2024 EDITION

# The IRR's Blueprint for Growth 6:
## Generating Jobs and Skills for Prosperity and Growth


October 2024
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October 2024

Published by the South African Institute of Race Relations

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This publication was made possible with the generous support of the Atlas Network.

# Reasons for hope

More than three months have passed since 14th June 2024, when South Africa's three biggest parties – the African National Congress (ANC), the Democratic Alliance (DA) and the Inkatha Freedom Party (IFP) – agreed to form a government of national unity (GNU) that now includes a further seven parties as well. It will soon be 100 days since a multiparty GNU cabinet was inaugurated on 3rd July.[1] In this period, cautious hopes of recovery have helped strengthen the rand and reduce high yields on government bonds. Inflation is lower and interest rates have been reduced. Eskom's energy availability factor has increased to 68% – from a dismal 51% at the start of the year – and is set to rise further. Loadshedding last occurred on 26th March.[2] A looming recession has been avoided, while the growth rate in the second quarter stood at 0.4% of Gross Domestic Product (GDP), up from a (revised) 0% in the first three months.[3]

For the first time in a long time, the country's political and economic prospects are considerably more positive. Many risks remain, but the worst danger – of a "doomsday" coalition between the ANC and parties even further to the Left – has been avoided. Some new ministers are bringing fresh energy to their portfolios. Business and government leaders are continuing to work together to overcome electricity bottlenecks, logistics failures and rising rates of extortion and other crimes. These developments provide an unexpectedly favourable political environment in which to tackle two of South Africa's most intractable challenges: the unemployment crisis and a crippling skills shortage.

# The vital need for millions more jobs

South Africa has a massive and deep-rooted unemployment crisis, especially among its youth. The number of jobless people of all ages has increased by almost 350% in the last 30 years, rising from 1.9 million in 1994 to 8.4 million in June 2024.[4] On an expanded definition, which includes those wanting to work but too discouraged to keep searching for jobs, the number of unemployed people has risen over the same period from 3.7 million to 12.4 million, an increase of more than 230%.[5]

As regards the unemployment rate, this has gone up from 20% in 1994 to 33.5% in the second quarter of 2024.[6] On the expanded definition, the jobless rate has risen from 31.5% to 42.6% over the same period.[7] International comparisons (using official rates only) make South Africa a global outlier among many emerging markets. Its 33.5% unemployment rate far exceeds the equivalent numbers in Chile (8.9%), Colombia (9.3%), Ghana (3.9%), Indonesia (5.3%), Kenya (4.9%), Malaysia (3.4%), Mexico (2.9%), Nigeria (4.1%), Pakistan (6.3%), Sri Lanka (5.2%), and Tanzania (8.9%). Jobless rates in other BRIC nations are much lower too, standing at 7.7% in Brazil, 7.1% in India, 3.0% in Russia, and 5.0% in China.[8]

Unemployment is particularly high among black South Africans, standing at 37.6% on the official definition and at 47.0% on the expanded one. The unemployment rate among young people of all races aged 15 to 24 is even worse, coming in at 60.8% in June 2024 on the official definition and at a shocking 70.6% on the expanded one.[9]

In a hobbled economy unable to generate jobs on anything like the scale required, people have become increasingly desperate for work. In 1999, for instance, the South African National Defence Force advertised 650 posts for which some 51,000 people applied. Much the same phenomenon was evident in May 2017, when the Johannesburg Metropolitan Police Department advertised 1,500 new posts and received what it described as a "staggering" 65,000 applications – a telling testament to the "vast" unemployment rate in the city.[10] In June 2023 Gauteng premier Panyaza Lesufi advertised 8,000 job vacancies across various provincial departments as part of his "Nasi Ispani" ("here is a job", in isiZulu) campaign and received an even more extraordinary 1.2 million applications.[11] (The Nasi Ispani initiative has been terminated since the May 2024 election.)[12]

Overcoming South Africa's unemployment crisis is a moral, economic, and political imperative. That 8.4 million people are jobless on the official definition – and four million more on the expanded one – is a human tragedy. It wastes potential, causes enormous suffering, and puts a massive burden on relatives with jobs to help support those without. It also gives major impetus to theft, extortion, and other crimes, which are steadily accelerating.[13] In addition, it undermines social stability and increases the risk of a renewed upsurge in arson and looting, similar to that which cost more than 350 lives and an estimated R70bn in economic damage in July 2021.[14]

If unemployment is to be brought below 10% over the next ten years, the country needs to generate roughly 800,000 net new jobs every year.[15] Only with job creation at this level will it be possible to reduce the current unemployment numbers and find work for new entrants to the labour market as well. However, for the past two decades, South Africa has generated only some 226,000 net new jobs a year. In addition, most of these jobs were created in the years when economic growth rates averaged some 3% of GDP.[16]

To increase new jobs from their present levels to the necessary 800 000 a year, the country must pinpoint the main barriers to job creation and move boldly to remove them. Prime among these obstacles are anaemic growth, damaging labour laws, harmful regulation in labour-intensive sectors, and poor skills and productivity.

# The low growth barrier to job creation

The best way to generate millions more jobs is to trigger a rapid upsurge in economic growth. Only then will thriving businesses in every sector need many more employees to help them meet rising demand. Ideally, as the *IRR Growth Strategy* explains, the country requires a sustained annual economic growth rate of around 7% of GDP, which would see the economy double in size every ten years.[17] This level of growth cannot be attained immediately, but it can be reached over time as electricity shortages are overcome and other reforms take effect.

By comparison with the 7% needed, South Africa's annual growth rate since 2009 has averaged 1.3%.[18] In 2023 growth came in at a meagre 0.6%,[19] below the population growth rate of some 1.1%.[20] In the first half of 2024, growth was even lower, at 0.4%.[21] Growth of this anaemic nature makes all South Africans poorer on average with every passing year. It diminishes consumer demand, deters essential fixed investment, leads to retrenchments, and often bankrupts struggling businesses. It also leaves some 28 million South Africans (almost half the population) heavily dependent on tax-funded social grants which a debt-burdened fiscus is already struggling to sustain.[22]

Rapid economic growth is the essential foundation for an upsurge in employment. Higher growth will also boost tax revenues, thereby helping to maintain the social grants and wider social wage (free education, healthcare, housing and the like) on which the poor and jobless largely depend.

# The damaging impact of coercive labour laws

## *An unusually high national minimum wage*

In 2018 the government adopted the National Minimum Wage Act and brought it into force the following year.[23] The national minimum wage (NMW) was initially set at R20 an hour or roughly R3 700 a month. At the start, however, lower amounts were permitted for farm workers (R18 an hour), domestic workers (R15 an hour), and people provided with "temporary employment opportunities" under the state's Expanded Public Works Programme (R11 an hour).[24]

By March 2024 the special dispensation for farm and domestic workers had ended and the NMW had been increased to R27.58 an hour or R4 410 a month for most employees. Only those people working temporarily for the state on public works programmes continued to receive considerably less, at R15.16 an hour.[25]

The 2024 increase in the NMW amounted to 8.5%, which was well above the average inflation rate of 6% for the year.[26] In addition, the NMW was again set at a rate unusually close to the median wage. The median wage is the mid-point wage at which half of all employees (and would-be workers) earn more, while half of all employees (and would-be workers) earn less. In deciding the level of the NMW, most countries aim to achieve a realistic balance between the median wage and the stipulated minimum wage, as all employment at payment levels below the NMW becomes illegal.[27]

Many nations set the NMW at between 7% and 55% of the median wage.[28] The United States (US) has recently been debating whether to raise its NMW from about 25% of the median wage to 50%, which some fear could result in significant job losses.[29] In South Africa, by contrast, the NMW in 2023 already amounted to 76% of the median wage, which is exceptionally high compared to most other countries.[30] (South Africa's median wage is unusually low because its unemployment rate is so high. In the words of Donald McKay, CEO of XA Global Trade Advisers: "In SA you need to count a lot of unemployed and very poor people before you get to the middle": the midpoint between the wealthiest and the poorest.)[31]

South Africa's unusually high NMW reduces the demand for inexperienced and poorly skilled labour and encourages retrenchments among employers unable to afford it. It helps explain why the unemployment rate among inexperienced young people aged 15 to 24 is so extraordinarily elevated, standing at 60.8% in June 2024.[32] Effectively, the NMW demands that employers pay so much for their generally inadequate services that it is locking them out of the labour market. The government is well aware of this, for President Cyril Ramaphosa has acknowledged that employers incur "a loss" when they hire inexperienced employees and so have little reason to take them on.[33]

In the agricultural sector, for example, which currently provides employment to some 900,000 people, Agri SA has long warned that rising labour costs are encouraging farmers to mechanise their operations or use technology to tackle tasks that people might otherwise do.[34] (For example, says one farmer in KwaZulu-Natal, the trees on his property need constant trimming to encourage the growth of the pasture on which his dairy cows rely. He would like to employ a number of youths to keep trimming the trees, but this is too costly with the NMW at its current level. "It's got to the point where it's cheaper to hire an aeroplane and spray the trees", he says.)[35]

## *Coercive bargaining council agreements*

The Labour Relations Act (LRA) of 1995 includes a system of "blanket coverage", under which bargaining council agreements on wages and working conditions – generally reached in negotiations between big businesses and big unions – are extended by ministerial regulation to all employers within a given sector. These wage agreements then become binding on small and medium enterprises (SMEs) within the sector which have never consented to them, often cannot afford them, and may be forced into retrenchments or even liquidation as a result.[36]

The impact on entry level wages has been considerable and the consequences severe. In the metals & engineering (M&E) sector, for example, entry-level wages (including employee benefits) now stand at some R13,000 a month, which many smaller businesses cannot afford. As journalist Julian Avery reports, even larger employers in the industry now acknowledge that "the relentless push for higher entry-level wages,…inflated by decades of collective bargaining, have in effect priced out many entry-level workers, rendering them unemployable unless companies [obtain] exemptions from the collective agreement". [37]

Seeking exemptions, however, is "a cumbersome and inefficient process". It is also only a temporary solution. As Mr Avery points out, struggling smaller firms know that "the moment [they become] profitable, [they will be] forced into a wage dispensation that will eventually destroy [them]".[38]

## *Rules making dismissals difficult*

The LRA also makes it difficult to dismiss poorly performing employees, as all dismissals are automatically deemed unfair unless employers can prove that they were carried out for fair reasons and following fair procedures. Dismissed employees can easily claim reinstatement and/or significant damages from employers via the Commission for Conciliation, Mediation, and Arbitration (CCMA), established under the LRA. Employers are thus constantly at risk of being dragged before the CCMA on grounds that may be spurious but nevertheless take significant time, effort, and money to refute.[39]

The CCMA has long had an enormous workload. In 2019/20 (before the start of the prolonged Covid-19 lockdown), it had a caseload of 221,000 disputes to resolve, translating to some 885 new cases every working day. During the Covid-19 lockdown, its caseload was considerably reduced: to 154,000 disputes in 2020/21 and 156,000 the following year. However, its referrals rebounded when the economy re-opened in May 2022,[40] rising to 184,000 in the 2022/23 financial year and to 188,600 the following year.[41] Overall, the CCMA has received more than 4 million referrals between 2023 and 1996, when it began.[42]

About 52% of CCMA cases involve dismissals,[43] while the commission's decisions in this sphere are often flawed. It is nevertheless difficult (says law firm Cliffe Dekker Hofmeyr) to have the decision of a CCMA arbitrator set aside on review. Stated the law firm in 2023 (in commenting on a recent Labour Appeal Court judgment): "Reviews are not there for the taking. The threshold to meet the test for the review of a CCMA award is extremely high. The test is not that the arbitrator came to an incorrect decision. This is the basis for an appeal. The test requires that the arbitrator's decision must be a decision which no reasonable decision maker could reach on all the material that was before them."[44] Many flawed CCMA decisions thus remain unchallenged as the prospects of success are limited and the likely legal costs substantial.

Retrenchments – or dismissals for operational reasons – are also difficult to implement. If 5% or more of employees face retrenchment, consultation must continue for at least 60 days – and sometimes even longer if unions claim this is reasonably necessary or the CCMA appoints a facilitator to help reach agreement.[45] Yet speed in downsizing is often necessary to counter adverse market shifts and help businesses return to profitability.[46]

In addition, the LRA was amended in 2002 to make retrenchments automatically unfair if they arise from the takeover of a going concern. These rules are a significant barrier to mergers in the private sector. They also make it more difficult to privatise failing state-owned enterprises (SOEs), to which the ANC remains ideologically opposed.[47] If anything, the 2002 amendments seem calculated to prevent such privatisations from proceeding. Buyers of SOEs will often want to downsize staff to increase efficiency and profitability, but retrenchments in these circumstances are likely to trigger strikes and demands for reinstatement and damages.[48]

## *Vital reforms needed to labour laws*

Millions more jobs are unlikely to be generated without major reforms to these damaging labour laws. Both the National Minimum Wage Act and the LRA rules for the extension of bargaining council agreements need to be repealed altogether, so that they no longer push wages up too high. If union (and ANC) resistance looks set to scupper this change, then these rules could at least be withdrawn in all special economic zones (SEZs), where the government is generally willing to deviate from tax and other legislation to help attract direct investment. Alternatively, the government should allow people – and particularly the unemployed – to opt out of the protection of these rules for two years or so, while they build up work experience and increase their potential value to employers. Many people would prefer to work for less than South Africa's NMW than to have no income at all. Here, private employers should be allowed to take a leaf out of the government's book and pay entry level employees at the same hourly rate (R15.16, rather than R27.58) as the Expanded Public Works Programme (EPWP) is permitted to do.

Under the EPWP, the government has provided millions of people with short-term work opportunities, for which it pays a stipend of some R120 a day. This is almost half the R220 a day that the NMW Act currently requires in all other spheres. However, working in the EPWP generates few skills and provides only limited workplace experience. By contrast, if individuals were allowed to work for the EPWP wage in the private sector, they would generally receive more valuable training and experience, enhancing their prospects of moving into better jobs over time.

Rules regarding dismissals and retrenchments must also be reformed. Greater flexibility in the hiring and firing process is vital, as employers must be able to insist on good performance and swiftly adjust to peaks and valleys in demand. Employers will thus hire freely only if they can dismiss freely too. The presumption that dismissals are unfair unless the employer can prove otherwise should be removed. Instead, employers should be able to dismiss workers under the agreed notice periods included in their contracts of employment.

# Unleashing labour-intensive sectors

South Africa must also aim to reinvigorate three sectors of the economy that have traditionally employed large numbers of unskilled people. These are agriculture, mining, and tourism. All have the further advantage of being tradeable sectors with a significant capacity to generate export earnings.

## *Agriculture*

Agricultural production has doubled in volumes and value over the past 30 years, with the country's agricultural exports reaching a record level of US$13.2 billion in 2023.[49] This success mirrored similar ones in 2022, when South Africa was the world's 32nd largest agricultural exporter. It was also the only African country in the top 40 in value terms.[50]

Primary agriculture's contribution to GDP has nevertheless shrunk from 10% in the 1960s to 2.8% in 2024[51] (though it rises to 10% again when agro-processing is taken into account). This apparent decline in the importance of farming reflects the changing structure of South Africa's economy, which has seen industries such as finance, manufacturing, and transport grow more quickly.

The new minister of agriculture in the GNU, DA leader John Steenhuisen, has stressed his commitment to "maximising the sector's potential for growth and job creation", as this is crucial to South Africa's "large, unskilled, unemployed population".[52] But the sector shrank by 2% in the second quarter of 2024, mainly because of bad weather and foot-and-mouth disease.[53] Employment has declined too, dropping from 956,000 in September 2023 to 896,000 in June 2024.[54]

Agriculture nevertheless has the capacity to grow by 15% to 30% in future years, says Wandile Sihlobo, chief economist at the Agricultural Business Chamber of South Africa (Agbiz).[55] However, several binding constraints will have to be overcome if this is to be achieved.

Prime among these obstacles are poor transport logistics (roads, rail, and ports), along with growing risks to South Africa's water supply.[56] Uncertainty about the reliability of electricity persists as well, despite the country's having chalked up six months without loadshedding since March 2024.[57] Farm attacks persist, with 296 recorded in 2023 or 5.7 attacks a week.[58] Overall crime levels have also been rising,[59] undermining investor confidence. Between March and June 2024, the agricultural business confidence index dropped by 2 points to 38 points, against a 2001 benchmark of 50 points.[60] Confidence has since rebounded to 48 points, but remains in negative territory in response to persistent challenges.[61]

Land reform issues remain unresolved. On the one hand, 14.2 million hectares of land have been transferred under the government's restitution and redistribution programmes, while black South Africans have bought at least 1.9 million hectares of land on the open market without the help of the state. In addition, the government has purchased 3.2 million hectares, mainly for land redistribution purposes, which it has kept in its landholding account. According to Johann Kirsten (director of the Bureau for Economic Research at Stellenbosch University) and Mr Sihlobo (writing in his capacity as a senior fellow in agricultural economics at the university), "a total of 19.3 million hectares or...25% of all farm land previously owned by white land owners have been restored or redistributed to black South Africans or moved away to state ownership". In terms of hectares transferred, the government is moving closer to its goal of transferring 30% of commercial farmland by 2030.[62]

The overall picture is far from positive, however, as between 50% and 90% of transferred land has fallen out of production, bringing few gains to intended beneficiaries. Moreover, as Mr Sihlobo points out, the government has "amassed more than two million hectares of land", most of which is "under-utilised" because it has "never been released to beneficiaries with title deeds or long-term tradable leases". Mr Ramaphosa has recently pledged to "prioritise the transfer of state land and improve post-settlement support",[63] but similar promises have been made in the past as well.

In addition, the land reform and rural development portfolio in the GNU has been allocated to Mzwanele Nyhontso, leader of the Pan-Africanist Congress (PAC), which won a single seat in Parliament in the May 2024 election. Mr Nyhontso wants to jettison the property rights clause in the Constitution (Section 25) because "the PAC sees it as a hindrance to resolving the question of land redistribution". By allowing judges to adjudicate on land transfers aimed at reversing land dispossession, adds Mr Nyhontso, Section 25 "leaves a festering settler-colonialism matter to be scrutinised unfairly in the courts".

At the same time, however, the PAC "does not support expropriation without compensation" (EWC). It regards the state's taking of property on this basis as unfair to private owners, as well as traditional leaders holding land in customary tenure.[64]

The PAC thus voted against the Expropriation Bill of 2020 – which provides for 'nil' compensation on land expropriation in potentially wide-ranging circumstances – when Parliament adopted it in September 2023.[65] Whether Mr Ramaphosa will now sign the Bill into law in the face of pointed criticisms from the PAC, the DA, and other GNU parties remains to be seen. In the interim, draft bills providing for major water redistribution from commercial to small-scale farmers have also been put forward and may still be pursued. Yet a rapid transfer of land and water-use rights from seasoned commercial farmers to new entrants with little experience could curtail current agricultural production and undermine food security. It could also lead to major job losses in agriculture, rather than the job expansion so urgently required.

If the agriculture sector is to reach its full growth and employment potential, all these binding constraints must be overcome.  The electricity and transport sectors need to be revitalised via privatisation or public-private partnerships. Merit-based appointments must replace cadre deployment for improved public service and municipal efficiency. Damaging BEE policies must yield to race-neutral interventions aimed at effective empowerment of the disadvantaged (EED) rather than the further enrichment of a narrow political elite. Proposals to amend Section 25 and embark on large-scale expropriations of commercial farming land and water must be abandoned. In addition, though a new expropriation statute is needed, the current Bill must be comprehensively rewritten to bring it into line with the Constitution. This can be done (as the IRR has shown in drawing up a suitable alternative) by jettisoning all EWC provisions and ensuring that existing owners receive adequate compensation – including damages for resulting losses – before the state takes either ownership or possession.

A new focus for land reform is also urgently required. For decades now, the government's main aim has been to speed up the transfer of land and water-use rights irrespective of whether transferred farms remain productive thereafter. Since at least half these farms now produce at subsistence levels, if at all, the government's insistence on still more sweeping land and water transfers makes little sense. Instead, the government's main objective should be to expand the number of successful commercial farmers of all races. Towards this end, all state-owned land should be sold on favourable terms to emergent commercial farmers. These individuals must also be helped to obtain all the other inputs they need: from working capital and skills to labour, energy, infrastructure and markets. Unlike current land transfer policies, these interventions would be effective in increasing production, expanding agricultural employment, and meeting the food needs of growing populations both in South Africa and elsewhere on the continent.

## *Mining*

The mining industry has long been the bedrock of South Africa's industrialised economy and still contributes some 6.4% to GDP.[66] In 2024 it provided some 470,000 direct jobs: down 31% from 690,000 in 1994. In 2024 it also paid out R190bn in employee earnings and contributed some R48bn to tax revenues. In the first six months of the year, moreover, exports of mined minerals amounted to R575bn (almost 60% of the value of total exports in this period).[67]

South Africa still has large reserves of gold, platinum group metals, iron ore, and coal. It could also significantly increase its production of "green" metals – including copper, lithium, nickel, cobalt, and rare earth elements – currently in high demand for solar and wind energy.[68] However, the mining industry also confronts many binding constraints.

It has long struggled with failing electricity, rail, and port services (though steps are now being taken to improve these with the help of the private sector). It has also confronted rapidly rising input costs, significant fluctuations in commodity prices and exchange rates, long delays in the granting of prospecting and mining rights, worrying increases in illegal mining in some areas, and often serious skills shortages.[69]

In addition, the vesting of all mineral resources in the state under the Mineral and Petroleum Resources Development Act (MPRDA) of 2002 has stripped many mining companies of their former private ownership rights and made them more vulnerable to the government's escalating demands for the "transformation" of the industry. Increasingly onerous BEE ownership and procurement requirements have thus been introduced in three successive iterations of the mining charter. These policy shifts have eroded the security of mining titles, while undermining investor confidence and facilitating corruption.[70]

The country has thus been slipping down the ranks of a comparative index of mining investment attractiveness compiled by the Fraser Institute, a Canadian civil society organisation. According to the organisation's *2023 Annual Survey of Mining Companies,* South Africa ranks in 62nd position out of 86 mining jurisdictions assessed. Despite its enormous mineral wealth, the country's score on the composite "Investment Attractiveness Index" – which analyses both geological and policy attractiveness – has steadily declined since the MPRDA came into effect in 2004. South Africa now lags far behind Botswana (in 15th position), Morocco (in 27th place) and Zambia (in 34th) and has similar rankings to the Democratic Republic of the Congo (61st), Burkina Faso (65th) and Mali (70th).[71]

Investment in exploration has been particularly hard hit. As Mzila Mthenjani, CEO of the Minerals Council South Africa, pointed out in September 2024: "Spending on mineral exploration has averaged only R1.4bn a year since 2016." By contrast, "real fixed investment in agriculture has averaged 23 times more at R32bn a year" over the same period.[72]

That spending on mineral exploration has fallen so low is a singular indictment of South Africa's policy environment. In 2004, before the MPRDA became operative, South Africa attracted about 5% of global mining exploration expenditure. In 2023 it "accounted for just 0.92% of the global total".[73] This low figure is "a devasting statistic for what was once the greatest mining country on earth", says Paul Miller, a director of mining supply consultancy AmaranthCX.[74] South Africa's mining industry is now largely "uninvestable", adds Mr Miller. This is primarily because the industry experienced major policy shifts under the first, second and third mining charters – and no one can predict what might be contained in "mining charters four, five and six".[75]

What then can be done? The reforms required for growth and the generation of many more mining jobs are similar to those needed in agriculture. State efficiency must be improved through privatisation or public/private partnerships, by ending cadre deployment, and by shifting from damaging BEE to constructive and race-neutral EED. In addition, the mining charter must be scrapped and the MPRDA amended to make the granting of mining rights dependent on two objective and measurable criteria: technical and financial capacity. This would bring South Africa into line with Botswana's mining law, which has served that country very well. (Botswana has avoided complex and shifting BEE requirements. Instead, its emphasis on certain and objective rules has helped make it one of the most attractive mining jurisdictions in Africa and across the world.)[76]

South Africa's minerals wealth would then become a drawcard once again. With exploration and other mining investment back to pre-MPRDA levels, electricity plentiful, and logistics reliable once again, the mining sector could start living up to its potential. Mining jobs would then expand again, helping to provide employment to thousands more people – and stimulating an upsurge in economic activity both upstream and downstream from mining operations.

## *The tourism sector*

South Africa has much to offer domestic tourists as well as visitors from Africa, India, China, Europe, and elsewhere: for leisure, conferencing, shopping, and medical and other services. The sector is also jobs-intensive and could employ millions more South Africans with limited skills. However, it suffered badly during the prolonged Covid-19 lockdown and, despite rising tourist numbers in recent years, has yet to recover in full.

International arrivals in 2023 totalled 8.5 million, a 49% increase on the 2022 figure. Unfortunately, however, the 2023 figure was still 17% lower than the 2019 equivalent had been. In addition, the great majority of these visitors – 6.4 million of them – came from elsewhere in Africa. Of the remaining 2.1 million, more than half came from Europe, with substantial numbers arriving also from the United States and the United Kingdom.[77]

By contrast, arrivals from China and India were paltry, totalling less than 35,000 for China in the first 11 months of 2023 and around 73,000 for India in the same period. This matters a great deal, as China and India are two of the world's largest outbound tourism markets. In the past decade, moreover, arrivals from both countries have sharply declined. In 2013 Chinese tourists visiting South Africa peaked at 151,000, while arrivals from India peaked at 112,000. Since then the number of tourists from both countries has dropped sharply – mostly because of the damaging visa requirements that South Africa introduced.[78]

Writes IRR policy fellow Ivo Vegter: "South Africa claims to have an e-visa system in place, but it caters only for individual travellers, and takes payment only via Visa and Mastercard. These payment networks have only just entered the Chinese market, and very few Chinese travellers use them. The system also doesn't cater for group travel, which accounts for by far the majority of Chinese outbound travel arrangements. Whether for e-visas or in-person applications, South Africa requires that travellers apply in English, which is just as absurd as China expecting South Africans to apply for visas in Mandarin."[79]

By contrast, Australia has made enormous efforts to remove bureaucratic obstacles to tourism – especially from China and India – and has reaped the rewards. In 2013 its Chinese visitors totalled around 700,000, but by 2019 these arrivals had grown to 1.4 million (after which the Covid-19 lockdown intervened). Arrivals from India grew from 177,000 to 399,000 over the same period.[80]

Other factors further limit South Africa's capacity to attract international tourists from outside Africa. Fears about rising and often violent crime figure largely here. So too do concerns about crumbling roads, unreliable electricity supply, water shortages, and inadequate infrastructure. Unnecessarily complicated visa requirements (in addition to those applied in China and India) have also encouraged many prospective visitors to go elsewhere.

In 2015 South Africa introduced rules requiring all parents to produce unabridged birth certificates for children travelling with them. Single parents wanting to travel with their children also had to obtain the written permission of the other parent. These unnecessary restrictions reduced international arrivals by around 5% before they were abolished some years later.[81]

By contrast, Kenya has recently shown what can be done to simplify and encourage international tourism. As of 1st January 2024, foreign nationals, regardless of nationality, may enter Kenya without a visa for tourism or business travel for periods of up to 90 days. Travellers must instead obtain an electronic travel authorisation,[82] but this is available on arrival and at a reasonable fee of $90.[83]

According to Patricia de Lille, minister of tourism in the GNU, South Africa's visa requirements are now being significantly simplified. The country has visa waivers in place for 132 countries, allowing visa-free entry for up to 90 days for travellers from all these states. E-visa application systems have been extended to 34 countries and "substantial improvements" are to be made for "key source markets such as China and India".[84]

The damage from the Covid-19 lockdown is also being overcome. In 2019, says Ms de Lille (citing data compiled by the World Travel and Tourism Council or WTTC), tourism contributed 9.5% to South Africa's GDP. For the next three years, the sector was badly affected by the lockdown – but by 2023 its contribution to GDP had recovered to 8.2% of GDP. It is now projected to increase to 8.8% by the end of 2024 and to 10.4% of GDP by 2030.[85]

Employment numbers fell during the lockdown too, but are also now recovering.[86] According to the minister (again citing WTTC statistics), "South Africa's tourism sector employed 1.5 million people in 2023 and is expected to grow to nearly 1.7 million jobs in 2024…and to 2.2 million jobs in 2030".[87]

Foreign arrivals are increasing and are estimated, says the minister (this time citing Oxford Economics) to reach 10.7 million by the end of 2024 and 15.1 million by the end of 2030.[88] Domestic tourism is expanding too, with 38 million domestic trips recorded in 2023.[89]

The sector has considerable potential for further growth. However, expanding tourism and the jobs it provides requires several important reforms. These include effective action against crime, as well as major improvements to electricity, water, road transport and air travel. The visa system must be simplified and made to work efficiently at all times, especially for prospective short-term visitors from China and India. Encouraging more direct flights to both these countries is also a priority. At the same time, South Africa should make more of its potential in specialised spheres, ranging from medical and archeological tourism to marine and photography options.[90]

## *Growth potential in other labour-intensive sectors*

Many other sectors also have potential to absorb much more unskilled labour. For example, as the infrastructure programme expands, as set out in the *IRR Growth Strategy*,[91] a host of unskilled jobs will open up in the construction sector. Very many people will be able to find work in the energy, transport, and water sectors, for example, or in the building of schools, clinics, day hospitals, and houses.

The retail sector, with an overall market size of R1.6 trillion in 2022, has considerable growth potential too.[92] It could also be particularly valuable in expanding employment for many of the 11.6 million people living in some 530 townships. According to the 2023 South African Township Marketing Report – which gathered and evaluated data from 1,000 respondents – roughly half (51%) of the township population shops daily at “spaza” shops or small convenience stores often attached to people’s homes. The 2023 report put the number of spazas at 200,000, while its 2021 predecessor said that spaza shops contributed 5.2% to South Africa’s GDP and employed about 2.6 million people.[93]

Increasing internet and mobile phone penetration is expanding opportunities for people to both sell and buy. According to the 2023 report, some 187.4% of South Africans own mobile phones, while internet penetration has increased to 72.3% thanks largely to flexible “pay-as-you-go” options. Says the 2023 report: “In our 2022 study, we found that 70% of respondents had made an online purchase. This year we flipped the question around to find out how many were using the internet to sell rather than to buy. The response was revealing, with just over 60% of respondents saying that they, or someone they know, have sold products and services online, or begun working online.”[94]

Social media platforms such as Facebook and Instagram make it easier to advertise both goods and services. Expanding fintech options help facilitate transactions too. Says the 2023 report: “One recent development in the fintech space is PayShap, the first rapid payments platform endorsed by the South African Reserve Bank and launched with four commercial banks. It allows South Africans to instantly send money to each other using only a cell phone number.”[95]

The informal township economy offers many other opportunities too. According to author GG Alcock, a fluent isiZulu-speaker who has spent years analysing its extent, it includes:[96]

- 50,000 “kasi kos” businesses, which sell “the township burger called a ‘kota’” and a host of other takeway foods, have an annual turnover of R90bn and employ some 200,000 people;
- a “muti” market, which serves 27 million customers, employs close on 150,000 people, and has a turnover of R18bn a year;
- some 500,000 hawkers or “table-top” vendors, who sell fresh vegetables and a host of other items and turn over some R120bn a year;
- a hairdressing sector, which includes some 150,000 hair salons (often set up in people’s homes) and turns over R10bn a year in stylings and cuts alone;
- a taxi industry, which includes 250,000 minibus taxis and has an annual turnover of some R50bn;
- a rental sector, which hires out spaza shops and backrooms in people’s homes and turns over R45bn a year; and
- an auto sector, which includes some 80,000 businesses and provides tyres and sound systems, along with the servicing, panel beating and washing of cars and other vehicles.

There are also 60,000 "school mamas" selling snacks and meals outside schools, says Mr Alcock, and a host of "kasi" building and renovation businesses providing everything from bricklaying, electrical and plumbing services to gutters, burglar guards and gates. In addition, there are undertakers running funeral parlours, "event" managers hiring out tents, toilets, and chairs, and a host of "mashonisas" (money lenders). There are also more than 800,000 "stokvels" or community savings clubs, with more than 11 million members and some R50bn under their control.[97]

Overall, estimates Mr Alcock, the informal sector generates some R1 trillion a year. However, it attracts little attention, he says, and is inadequately monitored and measured. "This trade and its scale are invisible to us. We don't see its gleaming corporate headquarters. We don't recognise its multitudes, as they are in a caravan on the side of a road, [selling] a pile of veggies on a crate or [acting as] a little chemist under a highway bridge. Yet in many ways our economy is being sustained and driven by this sector. Not only are these outlets and traders paying VAT on their substantial purchases but they are also employing people and bringing in household incomes on a massive scale." [98]

How then can this vibrant sector be legalised where necessary and helped to expand? Mr Alcock recommends simplified regulations coupled with efficient implementation (red tape must work if compliance is to increase). Personal income tax thresholds may also need to be raised and amnesties for unpaid taxes introduced. In addition, he suggests, access to working capital could be enhanced if input volumes were used to estimate turnover and hence eligibility for loans. (If a vetkoek seller, for example, is buying 50 x 12.5kg bags of flour a week from a local wholesaler, this should provide a good measure of what loans she or he can afford.)[99]

Habits of non-payment should also be broken. The amount owed to municipalities, for example, has recently increased to R347bn (which helps explain why municipalities owe Eskom some R80bn).[100] Most of this R347bn is owed by households, many of which may be using unpaid electricity and water to run businesses of the kind earlier outlined. However, as municipal debt goes up, badly maintained infrastructure increasingly breaks down. Could informal entrepreneurs be induced to start paying for the electricity and water they use to help secure more reliable supplies? After decades of non-payment, this would be difficult to achieve. Municipal inefficiency and corruption would also have to be overcome, which requires an end to cadre deployment and preferential procurement rules. What might seem like a simple reform on the surface soon points to deeper problems needing also to be resolved.

The stakes are high, however. As Mr Alcock describes it, the informal economy is already an important asset abounding in entrepreneurial energy and creative solutions to market needs. The more it expands and starts abiding by constructive and reasonable rules, the more it will help raise the growth rate in the wider economy too.

This could generate a virtuous cycle in which many more jobs for unskilled people are created in areas ranging from cleaning and domestic service to security, transport, and waste collection and recycling.

# Boosting skills and productivity

South Africa remains chronically short of skills of all kinds, from acumen in leadership and management to financial, information technology, engineering, artisan and other technical skills.[101] The country's limited skills base makes it difficult for businesses to find employees with the know-how and competence they need – and is a serious constraint on investment, growth, productivity, and competitiveness. Poor skills also reduce people's chances of finding work or climbing the jobs ladder to prosperity. The skills shortage must thus speedily be overcome.

Many more skilled artisans and technicians must be produced, which requires reforms to schooling, Technical Vocational Education and Training (TVET) colleges and Sector Education and Training Authorities (SETAs). A large number of managers and professionals of different kinds are needed too. This requirement can be met by reforming university funding rules, encouraging skilled immigration, and changing race-based "transformation" rules to encourage the use of all available skills.

## *Getting basic schooling right*

The South African government spends more on Grade 1 to Grade 12 schooling than most other middle-income countries (R324.5bn or 4.4% of GDP in 2024/25).[102] However, it gets little bang for its extensive buck. Some 80% of public schools are dysfunctional, failing to impart even the fundamental skills of how to read, write, and do arithmetic. As international assessments confirm, roughly 81% of South Africa's Grade 4 pupils cannot read for meaning in any language. In addition, 61% of Grade 5 pupils are unable to add and subtract whole numbers.[103] Not surprisingly, more than half of all pupils drop out of school or fail their final examinations.[104]

Though South African schools are particularly dysfunctional, many of the problems evident here are also present in public schools in many other developing countries. Millions of parents across four continents have thus been voting with their children's feet by taking them out of free public schools and sending them to low-cost private schools instead. These schools have become ubiquitous in India, sub-Saharan Africa and elsewhere, and are often located in the slums and shantytowns where the poorest people live. Despite their limited resources, low-cost private schools generally notch up significantly better academic results than public ones. This is primarily because classes are smaller, teachers work harder, and principals have the power to hire and fire. Private schools offer many other benefits too, including effective discipline and an emphasis on hard work, honesty, and self-reliance.[105]

Private (or independent) schools have grown strongly in South Africa in the past 20 years, but the number of pupils attending them is only a small fraction (roughly 6%) of the 12.7 million learners at the country's 22,600 public schools.[106] Many parents would prefer to send their children to private schools with better academic and other results but cannot afford to do so. However, the introduction of tax-funded schooling vouchers would help them achieve this.

The voucher idea is a simple one. Instead of funding schools directly – and maintaining that funding irrespective of how poorly a school performs – the government works out the per capita amount for all children in low-income families and allocates this amount to each child's parents instead. In the words of James Tooley, vice chancellor of the University of Buckingham in the United Kingdom and a world expert on the issue: "Parents choose a school for their child, and the funding goes with the child to the school of their choice." Schools use this funding to pay their operating costs, including teacher salaries. "In the competitive market for schools that results, popular schools attract more children... Importantly, schools become accountable to parents",[107] who can withdraw their vouchers if they are dissatisfied with the performance of their chosen schools. The introduction of vouchers thus "spurs competition and innovation in schooling, leading to great improvements".[108]

Tax-funded vouchers would not increase the schooling budget, but would vastly expand parental choice: allowing families to choose between private "for-profit" schools, schools run by non-governmental organisations, and public schools with major incentives to improve their performance. In this competitive environment, all schools would do far better at imparting basic literacy and numeracy. This in turn would equip pupils to acquire valuable vocational skills, or pursue professional careers requiring a sound grounding in science, technology, economics, and mathematics. Tax-funded schooling vouchers would thus be far more effective in empowering the poor than current BEE policies will ever be (see Paper 3 in the IRR's *Blueprint for Growth* series on *Breaking the BEE Barrier to Growth*).

## *Reforming Technical Vocational Education and Training (TVET) colleges*

In 2022 South Africa had some 518,600 students enrolled in its 50 public Technical Vocational Education and Training (TVET) colleges.[109] According to the 2013 *White Paper for Post-School Education and Training*, the government wants to increase TVET enrolments to 2.5 million by 2030. (This target is significantly higher than its R1.6 million goal for university students in the same year.)[110]

TVET colleges grew out of an earlier "apprenticeship" system. In the pre-1994 period, apprentices were trained in trade-specific skills and spent nine months of the year in work placements (mostly at state-owned enterprises or SOEs), with only the remaining three months reserved for short courses at "technical colleges", as they were then known.

After 1994, however, the Department of Labour announced the termination of the apprenticeship system (though this never formally ended), while the Department of Education (DET) devised a new technical training curriculum, including a National Certificate (Vocational) or "NC(V)". Technical colleges were transformed and amalgamated into 50 Further Education and Training (FET) colleges, spread over some 260 campuses. These colleges later became TVETs. They offer vocational studies at the post-school level, as well as a vocational alternative for pupils in grades 10-12.[111]

The FET/TVET system introduced comprehensive full-time courses in place of the earlier three-month ones, colloquially known as "N" courses. However, most TVET teaching staff were poorly prepared for this major shift, as they lacked both subject and pedagogical skills. "As a result, the quality of teaching and the reliability of assessment has often been poor," says civil society organisation Equal Education.[112]

Since full-time study was now required, work placements fell away. This undermined the development of practical skills, while many TVET students had poor literacy and numeracy skills on which to build. Throughput rates at the post-school level were poor, averaging 32% at the end of the second year of study, as Equal Education reports.[113] In addition, the relatively few people who graduated battled to find jobs: often because their TVET training was poorly suited to employer needs and they had no workplace experience.[114] In 2009 the government reintroduced the former "N" courses in an attempt to meet industry demands.[115]

Among pupils seeking a "vocational" matric, the throughput rate was even lower. According to a 2015 review commissioned by the Treasury, only 2% of NC(V) students passed the NC(V) exams in the standard period of three years. On average, a mere 10.6% of students completed the programme in six years.[116]

Despite these dismal outcomes, the Heher commission – a judicial commission of inquiry chaired by Judge Arthur Heher and appointed by President Jacob Zuma to investigate the funding of tertiary education – expressed concern in its 2017 report that "the size of the TVET college sector was too small for the size and level of development of our economy". Among pupils aged 15 to 19, only 2% were enrolled at TVET colleges. By contrast, the report went on, "industrialised countries have over 6% of the youth cohort in vocational education and *so it can be argued that the TVET college sector should increase threefold*".[117]

On current trends, this is most unlikely to be achieved. According to the Heher report, the current funding model requires the government to cover 80% of the cost of both "NC(V)" and "N" courses at TVET colleges, but in practice the funding provided is much less. Explains Heher: "The DHET (Department of Higher Education and Training) funding provides for 80% of the programme costs and the student is responsible for paying the remaining 20% in the form of tuition fees."

State bursaries, provided by the National Student Financial Aid Scheme (NSFAS) are "available for needy students who are not in a position to pay the 20% class fees. The reality, however, is that in 2015 there were 664,748 students in these programmes at colleges countrywide whilst the DHET could only fund 429,638 (64%) students."[118]

In practice, DHET funding is thus less than 80% and has since diminished further. In the 2017/18 financial year, as the department told the commission, "TVETs were funded at 53% rather than 80% as per policy".[119] This suggests that the downward trend is entrenched and will not easily be reversed regardless of what the relevant rules might say. Allocations vary across provinces too, so some TVET colleges receive significantly less than others.[120]

In making his recommendations regarding funding, Judge Heher warned that the government could not afford "free" tertiary education for all. He urged the state to apply different policies to university funding on the one hand, and to TVET funding on the other. Undergraduate university students should be financed via "income-contingent loans" or "ICLs" (as further outlined below), which students would be able to obtain from commercial banks with the help of government guarantees. These loans would cover the cost of their studies, but would have to be repaid once former students were earning and their incomes reached stipulated levels.[121]

By contrast, said Judge Heher, TVET study should become "fee-free". Hence, the DHET should cover 100% of tuition fees, instead of the 80% (supposedly) on offer. "Stipends should [also] be made available through TVET colleges for needy students to cover the full cost of study." If the government could not afford this, then the income-contingent loans (ICLs) recommended for university students should be made available to TVET students too to cover their accommodation and other costs.[122]

Judge Heher's report recognised that TVET graduation rates were worse than those of universities and attributed this largely to underfunding. Said the report: "There is already a severe funding crisis, which is impacting on capacity, quality, throughput, staff ratios, infrastructure maintenance, research and on basic provision and transformation."[123] Some of the challenges confronting TVET colleges "could be solved through efficiency changes, but many required additional funding," he stressed.[124] The underlying problem was that "the system was currently skewed towards university education and would not self-correct".[125] Hence, "a massive focus on TVET colleges was required to develop the system, change perceptions and culture and make TVET colleges attractive institutions of choice".[126]

Increased funding for TVET colleges would have to be accompanied by other reforms, the report went on. "Throughput and drop-out levels in TVET colleges" needed "serious and urgent attention, with appropriate intervention in the case of underperformance". These problems would have to be overcome before any attempt at expansion was made.[127]

Curriculum reforms were urgently required to "ensure that the curriculum meets the needs of the economy and society".[128] TVET lecturers "with the required skills and industry experience" would have to be "trained and encouraged to enter the sector".

ICT and blended learning techniques were also needed to increase efficiency, improve academic support, and ensure that graduates were better prepared for the world of work.[129]

However, President Jacob Zuma ignored most of the commission's recommendations. Instead, he took the country (and the National Treasury) by surprise by announcing, at the ANC's national congress in December 2017, the introduction of "free" education at all universities, universities of technology and TVET colleges for students whose families had annual income of R350,000 or less. Government assistance would in future also be provided not as a loan (to be repaid at some point) but rather as a 100% grant.[130] This was exactly what Judge Heher had warned against, saying the fiscus could not afford it and university study was partly a private good which should be funded via income-contingent loans.

The TVET funding promised was less generous than that for university courses. The government re-affirmed its commitment to providing 80% of tuition fees at TVET colleges for needy students with family income below R350,000 a year. Such students could also obtain funding for the remaining 20% of their fees, as well as for their accommodation or travel costs.[131] The latter allowances were a significant addition, but the amounts provided for TVET students were generally less than for university ones. TVET colleges have thus continued to struggle under the funding shortages and other challenges highlighted in the Heher report.

Reforming the TVET sector requires a host of changes. Curricula must be modernised and attuned to the needs of the economy. Lecturers must be equipped with sound content knowledge and good pedagogical skills. ICT and blended learning must be used to improve the quality of teaching and learning. The importance and value of the TVET sector must constantly be stressed. Many academic disciplines in the humanities are over-subscribed, whereas sound technical skills are in high demand and short supply. In addition, the economy has already lost much of the complexity it used to have[132] – and could lose even more unless the technical skills deficit is reversed. The comparative benefits of technical education must thus be thoroughly communicated to all South Africans. Necessary foundational skills must be provided too, which requires better schools.

A better TVET funding formula must be found. To help shift demand from universities already struggling from excessive "massification" and wasteful high drop-out rates, "free" university education must be terminated. Instead, as Judge Heher proposed, all university students must fund their degrees and diplomas via income-contingent loans (ICLs) to be repaid once their earnings reach specified thresholds.

Scarce tax revenues should instead be used to fund well-crafted TVET courses offering substantial value to students and society. However, a different payment mechanism is needed to increase competition and efficiency. This funding should therefore be made available to prospective students by means of tax-funded TVET vouchers.

Under the current payment system, tax revenues flow directly to public TVET colleges and remain much the same each year regardless of how well or badly these colleges perform. Under a voucher system, by contrast, the revenue required for sound TVET courses would be divided among TVET students via tax-funded vouchers, redeemable only for TVET courses. Like the tax-funded school vouchers earlier described, TVET vouchers would follow students to the TVET colleges of their choice, which would use them to pay lecturers and meet other essential needs. TVET colleges would thus have to compete with one another to attract and retain the custom of their students. This competition would give them powerful incentives to improve their efficiency and hold down their costs.

The voucher system would also encourage many more private technical colleges to enter into this competition. At present the country has 50 public TVET colleges and some 350 private colleges, currently catering for a mere 86,000 students.[133] However, state and NSFAS funding goes solely to public TVET institutions[134] of generally dubious quality. In addition, the NSFAS payment system (covering 20% of fees plus accommodation or travel allowances) is inefficient and sometimes corrupt. By contrast, shifting to a TVET voucher system would bypass departmental bureaucrats and the NSFAS intermediary. It would also encourage the establishment of many more private colleges seeking to meet demand in the most efficient way. Some of these new private colleges might be owned by non-governmental organisations aiming to help meet community needs. Most, however, would be owned by "for-profit" companies or "edupreneurs" competing to provide the most cost-effective TVET courses and make a living too.

## *Scrapping wasteful Sector Education and Training Authorities (SETAs)*

In the apartheid era employers were given tax incentives for on-the-job training[135] and business spent an average of 1% of payroll on training initiatives of their own choice. However, when the ANC government took power, it criticised this system, saying that tax incentives were open to abuse, that many employers provided no training at all, and the the amount spent by business on training was too low by international standards. (The norm for employee training was 4% of payroll in most industrialised countries, said the National Productivity Institute.)[136]

Labour minister Tito Mboweni introduced a new system, under which all employers with annual payrolls exceeding R500,000 are obliged to pay a levy of 1% of payroll into a skills development fund. From this, 20% goes to a "national skills fund" intended to provide training for small business and the unemployed.

The remaining 80% goes to 21 (down from 25) Sector Education and Training Authorities (SETAs) established under the Skills Development Act of 1998. Employers must apply to these SETAs to recover the costs of the approved training they have provided for their employees. Mr Mboweni said the new system would ensure that all employers contributed to skills development and usher in a "skills revolution".

However, employers soon complained that the system was too cumbersome and bureaucratic. Levies were being paid and SETAs were accumulating revenue, but the process of applying for SETA approval for proposed training was so complex that small businesses, in particular, found it difficult to navigate their way through the requirements. Hence, much of the money supposed to be dedicated to training was languishing unspent in SETA coffers. In addition, the "learnership" system administered by the SETAs was no substitute for the old apprenticeship system under which tens of thousands of artisans had successfully been trained.

SETAs have various functions. They are supposed, for instance, to help unemployed people enter into learnerships and ensure that at least 50% of them successfully complete their training. However, a 2008 review of SETA performance by the Democratic Alliance (DA) found that some SETAs had little or no information on their completion rates, while most had missed the 50% target. SETAs often took in a large number of learners, trumpeting this as a particular achievement, but many learners never completed their courses.[137]

SETAs are also supposed to help people already in employment enhance their skills and are expected to ensure that 50% of these workers successfully complete their training. But in 2006/07, only six SETAs fulfilled this target, while most had so little data available that assessing their performance was impossible. Again, enrolment targets were often exceeded but completion rates generally fell considerably short.[138]

SETA performance has since remained dismal. In 2013 an article in the *South African Journal of Business Management* reported that only one SETA out of 21 was efficient in meeting its objectives, while the majority recorded poor outputs compared to inputs. In addition, most of them (15 out of 21) seemed more intent on building up their cash reserves than on spending the revenue allocated to them on their training tasks.[139]

Another 2013 report, this time by the Human Resource Development Council (HRDC), found that SETAs battled to identify training needs and develop relevant training courses and thus had "little impact on skills development". Though they had managed to place "large numbers" of people in learnerships over the years, the relatively few who had completed these courses still lacked the skills in demand in the workplace. Employers complained that the people emerging from both schools and post-school training were unemployable because they lacked "both fundamental competencies and the qualifications required by the workplace".[140]

In 2016 the Department of Higher Education and Training (which had assumed responsibility for SETAs in 2009) reported that SETAs had "poor research capacity, poor data management, a lack of skills development expertise, and weak leadership and governance".[141]

In 2021 a report by the Centre for Development and Enterprise (CDE), a civil society organisation, added that the tax revenues allocated to the SETAs were mostly being wasted: "In just over five years (2011-2016), financial losses due to SETA trainees and learners not completing their programmes totalled R13.4 billion, 44 percent of the R30.8 billion allocated. All that money comes from businesses contributing 1 percent of their payroll to the skills development fund. Yet these businesses are receiving almost no value for their money."[142]

Reforms have repeatedly been promised but have yet to be delivered. Instead, the government has added to the bureaucratic complexity of the SETA system by transferring responsibility for accrediting both training courses and service providers to yet another state institution: the Quality Council for Trades and Occupations (QCTO), established in 2010.[143] This transfer was finalised on 30th June 2024[144] The 21 SETAs nevertheless remain in place, while trainees already enrolled on SETA courses have until June 2027 to complete them. However, the courses offered by each SETA will be reduced, while all SETA training material will be replaced by new QCTO material, which will have to be accredited by the QCTO before it is distributed.[145]

The QCTO accreditation system will supposedly provide training more relevant to varying needs within each sector. QCTO qualifications will be standardised too, so that a qualification obtained in one sector is recognised in others.[146] The quality of training will be improved through the appointment of workplace mentors to "oversee the workplace experience". In addition, external examinations (grandly entitled "External Integrated Summative Assessment" or "EISA" exams) will help assess the value of the training provided.[147]

Another bureaucratic layer has been added to an already complex and wasteful system, while many more QCTO staff may in time be appointed to carry out its accreditation, mentoring, and assessment tasks. The real need, however, is to scrap the entire SETA and QCTO system. Employers do not need a complex, bureaucratic, and wasteful "intermediary" system to determine their training needs and then find ways to meet them.[148] Instead, they should once again be given tax credits for providing their employees with the "on-the-job" training they see as best suited to their needs.

## *Changing the university funding formula*

South African universities have lost many of the "four essential freedoms" intrinsic to academic autonomy. As stressed by US Supreme Court Justice Felix Frankfurter in 1957, a university must be able "to determine for itself on academic grounds who may teach, what may be taught, how it shall be taught, and who may be admitted to study."[149] All these freedoms have been eroded, however, by the government's emphasis on "decolonising" curricula, as well as its race-based targets for student admissions and staff appointments.

Autonomy has also been eroded by the current university funding formula. "Free" education for hundreds of thousands of poorly prepared students – most of whom drop out without graduating – increases classroom sizes and erodes academic standards.

Given low throughput rates, it is also costly and wasteful. In addition, it is likely to breed bitter disappointment among those whose hopes of gaining credible qualifications and well-paying jobs have been raised and then dashed.

Since 1994 the government has almost doubled the number of university students. Including universities of technology, the overall number of students has risen from 575,000 in 1995 to some 1 million in 2023.[150] Expansion is still proceeding, for the *2013 White Paper for Post-School Education and Training seeks* to increase student enrolment to 1.6 million by 2030.[151]

Rapid massification has made for declining quality. The state's subsidy to universities has long been low by international standards and has failed to keep pace with rising student numbers. State funding to universities has thus steadily decreased on a per capita basis.[152] In addition, "the system has provided only some 5 000 permanent new staff to cater for 500 000 new students", as the DA describes it.[153]

More seriously still, largely dysfunctional schools are generally failing to equip students for the rigours of university study. The upshot is that only some 18% of students graduate with a three-year undergraduate degree within three years (the "regulation period").[154] Completion rates within regulation periods for three-year under-graduate degrees in STEM fields are particularly low: standing in 2022 at 14% in physical sciences, 15% in computer and information sciences, 19% in engineering, and 11% in mathematics and statistics.[155]

Writes Professor Jonathan Jansen of the University of Stellenbosch: "The low standards of the school system have infiltrated universities. It was inevitable, for students who have to scale a low passing hurdle [can easily] obtain a so-called Bachelor's pass.[156] It should not surprise therefore that more than half of first-year enrolments fail or drop out, and only a third of...students graduate in five years. The main reason for this state of affairs is the poor academic preparation of incoming students."[157]

The state's funding formula also puts pressure on universities to drop their standards, as funding depends on both enrolment and throughput. Hence, as Professor Jansen notes, over-burdened academic staff commonly use multiple-choice questions instead of asking for analytical essays. Some disclose too much about the scope of examinations, allowing students to focus on relatively small portions of their curricula. In these circumstances, he warns, students do not need the ability to analyse or even to write coherently, while universities frequently push them through in any event.[158]

Instead of trying to overcome these problems, the government has focused on providing "free" university education to all poor and working-class students. In December 2017 – after three years of increasingly violent #FeesMustFall protests costing universities some R800m in arson attacks and other damage to property[159] – President Zuma announced that free education would be provided in 2018 to all prospective first-year students with annual household incomes below R350,000.

No provision had been made in the budget for this unexpected pledge,[160] which was difficult for the fiscus to afford at a time of rapidly rising state debt.

In 2018 some R57bn was duly allocated to free university education over some three years. Much of this revenue was obtained via a 1 percentage point increase in the VAT rate, thereby requiring the poor to pay a significant price for the fee-free education of the relative elite. In addition, hundreds of thousands of students were encouraged to believe that free access to university would bring them credible degrees and well-paying jobs. These hopes have remained largely unmet, however.

What, then, is to be done? Much of the solution, as earlier indicated, lies in the Heher commission's recommendation that all university students should be funded via income-contingent loans, to be repaid by those students when their earnings reach specified levels. However, some important modifications of the Heher proposals are also needed for maximum benefit.

Requirements for university admission (for "a bachelor's pass", as the government calls it) must be considerably tightened up to eliminate poorly prepared students with few prospects of success. Matriculants with less than a "university entrance pass", set at a realistic level, must instead find sound training through reformed TVET and other colleges.

Prospective university students must obtain their income-contingent loans (ICLs) from commercial banks, which must assess the likely workplace demand for the degrees they wish to obtain. Loans must be sufficient to cover the full costs of study, including tuition, accommodation, subsistence stipends, and travel. No means test would apply and ICLs should be equally available to both the poor and the rich.[161] However, as Heher recommends, "strict academic requirements for *continued access* to an ICL should be introduced. This should be monitored from as early as the first module or semester of the first year".[162]

Bank loans should be made available to students in the form of vouchers that follow them to the public and private universities of their choice. This voucher system will again increase competition, helping to keep fees down and performance up.

The government must guarantee the loans provided to students, so reducing the risk to the banks. Repayment of capital and interest, generally set at commercial rates, will begin when the earnings of former students reach specified thresholds. The repayments due will be collected each year by the South African Revenue Service (SARS) and paid over to the relevant banks. As loans are repaid, government guarantees on them will be reduced. In addition, as Heher suggests, "students awarded scholarships or bursaries from other sources should be credited with the amount by SARS against cession of the benefits".[163] Such scholarships could be used, by either the government or the private sector, to encourage outstanding students to enrol for degrees of particular value to society.

ICL beneficiaries wanting to emigrate would have to pay back outstanding balances before leaving. Wealthier graduates who chose to pay back in shorter times than the 20-year norm (to save on interest payments) would pay additional premiums to help cover the loans made to people who might never reach the earnings thresholds. Loan amounts still outstanding after, say, 30 years would be written off. In general, however, high rates of repayment would be achieved through effective collection measures.[164]

Similar ICLs have already been introduced in several other countries. This has generally been done in recognition of the fact that university education is both a public and a private good.[165] Sound university education increases productivity and helps grow the economy, which is a public good. But graduates with skills in high demand benefit from increased earnings throughout their careers, which is a private advantage. The ICL approach is thus widely seen as fair. It expects those who can afford to pay to do just that: whether immediately or in the future. But it also increases access, as means tests do not apply and, as Heher says, "no one is refused loans on grounds other than normal university admission criteria".[166]

Changes to government subsidies to universities are needed too. As Heher recommended, these subsidies should be increased to 1% of GDP,[167] which is more in line with international norms. This increase will also be more affordable for the fiscus, as the government will no longer be financing student fees. However, the increased subsidy should be available to private universities as well as public ones, as at present. The voucher idea should also be brought into play. Instead of the state paying subsidies directly to universities – and with little regard for their performance – the relevant subsidy amounts should be divided among all university students and included in their vouchers. These additional sums would also then follow students to the universities of their choice, giving those institutions yet more reason to enhance their efficiency and contain their costs.

## *Importing skills from elsewhere*

Improving the quality of South Africa's schooling and tertiary education will inevitably take time. However, better skills are immediately required to increase productivity, quicken the growth rate, and generate more jobs. The only swift solution is for South Africa to import the skills it needs – but current policies make this extremely difficult to do.

Progress in streamlining the visa system has been erratic. One important change came in 2011, however, when the Immigration Act was amended to do away with the "quota work permit" system, under which the government had not only specified the skills it wanted but also stipulated the maximum number of visas that might be issued in each category. In its place came a "critical skills visa" system with more flexibility.[168] However, "the identification of which skills were critical remained as absurd as before", commented Ann Bernstein, CDE director. The critical skills list also changes from time to time, raising questions as to whether skills permitted at one point will still be allowed in the future.[169]

By April 2023 the backlog in the processing of visas of all kinds, including critical skills ones, had risen to some 75,000. Some of the applications in issue dated back to 2016. Commented *Business Day* in an editorial: "SA has an unemployment crisis. It also has a skills crisis. This toxic combination is slowly poisoning the economy and raising the risk of a democracy-threatening social explosion." Many skilled South Africans were also emigrating, exacerbating the skills crisis. Yet the government was still "making it unreasonably difficult for those who have the skills we need, to live and work in this country".[170]

Similar criticism came later in the year from Dr Jakkie Cilliers, chairman of the board of the Institute of Security Studies (ISS), a civil society organisation. In the six years from 2015 to 2021, said Dr Cilliers, "only 16,097 critical skilled-worker permits were approved" by the Department of Home Affairs. More than half (52%) were rejected, while business visas were rejected at an even higher rate (68%) over the same period.[171]

Commented Dr Cilliers: "Instead of taking eight weeks, critical skills applications can take up to a year or more… Skilled inward migrants are critical for an economy and [make] a very positive contribution in almost every aspect: job creation, knowledge transition and so on. Skilled inward migrants also bring foreign capital." In addition, South Africa "lacked skills in almost every dimension" – and yet the government's response was still to "try to keep skilled foreigners out" rather than welcoming them in.[172]

The chief executive of Business Leadership South Africa, Busi Mavuso, also complained about the "staggering" backlog in dealing with visa applications, which was a major constraint on growth. Said Ms Mavuso: "The fact that companies can't fill the positions means they can't invest and expand. Expansion would enable much further employment, more tax to be generated, and the overall business environment to be greatly improved."[173]

Various reforms were pledged in late 2023 and early 2024. The then minister of home affairs, Dr Aaron Motsoaledi, promised that the visa backlog would be resolved by June 2024. A "Trusted Employer Scheme", first proposed six years earlier, was mooted as a way of simplifying visa applications for the relatively few large employers able to fulfil the strict criteria for participation.[174] An updated critical skills list was issued early in 2024, while a new "points system" was proposed. However, the gazetting of the regulations providing for this system was botched (they were gazetted before the period for public consultation had ended), which meant they had to be withdrawn.[175] Hence, little was achieved before the May 2024 election and the establishment of the GNU. The new DA home affairs minister, Dr Leon Schreiber, has since promised to clear the visa backlog by the end of 2024 and to increase efficiency by digitising the work of the department.[176]

Such changes are important, but do not go nearly far enough. The key need is to abolish the critical skills list and allow companies to bring in all the people they need with little, if any, prior investigation. Employers will have carefully vetted incumbent and prospective staff – particularly at senior levels – and their scrutiny should be accepted as sufficient.

In addition, it may be necessary for South Africa to start welcoming all legal immigrants with credible post-school qualifications. Home Affairs must greatly improve its performance too, and digitisation will help significantly. So too will ending cadre deployment, appointing on merit, stamping out tender fraud, and holding all wrongdoers accountable.

## *Shifting from BEE to EED to encourage the use of all available skills*

"It doesn't matter if the cat is white or black so long as it catches mice", Deng Xiaoping, paramount leader of the Chinese Communist Party, famously said as China was embarking on major economic reforms. The same approach must now apply in South Africa, where all skills available should be used to the full, regardless of the racial quotas required by the Employment Equity Act of 1998 and black economic empowerment (BEE) rules.

The ANC has long tried to convince black South Africans that their advancement depends solely on the racial quotas it compels most employers to fulfil. However, this is not true. On the contrary, the demand for black skills has been rising steadily since 1970, when it first became apparent – after a decade of robust growth – that the white population was too small to meet the needs of the economy.

The ANC also seems to see South Africa's economy as a static pie, which must be divided up among the different racial groups according to their "share" of the overall population. This too is absurd. The more the economy grows, the more jobs there will be for people of all races. And if the growth rate can be raised substantially – to 3%, 5% and finally to 7% of GDP – the demand for additional skills of every kind will be enormous.

An efficient pipeline for generating those skills must be developed, as earlier outlined. The country must also take full advantage of all the skills it already has. Instead, racial quotas have long been used to exclude valuable and scarce skills from most public entities. Those quotas are now being ramped up so that scarce skills can be excluded from the private sector too. However, when vital skills are in such short supply, refusing to use them makes no sense at all.

Racial quotas also harm the great majority of poor black South Africans. Most of the truly disadvantaged lack the skills required for senior appointments or preferential tenders, which go instead to a relatively small and often politically connected elite. But all South Africans – and especially the poorest – are badly damaged by increasing state dysfunctionality and diminished investment, growth, and jobs.

Better ways to empower the disadvantaged are urgently required, as the IRR has previously outlined in an earlier Blueprint paper: *Breaking the BEE Barrier to Growth*. Those with vested interests in the current harmful rules will resist any change from BEE to an effective and race-neutral system of Economic Empowerment for the Disadvantaged (EED).

However, as IRR opinion polls over many years have shown, the great majority of South Africans want the growth, jobs, tax-funded vouchers and bottom-up empowerment that EED offers. Most are also well aware that racial quotas will never help them get ahead. With the GNU in place and committed to inclusive growth, the time has come to abandon the race-based approach that helps the few and harms the many – and to make the vital shift from BEE to EED.

# Thinking out of the box

For 30 years, the ANC, along with its trade union and communist allies, has been intent on expanding and entrenching state control over the economy and society. The negative results are everywhere apparent. They manifest in paltry growth rates and mammoth unemployment ones. They show themselves in faltering farming confidence, a shrinking mining industry, a tourism sector hobbled by harmful visa rules, and an informal economy that remains dynamic by keeping outside the asphyxiating web of regulation.

The long-promised "skills revolution" has not been achieved. Instead, despite major spending on education, most public schools are dysfunctional, TVETs impart few useful skills, and SETAs do more for the bureaucrats that run them than the businesses they are supposed to serve. Universities have lost much of their autonomy to cadres intent on pursuing a statist ideology regardless of the costs to struggling students or an economy starved of vital skills. At the same time, skills that could be imported are kept out. And home-grown skills are increasingly excluded to meet racial quotas that help a small elite but harm the great majority.

The time has come to think outside the box. The country needs to go beyond the statist ideology in which the ANC alliance has steeped South Africa. In all the spheres earlier outlined, state intervention is the problem, not the solution. The state must, of course, collect the taxes currently needed to help fund education and fulfil other essential needs. But the state – especially a state this inefficient and corrupt – need not be involved in delivery as well.

Centralised and top-down state delivery empowers bureaucrats and encourages more regulation. It stifles competition and excludes innovation. Yet competition and innovation are vital to efficiency and any impetus to deliver to a higher standard and at a lower cost.

Tax-funded vouchers provide a link between necessary state funding and vital competition in delivery. Since vouchers go to individuals and their families, they also give them the capacity to choose between providers vying for their custom. Little could be more empowering for people long mired in poverty and confined to the margins of society.

The heavy hand of the state is the common denominator in current obstacles to growth, employment and skills. That heavy hand must be removed. Its debilitating weight has been bearing down on employers and institutions for decades. It is time for the GNU to call a halt – and to start lifting all the burdens the heavy hand has long imposed.

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