

**SOCIAL INVESTMENT IN EDUCATION
A SOUTH AFRICAN CASE STUDY**

CRAIG ALAN GOLIATH

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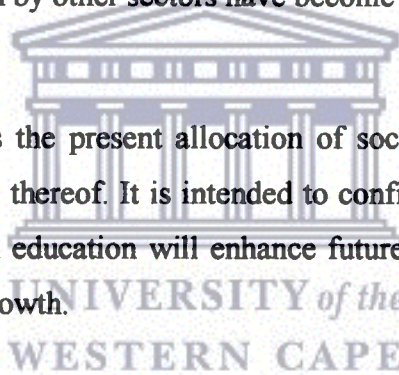
ABSTRACT

SOCIAL INVESTMENT IN EDUCATION A SOUTH AFRICAN CASE STUDY

Although South Africa has made progress in the last decade with regard to political transition, the economic landscape still carries the element of social stratification. This is evident from the continued widening of income distribution. There still remains a continued backlog that can only be addressed through social investment in education.

The general burden of paying for public education has shifted from state to family, bursary and loans. The proportion allocated to education by the state cannot be increased while families are unable to pay for education and therefore investment in education by other sectors have become of paramount importance.

This study investigates the present allocation of social investment in education and the social outcome thereof. It is intended to confirm that current expenditure of social investment in education will enhance future profit in South Africa and encourage economic growth.



DECLARATION

I declare that *Social Investment in Education, a South African case study (2004)* is my own work; that it has not been submitted before for any degree or examination at any university and that all the sources I have used or quoted have been indicated and acknowledged as complete references.

Craig Alan Goliath

May 2004



Signed.....

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DEDICATION

This minithesis is dedicated to the following people:

- To my sister who has a heart of gold.
- My family, wife and friends for their continued love, faith and belief in my ability.



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ACRONYMS AND ABBREVIATIONS

BIG	Basic Income Grant
CBI	Confederation of British Industry
FET	Further Education and Training
GDP	Gross Domestic Product
GET	General Education and Training
GNI	Gross National Income
HE	Higher Education
ILO	International Labour Organisation
NTTF	National Training Task Force
NQF	National Qualification Framework
OECD	Organisation for Economic Cooperation and Development
RPL	Recognition of Prior Learning
SARS	South African Revenue Services
SAQA	South African Qualification Authority
SCC	Sector Skills Council
SETA	Sector Education and Training Authority
SMME	Small, Medium and Micro Enterprises
SME	Small, Medium Enterprises
SSDA	Sector Skills Council
TEC	Training Enterprise Council
WEI	World Education Indicators

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CHAPTER 1

1.1 Orientation

A decade ago South Africa became part of a global market which then meant that it began to compete globally for resources along with other developing countries. The introduction of global competition however had occurred in conjunction with a 'new political' as well as a 'new social' transition to democracy.

South Africa's political transition and international acceptance in the last decade had not brought about the expected change in the economic stratum. The reason primarily lies in the backlog of skills that still presently exist in the South African economy. A 'dual economy' exists. On the one end there is a first world economy with a highly skilled labour force and on the other, a third world economy with high levels of unemployment and a chronic skills mismatch.

The backlog is further intensified by an economy that had developed in a sheltered socio-economic environment due to sanctions and isolation prior to 1994. South African firms must currently also adapt to a competitive world or face the consequences of being unproductive. There is also the threat of losing its own local market and the prospect of investment and growth opportunities in the global market. In order for South Africa to 'converge' with its competitors, its labour force needs to be reskilled.

Consequently, the immediate task of the new dispensation was to integrate the two 'economies' by way of redistribution of income and skills development through its policy measures. One way of bringing about skills convergence within South Africa itself would be to invest in education¹.

¹ Statistics on the growth in budgetary allocation on education in South Africa is given in Chapter 2 along with comparisons with other developing countries.

Moreover, such investment should be a cooperative effort between government and the private sector.

The fundamental purpose of the minithesis is to investigate the current growth strategy the South African government adopted to deal with human capital imbalance in South Africa. To ensure success of the growth strategy various policy measures² have been set in motion which will be extensively discussed.

Among these policies is the role of education.³ Acts such as the Skills Development Act (1998), the Skills Levy Act (1998), Further Education and Training (FET) Act (1998) and the White paper on the National Strategy for the development and promotion of small business in South Africa (1999) have been implemented to ensure that market failure in skills development are addressed.

1.2 Statement of the Problem

The primary focus of the research is to investigate the growth strategy in human capital that the South African government has implemented, to redress the skills imbalance in the economy.

The purpose of the growth strategy is aimed at:

- Redressing the skills imbalance
- Global competitiveness
- Poverty alleviation.
- Redistribution of wealth.

Not all of the aims of the strategy will be dealt with. Only certain acts are scrutinised, comparisons are made to other developing countries and conclusions are reached. The economic literature in turn is used as a framework for economic growth. Growth models and their suitability to the creation of growth in human capital will be discussed.

² Policy measures have been put in place to redress the economic imbalance and create a globally competitive market.

³ A necessary change in the education system was needed to adapt to international trends as well as local structural changes in the economy. These matters will be discussed in later chapters.

1.3 Structure and composition of the mini thesis

1.3.1 Methodology

The methodology of this study will consist of:

A review of the existing literature, specifically related to growth models in human capital. The central discussion of the literature is the role that human capital, education and skills development plays in realising economic growth.⁴ The data for the study have been sourced from the annual reports of the international monetary fund, World Bank, The South African department of trade and industry, South African Reserve Bank and others where possible.

Footnotes are used in an attempt to clarify information that may disrupt the trail of thought of the reader if they were in the main text. An attempt was made to provide only salient points in the footnotes and use them as sparingly as possible.

1.3.2 Structure of the Minithesis

The structure of the mini-thesis is as follows:

Chapter 2 will review the existing literature on the role of human capital and education in growth models. A brief conceptual understanding of growth models is offered. Thereafter a comparison is made between budgetary allocations on education spending in percentage points by developed and developing countries in table format. The concept of Social Capital is introduced and clarified as a positive externality. Empirical evidence of previous literature is offered and certain conclusions are made.

Chapter 3 will analyse the growth strategy employed by South Africa to address the skills shortage and then look at its policy implications.

⁴ The scope of the literature on human Capital, economic growth and the role of education are enormous and thus the South African policies mentioned in chapter 1 along with employment opportunities served as a guide. The positive correlation between education and earning potential is assumed to be accepted but not necessarily applicable in South Africa. Graduates are unemployed and often accept employment that is below their scope of education out of necessity.

Annexure 1-3 provide complete data on country groupings and spending on education.

Chapter 4 provides a background to small, medium and micro enterprises and its role in skills development, employment and poverty alleviation in South Africa. Statistics on unemployment in developing countries are given and clear conclusions and made.

Chapter 5 thereafter, provides a background to the skills development Act and the lessons that can be learnt from the United Kingdom. (UK).

In conclusion, analyses of the previous chapters are made and recommendations are specified.



CHAPTER 2

THE RELATIONSHIP BETWEEN EDUCATION AND GROWTH

2.1 Introduction

The following chapter will briefly review the existing literature on economic growth and the dynamics of growth theory as it relates to education. The primary purpose is to determine what should transpire if a developing country invests a greater share of its resources in education and what the increase in its long-run growth will be. An attempt is made at determining which model is most appropriate to a developing country like South Africa and if it is possible to 'converge' with developed countries, despite its initial human capital being lower.

2.2 Understanding Growth Models

Growth models demonstrate how variations in inputs lead to aggregate output and as a result how economic decisions regarding the allocation of resources can affect aggregate income. The growth model is therefore a tool which is used to understand the relationship between a country's output growth, its savings, investment, capital stock, labour inputs, technological progress and population growth. The nature of growth requires favourable circumstances of skills, capital through savings and technology.

Below is an illustration on the theory of growth in order to understand the route that a developing country such as South Africa could take in order to create growth.⁵

Consider the aggregate production function below as a starting point:

The Cobb-Douglas production function: $Y = AK^\alpha L^{1-\alpha}$ wherein the total output is described.⁶

⁵ Growth is assumed to be the growth in gross domestic product. It must be noted that there can be an increase in growth without an increase in the output of human capital, known as jobless growth.

The symbols denote the following:

Y: output

A: Aggregate demand

L: labour and K^a is the notation for the endogenous variable Capital, which can be described as physical⁷, human⁸ as well as the stock of knowledge.

$$\text{Thus } K^a = H_a^{(u+1)} + K_t \quad \dots\dots\dots \text{ and } K_t = T_t C_t \quad ^9 \quad \text{Equation (1)}$$

Where H_a denotes Human capital and $^{(u+1)}$ denotes education or skills development¹⁰, while K_t denotes physical capital. Assume that through education and skills development, the output of human capital H_{a+1} grows at a constant rate y . Therefore if K_t in the short run is constant in the absence of savings, investment and technological innovation, output can still grow at the rate of y . Short run growth is therefore dependent on human capital. In the long run all variables can change and therefore long run growth is dependent on human capital as well as Capital through savings, investment, or technology.

2.2.1 Endogenous growth Models

Endogenous growth theories have introduced human capital explicitly into production functions and allow for the possibility of externalities. Education plays a dual role in that it promotes research that generates new knowledge and produces learners that embody potentially labour-augmenting training.

An influential contribution to growth theory is that of Lucas (1988), which is in turn related to previous work by Uzawa (1965). Herein the level of output is a function of the stock of human capital. Lucas (1988) allows for an external effect whereby the average level of human capital in the economy affects an individual firm's output but is not taken account of in their profit. Individual workers decide on their time allocation between acquiring

⁶This type of model is called a linear model or AK which is very often used in theoretical work. According to Agénor (2000) it has very little empirical evidence.

⁷Physical capital includes technological innovation.

⁸Human capital is understood to be the sum of per capita labour and intellectual capacity to the contribution of productivity and economic growth and the stock of knowledge.

⁹In the equation $K_t = T_t C_t$, technological innovation is denoted by T_t while C_t denotes Capital goods.

¹⁰According to Temple (1999), Lucas (1988) uses the term "human capital" more closely to knowledge, rather than to skills acquired through education. Skills development and education are synonymous in this document since the purpose of education is ultimately the development of a skill.

education and working in the production sector on the basis of utility maximisation. The Lucas production function is represented as follows:

$Y = AK^\alpha L^{1-\alpha} H_a g$ where H_a is the average level of human capital across all firms and g captures the externality effect on output. There are constant returns to the firm's two reproducible factors (K and L) but increasing returns to all factors so long as $g > 0$. Long run growth is now a function of investment in both physical and human capital. Nicoli Nattrass (1997: 200) states that according to Romer, "*Knowledge allows the productivity of labour and capital to rise over time.*" *In this view competitiveness is driven by investment in human capital skills, training, learning by doing etc.*"

2.2.2 Exogenous growth Models

An exogenous growth model such as the Solow model determines growth from an increase in savings or investment ratio which then increases an economy's income by increasing the growth rate of capital. All output is paid as income to either capital or labour, so there is no income to act as a reward or incentive for the accumulation of knowledge and there are no externalities to knowledge accumulation. Owners of capital and workers are therefore independent inputs and are all rewarded respectfully for their contributions to output.

A shortcoming of the Solow model is that the long run growth rate mentioned above is dependent on the productivity and growth of physical Capital.¹¹, which in turn depends on the growth of savings. An increase in savings therefore translates into an increase in investment and capital stock. Savings therefore plays a crucial role in growth.¹² The level of savings in developing countries; particularly South Africa is extremely low. Since the ratio of

¹¹ The Solow Model is an exogenous growth model because growth is determined outside of the model. In the Human Capital model, growth rate depends on the education and skills development within the model which thus makes it an endogenous growth model.

¹² The neoclassical model on growth does not specify how knowledge accumulation occurs. There is no human capital input in the model which means that there is no direct role for knowledge accumulation, skills development and education. However, the fact that knowledge is specified as labour augmenting suggests that it could be related to education.

savings to income cannot go on increasing indefinitely, investment cannot cause income to grow permanently.

Temple (2001) notes that growth models such as Lucas (1988), to whom the comment below refers are unclear about how the increase in the quality of schooling is brought about:

'...individuals can raise the stock of human capital, or knowledge, simply by allocating some of their time to its accumulation...' and prefers alternative models that place more emphasis on modelling the incentives that firms have to generate new ideas. Temple (2001) further states that it is much harder to measure *'well-being'* in a meaningful way than it is to measure output of goods and services. This is an important point as Maddison's (1987) results on the contribution of increases in labour quality to output growth in France, West Germany, Japan, the Netherlands, United Kingdom and the United States of America suggest that changes in the quality of the labour force added between 0.1 and 0.5 percentage points to annual growth rates between 1950 and 1984.

2.3 A summary of Empirical Evidence on Growth Models.

According to empirical observations of Agénor (2000), the per capita output or labour productivity tend to increase over time, but at different rates across countries while the factors of production cannot fully account for the variations of output growth across or within countries. Agénor (2000) said that sustained economic growth is required for lasting reductions in poverty and capital is an important factor for growth, which is in contradiction to that of Mankiw, Romer, D and Weil (1992). Mankiw, Romer, D and Weil (1992), in their empirical study of growth found Capital to be less important for growth than the Solow model would suggest.

There appears to be no clear indication on convergence, in fact Pritchett (1996) found massive divergence between developed and developing countries. Annexure 3 indicates growth rates for developing countries for the period 1995- 2001 ranging from 1.3 - 8.6 percentage points. Lower growth

rates in developing countries could be ascribed to low savings and investment as discussed in the Solow growth model.

The following has been extracted from Barro (1997:15):

...If two countries start out with different initial levels of human capital. Assume, for example, that country B has only half as much human capital as country A. [assume] human capital grows at the same constant rate in both countries, [and] the ratio of human capital between the [two] countries will always be two to one. Since in each country, the ratio of physical to human capital approaches a constant, the long-run ratio of physical capital between the two countries will [remain] two to one as well. [the] country that starts out with less human capital never catches up to the rich country: convergence does not occur [and thus] there is relative [slow growth and even] stagnation of poor countries that start with little human capital.

Mankiw, Romer, D and Weil's (1992) parameter estimates for an OECD sample indicate that if human capital investment is increased by a tenth, output per worker will rise by 6 percent and that if investment in human capital is doubled, output per worker will eventually rise by about 50 percent.

Strong evidence suggests differences in growth rates across countries and that both policy and institutions matter for economic growth (Temple, 1999)¹³. It would therefore mean that growth can neither be clearly ascribed to endogenous or exogenous variables.

The problem with statistics and many regression studies is that it includes a large sample which comprise of developing countries as well as OECD member countries. A result is that the data is obscured and the sample cannot offer an accurate perception of what is happening in developing countries.

2.4 The role of education in Growth Models

Education makes a fundamental contribution to personal development as well as the health of a society. It has significant welfare benefits both private and

¹³The recent experience from the Organisation for Economic Cooperation and Development (OECD) countries, show no tendency toward the equalisation of long run growth rates. Mills and Crafts (1999).

public.¹⁴ Temple (2001) states that several recent studies find education to be important, despite the likely presence of measurement error. He further suggests that better data could lead to an improvement in the precision of estimates of the growth effects on education.

A significant study performed by Young (1995:645) on Korea¹⁵, an OCED country, examined and compared the growth performance of four East Asian economies. Korea has seen a dramatic increase in the educational capacity of its labour force. For the period 1966 to 1990, the proportion of the employed population with a secondary level of education or higher virtually trebled, from 27 percentage points to 75 percentage points. The growth in educational capacity had not translated into an equal growth rate but had a definite impact as Korea had migrated toward the richer end of income distribution. Young (1995) found that for each of the four economies he considered, improving educational capacity of the workforce raised the annual growth rate of effective labour input by about 1 percentage points.

Intuitively an educated person would be more productive and in greater demand. Benhabib and Spiegel (1994), in their specifications, implicitly assumed that the returns to an extra year of schooling are much higher at low levels of schooling than at high levels.

The differences in growth between countries are neither explained by physical or human capital. Investing in education alone is not sufficient to enhance growth in poor countries even though education plays a crucial role.

¹⁴ The private rate of return to a year's extra schooling is estimated to be between 5 and 15 percent by economists.

¹⁵ During convergence studies by Agenor and Montiel (2000) it was noted that Korea is a country that migrated toward the rich end of income distribution over time while others like Venezuela migrated to the poor end.

2.5 Social Capital

Social capital may at this point be difficult to measure and incorporate into formal models, but as emphasised by Glaeser (2000), more attention needs to be given to the value of social capital as a resource for individuals, as well as for communities as a whole.

According to Temple (2001) social capital needs to be carefully defined, if '*it is to prove anything more than suggestive in thinking about growth.*'

Putnam (1993:167.) offers the following definition: "*social capital ... refers to features of social organisation, such as trust, norms, and networks that can improve the efficiency of society by facilitating co-ordinated actions*"

Putnam (1993), Schuller (2000) and Woolcock (2000), associate social capital with a resource or network that is used in achieving common objectives.

Defined by Woolcock (2000:5) ... "*social capital refers to the norms and networks that facilitate collective action*".

Social Capital thus refers to a matrix of human capital with the aim of achieving common objectives. Human Capital in turn is understood to be the sum of per capita labour and intellectual capacity which adds to the contribution of productivity and economic growth and the stock of knowledge.

To conceptualise social capital let us say that 'individual knowledge' can be viewed as a unit of processed information. A firm in turn can be viewed as being comprised of 'individual units of processed information'. It is therefore suggested that if all business units form a 'collective framework' or collective unit of human capital in order to achieve common objectives, there would be an increase in efficiency gains which would translate into growth in the long run. Small firms would thus be able to grow its stock of knowledge exponentially or gain from the positive externality of a combined effort within a network of other small firms to achieve a common goal.

Thus again using the Cobb-Douglas production function: $Y = AK^\alpha L^{1-\alpha}$ wherein the total output is described.

And $K^\alpha = H_a^{(u+1)} + K_t$ and $K_t = T_t C_t$

Where H_a denotes human capital and $(u+1)$ continue to denote education.

Capital would be:

$K^\alpha = [H_a^{(u+1)} + K_t] g$ where g denotes the social capital or positive externality of the combined effort and resources of firms.

The output of human capital continues to grow at a constant rate y but also possibly greater as a result of the combined resources through the introduction of social capital as a positive externality denoted by 'g' in the equation above. Physical capital can also be optimised in the absence of growth and technology in the short run. In the equation above, social capital is clearly defined as a positive externality and adds to the Lucas model and new growth theory.

In order to create sustainable growth and for the poor to benefit, a developing economy must not only grow, but the growth must also be distributed in such a manner that the poor share in the intellectual wealth and therefore grow with the country instead of watching it grow. If the intellectual capacity is harnessed and resources are shared by the inhabitants, such as in the case of business organisations and joint ventures, economic growth would occur at a faster rate. The process of social capital as a positive externality for growth requires empirical research on small business and the role of business organisations. The role of the government in the process of bringing small business together is of vital importance and should not be left to the market.

2.6 Conclusion

Empirical evidence on growth demonstrates that the neither exogenous nor endogenous models offer enough evidence for the explanation of growth. The evidence is often contradictory because the sample size is too large or there is not enough evidence to accept the hypothesis that growth models can predict

growth. There are cross-country differences in income levels that cannot be explained through physical or human capital. Investing in education alone is not sufficient.

The role of social capital offered in this chapter requires heaps of refining and research to support its role in growth theory.

It follows that government policy measures should be investigated. The following chapters therefore discuss the policies of the South African government with regard to education and small business development.



CHAPTER 3

ECONOMIC POLICY AND GOVERNMENT INITIATIVES

3.1 Introduction

The aim of the following chapter is to discuss the government initiatives and the role of education and skills development in South Africa. A national as well as an international perspective on the finance of education is provided. The purpose thereof is to have an understanding of the importance of generating a new outlook on financing a skills development system in a developing country.

3.2 The role of education in society.

The development of human resources within education, training and skills development are key foundations of social and economic progress and a precondition for addressing inequality in society. An article by Jenkner, Hillman (2004) emphasis the role of education in economic growth using a case study of Chad. Herein she concluded that enrolment of learners was dependent on the perception of education in society.

The traditional view of education is that it is a public good provided by the state and that social investment in education is the social responsibility of the private sector. Social responsibility is equated to social investment¹⁶.

Furthermore, the provision of education is associated with positive externalities¹⁷. Some of the positive externalities associated with education include increased income for the individual recipient, improved living standards for the individual and the household and a reduction in crime as a result of reduced unemployment levels. These considerations are all good but it does not offer solutions to poverty alleviation.

¹⁶ According to Charney as emphasised by Mersham et al (1995: 86), social responsibility refers to the actions of an organisation or society that 'voluntarily expands its resources to do something not required by law and without immediate economic benefit'

¹⁷ When a good is said to have a positive externality, it effectively means that the provision of such confers benefits not only to the individual consumer or producer but also to the society at large.

It is the perception of the poor that education generates wealth, which is not the case. The development of skills creates the ability to produce goods and services, which in turn generates wealth. Even though education and skills development are used synonymously in this paper, a distinction must be made since they each have a different focus. 'Education' is an academic process that enhances personal growth and development. 'Skills development' has a central focus which is the development of the capacity in human capital required in the economy. Skills development unlike education has vertical as well as horizontal entry and exit points and do not necessarily require a high intellectual ability.

3.3 Spending on education in South Africa and in relation to the rest of the world.

The following table is the functional allocation of South African government spending for the period 1985, 1990, 1994, and 1996 taken from Nattrass (1997:181)

Year	Education and training	Health	Housing	Welfare	Security	Debt service
1985	17.6%	9.6%	2.8%	9.4%	17.4%	15.9%
1990	17.6%	8.3%	1.5%	9.6%	17.4%	18.9%
1994	19.6%	9.3%	1.3%	10.9%	14.9%	20.5%
1996	19.7%	9.0%	2.0%	11.9%	14%	22 %

Original Source: Abedian (1995) and the Budget review (1996)
Intermediate Macroeconomic theory 2nd edition Nattrass. (1997: 181)

The purpose of table 3.1 is to illustrate the trend toward a greater percentage budgetary allocation on education and training. Since 1996 resources have been further reallocated in South Africa but education has been the primary benefactor. The percentage allocation in education spending cannot however continue to increase as it would require the sacrifice of other areas of welfare spending. The

spending on social services had continued to grow throughout the next decade from 44.4 percentage points of general government expenditure in 1982/83 to 56.7 percentage points in 2002/03. South African Budget Speech (2004:15).

‘Education, at 23 percent [age points] of non-interest expenditure, continues to make up the largest component of the budget’. South African Budget Speech (2004:15).

The tables below are given to compare percentage spending on education. The statistical data on South African spending on education as a percentage of GDP in relation to Sub Saharan Africa¹⁸ was 5.7 percentage points compared to 3.4 percent points in 2001 as depicted in Table3.2.

	1985	1990	1995	2000	2001	SSA
Socio-economic context						
Per capita GNI (US\$)**	2120	2890	3740	2820	2820	460
Progression to secondary level (%)		90	..	91.9	91.9	..
Public expenditure on education						
Total spending as a % of GDP	5.4	5.9	5.9	5.7	5.7	3.4
Primary level	..	..	..	14	14	..
Secondary level	..	..	..	17.9	17.9	..
Tertiary level	..	90.9	56.9	61.3	..	..
Source: World Bank Group (2004)						
..Unavailable data						

A comparison of world education finance is given in Table 3.3 for the period 1999 to 2000.

As illustrated, with the exception of central Asia which is at 7.8 percentage points; South Africa is above the median for the rest of the world. The allocation of total public

¹⁸ The figures for the individual countries within Sub-Saharan Africa do not suggest any different as indicated in Annexure 2. The vast majority of sub-Saharan Africa has a lower rate of total spending on education as a percentage of GDP compared to South Africa.

expenditure on education as a percentage of total government expenditure was at 21 percentage points compared to world average which was at 12.8 percentage points for the same period. The significance however is lost once per capita spending on education for developed and developing countries are compared. ¹⁹

Country or Territory	Total public expenditure as a % of GNP		Total public expenditure on education as a % of total government expenditure	
	1990/91	1999/2000	1990/91	1999/2000
South Africa	6.5	5.9	...	21
	Median	median	median	median
World	4.2	4.7	13.8	12.8
Arab states and North Africa	4.3	4.1	14.6	...
Central and Eastern Europe	4.9	4.7	...	...
Central Asia	7.8	...	20.7	...
East Asia and the Pacific	4.2	3.9	15.5	...
Latin America and the Caribbean	3.4	4.8	13.5	...
North America and Western Europe	5.2	5.3	11.6	11.6
South and West Asia	2.7	...	10.0	...
Sub-Saharan Africa	3.6	3.9	14.6	...
Source: World Bank Group 2004				
** UNESCO Institute for Statistics (UIS) estimate				
... Unavailable data				
w World Education Indicators (WEI) project countries				

It can be concluded that the budgetary allocation on spending on education in South Africa has possibly neared its peak. The likelihood of an increase may not necessarily have the desired effect and may lead to a more negative outcome. An increase in the allocation on education as a percentage of the budget will impact negatively on other welfare spending. An attempt by countries such as Mexico wherein the '*Mexican Progres a program*' initiated the cutting of the cost of attending school by half only lead to a 10 percent increase in enrolment while income transfers amounted to negative user payments. (Hillman et al (2004 : 3)

¹⁹ The data on per capita spending on education is not provided as it will detract from the argument.

Table 3.4 below shows the public current expenditure on education as a percentage of total expenditure on education. The figure for the period 1999 to 2000 is 94.3 percentage points which is higher than the world median of 90.6 percentage points. The implication is that only 5.7 percentage points are being contributed by the private sector. South Africa had the highest percentage public current expenditure on education as a percentage of the total expenditure on education compared to the world.

Table 3.4 International Education Finance

Country or Territory	Total public expenditure on education as % of total government		Public current expenditure on education as % of total expenditure on education	
	1990/91	1999/2000	1990/91	1999/2000
South Africa	...	21	89.0	94.3
	median	median	median	median
World	13.8	12.8	91.8	90.6
Arab States and North Africa	14.6	...	92.0	...
Central and Eastern Europe	...	...	90.4	...
Central Asia	20.7	...	...	...
East Asia and the Pacific	15.5	...	92.8	...
Latin America and the Caribbean	13.5	...	92.4	92.6
North America and Western Europe	11.6	11.6	93.0	...
South and West Asia	10.0	...	82.0	...
Sub-Saharan Africa	14.6	...	89.9	89.6

Source : World Bank Group 2004

** UNESCO Institute for Statistics

... Unavailable data

w World Education Indicators (WEI) project countries

The sample of growth and investment performance figures for Sub-Saharan countries for the period 1995 to 2000 taken from the ILO's global Employment trends (2003), the Reserve Bank of South Africa and World Bank figures (2002b) are given in Table 3.5

The growth figures are compared to total expenditure on education as a percentage of total government expenditure for the sample of Sub-Saharan countries. No clear correlation could be made and thus it is hard to determine if there is a relationship between the percentage allocation of government expenditure to education and growth.

rates. However, the growth rates of Sub-Saharan Africa, including South Africa compared to other developing countries appear to be incredibly bleak.²⁰

Table 3.5 Total current expenditure on education in relation to Growth Rates

	Total public expenditure as a % of GNP	Total Public expenditure on Education as a % of tot. Gvt expenditure	Public current expenditure on education as a % of total expenditure on Education	Annual GDP Growth Rate
	1999/2000	1999/2000	1991/2000	1995-2001
Botswana	9.3**	....	....	5.20
Kenya	6.80	...	97.80	2.20
Mauritius	3.50		100.00	5.60
Namibia	...		...	3.90
Nigeria	0.7**		...	2.70
Senegal	3.5**		...	5.30
South Africa	5.90	21.00	94.30	2.70
Zambia	...		...	2.30

Source :
 ** UNESCO Institute for Statistics (UIS) estimate
 World Bank Group 2004
 ILO's Global Employment Trends(2003).
 The reported growth rates are mainly from the world bank.
 ... unavailable data

3.4 Market Failures and skills shortages.

The most profound quotation is that of Nattrass (1997: 14) who states that *South Africa has one of the world's 25th largest economies yet it ranks 60th in per capita income terms and 93rd in terms of human development.* She continues by saying that if the previously advantaged South Africans and the previously disadvantaged South Africans *'were living in separate countries, the former would rank 24th [just below Spain] while the latter 123rd [just above the Congo] in terms of human development.*

²⁰ Refer to Annexure 3 for the Annual data on Growth rates for developing countries.

3.4.1 Matching skills to job opportunities.

Greater employment opportunities do not necessarily mean opportunities for the unemployed. A factor to be considered would be the correspondence of the structure of the economy and the skills possessed by the poor. The South African economy has become more capital intensive and the accessibility of information has led to a demand for higher skills. According to Natrass (1997:15), between 1970 and 1998 skilled jobs have increased by nearly 20 percentage points and during the same period the number of unskilled jobs fell by a greater proportion.

‘Between 1970 and 1990 the formal employment sector grew at one-third the rate of output [while] the proportion of labour without formal [employment] rose from 19 percentage points to 40 percentage points.’ Natrass (1997:15) According to Natrass (1997:15), Bowles estimates that over 2 million jobs were lost in the process²¹. It is not always possible to integrate the unemployed because the unemployed may not possess the skills required for the opportunities that have become available.

A need for a new approach to education and skills development was required. The dilemma, already established, was funding. The contribution by the corporate sector was not significant enough to address market failures and the skills shortage.

A possible solution was to be found in the legislative acts such as the Skills Development act (1998), the Skills Levy Act (1999), Further Education and Training Act (1998) and the White paper on the National Strategy for the development and promotion of small business in South Africa. (1995)

3.5 An overview of the Skills Development Act 97 of 1998

The Government's commitment to promote active labour market policies is demonstrated in the Skills Development Act of 1998 and the Skills Levy Act (1999). The legislation introduces new institutions, programmes and funding

²¹ Bowles, S. 1995. ‘Choice of Technology, sectoral priorities and employment: The challenge of job creation in the South African Economy’ A Paper prepared for the South African Labour Market commission.

policies designed to increase investment in skills development²². Employers and employees can direct financial and other support towards the acquisition of skills that are needed to address market failure.

Skills development helps employers with a planned approach toward improving the competency and productivity of their workforce. It establishes quality control mechanisms to ensure the desired outcome by improving the competence of employees, and thus increasing the return on investment of training.

There are two over-riding priorities that this legislation seeks to address:

The first is the reality of the global economy and the imperative to increase skills to improve productivity and the competitiveness of industry, business, commerce and services:

The second is to address the challenges of social development and the eradication of poverty²³.

3.5.1 Accessing funding for skills development.

The skills development levies Act of 1999 came into effect on the 1st of April 2000. The act mandates employers to pay a levy, which from April 2001 is 1 percentage point of the company's gross salary. The money is paid to the SA Revenue Services (SARS) to be used by one of the 25 Sector Education and Training Authorities (SETAs) for skills development²⁴

Employers can then claim from their relevant SETA and use the money for skills development. This was introduced to fund the new skills development implementation framework and to provide grants to encourage employers to invest in training and the development of their staff.

²² Skills development concerns enabling and empowering individuals through the acquisition of competencies that are in demand in the economy.

²³ The eradication of poverty is a very central issue in the White paper on Small, Medium and Micro enterprises (SMME's), but is not relevant to this Minithesis.

²⁴ The skills development levy is payable by all companies that are registered for employees tax with SARS, but excludes charitable and religious organisations, public entities and government departments.

3.5.2 The skills development act in perspective.

South Africa can no longer afford education to be a static process. Access or entry will occur at a horizontal as well as at a vertical level. It would be possible to enter and exit the educational system on a continuous basis to either re-skill or increase the skill levels of individuals. Every accredited course offered by an accredited service provider would be 'pegged' at a particular National Qualification Framework level (NQF levels 1-8). Courses, along with the recognition of prior learning would tally up to a qualification at a particular NQF level²⁵. A pupil for example can undertake a computer course at an accredited institution offering it for instance at an NQF level 3 (presently grade 12) and receive a credit toward a Further Education and Training certificate, otherwise known as a subject toward a grade 12 certificate.

An unemployed person can be employed without a firm having to pay their salary, provided the person is on a learnership²⁶. An unemployed person wanting to train as a secretary can be 'hosted' by a firm that require the services of a secretary. The person will be paid by the skills development fund rather than the host firm via the training provider.²⁷

3.6 Lifelong learning.

Individuals are able to continuously shape their educational needs and take full advantage of the skills development act to improve the quality of their lives. Learning becomes a lifelong process²⁸. Knowledge and technology is dynamic and changes every five years. Knowledge and technology have become ever-changing concepts. Our education system must be able to adapt fast enough to stay shoulder to shoulder with these changes. The education

²⁵ The lower National Qualifications Framework levels correspond roughly to high school grades, with NQF 5 equivalent to a one-year post-matric qualification.

²⁶ A learnership is a structured programme which combines training and employment experience, generally designed for a period of one year.

²⁷ A service provider is a firm accredited by a relevant SETA while a training provider is an accredited firm supplying training in a particular field and meets South African Qualification Authority (SAQA) Standards. A service provider can also be a training provider if all requirements are met.

²⁸ Lifelong learning is a concept that has received great attention and many institutions including progressive universities actively promote the concept.

system would therefore be regarded as a more flexible avenue of learning compared to the present more rigid system.

The educational emphasis will now be on the skills and competencies required to support productivity, international competitiveness, self-employment and meeting defined and articulated community needs. These are needed to equip South Africa with the skills to succeed in the global market and to offer opportunities to individuals and communities for self-advancement to enable them to play a productive role in society.

3.7 The Sector Education and Training Authority (SETA)

The Sector Education and Training Authority (SETA) were established in March 2000 as a result of the Skills Development Act (1998). The primary role of SETA is the following:

- To ensure that the skills needs of the country is identified, provided for, assessed and that successfully skilled people are certified as competent.
- To reimburse training levies payable by all employers.

The SETA will pay each learner a monthly allowance for the duration of the learnership. The advantage to those undergoing the learnerships is that it is at no cost to the learner. The learner is thus able to reach higher levels of competency and certification which improves their value in the employment market.

3.8 The scope of the new education system

The National Qualifications Framework (NQF) arranges the entire education and training system along three bands.

These are:

- The General Education and Training (GET),
- Higher Education (HE)
- Further education and Training (FET).

Access to the FET band can be gained through a GET certificate as well as by other means such as the recognition of prior learning (RPL). The profiles of the learners in the new FET system are a diverse range. It includes youth between the ages of 16 and 35 as well as adults over this age. The target group would be those who are employed as well as those who are unemployed.

The White paper on Education (1998) states *'that the new FET curriculum will offer multiple entry and exit points and a diversity of learning programmes and qualifications to meet the varied needs of learners in different fields and at different stages of their lives.'*

The 'new' education system seeks to integrate education and training as opposed to the present system that separates theory and practice. The intention is thus to develop well rounded and competent individuals that are able to implement theoretical knowledge in the work environment. It intends to 'standardise' programmes and qualifications so that accreditation runs across programmes and there is recognition of prior learning²⁹

Learners are also able to accumulate credits previously achieved. Accumulated credits add to a certificate at GET or FET level. At present the model for university entry has not been defined.

The new education system thus allows greater horizontal entry into the learning environment as compared to the present system that only allows vertical entry.

3.9 The opportunity cost of education

The opportunity cost of education is not captured in the models discussed in Chapter 2. The official unemployment rate in South Africa is at 30.5 percent and the expanded unemployment rate is 41.8 percent (Human development summary report for South Africa 2003:10) the skills levels are considerably

²⁹ Learning done in other areas other than a person's present studies. Learning that had occurred based on informal training and experience in a particular field.

low among the previously disadvantaged South Africans, it is therefore understandable that the income elasticity of demand for education would be relatively elastic. Poverty and education are closely linked in South Africa. This means that an education for a young adult is translated into a loss of income to the family. For this reason children from poor families are less likely to complete their secondary education than that of children from more affluent families. According to Hillman et al (2004: 2)

In Pakistan, in the early 1990's 86 percentage points of rich children aged 6-14 were in school, compared to 37 percentage points of poor children, making for a rich-poor gap of 49 percentage points; the gap was 52 percentage points in Senegal and 63 percentage points in Morocco. The gap is narrower but still wide in Bangladesh, Ghana and Indonesia.

In Brazil and Mexico less than 10 percent of young adults aged 20 to 25 years in the poorest 10 percent of households have completed secondary school, compared to more than 70 percentage points in the richest 10 percentage points of households. Birdshall, (2001:3) In South Africa the gap is similar but based also along a racial divide.

3.10 Conclusion

In a developing country access to technology increases the returns to a university degree and widens the opportunity gap between even those with a secondary education. The low quality of public schools reduces the demand for persons with a secondary education, making school leavers less employable.

A safeguard to poverty requires institutional and policy support in order to develop human capital. If the perception of education is that it will not alleviate poverty, any opportunity given, no matter how good its intentions are, will not be accessed. The opportunity cost is further worsened by access to funding for basic training at even the lowest levels of skills acquisition.

CHAPTER 4

THE NATIONAL STRATEGY FOR SMALL BUSINESS DEVELOPMENT.

4.1 Introduction

The following chapter reviews the role of small, medium and micro enterprises in skills development and employment creation. It commences with an overview of unemployment statistics in developing countries and then discusses the role of the South African government and the initiatives it has implemented.

4.2 Unemployment in perspective.

In order to alleviate poverty and develop human capital, much more than education and welfare programmes need to be implemented. In the short run a poverty alleviation strategy is needed which is wherein welfare programmes have merit. Welfare programmes play a less significant role in the long run if a developing country would like to create sustainable growth.

The basic income grant³⁰ (BIG) was an option to alleviate poverty which was heavily debated in South Africa. It is, however essential to consider the net impact the grant plus the taxation used to finance the grant, would have had on the economy.

Other available options which have all been implemented included the increase of child support and old age pension grants and the reduction in income tax brackets. The latter strategy only affects those that are currently employed. Any strategy has its downfall in implementation. The fact of the matter however is that something has to be done about the unemployment in South Africa.

³⁰ According to Le Roux (2002:32) 'in a South African context a universal grant is not simply a possible alternative strategy for dealing with ...if we are truly committed to eliminating extreme poverty ...by 2015 and to half the number of people in poverty , this is the only route by which this goal can be realised...it is not meant that other strategies such as small and micro enterprises, skills development and public employment projects cannot also play an important role, but they cannot within this period change the face of poverty as dramatically as a low level income grant could'.

The following table is a comparison of unemployment rates in percentage points in developing countries.

Percentages 2000-2002	2000	2001	2002
Asia and the Pacific	3.8	4.1	4.2
East Asia	3.2	3.9	4
South – East Asia	6	6.8	6.5
South Asia	3.4	3.5	3.4
Industrialised countries	6.1	6.4	6.9
Latin America and the Caribbean	9.7	9.6	9.9
Middle East and North Africa	17.9	18.9	18
Sub – Saharan Africa	13.7	14	14.4
Transition economies	13.5	12.6	13.5
South Africa (official) ¹	25.8	29.5	30.5
South Africa (expanded) ¹	35.9	41.5	41.8

Source: ILO's Global Employment Trends (2003) and Statistics South Africa's Statistical Release (P0210), September 2002.
 Note: (1) South African unemployment rates are from Labour Force Surveys of September 2000, 2001, and 2002

The table 4.1 indicates the degree of difference in unemployment between South Africa and other developing countries. South African unemployment rate is by far much higher than even Sub-Saharan Africa. The unemployment rate is unacceptable and stands to undermine everything that has been redressed in South Africa since the inception of democracy in 1994. The official as well as the expanded unemployment rates implies that there has been an increase in unemployment since 2000.

Growth therefore does not only depend on the level of human capital that has been created but also on the deployment of this productive asset in the economy. A process to create employment must occur in conjunction with a skills development strategy as outlined in the previous chapters.

4.3 The role of SMMEs in economic development.

In developing economies, the largest group of employers are small, medium and micro enterprises (SMME) These small, medium and micro enterprises

are assigned the burden of directly addressing poverty and unemployment while the formal industry continues to become more capital intensive and as a result increase unemployment. It is consequently within the SMME structure that unemployment will have to be reduced. The mammoth task in South Africa is clearly depicted in Table 4.1 wherein developing countries are compared. Despite there having been economic growth in South Africa, it had not significantly contributed towards the creation of employment opportunities.

'Jobless' growth is a reality of industrialisation and an inevitability of global competition. The amount of new employment being created in highly skilled sectors like trade and private services is marginal compared to the employment opportunities that continue to be lost in the low and semi-skilled sectors of the economy.

The economy provided only 11.56 million jobs for 16.8 million economically active South Africans in March 2003, resulting in 5.25 million unemployed.
(Human development report 2003:10)

According to the Human Development Report for South Africa (2003) the official unemployment rate rose from 19.3 percentage points in 1996 to 30.5 percentage points in 2002.

4.4 The role of the South African government in SMME development.

The task of the government plays an important role in stimulating SMME growth.³¹ Not only do SMMEs play a critical role in absorbing labour, penetrating new markets and generally expanding economies, it may also serve to alleviate poverty.

³¹ Small, medium and micro-enterprises (SMMEs) represent an important vehicle to address the challenges of job creation, economic growth and equity in South Africa

The White Paper of the Department of Trade and Industry represents government's view on what it can contribute to the process of stimulating small, medium and micro-enterprises.

The legal framework includes the following acts to better enable SMME'S:

- The National Small Business Act (number 102 of 1996)
- Black economic empowerment strategy. (2003)

4.4.1 Objectives of Black economic empowerment

The general objectives of these Acts (Black Economic Empowerment Bill 2003) include:

- *[promoting] economic transformation in order to enable meaningful participation of black people in the economy;*
- *achieve a substantial change in the racial composition of ownership and management structures of existing and new enterprises;*
- *increase the extent to which communities, workers, collective enterprises and cooperatives own and manage existing and new enterprises;*
- *promote investment programmes that lead to broad-based and meaningful participation in the economy by black people in order to achieve sustainable development and general prosperity; and*
- *Develop rural communities and empower local communities by enabling access to economic activities, land, infrastructure, ownership and skills.*

4.4.2 Background to skills development in South Africa

Several discussion papers and reports have been circulated among small business support agencies in South Africa. Numerous conferences and workshops have been held to air the concerns of entrepreneurs and business associations. There has been research on consensus about support needs,

feasible programmes and a consistent national strategy. In October 1994 the Ministry of Trade and Industry released a discussion Paper on Strategies for the Development of an Integrated Policy and Support Programme for Small, Medium and Micro-Enterprises in South Africa.

According to the white paper on SMMEs (1995:4), *semi-developed (Asian) countries that have over the past decade attained high, sustainable and egalitarian growth share the following characteristics:*

- *High priority for the development of reliable statistics on the SMME sector.*
- *High levels of human capital development.*
- *A strong and broad-based small-scale manufacturing sector.*
- *Ready access to information technology.*
- *Consistent investment in research and development.*
- *Particular emphasis on women's enterprises, which have a strong orientation towards food, security, health and children's education.*

In 1997 the SMME sector in South Africa absorbed nearly 57 percentage points of people employed in the private sector and contributed 42 percentage points of the gross domestic product. Currently just fewer than 72 percentage points of all private sector enterprises in South Africa employ four people or less. The most dynamic source of employment is likely to be in the SMME sector³².

³² A clear distinction is made between survivalist activities, micro-enterprises, small enterprises and medium-sized enterprises, with the general term "small business" and the abbreviation "SMMEs" widely used to contrast this sector with big (ger) business. The white paper on small business distinguishes between four categories since the policies with regard to each may differ due to the different needs of each.

The white paper regards Survivalist enterprises as being '*those activities by people who are unable to find employment in an economic activity of their choice, have virtually no skills and training, who's income falls far short of even a minimum standard and have limited opportunities.*' poverty and the attempt to survive are the main characteristics of these enterprises. Micro enterprises are very small businesses, often involving only the owner, some family members and at the most one or two paid employees.

According to the White Paper on SMMEs (1995:3)

...Although the statistical base of the SMMEs in South Africa is still poor, there can be little doubt about their relative significance. There are more than 800 000 small, medium and micro-enterprises in the country, absorbing about a quarter of the labour force for 15 million people. This is in addition that about 3.5 million people are involved in some or other type of survivalist enterprise activities.

4.5 Conclusion

A poverty alleviation strategy³³ through welfare measures is a short-run method of rectifying imbalances. In the long-run other strategies must be implemented.

The SMME sector will continue to absorb labour as long as the formal sector continues to grow without creating new employment opportunities. Just as HIV and AIDS is an epidemic in South Africa, so is unemployment. Skills development can create human capital but there still need to be an avenue for its use. In the following chapter an investigation made into international experiences of small and medium enterprises. (SMEs)

³³ According to Samson (2002) South Africa's current social security system can at best reduce poverty by only a third.

CHAPTER 5

ANALYSIS OF RELEVANT CHAPTERS

5.1 Introduction

The following chapter evaluates recent research conducted by Johnson (2002) in the United Kingdom (UK) into training and development activities in Small and Medium Enterprises (SMEs), and describe lessons that could be of value to South Africa. Thereafter analyses of the previous chapters are reviewed and recommendations are made.

5.2 Skills development – Lessons from the United Kingdom

5.2.1 Background to skills development in the United Kingdom (UK)

According to the services SETA newsletter article prepared by Avidan (2003)

The UK government recognised the need for training and skills [training] in 1964. In 1988, the UK Department of Employment Training Agency drew up a white paper called “Employment for the 1990’s”. This referred to the major remits of setting up a national network of Training and enterprises Councils (TECs) and ... promote to employers the necessity of their investing in the skills of the working population’ through an action programme.

UK Government policy was influenced by a 1988 confederation of British industry (CBI) report “Towards a skills Revolution” which was produced by an employer task force. The CBI’s report proposed the concept of “The investor in Training” with ten good practice principles to be achieved by a target number of medium to larger employers within five years.

In 1990, a National Training Task Force (NTTF) sub-group was set up to oversee the development of the National Standard. The group represented a wide range of interests, namely CBI, Trades Union

Congress, Association of British Chambers of Commerce, Institute of Personnel Management, Institute of Training and Development, National Council of Industry Training Organisations (NTTF), the Industrial Society and Scottish and Welsh interests.

The structure of the South African Skills Development Act (1998) is not the same but it is evidently where the South African model originated from. More research has to be conducted to determine similarity in skills design in developing countries.

The following however are the lessons that can be learnt from UK researcher Steve Johnson.

Johnson (2002) claims that since the election of the labour Government in 1997 in the United Kingdom, key changes in labour market and skills policies, indicated by the establishment of the Sector Skills Councils (SCCs) and the Sector Skills Development Agency (SSDA) have occurred.

He further states that the UK National Skills Task Force Final Report (2000) recognised the key role played by SMEs in the learning and training system. *These documents suggest that there are a number of problems associated with engaging SMEs in the national skills agenda. Johnson (2002:285)*

He indicates the following:

- *Low levels of off-the-job training by SMEs, in comparison with larger organisations;*
- *Lack of internal capacity, and sometimes motivation , to provide learning opportunities for their staff;*
- *A “disturbingly high proportion ... of owner-managers who had low or no qualifications. (National Skills Task Force 2000:para.4.23),*

According to Johnson (2002)

- *The report indicates that there should be more support for small employers, to widen the availability of learning for the adult workforce and to help small firms adopt the latest working practices with the skilled workforce they require in order to be successful (National Skills Task Force 2000:10)*

He advises the following:

- *Great care should be taken to ensure that statistics on SMEs are accurate.*
- *Reliable national statistical evidence that compare the training and learning activities of firms of different sizes is rare.*
- *The larger employers are estimated to be three times more likely to provide learning opportunities than small firms with fewer than five employees.*
- *The smaller employees that do provide training are less likely to offer training that will lead to a formal qualification.*
- *A clear distinction must be made between small firms and medium or large ones. It is important for policy makers not to treat SMEs as a homogenous group.*

Even though there are differences, there are also similarities that can be derived from Johnson. It is important that the performance of SMMEs is measured. Clear criteria against which assessment can be made must be implemented in order to gauge the success of policy around SMMEs. The success of South Africa is in the hands of the SMME sector. A tangible index of performance measurement is required in order to determine the success rate of SMMEs in the economy.

The small business sector is an important feature in generating employment and alleviating poverty. It has the potential to create a more equitable

distribution of income, to activate competition, develop skills, exploit niche markets nationally and internationally and enhance productivity.

5.3 Analysis of Relevant Chapters.

5.3.1 The inefficiency of growth models

Growth models are guides to the comprehension of growth but are insufficient at policy direction. They have an important role in economic theory but add little to the understanding of why some countries succeed at generating and sustaining high levels of growth and others do not. Often many macroeconomic models become extremely technical without adding value to the policy making debate. They are loaded with assumptions and equation specifications. Growth models would have to be more country specific in order to give clear policy direction.

5.3.2 Empirical evidence

Empirical evidence does not offer consistent and clear direction on growth and sustainable development. It is evident though that an unequal distribution of human capital slows growth and particularly slows income growth of the poor which is specific to the South African economy. Countries where the distribution of education and skills are more equal have had faster growth than those that have a skewed distribution.

Spending on education by the public sector is possibly at its peak in South Africa compared to the rest of the world and Sub-Saharan Africa. An increase in the budgetary allocation on educational spending in South Africa may have a negative consequence on other forms of social welfare spending.

5.3.3 Unemployment as a Priority

The employment rate in South Africa is alarming. It features disappointingly against other developing countries. The high unemployment rate is associated with poverty and crime and is a time-bomb that can seriously undermine economic stability that has been accomplished in the last decade of South

Africa's democracy. Unemployment in South Africa is an epidemic and must be treated as a priority before anything else.

The role of government is crucial in ensuring the success of small business. Over and above the fact that small business create employment opportunities and stimulate economic growth, it can also be seen as a way of alleviating poverty.

5.3.4 Skills development

Skills in industry have become obsolete and new ones must be adapted to a rapidly changing technological environment. The workplace is characterised by global competition, cultural diversity and technological and management processes that require workers to have critical thinking, problem solving and communicative skills. Firms that want to stay globally competitive are likely to structure its workforce in such a way that it is able to adapt to constantly changing technology.

The development of existing and the acquisition of new skills that are in demand in the labour market are of vital importance to South Africa. The cost of skills development far outweighs the cost of not having a skills development programme.

The skills Development Act (1998) can be regarded as a corrective measure for a previous inefficient education system. It should reduce inefficiency by better equipping our labour force and reallocating labour as demanded by the market.

5.4 Conclusion

The government's human development strategy identifies how poverty and inequality undermine human capital development and limit economic growth. The poor are trapped in poverty and therefore providing all South Africans with an economic opportunity improves social stability and reinforces the foundations for economic growth.

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Annexure 1 Country groups

East Asia and Pacific (developing only: 24)

Malaysia	Philippines
Marshall Islands	Samoa
Micronesia, Fed. Sts	Solomon Islands
Mongolia	Thailand
Myanmar	Timor-Leste

Palau
Vanuatu
Papua New Guinea
Vietnam
Northern Mariana Islands
Tonga

Europe and Central Asia (developing only: 27)

Hungary	Serbia and Montenegro
Kazakhstan	Slovak Republic
Kyrgyz Republic	Tajikistan
Latvia	Turkey
Lithuania	Turkmenistan
Macedonia, FYR	Ukraine
	Uzbekistan

Turkmenistan
Ukraine
Uzbekistan
Moldova
Poland
Romania
Russian Federation

Latin America and the Caribbean (developing only: 30)

Ecuador	Panama
El Salvador	Paraguay
Grenada	Peru
Guatemala	St. Kitts and Nevis
Guyana	St. Lucia
Haiti	St. Vincent and the Suriname

Venezuela, RB
Jamaica
Mexico
Nicaragua
Trinidad and Tobago
Uruguay

Middle East and North Africa (developing only: 15)

Jordan	Saudi Arabia
Lebanon	Syrian Arab Republic
Libya	Tunisia

Morocco
Oman
West Bank and Gaza
Yemen, Rep.

South Asia (8)

India	Pakistan
Maldives	Sri Lanka

Nepal

Sub-Saharan Africa (48)

Gabon	Niger
Gambia, The	Nigeria
Guinea-Bissau	Kenya
Lesotho	Sierra Leone
Liberia	Mayotte
Madagascar	Mozambique
Malawi	Namibia
Mali	Somalia
Mauritania	South Africa
Mauritius	Sudan

Guinea
Sao Tome and Principe
Seychelles
Swaziland
Tanzania
Togo
Uganda
Zambia
Zimbabwe

Source: ILO's Global Employment trends (2003) and the Reserve Bank of South Africa

Note: (1) The rate is for 1995 – 2000. (2) The reported growth rates in ILO (2003) is mainly from World Bank (2002b).

Annexure 1 continued.....Low-income economies (64)

Guinea	Nigeria	Uganda
Guinea-Bissau	Pakistan	Uzbekistan
Haiti	Papua New Guinea	Vietnam
India	Rwanda	Yemen, Rep.
Indonesia	Sao Tome and Principe	Zambia
Kenya	Senegal	Zimbabwe
Korea, Dem Rep.	Sierra Leone	Myanmar
Kyrgyz Republic	Solomon Islands	Nepal
Lao PDR	Somalia	Nicaragua
Lesotho	Sudan	Niger
Liberia	Taiikistan	Mauritania
Madagascar	Tanzania	Moldova
Malawi	Timor-Leste	Mongolia
Mali	Togo	Mozambique

Lower-middle-income economies (54)

Guatemala	Romania	Maldives
Guyana	Russian Federation	Marshall Islands
Honduras	Samoa	Micronesia, Fed. Sts.
Iran, Islamic Rep.	Serbia and Montenegro	Morocco
Iraq	South Africa	Namibia
Jamaica	Sri Lanka	Paraguay
Jordan	St. Vincent and the	Peru
Kazakhstan	Suriname	Philippines
Kiribati	Swaziland	Turkmenistan
Macedonia, FYR	Syrian Arab Republic	Ukraine
Turkey	Thailand	Vanuatu
Tunisia	Tonga	West Bank and Gaza

Upper-middle-income economies (34)

Hungary	Panama	Mayotte
Latvia	Poland	Mexico
Lebanon	Saudi Arabia	Northern Mariana Islands
Libya	Scyhellcs	Oman
Lithuania	Slovak Republic	Trinidad and Tobago
Malaysia	St. Kitts and Nevis	Uruguay
Mauritius	St. Lucia	Venezuela, RB

High-income economies (56)

French Polynesia	Netherlands	Kuwait
Germany	Netherlands Antilles	Liechtenstein
Greece	New Caledonia	Luxembourg
Greenland	New Zealand	Macao, China
Guam	Norway	Malta
Hong Kong, China	Portugal	Monaco
Iceland	Puerto Rico	Sweden
Ireland	Qatar	Switzerland
Isle of Man	San Marino	United Arab Emirates
Israel	Singapore	United Kingdom
Italy	Slovenia	United States
Japan	Spain	Virgin Islands (U.S.)

High-income OECD members (24)

Greece	New Zealand	Korea, Rep.
Iceland	Norway	Luxembourg
Ireland	Portugal	Switzerland
Italy	Spain	United Kingdom
Japan	Sweden	United States
Netherlands		

Annexure 2 International Education Finance						
Countries in Sub Saharan Africa	Total public expenditure as a %GNP		Public expenditure on Education as a % of tot. Gvt expenditure		Public current expenditure on education as % of total expenditure on education	
	1990/91	1999/2000	1990/91	1999/2000	1990/91	1999/2000
Angola	4.9	5.2**	10.7	...	89.9	88.7**
Benin	...	2.6**	...	...	...	93.8**
Botswana	6.9	9.3**	17.0	...	71.3	...
Burundi	3.4	3.9**	16.7	...	97.0	94.2**
Cameroon	3.4	2.5	19.6	9.8	90.7	85.8
Comoros	...	3.5	...	23.5	...	...
Congo	6.0	5.5	14.4	12.6	97.4	92.9
Côte d'Ivoire	...	6.4	...	40.8	...	74.0
Equatorial Guinea	...	2.0**	...	...	...	84.5**
Ethiopia	3.4	...	9.4	...	82.4	...
Gabon	...	3.8**	...	...	...	87.3**
Gambia	4.1	...	14.6	5.7	77.1	...
Ghana	3.3	4.2**	24.3	...	86.7	...
Guinea	...	2.1**	...	...	...	50.0**
Guinea-Bissau	...	2.3	...	4.8	...	...
Kenya	7.1	6.8	17.0	...	90.4	97.8
Lesotho	3.7	7.9	12.2	18.5	82.1	84.6
Madagascar	2.2	5.9**	...	...	90.8	...
Malawi	3.4	4.1**	11.1	...	75.3	...
Mali	...	3.0**	...	...	...	89.6**
Mauritius	3.6	3.5	11.8	...	93.0	100.0
Mozambique	4.1	...	12.0	...	63.7	...
Namibia	7.5	...	...	...	...	...
Niger	3.2	2.1**	18.6	...	...	...
Nigeria	1.0	0.7**	...	...	85.0	...
Senegal	4.1	3.5**	26.9	...	99.4	...
Seychelles	8.1	7.9**	14.8	...	100.0	...
South Africa	6.5	5.9	...	...	89.0	94.3
Swaziland	5.5	6.2	19.5	...	81.9	100.0
Togo	5.6	4.8	26.4	26.2	93.0	96.7
Uganda	1.5	2.3**	11.5	...	91.8	...
United Republic of Tanzania	3.4	...	11.4	...	87.9	...
Zambia	2.6	...	8.7	...	87.0	...
Zimbabwe	8.0	11.1**	...	...	99.2	...
Sub-Saharan Africa	3.6	3.9	14.6	...	89.9	89.6
Source : World Bank Group 2004						
** UNESCO Institute						
w World Education Indicators (WEI) project countries						

Annexure 3

Growth and investment: developing countries performance

Region and country	Annual GDP growth rate 1995 - 2001	Gross investment (% of GDP) 2001
Latin America		
Brazil	2.5	21
Argentina	1.3	16
Chile	5.6	23
Mexico	3.2	21
East Asia		
China	8.6	39
Korea, Rep.	5.6	27
South East Asia		
Indonesia	2.4	17
Malaysia	5.0	24
Singapore	6.7	31
Vietnam	7.2	27
South Asia		
India	6.5	24
Bangladesh	5.1	22
Sub – Saharan Africa		
Botswana	5.2	20
Kenya	2.2	13
Mauritius	5.6	26
Namibia	3.9	24
Nigeria	2.7	23
Senegal	5.3	20
Tanzania	4.0	19
Zambia	2.3	21
South Africa	2.7	15

Source: ILO's Global Employment trends (2003) and the Reserve Bank of South Africa

Note: (1) The rate is for 1995 – 2000. (2) The reported growth rates in ILO (2003) is mainly from World Bank (20002b).