

The role of SETAs in promoting Economic Development and in the current recession.

Address by Minister of Economic Development, Mr Ebrahim Patel, to the 2009 Inter-Seta conference

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Chairperson

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Delegates and friends

We face an unprecedented economic challenge in the life of our democracy. We have a structurally high unemployment rate coupled with very significant income inequality and poverty and must now also deal with a recession whose roots lie outside our shores but whose impact is felt very strongly by South Africans.

According to the Labour Force Survey (LFS), the more comprehensive of two official surveys of unemployment, at the end of December 2008, total employment stood at 13 844 000.

By the end of June 2009, total employment was 13 369 000 which indicates 475 000 net job losses over the six-month period.

Depending on the dependency ratio that one uses, at least 1,6 million South Africans have lost access to the incomes of the newly-unemployed breadwinners.

Faced with challenges of this magnitude, government is responding with both immediate counter-cyclical measures and is working on policy measures to improve the structural capacity of the economy to create decent work.

There is a role that SETAs can play in both these areas, since skill development and training will be a key means of addressing these two imperatives. I wish to provide some detail on these two imperatives, particularly the immediate response to the economic crisis, and then pose a challenge to SETAs.

Let me start though with the structural constraints.

Whilst growth rates prior to the recession have shown an encouraging rise, the economy has not been able to create sufficient numbers of decent jobs in the last decade. This then is a central challenge for our economy.

Our pre-recession economic performance has been fuelled by a consumer and commodity-price boom. It became excessively dependent on imports of capital goods and finished products and export of commodities. This contributed to a 'de-industrialisation' in the South African economy.

In addition, cartel-behaviour and monopolies undermine our economic performance and impose costs that contribute to uncompetitiveness.

Much of the employment that we have is in precarious, insecure jobs.

Too many people are trapped in survivalist economic activities in the informal sector or second economy.

Our growth path has therefore to address these constraints.

Both macro-economic and micro-economic policies are being directed to achieving our over-arching goals.

The improvement of the social and economic infrastructure - energy, rail and road transport, dams, schools, hospitals, stadiums – is injecting massive new investment in the South African economy and lays the basis for a strong platform for economic performance.

Public-works programmes in communities, rural areas and economically-depressed areas of the country are drawing large numbers of young people into temporary jobs as a first step to integrating them into the economy.

Tourism is due to benefit greatly from the 2010 World Cup and our efforts must now be to use it as a springboard to create the facilities for sustained growth in both domestic tourism and visitors from elsewhere in Africa and the rest of the world.

Competition policies are being used more robustly to identify inappropriate collusive behaviour in the economy and to address cartel and monopoly behaviour that undermines economic performance.

More however needs to be done.

Government is committed to a broad-based industrialisation model that seek to develop dynamic competitiveness in the economy, through skills improvement, use of science and technology to improve industrial performance, the rapid absorption of advanced production methods in the economy and active enterprise and entrepreneurship development.

Our industrial policies will harness both public and private investment to support decent work outcomes, target large, labour-intensive production sectors and encourage activities that have high employment effects. It will include systematic support for cooperatives by way of a dedicated institution and small business development.

Sector policies and appropriate beneficiation of our raw materials, including agricultural production, into value-added manufacturing goods, remain as significant opportunities for growth.

Agricultural policies, rural development and land reform are critical to improving our economic performance. Many of the fast-growing Asian economies had their industrialisation underpinned by land-reform programmes that unlocked value in rural areas and absorbed more people into economic activities and work opportunities.

The fundamental departure point of government's approach is that employment should not be the outcome of other policies but the overarching goal of economic policies. In other words, all our economic instruments must be used to achieve the goal of decent employment.

In each of these areas, skill formation and skill enhancement is critical. The advanced manufacturing processes that are vital to 21st century factories will rest on world-class skills. The quality of a tourist's experience of South Africa will depend on the service provided by well-trained workers. The success of rural development and improved agricultural performance will require better business skills by small farmers as well as improved knowledge of new agricultural techniques.

A pro-employment growth path must therefore be underpinned by a high and rising skills base, and this requires a greater coherence between formal schooling, vocational training and workplace learning. It is both the connections

between the different dimensions of skills enhancement as well as improving the relevance of what is learnt and how effectively learning is turned into skills, that will make the difference to economic development.

I wish now to turn to the challenge of the recession.

One of EDD's major responsibilities over the past few months has been to coordinate government's response to the recession based on the Framework Agreement on SA's Response to the Global Economic Crisis. This area of work contains a number of policy and coordination elements which have been reported to parliament and has been announced by the President in public statements. Steady progress has been made in implementing this far-reaching plan.

Six key priority areas were announced by President Zuma. Further sets of priorities will be announced soon. One of the first priorities was to stem the bleeding caused by job losses.

The training lay-off scheme for workers at risk of retrenchment was one of the top priority identified. Other priorities include

- Combating customs fraud that have resulted in large job losses;
- Support for distressed sectors to ensure we have not de-industrialised by the end of the recession;
- Competition in the food supply chain to lower food prices;

- Food relief as well as social assistance, including child support grants and old age pensions to poor communities;
- Assistance by the Industrial Development Corporation to companies in distress and refocusing its mandate;
- Maintaining the availability and flow of credit to the real economy and households;
- Using the Expanded Public Works Programme to create short term jobs;
- Leveraging jobs from public procurement;
- Using the R787 billion infrastructure development programme to stimulate the economy
- Expanding Public sector employment in areas of critical need; and
- Introducing public grant conditionalities to ensure that state support achieves the desired results.

In six of these areas, we concluded agreements that are now being implemented.

SETAs can play a role in a number of the initiatives, particularly in the support programme for distressed sectors, the skills components of the expanded public works programmes, ensuring we have the skills mix required for the R787 billion public investment programme and of course the training layoff scheme, where it has a particularly significant role and which I wish to focus on.

The training layoff scheme is intended as an alternative to retrenchment.

The scheme entails enrolling workers on training programmes for a period of up to three months. The principle behind the scheme is to use the period of industrial slack to train and reskill workers.

The scheme will be available to workers earning up to R180 000 a year and the key design elements of the scheme are that it is available to workers as an alternative to retrenchment, during the period on the scheme the employment relationship with the company is retained, a training allowance will be paid to workers on the scheme of 50% of basic wages up to R6 239 per month and participating employers will carry the cost of a basic social package to ensure that death, disability and funeral benefits are not suspended during this period.

Training is left to industries and companies to define but we provided three guidelines.

First, the skills should be appropriate to the needs of the company and sector from where the participating workers are drawn and training should be designed to provide for 'portability' of skills. Second, generic skills should be encouraged, such as communication and problem-solving. This guideline would also cover adult basic education and training which includes literacy and numeracy skills. Third, workers should wherever possible be exposed to information and communication technology (ICT) skills – this is an opportunity to roll-out and

disseminate ICT skills on the shopfloor as part of preparing industry for 21st century manufacturing and service-delivery.

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The scheme will be financed through an allocation of R2.4 billion placed in a National Jobs Fund, drawn from resources in National Skills Fund and the Unemployment Insurance Fund.

The training layoff scheme is the first of its kind that government has launched and we have designed its implementation to be as simple as possible.

Two key implementation agencies will be the CCMA and SETAs.

The CCMA will help companies and unions to conclude their training layoff agreements. The CCMA has now trained about 250 staff members, mainly Commissioners, on the training layoff scheme and its implementation. It has a toll-free number and has published a guide to the training layoff scheme on its website.

What will be the role of the SETAs in this initiative?

This training layoff scheme applies to the whole economy and thus all SETAs in the private sector will be required to be involved in the training layoff scheme, initially in the sector design of training courses, preparing the logistics for a rapid-

response capacity once applications for assistance are made, addressing the actual application for funding and resources and monitoring and accounting to the NSF.

There are two costs that will be incurred in the training layoff scheme. First, the allowance payable to workers who are enrolled in the training (“the training allowance”). Second, the costs of training itself, which covers trainers, facilities, course material, etc (“training costs”). The allocation of R2,4 billion is intended to be principally for training allowances.

SETAs will be responsible to administer the payments, which mean receiving claims from companies and ensuring such claims comply with the rules of the Fund. The SETA will then administer the funds on behalf of the National Jobs Fund that will be located in the National Skills Fund (NSF). It is expected that SETAs will carry the training cost from their own resources. Accordingly, funds will be allocated to each SETA based on the claims made by companies against the rules of the Fund.

Special Board meetings of SETAS have been convened and a number of SETAs have advised they allocate resources from their discretionary funds. Of 16 SETAs surveyed by government, a total of R360m has already been ring-fenced for the layoff, with the star performers being the W & R Seta and Merseta. I wish to draw specific attention to the decision by the W&R Seta to set aside R120

million for this initiative and to allocate a portion of the money for training within its supply-chain, namely in the clothing and textile manufacturing sector, to enhance skills within supplier factories to the retail sector. We expect the level of ring-fenced funding to rise significantly in future particularly from those SETAs that have not contributed significantly yet. We also expect individual companies to draw on their mandatory grants as an additional source of funding.

The number of workers who will enroll in the training layoff scheme will be determined by the rate of applications. The figures will be monitored regularly and will be made public. These immediate challenges place a great deal of pressure on the SETAs but they also create the opportunity for focused attention to delivering basic skills. Despite all the critical reservations raised in the public domain, we have confidence in the ability of a number of SETAs to meet the present challenges.

In addition to the training layoff scheme, training will be an important component of rescue packages for distressed sectors. The dti is working on finalizing packages in a number of sectors, including the auto sector, clothing & textiles as well as capital equipment, transport equipment and fabricated metal products linked to South Africa's infrastructure development programme. We invite SETAs to enter a partnership with government in these sectors to identify the new skill requirements of a competitive sector and lay the basis in the recession for South Africa's manufacturing base to emerge as a strong component of the economy.

This is a formidable task. Especially against the backdrop of job losses and shrinkages in our industrial base that could have long term consequences for our economic well-being. When factories close down, we not only lose access to machines and infrastructure, this also results in the dispersal of skills that are subsequently hard to regroup again. It is this that we refer to as de-industrialisation. The June 2009 manufacturing data shows that the volume of South African manufacturing output has shrunk to levels last seen in early 2004. Given the multiplier effects of manufacturing on the economy, it is vital that SETAs as a whole, not only the manufacturing SETAs, respond with programmes to enhance the competitiveness of the sector. In this regard, I again draw attention to the lead taken by the W&R Seta.

And this brings me to the challenges that SETAs face.

Sector Education and Training Authorities (SETAs), established in terms of the Skills Development Act, 97 of 1998, were launched with very high expectation of delivery towards achieving a skills revolution in the country. The institutions were created not only to advance training but also to empower business and organised labour to drive training as a partnership, an area where the divide that characterizes the engagement about distributive issues such as wage bargaining can be complemented by a common set of goals in growing the skills base in the economy. We saw a family of related labour-market institutions that included

SETAs and national bargaining councils working together to advance social partnership.

The results in terms of skills developed since their establishment in early 2000 have been mixed. A number of opposition parties in parliament as well as public commentators regularly raise criticism of the SETA model and the performance of SETAs.

Some SETAs have clearly underperformed and financial irregularities in individual SETAs have reflected poorly on SETAs as a whole. Little has been done to properly measure the efficiency of training delivery to ensure that the significant sums of money that SETAs receive and disburse have resulted in effective training for the largest number of workers and work-seekers. Governance by social partners is uneven, with the strongest boards typically found in sectors with strong, well-organised business associations and trade unions. Without strong social partnership and governance, the rationale for independently-managed training standards bodies disappears.

As government, while we strongly support the SETA model but we do need to consider the criticism that is made and work with SETAs to address these. SETAs can become important institutions in the developmental state we are building but they will need to earn this through the effectiveness of the institutions.

The training layoff scheme is an unusually good opportunity for SETAs to rise to the occasion and show that the institutions we have built in good times can now work for us in rough times.

What would constitute success? May I suggest a few indicators of performance

One, that all SETAs allocated funds to the training layoff and reprioritized discretionary projects to release funds focused on programmes that address the recession.

Two, that SETAs ensured that properly accredited short, focused training programmes are available for workers on training layoffs,

Three that SETAs help to bring greater efficiency to training, through measures that help reduce the cost per worker of training programmes and ensured modest costs from service providers.

Four, that SETAs worked with companies and unions on the skills needs and ensured that partnerships are formed on the shopfloor at a time when recessionary pressures can strain and damage industrial relations

Five, that financially stronger SETAs helped fund training in the industrial supply chains connected to their SETAs,

Six, that SETAs worked on efficient fund distribution, both in relation to the NSF on the one end and applicant companies on the other end.

Finally, that SETAs regularly communicated the results of their work in the media and through the appropriate Ministers.

These are immediate steps in responding to an immediate and urgent challenge.

I therefore call on the SETA board members from business and labour to do everything in their power to ensure full and effective participation by SETAs so that workers and companies can obtain benefit of the training layoff scheme as soon as possible. Here is an opportunity for SETAs to show their value-add and to convince even the skeptics that they are a vital part of the training-delivery machinery and are flexible enough to respond to these new and unusual circumstances.

For the longer term, SETAs will need to build stronger relations with government, particularly with the Ministry and Department of Higher Education who will be responsible for SETAs within government. The Ministry of Higher Education will

seek to give effect to government's vision of an integrated education and training system.

We will work with SETAS to ensure we align training to the growth path vision that I outlined earlier so that skills development addresses the needs of today and tomorrow and helps to transform the economy to be able to create decent jobs for a growing population.