

Exploring Skills Development within the Interface of Public and Private  
Sectors

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## **LIST OF ABBREVIATIONS/ ACRONYMS**

AATP	Accelerated Artisan Training Programme
ATR	Annual Training Report
AG	Auditor General of South Africa
Cosatu	Congress of South African Trade Unions
DHET	Department of Higher Education and Training
NQF	National Qualifications Act
NTB	National Training Board
NTSI	National Training Strategy Initiative
NSDS	National Skills Development Strategy
Numsa	National Union of Metalworkers of South Africa
PIVOTAL	Professional, Vocational, Technical and Academic Learning
SAQA	South African Qualifications Authority
SDA	Skills Development Act
SDLA	Skills Development Levies Act
SSP	Sector Skills Plan
SETA	Sector Education Training Authority
TVET	Technical and Vocational Education and Training
WSP	Workplace Skills Plan

# **CHAPTER 1: A BOLD VISION, DISAPPOINTING IMPLEMENTATION: WHY?**

## **1.1. INTRODUCTION**

In the 1970s the South African government identified skills shortage as a binding constraint for the ability of firms to adapt to new technology, industrialisation and globalisation. As a response it created the 'manpower training system' as a strategy to address the critical skills shortages. The manpower training system was designed to be in line with government's apartheid policy. The outcome was a highly polarised and racialized national skills development system. The system created immense developmental challenges including huge socio-economic inequalities, and an unemployment and poverty problem that was defined along racial lines (McGrath, 1996).

The defeat of the apartheid government in the 1990s meant that the new democratically elected government desperately needed to address these socio-economic challenges. It needed to do so while also trying to catch up with a rapidly globalising world economy characterised by rapid change, unprecedented competition, new technology, fast-growing emerging markets, workforce diversity, re-engineering, and a demand for new skills. The draft of the 1997 Green Paper on Skills Development Strategy for Economic and Employment Growth in South Africa advocated for a bold vision for a state-driven national skills development system in partnership with firms, labour and a range of public and private training providers (Republic of South Africa, 1996: 62).

The robust discussions following the announcement of the Green Paper led to the promulgation of a number of skills development legislations including the Skills Development Act (SDA) (No. 97 of 1998), which established Sector Education and Training Authorities (SETAs). The SDA envisaged SETAs to act as key agencies in the delivery of skills development and workplace experience seen as essential in addressing the triple challenges of inequality, unemployment, and poverty (Republic of South Africa, 1998). The SDA also envisioned that the SETAs will manage the

distribution of skills development grants to encourage firms to invest more in skills development. It was also imagined that SETAs will inspire learners to participate in training programmes and employers to use their workplaces as sites of learning and training in order to upgrade the skills of their employees and open up opportunities to new entrants eager to join the labour market to gain much-needed work experience (ibid).

Despite this new bold vision, implementation has been a huge challenge. The SETAs have been relentlessly criticised in the media for failing to respond to the demand for medium and high skills in key sectors of the economy in an equitable and inclusive manner. SETAs perceived failure to perform its skills development function effectively is primarily attributed to a crisis in governance and administration, lack of Board professionalism, poor planning, and corruption (Marock, Harrison-Train, Soobrayan & Gunthorpe, 2008; Barclay, 2012; Scott & Shuttleworth, 2007). The crisis in corporate governance manifest itself in poor service delivery, adverse media image, and the general pessimism around SETAs that continue to bedevil the implementation of the new national skills development system.

SETA Boards tend to be riven with conflict as a result of their often opposing expectations and mandates, and the infighting spills over to executive managers and to the rest of the organisation. Barclay (2012) observed that the incompatible interests of stakeholders often dominate SETA Boards largely because of the inherent nature of their constituencies and concomitant mandates. Boards that are preoccupied with internal power struggles are wont to lose focus on their fiduciary duties which revolve around the implementation of the National Skills Development Strategy (NSDS) (now in its third phase of implementation). This causes a disjunction between the NSDS and firm-level training activity that, in turn, is one of the key challenges hindering the implementation of the national skills development system. SETA constitutions have been found to be too weak to govern stakeholder interests and give proper direction to the implementation of skills development (Scott & Shuttleworth, 2007).

Even though optimum value can be derived from having institutional arrangements that are geared to the implementation of projects supporting organisational strategy, one in three of all strategy implementations fail as there is often a major rift between strategy (as designed by principals) and the actual projects (as implemented by agents) (Buys & Stander, 2010). Agency theory hypothesised that managers are hired to look after the interests of shareholders, but managers sometimes act at the expense of shareholders (Hailemariam, 2001; Jensen, Murphy & Wruck, 2004). In the case of SETAs, government is the major shareholder but it is not always clear who are the beneficiaries of this initiative. Levy (2014) theorised that in a hierarchical long route of accountability where the public is linked to service delivery nodes via politicians and policymakers who are in turn linked to service delivery providers, it is crucial to align the goals of agents with that of their principals. The SETA arrangement is, nonetheless, unique in that Board members are appointed by the Minister of Higher Education and Training in their capacity of representing a particular constituency such as a union or a business association. This does not really fit the principal-agent relationship. And so, Levy argued, the stakeholders must work together to optimise joint benefits which will temper with their temptations to otherwise shirk, free ride or pursue selfish goals at the expense of the collective.

This paper hypothesises that if the social partners comprising the SETA Boards have a collective initiative to support skills development, they will have strong incentives to adequately govern SETAs and not free ride or shirk their fiduciary duties thus ensuring alignment of SETA strategy with the NSDS and prevent individual(s) from capturing the public initiative for private purposes. Furthermore, the paper focuses on two key questions for sustainable workplace learning and training: Are SETAs failing to strengthen the partnership of the key stakeholders to ensure learners get an opportunity to obtain workplace learning? SETAs are failing to respond to the collective incentives of the social partners as a result of the breakdown of the agent-principal linkages. The third and last hypothesis declares that SETA Boards fail to act on behalf of the interest of the social partners because of the breakdown of the agent-principal linkages.

The paper is organised in five sections. This first section is a short introduction to the study. It briefly discusses the vision of the SETAs, and, most significantly, also offers a theory of why the implementation of the national skills development system is floundering.

Chapter 2 provides the context for the establishment of the SETAs. It traces the theoretical underpinnings for workplace-linked learning and training and the evolution of South Africa's experience with, and institutional arrangements for, workplace-linked training prior to the SETAs including the apartheid period.

Chapter 3 provides a descriptive background of the SETAs including the process that led to their establishment in the year 2000. A descriptive overview of the evolving nature, architecture and performance over time of the SETAs is provided. The challenges of principal-agent governance will be analysed from a SETA perspective.

In Chapter 4 the governance theory that provides the basis for the hypotheses is introduced. The challenges of principal-agent governance are explored from a SETA perspective. SETAs are unique in that members of the Board are nominated to serve in Boards because of their affiliations to unions and business organisations. Even so, the SDA demands that they exercise their autonomy and discretion in a multi-stakeholder environment.

A process analytical analysis is painstakingly done in Chapter 5 to assess the hypotheses made in Chapter 4.

Chapter 6 concludes the report.

## **CHAPTER 2: SETTING THE STAGE**

### **2.1. INTRODUCTION**

Even though, there is no single definition of workplace training, this study will use a definition that looks at all training that happens at the workplace and as a direct consequence of the needs of the workplace. In his seminal work Becker (1962) formalised the theory of human capital and provided an understanding on what drives the desire of employers and employees to invest in workplace learning. In line with Becker's propositions many governments use tax-based schemes to encourage firms to invest more in skills development. Even so, many countries are adopting the idea of creating a knowledge-based economy as a precondition to economic growth (Glastra, Hake & Schedler, 2004; Bencsik & Trunkos, 2009). The Organisation for Economic Cooperation Development (OECD) has long identified workplace training as the key pillar towards establishing a knowledge-based economy (OECD, 1996).

### **2.2. WORKPLACE TRAINING - DEFINED**

Human Resource Development, Lifelong Learning, Workplace Learning, On-The-Job Training are some of the concepts used to refer to workplace training. This study uses workplace training and workplace learning to refer to all training, learning, and skills formation that happen within the workplace. Likewise, two definitions of workplace training are instructive. First, Fuller and Unwin (2003: 7) viewed workplace training as an all embracing term for 'all types of learning' that come as a result of 'the needs of the workplace including formal on-the-job training, informal learning and work-related off-the-job education and training'. Second, Boud and Symes (2000: 14) described workplace training as a method of learning that happens on a routine on the factory floor as employees gain 'new skills to develop new approaches to solving problems.' The common theme in both explanations is that workplace training either takes place at the place of work or responds to the requirements of the job.

Boud (1998: 11) also warned that there is no common definition for workplace learning due to the often competing views, ideas, interests and values of the various players in the skills development environment including employees, employers, training providers, politicians and policy makers. Making reference to the elastic use of the concept of workplace training, McCormack (2000) noted that the conceptualisation of workplace learning depends on an allegiance to the different school of thoughts such as learning and development, human resource development, organisational development, learning organisations, and knowledge management. As an example, employees tend to view work from the perspective of its learning potential, which is fundamentally different to the perspective of employers who are wont to view work in terms of its contribution to production, effectiveness and innovation (Cullen, et al., 2002: 36).

Be that as it may, workplace learning is often defined and promoted as beneficial to both employers and employees, on the one hand, and society and the state, on the other. In his study of the British post-school education and training system Forrester (1999: 189) observed that workplace training is promoted as a pillar of the 'modernising consensus' leading to a successful and dynamic economy and also as a key contributor 'towards addressing issues of social justice, equity and social inclusion.' Here the first part of workplace learning is characterised, conceptualised and promoted in line with the human capital theory that hypothesises that the acquiring of knowledge and skills is linked to innovativeness, competitiveness and socioeconomic development. The second part takes a view synonymous with advocates of lifelong learning who believe that learning is an integral part towards the building of a socioeconomically inclusive knowledge-based economy. The human capital theory, knowledge economy and lifelong learning will be discussed in the next sub sections.

### **2.3. HUMAN CAPITAL THEORY AND WORKPLACE TRAINING**

The classical, neo-classical and the post-modern endogenous growth models regard the increase in the quality of labour not only as a critical condition for the efficient use

of the other factor inputs in the production process but also as an essential indicator for economic growth (Kapustin, 1980: 132).

Even though the concept of human capital is complex and many-sided it has always been understood to revolve around the acquisition of education, knowledge, talents and apprenticeship (Smith, 1776; Ricardo, 1951, Becker, 1964). Many theories had further postulated that investments in the education and training of the workforce will lead to an improvement in the quality and level of production (Schultz, 1961; Mankiw, 2007), innovativeness (Aghion & Howitt, 1998), trade (Ricardo, 1951), savings culture (Todaro, 1994), competitiveness (Lai & Ng, 2014), and eventually economic growth (Kapustin, 1980). Examining the roles physical, human, and social capital play in China's remarkable economic growth during the reform period of 1981–2010, Li and others (2015: 133) concluded that human capital is a major factor to China's economic prosperity because it leads to 'the improvement of labour productivity'.

Becker (1964) formalised the theory of human capital to encompass all worker competencies and attributes acquired informally, non-formally and formally such as the health of the worker, migration, experiences, education and on-the-job training. Human capital, therefore, involves all investments made to all the factors that improve a person's quality and level of production to allow the individual to participate meaningfully in the economy and society. In his survey of private sector training literature, Edwin Leuven (2005) found that the human capital theory, as formalised by Becker, has evolved to become the dominant viewpoint on workplace training.

In his seminal work, Becker (1962) provided a central argument that rested on how the costs and returns on workplace training are shared by both the worker and the firm. Becker (1975) further expounded that workers and firms would finance workplace training when the discounted expected benefits is greater than the discounted expected costs. In the same vein, if the projected benefits are less than the discounted expected costs, employees and employers will underinvest in

training. Table 2.1 shows Becker's propositions on what drives workplace training in the private sector.

**Table 2.1: Propositions for firms' and workers' incentives to pay for training**

Proposition	Benefit	Pay cost	Investment
1. If training is general and labour markets are perfectly competitive	Worker	Worker	Efficient
2. If training is specific and the firm sets wages	Firm	Firm	Efficient
3. If training is specific, long-term contracting is possible (no renegotiation) and there are costs of evaluating and agreeing on the worker's productivities in the firm and elsewhere	Shared	Shared	Efficient

**Adapted from Becker (1962)**

Distinguishing between training that is general (training that is useful to all firms in the market) and one that is specific (training that is useful only to the training firm), Becker maintained that if workplace training is general and the labour markets are perfectly competitive, then firms will not invest in training because of the anxiety that skilled workers will be inclined to sell their labour to the highest bidder once they have been trained (Proposition 1). In this proposition there is nothing stopping non-training firms to compete for the best skills available in the labour market regardless of which firm trained them. In this case, Becker argued, employees have higher incentives than employers to finance their own training as they will reap all the returns of their newly acquired capabilities.

On the contrary, Becker (1962) believed that specific training would encourage firms to provide training as the new skills are not useful to other firms. This limits the discretion of the trained worker. In this scenario if the firm sets wages then its incentives to provide training becomes higher than those of the workers, as the firm will reap all the benefits of the training (Proposition 2). Furthermore, Becker believed that if the trained worker leaves the firm, then the investment in training is lost to both the firm and the worker. Whether the worker stays with the firm or not would depend on how the worker and the firm are prepared to share in the enhanced profits

factoring in the number of trained employees, turnover rates and 'the cost of funds, attitudes toward risk, and desires for liquidity' (Becker, 1962: 44). This scenario leads to Proposition 3 which introduced contracts to mitigate costly turnovers and lay-offs. Hashimoto (1981) postulated that firms and workers can avoid inefficient quitting and lay-offs through negotiating contracts that may include predetermined wages beforehand. For instance, the firm may pay the worker more to avoid turnover, and so having to train new entrants. A higher salary means both the employee and employer share in the newfound productivity of the employee.

Becker (1962) concluded his theory by proposing that firms will provide general workplace training if the following conditions are true:

- (i) There is a strong probability that their employees will not be poached.
- (ii) The enhanced productivity of the employee is still not reflected in his market value.
- (iii) The employer makes a good profit if it trains its employees.

As the skills market is not as perfect as Becker had suggested, and workplace training is invariably a sum of the general and specific training, poaching of workers is profitable for non-training firms. According to Stevens (1994: 541) 'any source of imperfect competition leading to wages below marginal product, combined with any source of uncertainty about labour turnover, gives rise to this externality' of poaching which, in turn, gives rise to underinvestment in workplace training. Leuven (2005: 103) pinpointed the sources of imperfect competition including information asymmetries between the training firm and the market which may render the training provided to a worker invisible to the outside firms thus reducing the bargaining power of the worker to alternative employers. The true worth and abilities of the trained worker is thus known only by the incumbent firm thus preventing outside firms from providing better offers than the firm that had trained the worker. Katz and Ziderman (1990) called this phenomenon 'worker liquidity constraint'. They further argued that certification of the training received mitigate worker liquidity constraint. Other sources of imperfect competition include the firm paying no more than a minimum wage (discouraging workers from investing in their own training) and collective bargaining (discouraging the firm from paying the most productive workers more).

There is plenty of empirical evidence dealing with the economic implications of the human capital theory. Using empirical models to examine the relationship between investment in human capital and corporate value, Yeh and Kung (2013) reported that both financial and non-financial indicators of human capital are associated with corporate value. Grossman (2000) also found that employee productivity is a composite indicator of the quality of human capital. Using Statistics Canada's longitudinal and nationally representative data of the Workplace and Employee Survey Lai and Ng (2014) found that there is a strong symbiosis between competitiveness and workplace learning in Canada.

Looking at the costs of and returns on general training, Loewenstein and Spletzer (1998) noted that the general training financed by incumbent employers has a lower effect on wages than past investment on general training by previous employers. This may suggest that existing knowledge and current skills has more net value to the worker than skills upgrade. Even so, in a monopsony an employer would be motivated to invest in general training as workplace training seems to not only attract skilful workers but also lead to lower salaries (Acemoglu & Pischke, 2000; Autor, 2001).

Boccanfuso, Savard and Savy (2009) sought to evaluate the influence human capital on economic growth using a sample of 22 African countries. Focusing on the 1970 to 2000 period, they found that human capital contributes positively to the process of investment, saving, productivity, employment and economic growth.

There is also a body of evidence supporting the link of an investment in high skills to firm productivity. Basing their study on the South African construction industry Kleynhans and Labuschagne (2012) learned that managers with higher skills levels accomplish higher levels of output. Kim (2015) reported similar findings with employees in the Eastern culture. Investing in workplace learning, Kim argued, does

not only improve the knowledge, skills and abilities of workers but also increases the performances of the firms and better satisfy the needs of clients.

Rijsdijk and Rauch (2013: 935) applied the theory of human capital to entrepreneurship and recounted that the general human capital of business founders is positively linked to business progress after the first five years. Furthermore, they discovered that those owners with higher skills compensate for their human capital investment by growing their enterprises more than the owners with low skills and, thereby, reduce the risk of failure. There is also evidence that encouraging entrepreneurship has a positive relationship with human capital (Remeikienė & Startienė, 2013).

Even though the rate of returns on investment in the quality of human capital differs from country to country, there is an overwhelming body of evidence confirming the link between the two variables. Table 2.2 charts some of the crucial studies on human capital and economic growth.

**Table 2.2: Rate of return on human capital investment**

Human capital	Rate of return	Source
High school and College	13 % to 28 %	Becker (1964)
Additional schooling year	12 % to 16 %.	Ashenfelter & Krueger (1994)
Additional schooling year	10 %	Rouse (1999)

Using wages as a proxy for economic contribution, the high internal rate of returns from these studies suggest a strong link between human capital and economic prosperity.

Looking at the output per worker between rich countries and poor countries, Manuelli (2015) reported that the average years of schooling for the typical worker accounts for the high productivity of firms and wealth of the rich nations. ECLAC (2000) confirms that 12 years of schooling are necessary in order to have 90 % of possibilities of escaping poverty or not to fall in poverty. Even more encouraging is the finding that human capital reduces inequality thus contributing to the redistribution of the benefits of economic growth and reduction of poverty (Castelló-Climent, 2010).

#### **2.4. WORKPLACE LEARNING AND THE KNOWLEDGE ECONOMY**

Acknowledging the positive relationship between human capital, firm productivity and economic growth, many countries invest in lifelong learning as one of the fundamental building blocks to create a knowledge-based economy (Bencsik & Trunkos, 2009). New technology, high competition and rapid globalisation put pressure on both the public and private sectors to adapt to this new border-less markets. This is a market where knowledge economy where information is shared instantaneously without the constraints of time and space has become the gospel of the development agenda (Glastra, Hake & Schedler, 2004). The outcome is that the formation of new skills is seen as a way to adapt to this rapidly globalising market place (ibid). Former United Kingdom Secretary of State for Education and Employment David Blunkett (cited in Hann & Caputo, 2012: 5) is precise in his observation:

‘In a knowledge-driven economy, the continuous updating of skills, attitudes and the development of lifelong learning will make the difference between success and failure, and between competitiveness and decline.’

Either through formal or non-formal training workers are engaged in skills development to gain new or upgrade their existing skills to enhance their contribution to productivity and competitiveness.

Promoting the narrative of a knowledge-based economy the OECD took the debate further and suggested that the new skills national economies need to adapt to technological change and new global competitions could only be delivered via the workplace because, firstly, most of the economically active population is at work and, secondly, several of these new skills can only be developed through work integrated learning (OECD, 1996).

The European Council also promoted the knowledge economy and increased access to workplace training as a precondition for enhanced competitiveness, and in achieving its 'Europe 2020' objectives (European Council, 2007). Even so, there is evidence justifying the governments and policy makers that promote the idea of creating a knowledge-based economy as a response to high competition and new technological changes and new products and services as a result of a swiftly globalising world (Knoke & Kalleberg, 1994; Bartel & Lichtenberg, 1987; Bresnahan, Brynjolfsson & Hitt, 2002; Xu & Lin, 2010).

Keep and James (2012) argued that the downside is that the idea of a knowledge based economy is based on the creation of a highly innovative super worker with high level skills at the expense of workers with low skills. The idea is that if you invest in human capital these new highly skilled 'super workers' will ensure the competitiveness of countries. But this supply-side model proved inappropriate in countries such as the United Kingdom (Green, et al., 2015) and South Africa as a result of lower demand for such knowledge workers (Kraak, 2014).

Faced with challenges of scarcity of relevant skills governments of the world met in 1993 in Vienna, and identified workplace training as a key pillar towards creating a knowledgeable and skilled workforce. No less than 171 countries adopted the Vienna Declaration urging countries to legislate for a programme to inculcate workplace learning in their respective countries. The national programme called

National Action Plan call to action states to ensure the skilling of a largely unskilled labour force in a manner that is equitable, fair, inclusive, and based on human rights ideals such as redress and access.

Linked to the idea of creating a knowledge-based economy is lifelong learning that is defined by Edgar Faure (1972) as a concept acknowledging that learning is an unavoidable human activity from birth to old age, and that its delivery is vital for the realization of human potential and the spread of human rights and democratic ideals. Like human capital, lifelong learning encompasses all competencies and non-market activities acquired informally and formally. Most organisations require specific rather than general skills, which is best accomplished through workplace training (Acemoglu & Pischke, 1999). But unlike human capital, lifelong learning is grounded on the ideals of solidarity and human rights. Lifelong learning is thus intended to cater for all learners instead of just developing the competencies of those willing to use their skills and knowledge to improve productivity, competitiveness and economic growth. Lifelong learning researchers such as Knapper and Cropley (2000) and Kirby, et al (2010: 294) described lifelong learning as learning how to learn, and lifelong learners as those able to set goals; apply appropriate knowledge and skills; engage in self-direction and self-evaluation; locate required information; and adapt their learning strategies to different conditions. Engaging in self-directed learning and setting goals is appropriate in responding to a rapidly-changing globalised economy (Fenwick 2013; Illeris, 2008). Illeris (2008) further expounded that there is an intimate relationship between what is to be learned, that is, the content dimension (skills, understandings, and abilities); the desire to learn, that is, the incentive dimension (emotions, feelings and volitions) as well as the support system, or social dimension of interaction, cooperation and communication.

## **2.5. TRAIN OR PAY SCHEMES**

Recognising the need to build knowledge-based economies using a lifelong learning approach to skills development, many policy makers and governments accepted as true that firms shirk on workplace training (Dostie, 2015). This perspective is in line with Becker's (1962) theoretical explanation that blames firms' underinvestment on

workplace training mainly as a direct consequence of labour market failures. Many governments responded with policies that are designed to encourage firms to increase their investment in workplace learning regardless of the perceived labour market imperfections. According to Bassanini et al. (2007) these policy steps involve levy-grants, subsidies, co-finance, and other tax deductions systems. Purported to increase investment in training and giving government bodies leverage to decide on the type of training, the levy-grant system remains popular with many countries (Bassanini et al., 2007). Müller and Behringer (2012) listed 17 Central and Latin American and Caribbean countries, 17 countries from Sub-Saharan Africa, and 14 from Europe among the more than 62 countries using levy-grant schemes.

Dostie (2015) observed that when, in 2004, the Canadian government abolished its training levy scheme for medium sized firms, a government program that required firms with a payroll of over \$250 000 to invest 1% of their revenue to training, these firms started substituting general training with specific, cheaper, non-certified training. Following broad discussion about the concept of lifelong learning in the 90s, the Dutch government introduced its triple tiered training levy system in 1998 (Leuven & Osterbeek, 2004). The first tier is general and allows firms a deduction of 20% on their profits for an expenditure on training. The second tier allows more deductions (4%) for smaller firms that spend on training. Designed to encourage firms to train older workers, the third tier allowed firms to make an extra 40% deduction on their profits for every trained worker that is 40 years or older. As a direct consequence of this tax laws Leuven and Osterbeek (2004) found that the training of workers 40 years or older was 15 - 20% higher than in the younger population. These experiences imply that pay-or-train schemes are effective in inducing the private sector to upgrade the skills of their workforce with the type of training government regard as scarce and required for economic prosperity.

The British government introduced the levy-grant system during the 60s and 70s (Green, et al., 2015). The British training tax-based national training system involves state-owned, industrial training providers collecting levies from firms and managing the firms' output on workplace training using the grant to induce firms to train more. According to Adams (2011: 12) Malaysia, Singapore, and Brazil also use levy-grant

schemes to inspire firms to invest more in workplace training. Lee (2004) noted that the Korean government employs the training levy-grant to stimulate corporate investment in workplace training. These major findings show that training levy-grant scheme might be one of viable institutional arrangements to deal with the problem of shortage of the skills and low investment in workplace training.

## **2.6. THE EVOLUTION OF WORKPLACE TRAINING IN SOUTH AFRICA**

### **2.6.1. Master and Servants Act**

Both the Natal and Cape of Good Hope regions enacted legislations in the 1880s to train artisans to work mainly in the mines and railway infrastructure (Haywood, 2004). In 1922, these laws, called Master and Servants Acts were replaced by the Apprenticeships Act.

### **2.6.2. The Miners' Strike of 1922**

Threatened by the introduction of black workers, white miners embarked on a strike in 1922 demanding protection from cheap black labour. The government of the day violently crushed the strike. The end of the strike resulted in the aptly named Industrial Conciliation Act of 1924. It was an Act that formalised the exclusion of black workers from the bargaining council agreements (Haywood, 2004). A decade and half later the powers that be established the Central Organisation of Central Training to train artisans for the Second World War.

### **2.6.3. Black Housing Shortage**

The critical shortage for housing of black workers working in the gold and diamond mines necessitated the building of ghettos and the passing of the Black Building Workers Act of 1951. The National Party had just come to power, in 1948, following a campaign that promised to establish apartheid. This law was one of the signals the apartheid government wanted to use to show its voters it meant business. The Black Building Act did not only provide for the regulation of black builders but also for the regulation of workplace training for the black builders. But the devil was in the detail. The regulations demanded that black builders must not be certificated for the training they receive to ensure they continue to be regarded as unskilled and deserving of their poor wages.

#### **2.6.4. The Botha Commission**

Following the victory of the Nationalist Party with the promulgation of the Black Building Workers Act of 1951, apartheid became a policy of government in education and training. Mandated to combat white poverty, the Botha Commission reviewed the existing industrial legislation. The outcome was the new Industrial Reconciliation Act of 1956 that effectively excluded black workers from participating in trade union activities. It also reserved jobs for whites. In the 70s the law was amended to give powers to the Industrial Council to begin charging employers a compulsory levy (Haywood, 2004).

#### **2.6.5. The Manpower Act**

In the wake of the 16 June 1976 Soweto Riots that soon spread to other urban areas, the apartheid government appointed the Wiehahn Commission to investigate South Africa's labour legislation, and the Riekert Commission to explore manpower utilisation and influx control measures (Wiseman, 1986: 168). The recommendations of the Riekert and Wiehahn Commissions led to the promulgation of The Manpower Act (No. 56 of 1981) creating the Manpower Development Fund to capitalise training centres. The legislation also led to the establishment of the National Training Board (NTB), and an incentive scheme for training providers. Even though the Manpower Act removed all references to race, it continued the systemic exclusions of blacks, in general, and black workers, in particular. The Manpower Act was amended in 1988 to clarify the powers of the NTB and establish Industry Training Boards to effectively take over the training of artisans in the workplace.

### **2.7. THE IMPACT OF THE APARTHEID LAWS**

Looking at the impact that the laws enacted before and during the apartheid years had on society does not provide pleasant reading. McGrath (1996), Gamble (2004) and later Allais (2012) agreed that the result of these laws (from the 1880s to the Manpower Act of 1981) was low skills production, employer voluntarism, exclusive artisan training for white men through state-owned enterprises, and a highly unequal public education system.

The way the apartheid government had been regulating training including workplace learning left South Africa with an elitist, segregated and unequal society where black

and coloured people are disproportionately unemployed and redundant as compared to their white counterparts. Employers voluntarily contributed a skills levy to industrial Boards. But the National Training Strategy Initiative (NTSI) suggested that this voluntary enterprise training was selective with workers and discriminated against small and medium-sized enterprises, black workers and especially those with lower levels of formal education. It is a system that begged to be replaced. Adams (2007: 11) remembered the conditions very well:

‘On grounds of equity, if not efficiency, these conditions of employment provide a rationale for public interventions to broaden access and investment in education and skills for those left behind by enterprise-based training. These interventions may include public provision, but also public financing of private providers, including training by enterprises.’

For many like Adams these egregious conditions needed a new agenda to address the changing nature of demand for high level skills in a manner that promotes equity, access and inclusivity.

## **CHAPTER 3: ENTER THE SETAS**

### **3.1. INTRODUCTION**

The story of SETAs begins during the twilight years of apartheid. Following the unbanning of political parties on 2 February 1990 the political adversaries had no choice but to sit around the table and negotiate a future South Africa. These talks included discussions on forging a future national skills development based on human rights and democratic ideals. The most important of these talks was the national training strategy task team that was formed by the NTB.

### **3.2. THE NATIONAL TRAINING STRATEGY INITIATIVE**

From 1991 to 1993, at the time when South Africa was engrossed with negotiating the end of apartheid, the NTB formed a task team to design a new national training strategy. Noting the unbanning of political parties and the other signals of the imminent demise of apartheid, the NTB started working closely with the African National Congress and the Congress of South African Trade Unions (Cosatu). Bobby Godsell (cited in the Singizi Report, 2007: 50) acknowledged that as early as 1992 a section of the business community accepted the advantages of talking with Cosatu on a future skills development regime.

The task team concluded its mission in 1994 with the National Training Strategy Initiative (NTSI), a report that set in motion processes to establish the South African Qualifications Authority (SAQA) and the National Qualifications Framework (NQF) as well as the SDA. The NTSI advocated for the integration of the racialized education and training system, and for a single national qualifications framework that allows portability and articulation of learning programmes as well as training that is in line with the demands of the industry.

### **3.3. SAQA AND THE NQF**

To change this established apartheid system, the new democratic government promulgated laws such as the SAQA Act (Republic of South Africa, 1995) replaced

in 1998 with the NQF Act (Republic of South Africa, 1998). In line with some of the NTSI recommendations the NQF Act seeks to, among others, redress the imbalances of the past in the education and training system; facilitate mobility of learners through articulation of qualifications; and contribute towards the economic advancement of individuals and the state.

### **3.4. THE GREEN PAPER ON SKILLS DEVELOPMENT**

Faced with the unequal skills development system, the new democratic government announced in March 1997 the Green Paper on a Skills Development Strategy for Economic and Employment Growth in South Africa as 'a new skills revolution' to replace the racialised education and training system with an equitable and inclusive national training system (Republic of South Africa, 1997). From the NTSI to the formulation (and reformulation) of the Green Paper on Skills Development, organised labour, business, educationalists and other stakeholders had been engaged on talks trying to find a solution towards a single vision of a national skills development system. Even though the negotiating teams accepted the merits of their often competing interests they almost always managed to retain the legacy of what ostensibly are their competing imperatives and expectations. The Green Paper was therefore a set of compromises between labour and business, the two protagonists in the processes leading to the current national skills development system.

Believing that the existing elitist and voluntary nature of skills development was not only discriminatory but also encouraged firms to shirk their responsibility to train workers, labour unions took a view that the new skills development should be favourable to workers. During negotiations labour defined 'skills' as a necessary 'project of employee development' (Republic of South Africa, 1997). This reflected the tensions and lack of mutual trust between labour and business.

Business wanted to hang on to the 'voluntarism' nature of workplace training that had characterised skills development during apartheid rule. Business Unity South Africa (Busa), an umbrella body for business, declared that they were 'instinctively

uncomfortable' with the Green Paper because of its proposals to force employers to invest more in training (Haywood, 2004). Busa argued that the proposed levy of 1 - 1.5% of firm's salary bill was exorbitant and will lead to unintended consequences such as an increase in business costs and job cuts. Cosatu, on the other hand, demanded that the proposed levy was too little and must be increased to 4%. Cosatu also used the platform to bargain for minimum wages and a 40-hour week. If business does not want to adequately invest in workplace training, Cosatu argued, then they need to pay workers very well and allow them time off so workers can invest their own money and time to their own development. The parties could not agree, and government had to intervene.

Both parties, however, agreed that all stakeholders should be enabled to participate meaningfully and equally in the national skills development strategy and the proposed SETAs. Involving more than 150 representatives from government, labour and business, the agreement covered up the competing interests of the key protagonists. Using the NQF as a site of contestation Cosatu saw the mooted SDA as a mechanism for their members to not only gain marketable skills but recognition and promotion linked to a skills-based grading system. On the contrary, firms saw the proposed national skills development system as a panacea for competitiveness and multi-skilled workers doing complex multi-tasks while on the same grade. The divergent views and expectations led to a NSDS with over 20 objectives. This rigmarole wish-list of all stakeholders may be blamed for the Board conflicts that beset SETAs and a wide mandate susceptible to scope creep (Marock, 2010).

The government promoted the view that the proposed levy-grant system will induce non-training firms and those training at a low level to train because they will recover their contributions to the skills fund. Government saw the proposed sectoral agencies as a mechanism to give the public sector more control on the skills development system. Kraak (2004: 125) asserted that through the levy-grant scheme government has a model that 'cedes real leverage to the state over the market'. For Adams (2007: 11) government also saw in the future skills development system a mechanism to provide interventions to broaden access to skills development activities for those often left behind by workplace-based training.

Even so, organised labour also won some major victories in the processes leading to the skills development bill. Cosatu and its then major affiliate NUMSA, believing in a lifelong learning approach to workplace training, fought for the Recognition of Prior Learning (RPL), paid study and training leave, and certification as a link to personal career advancement (Badroodien & McGrath, 2005). They scored some victories with these demands. The RPL and certification of all learning are built into the NQF. And the study and training leave is embedded into the Basic Conditions of Employment Act.

### **3.5. THE SKILLS DEVELOPMENT BILL**

Even though the Skills Development Bill rejected Cosatu's suggestion of a 4% levy and a 40-hour week, it received support from all the major political parties represented in parliament (Haywood, 2004). Bemoaning the low levels of investment on workplace training by South African firms, Mayimele, an African National Congress (ANC) Member of Parliament, believed that passing of the Bill would increase private sector investment in training. Mayimele's view were in line with observations made at the time. South African firms invested no more than 1.5% of payroll on training as compared to over 5% and 8% that European and Japanese firms invested in workplace learning respectively (Sethi, 1993). Fourie, representing the National Party (the official opposition) joined the other smaller parties to express his full support for the Bill: 'This bill is fortunately not one of those bills that render the labour market more rigid and which will have a major impact on the labour market' (SA Parliamentary Hansard, 2008).

### **3.6. THE SKILLS DEVELOPMENT ACT**

Following the discussions on the Green Paper as well as the parliamentary deliberations and passing of the bill, the new democratic government promulgated the SDA (No 98 of 1998) in order to transform the established apartheid training system and do away with the 'voluntarism' and the unequal nature of the skills development system (Republic of South Africa, 1998). The NTSI had suggested the replacement of the racialised National Training Board and Industrial Boards with more representative Boards called Sector Education and Training Organisations. The SDA requires the establishment of SETAs to be equally representative of

organised labour and business associations operating within a sector. It also prescribed a NSDS to be reviewed every five years to bring about a tripartite partnership of state, employers and labour to work with a range of public and private training providers to broaden access to workplace training to both existing workers and new entrants to the labour market.

Section 2 (1) of the SDA outlined the purpose of the Act as:

- a) to develop the skills of the South African workforce -
  - (i) to improve the quality of life of workers, their prospects of work and labour mobility;
  - (ii) to improve productivity in the workplace and the competitiveness of employers;
  - (iii) to promote self-employment; and
  - (iv) to improve the delivery of social services;
- b) to increase the levels of investment in education and training in the labour market and to improve the return on that investment;
- c) to encourage employers -
  - (i) to use the workplace as an active learning environment;
  - (ii) to provide employees with the opportunities to acquire new skills;
  - (iii) to provide opportunities for new entrants to the labour market to gain work experience; and
  - (iv) to employ persons who find it difficult to be employed;
- d) to encourage workers to participate in learning programmes;
- e) to improve the employment prospects of persons previously disadvantaged by unfair discrimination and to redress those disadvantages through training and education;
- f) to ensure the quality of learning in and for the workplace;
- g) to assist -
  - (i) work-seekers to find work;
  - (ii) retrenched workers to re-enter the labour market;
  - (iii) employers to find qualified employees; and
- h) to provide and regulate employment services.

(Republic of South Africa, 1998)

As South Africa's inability to realise higher economic growth and lower unemployment rate have been blamed on the shortage of skilled workers and an oversupply of unskilled workers (Republic of South Africa, 2006; Republic of South Africa, 2011), the new policy landscape provided government with a well-funded and inclusive system to move the economy away from its skills shortage trap (Allais, 2012).

### **3.7. THE SKILLS DEVELOPMENT LEVIES ACT**

The SDA provided for the financing of skills development and prescribed a levy-financing scheme and a National Skills Fund setting in motion the promulgation of the Skills Development Levies Act (SDLA). The SDLA gave impetus to the new levy-grant training system. Levies are collected to create a fund to be allocated back to firms as mandatory grants<sup>1</sup> to refund employers training expenses. The implementation of the new policy framework required all employers with an annual payroll of R500 000 or more to pay a skills levy equal to 1% of their annual payroll (Republic of South Africa, 1999). In turn the employer receives a grant equal to 50% of the skills levy paid. In order to qualify for this mandatory grant, however, the employer had to complete a Workplace Skills Plan (WSP) and provide an Annual Training Report (ATR). In the beginning of the year the employer submits a WSP indicative of the intended training for the upcoming financial year. At the end of the financial year the firms submit the ATR showing all training provided to staff during the reporting period. This then qualifies the firm to reimbursement of their portion of the training funds.

Part of the collected levies goes to the South African Revenue Service for administration and the National Skills Fund for allocation to SETAs who in turn disburse the money to companies that train. The remainder flows back to the relevant sector in proportion to sector contributions as discretionary funds to address scarce and critical skills identified by the relevant SETA (Republic of South Africa,

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<sup>1</sup> **Mandatory Grants** means funds designated as mandatory grants to fund the education and training programmes as contained in the Workplace Skills Plan (WSP) and Annual Training Report (ATR) of a company (Merseta, 2014).

1998). The proper usage of discretionary grants<sup>2</sup> is key in ensuring South Africa has the required skills to compete successfully in international markets.

Using agencies to administer a levy-grant scheme where government collects taxes and disburses funds to firms to implement approved training programs is a common financing tool used by countries such as Malaysia, Singapore, and Brazil to inspire firms to not only train but also purchase 'training services competitively on the open market from public and private providers for target groups' (Adams, 2011: 12). Despite an improvement in productivity Vally and Motala (2014) are of the view that employers also benefit from the levy-grant system due to the accumulation of cheap but skilled labour. By skilling new entrants into the labour market the SDA policy environment expands the pool of skilled but unemployed people for firms to choose from and thus, all things equal, putting downward pressure on wages.

### **3.8. ENTER THE SETAS**

In providing for an institutional framework to devise and implement national, sector and workplace strategies to develop and improve the skills of the South African workforce, the SDA and SDLA provided the bricks and mortar for the formation of SETAs. Labour Minister Membathisi Mdladlana announced the formation of 25 SETAs in 2000. Replacing the 33 Industry Boards associated with the racialised manpower training scheme, each of the 25 SETAs had its own sector to organise and develop a sector skills plan.

Unlike the industrial training Boards it was replacing, the SETAs were given much more responsibility including the promotion and registration of the new learnerships. Section 10 (1) of the SDA provided the enormous scope and functions of SETAs:

'(a) develop a sector skills plan within the framework of the national skills development strategy;

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<sup>2</sup> **Discretionary Grants** are grants paid to Merseta member companies and other legal enterprises, at the discretion of the Merseta Accounting Authority, to encourage stakeholders to contribute towards the achievement and objectives of the NSDS (Merseta, 2014).

- (b) implement its sector skills plan by-
  - (i) establishing learning programmes;
  - (ii) approving workplace skills plans and annual training reports;
  - (iii) allocating grants in the prescribed manner and in accordance with any prescribed standards and criteria to employers, education and skills development providers and workers; and
  - (iv) monitoring education and skills development provision in the sector;
- (c) promote learning programmes by-
  - (i) identifying workplaces for practical work experience;
  - (ii) supporting the development of learning materials;
  - (iii) improving the facilitation of learning; and
  - (iv) assisting in the conclusion of agreements for learning programmes, to the extent that it is required;
- (d) register agreements for learning programmes, to the extent that it is required;
- (e) perform any functions delegated to it by the QCTO in terms of section 26I;
- (f) when required to do so as contemplated in section 7(1) of the Skills Development Levies Act, collect the skills development levies, and must disburse the levies, allocated to it in terms of sections 8(3)(b) and 9(b), in its sector;
- (g) liaise with the National Skills Authority on-
  - (i) the national skills development policy;
  - (ii) the national skills development strategy; and
  - (iii) its sector skills plan;
- (h) submit to the Director-General-
  - (i) any budgets, reports and financial statements on its income and expenditure that it is required to prepare in terms of the Public Finance Management Act; and

- (ii) strategic plans and reports on the implementation of its service level agreement;
- (i) liaise with the provincial offices and labour centres of the Department and any education body established under any law regulating education in the Republic to improve information-
  - (i) about placement opportunities; and
  - (ii) between education and skills development providers and the labour market;
- (iA) liaise with the skills development forums established in each province in such manner and on such issues as may be prescribed;
- (j) subject to section 14, appoint staff necessary for the performance of its functions;
- (jA) promote the national standard established in terms of section 30B;
- (jB) liaise with the QCTO regarding occupational qualifications; and
- (k) perform any other duties imposed by this Act or the Skills Development Levies Act or consistent with the purposes of this Act.'

(Republic of South Africa, 1998: 21).

Despite this bold vision and the diversity of objectives set out in the SDA, the SETAs mandate is reviewed every five years through the NSDS that set up specific targets. The SETA mandate is also unclear on who is its primary beneficiary. It talks of workplace training (for the employed), placement opportunities (for job seekers), identifying workplaces for practical work experience (for pre-graduates and the unemployed), allocating grants (employers), and facilitating learning (ostensibly for learners). The SDA is setting up the SETA to be a darling to every suitor, and is often accused of its wide scope that allows scope creep (Singizi Report, 2007; Marock, 2010).

It is clear with the broad SETA mandate that the policy makers were looking beyond just increasing investment in workplace training. Partly to resolve the skills shortage

trap and partly to solve the unemployment problem, government also wanted to use the SETAs to ensure a well-funded training system inclusive of the often left behind unemployed youth and new entrants to the labour market. The downside with this solution is that it was based on the assumption of generous firms willing to play a positive role in solving South Africa's broader training challenges as well as the questions of unemployment, poverty and inequality – again an assumption that is not consistent with the underlying logic of a SETA style model. Using Becker's (1962) theory of human capital government's assumptions militated against the firms' incentive to provide specific rather than general training.

### **3.8.1. The National Skills Development Strategy**

The NSDS, now in its third phase of implementation, is a framework that provides direction and focus areas for a five-year period on initiatives such as learnerships, apprenticeships, internships, adult learning programmes and other workplace integrated learning innovations. Providing targets to the SETAs the NSDS is a mechanism to not only create a conducive environment for skills development to thrive but also to focus its trajectory ensuring that SETA activities respond to the demands of their respective sectors. These regimes of workplace training and skills development are crucial in expanding the base of scarce and critical skills such as artisans and technicians. The synergy between the NSDS and SETA activity will provide employers with more choice of the skilled labour they require for innovation, competitiveness and productivity. In the same vein government is able to adequately respond to the skills needs of the country and increase the employability of the economically active populations. For government to be able to fine tune the NSDS, there is an increasing need to know whether SETA, and by extension firms, activities are adequately aligned with the strategy.

### **3.8.2. SETA Board Composition**

Like the NSDS, the Board of a SETA is renewed every five years. The SDA prescribes that the Board must be composed of an equal number of organised workers and organised business representatives. It also requires the appointment of

no more than three people representing relevant government departments. The Act also allows the Minister of Higher Education and Training<sup>3</sup> to appoint relevant bargaining councils and professional bodies after consultation with the labour, employers and the relevant departments represented in the Board. On paper, the Minister receives nominations from the relevant sectors, and appoints Board members based on the nominations. In practice the employer and employee constituencies forming a SETA nominate candidates to take up positions in the SETA boards. In line with Section 13 of the SDA, the constitution of a SETA specifies the 'trade unions, employer organisations and relevant government departments in the sector'. The Minister then appoints Board members using the candidates he or she had been given by the unions and employer associations. This arrangement comes with its own challenges.

Board members are appointed by the Minister in their individual capacities ostensibly because of their skills, experience and knowledge. In practice they are nominated by business and labour, as representatives of business and organised labour, to represent their interests. Section 11 of the SDA requires the Minister to appoint only people representing organised labour and organised business in equal measure and representatives of relevant government departments. This then put the onus to nominate potential Board members on organised business and organised labour, and the SETA Boards reflect this constituencies. For instance, the Wholesale and Retails SETA was comprised of 12 members equally represented by organised labour and business associations; Bank SETA Board has six people representing labour and another six representing business; and FASSETT has 17 members split equally between labour (eight) and business (eight) with the other member being the CEO. BANK SETA and W&R SETA also had a government representative representing the Department of Trade and Industry. Barclays (2012) concluded that once constituencies nominate their representatives they are automatically appointed. Barclays also reported that despite SETAs requiring government participation there is either limited (one or two) or none at all.

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<sup>3</sup> Previously the SETAs reported to the Minister of Labour.

Given the equal representations of labour and business on SETA Boards to what extent is the discretion of individual Board members seriously taking their fiduciary duties as compared to their ‘constituency-facing’ mandate. Some Board members may choose to pander to the Minister’s wishes (as the appointing principal), despite representing their constituencies as contemplated in the SDA, to secure their membership to the Board. Others may single-mindedly pursue the interests of their constituencies at the expense of the objectives of the SDA and good corporate governance. The risks of the SETAs being loci of patronage politics linked to the interests of the appointing Minister or nominating constituencies is very high. The logic of multi-constituency SETA governance depends for its success on the business and labour constituencies taking their collective responsibilities seriously. Barclay (2012) reported that SETA Board members had disparate views and interests that often lead to conflict and paralysis.

### 3.8.3. The Changing Nature of SETAs

Ever since the inception of the SDA, the SETA landscape has been changing – thanks to mergers. From the initial 25 at the beginning of 2000, there are now 21 SETAs. Table 3.1 demonstrate the patterns and nature of changes during the three NSDS periods.

**Table 3.1: The Changing Nature of SETAs per Sector**

No.	1 April 2000	1 July 2005	1 April 2012
1	PAETA (Primary agriculture)	AGRISETA (Agriculture)	AGRISETA
2	SETASA (Secondary agriculture)		
4	BANKSETA (Banking)	BANKSETA	BANKSETA
5	CETA (Construction)	CETA	CETA
	FIETA (Forest)	FIETA	FP&M SETA (Fibre Processing & Manufacturing)
6	CTFL (Clothing, Textiles, Footwear & Leather)	CTFL	
7	CHIETA (Chemical Industries)	CHIETA	CHIETA
8	PSETA (Public Service)	PSETA	PSETA
	ESETA (Energy)	ESETA	EWSETA (Energy & Water)
9	ETDP SETA (Education, Training, Development)	ETDP SETA	ETDP SETA
10	FASSET	FASSET	FASSET
11	FOODBEV (Food & Beverages)	FOODBEV	FOODBEV

12	HWSETA (Health & Welfare)	HWSETA	HWSETA
14	INSETA (Insurance)	INSETA	INSETA
15	MQA (Mining)	MQA	MQA
16	SERVICES SETA (Services)	SERVICES SETA	SERVICES SETA
17	TETA (Transport)	TETA	TETA
18	WRSETA (Wholesale & Retail)	WRSETA	WRSETA
19	LGSETA (Local Government)	LG SETA	LG SETA
20	MAPPP (Media, advertising, Publishing, Printing & Packaging)	MAPPP	MICT SETA (Media, Information & Communication Technologies)
21	ISETT (Information Technology)	ISETT	
22	MERSETA (Manufacturing & Engineering)	MERSETA	MERSETA
23	THETA	THETA	CATHSETA (Culture, Art, Tourism, & Hospitality)
24	POSLEC (Police, Private Security, Legal & Correctional Services)	SASSETA (Safety & Security)	SASSETA
25	DIDTETA (Diplomacy, Intelligence, Defence & Trade)		

Most of the SETAs were merged to provide more efficiency and streamline the system. The SETAs responsible for Police, Private Security, Legal, and Correctional Services (POSLEC) and Diplomacy, Intelligence, Defence and Trade (DIDTETA) had a lot in common and were reorganised into the SASSETA with a focus on Safety and Security education and training. The same is true with primary and secondary agriculture SETAs who also merged to form the Agriculture SETA to make the industry SETA more efficient.

### **3.9. SETA PERFORMANCE OVER TIME**

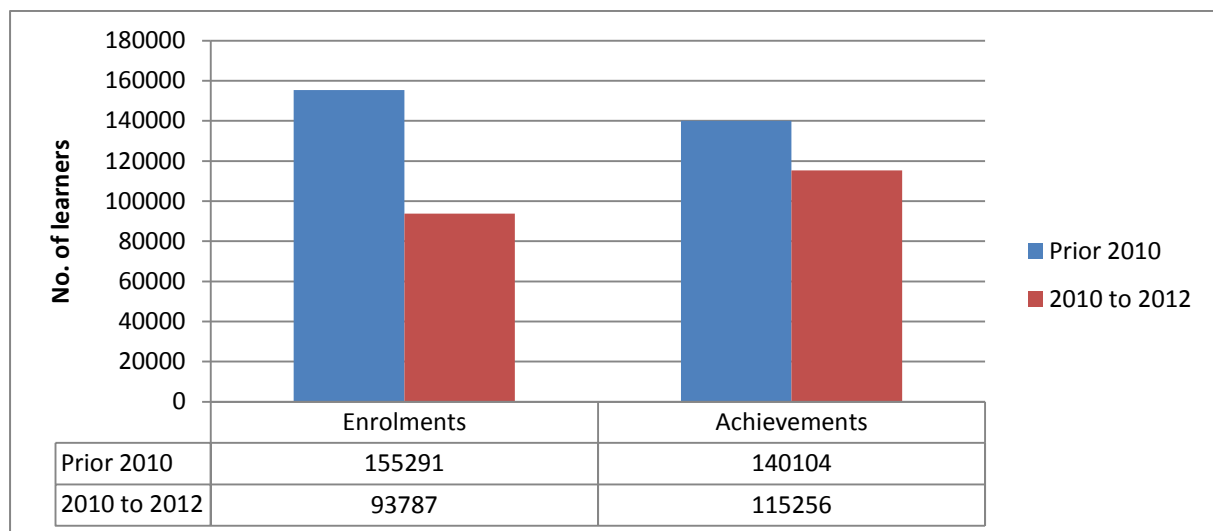
#### **3.9.1. Background to SETA performance**

As an intermediary between government, labour, business and education and training providers, SETAs have been established to encourage, among others, the many skills development needs in the workplace. The levy-grant training system began in 2000 with the launch of SETAs and the NSDS I. The SDA introduced, among others, new concepts such as learnerships and skills programmes as a counterweight to the racialised apprenticeship system. Phase II of the NSDS began in 2005 and ended in March 2011 paving a way for Phase III which started in April 2011 and is expected to come to an end in 2018 following a two-year extension at the end of 2015. De-racialising the artisanal, technical and occupational

qualifications is being pushed to the top of the skills development agenda. Even so, responding to the skills shortages means increasing the number of people in training, and the number of people gaining much-needed workplace-based qualifications.

Figure 3.1 demonstrates the role of SETAs in skills development. Ever since the inception of the SETAs over 250 000 learners have achieved qualifications through the system by 2012. An average of 12 254 learners per year enrolled with SETAs during NSDS I and II (prior 2010) as compared to an average of 46 701 of the first three years of NSDS III.

**Figure 3.1: Learners’ enrolments and achievements registered on the NLRD**



**Source: National Learners’ Records Database (own calculation)**

A significant number of learners are achieving qualifications in the NSDS III phase as compared to the previous two phases of the strategy. Now that there is a mandatory grant for employers to claim back from the SETAs, there are emerging concerns that these numbers may reflect a ‘repackaging of training that employers would carry out regardless of the levy-grant system’ rather than a skills revolution (Marock, 2010: 14).

Regardless of the purported focus on workplace training, pre-graduates of Universities of Technology and Technical Vocational and Education and Training (TVET) colleges are struggling to obtain workplace placements, and get a full qualification (Allais & Nathan, 2012). This is so even when organized business and employers are vocal about being part of a skills development dispensation that, in theory, encourages apprenticeships and work placements.

### **3.9.2. NSDS I: 2000 to 2005**

#### **3.9.2.1. The Mandate**

Following the promulgation of the SDA (No. 97 of 1998) and the subsequent establishment of Merseta, the first phase of the NSDS was implemented from 2000 to 2005. Titled ‘Skills for Productive Citizenship for All’ the NSDS I sought to establish a partnership of both the public and private sectors and the workers that will instil a demand-driven, lifelong learning approach to workplace learning in order to promote productivity and contribute to economic growth.

During this phase, the mandate of the SETAs revolved around:

- Developing and implementing WSPs to achieve the goals and objectives of the NSDS;
- Developing the first SSP describing the employment as well as the growth and skills trends in order to identify the priorities for skills development in the sector;
- Achieving the SSP, which involves assisting and encouraging employers and workplaces to prepare the workplace, and administering learnerships, which include and extend the traditional apprenticeships of the past;
- Implementing the NQF by supporting the standards-generating processes, and by giving employers, workers and providers advice on how to implement the NQF;
- Assuring quality by accrediting education and training providers, monitoring provision, registering training assessors, collaborating with other education and

training quality assurers (ETQAs) and reporting to the South African Qualifications Authority (SAQA); and

- Administering the levy grant system that makes provision for mandatory and discretionary grants.

Funded on the basis of payroll levies this new partnership training dispensation was innovative and sophisticated but it was also beset by many challenges related to the fact that SETAs were still new. Some of these teething problems have been caused by delays in putting the appropriate infrastructure into place. Others have been caused by difficulties in aligning the training system to the qualifications system. From the outset these problems, coupled with the obligation to adhere to the requirements of the NQF, which was also new, in order to start the training process have hopelessly compromised the planned outputs of the system.

### **3.9.2.2. Two Centres of Power**

SETAs were accountable to two competing ministries making government strategy to become uncoordinated and unresponsive. This disconnect was illustrated through parallels evident between the Department of Labour and the Department of Education in their respective policy responses to the NSDS (Bird & Heitmann, 2009: 8). Furthermore, Bird and Heitmann (2009: 10) proffered that the cleavage between these two centres of skills development power 'reflects the past failures of the South African government to learn lessons from those who, whilst facing similar tensions between demand and supply, had evolved systems and strategies to straddle these two domains'. The governance challenges related to the 'two centres of training power' began at the inception of SETAs and continued well into the NSDS II.

### **3.9.2.3. SETA Inefficiency**

By the end of 2004, only 14% out of the 70 000 registered SETA learners had finished their learning programmes (Mahlong, 2009). Using the five key focus areas of SETAs Marock and others (2008) blamed the poor performance of SETAs on inefficiency and poor planning. The lack of efficiency, Marock et al. argued, is as a

result of SETAs not understanding their mandate and scope creep. Like learnerships, the registrations and completions of skills programmes was very poor compared to the billions of Rands being ploughed into the SETA system. Defined as an accredited learning programme that is occupationally based and which, when completed, may constitute credits towards a qualification registered on the NQF (Republic of South Africa, 2008a), skills programmes provide SETAs with an opportunity to target specific skills needs that are peculiar to the sector such as retrenchment assistance plans and literacy and mathematics programmes.

According to Numsa the bulk of workers in the manufacturing, construction and engineering sectors have qualifications below NQF level 2, and so could not access skills programmes that require high level qualifications<sup>4</sup>. For the unions Adult Education and Training (AET) was a critical intervention but the unions found it hard to convince employers of the importance of upgrading the educational level of their unskilled staff because according to Mumenthey and others (2012) employers tend to misunderstand the concept of AET. Employers see AET as a ruse to get labour to demand more wages once the staff become more educated (ibid). As a result they have not used it effectively to upgrade the lower echelons of the occupational ladder. In turn this constipates the pool of workers eligible to register for the much-needed artisanship and mid-level skills programmes.

#### **3.9.2.4. Huge Spending on Short Courses**

Another disjunction between firm-activity and the SETAs is seen in the huge spending on short courses by firms, and subsequent claiming. The NSDS advocates for spending on vocational training that leads to a qualification or part-qualification. This disjunction may be as a result of a number of possibilities including:

- Firms' reluctance to break away from the 'voluntarist' and 'short-term' outlook of the past, with many firms regarding the levy-grant system as an additional tax burden impacting negatively on cost structure and profit margins (Kraak, 2005: 449).

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<sup>4</sup> The ups and downs of training. 31 October 2002, Posted in NumsaNews

- Firms that traditionally trained began to abdicate their responsibility upon the introduction of the skills levy as they viewed government to be taking over that responsibility (Abrahams, 2014: 50).
- Firms' abandoning their responsibility in favour of training that is short-term, cheaper, and less demanding in order to claim back the grant (Kraak, 2005).

Even more worrying is that a significant number of registered small firms (only 17 511 out of a total of 181 842) have not claimed back mandatory grants during NSDS I that may indicate that they are not actively participating in SETA activities and structures (Department of Labour, 2005). The national skills development system is destined to fail if firms do not open up their workplaces for training.

### **3.9.2.5. Emerging Policy Interventions During NSDS I**

#### **3.9.2.5.1. Skills Development Amendment Act**

The disjunction between firm-activity and SETAs was not the only concern. There was also a disconnect between government and SETAs as well as a perception that the SDA does not allow the Ministers of Labour and/ or Education to intervene in the work of the SETAs. To ensure the accountability of SETAs to government the Minister of Labour led the promulgation of the Skills Development Amendment Act (No 31 of 2003). The Singizi Report identified the major amendments to the SDA:

- 'amending the Minister's regulation-making powers to prescribe requirements for the performance of SETA functions including-
  - standards and criteria for the allocation of grants to employers, education and training providers and workers; and
  - standards and criteria for the use of monies received by SETAs, including expenditure on administration and salary bands and performance related payments in relation to staff;
- providing for the amalgamation and dissolution of SETAs;
- requiring that SETAs conclude annual service level agreements with the Director-General: Labour concerning the performance of their functions under the Act and the National Skills Development Strategy, their annual business

plans and any assistance to be provided to the SETA by the Director-General in order to enable it to perform its functions;

- empowering the Minister to issue written instructions to SETAs where they fail to perform their functions or comply with service level agreements, do not manage their finances in accordance with the SDA or where their membership is not representative of their constituencies or they have not prepared and implemented an employment equity plan as contemplated under the Employment Equity Act 55 of 1998;
- requiring SETAs to ensure that their membership is representative of designated groups (black people, women and people with disabilities);
- requiring SETAs to be managed in accordance with the PFMA;
- extending the grounds on which the Minister may take over the administration of a SETA to include the failure by a SETA to comply with its service level agreement or with an instruction issued to it by the Minister of Labour; and
- by adding an additional statutory function - promoting the national standard of good practice on skills development.'

(Singizi Report, 2007: 56)

The amendments allowed the Minister of Labour to intervene and place a SETA in administration in cases including failure to implement an instruction from the Minister; failure to comply with a service level agreement SETAs are supposed to have with the Minister; and maladministration.

#### **3.9.2.5.2. Mergers**

Emboldened by the SDA amendments, the Minister of Labour had a tool to use against SETAs deemed as inefficient and underperforming. Towards the end of NSDS I the Minister announced the formation of SASSETA effectively merging the poorly performing POSLEC with DIDTETA to form the new entity. It did not really help as SASSETA, paralysed by the merger, went on to receive a qualified audit from the Auditor-General. Nonetheless, together with the merger of the SETAs in the agriculture sector this move effectively reduced the SETAs from 25 to 23. The move

indicated to SETAs that the Minister can use his powers to deal with underachieving SETAs run by inactive Boards.

### **3.9.3. NSDS II: 2005 - 2011**

#### **3.9.3.1. Two Centres of Power, Continued**

The two Departments of Labour and Education continued to share the SDA objectives. Likewise, their fight over turf and relevance continued unabated. In 2007 the Department of Education took a decision to change the curriculum of the then FET colleges beginning a controversial process to phase out the popular technical programmes called NATED or N courses. Even though, the N courses were designed to form the theoretical base for apprenticeship programmes, they were being phased out without consulting the Department of Labour and business, which saw them as key pillars of the SDA<sup>5</sup>.

#### **3.9.3.2. Apathy of the Firms**

If the poor submissions of WSPs and ATRs by firms are anything to go by, not all firms are interested in working with SETAs. The WSPs provides useful information about skills and employment trends in the sector and sub-sectors. That so few firms submit WSPs may point to a major problem – employer apathy towards skills development. This weakness leads to a disjunction between the SETA strategy and firms' levels of skills and training activities. There is a body of evidence showing firms' general disregard for workplace training during NSDS II and, therefore, firms often participate negligibly in skills development activities. Despite the rhetoric to transform factory floors into training sites, companies placed profits before collective objectives such as responding to the challenges of scarce and critical skills. Patel (2014) noted that out of the 280 000 engineering diploma class of 2000, only 34% managed to be placed in employment. If these diplomates were enrolled into workplace-based learning programmes to enhance their employability that would have gone a long way in minimising the country's skills shortage confronting firms. Without firms'

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<sup>5</sup> Merseta. (2008). Skills Sector Plan. Johannesburg: Merseta

optimum participation the result continued to be inadequate skills audits and poor skills demand and supply forecasts during this period.

Mummenthey and others (2012: 37) reported that some firms are doing training for all the wrong reasons such as receiving ‘the grant’. They also note that firms ‘don’t want learners to qualify’ for fear of having to pay them better salaries and the difficulty of being ‘stuck to the SETA qualification’ (ibid). This ‘free riding’ added to market failure in the delivery of workplace training, with employers lacking motivation to embark on training but ready to entice skilled and trained workers away from firms that had invested in workplace-integrated learning.

### 3.9.3.3. Poor Participation Rates

The number of learners registered with SETAs is too low to make a significant contribution to the skills shortages challenges identified as South Africa’s major binding constraint towards economic growth. Table 3.2 indicates the number of learners registered for learnerships at both the beginning and the end of NSDS II.

Table 3.2: SETA Learnership Registration across Time

Item	2005/06	2009/10
Learners registered	53 644	43 569
NQF Level (mode)	4	2
Age (mean)	28	28

Adapted from Van Renburg et al. (2012)

The data shows that more learners are registering at lower NQF levels. This may signify that more is being done to improve numeracy and illiteracy, a key ingredient to upgrade to highly needed intermediate skills. Nonetheless, the worry is that the country is not registering the scarcer intermediate, vocation and artisanal skills that are at higher NQF Levels. It is also worrying that the number of learners taken in by the SETA system is dropping rather than increasing. The 19% drop in registrations is a step in the wrong direction for skills development.

Even more harrowing some investigators report that the completion rates of those who registered for learnerships during the NSDS II period was also low. Mahlong (2009) puts the number of the learners who completed their training between 2005 and 2007 at 19%. More optimistic figures are provided by Kruss, et al. (2014) who found that 65% of those registered in 2005 had completed their training by 2007. Even so, the 35% dropout rate in two years is still woefully high as most learnerships are designed to be completed in a period of one year.

During the financial year 2009/10 only 9 261 people registered for apprenticeship (Van Rensburg et al.: 2012). Elliot (2009) counted 12 661 in the previous year. This 26% drop does not augur well for a country that has a critical shortage of artisanal skills believed to be in the region of 60 000 (Republic of South Africa, 2010). It takes between two to four years for an apprentice to complete training and qualify to sit for a trade test. And completion rates, according to Van Rensburg et al. (2012), are no more than 50%. Table 3.3 shows the number of candidates that sit and pass their trade exams.

**Table 3.3: Number of appointments arranged, met and passed from 1 April 2009 to 31 March 2010**

Section	Arranged	Absent	Tested	Passed	Pass%
Automotive engineering	1 666	321	1 345	499	37%
Electrical engineering	2 360	330	2 030	977	48%
Mechanical engineering	1 111	145	966	227	23%
Services / Manufacturing and Process	972	146	826	360	44%
Physical Planning and Construction	3 337	490	2 847	1 258	44%
Total	9 446	1 432	8 014	3 321	41%

Source: Van Rensburg et al. (2012: 71)

In fact, only 3 321 completed their artisanal training in 2009/10. Barclay (2012), Marock (2010) and Turner, et al. (2013) blamed this underperformance on SETA inefficiency, poor planning and coordination, maladministration and poor governance.

### **3.9.3.4. A Crisis of Governance and Administration**

SETAs are often blamed for attracting negative media attention. This poor public image is as a result of poor service delivery primarily attributed to poor corporate governance, employer apathy, and the disjuncture between SETA strategy and firm-level activity, thus making the authorities the most censured entities in post-democratic South Africa (Barclay, 2012; Marock, et al., 2008). Poor governance, maladministration, poor planning and the general negativity around SETAs consistently undermine skills development. The SDA provides for SETAs to develop their constitutions to regulate their conduct. The Singizi Report (2007: 76) reviewed the constitutions of the SETAs and uncovered a number of weaknesses that may be responsible for the poor governance and maladministration endemic with SETAs. The Singizi Report identified, among others, the following:

- Big SETA Boards
- Insufficient eligibility criteria for members
- No membership disqualification
- No standard provision for governing body remuneration
- No standard provision for codes of ethical conduct
- Unlawful delegations
- No standard specifications of the role and functions of the chief executive officer
- Limited mechanisms for stakeholder participation

It is worrying that some SETAs do not make provisions for the code of conduct, remuneration and disqualification of members of the governing bodies to ensure only ethical, competent and dedicated people run these critical bodies. Using the findings of the Auditor-General and SETA documents such as SSPs, Marock and others (2008) reported that three SETAs scored below 50% benchmark on planning, six scored 50% and below on governance and no less than 12 scored below 50% on quality assurance, a measure directly related to SETA mandate. Scott and Shuttleworth (2007) reported similar findings. Turner, et al. (2013) used cash reserves and an input-output model to measure efficiency, and concluded that only 11 of the 23 SETAs were efficient.

### **3.9.3.5. The Blame Game**

Employers blamed SETAs for 'shirking' their responsibilities to engage in in-factory training, and vice versa. A study commissioned by Busa (2009: 9) found that employers have simply opted out of the system because SETAs classify skills as 'scarce' just to push large numbers through learning programmes under their jurisdiction. This apparent mistrust between SETAs and firms confirmed National Business Initiative's (2007) earlier observation that found that 47% of companies felt SETAs are not supportive of their skills priorities. Lamenting graduate unemployment in post-apartheid South Africa, the Development Policy Research Unit (DPRU) (2007) noted that the few firms not accusing SETAs of mismanagement and cumbersome bureaucracy as a reason for not opening their workplaces for learnerships were the ones represented in SETA Boards.

'The majority of firms interviewed indicated that they could only expand their learnership programmes if the grants were increased to such an extent that all administrative costs were covered since the current intake of learners were invariably based on the firms' needs' (DPRU, 2006: 37).

This raised the issue of marginal subsidies as a policy option, wherein, the autonomous decision of the employer subsidises additional workers taken on over and above the workers the firm was going to train in any case.

### **3.9.3.6. Evolving Policy Interventions**

#### **3.9.3.6.1. Joint Initiative on Priority Skills Acquisition**

Despite the emergence of SETAs, the implementation of the NSDS continued to show that one of the major drawbacks of the national skills development system is the weak partnership of state, business and labour. Aiming to resolve this institutional weakness, government established the Joint Initiative on Priority Skills Acquisition (JIPSA) in March 2006. Even though JIPSA was designed to be a short term intervention, some of its objectives read like that of SETAs:

- lead the implementation of a joint initiative of government, business and organised labour to accelerate the provision of priority skills;
- mobilise senior leadership in business, government, organised labour and institutions concerned with education and training and science and technology to address national priorities in a more coordinated and targeted way;
- promote greater relevance and responsiveness in the education and training system and strengthen the employability of graduates;
- lay the foundations for more coordinated and effective skills development strategies;
- lead an effective programme to communicate JIPSA's objectives and consult with stakeholders.

This duplication of duties identifies the major challenge of skills development in South Africa that is mainly the weak partnership and the failure of SETAs to build and establish that relationship as well as the reluctance of employers to invest in training. Even though short-lived, the JIPSA intervention managed to revive the apprenticeship system and increase the number of artisans in training (Van Rensburg, et al., 2012).

#### **3.9.3.6.2. Skills Development Amendment Act, of 2008**

In the middle of the NSDS II period government announced another amendment to the SDA. The Skills Development Amendment Act, assented on 27 November 2008, sought to reduce the scope of SETAs. Establishing the Quality Council for Trades and Occupations (QCTO) the changes took away the role of quality assurance of qualifications away from SETAs and into the new council (Republic of South Africa, 2008b). Furthermore, the shift also introduced the formation of a National Artisan Moderating Body to regulate the decentralisation of trade assessment across the country. By so doing government hoped that disabused of the burden to develop qualifications, SETAs will now focus more on their mandate, and that, workplace training including the promotion of learnerships and other work integrated learning programmes. The Skills Development Amendment Act, of 2008, finally repealed one of the mainstay legislation of the apartheid era, the Manpower Training Act.

### **3.9.3.6.3. One Centre of Power**

Towards the end of NSDS II in 2009 President Jacob Zuma announced a new Department of Higher Education and Training (DHET) to focus on post-school education and training. The formation of the department led to the dissolution of the Department of Education and the establishment of the Department of Basic Education to focus on basic education. DHET also took all the functions related to skills development and labour market intelligence from the Department of Labour. For SETAs this meant that they would be accountable to one Minister. This move ended the two centres of power in the skills development landscape. It meant that the functions of SETAs would then be coordinated from a single department.

## **3.10. NSDS III: 2011 to 2016**

### **3.10.1. Another SDA Amendment**

It is tricky to evaluate the SETA performance during this period as it is still in progress. But there are some major policy signals that policy makers are following with a keen eye. The first area of interest is the impact of the amendment to the SDA that would give more powers to government to act against SETAs perceived as truant and underperforming. Related to the powers of the Minister is the ongoing court case between the Minister of Higher Education and Training and Busa over mandatory grants and spending of surplus funds. The third one relates to the taking over of SETA administration by the Ministry of Higher Education and Training noting the number of SETAs placed on administration during this period (Republic of South Africa, 2015).

The NSDS III began with a bang. The SETAs have been reduced from 23 to 21. The announcement that the mandatory grant has been reduced led to court challenges. But of significance was the Skills Development Amendment Act of 2011 giving provisions relating to the establishment, amalgamation and dissolution of SETAs (Republic of South Africa, 2012). Responding to concerns of SETA Board's lack of professionalism, the new regulations prescribed, among others, to:

- 'provide for the incorporation of a subsector of one SETA into another SETA;
- provide for the composition of an Accounting Authority for each SETA;

- regulate the eligibility to become a member of an Accounting Authority;
- provide for a constitution for every SETA;
- regulate the conduct of a member of an Accounting Authority, or of a member of the staff, of a SETA when engaging in business with the SETA;
- require members of Accounting Authorities to disclose any conflict of interest with the relevant SETA.'

Despite introducing the criteria for serving in a SETA Board and the appointment of CEOs, the new changes reduced the size of SETA Boards. The Singizi Report (2007) had criticized the huge SETA Boards for operating as bargaining councils taking too long to reach decisions. Many studies had laid the blame of the failure to implement the levy-grant skills development system firmly on lack of professionalism, corruption, poor governance, and maladministration (Marock et al., 2008; Scott & Shuttleworth, 2007; Barclay, 2012). It seems the new changes are an effort to remedy the crisis of governance. Even so, the Skills Development Amendment Act, of 2011, also gave the Minister sweeping powers to take over the administration of underperforming SETAs.

### **3.10.2. Mandatory Grants Reduced without Consultation**

As a solution to what it perceived as misuse of the mandatory grants, the newly established DHET published new SETA grant regulations regarding monies SETAs receive as well as surplus fund. The regulations required SETAs, as of 01 April 2013, to allocate no more than 10.5% of the total levies paid to administration costs and to shift a sum not greater than 0.5 % of the total levy paid to the QCTO. These shifts recommended that mandatory grants be reduced from 50 to 20%. Every SETA must allocate 80% of its discretionary grants within a financial year to PIVOTAL programmes that address scarce and critical skills, and failure to do so will lead the SETA to lose the unspent money to the National Skills Fund to be used for other national skills development initiatives. PIVOTAL grants can be defined as professional, vocational, technical and academic learning programmes that result in a qualification or part qualification registered on the NQF. The new regulations also entitled employers to 80% (in addition to the 20% mandatory grant) of their

contribution to the skills levy in discretionary grants (or PIVOTAL grant) if they can submit a PIVOTAL plan to the SETA. With this regulations government is trying to discourage the use of skills budget towards short courses that does not lead to a qualification or part qualification.

Employers will have to start implementing PIVOTAL grants to guarantee access to the discretionary fund. PIVOTAL grants will offer learners the prospect of completing a practical part of their qualification to obtain their qualifications. This will curb the persisting problems of many learners that cannot graduate because they do not have the opportunity to complete their practical training (Allais & Nathan, 2012). Responding to the weaknesses of the labour-employer-SETA tripartite relationship, the NSDS III provided for a more active role for the SETAs. By increasing the incentives for firms to train more, the PIVOTAL grant will allow learners not only to graduate but also to get invaluable work and industry experience that will make them more employable. But the regulations also led to unintended consequences. Full implementation of the NSDS III was delayed<sup>6</sup>. The announcement of the new regulations rattled the tripartite partnership to the core, as it effectively shifts the power to control the allocation of skills funds in favour of the department. Some businesses represented in the SETA Boards were furious and threatened litigation (Freeman, 2011).

### **3.10.3. The Age of Litigation**

Representing the majority of big firms, Busa challenged the reduction of the mandatory grant by the Minister of Higher Education and Training. The amendment also required unspent SETA funds to be allocated to the National Skills Fund for national skills development initiatives rather than remaining in the SETA to be used by the sector for workplace training in that sector. Busa failed to persuade the Minister to reconsider the regulations, and resorted to legal action. On 7 August 2015, the Labour Court set aside both regulations with effect from 31 March 2016. The court blamed the Minister for not consulting the National Skills Authority and exceeding his powers by prescribing that unspent SETA funds be transferred to the National Skills

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<sup>6</sup> Merseta. (2012). Workplace Skills Plan data 2012/13-2016/17 - UPDATED. Johannesburg: Merseta.

Fund. Busa released a statement hailing the decision as a confirmation of 'the importance of workplace skills training programmes in South Africa'.

Minister Blade Nzimande promised a legal counter-offensive on businesses accusing them of being unpatriotic by wasting money on one-two-week courses.<sup>7</sup> In line with the White Paper on Post-school Education and Training, which proposed the reshaping of the levy-grant system to ensure levies are directed to the public education and training system, the Minister is intending to change SETA Boards from independent 'Authorities' to 'Advisory Boards' with a government official equipped with veto powers.<sup>8</sup> As the loss against Busa is likely to be a banana skin for the Minister's policy reforms, he has appealed the ruling (ibid).

#### **3.10.4. You Are Now Under Administration**

On 26 February 2014 former Chief of Staff of the Ministry of Higher Education and Training Nqaba Nqandela, now Administrator and Acting CEO of the Local Government SETA (LG SETA), joked in a session of the Parliamentary Portfolio Committee on Higher Education and Training that while the Services SETA was coming out of administration, the LG SETA had just been placed under administration. This may have been a humorous anecdote but the Ministry's taking over of Services SETAs, in administration for two and a half years, signalled an era of a Ministry that was willing to use its powers to deal with SETAs that are not toeing the line. The Services SETA could not account for some of its allocations, and was reported to have been paying for a learner's one year skills programme an amount equal to three years of university education.<sup>9</sup> Earlier, in 2011, the Construction, Energy and Water as well as the Public Service SETAs were placed on administration for 'compromises in governance'.<sup>10</sup> Two more SETAs, SASSETA and CATHSETA also placed under administration taking the number of SETAs placed under administration during the

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<sup>7</sup> <http://citizen.co.za/843381/nzimande-on-the-warpath/>

<sup>8</sup> <http://city-press.news24.com/Business/blade-nzimande-set-to-scrap-setas-20151115>

<sup>9</sup> SETAs under administration: Local Government SETA and Services SETA Annual Reports 2012/13. <https://pmg.org.za/committee-meeting/16985/>

<sup>10</sup> <http://www.bdlive.co.za/articles/2011/03/30/construction-seta-placed-under-administration>

NSDS III period to eight.<sup>11</sup> Many may applaud the Minister for finally acting against truant SETAs but some may view this as evidence of a system in crisis.

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<sup>11</sup> Sector Education & Training Authorities SASSETA and CATHSSETA on their 2015 Strategic Plans.  
<https://pmg.org.za/committee-meeting/20751/>

## **CHAPTER 4: SETA GOVERNANCE: THEORY, HYPOTHESES AND EMPIRICAL STRATEGY**

### **4.1. INTRODUCTION**

The study embraces an analytic narrative approach and uses process tracing to examine how macro level processes interact with local level context to create disincentives (and incentives) to develop scarce and critical skills at a sectorial level within the interface of the private and public stakeholders.

### **4.2. THE ANALYTICAL THEORETICAL FRAMEWORK**

The agency theory hypothesised that managers are hired to look after the interests of shareholders (in this case the public), but managers sometimes act in their own interests at the expense of shareholders (Hailemariam, 2001; Jensen, Murphy & Wruck, 2004). Even though optimum value can be derived from implementing projects supporting organisational strategy, one in three of all strategy implementations fail as there is often a major rift between strategy (as designed by principals) and projects (as implemented by agents) (Buys & Stander, 2010).

Even so, SETAs are unique because of the multiplicity of its principals, objectives and beneficiaries. The chain of principal-agent accountabilities suggested by Levy (2014) is tricky to employ due to the uniqueness of the SETA institutional arrangements at Board level. Even though, Board members are appointed by the Minister of Higher Education and Training, they are nominated and serve because of their affiliation to the constituency they represent such as a union or a business association. Most members of the Board will, therefore, have multiple principals. According to the SDA every Board member is appointed to serve on his or her own volition based on their skills and experience, and not to serve any vested interests. But using the principal-agent theoretical explanation, the challenges for SETAs remain at two levels.

First, for both labour and business, there are challenges that emanates within each of the respective constituencies' principal-agent problem. As members of a SETA Board, individuals 'represent' a constituency (as their principal), but they are required to report to the Minister (another principal) in order to serve the policy beneficiaries (arguably another principal). These members (as agents) are also required to act with autonomy based on their own perceptions and those of the collective interest.

Second, the principal-agent problem manifests itself in the interaction of the Board and its management. In this relationship the SETA governing Board assumes the role of a principal and the SETA management that of the agent. Given the multiplicity of principals and its concomitant challenges, and using the approach laid out in Levy (2014: 154), managers have autonomy and discretion that they can use for either private gain or for the collective good. The stakeholders must work together to optimise joint benefits which will temper their temptation to otherwise shirk, free ride or become selfish at the expense of the collective.

Using the collective action analytical framework, the paper borrows from Nobel Prize winner Elinor Ostrom's work on 'common-pool resources' governance to illuminate the interface of stakeholders trying to achieve mutually beneficial targets while battling each other's temptations to shirk, free ride, or capture the public initiative for private purposes. The concept of a 'common-pool resource' is defined as 'a natural or man-made resource system that is sufficiently large as to make it costly (but not impossible) to exclude potential beneficiaries from obtaining benefits from its use,' (Ostrom, 2005: 30).

Premised on constructs often used in the models designed to explore the many problems that beset individuals when faced with the dilemma of choosing between private and collective benefits, namely, the tragedy of the commons; the prisoner's dilemma; and the logic of collective action, Ostrom (2005) had identified 'good practice' guiding principles to analyse the governance of institutions. According to Hardin (1968) cited in Ostrom (2005: 2) the 'tragedy of the commons' represents the

predictable degradation of a resource when private people are expected to derive a benefit from its collective consumption. In a 'prisoner's dilemma' the individual(s) are better off pursuing private benefits than the collective welfare (ibid). The 'logic of collective action' dispels the view that individuals will always act in the best interest of the collective:

'...unless there is coercion or some other special device that will make individuals act in their common interest, rational, self-interested individuals will not act to achieve their common or group interests' (Olson, 1965: 2).

Rules provide the 'special device' to tame individual interests in the favour of multi-stakeholder benefits. Table 4.1 outlines the working and related rules necessary to allow the governance of 'common pool resources' to take root in a manner that encourages cooperative action and discourages private gain at the expense of the collective including shirking and free riding.

**Table 4.1: Institutional analysis framework**

Working Rules	Related Rules	Good Practice
Eligibility rules	Boundary: who is eligible to enter?	Clear and locally understood boundaries between legitimate participants and non-participants are present.
	Position: what positions participants can access?	
Operating rules	Pay-off: what are the rewards and sanctions?	Rules specifying the amounts that a participant benefits are proportional to the distribution of labour, materials and other costs.
	Aggregation: what collective decisions can be made?	Most individuals affected by the collaborative initiative are authorised to participate in making and modifying its rules.
	Choice: what are the roles and duties of participants?	Rapid, low-cost, local arenas exist for resolving conflicts among participants or with officials. This includes graduated sanctions for violating rules.
Monitoring rules	Information: what language/ form/ communication flows?	Monitors who actively audit participant behaviour are at least partially accountable to the participants and/or are the

		participants themselves.
Delegation rules	Operational: what decisions can be made in sphere of control?	The rights of participants to set rules (or participate in rulemaking) are recognised by the government and organised in multiple nested layers, with a clearly defined, autonomous domain of decision-making for local-level collective action.
	Collective: what collective activities/ decision can be made at what level?	
	Constitutional: what are the rights of actors?	

Adapted from Ostrom (2005: 14)

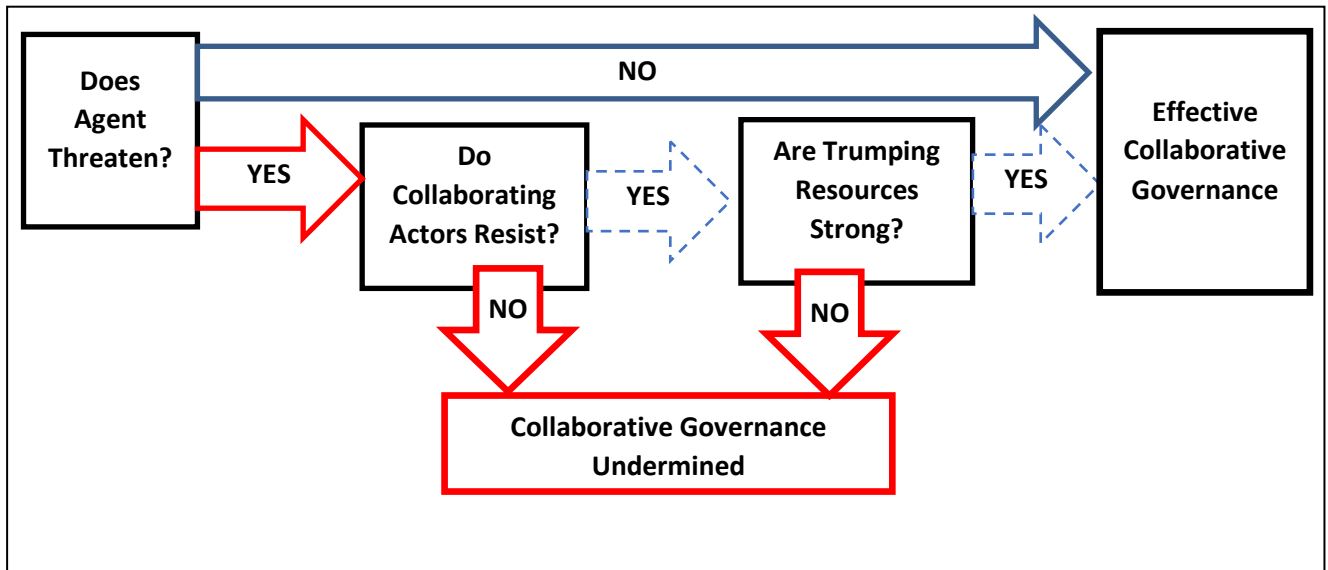
Used to regulate eligibility; rewards and sanctions; do's and don'ts; procedures; information sharing methods; enforcement and rights of agents, these working rules defines what the institution is all about and the arrangements that governs how it conducts itself.

Even with governance institutions firmly established, individuals or groups looking to capture the benefits of publicly owned agencies for private purposes may still do so. According to Levy (2001; 2014), riding roughshod over the formal and informal rules of the game for private purposes, or aptly predation, manifest itself in the following manner:

- Predators brush aside the formal and informal rules of the game with impunity.
- Predators use their powerful socio-political networks to exempt themselves from punishment, sanction or loss.

Nonetheless, these 'threats' can be 'trumped' if protagonists are willing to leverage on their own powerful networks to counter predators in pursuit of the collective benefits for the public. Figure 4.1 provides an excellent decision tree of predation and trumping and its consequences.

Figure 4.1: Predation and trumping consequences



Adapted from Levy (2001)

Understanding the interaction of individual incentives, collective action and performance is key in this paper's analysis. Process tracing completes the analysis in testing the hypotheses.

### 4.3. HYPOTHESES

Based on the principal-agent theory and multi-stakeholder governance, governing Board members of state-owned enterprises and senior managers may use their power to act either in their own interest or in pursuit of the public sector mandate. To this end, the paper hypothesises that:

**Hypothesis 1:** The alignment of SETA strategy with the NSDS depends on the extent of commitment of the social partners to govern in their collective interest.

Strong incentives of the key social partners to adequately govern will foil free loading and shirking thus preventing individual and groups from capturing the public initiative for private purposes. Flowing directly from this hypothesis are two key theoretical questions for sustainable workplace learning and training:

**Hypothesis 2:** SETAs are failing to respond to the collective incentives of the social partners.

SETAs are designed to act as intermediaries between government, on the one hand, and firms, training providers, and beneficiaries, on the other. Strengthening multi-stakeholder partnership will harness the interests of the key stakeholders towards the attainment of NSDS objectives.

**Hypothesis 3:** SETA Boards fail to act on behalf of the interests of the social partners because of the breakdown of the agent-principal linkages.

The agent-principal theory explains that it should be expected that individuals would act to pursue their own private ends rather than those of the NSDS. There is also a high likelihood that in the case of prevalent predation, SETA service delivery will suffer, and vice versa.

The aim of the empirical analysis is to assess whether the hypothesis is useful in explaining what is observed. Based on the evidence and process tracing observations, the hypotheses driving this study can be refutable. Mahoney (2010) defined the signals drawn from observing and analysing a single case as ‘causal process observations’ (CPOs). The CPOs are then used to inductively construct theory and to test hypotheses. Table 4.2 shows that the four evidence-based tests bracing up the theory building in process-tracing.

**Table 4.2: Process tracing evidence-based tests**

Test	Result	What it means
Straw-in-the-Wind	Pass	Increases the plausibility of the hypothesis in question but does not confirm it.
	Fail	Weakens the hypothesis but does not eliminate it.
Hoop	Pass	Increases the plausibility of the hypothesis but does not confirm it.
	Fail	It is eliminated.
Smoking-Gun	Pass	Confirms the hypothesis.
	Fail	Does not eliminate the hypothesis.
Doubly-Decisive	Pass	Confirms the hypothesis and eliminates rivals.

The stress tests can be categorised as required to claim causation (hoop; doubly-decisive), satisfactory (smoking-gun; doubly-decisive), or inconclusive (straw-in-the-wind) (Collier, 2011). These categories provide a set of rules intended to increase the probability of solving some causation. For instance, the smoking-gun test may be regarded as strongly affirming a hypothesis, and not confirming it without doubt. Despite often focusing on only a single case, George and Bennett (2005) is of the view that process tracing is a useful tool for testing theories and hypothetical description of a complex entity or process. The next sub section describes the empirical strategy employed in this study.

#### **4.4. EMPIRICAL STRATEGY**

In order to test the proposed theoretical hypotheses, this study will, in line with George and Bennett (2005), examine a number of historical records and archival documents such as newspapers, annual reports, plans, the National Learners' Records Database (NLRD) and other similar sources of information. This study selected Merseta, one of the biggest and well-resourced SETAs, to examine and trace how national processes such as the NSDS phases are connected (or disconnected) with the governance, political and institutional context within SETAs. This would then show whether these linkages are able to incentivise (or hinder) social partners to work together for the collective good that is implementing national skills development. Process tracing traces causal mechanism and sequences (Beach & Pedersen, 2013). Performing a within-case analysis based on qualitative data, the narrative of analytic narratives establishes the key players, their goals, their preferences, and the effective rules (including constraints and incentives) that influence the behaviours of role players (Collier, 2011; George & Bennett, 2005). Providing a textured explanation of context and process, the analytical narrative is an account of the set of facts or circumstances that surround a situation or event concerned with both sequence and temporality (Levi, n.d).

Encompassing selecting a problem, clarifying the logic of the explanation, elucidating the key decision points and possibilities, and finally evaluating the model, the analytic narrative process is a suitable instrument for judging 'causality in situations where temporal sequencing, particular events, and path dependence must be taken into account' (Mahoney, 1999: 1164). Based on building models to elaborate the strategic interactions that produce an equilibrium that constrains some actions and facilitates others, an analytics approach is suitable for understanding the governance make up and challenges of SETAs as it emphasises the identification of the reasons for the shift from an institutional equilibrium at one point in time to a different institutional equilibrium at a different point in time. The empirical strategy will, therefore, be able to uncover 'what happened' and 'why it happened' during particular periods of the implementation of the NSDS.

With process tracing, the researcher combines earlier reasoning with specific observations from within a single case to iteratively make causal inferences about that case under investigation (Mahoney, 2012). Using the Merseta as a case study to explore skills development within the interface of the public and private sectors, process tracing tests can be used to help establish the initial events, related processes and causal mechanisms, and their concomitant outcomes. Process tracing lends itself to game theoretic models that are not only capable of testing hypotheses but also of generating alternative hypotheses when pre-existing explanations are disproved (George & Bennett, 2005). A key point here is that analytic narratives can add inferential leverage that is often lacking in quantitative analysis (George & Bennett, 2005) by providing careful description and close attention to sequences of independent, dependent, and intervening variables (Mahoney, 2010: 31).

Embracing an analytic narrative approach, the study used process tracing to retrace Merseta's governance history in order to uncover the hypothesised causal mechanism. The study was an attempt to paint a comprehensive picture of the SETA environment using the developments and experiences of the Merseta as a skills development intermediary within the interface of the public and private sectors. To

this end, the paper sought to explore Merseta's governance in relation to the NSDS. Every five years the NSDS-driven skills development environment is reviewed leading to changes in the allocation of the skills levy-grant system and focus. Taking good snapshots at a series of specific moments, and focusing on the unfolding of events or situations over time would reveal Merseta's governance overtime and its interaction with NSDS changes. It would also be revealing to note how SETA activities such as corruption, maladministration and other struggles within the SETA are connected with the organisation's output or ability to implement its mandate.

Digging into the budgetary allocations and grant spending patterns towards the implementation of workplace training and its alignment to the NSDS would be revealing of the type of governance and how it reacts to NSDS changes, if at all. As the NSDS III is still being implemented, the main focus of the paper would be on the implementation of the NSDS I and II. By and large NSDS I was fraught with teething challenges. Following a complete overhaul of the skills levy-grant system from NSDS II to III the paper would also trace the impact this change in strategy is expected to have (and having) on SETAs.

## CHAPTER 5: MERSETA: A PROCESS TRACING ANALYSIS

### 5.1. INTRODUCTION

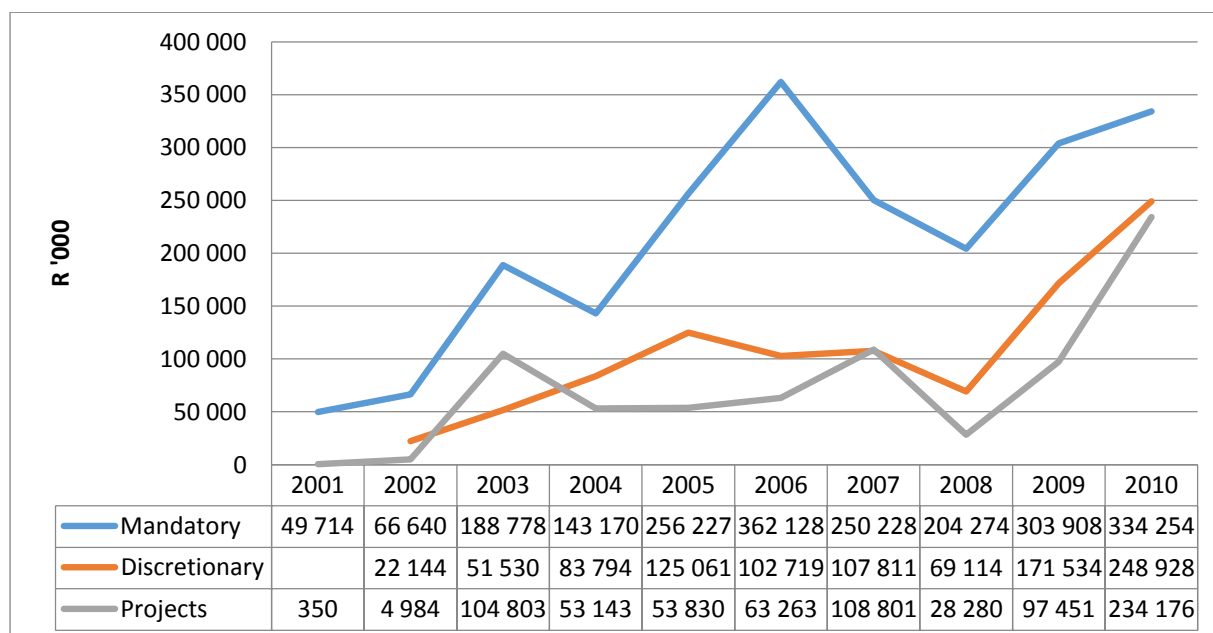
Funded on the basis of payroll levies this three-party training system was innovative, sophisticated and proved a disruptive force to the established racialised training scheme. Establishing the SETAs was beset with to delays and other teething problems related to putting in place the appropriate infrastructure and systems. From the outset these challenges, coupled with the obligation to adhere to the requirements of the NQF, which was also new, compromised the planned outputs of the early years of the NSDS.

### 5.2. OUTCOMES OVER TIME

#### 5.2.1. Skills Development Levy Payments

Levy-paying companies contributed just over R6.5 billion to Merseta during the first 10 years. Figure 5.1 shows that the SETA paid R2.5 billion in mandatory grants and R1.7 billion in discretionary grants (including projects).

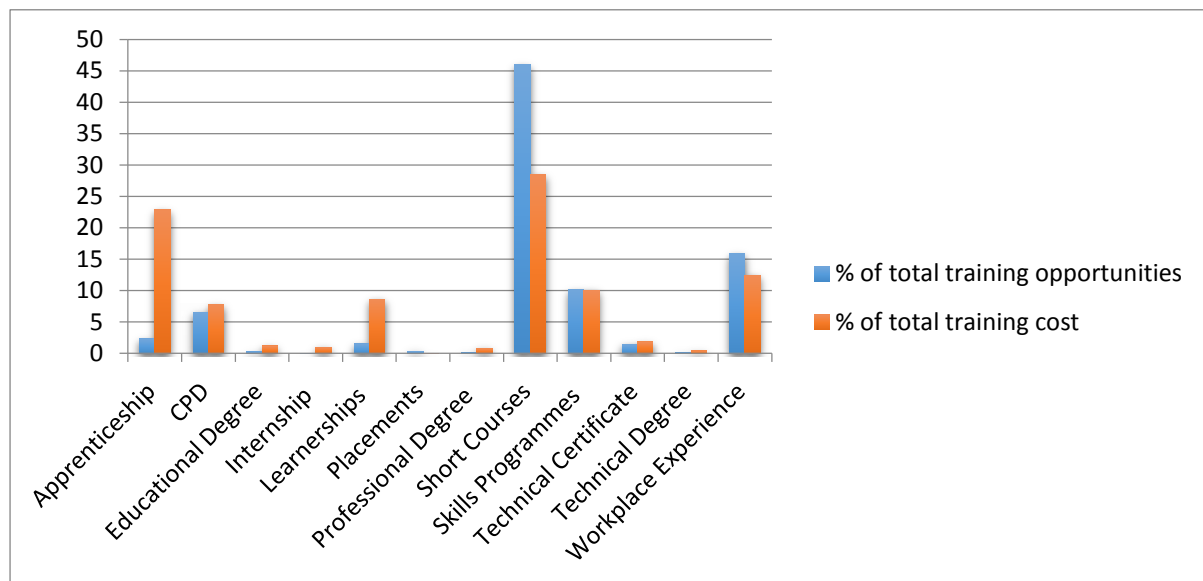
Figure 5.1: Merseta's spend per type of grant (2000 -2010)



Source: Merseta Annual Report 2013/14

The immediate concern is that about 25% (as 10.5% is reserved for administration) of the levy ends up in reserves. Another concern is that a large number of mandatory grants are spent in the lower NQF levels (mainly levels 1 and 2) rather than at the much-needed intermediary skills. Figure 5.2 provides a summary of the distribution of training opportunities and mandatory grants spending by companies in 2013/14.

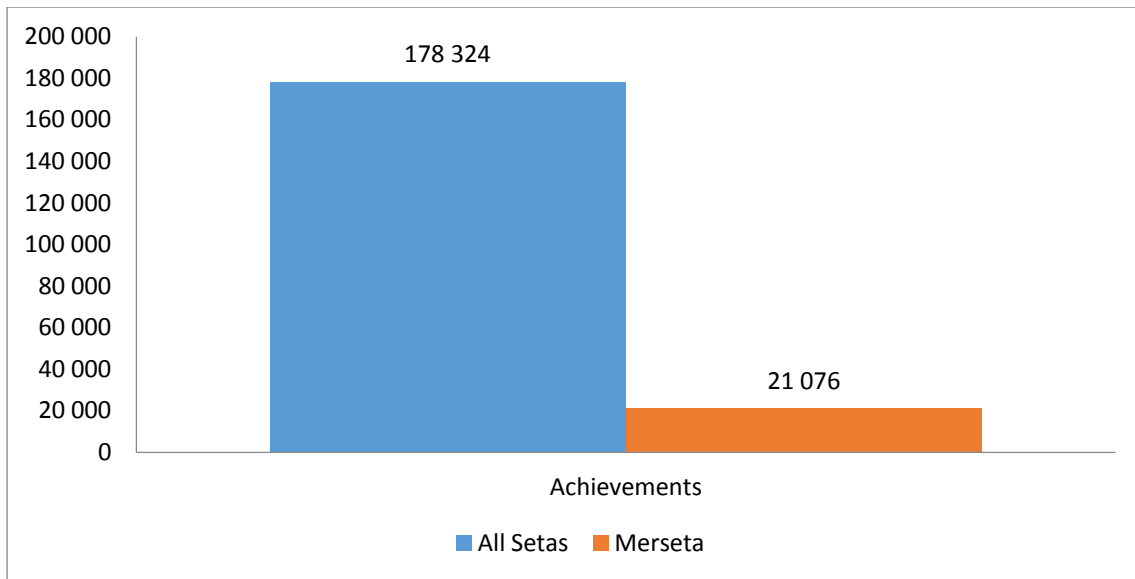
Figure 5.2. Distribution of training opportunities and expenditure by Merseta companies 2013/14



Source: Merseta Sector Skills Plan 2014-15 – 2018/19

This observation demonstrated that companies in the Merseta sector tend to prefer short courses over apprenticeships, learnerships, and internships. The short courses do not result in qualifications or part qualifications but they may be cheaper and easier to source and customise. Data sourced from the National Learners' Records Database (NLRD) also showed that a small number of learners enrol and achieve qualifications that are quality assured and reported by Merseta, as required by the NQF Act. Figure 5.3 shows that just over 21 000 Merseta-related qualifications were registered as achieved on the NQF.

Figure 5.3: Learners' achievements on Seta-quality-assured qualifications registered on the NLRD



Source: NLRD (own calculations)

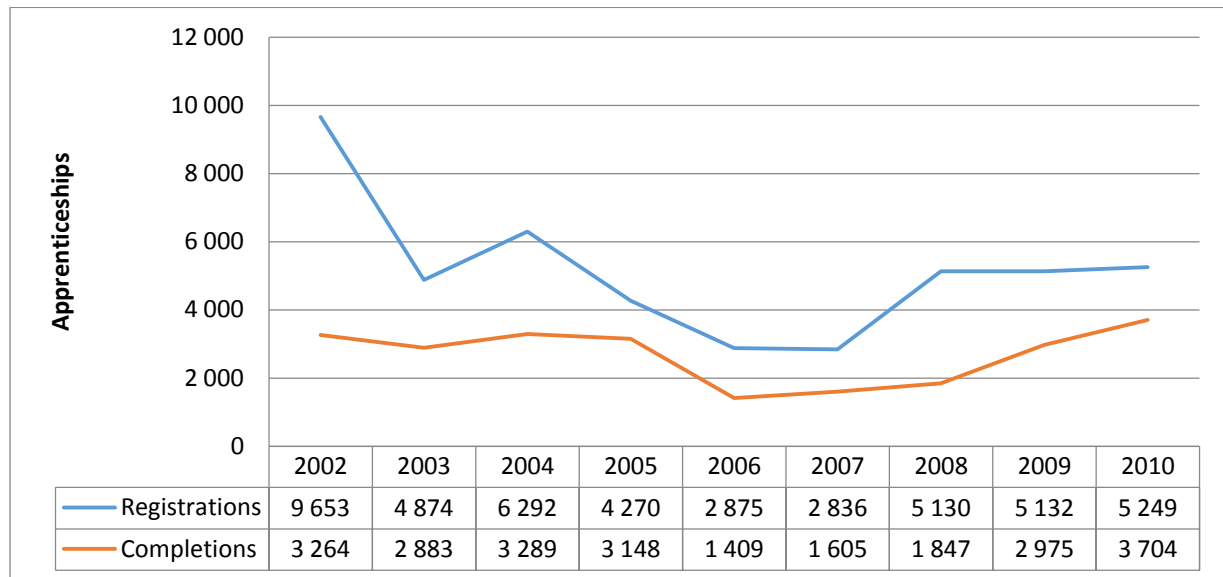
The numbers represent Merseta quality-assured qualifications learners have achieved in the first 10 years of the SETA. It is revealing of the unpopularity of Merseta sanctioned qualifications in the Merseta sector. This low appetite for Merseta qualifications is odd as the qualifications are supposed to be a by-product of the labour-employer social compact in the sector. Spending on short courses seems to be out of line with the expectation that companies in the manufacturing and engineering sectors would prioritise the development of the scarce and critical skills obtainable largely through Merseta-sanctioned vocational and technical training such as apprenticeships and internships.

### 5.2.2. Apprentices, Learners and Skills Programmes

Discretionary grants afford an excellent opportunity for SETAs to implement the objectives of the NSDS, as they are allocated at the sole discretion of the SETA. Discretionary grants and reserves (through the short-medium term Sector Skills Plan (SSP)) are committed to signed contracts and approved plans and they apply to learnerships, apprenticeships, and special projects that continue implementation in ensuing years to implement the NSDS.

Figures 5.4, 5.5, and 5.6 further expand on ‘bums on seats’ in the first 10 years of the SETA.

Figure 5.4: Number of apprentices that registered and qualified in the Merseta sector from 2002 to 2010



Source: Merseta QMR data 2014 (cited in Merseta 2014 SECTOR SKILLS PLAN UPDATE)

Of the 46 311 apprentices registered with Merseta during the NSDS I and II period, only 52% qualified as artisans. Even more harrowing, the number of people Merseta register as apprenticeships were gradually reducing annually from a high of almost 10 000 in 2002 to just over 5 000 in 2010.

Even so, the apprentices in the Merseta sector at the end of June 2009 shows a disjunction between SETA strategy and the type of apprenticeships firms are willing to take. Table 5.1 shows that unlike the Metal chamber (with 58% of the total apprenticeships), firms in other sub-sectors are not as interested in in-factory training.

Table 5.1: Number of apprenticeships by chamber

	Number	Year			
		1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
<b>Total</b>	<b>9 840</b>	<b>2 281</b>	<b>3 681</b>	<b>2 488</b>	<b>1 439</b>
<b>Auto</b>	<b>179</b>	<b>44</b>	<b>83</b>	<b>32</b>	<b>20</b>
Electrician (Engineering)	61	21	24	13	3
Fitter	52	8	30	10	4
<b>Metal</b>	<b>5 730</b>	<b>1 477</b>	<b>2 398</b>	<b>1 309</b>	<b>575</b>
Electrician	971	235	483	192	64
Fitter	774	237	367	123	50
Boilermaker	749	190	325	173	61
Fitter and Turner	643	158	243	172	72
Millwright	598	131	243	187	44
<b>Motor</b>	<b>3 931</b>	<b>760</b>	<b>1 200</b>	<b>1 147</b>	<b>844</b>
Motor Mechanic	1 995	312	612	603	479
Diesel Mechanic	682	153	226	187	119
Automotive Body Repair	404	99	101	97	108

Source: Merseta (2012)

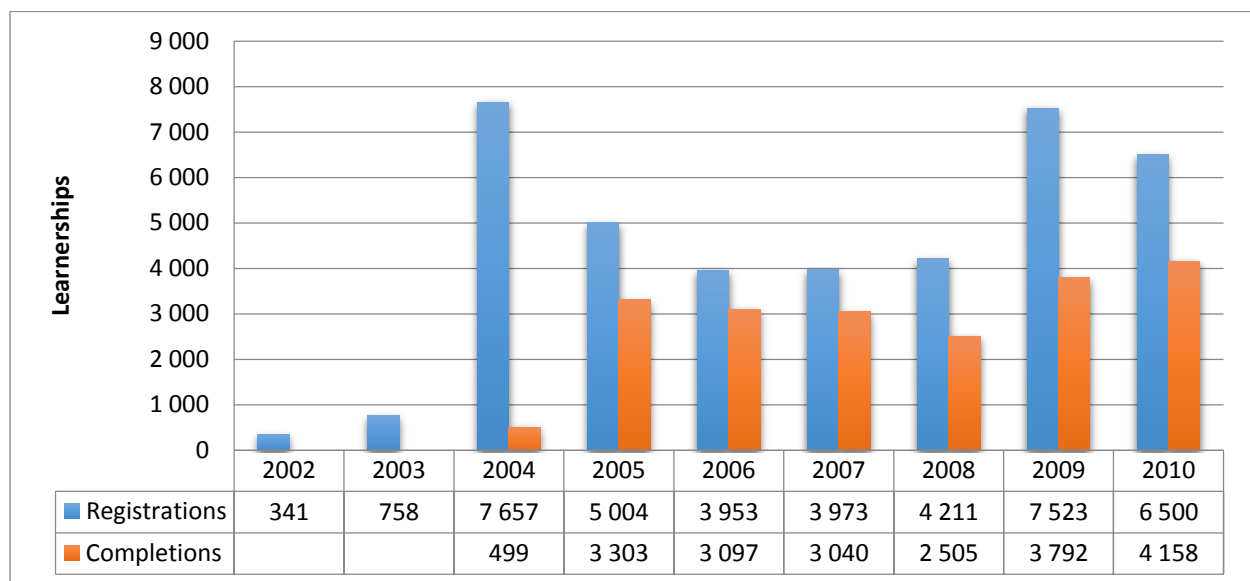
Despite contributing 7% of total GDP during this period (NAAMSA, 2009) and 26% of all levies, the seven large automotive assemblers making up the Auto chamber had 179 apprentices in 2009. Despite that, mechatronics technicians and mechanics listed in Merseta's SSP as scarce skills were not part of the 179,<sup>12</sup> again showing a disjunction between the Merseta's labour market intelligence and. Likewise the Metal chamber had listed Metal Manufacturing Machine Setter and Minder as well as Crane, Hoist or Lift Operator as scarce skills but there is no investment towards these type of skills. Even though the millwright trade is perceived as scarce, employers avoid it as it includes two trades (electrical and mechanical), and takes longer. Mummmenthey, Wildschut and Kruss (2012) found that this is because

<sup>12</sup> Merseta Sector Skills Plan 2009 Annual Review

employers to avoid investing time in some programmes because they take longer and consume more resources.

Figure 5.5 shows that the number of learnerships tend to be cyclical, that is, lower in the beginning of the NSDS phase and higher towards the end of strategy such as in 2004/05 and 2009/10.

**Figure 5.5: Number of learners that registered and qualified in the Merseta sector from 2002 to 2010**

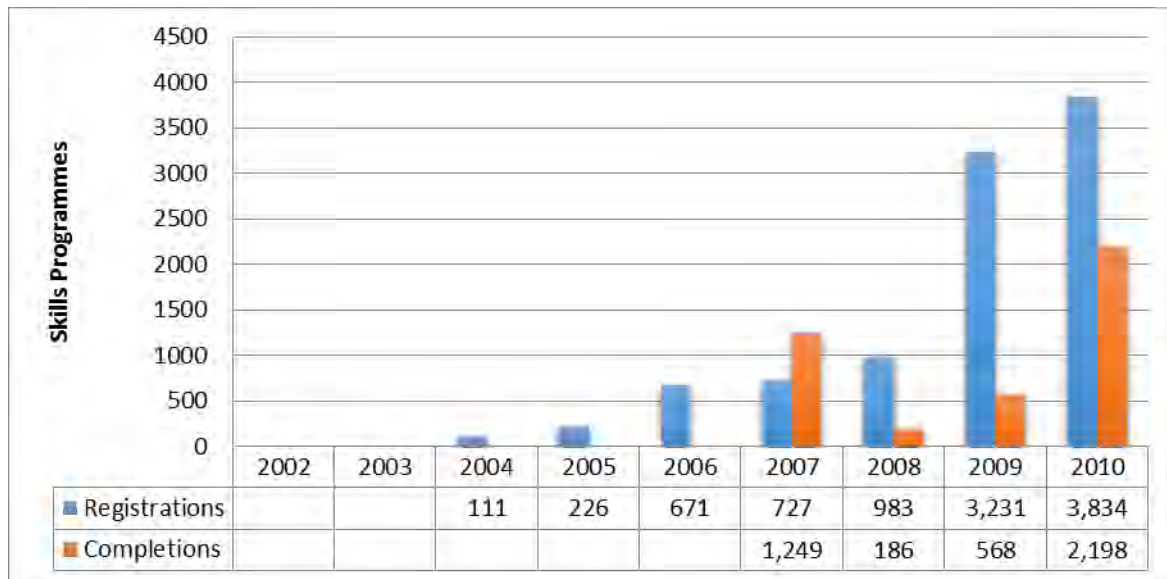


Source: Merseta QMR data 2014 (cited in Merseta 2014 SECTOR SKILLS PLAN UPDATE)

This cyclical nature of learnerships may point to a lack of adequate planning. The SETA seemed to be spending a lot of money once they realise the NSDS phase is coming to an end.

Figure 5.6 demonstrates that skills programmes began to pick up in the second phase of the strategy following a very slow start in the first phase.

Figure 5.6: Number of learners in skills programmes from 2002 to 2010



The completions of skills programmes are way too low with a dropout rate of about 60%. Skills programmes allow SETAs to target specific skills needs that are peculiar to the sector such as retrenchment assistance plans, literacy and mathematics programmes. According to Numsa the bulk of workers in the Merseta sector have qualifications below NQF level 2, and so could not access further training<sup>13</sup>. For unions Adult Education and Training (AET) became a critical intervention but there was a disjunction between labour and employers. Reporting that only about 7% of firms within the SETA's domain are involved in providing AET training Mummmenthey and others (2012) believed that the challenge is that employers tend to misunderstand the concept of AET. As a result they have not used it effectively to upgrade the lower echelons of the occupational ladder. In turn this constipates the pool of workers able to register for artisanships and other intermediate skills.

### 5.3. NSDS I: THE EARLY YEARS

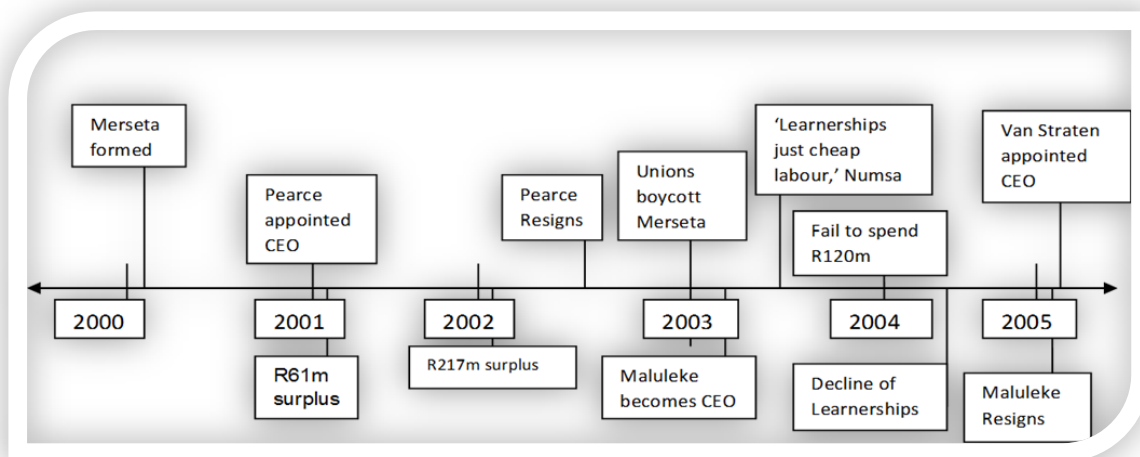
#### 5.3.1. Key Events During NSDS I

**Merseta is formed:** Following the promulgation of the SDA and the subsequent establishment of the Merseta, the first phase of the NSDS was implemented from 2000

<sup>13</sup> The ups and downs of training. 31 October 2002, Posted in NumsaNews

to 2005. In the primary years of Merseta the Board functioned like a suspended bargaining council. They would not agree on a number of issues. Given the Board divisions, top managers were left to act like ‘agents with no principal’ – free to operate as they chose. Figure 5.1 charts what happened at Merseta during this period of leadership uncertainty, Board infighting over CEO positions, and the negative effect this had had on SETA CEOs.

Figure 5.7: Key events during NSDS I



The Merseta Board was constituted by the equal representation of both organised business (15 members) and unions (15 members), each with full voting rights. Built on the idea of a partnership between organised employers and labour unions, the SETAs had to contend with managing the training needs of such a diversified grouping. The Minister of Labour appointed Board members as per nominations from Merseta stakeholders. Looking after 50 000 firms with a total of about 655 967 employees, the Merseta sector<sup>14</sup>. Table 5.2 outlines the five Merseta chambers that make up the sector and the dominant business associations.

Table 5.2: Merseta chambers and sub-sectors

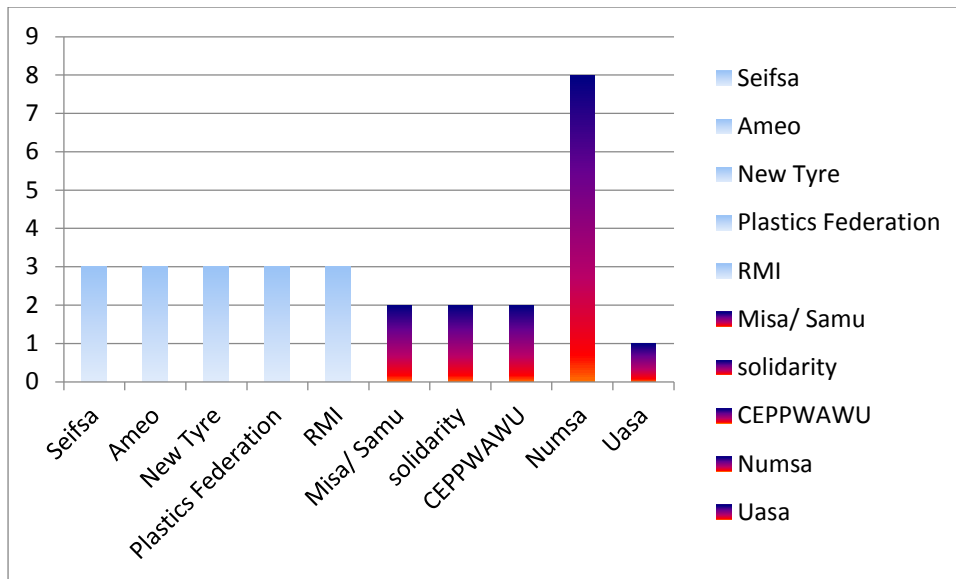
Chamber	Description	Sub-sector	Business Association
Metals	Firms involved in the manufacturing and servicing of capital	Capital Equipment	Steel And Engineering Industries Federation Of South Africa
		Transport Equipment	
		Metal Fabrication	

<sup>14</sup> Merseta Annual Report 2012/13

	equipment including transport equipment;		(Seifsa)
Auto	South Africa's seven large automotive assemblers, also known as original equipment manufacturers (OEMs);	BMW South Africa, Nissan South Africa and Ford Motor Company South Africa are located in northern Gauteng; General Motors South Africa and Volkswagen South Africa are based in Port Elizabeth; Mercedes-Benz South Africa plant is in East London, Toyota South Africa is situated in Durban.	Automobile Manufacturers Employers Organisation (AMEO)
Motor	Firms involved in the motor retail and service industries, as well as in the manufacture of automotive components;	Components	Retail Motor Industry Organisation (RMI)
		Motor Retail Motor Repair	
New Tyre	Firms involved in the manufacture of new tyres;	Manufacturing	New Tyre
		Aftermarket supply	
Plastics	Firms involved in the manufacture of plastics products from locally manufactured and imported polymers.	Polymer Producer	Plastics Federation
		Plastics Convertors	
		Plastic Fabrication	

Both the workforce and firms of the Merseta sectors are highly organised. For instance, wage determination in the automotive assembly sub-sector takes place through non-statutory centralised bargaining arrangements between the National Union of Metalworkers of South Africa (Numsa) and the employer associations such as the Automobile Manufacturers Employers Organisation (AMEO) to which all seven local OEMs belong to. The Minister used these representations when appointing the first Merseta board. Figure 5.8 shows the representations of business and labour in the Merseta Board.

Figure 5.8: Board stakeholder representation during NSDS I



The business associations representing the five chambers were represented equally in the Board with 3 members each. Business and labour nominated their own representatives. The Minister then appointed those representing organised labour and organised business in equal measure. In this Board there the Minister appointed no government officials. The CEO joined the Board as an ex officio. The Boards reflected its constituencies in line with Section 11 of the SDA. As a result of the emphasis on joint responsibility and co-determination, SETAs depended on the social partners working together in harmony. But in reality disunity plagued the Board for a better part of its first five years. Employers refused to release union representatives to take part in the many Merseta meetings and activities.

**Unions Boycott Merseta:** In 2003 the labour boycotted meetings further paralysing the fledgling SETA. Malebo Mogopodi, Numsa’s National Training Coordinator and member of the Merseta Board, told Numsa News after Delta management summoned Saliem Dolley, Numsa’s representative in the Merseta’s Auto Chamber, to a disciplinary hearing for attending a Merseta meeting in company time that:

‘Merseta as a skills training institution is meant to be a vehicle which is equally driven by all its stakeholders, meaning labour and business. If the principle of a

stakeholder driven Merseta is accepted by all parties as essential, why is it that business representatives do not have any constraints from participating in Merseta activities? Might it be that business wants to roll back and undermine the role labour has to play within Merseta?’

It took two more years of tough negotiations for labour to persuade the Board to allow stakeholders to have its own co-ordinators to assist with monitoring compliance to the SDA at the workplace. The conflict in the Board also opened up an opportunity for individuals (and groups) to capture the SETA for their private ends at the expense of joint benefits.

The battles permeated the SETA chambers where business interest groups fought among themselves. Signals of shirking, free riding, or just wanting a bigger slice of the training pie for one’s sector were noticed between employer groups. Describing the process of preparing an SSP as an ‘arduous process, with the need to balance the tension between the different chambers, informants informed Mummmenthey, et al. (2012) that organised businesses tend to clash in the chambers ‘over numbers in saying ours is a bigger problem than yours’ rather than focusing on the skills needs of the sector.

The major organisational challenges that Merseta faced during the first five years was the management vacuum at both Board and executive management level. During this phase the SETA failed to fill a number of key vacancies. As a result programmes took longer than necessary to complete. Without proper leadership, Merseta was racked by serious corporate contraventions during NSDS I including hiring of companies for work ranging from curriculum formation to recruitment of learners and project management with no approval from the Board and, in some cases, directly undermining the Board’s decisions.

**Five CEOs in six years:** From 2001 to 2006 Merseta hired and fired five CEOs. Pearce (2001 - 2002); Maluleke (2003 – 2005), Van Straten (2005) as well as Adams

and Van Rensburg (2006) were all CEOs in the first six years of the SETA. In the first three years Merseta saw two Chief Executive Officers (CEOs) resigning under a cloud of financial mismanagement, favouritism and non-compliance with policies and procedures. In 2005 there was even a dispute on who was in charge of running the SETA. Letsoalo wrote in the Mail & Guardian newspaper in defence of Maluleke, his client in a litigation case involving scandals of corruption, mismanagement and maladministration:

'Between April 2005 and December 2005, the Merseta employed Ms Betty van Straten as the CEO. Nothing which happened during the course of her employment in this capacity has anything to do with our client.'<sup>15</sup>

Merseta seemed to be in a state of paralysis mainly as a result of the Board failing to realise a coherent identity, and rather operating as a bargaining council (Singizi Report, 2007). The result of the disunity of the Board and management acting like agents without a principal resulted in the following observations:

1. Key stakeholders in the form of unions boycotting Merseta.
2. Incapacity to deliver. Merseta acknowledged that the capacity of its regions had become a serious problem in the delivery of its mandate<sup>16</sup>.
3. Inability to spend on skills development: In 2004, with serious corporate contraventions tormenting Merseta, it failed to spend over R120-million meant for skills development training (Engineering News, 2003). Merseta's aggregate surplus accumulation increased by more than threefold in one financial year to R217 million (Mummenthey, Wildschut & Kruss, 2012).
4. Maladministration: Merseta criticised after it spent more than R8-million on consultants (Mismanagement of funds plagues many SAs Setas - Mail & Guardian 2007-04-24).
5. Learning programmes took longer than necessary to complete. A case in point is the ground breaking partnership between Merseta, Continental Tyres and the Nelson Mandela Metro University designed to address critical skills identified within the tyre industry. Involving an initial intake of 19 learners the

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<sup>15</sup>Get your fact straight. <http://mg.co.za/article/2007-06-15-september-14-to-20>

<sup>16</sup> Merseta. (2006). Annual Report 2005/02. Johannesburg: Merseta

learnership lasted for three years, instead of one as envisaged, due to capacity related challenges (Merseta 2006/07 Annual Report).

6. The number of learnerships tends to be cyclical, that is, lower in the beginning of the NSDS phase and higher towards the end of strategy. The spike in registration of learnerships at the end of phase may be to fulfil targets rather than training on required skills.
7. Companies in the Merseta sector tend to prefer short courses over apprenticeships, learnerships, and internships. Merseta sanctioned qualifications are unpopular with employers.
8. Some workers saw learnerships as cheap labour masquerading as training (NumsaNews, 2003).
9. Employer charges Numsa's representative in the Merseta's Auto Chamber with gross misconduct for attending Merseta meetings (NumsaNews, 2004).
10. Failure to fill a number of key vacancies even at its head office (Merseta 2006/07 Annual Report).

Observations on training output are as follows (own calculation using NLRD data and annual reports):

1. High dropout rates: apprenticeship (52%) and skills programmes (60%).
2. Low spending on skills: 35% of the levy is not spent on grants and training projects
3. Mandatory grants spent in the lower NQF levels (mainly Levels 1 and 2) rather than at the middle skills level where there is the highest need

The key events and observations pointed to a weak partnership especially between the two major protagonists – workers and business. The above observations showed that the lack of leadership undermined workplace training. The observations increased the plausibility of hypothesis 1 but it is not enough to confirm causality that the alignment of SETA strategy with the NSDS depended on the extent of commitment of the social partners to govern in their collective interest.

However, there is credibility for hypothesis 2 and 3. During this phase Merseta failed to harness the collective incentives of the social partners (Hypothesis 2) largely

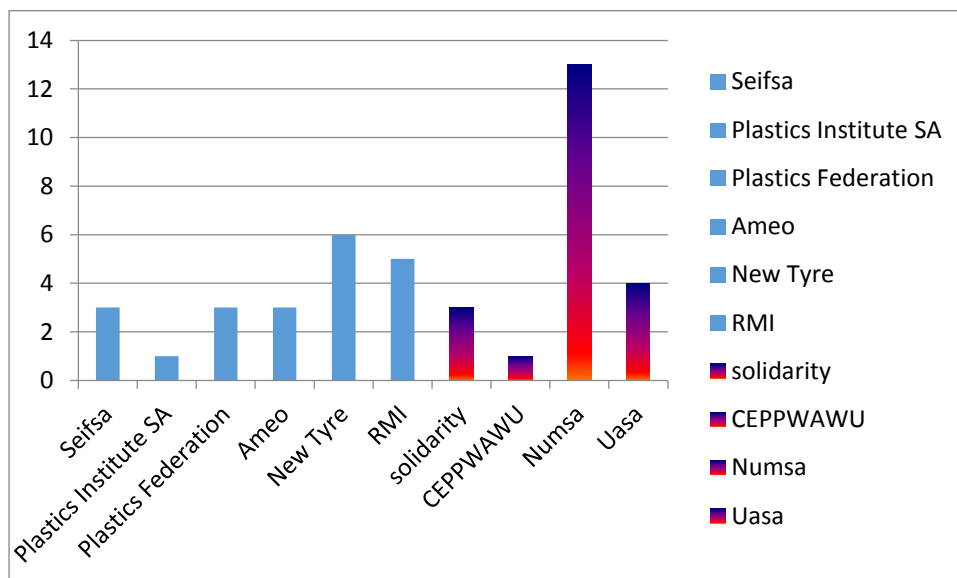
because of the breakdown of the agent-principal linkages (Hypothesis 3). The outcome was that key stakeholders either started shirking their responsibilities to the NSDS or used the SETA environment for personal gain. The theory of endemic corruption, shirking and freeloading as a result of poor governance is strongly affirmed. But the theory that stakeholders with strong incentives towards skills development will prevent predation is not confirmed, which may mean that at this stage the incentives of stakeholders to work together for joint benefits was at its weakest.

## 5.4. NSDS II: NEW LEASE ON LIFE

### 5.4.1. Key Events During NSDS II

**Merseta Board appointed:** The Board was appointed to, once again, implement the new NSDS. Likewise, the minister appointed stakeholder representatives as nominated by their constituencies. This time, however, the Board inexplicably grew to 45 including the CEO. Figure 5.9 indicates the increase in representation.

Figure 5.9: Board stakeholder representation DURING NSDS II

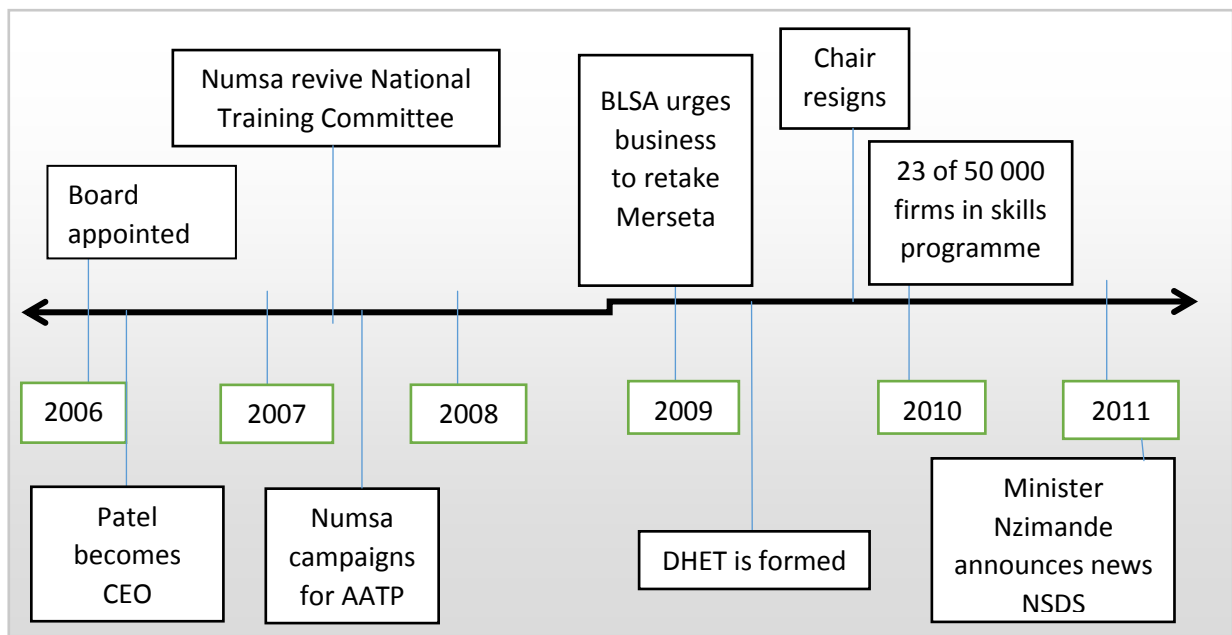


Legends: Business = blue and Labour = red

This increase appeared to be Minister Mdladlana's way of ensuring the Board reflects the size of the stakeholders in the sector.

**Raymond Patel Becomes Merseta CEO:** Joint CEO's Wayne Adams and Corli van Rensburg handed over the reins to Dr Raymond Patel at the beginning of the NSDS II (ibid). This appointment coincided with the revival of Numsa's National Training Committee which culminated with Cosatu's conference on skills development three years later. Figure 5.2 shows that a number of positive things started happening for the SETA following Merseta's revival of its training committee.

Figure 5.10: Key events during NSDS II



Nedlac's constituency engagements may also have acted as a catalyst for collective action to take root but change takes time. Unlike in the NSDS I period Numsa started becoming more engaged with the SETA. But business was still hesitant.

**Numsa revives National Training Committee:** Following the success and expansion of the Accelerated Artisan Training Programme (AATP) pilot project, Numsa began to get more involved with skills development. Numsa's appetite for monitoring the implementation of the productions of artisans coincided with Merseta's expansion of the AATP.

**Numsa campaign for AATP:** As South Africa slipped further down the World Economic Forum competitiveness rankings to 54 with skills and education cited as major weaknesses, Cedric Gina Numsa president accused firms' 'strange reasons'

for pulling back from playing a meaningful role in ensuring that the country produced scarce skills: 'I cannot comprehend why companies, Seifsa in this case, did not ensure that we increase the numbers of apprenticeship contracts to prepare for competition from other markets.' Seifsa had earlier noted that apprentice intake in the metal chamber had increased from less than 2 000 apprentices in 2003 to 5 730 in 2009, but that this was far short of the 1982 intake of over 12 000 riled Numsa. Hlangani, (2007) joined his president in putting pressure to business to respond to what Numsa perceived, at best, as bottlenecks and, at worse, sleaze and deception that continued to stymie the supply of urgently-needed artisan skills training.

**BLSA urges business to retake Merseta:** Numsa's motivation to ensure labour benefits from workplace training inspired Business Leaderships South Africa to agitate for employers to retake Merseta. This newfound energy from both labour and firms seemed to have galvanised the adoption of AATP. Table 5.3 shows the success of the programme in reducing the time it takes to complete an apprenticeship from this period, that is, 2007 and 2008.

**Table 5.3: Completion of apprenticeships by months**

Start Year	0-23 months	24-35 months	36-47 months	48-59 months	60+ months	Undetermined	Total obs
1997	0.6	4.9	64.2	11.7	18.5	0.0	324
1998	1.0	16.0	57.0	23.0	3.1	0.0	588
1999	6.9	24.0	55.7	12.0	1.4	0.1	860
2000	6.9	33.1	47.5	10.7	1.6	0.1	850
2001	12.2	36.1	42.8	7.6	0.7	0.5	964
2002	16.4	31.1	41.8	9.6	0.4	0.8	1 053
2003	17.8	37.2	34.9	9.4	0.4	0.3	1 301
2004	16.5	30.5	41.1	11.6	0.1	0.2	1 461
2005	21.1	34.3	39.4	5.3	0.0	0.0	1 211
2006	27.8	61.0	11.0	0.0	0.0	0.2	921
2007	66.0	33.8	0.0	0.0	0.0	0.2	488
2008	99.1	0.0	0.0	0.0	0.0	0.9	108
Unspecified	0.0	0.0	0.0	0.0	0.0	100.0	11 967
<b>Total</b>	<b>8.3</b>	<b>15.1</b>	<b>17.7</b>	<b>4.1</b>	<b>0.5</b>	<b>54.3</b>	<b>22 096</b>

**Source: Merseta Annual Report 2008/09**

Employer apathy towards SETAs is a weakness in the NSDS-driven system as it leads to a disjunction between the SETA strategy and firm's activities. Nonetheless, it is encouraging to note Business Leadership South Africa urging business

associations to take participation in Merseta very seriously. Business is a key NSDS player expected to work in partnership with other stakeholders.

**DHET is formed:** The Department of Education was split into two to form the Departments of Basic Education and Higher Education and Training. The latter's focus was to be post-school education including all forms of skills development. This meant the Department of Labour was also expected to relinquish skills development and labour market intelligence to the new department. For Merseta it meant less confusion as they are now going to be reporting to one minister instead of two – labour and education.

**Board Chairperson resigns:** Following an investigation by the Auditor General into contracts, a controversial R180 million project (one of nine contracts awarded improperly) to train 5 000 petrol station attendants over four years was cancelled because it never went out to tender. Merseta's chairperson Lizel Heunis was implicated in the scandal and forced to resign. This action against a powerful member of the Board was a signal that the key actors were beginning to take their fiduciary duties seriously. In 2006, the report of the auditor general (AG) placed specific material emphasis requiring attention, namely: the Merseta does not have a legislative mandate to source documentation to support revenue; non-compliance with supply chain policy; and unclear strategic objectives,<sup>17</sup> and nothing seemed to have been done.

**Firms shun skills development:** The 2008 global financial meltdown led the South African economy to a recession that tested the Merseta multi-stakeholder initiatives to the core. Key stakeholders agree that retrenched workers must be retrained.

'Following a board decision, we also availed R80 million for the Retrenchment Assistance Plan which assists companies and business facing downscaling in these harsh times. Merseta makes money available for further training rather than retrenchment so that when the economy is revitalised, workers can return to full productivity.' (Patel quoted in Merseta, 2009).

The spike in registrations in 2009 and 2010 may be as a result of this call but again far fewer learners completed their retraining, as employers saw the initiative as a

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<sup>17</sup> Merseta Annual Report 2006/07 p 37. Johannesburg: Merseta

union project. In a year after the launch of the initiative, there were only 23 companies actively participating in the project, a fraction of the about 50 000 firms in the sector.

The small number exposed firms' general disregard for workplace training and, therefore, their often negligible participation in skills development activities. This underinvestment in skills development was true with firms in the Merseta sector during the NSDS II. Despite the rhetoric to transform firms into training sites, some companies still placed profits before collective objectives such as responding to the challenge of scarce and critical skills.

The process tracing observation showed the pervasive nature of corruption and shirking as some top managers appeared to have been in collusion with Board members. Nonetheless, islands of effectiveness were beginning to emerge mainly as a result of Numsa beginning to be more engaged in the affairs of the SETA. This give credence to the proposition that the stronger the incentives and commitment to multi-stakeholder objectives, the greater the incentives to prevent predation, shirking and other negative practices.

But more heartening is that, as argued by Levy (2014), CEOs of state-owned entities such as the arrival of Patel can be a catalyst for things to start moving in line with the collective mandate. Numsa started to vigorously campaign for the support of Merseta's initiatives. This indicated that if the social partners have a collective initiative to support skills development, they would have strong incentives to ensure SETAs work adequately, and by so doing work towards preventing free riding, shirking and other selfish activities.

Having learned from its 2004 pilot project with the businesses in the metal chamber, Numsa embarked on the innovative approach to artisan training. The AATP worked because all the stakeholders had high motivation to see it becoming a success.

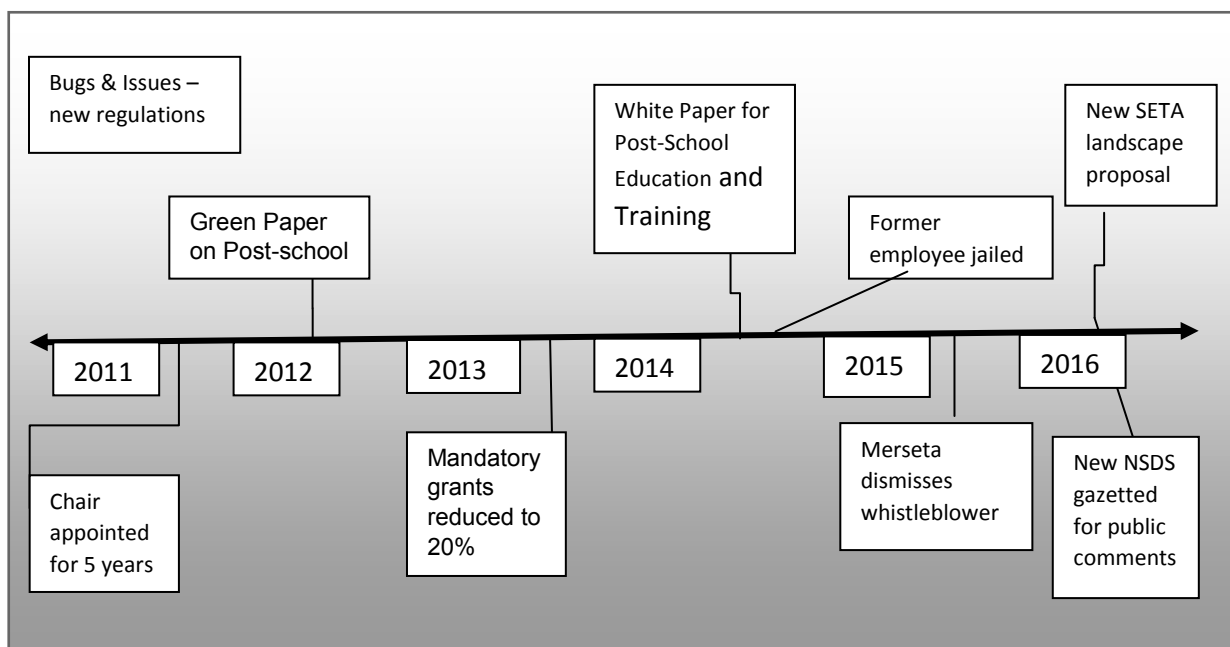
Undoubtedly, this demonstrated the success of the collective action for joint benefits. But the implementation of the AATP was not without its share of resistance. Responding to what it felt were deliberate actions to undermine artisan training, Numsa urged employers to start supporting the scarce and critical skills rather than short courses (Hlangani, 2007).

During this time the SETA also managed to stand against its chairperson. Merseta's supply chain manager raised concerns that prompted the investigation that implicated its chairperson. The concerns were taken up by, among others, Numsa. In this case the protagonists Numsa effectively used its countervailing power to ensure the Auditor General investigated the allegations, and threats from both a powerful chairperson of the Board and external parties were successfully trumped.

### 5.5. NSDS III: BUGS AND ISLANDS OF EFFECTIVENESS

**Bugs and Issues:** In line with the NSDS III objectives DHET published new SETA grant regulations. Business representatives in the Merseta Board were furious with the new deal and threatened to take DHET to court (Freeman, 2011). But the threats came to nought. Figure 5.11 documented the key events during NSDS III which was still being implemented.

Figure 5.11: Key events during NSDS III



**Chair appointed for 5 years:** For the first time Merseta changed its constitution to enable it to elect a chairperson to serve for five. Before this the chairperson faced an election every annual general meeting composed of the represented stakeholders. This short tenure was risky and may have unnecessarily exposed chairpersons to ‘pork barrelling’ making them vulnerable to please rather than lead. This change coincided with the Minister of Higher Education and Training appointing Board members for the first time.

Minister Nzimande reduced the Board to 15 included three independent members. For the first time more members were sourced from business (7) than labour (5). The remainder came from independent members, two academics and one business women. Numsa took four of the five spaces for labour. This move seemed to work to stabilise the SETA and refocus it to its mandate. The following process tracing observations are instructive on the incentives, goals, and constraints of the key players in Merseta:

1. The WSPs submitted annually by firms provided useful information about skills and employment trends in the sub-sectors. The WSPs submitted in June 2011 represented only 29.4% of the levy-paying organisations in the sector still making it difficult to predict, plan and implement a demand-driven skills development strategy. That so few firms submitted WSPs showed that the problem of employer empathy towards skills development is resilient<sup>18</sup>. This is a weakness in the NSDS-driven system as it leads to a disjunction between the SETAs strategies and the firm’s activities.
2. Merseta had experienced a consistent participation by the employers in their submission of WSPs in the financial year 2012/13 – a little step but in the right direction<sup>19</sup>.
3. After a slow start Merseta’s contribution to the training and certification of artisans began to pick up (Patel, 2014).
4. Senior Managers charged with corruption.

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<sup>18</sup> Merseta Annual Report 2011/12

<sup>19</sup> Merseta Annual Report 2012/13

**Former employee jailed:** As a result of Merseta's collective action beginning to assert itself, the SETA also saw existing and former top managers being charged with fraud and corruption conducted while they were still in the SETAs payroll. Following the successful trial and conviction of its erstwhile manager, Merseta's CEO jubilantly cautioned: 'We do not bask in the misfortune of others, but, in this case, justice has been done. Kwenda used an elaborate scheme to defraud 26 companies of their due grants. Thousands of people could have been trained using that money. I trust this sends a message to all that the Merseta will not tolerate corruption in any form'.<sup>20</sup>

**Merseta dismisses whistleblower:** Even though there are clear signs that the SETA was beginning to be vocal against predation, it was also disheartening that it suspended its senior supply-chain manager Takalani Murathi, three days after reporting possible tender irregularities amounting to about R45-million to the Special Investigative Unit and the Public Protector.<sup>21</sup> Claiming Murathi was suspended for alleged fraud, Merseta took the City Press to the Press Council for its 14 September 2014 article headlined *Man lifts lid on Merseta – Staff member turns to labour court for protection after blowing the whistle on corruption in Seta* claiming the newspaper did not adequately cover its comment.<sup>22</sup> Merseta subsequently dismissed Murathi for fraudulently obtaining an auctioned vehicle which had reached its sell-by date from the organisation.<sup>23</sup>

As indicated in the above sections, the majority of Merseta firms do not see any value in submitting ATRs and WSPs. Likewise, this was began to change, perhaps, signalling that stakeholders' incentives to work for the public ends is on the up. The general observations in this period is that stakeholders and individuals are beginning to work together and, in turn, islands of effectiveness against corruption and in workplace training are beginning to emerge. Hypothesis 1 passes the hoop tests.

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<sup>20</sup> <http://www.engineeringnews.co.za/article/former-merseta-bank-employees-jailed-for-defrauding-authority-of-r62m-2014-10-20>

<sup>21</sup> <http://www.r2k.org.za/2014/12/12/r2k-whistleblowers-2015-takalani-murathi/>

<sup>22</sup> <http://www.presscouncil.org.za/Ruling/View/meraseta-vs-city-press-2687>

<sup>23</sup> <http://www.engineeringnews.co.za/article/merseta-dismisses-fraudulent-senior-manager-2015-07-03>

The observations increase plausibility of the proposition. Nonetheless, Hypothesis 2 is refuted. SETAs are not failing to respond to the collective incentives of the social partners. But for SETAs to respond adequately they need committed stakeholders sitting in their Boards. These events prove that strengthening multi-stakeholder partnership would harness the interests of the key stakeholders towards the attainment of collective objectives. In line with Hypothesis 3 SETA Boards would not fail to act on behalf of the interests of the social partners if the agent-principal linkages are strong. Minister Nzimande, Numsa, and a number of business associations started taking their interests in the Merseta seriously leading to the emergence of islands of effectiveness that the SETA can build on going forward.

Responding to the weaknesses of the labour-employer-SETA tripartite relationship, the NSDS III provided for a more active role for the SETAs. By increasing the incentives for firms to train more, the PIVOTAL grant sought to allow learners not only to graduate but also to get invaluable work and industry experience that will make them more employable. But it seems like government may have misdiagnosed firms' lack of enthusiasm about the NSDS-driven workplace training. The response of the firms towards SETAs is improving but at a slow and organic pace.

**New SETA landscape:** A new SETA landscape was proposed at the end of 2015. Following the Green and White Papers on Post-school Education and Training, the Minister gazetted a proposal to overhaul SETAs in December. The proposal sought to turn SETAs into SETABs, that is, Advisory Boards (Republic of South Africa, 2015). This move would centralise power to the Department of Higher Education and Training and run the risk of alienating key stakeholders. It is too early to pinpoint how this proposal would affect Merseta.

## CHAPTER 6: CONCLUSION

Merseta's first 10 years will be remembered for the hasty resignations of the first three CEOs and at least one chairperson, all resigning under a cloud of alleged corruption and mismanagement of funds. Effectively Merseta had at least six CEOs in six years with the appointment of Dr Patel. This changing and chopping at the top did not augur well for service delivery. This high turnover was as a result of the infighting that engrossed the key social partners of the SETA. Top managers were left to do as they pleased. The uncertainty, confusion and lack of leadership saw individuals and groups in positions of power both within the Board and top management colluding to unjustly benefit from the SETA. It is plausible to believe that such corruption, maladministration and mismanagement of public funds is bad for the industry's efforts to address the critical shortage of artisans. Through process tracing the study has revealed that when social partners' incentives for collective benefits is low predation, as outlined by Levy (2014) reigns supreme.

On the other side of the coin, when strong collective action is high, social partners are highly motivated to engage in collective initiatives to support actions that would lead to public good. This had been observed during NSDS III where islands of effectiveness began to emerge such as a strong desire to work against predation. For the first time the SETA was willing to stand up against its own including its chairperson, a representative of a powerful business association, after years of turning a deaf ear to such allegations. The same strong collective action was also beginning to show that if the social partners have a collective initiative to support skills development, they would have strong incentives to prevent free riding, shirking and predation.

Even though, the initial threats from representatives of business in Merseta to litigate against the Minister at the beginning of NSDS III could not be interpreted as contributing to a heightened collective interest by the partners, it was a fleeting moment eclipsed by the Minister's appointment to the Merseta Board of more

representatives of business than labour. This, together with the three independent members, changing of the constitution to allow the appointment of the Chairperson for five years (instead of one), and the renewal of the CEO's contract brought stability to Merseta.

There is more evidence supporting the main hypothesis of the study. First, during NSDS I, where the collective initiative for some stakeholders to support skills development was low, predation, as explained by Levy (2014) was at its highest. Allegations of corruption started dwindling in NSDS II and further in NSDS III as the SETA Board started to work together thus agreeing with the theory that if the social partners comprising the SETA Boards have a collective initiative to support skills development, they will have strong incentives to adequately govern SETAs and not free ride or shirk their fiduciary duties thus ensuring alignment of SETA strategy with the NSDS, and in so doing prevent individual and groups from capturing the public initiative for private purposes. During NSDS II and III there are strong signals of Merseta beginning to act against its own where there are allegations of mismanagement of funds and corruption. Observations made during process tracing agreed with Hypothesis 1. The alignment of SETA strategy with the NSDS depended on the extent of commitment of the social partners to govern in their collective interest. From NSDS I when stakeholder commitment was low to NSDS III when it picked up indicated that strong incentives of the key social partners to adequately govern do foil free loading and shirking thus preventing individual and groups from capturing the public initiative for private purposes.

Undoubtedly, the success of the last 10 years is the innovative implementation of the AATP. But it was also not without its share of resistance. But it proved that it is possible to turn around the skills shortage if labour and business collaborate. Drawing on the analytical framework developed in Chapter 4, it seemed like the establishment of the AATP is a manifestation of the potential of the collaborative governance to counterbalance predation. Unlike the pitched battles of the NSDS I, the second phase was more robust than just filibustering. Numsa, for example, managed to promote the AATP and get buy in from sceptical business associations.

The collaborative governance arrangements of labour and business showed signs of participants recognising their respective power to deal with internal and external threats. Business holds the key to open factory shops for training, which is crucial for the success of the NSDS. This disproves Hypothesis 2. Merseta, with time, managed to harness the collective incentives of the social partners.

Again, in line with Hypothesis 3 there was enough evidence of individuals acting to pursue their own private ends rather than those of the collective. There is also evidence that predation is bad for SETA performance. Labour and business had shown that without collective action, workplace training will fail. Both groups began to support the new CEO Patel and the AATP with positive results. Even so, drawing from Ostrom's 'good practice' guiding principles, monitoring and evaluation by government improved immensely in NSDS III but still needed to be strengthened. Any policy development must therefore be placed squarely within the context of strengthening the Boards in such a way that the adversarial power of both labour and business is managed. Like in NSDS III smaller Boards with independent people seemed to curb the infighting in the Boards.

The process tracing analysis showed that Merseta is in a positive trajectory. Policy development must recognise that building an institution is an intricate and challenging course of action that required determined and sustained investment. And so, changes must be incremental and build on what works like the social partnership in the implementation of the AATP. However, this would not be a success if governance issues remain weak. Policy must also move towards incentivising the companies not only for submitting WSPs and ATRs but also for training more artisans and placing more learners in their workplaces. This can be linked to the payment of the levy by firms or to grants paid to companies by the SETAs. In practice a company that trains more in relation to other companies in the sector would get back a larger percentage of the grants. A tiered system can be employed to incentivise more companies that focuses on the scarce and critical skills that takes longer to complete. For instance, the scarcer the skills, the bigger the grants the firms would be entitled to.

Dostie (2015) also observed that the training levy scheme encouraged medium sized firms to engage in general, costly, complex, time-consuming, and certified training as long as the incentives for such training are increased. Following this logic, employers must not be restricted on the amount they can claim as long as they can prove they are contributing to national targets. Employers can claim extra grants for training more in the type of skills the economy demands as an incentive to counter the externality of general training such as poaching. This policy step will motivate companies to train more than their competitors, and not only get a lion's share of the grant but also be first in line to get better skilled workers. This step may also encourage SMME's to train to keep pace with their counterparts. Leuven and Osterbeek (2004) found that increasing the incentives for smaller firms to train increased their investment in workplace training significantly.

A strong monitoring and evaluation must also be put in place to avoid administrative difficulties and other unintended consequences as well as companies' trying to 'game' the system. But the NSDS must also recognise that firms, in line with Becker's (1962) theory, know the type of skills they need. Becker (1962) noted that the reason that firms don't already provide the training was because of the 'worker poaching' problem. There was a collective incentive within the sector for this general training to be provided, but individual firms are concerned that, if they train more than other firms, then their workers would be poached. The levy-grant system was a step in the right direction as it induced all firms to contribute to workplace training. Future policy steps should focus on tweaking the grants until a desirable equilibrium was reached. For instance, if firms know best the type of skills they required, then increasing the mandatory grant to training firms would encourage them to invest even in the longer, more expensive technical training the firms and country desire.

The theories supporting workplace training identifies beneficiaries as workers already employed. Plausibly, the logic also works for providing training for potential new entrants into the industry. This leaves out the unemployed youth. Perhaps, the workplace and levy-grant system was not the perfect solution to deal with

joblessness, as the number of new entrants joining the labour market each year was far in excess of the likely demand of existing employers and available trainers and mentors. Following Becker's train of thoughts, training for employability was negative to a firm's objectives. For firms training tends to be demand-driven. Using workplace training to solve unemployment and poverty was based on a hope of benevolent firms who would help with the broader training challenges of South Africa's labour force. So in some fundamental sense, it may have been that the very large disconnect between the NSDS and workplace training made SETA implementation very tricky. As suggested by Marock (2010) there was a need to narrow the scope of SETAs to focus on workplace training to diversify skills formation towards the scarcer vocational, technical, artisanal skills, and other critical skills. Pre-employment training and new entrants can focus solely on apprentices and internships that increase the supply of well-trained work seekers to meet the demand in the labour market.

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