions where they are needed.** Having agreed the key fundamentals of an effective system the challenge is to locate those functions where they are needed. There are some functions that can be placed in one central location. Some would be in the proposed skills council, others will be more appropriately located in government departments. They do not need to be duplicated across 21 sector structures. Other functions must be located more locally.
- ❖ **Proper resourcing of functions:** where it is agreed that a function is needed it must be properly resourced. One of the key findings of the SSR TTT current system research is that for a function to be effective it must have the

resources to do what is expected of it. By centralising certain functions, and allocating a budget appropriate to the functions, there can be certainty over them being staffed properly and provided with the systems support needed to make them effective.

- ❖ **Improved access.** The system has to address the challenges experienced by micro enterprises and co-operatives in accessing skills development, as well as the challenges experienced in rural areas, and in FET colleges where a large number of future employees are located and need access to the skills system. It is not realistic to expect 21 SETAs to each deal with the access challenge. The skills system itself has to address this in a holistic manner.
- ❖ **Economies:** There are increasing demands on the system. These will require additional funds that are unlikely to be found outside of the skills system. The skills system will have to manage these demands within the 10% administration budget. In order to do this savings will be needed in some parts of the system in order to strengthen and better resource other parts.

In short this is the case for a new system. The philosophy under-pinning the development of the new system should be: *“National planning and standard setting, sectoral and local implementation”*. This will involve the centralisation of some functions and the decentralisation of others. In some cases it will involve new ways of approaching challenges that have been difficult to resolve in the past, and which may continue to be challenging in the future.

The system must be flexible enough to learn from mistakes and adjust. Particular emphasis should be placed on institutional learning and continuous improvement. The aim will be to build monitoring processes into the new system from the outset, so that experience of different approaches can be evaluated and lessons learned for future adjustment and improvement.

10.3 One central national skills council

10.3.1 Rationale for one national skills council

It is essential to the future effectiveness of the skills system that strategy is agreed centrally and not continuously debated in sectors. In particular contestation over funds must be removed from the system. The skills system must be viewed as an implementation structure that carries out policy determined by the Minister. This is not to say that the voice of stakeholders should be silent in the system, quite the contrary, but that the role of stakeholders must change significantly. There is a role for stakeholders in determining the overall strategy and plan for the skills system (which should be located in one place, not 21 or more locations) and a role for stakeholders in shaping implementation (which can be done in all parts of the system - without creating accounting authorities). The creation of a body that can provide coordinated and centralised guidance for implementing skills development legislation would ensure: more standardisation of service delivery; less complexity in the system, particularly for the users and beneficiaries of the system; more clarity in the allocation of resources; more accountability to ensure that the resources are used optimally to impact on raising the skills profile of the South African labour market.

In order to realise a national coordinated and centrally guided system, and one that users and beneficiaries of the system will find easier to engage with, a national body that has accountability for coordination and standardisation is needed. It is proposed

that a national skills council is established, having the overall accountability for the skills development system and structures. The core responsibility of the council would be setting national policies, models, standards, frameworks and guidelines for the core functions of the skills development system so that functions implemented at sector, provincial and local (municipal) levels are done in ways that will be coordinated, consistent, standardised with wastage of resources minimised. Such a national skills council would also be accountable for ensuring that the skills development system responds in alignment to the socio-economic priorities set out in the National Development Plan as well as those that are sector or industry specific minimising cross sector/industry overlap and duplication that is leading to wastage of resources. It will also be responsible for ensuring greater levels of accessibility, particularly in respect of townships and rural areas and small and micro enterprises.

10.3.2 Composition of proposed national skills council

The proposed national skills council would be established in terms of the Public Service Act (PSA) and the Public Finance Management Act (PFMA), pieces of legislation which provide for the establishment of public entities that account to members of the executive authority (cabinet ministers). In the case of the national skills council, it would be accountable to the Minister of Higher Education and Training. The legislation provides for different forms of public entities and the precise form of the national skills council would be directed by the more detailed proposals emanating from the business case development process.

The one form of public entity that may be feasible would be a schedule 3A company whereby there is an accounting authority accountable to the Minister and the operations of the council headed by an accounting officer. The composition of the accounting authority would also be subject to discussions during the business case development process. The options discussion for composition would range from the stakeholder driven type of accounting authority (ref. NEDLAC, SETAs, NSA) to the expert driven type of authority (ref. SAQA, CHE, UMALUSI) and the public enterprise type accounting authority (ref. Transnet, Eskom).

This is a complex discussion and one which although it cannot be rushed, must be addressed urgently. The SSR TTT has found a high level stakeholder agreement that the current stakeholder structures are not working, and that a different approach is needed. There is less consensus on how to address the problem, but there is a strong will to find a solution. One solution may be to continue with stakeholder nominations but that appointment will be on the basis of a strict set of criteria that includes expertise and experience. Although the debate will be a difficult one it is believed that consensus can be reached on the composition of an oversight structure that is focused on achieving national economic and development priorities in a consistent, effective and efficient manner - rather than contesting the allocation of resources.

The proposed council should be supported by standing committees. The usual governance committees required by the PFMA would be formally established. Other standing committees, given that the council would have accountability for sector skills development, could be sector advisory committees, probably to comprise of employer and employee representatives from the respective sectors, who have an interest and expertise in skills development in their sectors. The sector advisory

committees would make recommendations to assist the council make decisions pertaining to skills development in their sectors. Other standing committees could be those pertaining to the core functions of the council which functions are proposed below. The functions below are by no means exhaustive, but they are those that have consistently come through the various reviews as the ones for which central national accountability and standardisation seem to be necessary to effect impactful change in the labour market.

10.3.3 Functions of the national skills council

The following are the proposed functions that will be relocated from their current location in SETAs and other national structures to the national skills council. These will include:

- ❖ National Skills Planning
- ❖ Management of funds for skills development
- ❖ Shared services
- ❖ Standard setting and quality assurance of provisioning
- ❖ Monitoring and evaluation

10.3.3.1 National skills planning

A national function of the council would be responsible for standardising the approach to skills research needs. It would establish a model that would include a national standardised approach and methodology for data requirements, data sources, national standardised methodology for acquiring data, national standardised methodology for skills needs identification, analysis and forecasting, and standardised requirements for reporting skills demand/needs to the council. The council would not necessarily conduct the actual research and this could be achieved in many ways.

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Where there are current methods being used that are working, these should be integrated into the national model. Some research could be directly managed by the central skills council. Some research could be conducted in those sector bodies that have shown they have the capacity to conduct effective skills needs research as well as skills research institutions, including the HSRC, universities, other public, private and non-profit entities, and provincial and local structures. The precise approach to centralising skills planning needs to be worked out as part of the business case process. The important objective will be to ensure that the national council establishes the research agenda and puts in place an effective mechanism for determining supply and demand. The current discussions on the establishment of an Institutional Mechanism for Skills Planning will provide an important focus for this discussion.

There will be a need to examine proposals for the new FET college institute and its possible research function. Whilst there may be a need for some “VET” specific research it will be important to clarify who does what and avoid duplication. There will also be a need for a discussion on policy research and analysis and where that should be located. For example should policy research in relation to reviewing NSDS be located within the Skills Council?

It would be the responsibility of the council to use the various skills needs research reports to integrate and develop a national skills plan covering different dimensions – sector/industry, enterprise size and type, geographic location, occupational types,

special government programmes (e.g. SIPS, Mineral Beneficiation, IPAP II etc.). Such a skills plan could include establishing a national list of priority skills needs in line with government economic growth priorities. For instance this could be skills needs for the infrastructure development programmes, for indicating skills priorities for occupational qualifications development.

It may also include high level indications of the types of interventions/programmes that should be implemented, for example liaising with Home Affairs on policy for the importation of priority scarce skills, helping to develop an understanding of short, medium term and long term skills development requirements, so as to identify occupations that need to be targeted to attract qualified people to the country. It may include establishing the need for large scale national programmes (such as the artisan development programme). The central skills planning function will enable central planning, not only for the skills system but also planning in TVET and Higher Education. Over time the aim should be to build confidence that the allocation of resources for education and training is in line with the needs of the economy now and in the future.

10.3.3.2 Centralised allocation and management of levy grants

Distribution of funds to skills system structures

There are two components to this, the “administration” budget of 10% of the levy, currently estimated to be around R1.1 billion, and the remaining annual levy income available for skills development of around R10 billion. It is proposed that a strict limit is put in place from the outset that the 10% cannot be exceeded in establishing and maintaining administrative structures for the skills system. The overwhelming majority of available levy income must be committed to skills development. There will be a variety of structures funded from the 10%. These will include:

- **Sector structures.** The reestablishment on a permanent basis of those sector structures that are performing well and have the confidence of stakeholders. These would not have boards (as in the current SETAs) and would have some functions taken away and relocated either in the central skills council or local structures. However the functions related to planning and implementing programmes to address sector needs could be strengthened and established on a more permanent basis than at present.
- **Value chain structures.** These might have a short life span and be established to address specific nationally agreed priority value chains. There would be a need to clarify the distinct role of the structure in relation to sector structures to avoid overlap and duplication (for example a rural value chain may well cut across the role of sector structures in Agriculture and food production). The advantage of such structures would be their ability to plan and coordinate training along the value chain and have a budget dedicated to that, rather than having to do this through a number of sector structures.
- **Occupational structures.** This would enable an occupational structure to manage and coordinate the implementation of national priority programmes. The artisan development programme based at Indlela, for example, could be funded with the structure based at Indlela being funded as an occupationally driven structure. The artisan programme has been a particularly good example of how a focus on occupations can cut through bureaucratic delays

and blockages, achieve nationally agreed priority goals and at the same time revive stakeholder confidence in the system. Others may be identified as national priorities for the approval of similar structures. One could for example envisage something of this nature for engineers or construction project managers.

- **Provincial and local structures.** These would need clearly defined roles and responsibilities. There will also be a need to clarify the role of provincial and local government in such structures as distinct from the roles and responsibilities of the skills system.
- **Voluntary.** There will be room for some new structures requested by stakeholders. A certain proportion of available administrative funds should be set aside for structures that stakeholders propose to address challenges in a new way. Examples might include a structure to drive skills development for co-operatives or one for persons with disabilities.

The national skills council will be responsible for approving the operational budgets for each structure - simultaneously to the approval of multi-year plans for the funding of programmes. There will be no automatic funding. Structures will be required to submit multi-year plans and to motivate for their multi-year budget and on-going funding will be subject to performance.

Efforts should be made to agree to long term structures. The current practice of giving SETAs a five year licence should end. Those sector structures that are agreed by the skills council should have long term life spans, possibly including an indefinite lifespan. Equally those structures that are unable to find an agreed role in the new system should be closed and their functions relocated. A principle will be applied that funding will follow functions, and so where a function is relocated the budget for that function will also be redirected to the structure where the function is located.

All funding will need to be approved based on submissions of plans and performance against plans, in a similar manner to the approval of budgets for departments and public entities. All skills system structures will submit proposals and have allocations approved in a thorough process. It will be important to ensure that the administrative capacity put in place is appropriate to the work plan and level of grants allocated to the structure.

In this way there will be an end to the build-up of surpluses in sector structures as the funds allocated will be based on the amount needed, taking account of previous performance. There will also only be funding for functions that have been agreed as being located in a structure. If it is agreed that a structure will not have (say) an ETQA or skills planning role, then there will be no funding for that function. Because of the move to a shared services model there will not be a need for a number of functions currently located in SETAs to be replicated in the new sector structures. The skills council will actively seek out savings in such circumstances so as to enable administrative funds to be reallocated to other needed structures and functions.

Funding of skills development

Use and allocation of grants across sectors has been one of the areas in which there has been large variations and a lack of standardisation, especially regarding costs

of, and funding for, training. The proposal therefore is that the council should establish a single centralised mechanism for receiving, allocating and managing the levy grant. This would include allocating funds i.t.o. the skills interventions/programmes identified in the national skills plan, setting standard systems processes and templates for grant applications and allocating funds to implementing agencies such as sector bodies, employers/employer organisations, provincial structures, local structures, education and training institutions/providers, skills development centres etc.

Although there will be standardisation this does not imply inflexibility. Provision will need to be made for a number of different structures. The SSR TTT is of the view that some element of voluntarism should be allowed. For example, if local/regional initiatives (whether sectoral or geographically-cross-cutting) are appropriately motivated, they should be able to obtain funding. This could also serve as a test-bed for new ideas and initiatives that could be incorporated into some of the other structures in the system. This is important if the system is to allow speedy demand driven responses, and not require all initiatives to be moulded into a single structural form. All structures will be judged on the basis of a set of criteria that will include both effectiveness and impact but also efficiency and accessibility.

This approach to the levy grant management implies that there could be a need for programme/project management capacity to be established within the council that would also standardise project management processes and access to projects funds. Such a project management approach must be driven by project management software and tried and tested methodologies. As with the previous proposal on the shape and location of the skills planning function, the business case development process would be the avenue through which the most appropriate options would be investigated and agreed.

10.3.3.3 Standardised shared services

Most large scale organisations that provide services to individuals, organisations and communities tend to adopt a shared services model. Strong central units define service delivery standards, produce standard operating procedures, establish IT systems, manage recruitment and retention, oversee internal and external communications, and train staff to achieve a uniform standard of service and client focus. Wherever one engages with a national bank, postal or courier service, or supermarket chain, the aim of the national structure is to establish a common set of processes that local staff follow to achieve a level of uniformity across the organisation. The skills system should strive to similarly achieve a uniform standard of service delivery across the skills system. This requires the building of a shared services model, where currently decentralised functions - located in 21 sector structures and several national structures - are centralised and standardised.

The standardisation of services across sector bodies should be a function of the national council. With regard to management of information, this would imply setting up a national MIS for skills development as well as designing data requirements for the collection, analysis and reporting on skills development interventions, programmes and projects of the national plan. There is still lack of clarity regarding where to locate the national databank of qualified artisans, although the current work in progress located at KwaThema should help inform that decision. Consideration should be given as to whether this should not be a function of the proposed national

skills council. There will be a number of databases that will need to be reviewed and decisions taken on their location - based always on the understanding that a central information system is needed.

The national skills council would standardise learning agreements/contracts for use by skills development implementation agencies including sector bodies. It would also bring about a standardisation of grant application processes, turnaround times, and processes for agreements between the grant giver and the organisation receiving the grant. Further discussion is needed on how to centralise rules setting and standards, whilst making applications an easily accessible process in sectors and localities. It would be the aim of the business case to explore the most effective and efficient system for this function, and to ensure that there are adequate resources allocated to enable the setting of standards for turnaround and response times. Industry stakeholders have already adopted a standard grant and disbursement process in relation to artisans which is applicable to all SETAs and the NSF. Lessons can be learned from this in relation to other grant processes.

Other services: The national skills council should establish a call centre and website, linked to the expansion of social media in the communication of information. In addition to such a call centre and website being an information service, it could also be a point of access for appeals and/or reviews of decisions. Employers in particular are seeking accountability not solely at a policy and systems level, but at the level of approvals of grants and payments once grants are approved.

The issue of recourse has been raised by organised business. They want to know what a company can do when they believe that they are being poorly served (based on agreed service standards, not whether they receive funds or not). One suggestion is that once a set of standards has been set by the skills council, companies that experience the kind of delays they currently experience would be able to take their complaint to an ombudsman. The ombudsman might be located outside of the system. The alternative view is that once standards have been agreed the CEO of the skills council will be the accountable person and so the need for external policing would fall away. This requires further investigation.

In summary what is proposed is the adoption by the Skills System of a shared services model.

10.3.3.4 Quality assurance of provisioning

There is general agreement amongst stakeholders that there should be some level of rationalisation and simplification in relation to quality assurance within the system. There is agreement that there must be standards and that intervention is needed if provision is not up to standard. However there is a general desire to make it user friendly and have more people using and benefitting from the system. The responsibility of the skills council in this regard would be to set policy and standards for quality provisioning for occupational qualifications. The policy and standards would include policy and standardisation for workplace learning, work experience, and work integrated learning.

At issue would be the level of the policy standardisation given that the QCTO is a quality council that has the policy mandate in this regard. It is the view of the SSR TTT that quality assurance has to be part of the skills system, and not completely independent. Its work has to be driven by the same policy imperatives as the rest of

the skills system. What will need to be explored is whether this can best be achieved by locating the QA function (QCTO) within the skills council, or whether the QCTO should remain separate from the skills council but bound by a comprehensive MOU that ensures a level of integration at the level of service delivery. MOUs will in any case be needed with Umalusi and the CHE.

Another issue would be the role and location of NAMB. Given the experience of NAMB in relation to helping drive the national strategy for artisan development there will be a need to discuss whether it should be a separate structure or integrated into the QCTO and the central national skills council.

10.3.3.5 Monitoring, reporting and evaluation

Monitoring and reporting on skills development has in the main been target driven. There has not been much guidance given, or progress made, on qualitative monitoring and reporting, nor on evaluation including impact assessments. In order for the national skills council to keep track of skills development implementation, conduct cost benefit analysis and assess impact on the labour market, there has to be a centralised monitoring, reporting and evaluation system established. The responsibility of the council would be to standardise the approach to monitoring, reporting and evaluation activities. This would include a national standardised approach and methodology for data requirements, data sources, methodology for acquiring data, and standardised reporting requirements, system and processes. The council would receive data collected by implementing agencies (monitoring and evaluation data), integrate, analyse and use for decision making and reporting against the national skills plan.

There are a number of discussions in relation to M&E that will need to be resolved such as the location of the monitoring and evaluation. It must be decided whether there is a need for an external structure or if M&E should be an integral part of the way the skills council is set up. Detailed discussion is needed on the M&E framework for the skills system and how M&E can be integrated into the system from the outset.

10.4 Proposed sector structures (not authorities)

10.4.1 Rationale

The reviews have identified that the current authorities are beset with contestation amongst stakeholders on the use of the levy as well as the blurring of roles and contestation regarding the role of the accounting authorities and accounting officers. To have such challenges in what essentially should be regarded as implementation structures (not policy making structures) is not a sustainable model. The proposal is to raise authority and accountability to a national skills council that is supported by standing (sector) advisory committees. Raising accountability and authority to a national skills council implies that there will not be a need to have accounting authorities within sector and other structures. . The responsibility of sector bodies would be to manage the implementation of the national skills council functions proposed above using policies, models, standards, frameworks and guidelines set by the council.

Through the process of redesigning the skills development system, an opportunity arises to craft a more focused role for sector bodies and even agree differentiated approaches in some sectors. In part, the proposed more focused role points to

sector bodies that would manage skills development implementation for the formal sector. It is possible that some well-functioning sector structures are unable for various reasons to respond effectively to informal economy and rural needs. On the other hand there may be sector structures where addressing formal and informal development needs are more closely linked, and the structure has developed capacity to deliver to the informal and rural communities in their sector. It would be possible to have a differentiated approach, with some sector structures receiving funding for informal sector and rural skills development and others focusing exclusively on the formal economy. Alternatively the approach could be to address skills development in the informal sector and rural areas differently, possibly through local structures.

It is also possible that in some sectors current structures will, by agreement, cease to exist. For example there is a debate taking place within both the DPSSA and the public services SETAs as to the appropriate structures for skills development in the public service. Already there are cross SETA structures examining the needs of the public service. There is scope for reducing the number of SETAs dealing with the public service, or even creating a single public service structure to mirror the School of Government. The important principle is that the public service should not feel constrained by the need to work within economic sectors. There will in addition be a need to engage public service stakeholders to clarify the distinction between a skills structure on the one hand, and structures that relate to the public service as training organisations such as academies and the School of Government on the other, and the relationship between these two sets of structures.

These are complex issues that involve the current SETAs, the NSF, various government departments, as well as a large number of stakeholders who often feel excluded from, and have difficulty accessing, the current skills system. Intensive engagement will be required to reach agreement on the most appropriate structures across economic sectors.

The proposed sector bodies would report to the national council on skills development implementation in their sectors. The functions of sector bodies would be as proposed below.

10.4.2 Skills research

The sector bodies would focus on conducting skills demand and needs research in their sectors. There would be a particular focus on the formal sector, based on workplace plans and reports, but where agreed, also researching the linkages between the formal and informal economy within the sector. Sector bodies would follow a national skills research needs model and report sector skills needs and demands to the national skills council.

There will be a need to define more clearly the specific role of sector structures once the national skills planning mechanism is in place. It is possible that there might be different levels of responsibility in each sector, based on agreement reached with the national skills council.

10.4.3 Skills interventions implementation

Taking the cue from the priorities of the national skills plan, sector bodies would develop skills development projects to be implemented in their sectors and manage the implementation thereof. The projects would inter alia include:

- Management of learning programme delivery contracts (individual and programme) for all occupational qualifications including artisan training contracts
- Establishing and managing partnership with education and training institutions as well as employers for the implementation of skills development projects
- Facilitating and managing linkages between education institutions and employers in their sectors including actively assisting institutions with acquiring work placements for their students
- Managing and being accountable for funds allocated for sector projects and programmes by the national skills council
- Facilitating and supporting the setting of industry/sector standards for occupational qualifications and curriculum (of the QCTO). This could include facilitating the identification of occupational expertise from within their sectors to work with the QCTO (and/or NAMB) processes
- Monitoring changes in competence demands of occupations in their sectors and indicating to the QCTO where qualification reviews are needed so that the QCTO can initiate and set up qualification reviews (and curriculum reviews).

10.4.4 Monitoring reporting and evaluation

The national skills council will have responsibility for putting in place an M&E framework and system. This will involve standardising the approach to monitoring, reporting and evaluation, including a national standardised approach and methodology for data requirements, data sources, methodology for acquiring data, and standardised reporting requirements, system and process. The sector bodies would conduct monitoring, reporting and evaluation activities using these standardised approaches.

The sector bodies could also be given other functions as delegated by the national skills council. The sector bodies would also be responsible for testing M&E findings within the sector and obtaining sector stakeholder feedback on how the system should respond.

10.5 Provincial skills structures

10.5.1 Rationale

Consideration needs to be given to the skills system itself (as opposed to individual SETAs) having a presence in provinces, with a formal link to both the Office of the Premier and provincial departments of economic development.

These provincial structures would be subject to the national skills council policies and standards. They would not develop separate policies and systems. It will be important in developing these structures to avoid the perception that they have a policy making role or that they are accountable other than to the single national skills council. Rather the provincial structures would focus on the development of partnerships and projects that impact in the province. The precise role will need to be developed and could include:

10.5.2 Provincial skills needs assessment

The provincial skills structures would focus on conducting skills demand and needs assessments in their provinces. These structures would follow a national skills

research needs model and report provincial skills demands to the national skills council. The implication is that their function would go as far as demand forecasting whilst the national skills council would take on the planning role. A key output would be a Provincial Skills Plan (speaking to the wider provincial development and HRD plans). The provincial structures would also have responsibility for engaging stakeholders in the province to determine priority skills needs, and to agree appropriate strategies and interventions to address them.

10.5.3 Skills interventions implementation

Taking the cue from the priorities of national and provincial skills plans, provincial skills structures would develop skills development projects to be implemented by the OTP and manage the implementation thereof.

The projects would inter alia include:

- Management of learning contracts for all occupational qualifications including artisan training contracts
- Establishing and managing partnership with education and training institutions as well as employers for the implementation of skills development projects. This may be the appropriate level within the system to establish relationships and partnerships with higher education institutions, with individual faculties relating to sector structures.
- Facilitating and managing linkages between education institutions and employers in their sectors including actively assisting institutions with acquiring work placement for their students
- Managing and being accountable for funds allocated to provincial projects by the national skills council

10.5.4 Monitoring reporting and evaluation

The national skills council having standardised the approach to monitoring, reporting and evaluation, including a national standardised approach and methodology for data requirements, data sources, methodology for acquiring data, and standardised reporting requirements, system and process. The provincial skills structures would conduct monitoring, reporting and evaluation activities using these standardised approaches.

10.6 Local (municipal/district based) skills system offices

10.6.1 Rationale

Accessing and supporting SMEs, the informal sector, NPOs and rural area based organisations has proved challenging for sector bodies, whose activities tend to be dominated by the interests of large formal sector levy paying employers. Whilst it is relatively straightforward for a large company with a national footprint to engage with a sector structure it is difficult for a locally based small enterprise to engage with a sector structure based in Gauteng. Many small entities do not fit neatly into economic sectors and may not have skills needs that match those of the larger companies in the sector. It is also important to find a way of linking the support that small and micro enterprises obtain - from municipalities, SEDA and local development agencies as well as from development finance institutions - to skills development for sustainability. Skills development must be viewed as part of a wider strategy for small and micro enterprise development. It therefore seems rational that establishing offices to support skills development at local level should be investigated.

Currently there are a number of initiatives by SETAs to establish a local presence, including the sharing of offices in FET colleges. It will be important to assess the effectiveness of such initiatives and to draw on the successful offices to design a single model for a local office. Care will need to be taken to state very clearly the roles that such offices will play and the services that they will offer and to ensure that they have the human and financial resources to perform those functions. They will also need access to IT systems to enable them to provide on line support to learners and employers in the locality, including those engaged in programmes via sector structures.

Such skills development offices could be located at different types of existing organisations depending on the available infrastructure. The options for locating these structures could be any of the following: municipal offices, FET colleges, university campuses, community public facilities such as libraries and well managed NGO/CBOs etc. The challenge would be for the national skills council to develop appropriate management standards for these local structures and have effective means of monitoring that they are delivering skills development services efficiently.

10.6.2 Functions of local skills offices

These local skills offices would in effect be the vehicle through which the national skills council would implement skills development at local levels and for locally based SMEs, informal sector, NPOs and rural areas. The skills offices could also be one stop shop advice centres for access to the broader skills development system including providing advice on accreditation for emerging providers, providing career advice to local youth and coordinating services such as recruitment and selection of learners, RPL, trade tests etc.

Various models can be examined during the business case process, including the option of viewing such centres as centres of information and referrals rather than direct providers of services. There are currently structures called “skills centres” that may be able to partner local skills system structures rather than locating services within the skills system. It will be important to clarify expectations of other structures such as SEDA, local municipal structures, FET colleges and local employment services offices in the Department of Labour, vis a vis the local skills system office. In this way not only can a seamless service be offered from the local centres, but overlaps and duplication can be avoided.

The creation of local service structures will require a new set of skills. In addition to having knowledge on the various services offered by the skills system (access to programmes, quality assurance etc), there will be a strong brokering role located in these offices. Skills will include developing effective partnerships between the skills system, universities, public private partnerships, local economic zones, FET colleges and civil society structures. There will be a need for a national strategy to recruit and train staff in local structures. The skills system will need to engage with universities and other trainers to offer programmes to build capability in local structures.

A gap that sector bodies and other national bodies have been unable to deal with is the monitoring of providers. The local skills offices could be the point at which the public could verify the accreditation status of private education and training centres, meaning the national accrediting bodies would need to provide access to their

databases of accredited providers. The skills offices would also be involved in the development of skills development projects in some of the following ways:

- Liaison with local municipalities on skills development to support IDPs and LED
- Conducting skills need research in their localities following national skills research models
- Engaging with local not for profit organisations (NPOs), SMEs, co-operatives, and informal traders on skills needs
- Developing skills development projects to be implemented locally
- Managing funds allocated for such projects
- Assisting local NPOs, SMEs, co-operatives, etc to develop skills development project proposals in order to access grants
- Monitoring and reporting on skills development in their localities

The functions of the latter two structures (provincial and local) will need to be discussed and unpacked as they would in many parts of the country be completely new conceptions. The main rationale for having additional vehicles for managing the implementation of skills development is in essence based on the evidence that sector bodies have failed to support skills development effectively beyond the formal sector. Resources need to be allocated at the level in the system where they are needed.

11. Proposed roadmap for implementing the redesigned skills system

11.1 Underpinning principles

This report is premised on two mutually supporting principles. The first is that the intention is to design a new system, not “reform” the old one. It is important that stakeholders understand the importance of the new vision, and that each step of the process from this point onwards (including the development of the business case) is focused on incrementally building a new system that meets the needs of the economy and society, now and into the future (the vision and mission of the new system). This will ensure that stakeholders enter the process not defending existing structures but helping to build new ones, with a new focus and new ways of doing things.

The second principle is that the new system should be built on what is working effectively currently, including what is in the process of being built or supported to be more effective. Those functions that are working well and contributing to the new vision will be affirmed within the new system. Their precise role and location may change but the services they are providing will continue into the new system. For example, where a strong sector skills planning function has been built in a SETA, the intention would be to incorporate that structure into the system and perhaps even expand it to take on a larger role. The process of building a new system should not be seen as a process of contracting or reducing services. Where services are being delivered effectively and efficiently those structures performing at that level will be in the forefront of building the new system.

11.2 Building on work being done to strengthen the system

The proposed model recognises the need to build on some of those elements of the current system that are working. One such instance could be that those sector education and training authorities that are being managed adequately could be supported to continue, but according to the new sector body model.

There are a number of processes that are currently under way and which should not be viewed as in any way contradicting the proposed approach to building a new system. The proposed process for a transformed skills development system recognises some of the structural changes and capacity improvements that are being implemented, these being:

- The establishment of a national mechanism for skills research and planning – the Human Sciences Research Council having being tasked with this responsibility
- Consideration of the National Skills Authority (NSA) role as the national body responsible for monitoring and evaluation of skills development
- Bringing efficiencies to the governance of, and decision making on, skills planning and the implementation of skills development programmes
- Strengthening the link between SETAs and further education and training colleges
- Increasing the responsibility of SETAs with regard to facilitating and supporting the provision of work place learning and transition from academic learning to work place occupational competence for those exiting with education (academic) qualifications
- Rationalising the standard setting for occupational qualifications and the quality assurance system for the provision of occupational qualifications, both mid-level and high level skills
- Streamlining the levy grant system towards resourcing the occupational qualifications provisioning
- Increasing the responsibility of levy grant support for SMEs, adults, people in rural locations, non-government and community based organisations
- The current project of developing the National Skills Fund into an effective and efficient structure to deliver on its mandate.

Currently the MTT report into SETA functioning and performance is being discussed, and it is important that this process continues, so as to continue the reforms started in 2010 of addressing performance challenges in the system. There is nothing in this report that clashes with the general thrust of the MTT report. The difference is that the MTT recommendations would be implemented within the framework of the vision for a new system. Each reform process will need to be aligned to the longer term vision of building a new flexible, dynamic and inclusive system.

There is also a *SETA Turn-around Strategy* that is under development by the Department of Higher Education and Training, with the view to bringing about changes in: management and coordination of policy and strategy; organisational development and capacity building for the system; systems improvement including IT, database and monitoring and evaluation; and, SETA funding, financial management and accountability.

It is proposed that both the structural changes being considered, the ongoing MTT reforms, as well as the SETA Turn-around Strategy be viewed as building blocks towards the transformed skills development model proposed in this report. The current changes and the planned Turn-around Strategy could be used as opportunities to develop new functions and structures, test ideas and prepare for the implementation of the transformed system whilst the business case is being consulted on and refined.

Continuing to implement changes as they are currently being planned will contribute to maintaining stability within the system, and the continuance of skills development during the transition to the new system. There should be a guard against creating a vacuum and paralysis for the system during the business case development process and the phased implementation.

It is also important to emphasise that the strengthening of capacity in the Skills Branch will be important not only for the work of addressing weaknesses in the current system. It will be equally, if not more important, for the DHET and in particular the Skills Branch, to have the capacity to build and sustain the future system. The creation of a national skills council will not reduce the critical role that the Department plays in providing policy, strategy, leadership and support to the skills system.

11.3 Short, medium and long term milestones

11.3.1 Short term - Year 1 (2014-15)

The following milestone activities are proposed:

- Development of and consultation on the business case, and resolving the many outstanding issues and options that are outlined in this report
- Development of a business plan for implementing the business case
- Developing and testing some of the conceptions envisaged for the long term through implementing the Turn-around Strategy and other changes listed above
- Evaluation of NSDS III
- Preparation of NSDS IV
- Building the capability of the DHET to oversee the skills development system (including organisational review and development of the Skills Branch)
- Setting up a project management unit/office (PMO/PMU) to manage the transition to the transformed system

11.3.1 Medium term - Year 2 (2015-16)

The following milestone activities are proposed:

- Legislative review and development (including regulations). There will be a need to review the Skills Development Act, the Skills Development Levies Act, as well as other pieces of legislation and regulation relating to the QCTO and NSF
- Consultations on reviewed legislation culminating in the passing of new legislation
- Establishment of the national skills council

11.3.2 Longer term - Years 3-5 (2016-19)

The following milestone activities are proposed:

- Establishing the national skills council and setting up its organisational capability – organisational strategy, structures, policies, systems, processes
- Development of the transformed system's models, standards, processes, frameworks, guidelines etc for the functions to be implemented by implementing agencies
- Establishment of sector, provincial and local structures and their organisational capabilities

Depending on the level of consensus achieved, it would be possible to bring forward these timeframes to bring about speedier implementation.

11.4 Roles and responsibilities - current and planned processes

The following table sets out a number of processes that are currently underway along with the recommended business case process, and sets out responsibility and linkages between them.

Process	Responsibility (Lead) with (key role)	Implication arising from the SSR TTT report
The White Paper - Building an expanded, effective and integrated post schooling system	Minister of Higher Education and Training	<ul style="list-style-type: none"> ▪ There will be a need to take account of the White Paper in relation to all the processes set out below ▪ The White Paper must be seen as the framework for all the changes being considered ▪ A communication strategy will be needed to explain how the different processes are part of White Paper implementation.
MTT report into SETA functioning and performance	DHET Skills Branch supported by a Task Team	<ul style="list-style-type: none"> ▪ Implementation should be in line with the long term vision in this report ▪ In general the proposals are in line with that vision
LMIP and building an Institutional Mechanism for Skills Planning	DHET Planning Branch and HSRC	<ul style="list-style-type: none"> ▪ The process is in line with building a central planning process ▪ There will be a need to determine the location of the institutional mechanism for skills planning ▪ Ideally the skills planning function should be in place by the time the skills council is formed
SETA clustering	DHET Skills Branch	<ul style="list-style-type: none"> ▪ The clustering process will be given an added urgency and focus. ▪ This will be a process that enables SETAs to shape the sector structures of the future ▪ The discussion on shared services could be located within these discussions ▪ The discussion on the best approach to skills development in the informal sector could be located here ▪ The approach to local offices is already being discussed in the forums and should continue.
SETA Turn Around Strategy - strengthening the capacity of DHET	DHET	<ul style="list-style-type: none"> ▪ The strengthening of capacity in the DHET is critical to both the short term efforts to improve performance and the longer term vision for the skills system

to drive the skills agenda		<ul style="list-style-type: none"> ▪ There are four work streams to the turnaround strategy, and each will touch on elements of the planned skills system. Close coordination will be needed, with the business case being managed as part of the turnaround. ▪ There is a suggestion in the turnaround strategy of establishing a Project Management Office. This could be established in DHET and if agreed transferred to the skills council
Repositioning of the NSF	DHET	<ul style="list-style-type: none"> ▪ There is a need to consider whether this project could be adjusted to take account of the longer term vision ▪ One option would be to revise the process to include a design of the financial management function within the proposed skills council
Business Case for the new skills system	DHET (consideration of running this as an Expenditure and Performance Review process which involves Nat Treasury and DPME)	<ul style="list-style-type: none"> ▪ It will be essential to view the business case process as being inclusive of all the current processes. ▪ The business case process will enable all overlaps and inconsistencies to be identified and then addressed in a consultative process ▪ The EPR process has proven to be a speedy and effective approach which may lend itself to the building of a business case.

11.5 Summary of recommendations

The recommendations in summary are that the HRDC:

- I. Support the development of a new skills system in line with the vision, mission and key fundamentals set out in the report.
- II. Agree in principle to the establishment of a single national skills council.
- III. Support the development of a business case for the new skills system, noting that there are a number of important issues that need to be resolved in consultation with stakeholders.
- IV. Agree that the work of the SSR TTT is complete and that the Department of Higher Education and Training should take forward the development of the business case and its implementation

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