



# THE SETAS AND S-SYSTEM SKILLS DEVELOPMENT IN SOUTH AFRICA AND BRAZIL: A TRANSFORMATIVE SOCIAL POLICY PERSPECTIVE

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## Abstract

**Relevance.** The African Union declared 2024 the Year of Education, Educating an African Fit for the 21<sup>st</sup> Century and the Agenda 2063 aspiration seeks to catalyse an education and skills revolution for Africa's industrialisation. This places Technical and Vocational Education and Training at the centre in skills development on the continent. As part of their endogenous initiatives at improving skills, knowledge and abilities desired for work and enhance industrial competitiveness South Africa and Brazil instituted the SETAs system and the S-System, respectively aimed at skills formation and human capital development.

**Aim.** The two BRICS countries of South Africa and Brazil, through Acts of Parliament, institutionalised skills development programs which had seen them emerge as leading economies on their respective continents. What key lessons can be drawn for other African countries in their quest for industrialisation in the AU Year of the Year of Education to foster the relevant and competitive skills needed for the 21st century.

**Methods.** The case studies of the S-system of Brazil and the SETAs system of South Africa are presented using a case study approach. Examining the SETAs and S-systems using a Transformative Social Policy framework, the paper adopts a case study approach seeks to answer the following questions: (1) what kind of institutional linkages and coordination between industry/business and skills/education training institutions need to be in place for adequate and appropriate human capital formation in Africa? (2) what are the appropriate funding mechanisms for human capital development suitable for African countries to adopt? (3) What coordination and facilitating role should be adopted by states in African countries to facilitate industry/training institutional linkages?

**Results and conclusions.** Key finding indicates that while the SETAs in South Africa are widely recognised by employers and give holders a big advantage in securing employment, TVET-market coordination, regional coordination for area-specific industrialisation and appropriate skills funding mechanism are key for competitive skills development and provide practical and policy lessons for African governments.

**Keywords:** *transformative social policy, skills development, SETAs, S-System, South Africa, Brazil.*

**Introduction.** The high growth rates and substantial poverty reduction experienced in Africa in the past two decades (Beegle, Christiaensen, Dabalen & Gaddis, 2016) are unlikely to be sustainable in the longer term since they have not been based on industrialisation, which barely had taken root in many African countries (Asche, & Grimm, 2017, p. 1). Besides South Africa, the most industrialised African country, and barely a few others, large-scale industrial manufacturing is in a process

of de-industrialisation from an already low baseline (Arbache, *et al.*, 2008) or practically non-existent in many countries. Thus, for Africa to grow to the next level, it is critical to examine the reasons why the continent does not seem able to gather momentum for rapid and widespread industrialisation with many economies remaining at a subsistence level and not moving beyond. Many reasons have been proffered such as perceived lack of political stability in Africa,

the need for proper basic infrastructure- power, water, logistics and connectivity, over-reliance on natural resources and unfavourable terms of trade (Arbache, *et al.*, 2008). While these are important, the paper, learning from East Asian experiences, places at the centre the absence of adequate and appropriate stock of human capital critical for successful and sustained industrialisation and economic growth (Yulianti, & Fitriansyah, 2024).

Although a large pool of labour is readily available in Africa, successful, sustained and competitive industrialisation in the 21<sup>st</sup> century requires a relatively educated and skilled workforce (Yulianti, & Fitriansyah, 2024, p. 42). Unlike in the past, modern factories require highly automated and skilled workers to operate and maintain the machines, while the production operations may be non-stop. Coupled with relatively low level of digitalisation and limited digital maturity and sophistication of much of the population in Africa, technology adoption is comparatively lower relative to other regions. As a result, the ability of the local workforce to understand the various complex processes to manipulate and operate digital software running the machines, will have to be constantly enhanced through training and development. In recognition of the above, one of the aspiration of the African Union Agenda 2063 is to “catalyse an education and skills revolution and actively promote science, technology, research and innovation, with the ultimate aim of building knowledge, human resources, capabilities and skills for Africa’s future” (AU Agenda 2063, p. 102). To operationalise this aspiration two important continental policy documents are of particular importance. The first is the *Continental Strategy for Technical and Vocational Education and Training (TVET) to Foster Youth Employment* and the *African Union Plan of Action for the African Decade for Technical, Professional, Entrepreneurial Training and Youth Employment (2019-2028)*.

**Goal.** The two BRICS countries of South Africa and Brazil, through Acts of Parliament, institutionalised skills development programs which had seen them emerge as leading economies on their respective continents. What key lessons can be drawn for other African countries in their quest for industrialisation in the AU Year of the Year of Education to foster the relevant and competitive skills needed for the 21<sup>st</sup> century.

**Sources and Materials.** In this twenty-first century, the availability of sufficient quality human resources is a major pre-requisite for social and economic transformation and competitiveness. For SSA, its current state of under-development and the struggle to pursue economic transformation is not only due to lack of capital but more importantly, lack of adequate knowledge and skills to enhance productivity and promote innovative-driven growth relative to other regions of the world (Baah-Boateng, 2016). Amartya Sen (1999) argues that ‘well-being’ involves more than just increasing contentment or reducing suffering but involves increasing the capacity of human beings to do the things they would want to do (p. 18). In the same vein, modern growth economics suggest that a society’s ability to produce the goods and services it needs and want is dependent on the exercise of the ‘human capabilities’ of its people. In contrast to ‘accumulationist’ models which conceptualise accumulation of capital as the drivers of growth and proxies for capabilities as dependent variables, modern growth economics argue that human improvements in education, health, training and so on, must precede growth if the latter is to be sustained (Evans, 2014, p. 35). East Asian Tigers effectively harnessed their social policies for human capital formation, technological innovation and industrial competitiveness and provide invaluable lessons for Africa.

Human capital is defined by Baptiste (2001) as the knowledge, attitudes and skills that are developed and valued primarily for their economically productive potential- the productive capacities of human beings as income generating agents in an economy. Abramovitz (1995) use the term ‘social capability’ to capture the attributes and qualities of people and institutions that condition a society’s capability selectively to adopt, adapt and improve technologies. Such capabilities are embodied in people not machines (Hujo, 2014). Formation of good human capital and institutions for generating, absorbing and adapting innovative technologies is perhaps the most crucial area of transformative social policy as it is the basic institutional condition for enhancing human capacities and contributing to successful industrialization (Chung, 2014, p. 116; Mkandawire, 2014, p. 26).

During German’s industrialisation from the mid-1960’s its government began to build a vocation

education and training system which today account for its superior industrial performance (Chung, 2014, p. 116). These institutional arrangements are responsible for collective provision of a pool of high portable skills that all employers can share. Technical Vocational Education and Training (TVET) are learning pathways which aim to equip people with knowledge, know-how, and/or competencies required in different occupations or labour markets (Hujo, 2014). As such TVETs are a powerful means of empowering people develop their full capabilities and increase productivity. While these ideas are presented as somehow new, it should be stressed that the most redistributive regimes of Northern Europe have tended to be the most conscious of the productive role of social policy. This is evidenced by literature on the welfare production regimes (WPR) Estevez-Abe, Iversen & Soskice, 2001, p. 146) or Hall and Soskice (2001) varieties of capitalism.

In the case of East Asian tigers, strong government control over institutions responsible for education and training account for the superior performance of their economies relative to other developing regions (see also Yulianti & Fitriansyah, 2024). Although the private sector played a part, the approach of these countries was not a *laissez-faire* one. The state through direct provision of education facilities and regulation, played a significant leading role in the entire process (Mkandawire & Yi, 2014, pp. 27-28). Key questions for African governments and policy makers relate to the kind of mechanisms and market co-ordination necessary for effective delivery of capability expanding services, the kind of state(s) needed for effective and appropriate delivery of capability expansion services necessary for industrial development and competitiveness and the kind of linkages between social and economic policies needed to turn this into a reality.

Two parallel developments in the systematic analysis of advanced capitalist economies, on the one hand, Esping-Andersen (1990) political economies of welfare states and Hall & Soskice (2001) varieties of capitalism have advanced understanding of production regimes together with their institutional configurations and linkages (Lee, 2014, p. 93). Production regimes highlights the synergies among various policies and the institutional complementarity of rules and regulations that govern the internal functioning and mutual coordination of activities of

various actors within national policy framework (Hall & Soskice, 2001). Coming out prominently in the varieties of capitalism literature is the notion of 'skills formation and training regimes' defined as the ensemble of institutions and specialised actors engaged in the organization and provision of education and training. This indicate that skills formation and training regimes are often embedded in much larger welfare (social) policy concerns with ramifications beyond the economic but also social and political transformation (Mkandawire, 2007, p. 15).

Two 'production regimes' are identifiable in the varieties of capitalism literature. First is the liberal market economies characteristic of 6 countries namely: USA, UK, Australia, Canada, New Zealand and Ireland. Second, are co-ordinated market economies characteristic of 10 countries namely: Germany, Japan, Switzerland, Netherlands, Belgium, Sweden, Denmark, Norway, Finland and Austria (Halls & Soskice, 2000, p. 20). The former is characterised by less institutional support, low skill production with education and training, including vocational training provided by companies (in-house training). Education programmes from secondary to university level, even in business and engineering stress 'certification' in general rather than acquisition of more specialised competencies (Estevez-Abe et al., 2001). On the other hand, are co-ordinated market economies exemplified by many northern Europe nations including Japan and South Korea in which co-ordination is depends on business associations and trade unions organized primarily along sectoral lines, giving rise to vocational training schemes that cultivate industry-specific skills (Lee, 2014, p. 93). Many firms in co-ordinated market economies employ production strategies that rely on highly skilled labour force. This extensive use of labour with high industrial-specific or firm-specific skills, make them depend on education and training systems capable of providing workers with such skills through public subsidized and private financed vocational training systems. In these economies, business work closely with public officials to determine where firm competencies can be improved and orchestrating public subsidized programmes to do so (Halls & Soskice, 2001, pp. 25-26). These countries represent the group of countries most conscious of the productive role of social policy unlike those characterised by liberal market economies.

Evident in this literature is that economic policies, commonly referred as “growth policies”, and the kind of capability-enhancing efforts that have been traditionally called ‘social policy’ or ‘welfare policy’ are two-sides of the same coin (Evans, 2014, p. 37; Lee, 2014, p. 95). The literature emphasizes the productive aspects of social policy, such as investment in human capital. Paradoxically, the importance of social policy as an integral element of the historical development of advanced countries has often been neglected and had featured far less prominently in the development strategies recommended to Africa. Recommended are palliative forms of social policy programmes (family cash transfers and public works programmes) as remedial action against the adverse effects of economic policies, or market-led growth (Yi, 2015, p. 2). In the context of developing countries from which this paper seeks to draw lessons to accelerate industrialisation for job creation and poverty reduction, Brazil and South Africa have attempted two distinct but similar skills formation programmes as part of their efforts at improving skills, knowledge and abilities desired for work and enhance their industrial competitiveness as described in the proceeding sections.

**The Methods.** The case studies of the S-system of Brazil and the SETAs system of South Africa are presented using a case study approach. The S-system of Brazil. Brazil is ranked in the top five world automobile manufacturers and boasts of the third largest commercial airplanes factory in the world suggesting that something must have been done right to prepare the country for its industrial revolution (De Moura Castro, undated). The period saw the establishment of the S-System currently amongst the top 3 institutions in the World Skills Competition (De Moura Castro, undated). The S-System, part of the broader Technical Vocational Education and Training (TVET) landscape in Brazil, is a collection of nine separate initiatives created progressively over the years aiming to prepare workers through supplying them with the skills needed in the industry as well as other sectors of the economy (Barria & Klasen, 2014, p. 8). The Brazilian S-System of vocational training is a private non-profit making organization, managed and led by industrial associations and has been historically considered the leading institution providing professional skills contributing to school-work transition in Brazil

(UNESCO, 2022, p. 154). Scarcity of skilled workers in Brazil had generated the necessity of implementing a vocational training system as there was lack of programmes to train skilled workers in the country. Modelled in line with the Germany and Swiss vocational and apprenticeship training models, the government of Brazil created the first institution of the S-System- the SENAI (National Service for Industrial Training) in 1992 and subsequently seven others viz. SENAL (National Commercial Apprenticeship Service), SENAC (National Service for Commercial Training), SESC (National Service for Business Training), SESI (Social Service for Industry), SENAR (National Service for Rural Training), SENAT (National Service for the Transport Sector), SEBRAE (Brazilian Service for Assistance to Micro and Small Companies) and SESCOOP (National Service for Co-operative Learning) (Bulunga, 2017; Wilson, 2006).

The institutions comprising the S-System are private organisations that work in collaboration with government, labour and the business sector to ensure that both national industrial development goals and business training needs are met. The financing mechanism proved to be a balance of market-driven component, through government regulation stipulating an industrial tax of one percent on all payrolls serving as the basis of the contribution to the social security system exempt from federal taxes, with the stable public funding (UNESCO, 2022, 154). The private industrial levy is collected by the National Institute of Social Security with the levies and incomes going directly to training corporations (Barria & Klasen, 2014, p. 12). As such the various training service organisations receive payroll contributions which vary according to the specific industries. The institutions are mandated to allocate two-thirds of their revenue from the levies to provision of education and training (Bulunga, 2017). In terms of its structure, the S-System is administered at national and federal state levels covering the whole country in terms of geographical distribution with industry and institutions partnering at local level to ensure relevance of regional training programmes. As such it is present in the 27 federal states of the country (Barria & Klasen, 2014, p. 36).

The SETAs System of South Africa. To survive in a highly competitive global market, policy

experts in South Africa agreed that the country required little short of a skills revolution which led to the promulgation the Skills Development Act of 1998 (Lundall, 2003, p. 2). The Act led to the formation of Sector Education and Training Authority (SETA) system, a vocational skills training system in South Africa with a mandate of developing sector skills plans, promoting learnership, internship, unit-based skills programmes, apprenticeship and distribution of the skills development levy paid by employers (OECD, 2017, p. 32). Just as the Brazilian S-System, the SETA system in South Africa is made up of 21 SETAs each with its own clearly defined sector and sub-sectors made up of a variety of economic activities that are related and closely linked. Each SETA is responsible for both the private and public sectors of the economy within their own sector.

Covering every industry and occupation in South Africa, the SETAs include: MerSETA (Manufacturing Engineering and Related Services SETA); Chieta SETA (Chemical Industries SETA); FP&M SETA (Fibre Processing and Manufacturing SETA); AgriSETA (Agricultural SETA); BANK SETA (Banking SETA); Ceta SETA (Construction SETA); Csth SETA (Culture Arts, Tourism, Hospitality and Sports SETA); ESETA (Energy SETA); Etdp SETA (Education Training and Development Practices SETA); (Fasset SETA (Financial, Accounting, Consulting and other Financial Services SETA); FOOD BEV SETA (Food and Beverage Manufacturing Industry SETA); Hseta (Health and Welfare SETA); InSETA (Insurance SETA); LGSETA (Local Government SETA); MictSETA (Media, Advertising, Information and Communication Technology SETA); Mqa SETA (Mining Qualifications SETA); PSETA (Public Service SETA); SasSETA (Safety and Security SETA); Services SETA (Services SETA); Teta SETA (Transport SETA) and the W&R SETA (Wholesale and Retail SETA) ([www.economic.gov.za](http://www.economic.gov.za)).

Similar to the industrial levy in the Brazilian S-System, the Skills Levies Act (1999) promulgated a year later after the Skills Development Act of 1998 made provision for the collection of one percent payroll levy for training from all firms in South Africa with an annual wage bill of at least ZAR 500 000 paid to the National Revenue Fund - the counterpart of the National Institute of Social Security in the

Brazilian S-system. The Skills Development Act stipulates that of all the collected skills levies revenue 20% is allocated to the National Skills Fund (NSF) and 80% goes to SETAs. The National Skills Fund provide funding for national skills priorities as defined by the National Skills Development Strategy (NSDS) and the Human Resources Development Strategy (HRDS) and used for education and training, skills infrastructure development and development research. NSF has a focus on disadvantaged groups (such as individuals from rural areas) with an objective to develop skills in priority occupations to address skills imbalances by funding learners in universities, TVET and workplaces.

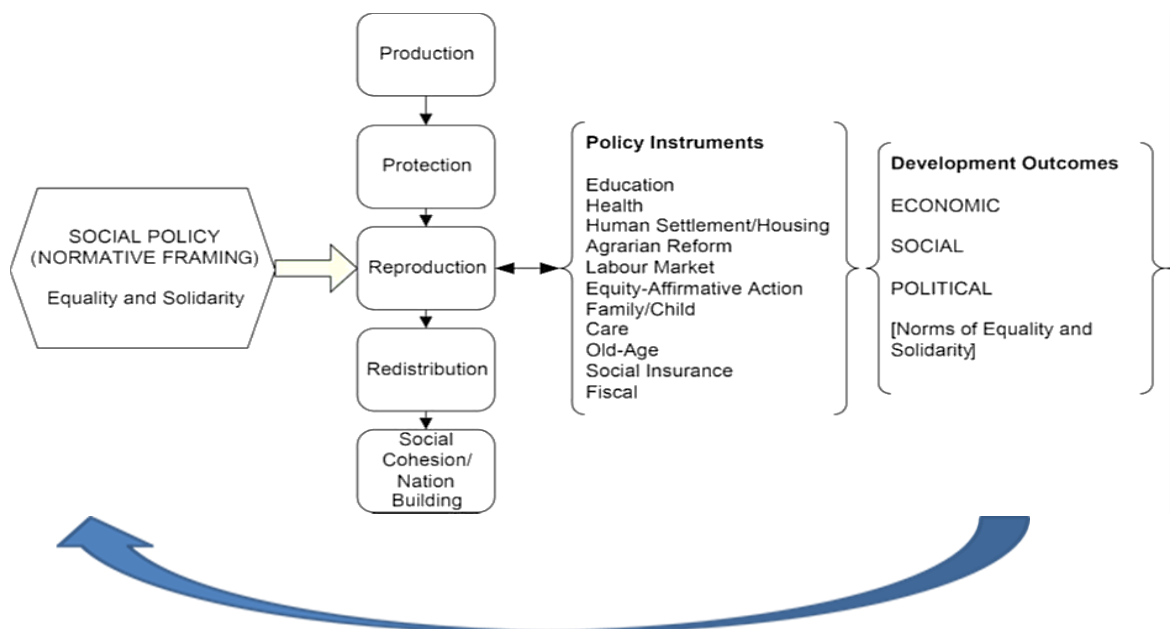
SETAs would distribute the levies to employers in the form of mandatory and discretionary grants keeping 10 percent of the levies for administrative costs. The former is paid to all employers that paid the levy and submitted their Workplace Skills Plans (WSP) and Annual Training Reports (ATR) while the latter are given to employers for specific training requests with only firms eligible for mandatory grants able to request discretionary grants. Since 2012 the share of mandatory grants was reduced from 50% of the levies which employers have paid to 20% with a 0.5% of the levies allocated to the Quality Council for Trades and Occupations (QCTO). The remaining 49.5% of the levies are allocated to discretionary funding with 80% earmarked for PIVOTAL grants- professional, vocational, technical and academic programmes that address scarce and critical skill needs which are identified by SETAs in their Sector Skills Plans using information from employers' WSP and ATR (OECD 2017:48-49). What key lessons can be drawn from these two skills development programmes to accelerate industrialisation, job creation and poverty reduction in Africa?

**Conceptual and Theoretical Framework: The Transformative Social Policy.** UNRISD research offers argument for rescuing social policy from the residual role it was assigned during much of the 1980's and 1990's to a multi-tasking of social policy involving over-arching concerns with redistribution, production, reproduction and protection (see Figure 1). In this framework, social policies are embedded in economic policy where the former has intended welfare consequences reflecting implicit or explicit socio-economic priorities, such

as human capital skills for development not only for global competitiveness and industrialization but also for reducing politically unacceptable levels of poverty and unemployment (UNRISD, 2006, p. 1).

As new growth theories places emphasis on ideas and human capital, in the twenty-first century, any state that want to be developmental should focus more intensely on ‘people’ and their ‘skills’ and less on ‘machines’ and their ‘owners’. The expansion of human capabilities highlights the vital importance of appropriate and adequate stock of human capital necessary for economic development (Evans, 2014, p. 34). The transformative social policy approach provides a framework through which social policies

can be harnessed for systematic development of human capital critical for industrialisation in Africa exemplified by the East Asian human capital-led development. This is present both an opportunity and a challenge for African governments in this era of neoliberalism when the kind of social policies are averse to the ‘collective good’ element of capability expansion necessary for human capital formation. The prevailing social policy environment makes it harder to construct productive alliances with private capital as the latter may be hostile to devoting state resources to capability expansion (Evans, 2014, p. 39). This begs the question, what kind of state(s) are needed in Africa for transformative social policy.



**Figure 1.** The Transformative Social Policy Framework

(Source: Adesina, 2011, p. 463)

**Discussion of Results.** The design and implementation of the two skills development programmes, though they share some similarities in some respects account for their contrasting programme-specific as well as nation level socio-economic outcomes. The following criteria shall guide the comparative analysis of the S-system of Brazil and the SETAs system of South Africa and their different impact on socio-economic inequalities viz. market coordination and relevancy of skills training, promoting regional industrialization and competitiveness, financing structure and allocation modalities and the role of the state.

1. Market coordination for skills relevancy training. Despite the S-system and the SETAs system both being skills development programmes, a distinction can be made in terms of their market orientation which has a knock-on effect on relevancy of skills training and mismatch as employer ownership of skills development can be a key differentiator and competitive advantage for a country’s skills base (Mehrotra, 2017). Employer-ownership and demand driven skills supply is a distinguishing marker of the S-system in Brazil not comparable to its South African SETAs system. Modelled along the Germany and Swiss apprenticeship model (Wilson,

2006) the private sector in the S-system take the lead in managing skills development which ensures better alignment of supply and demand of skills. In one of the institutions of the S-system- the SENAI determines the training programmes to be offered and the number of students to be admitted strictly based on the industry demand (Bulunga, 2017). Such employer-ownership and level of engagement is missing in the SETAs system of South Africa to ensure relevancy of skills training for the labour market.

These differences are reflected in the labour market outcomes in the two countries. Whilst SETAs are widely recognised by employers and give holders a big advantage in securing employment in South Africa, stark labour market inequalities not only by age but also by race and regions remains a persistent challenge. In South Africa due to lack of skills among the youth (15-24 years) the unemployment rate was 51.3% with a gender bias higher among females 55.3% than males 48.0% in 2014. Another indicator for the effectiveness of skills training programmes on unemployment relate to the share of young people neither in employment nor education or training (NEET) which provides an additional picture of people's idleness and social exclusion in South Africa. The share of NEET among persons aged 15-29 was around 36% in 2015 and shoots to 50.0% when focussing on 22-24-year olds. This indicate that the SETA system had not made significant impact when it comes to reduction of unemployment and poverty along with their associated racial and age disparities. This had a negative knock-on effect on industrialization prospects and national competitiveness in the global economy. The situation above contrast markedly with the Brazilian one in which the market orientation and relevancy of training skills provided substantial labour market outcomes to participants which have been related to more general trends in the Brazilian industrial labour market. The S-system had contributed to the Brazilian economy's ability to reduce general and youth unemployment from 12.4% and 25.3% in 2003 to 5.4% and 13.7% in 2012 respectively (Barria and Klasen 2014:36) in contrast to South Africa where the national unemployment rate has fluctuated around 25% for the past 25 years and currently stands at 26.2% in the 4<sup>th</sup> quarter of 2016 (OECD, 2017, p. 16).

The lack of TVET-labour market coordination for skills training of the South African SETAs system goes hand in hand with the existence of qualifications mismatch- when employers hire workers who do not have the right qualifications for the job resulting in workers working in occupations for which they do not have the correct qualifications- which stood at 52.3% in 2015 (OECD, 2017, p. 24). Emanating from lack of skills the incidence of underqualification- a situation where workers have a qualification level that is below the most commonly observed level in that occupation- stand at 27.6% in South Africa compared to a much lower level of underqualification at 7.9% in Brazil (ibid). This can be attributed to market coordination failures leading to mismatch between skills training and industry demands. Market coordination ensures that business and industry are not by-standers but active contributors, shapers and designers of skills policies and helping to deliver them (Mehrotra, 2017).

If any lessons can be drawn from the European vocational training education, in countries where vocational education (technical and technological) is provided, vocational graduates spent less time and face less difficulties searching for suitable jobs than those who completed secondary education only (Muller, Gangl & Raffe, 2013; Mizen, 2004). Empirical evidence from the S-system of Brazil indicate that the market orientation of skills training, relevancy of the programmes and the active engagement by employers' results in 80% of the graduates finding employment within 6-months after graduation (Bulunga, 2017). Whereas unemployment reflects an age profile in South Africa, it less unfavourable for young people in countries with well-developed and demand-driven vocational technical education and training (Barria & Klasen, 2014, 9).

2. Regional coordination for area-specific industrialisation. Apart from differences in terms of market coordination of the S-system and the SETAs system, a distinction can also be observed in terms of their level of decentralisation and governance structures. Unlike the SETAs system not linked to skills training institutions, the S-system is organised at the national and state level as a non-profit making organisation financed (private and public), managed and led by industry (Wilson 1996). In terms of geographical distribution, the federal organization of the S-system makes it present in all the 28 states of the

country as reflected in the geographical distribution of training in which opportunities for training are offered to those living in less populated areas or less advanced federal states and differences in participation mirrors the observed differences in population by federal states (Barria & Kasen 2014, p. 3). Most importantly, within the federal states, the partnership between industry and training institutions allows the design of relevant regional training programmes tailored to specific regional skills demand- an important lesson for South Africa, and other Africa countries with specific economically distinct regions.

This identifying attribute of the S-system has had positive impact on regional industrialization promoting a reduction in the speed of urbanisation and the formation of overpopulated cities surrounded by violence and low standards of living. This characteristic of the S-system is particularly important for South Africa in terms of reducing regional inequalities. In South Africa, as in most African countries, not only do labour market outcomes differ strongly by age as highlighted above, but also by regions. In South Africa, unemployment rates vary considerably with regions- in the 4<sup>th</sup> quarter of 2016 it ranged from 19.3% in Limpopo to 37.7% in the Free State. The differences in terms of discouraged workers- persons who wanted work but could not try to find work or start a business because they had believed that there were no jobs available in their area or were unable to find jobs requiring their skills or have lost hope of finding any kind of work- were more significant with the share limited to 1.5% in the Western Cape but reaching 21.1% in Kwa-Zulu Natal province (OECD, 2017, p. 18). This has been exacerbated by lack of skill needs information at regional levels as the SETAs skill needs assessments only provide information at the sector level with not regional assessments. This suggest that there are no coordinated efforts to adapt national industrialisation policies to maximise on regional competitive advantages.

As such a decentralised skills development structure may play a fundamental role in South Africa given the substantial economic and labour market differences between the country's provinces a product of Apartheid legacy and the existence of multiple and competing ethnic and racial groupings within the country (OECD, 2017, p. 61; Barria &

Klasen, 2014, p. 3). A skill needs assessment at regional level could be invaluable in South Africa if social policies can be effective in promoting regional industrialisation to eliminating the regional inequalities reflected in both labour market outcomes and income inequalities. African governments are well advised to target selected industries and regions that have the potential to create employment and/or innovation and technological learning, with positive spill over effects to national development (Asche & Grimm, 2017, p. 2).

3. Financing human capital formation. A commendable effort by the governments of the two countries in supporting human capital formation for accelerated industrialisation is the institutionalisation of a skills development levy through Acts of Parliaments. In the South African context, a year after the ratification of the Skills Development Act in 1998, the Skills Development Levies Act mandated SETAs to collect skills levies from employers within each sector making the money available for education and training (Lundall, 2003, p. 2; [www.vocational.co.za](http://www.vocational.co.za)). The Act stipulates a one percent payroll levy payable by all firms with an annual wage bill of at least ZAR 500 000 to the National Revenue Fund (OECD 2017:49). This is up from 0.5% that existed when the process was instituted in 2000 (Lundall, 2003, p. 1). In the Brazilian context, since the 1940's the various service organisations of the S-system receive payroll contributions of one percent on all payrolls, with no threshold unlike in the SETAs system. The payment exempt from federal taxes, is collected by the National Institute of Social Security (Barria & Klasen, 2014, p. 12; Bulunga, 2017). The two skills levy collections agencies, the National Revenue Fund and the National Institute of Social Security would then disburse the levies to the SETAs and S-systems in South Africa and Brazil respectively.

A distinguishing mark of the S-system is that the compulsory contribution as a percentage of payroll is used to fund directly the technical vocational education and training (TVET) system as the National Institute of Social Security pays the levies incomes directly to training corporations (Barria & Klasen, 2014, p. 12). This had facilitated funding access to the system by poor students facilitating entry and re-entry of people into the labour market as they adjust to the labour market demand which may call

for continuous training and re-training. This funding is complemented by increasing government spending on vocational training via establishment of adequate infrastructure, development of teachers, tools and methodologies for training highlighting the collaboration of government, labour and business in skills training with the government balancing the social equity goals for national development and business focusing on enhancing productivity by ensuring that training needs are met (Bulunga, 2017; Mehrotra, 2017). Such collaboration had enabled training systems responsiveness to labour market demands strengthening the skills system thus contributing to employment and low skills mismatch in Brazil with concomitant rapid industrialisation and consequent reduction in inequalities, overall improvement in incomes and well-being despite the country having high inequality levels at the start of the century (OECD, 2017, pp. 22, 24).

Public and private sector financial investment in skills development had not produced the same results in South Africa as in Brazil with the nation failing to bridge the chasm between the 'two nations' characterising it- part 'the global knowledge and consumerist 'First World' and part the poor and marginalised 'Third World' (Mbeki, 2004a). The challenge lies in the policies, institutions and skills delivery mechanisms which had failed to build an inclusive and high-quality skills development system for competitive industrialisation (Akoojee, Gewer & McGrath, 2005). Rather than the skills development levy used directly to support skills training institutions (TVET) as in the S-system, it was designed to incentivize employers to provide training opportunities at their workplaces (OECD, 2017, p. 48) with little benefit to those out of employment. In 2014/15 period, ZAR 14 032 million was collected through the skills development levies (National Treasury, 2015). A meagre 20% of the collected skills levy is allocated to the National Skills Fund (NSF) which support skills training in universities, TVET colleges including employer workplace training. In the 2015/16 period, University training accounted for (56%), TVET (16%), Workplace (27%), Skills research and development (2%) and the remainder spent on construction of three TVET colleges of the NSF. In the period in question, workplace training accounted for a higher percent-

age 27% compared to 16% allocated to TVET suggesting a focus on those in employment to the exclusion of those out of employment.

The remaining 80% of the collected skills training revenue went to SETAs (OECD, 2017, p. 48). Prior to the 2012 SETA grants regulations, employers could claim 50% of their paid levy back through the mandatory grants- grants paid to all employers that paid the levy and submitted their Workplace Skills Plans (WSPs) and Annual Training Reports (ATRs). Employers could claim an additional 20% of their levies through discretionary funds- grants given to employers for specific training requests. While the goal of the skills development levy is to increase training opportunities, the money collected through the skills levy only benefit a small number of firms as only a small share of employers submits WSPs and ATRs leading many employers to view the levy as an additional tax as they could not claim the mandatory and discretionary grants (Lundall, 2003, p. 2; OECD, 2017, p. 50). This distribution of the skills levy had led some to conclude that many of the training programmes in South Africa target people already in employment as much of the money returns to employers. This represent a missed opportunity for a broadened human capital formation which could be generalized to rest of the population considering lack of skills and the numbers of people out of employment. The higher returns from education and training would be registered at the level of the enterprise as the focus is more on retraining existing labour force (Lundall, 2003, p. 2).

Just like any other African countries, in South Africa despite the huge investment for human capital development, the country is burdened with a large pool of low-skilled unemployed people, suggesting over-supply of low skilled workers and a huge skills training need. In the International Manpower Development World Talent Ranking, South Africa ranks among the bottom five countries for the availability of skilled labour, the implementation of apprenticeship and the ability of the education and training system to meet the needs of a competitive economy (OECD, 2017, p. 23). Such indicators reveal a failing skills training regime with negative knock-on effect on prospects for industrialization. This is reflected not only in terms of existence of shortages of skilled workers often cited as the main

contributor to South Africa's limited growth prospects but also in the state of the South Africa labour market with significant differences in outcomes by race.

The main challenge facing policy makers in South Africa lies in reversing these economic trends and the ever-widening socio-economic chasms to build a democratic inclusive society characterized by better standards of living generalizable to the rest of the population. Despite providing workable models for financing human capital formation, the South African case highlight a typical government coordination failure in holding in tandem social and economic policies. This calls for strong government control over institutions responsible for skills training, education and funding for effective human capital formation and industrial competitiveness. This represent the transformative role of social policies in which the state takes the lead holding social objectives in tandem with economic objectives to enhance the productive capacities of individuals for improved national industrial productivity and competitiveness.

#### **Conclusion and Policy Recommendation.**

Generally, the relative competitive performance of the Brazilian economy relative to South Africa is partly explained by the level of organisation of the S-system for human capita development compared to the S-system in South Africa. However, there are key lessons to be drawn from the South African SETAs and Brazilian S-systems in terms of human capital formation to accelerate industrialization in Africa. First, is the establishment of industry specific sectors and sub-sectors, including their holistic coverage ensuring that every industry and occupation are included for the purposes of identifying and attending to training needs within each sector is highly commendable. Besides, each specific sector is made responsible for both the private and public sectors of the economy. This is critical as it is a first step towards adequate and appropriate human capital formation necessary for successful and competitive industrialization. Second is the establishment of an industrial levy system and the establishment of revenue collection entities- the National Revenue Fund (SA) and National Institute of Social Security (Brazil)- through Acts of Parliament to avail financial resources critical for sustainable human capital formation is some feature other African countries

can emulate. These are important lessons for other African countries in their quest to industrialize, create jobs and reduce poverty and unemployment. Notwithstanding these possible strengths and the efforts by the South African government and private stakeholders in capability expansion, some challenges remain. The following recommendations can enhance the effectiveness of the SETAs system in terms of skills development and its overall on the economy and socio-economic inequalities. First, is the identification of precise market coordination failures that hold up industrialisation. In the case of South Africa there is need for strengthening the role of SETAs to serve as intermediaries between employers and training providers. The main drive for establishment of industry specific training institutions should be towards industry/employer-led approaches to sectoral skills development. What it means for the South African context would be transformation of SETAs from mere development of sector skills plan and distributing skills development levy into vocational training institutions for the different sectors of the economy to resemble the institutions of the S-system which are training programmes financed by levies from employers. Since SETAs are custodians of sector skill plans it makes easier for them to know which skills are in short supply and how much training is needed. This will not only enhance the effectiveness of the skills development levy but also address skills mismatch in the country where, currently, 52.3% of the South African workers are employed in occupations for which they did not have the correct qualification. In that state SETAs model will be a classic example for other African countries to emulate in their human capital formation strategies to enhance industrial competitiveness. Secondly, the need to identify government coordination failures between stakeholders in skills training and development. The Brazilian S-system is not only characterized by collaboration between government, labour, business and training institutions but also coordination between the Ministry of Education working together with the Ministry of Labour to define vocational training policy which is then extended and executed by technical and agro-technical schools including the S-system. Such kind of collaboration and coordination is absent in the South African context. Firstly, there is lack of collaboration between government, labour, business

and training institutions as employers in South Africa always complain about lack of involvement in policy development. The government need to facilitate coordination between all stakeholders involved in skills development with SETAs acting as intermediaries linking policy makers and employers. SETAs have not done sufficiently in this role yet their sector skill plans should assist identify gaps, skill imbalances and training requirements- a good first step towards coordination between demand and supply side of skill formation and development. This would transform the current technical skill development which is largely theory-based examination focused programmes to the exclusion of practical work-based application. Secondly, there is need to improve cooperation across government departments, particularly the DHET and the Department of Labour. It has been observed that South African depart-

ments work in silos, with little cooperation or coordination between them. A lack of coordination and cooperation between government departments, training institutions and employers, hinders the development and delivery of effective human capital formation for successful industrialization. Third, relates to the decentralisation, adaption and promotion of regional industrialization targeting selected industries that have the potential to create employment and/or innovation and technological learning, with positive spill over effects to the national industrialization objectives. Thus, developing countries in Africa are well-advised not to follow well-trodden paths but to swiftly adapt to changing industrial patterns. Unless the African governments adopt a transformative approach to social policy to facilitate human capital formation, the quest for industrialization, job creation, reduction in unemployment and poverty will remain elusive.

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# РОЗВИТОК НАВИЧОК У ПІВДЕННІЙ АФРИЦІ ТА БРАЗИЛІЇ В РАМКАХ СИСТЕМИ SETAS ТА S-SYSTEM У ПІВДЕННІЙ АФРИЦІ ТА БРАЗИЛІЇ: ТРАНСФОРМАЦІЙНА ПЕРСПЕКТИВА СОЦІАЛЬНОЇ ПОЛІТИКИ

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## Реферат:

*Актуальність.* Африканський Союз оголосив 2024 рік Роком освіти, виховання африканця, готового до XXI століття, а «Порядок денний 2063» має на меті каталізувати революцію в освіті та навичках для індустріалізації Африки. Це ставить професійно-технічну освіту і навчання в центр розвитку навичок на континенті. У рамках своїх ендогенних ініціатив, спрямованих на вдосконалення знань, умінь і навичок, необхідних для роботи та підвищення промислової конкурентоспроможності, Південна Африка та Бразилія запровадили систему SETAs та S-System, що, відповідно, спрямовані на формування навичок та розвиток людського капіталу.

*Мета.* Дві країни БРІКС – Південна Африка та Бразилія – за допомогою парламентських актів інституціоналізували програми розвитку навичок, завдяки яким вони стали провідними економіками на своїх континентах. Мета полягає в тому, щоб з'ясувати, які ключові уроки можна винести для інших африканських країн у їхньому прагненні до індустріалізації в Рік освіти Африканського Союзу, щоб сприяти розвитку актуальних і конкурентоспроможних навичок, необхідних у XXI столітті.

*Методи.* На прикладі S-системи Бразилії та системи SETAs Південної Африки представлено тематичні дослідження з використанням методу кейсів. Розглядаючи SETA та S-системи з використанням концепції трансформаційної соціальної політики, в роботі застосовано підхід, заснований на аналізі конкретних прикладів, що має на меті відповісти на такі запитання: 1) які інституційні зв'язки та координація між промисловістю/бізнесом та закладами освіти, що займаються розвитком навичок, мають бути встановлені для адекватного та належного формування людського капіталу в Африці? 2) які механізми фінансування розвитку людського капіталу можуть бути прийнятні для африканських країн? 3) яку координуючу та сприяючу роль повинні взяти на себе держави в африканських країнах, щоб сприяти налагодженню зв'язків між промисловістю та закладами освіти?

*Результати і висновки:* хоча SETA в Південній Африці широко визнаються роботодавцями і надають їхнім власникам значні переваги у працевлаштуванні, координація ринку ПТО, регіональна координація індустріалізації конкретних територій та відповідний механізм фінансування процесу розвитку навичок є ключовими питаннями для досягнення конкурентоспроможності навичок і слугують практичними й політичними настановами для урядів африканських країн.

**Ключові слова:** трансформаційна соціальна політика, розвиток навичок, SETA, S-System, Південна Африка, Бразилія.

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