

[Chapter Six]

N E W D I R E C T I O N S F O R T H E M E D S



6.1 Introduction

In this Chapter, we address three issues that have arisen through the further research and discussion that has characterised this phase of the MEDS.

Institutional Design

Proponents of an active industrial policy have laid great stress on the institutional design that underpins such policy. Of most importance is the manner and organisational form through which government interacts and is in constant dialogue with the business sector. We review this debate and show how it has informed our proposals for institutional design. We note that the Province has had some considerable experience in developing novel institutional forms in order to effect this dialogue.

Knowledge Intensification and Skills

The MEDS has consistently stressed that the overriding feature that differentiates this province from the rest of South Africa, and gives it a competitive edge, is a high proportion of knowledge intensive economic activities. However, the production of knowledge and skills are widely acknowledged to be subject to market failure. Further development will not occur unless the provincial government focuses its interventions selectively and develops new regional initiatives focused on skills, learning and knowledge intensification activities.

In the spirit of shared, accelerated growth, the challenge lies in accepting the opportunities the knowledge economy provides, while guarding against negative effects on equity and social cohesion. This calls for a commitment to, and a strategy in support of, knowledge intensification across all skills levels. The MEDS argues that the Province can in principle pursue an industrial strategy aimed at knowledge intensification that involves all skills bands. Knowledge intensification does not refer exclusively or primarily to skills-intensive or high-tech activities. Low- or medium-skilled activities in traditional sectors can equally be subject to knowledge intensification. The education and skills discrepancies that characterise the Western Cape dwarf those in most developed and many developing countries.

Without an explicit commitment to including all people in the Province in the emerging knowledge economy, marginalisation of very significant parts of the population is likely to become even worse.



The Informal Sector

An exclusive focus on knowledge intensification and skills, even if it is aimed across all skill levels, may widen discrepancies under conditions where, as in the Western Cape, educational discrepancies are so extreme. In particular, for those outside of the formal sector, a singular focus on skills offers little. The provincial strategy needs to walk on 'two legs' and simultaneously support those with low skill levels and very limited access to training. In this phase of the MEDS we accordingly gave considerable attention to the development of the informal sector. MEDS research has indicated a number of important characteristics of the informal sector in the Province. In emphasising the importance of the informal economy in the Western Cape and its specific differentiating characteristics the MEDS has attempted to embark on an integrative process of sectoral growth with developing the productive aspects of the informal economy.

6.2 Institutional Design

The biggest single challenge for government in its development of policies for different economic sectors and crosscutting themes is one of limited information. In order to identify appropriate policies, government seeks to identify the myriad of opportunities and constraints that firms face and to understand firm responses. This is a daunting task. A recent review of industrial policy accordingly concluded "The range and depth of knowledge that policymakers would have to master to implement a successful industrial policy is extraordinary. They would have to understand the relevance of , and be accurately informed about, a huge range of complex questions and have the ability to accurately evaluate very subtle differences" (Pack and Saggi, 2006:21).

So difficult is this task that many, indeed most, economists are opposed to government taking an active role in this arena. They stress the enormity of the task confronting government while simultaneously emphasising the limitations on government capacities and resources. From this perspective, the probability that such policy interventions will fail is very high. Government failure is likely to be ubiquitous.

Proponents of an active role for government do not deny that the task is a very difficult one. They concede that the possibility of government failure is very real. But, they nevertheless argue for an active role for government. Essentially, their argument for an active industrial policy rests on two pillars. Firstly, they stress the wide ranging extent of

market failure. Secondly, they argue that the limitations on government in accessing the necessary information can be very considerably alleviated through the development of appropriate processes and institutions. Thus, proponents of the new industrial policy therefore place considerable emphasis on institutional design.

Thus, Rodrik (2004) argues that there is a wide range of generic market failures and externalities – indeed a wider range with a more constraining impact on development than has hitherto been recognised. The location and magnitude of these failures is highly uncertain. The private sector has far better, albeit also imperfect, knowledge. The key issue is how to ensure that government can access and learn from the information possessed by the private sector. At the same time, it is important that the private sector is well informed about government policies and limitations since government has an important impact on their behaviour. The organisation and processes designed to ensure that government and business are in a dialogue such that government can access that information and to act effectively on it, and also that business can have knowledge of governmental policies and capacities is what we would term broadly institutional design.

Hence Rodrik states that, “the right model for industrial policy is not that of an autonomous government applying (interventions) ... but of strategic collaboration between the private sector and the government with the aim of uncovering where the most significant obstacles to restructuring lie and what type of interventions are most likely to remove them. Correspondingly, industrial policy needs to focus not on the policy outcomes – which are inherently unknowable ex ante – but on getting the policy process right. We need to ... design a setting in which private and public actors come together to solve problems in the productive sphere, each side learning about the opportunities and constraints faced by the other.” (Rodrik 2004: 3).

Policy research also has an important role to play. Government commissioned research can identify the opportunities and constraints faced by firms and the market failures. It can provide an important initial starting point for governmental policy. MEDS commissioned research is designed for exactly this purpose. The MEDS research has resulted in a number of proposals for policy.

But the constraints and opportunities firms and sectors face are changing constantly. Optimally, policies will need to be modified and adjusted to take account of changing circumstances. While research provides an important starting point, the rapidity of change

requires that the dialogue between government and business be regular and ongoing. Provincially based industrial policies have the advantage of being able to create such an ongoing dialogue because spatial closeness strengthens the possibility of institutionally embedding this relationship between government and business.

During the MEDS process we have accordingly given considerable consideration to the institutional design of industrial policy in the Province – a setting whereby government and the private sector are in an ongoing dialogue about the opportunities that they each face. Indeed, the MEDS is the first explicit attempt to make proposals as to how policy could optimally be institutionalised in South Africa. The proposals advanced here therefore have, we would suggest, a wider relevance.

As we have emphasised at the outset of the report, the resources and capacities of the Province are very limited. At the same time, the Western Cape is a very diversified economy undergoing significant growth and facing a host of new opportunities and constraints. In this light, we have attempted to craft our proposals with a careful eye on limiting the prospects of governmental failure and attempting to ensure that what is undertaken by government can indeed be implemented within the constraints that face the provincial government.

The cardinal and central feature of this rests in the relationship of government with the business sector. This may entail dialogue of government with formally constituted sector associations or the creation of what has come to be called Special Purpose Vehicles (SPVs), on which both private firms and government are represented, as in Call Centers and Business Process Outsourcing. In this regard, the department of economic development (DED) has, well prior to the MEDS, already made considerable progress and there are currently 15 SPVs in the Province. These SPVs are not-for-profit section 21 companies or trusts with boards that generally represent industry, labour, government and academia. Typically, at least 50% of the representatives on the board are drawn from industry. The department has considerable experience in successfully establishing and working with these institutions. While it was not the task of the MEDS to make a detailed evaluation, the indications are that these SPVs have generally worked well. It is of concern, however, that the SPVs operate under short-term funding horizons. A longer term framework would enhance their strategic role. The structured dialogue as between business and government – very much in line with the spirit of public-private partnerships encouraged by the MEDS – has resulted in a number of activities in marketing, export promotion, skills and training and infrastructure provision that have supported the further development of the sector. What is particularly encouraging is that a number

of the SPVs have become actively engaged in encouraging and mentoring new entrants – in film and ICT for example.

In all of our priority sectors, where this is possible¹⁸, we have recommended that the DED devote considerable attention to engaging with and further strengthening the development of such organisations.

The very limited capacity of government accords a greater role to the private sector. Indeed, the private sector rather than government will often play the leading role. What is envisaged by the MEDS is that sector associations or SPVs, in consultation with government sector “specialists,” will propose policies for support to government. Government will have the independence and the analytic capacity necessary to assess the merits of these proposals based upon government’s objectives for output and equity. Since government’s capacities here are limited, this may well require government having recourse to external advice.

Moreover, these organisations may not be confined to discussing and developing policy. They may well engage directly in implementation. Thus, government may grant funding support for a proposal that emanates from an association or an SPV and task that organisation with ensuring that the programme is carried out and that the funding is spent effectively. A proposal for training for example may receive government support with the organisation managing and directing the programme. Thus these organisations can carry much of the burden of industrial policy – both in its design and in its implementation, thus economising on limited governmental capacities.

There are two major dangers of an institutional policy design that places such an emphasis on the private sector. The first is that government personnel working so closely with the private sector may lose any autonomy and become, willingly or unwillingly, uncritical proponents of the particular interests of their sectors or parts thereof. Government “capture” is particularly likely where government personnel lack in-depth knowledge of the sectors and have very limited formal training or experience of their sector or business in general. This can be countered by creating a formal institutional structure to encourage industry-government relationships, as well as designing a knowledge-acquisition learning and training process for the government personnel so as to upgrade their understanding of industry dynamics.

¹⁸The two exceptions are SMMEs and the Informal Sector. These are evidently multi-sectoral activities. Single associations are not therefore appropriate. However, it may well be advantageous for government to encourage and support the development of sector-based associations within these broad groupings – a sector association of informal sector traders, for example.

The second is that policies may favour existing firms but do very little, if anything, to encourage new entrants. The provincial government is committed not only to seeing output growth on the part of existing firms but also of promoting new entrants – more especially of black and female-owned firms. While data do not allow for detailed analysis, there are indications to the effect that entry (and exit) of firms is less significant in South Africa than elsewhere. This will adversely affect growth (much of productivity growth arises from the entry of new more efficient firms and the exit of less efficient firms), but particularly impact negatively on equity considerations – both a more equitable gender and racial spread of ownership, and employment creation since new smaller entrants are typically more labour intensive.

It will be critical for government to ensure that its policies and the programmes that it supports will have broad beneficial effects with respect to the sector as a whole, as well as potential new entrants.

No institutional design is risk free. Government will need to be vigilant and it will have to ensure that it progressively develops its own capacities. This latter aspect is critical. One important test of the institutional design is whether it fosters the progressive development of governmental capacities. As with firm organisation that is designed to enhance internal capacities through promoting learning by doing, so at governmental level too, this is a central objective of any institutional design. As governmental capacities develop, policy can *pari passu* become progressively more effective and also perhaps more adventurous than is currently appropriate.

6.3 Building Regional Knowledge Intensification and Innovation

Although we know more about sectoral activity in the Province than about the regional innovation dynamics in the Western Cape, it is possible to make some conjectures about the relationship between the two which revolve around the character of knowledge bases and the nature of technical change in different industrial activities. In sectors such as textiles, boat-building or conventional medical devices innovative activities are mainly the result of the application or re-combination of existing knowledge which is often tacit in nature. It is gained from learning by doing aimed at improving products and processes; formal R&D does not play such a large role. This puts a premium on hands-on skills drawn from training in vocational and polytechnical institutions as well as through on the job training. Policymakers intervene *ex post*, for example, after things have gone wrong with a sector.

By contrast, in new sectors such as IT or biotechnology and advanced medical devices, knowledge creation is more strictly analytical and adheres to scientific principles of inquiry. This is why linkages between these activities and universities or science institutes are closer. Knowledge is more often codified, and is also more often incorporated in radical innovations. Here, policymakers must intervene *ex ante* to ensure that the requisite knowledge infrastructure for this kind of industrial activity exists in the first place. Hence the knowledge base and the nature of learning given by a region's economic make-up influence the constitution of a regional innovation system (Asheim and Coenen 2005).

6.3.1 Knowledge Intensification in the Western Cape: a first take

This brief review has shown that knowledge is important for economic catch-up, and that the most important sources of knowledge relevant for technological upgrading are context specific and need to be verified empirically. Policymakers must understand the prevalent dynamics of innovation in order to be able to influence them. Although sectoral studies such as those underpinning the MEDS contribute to this end, they are in themselves not sufficient, because they do not shed much light on the relative importance of relational competences at the firm level and on the intra- and intersectoral linkages at the regional, national, or international level. For example, the provincial government, in conjunction with the Cape Boat-building and Technology Initiative, is addressing artisan skills shortages in the boat-building sector through the dedicated boat-building academy at False Bay College. Yet the analysis of the boat-building sector undertaken for the 2006 MEDS underlines, albeit anecdotally, the absence of relational competences in the industry. This is a direct constraint on technology absorption and suggests that network stimulation may be just as important for innovation in boat-building as, say, a more reliable supply of specialised welders.

It is really only with the help of a regular, dedicated business survey covering both technical and relational competences of firms, that it would be possible to locate sectoral activities which in turn would make it easier to design appropriate interventions in support of activities that the provincial government wants to promote. The South African R&D Survey and Innovation Survey, respectively, while helpful in gauging R&D expenditure and innovative performance, do not contain such information. In fact, if disaggregated to provincial and sectoral level, the samples become so small as to be no longer representative. Therefore if the provincial government systematically wants to understand what makes firms in the province tick, there is no substitute for a proper

provincial business survey. The province could either commission such a survey itself or convince Statistics SA to do it. Since the latter course of action is likely to take quite some time and convincing, it might be worthwhile running a survey once or twice over a period of two to five years until the national statistics agency is ready and willing to take over.

Broadly speaking, the survey would be an instrument to assess firms' competences and the skills of individuals on which they draw. This includes internal and external competences. Internal competences can be technical, organisational, or financial. For example, undertaking tests of innovative products and processes in their operational contexts, or analysing flaws and breakdowns of these new processes, are examples of technical competences. Organisationally, a firm's competence is influenced, for example, by more or less acceptance of creative behaviours that are not directly productive, or the presence of systems that ensure the rewarding of original ideas that have been selected for adoption. Finally, *ex-post* evaluations of the cost of past innovations are among the determinants of a firm's financial competence.

External competences are in essence relational and refer to the way firms interact with customers, competitors, suppliers, and public institutions. Like internal competences, they are intimately linked to the quality of human capital. Using the product as a source of information about customer satisfaction, analysing competing products, speedily adopting technologically new equipment, and R&D partnerships with universities, belong in this category. A research department at the French Ministry of Industry undertook such a survey in 1997 which, if suitably adapted to South African conditions, could serve as a model.

Ideally, such a survey would be mandatory to ensure a high return rate. If this is not feasible, the survey would have to counter "survey fatigue" in the private sector. Of course, potential respondents are more likely to take part if they perceive the endeavour to be in their interest. To this end, the department of economic development should engage first and foremost the sector associations and other forms of organised business interest in order to get institutional stakeholder backing for this initiative. The incentive is based on better policy through better knowledge – namely the promise of an alert and responsive provincial government in exchange for information provision from the private sector which is of value to understanding the Western Cape economy much more thoroughly than we currently do. It would be a powerful means to advance the Western Cape Growth Coalition, more about which follows below.

The role of universities in knowledge creation and the building of technical and professional capacity are receiving attention all over the world (World Bank 2002). In the South African context, this has particular relevance because as a middle-income country it competes both against more price-competitive and more productive countries. Since it is virtually impossible to reach price levels of competitors from places like China, the onus lies on productivity increases. Of course, the creation of knowledge also has intrinsic value. Yet a key expectation is that tertiary institutions interpret and translate technological trends to their environment (Sutz 2005). This goes beyond merely interacting with firms: next to teaching and research, “third stream” activities refer to the use of university capabilities outside the academic realm and in direct interaction with society (Molas-Gallart et al. 2002). In some countries, higher education institutions have played important roles in regional growth partnerships. In Sweden, for example, in the late 1990s universities became part of growth agreements and helped suggest priorities for public growth capital, introduce a long-term perspective to regional development, and shape important debates relating to the sustainability of the underlying growth model (Hudson 2006). Evidence from Australia suggests that the degree to which universities successfully participate in such growth coalitions depends on the clear articulation of regional strategies to which they can relate (Garlick 2000).

Although some pundits make it seem as though constructs such as the triple helix can do wonders for regional development, the one-size-fits-all adoption of alleged best-practice models is problematic (Lorentzen 2006). The case for more investment in higher education in Africa is uncontroversial; but which role universities actually play in economic development needs more research (Bloom, Canning, and Chan 2005).

Even though our understanding of the dynamics is far from complete, some inferences can be drawn from what is known about the Western Cape economy. In light of the small role of high-tech production in the Province, the direct role of universities as providers of scientific knowledge to industry is likely to be smaller than its role as a provider of competent graduates who can work in and manage low- and medium-tech industries which form the backbone of the economy. In production-intensive sectors such as medical devices, the relational competences that matter most are those with customers who are important contributors to product innovation. In science-based sectors such as information technology, on the other hand, relationships with suppliers tend to be more important because it is in upstream relationships that process innovations are generated and perfected.

But although the share of high-tech production in the Western Cape is limited, the platform character of the new technologies, especially ICT, justifies that they are being given more attention than what might seem reasonable in view of the number of people they employ or the value of exports they generate. “Platform” implies that these technologies are not just important in their own sector but also in relation to other activities in that they have a profound effect on the way we do things in countless applications.

What is known about the role of universities from around the world is that even in those sectors where they are essential for technological progress, universities never matter in and of themselves but in relation to the nature of interaction with the business sector. Thus, having some of Africa’s best universities located in the Province is of little relevance to regional innovation unless these universities co-evolve as training and research institutions with their counterparts in industry.

Ongoing research into absorptive capacities and systemic linkages in four sectors in the Western Cape undertaken at the HSRC suggests that the external market (e.g. competitors, customers, suppliers) is an important source of external knowledge but that universities and science councils are on average not. This is bound to reduce innovative performance. In addition, the geographical origin of these linkages is primarily regional, rather than national or international. This might indicate that networking is alive and well. But a less benign interpretation is – given South Africa’s status as a catch-up economy – that the absorption of global technology is lower than it should be. Indeed, the two might be linked: given an overall low level of interaction between universities and the business sector, universities do not fulfil one of their perhaps most important roles, namely translating relevant scientific global knowledge – that they are in a better position to access than anybody else – into a form that lends itself to technological exploitation.

In light of this, the WCPG should look at the role of research in higher education-industry relationships, especially in the science-based sectors. If these relationships are on average as poor as some research suggests, then much could be gained from improving it with a view to growing technology platforms that are accorded national priority status and that hold much promise for addressing some of the most pressing issues of (South) Africa’s development. At the same time, it should look at higher-order (e.g. management) skill constraints in both traditional and production-intensive sectors in which most economic activity in the Western Cape takes place. Universities and the science sector are important for the knowledge economy. It is therefore worthwhile investing

in understanding their contribution to the knowledge intensification of economic activities in the Western Cape better than we currently do.

This calls for a growth coalition with a focus on knowledge and innovation for development in which universities and the private sector are well represented. The Australian experience referred to above suggests that it is more feasible to get role-players around a table if government provides an agenda that organises the discussion. In our case, the agenda is premised on the development goals of the province:

- How do we reach or exceed the Millennium Development Goals in the Province?
- How do we obtain our other growth, job creation, and equity objectives by 2030?

The Cape Growth Coalition would identify the:

- Major technological and socio-economic challenges that influence the likelihood that the Province achieves its aspirations, and
- Means by which knowledge intensification can be mustered to help the Province rise to these challenges.

Nobody needs just another talk shop. The Swedish example referred to above underlined the importance of enlightened self-interest in regional growth compacts. The Cape Growth Coalition will work only if incentives for participation on the part of all stakeholders and the organisations they represent are properly aligned. Thus, universities must harbour reasonable expectations that contributing to the Coalition will help them fulfil their mandate of teaching, research, and third-stream activities while contributing to advancing the regional agenda. Businesses must believe that by interacting closely with universities and government about the future of the Province, they will help shape a more effective policy environment. And finally, government must be convinced that by cooperating with the principal producers and users of knowledge in the Province, it will be able to become a better policymaker by instituting processes of knowledge intensification that contribute in meaningful ways to its development goals. In sum, by structuring a work programme whereby the major players in the knowledge economy learn more about themselves and about the relational dynamics they are part of, the Cape Growth Coalition can advance knowledge intensification to the benefit of the people in the Province.

6.4 Skills Development & Training

Skills Development in the Western Cape takes place within a national context that has a well-established, considerable legislative and institutional structure. The Provincial Government itself has developed a Human Capital Development Strategy (2006) that is to guide the general education and training sector in the Province in line with both national and local objectives. The focus of that document is on the youth. This document is more concerned with the endowments of skills across the economically active population in the Western Cape.

Given the prevailing policy milieu, it should be noted that the task of the MEDS is to discuss skills development within the context of the principle economic development strategy that we have adopted involving knowledge-intensification in key industrial sectors in the Province. The critical question is therefore: how do we ensure that skills development provides the basis to accelerate industrial development in the Province and meet the objective of labour absorbing pro-poor economic growth?

This question implies that that the human resource development (HRD) discussion has to be restricted from its more general focus on all of the education institutions (including those of early childhood development, primary and secondary schooling, etc). The MEDS is principally concerned with how the HRD regime impacts firms. Consequently, the focus of this discussion is on the Further Education and Training (FET) sector, the Higher Education (HE) sector, and institutions like the Sectoral Education and Training Authorities (SETAs) that are designed to have a positive impact on skills development in the workplace. It is also concerned with skills in both the formal sector and the informal sector, since if the latter is neglected it would lead to the reinforcement of inequality in the Province.

The key principal underlying the MEDS is to promote knowledge intensification in the Province and to ensure that the gains of this process are spread to poorer people. This is an emphasis echoed in the national innovation discourse. In terms of the broad policy context, one of the issues that will be crucial over the next decade, and that is explicitly acknowledged in the Human Resources Development Strategy (DOL & DOE, 2001), is the manner in which the national system of innovation interacts with the economic growth trajectory. For example, the National Advisory Council on Innovation (NACI) produced several documents on innovation, including the National Biotechnology Strategy for SA (NACI, 2001), the National Advanced Manufacturing Technology Strategy (NACI, 2003), and several other reports on everything from open-source software to how to achieve competitiveness.

National systems of innovation, research and development also interact with the skills development regime. In the National Advanced Manufacturing Technology Strategy (NACI, 2003) for example, the goals were, amongst others, to develop a vision of the technological profile of the industrial sector in the year 2014, to stimulate technological upgrading in industry, and to facilitate the flow of technological resources to industry through new knowledge networks to foster innovation (ibid, 9). From the human resources point of view, this required “wide consultation with industry, local and international science councils, tertiary education institutions, labour and government” (ibid, 11). From an educational point of view, this will require greater collaboration (a) within disciplines, (b) between disciplines, and (c) between sectors and technology focus areas (ibid, 12). The principles encapsulated here are extremely important, for implicit in them is the need for the general education system as well as specific initiatives to evolve and deliver the human resource needs of the nation.

A human resource strategy therefore has to provide new entrants to the labour market, as well as the existing employed and unemployed with a skills-set capable of facilitating their absorption into a growing economy. This is one of the keys to ensuring that the MEDS industrial policy is indeed pro-poor and not simply based on ‘high-level’ skills requirements. In trying to facilitate a ‘joined-up’ skills policy (to use the terminology of Kraak and Young, 2005), the MEDS proffers a set of recommendations to integrate human resource development with industrial development.

With this as our context let us briefly review selected demand and supply characteristics of the labour market.

6.4.1 Scarce skills in the labour market

This section briefly examines what we know about scarce skills in South Africa. The scarcity of skills can be both absolute and relative, depending on the sector, location, and technologies employed by a firm. They can also be within a single occupation, such as managers.

A good example of this is a survey conducted by a private sector firm called DYNA Training in October 2005 called the South African Leadership Trends survey. The results reported differentiate between various levels of management, starting with “Emerging”, “Supervisory”, “Middle Management”, “Senior Management” and concluding with “Executives”. The performance and skills needs of management were assessed using nine major competency areas: “Managing People”, “Self Management”, “Leadership Competencies”, “Results Orientation”, “Communication”, “Business

and Entrepreneurial Competencies”, “Professional Competencies”, “Interpersonal Skills” and “Personal Qualities”. For a detailed explanation of the component skills of all of these essentially qualitative indicators, see DYNA Training (2005, 24)

Within each of the above nine competencies: the five skills deemed by firms to be most scarce among managers were (ibid, 6): (1) people and staff management (under the “Managing People” category), (2) general leadership dynamics and management (under “Leadership Competencies”), (3) sales and marketing, but also project management (under “Professional Competencies”), (4) budgeting, finance and entrepreneurial skills (under “Business and Entrepreneurial”), and (5) general communication skills (under “Communication”). This demonstrates that even within a single occupation, there are tasks, proficiencies and personal attributes that all constitute part of a given skills-set. It thus implies that skills shortage is an amorphous concept that needs specific interpretation both within a given occupation and between them.

From the perspective of the major (absolute) occupational skills shortages, several important surveys have been conducted in SA over the last five years. In particular, efforts to determine skills shortages have provided particular insight. The most recent of these is the Department of Labour’s (2005) own published list of scarce skills. This is reproduced below. The occupations are identified as scarce from reports by all the SETAs in the Sector Skills Plans, which have been passed on to the DOL and used to construct the following table.

Evident from the table is the fact that scarce skills include those with ‘high’ skills (e.g. professionals like engineers), intermediate skills (e.g. artisan or trade based qualifications), and low skill occupations. This reinforces the need to focus on all layers of the skills spectrum in any human resource strategy.

6.4.2 Training and the SETAs

The latest information on the state of training amongst South African enterprises is provided by the World Bank’s Investment Climate Survey, released in December 2005. This survey focussed on three sectors: construction, manufacturing, and retail / wholesale trade. An important finding of the survey was that individuals that received training in the past earn about 30 % more than individuals that had not received training, other factors held constant (Clark et al, 2005, 60). However, the disturbing finding was that in 2005 firms still only trained about 45 % of workers. The following table compares South Africa’s training levels with a group of middle income countries.

Table 6.1: Scarce Skills By Occupational Categories

OCCUPATIONAL CATEGORY IN SHORTAGE (FOR 2004 - 2009)			
<p>Experienced and Qualified Managers, including</p> <ul style="list-style-type: none"> • Project managers • Financial managers • Sales and marketing managers • General managers • Business leadership • Entrepreneurs <p>Engineers, including</p> <ul style="list-style-type: none"> • Mining • Agriculture • Chemical • Electrical • Mechanical • Electronic project • Civil • Design • Nuclear • Clinical 	<p>Technicians and associated, including</p> <ul style="list-style-type: none"> • Insurance Brokers • Bookkeepers • Sales workers • Buyers • Qualified ETD practitioners • Technicians, including <ul style="list-style-type: none"> • Clinical, Phlebotomy, Medical, Water, IT, Electrical, Electronic, Aircraft, Mechanical • Entrepreneurs <p>Skilled workers, including</p> <ul style="list-style-type: none"> • Skilled horticulture workers • Maintenance personnel 	<p>Researchers, including</p> <ul style="list-style-type: none"> • Marketing • Surveyors • Entrepreneurs <p>Financial specialists, including</p> <ul style="list-style-type: none"> • Chartered Accountants • Auditors • Actuaries • Financial / business analysts / consultants / advisors <p>Service / shop / market sales workers, including</p> <ul style="list-style-type: none"> • Qualified recruitment specialists • Sales personnel • Fire fighters • Traffic officers • Police officers 	<p>Craft and related trade workers, including</p> <ul style="list-style-type: none"> • Electricians • Plumbers <p>Plant and machine operators, including</p> <ul style="list-style-type: none"> • Taxi drivers • Machine operators • Plant Operators <p>Clerks, including</p> <ul style="list-style-type: none"> • Debt collectors • Conveyance secretaries • Administrative clerks

Source: DOL (2005b, 56-57)

The fact that SA firms still only trained about 45 % of their workforce suggests that despite five years of positive and fairly robust economic growth, the augmentation of the National Skills Development Strategy and National Human Resource Strategy, and the full-scale operation of the SETAs, local companies were not responding to incentives provided by the state to increase training. As noted by Clark et al (2005), "Training in South African firms remains lower than the level required to bolster the human capital of a generation of workers that did not receive sufficient schooling. In addition, high wage levels in South Africa

require rigorous and continuous training in order to maintain a competitive advantage. The performance of SETAs will have to improve dramatically in order to meet the training needs of industry". (Clark et al, 2005). We can obtain further insight into training by evaluating selected performance indicators of the SETAs.

SETAs are responsible for providing training to firms through Learnerships. This does not preclude firms from initiating apprenticeships, but it seems as if there

Table 6.2: Cross-country Training Levels

COUNTRY	% OF SKILLED WORKERS	% OF UNSKILLED WORKERS
Brazil	77.3	68.3
China	69.1	63.0
India	55.0	33.0
Poland	79.9	86.2
South Africa	44.6	45.8

Source: Reproduced from Clark et al (2005: 65)

has been considerable confusion in this regard in the private sector. The largely anecdotal evidence concerning the success (or lack thereof) of SETAs in providing a useful service to firms has been captured in the DOL's "State of Skills" (2005a) report. In this regard, the following tables refer.

Evident from the table is that despite the overall deficit of 3,602 learnership initiatives relative to 2003 goals, a large number of learnerships had been initiated by 2004. There were clearly more effective and less effective performers over the period, with LGWSETA and FASSET recording far more total learnerships implemented compared to 2003 goals, and DITETA recording the fewest number relative to 2003 projections.

The above table shows that the DOL have used the specific numbers of learnerships completed to judge the performance of the SETAs (their latest targets and projections

are provided for the period 2005-2010 in DOL, 2005b). However, Lundall (2003) has critiqued this method due to the emphasis placed on the numbers of learnerships, rather than the numbers of people who complete training. Without this information, it is harder to judge the effective contribution of the SETAs to training initiatives.

As far as enterprise training is concerned, the following table provides useful information concerning the extent to which small, medium and micro enterprises (SMMEs) have been targeted by the National Skills Fund.

From this table it is also evident that there is large variation in the level of outreach of the SETAs and their link to SMMEs. Clearly, this will be partially dependent on SMMEs complying with the SDA and SD Levies Act and submitting Workplace Skills Plans, since it is this that would provide the SETAs with the information needed to commence engagement and interaction.

Table 6.3: Seta Performance Against the Growth and Development Summit (GDS) Learner Commitments (Learners Below the Age of 35)

SETA	GDS COMMITMENTS	TOTAL BY MARCH 2004	DIFFERENCE
FASSET	1,200	2,931	1,731
BANKSETA	1,050	1,115	65
CHIETA	1,466	1,945	479
CTFL	1,080	1,914	834
CETA	2,174	1,042	-1,132
DIDTETA	8,600	1,423	-7,177
ETDPSETA	5,000	4,145	-855
ESETA	782	849	67
FOODVEB	1,200	2,199	999
FIETA	825	871	46
HWSETA	2,000	4,131	2,131
ISETT	1,500	2,935	1,435
INSETA	350	350	0
LGWSETA	670	3,110	2,440
MAPPP	653	1,182	529
MQA	7,340	4,089	-3,251
MERSETA	8,831	9,671	840
POSLEC	300	100	-200
PAETA	1,000	722	-278
PSETA	10,000	220	-9,780
SETASA	489	158	-331
SERVICES	4,148	8,212	4,064
THETA	8,000	7,011	-989
TETA	2,250	4,425	2,175
W&RSETA	2,000	4,556	2,556
TOTAL	72,908	69,306	-3,602

Source: Reproduced from DOL (2005a, 50)

The flip-side of this is that it is therefore also dependent on whether employers see value in the SETA's role and capacity. In this regard, the following is instructive.

Evident from the table is the fact that in almost all cases, the majority of respondents thought that SETAs were not doing a good job. While this is an important result, it is not always clear whether employers always know exactly what SETAs should be doing. Recently the Minister of Labour (The Skills Portal, 2006) has had to remind the public that learnerships coexist with apprenticeships, and that these are initiatives that can be implemented simultaneously. It seems that there was a perception by businesses

that apprenticeships were no longer possible to implement; legally, this is not the case, and businesses have never been prevented from training in this manner by any Government legislation. However, there remains ambiguity surrounding firms can claim for training expenses for apprenticeships from the SETAs.

The final point about SETAs is that they also have a portion of their budgets set aside for training people who are unemployed. This presents an important opportunity to address the training needs of those without work, and could potentially play a crucial role if these

Table 6.4: National Skills Fund initiatives with SMMEs

SETA	NATURE OF INTERVENTION	BENEFICIARIES TARGETED OR REACHED
BANKSETA	Training of SMME Micro-finance institutions (MFI) as well as SMME borrowers	<ul style="list-style-type: none"> • 677 SMME MFI learners trained • 500 SMME borrower enterprises completed training
CETA	Learnership for construction contractors	<ul style="list-style-type: none"> • 241 contractors in training
PAETA	Export readiness for emerging farmers	<ul style="list-style-type: none"> • 992 learners completed • 570 in training
SETASA	Export readiness training	<ul style="list-style-type: none"> • 960 learners completed training
THETA	SMME support	<ul style="list-style-type: none"> • 140 learners in training
TETA	Provider capacity building	<ul style="list-style-type: none"> • 91 SMME completed capacity-building programme
TETA	SMME development in the small fishing boat industry	<ul style="list-style-type: none"> • 1,000 beneficiaries completed training
FIETA	Business development for SMME	<ul style="list-style-type: none"> • 34 SMME receiving development support
FIETA	Skills programmes and support for learners in SMME sector	<ul style="list-style-type: none"> • 500 SMME learners currently receiving support
W&RSETA	Skills support to SMME	<ul style="list-style-type: none"> • 2,000 SMME receiving support
MAPPP	Skills programmes for SMME workplace providers	<ul style="list-style-type: none"> • 40 SMME workplace providers in training
FOODBEV	Skills programmes to support new and existing SMME	<ul style="list-style-type: none"> • 727 learners in skills programmes • 226 learners on learnerships for SMME
FOODBEV	Support network for SMME	<ul style="list-style-type: none"> • 47 students receive bursaries while supporting SMMEs
MQA	Skills development for small miners	<ul style="list-style-type: none"> • 1,500 small miners in training
CHIETA	SMME development in chemical industry	<ul style="list-style-type: none"> • 10 SMME in training
Total Number of Beneficiaries Targeted or Reached		10,192

Source: Reproduced from DOL (2005a, 49)

funds and training programmes were leveraged effectively. It is important to note that firms rarely make demands on this source of funds due to its public good nature, and consequently the funds remain highly underutilised. Therefore a key policy recommendation for the provincial government will be to try and access these funds and to initiate training programmes in both urban and rural areas for the unemployed. A recent example of this is the “Learnerships 1000” initiative by the National Public Works Minister, The Premier of the Western Cape and the WC MEC for Transport and Public Works (Voice of the Cape, 2006).

income inequality and poverty by creating opportunities for young people and adults to further their education and consequently become employable, to encourage on-the-job training, and to include new curriculum areas in FET (Gamble, 2004, 190-191). The FET sector in South Africa is therefore touted as the major contributor to the reduction of intermediate skills shortages in South Africa.

Gamble’s (ibid, 192-193) recommendations for the sector include the fact that an ideal FET curriculum needs to make a clear distinction between low, intermediate and high

Table 6.5: Satisfaction with the services of SETAs rendered during 2002/03

Services	1	2	3	4	5 ¹⁹	No comment
	%	%	%	%	%	%
Advice and support (learnerships)	34.5	9.8	18.0	8.2	4.1	25.3
Easy submission procedures	30.9	7.2	21.6	7.7	3.6	28.9
Internet site and web pages	35.1	8.8	15.5	4.1	4.6	32.0
Promptness in paying grants	33.0	7.7	15.5	3.1	3.1	37.6
Providing information about courses, programmes and training	32.5	8.8	21.6	6.7	5.2	25.3
Providing information about grants	35.1	9.8	20.6	4.6	2.6	27.3
Providing Sector Skills Plans	40.2	9.8	14.4	3.6	2.6	29.4
Provision of free training not funded by employers	40.2	8.8	12.4	5.2	3.1	30.4
Response to queries	32.5	6.2	17.0	5.2	3.6	32.5

Source: Reproduced from DOL (2005a, 47).

6.4.3 Education and training providers

Further education and training (FET) colleges

The main objectives of FETs is to address the broad socio-economic issues of unemployment,

level knowledge and skills, while at the same time incorporating aspects of both theory and practise in that occupation. This would strengthen intermediate level knowledge and skills but move away from the manner in which they were previously associated with trade apprenticeships that were characterised by “mindless doing in response to pre-specified procedures” (ibid, 193).

¹⁹A score of 1 indicates that a respondent does not think the SETA did a good job at all, while 5 indicates the respondent thinks the SETA did do a good job.

Unwin (2003) evaluates the sector less from a curriculum point of view and more at the operational level. The author deems FET colleges to have a vital role to play in addressing the social and economic challenges in SA, and states that they need to form partnerships and work together to help achieve this (ibid, 11). Unwin also identifies a need for a “new type of infrastructure” to enable networks of college Principals and staff to share good practice and provide mutual support (ibid, 11).

Maja and McGrath (2003) report the level of employer satisfaction with graduates of FETs, where 73 % were either satisfied or very satisfied with the overall provision of workers, and most thought positively about the colleges’ quality and relevance (ibid, 63). The majority of employers were also favourable about specific areas such as the theory-practice balance, relevance, core work skills development and staff competence. However, employers identified that they needed graduates to have better problem-solving skills, and the overwhelming majority of employers identified the lack of work experience as a major problem (ibid, 64).

Higher Education

Higher education has a crucial role to play in any industrial policy premised on knowledge intensification and the spread of this knowledge. The Western Cape has the greatest concentration of higher education institutions in South Africa, and it is critical that the Province harness the potential of this sector to the maximum extent possible.

There has been considerable growth in higher education enrolments nationally, witnessed in the following table.

From the data provided it is evident that there has been fairly robust growth in university enrolments since 2000, while technikon enrolments have been more volatile. Both of these sectors have undergone considerable structural and institutional change, so it is not surprising to see a level of volatility in the numbers.

However, as the economy grows, so too will the enrolment numbers. The provincial government’s Human Capital Development Strategy (2006) places considerable emphasis on targeting the youth. Consequently, the link between matriculant pass rates and qualification for further education has been considerably researched. Therefore it would be most useful for the Province to obtain regular feedback from firms concerning their anticipated skills shortages.

6.4.4 Policy Interventions

1. Across a variety of sectors, researchers reported the shortage of skills as the major constraint to further growth. Since the growth rate is projected to increase, these shortages will become even more acute. A priority for the department of economic development and tourism is to establish a special desk and dedicated

Table 6.6: Headcount Enrolments in Tertiary Education

	1993	1995	1997	1999	2000	2001	2002	2003
University Enrolments	340,000	385,000	380,000	384,000	388,369	428,648	460,438	488,000
% Change		13.24	-1.30	1.05	1.14	10.37	7.42	5.99
Technikon Enrolments	133,000	184,000	200,000	208,000	202,792	224,327	214,690	230,000
% Change		38.35	8.70	4.00	-2.50	10.62	-4.30	7.13
Total Enrolments	473,000	569,000	580,000	586,000	591,161	652,975	675,128	718,000
% Change		20.30	1.93	1.03	0.88	10.46	3.39	6.35

Source: Reproduced from Department of Labour (2005a, 23); Own calculations

person(s) to focus on human resource issues. The major task of this desk should be:

- Post-school training for the labour market, barriers to entry into the job market, and potential blockages to upskilling;
 - Management training has been identified as a critical skills shortage in several MEDS sector reports. The Red Door initiative in the Western Cape has already begun a programme to address this, and this HRD desk needs to encourage and expand this form of training;
 - In relationship to MEDS priority sectors, this desk needs to evaluate what the training needs are across the skills spectrum and how they can be addressed.
2. The Province should initiate programmes for the unemployed based on funds from the SETAs. The example of the “Learnerships 1000” initiative cited earlier in the text is instructive in this regard. It is important to note that all SETAs have funding set aside specifically to train unemployed individuals, and therefore a wide variety of skills development programmes can be initiated. The Province can therefore act as a catalyst to programmes in this regard that will directly benefit the rural and urban unemployed.
 3. Firms have a misperception that in-house apprenticeships are no longer possible and that training must proceed through learnerships. The Minister of Labour has stated that this is not the case. However, there is ambiguity surrounding this and there is an urgent need for this position to be clarified. With regard to the public, the Province should consider adding a firm-based education initiative to this component of its activities.
 4. While it is clear that the SETAs have begun to speed up delivery, it is equally clear that firms do not yet feel that they are obtaining benefits from them. This has been reported by several MEDS sector researchers, and in some instances has led to mistrust between the SETAs and the private sector. Clearly the current situation is suboptimal in this very important domain. Therefore we propose the following: The Province plays a mediating role between the SETAs and business to ensure a more effective service is provided. And where there are immediate and critical skills constraints the Province, in conjunction with the firms in the sector concerned, and where appropriate the SETA, works to fast-track a training programme to resolve the

issue. One area of concern is the construction sector in the context of the expected surge of building demands and with 2010 looming.

5. The widespread concern about the performance of the SETAs in the Province is of considerable concern. It is clearly beyond the mandate of the MEDS to make proposals in regard to the system of training, a national competence. But, from the perspective of a provincial industrial strategy, a system that allowed firms the flexibility to directly select their own training providers and training programmes without government intermediation would have considerable advantages. The role of government would then largely be confined to determining and distributing the training subsidy. We raise this for general consideration.
6. The Province needs to broker a relationship between FET providers and the MEDS priority sectors. This would encourage dialogue between firms and the state, and facilitate valuable information flows. Here, FET colleges should be encouraged to form networks to share information, which could facilitate useful discussion on the development of the curriculum in these institutions.
7. The Province also needs to broker a relationship between higher education providers that could provide valuable feedback concerning the structural and institutional bottlenecks of increasing enrolments and throughput. This could be achieved with the forthcoming summit on higher education, and the possible formation of a continued institutional mechanism to encourage HEIs to do more for local development, for example by using the growth coalition suggested by the MEDS.
8. The Province can increase the quality of its interaction and engagement with both firms and the further and higher education institutions by conducting annual firm surveys of occupational shortages and skills needs in the private sector. The results of such a survey could be used to help with curriculum development for all education and training providers.

6.5 New Directions in the Informal Economy

Apart from the focus on economic growth the MEDS is committed to a number of equity goals, the most important of which is increasing employment and raising the incomes of the poor. South Africa's pervasive unemployment problems cast a daunting shadow over any attempts to formulate an economic growth policy.

Unemployment rates are estimated to lie between 26% using the narrow definition and 41% using the broad definition. Therefore, not only do we have to achieve economic growth and ensure that this growth is pro-poor, but we also have to achieve labour absorbing pro-poor economic growth. This is South Africa's 'holy grail', to borrow the phrase from Rodrik and Mukand (2002).

National household surveys reveal that the participation of the unemployed in the informal sector is low. This suggests that there are significant barriers to entry into the informal economy. Some of the barriers and blockages in the informal economy have been identified by the MEDS research, for example their differential treatment by different municipalities. There are many other such barriers, for example, as in the work of Hernando De Soto, where a focus on property rights in the informal sector has emerged to help individuals and households leverage their way out of poverty.

The MEDS sees the role of the informal economy in the Western Cape as playing a crucial part in the success of our industrial policy and growth strategies. The informal economy is estimated to contribute between 8-12% to national GDP, and leaving aside the debate about the possibility of significant undercounting, between 15% and 19% of those who are working in SA, work in informal enterprises. Furthermore, engagement in informal enterprises has been an important area of employment growth over the last decade.

In terms of employment the Western Cape informal economy is proportionally smaller (between 8-10%) than nationally. But it remains significant, for its labour component alone contributes over R10 billion to the Western Cape economy annually, and households spend R1.3 billion at spaza shops and R1.1 billion on products sold by informal traders in the Cape Peninsula alone. Hence, although individual incomes may be low, cumulatively these activities are considerable. Significant as such data may be this does not determine any particular space for policy interventions other than those already in the national policy framework. If discrete policy strategies are to be formulated and implemented by provincial and local government, then the specific and differentiating characteristics of the local informal economy need to be unpacked. This encompasses addressing a number of issues and questions and it was to this end that the MEDS directed its research attention.

This research centred on how the WC informal economy²⁰ accords with, and differs from, the rest of the country. Is it predominantly survivalist? Are there dynamic accumulating segments within it? How does it relate to the knowledge intensive character of the Western Cape? Is the educational (and hence knowledge and

skills) profile of informal economy agents different from other parts of the country? Are there expected income returns from educational assets of those participating in the informal economy in the Province? Furthermore, since the informal economy cuts across industries, what is the income profile of participation in different sectors? What are the processes of differentiation within the informal sector. Finally, with regard to industrial strategy, since barriers to entry and blockages to small enterprises migrating up the value chain often ossify informal economy activity, is it possible to identify if barriers to entry are a problem and where and why?

Given our very limited knowledge of the informal sector in the Western Cape, the research focused on the broad characteristics of the sector so as to throw light on these key questions. In so doing it significantly advanced our knowledge of the processes at work, where more crucial information is required, as well as identifying areas for intervention. In this respect it opens up a significant new direction for the provincial government to achieve its employment, income and equity goals.

6.5.1 The Research Results

Comparison with the rest of South Africa: The income data (using current values) on the Western Cape in Table 6.7 shows that the people working in the informal economy (excluding domestic workers and agricultural subsistence) in the Province are significantly better off compared to the rest of the country. Just over 50% earn more than R1 001 per month compared to only 28% in the rest of the country.

Sectoral comparisons to rest of South Africa: Furthermore, if the data is broken down by sectoral activity (see Table 6.8), the same trend is observed for monthly income from all the major sectors present in the Western Cape. In the major informal economy sectors in the Western Cape, more people earn a monthly income of over R1 000 per month than the national averages – construction 64% vs 39%, services 59% vs 42%, manufacturing 58% vs 26%, trade 40% vs 24%.

Sectoral comparisons with the Western Cape: A significant percentage of people in the informal economy in nearly all sectors (except construction) earn in excess of R2 500 per month (see Table 6.8).

Comparisons with rich provinces: In order to check whether higher income returns is a function of a rich / poor province bias, the Western Cape's informal economy was

²⁰In our definition of the informal economy agricultural subsistence and domestic workers have been excluded.

compared to Gauteng and KwaZulu-Natal's. Table 6.9 shows that individuals in the informal economy in the Western Cape are substantially better off.

The differences in income earned in Table 6.9 between the Western Cape and KwaZulu-Natal and Gauteng informal economy participants are substantial. Whereas the percentage of individuals in the Western Cape informal with a monthly

Table 6.7: Monthly income Informal Economy (Sep 2005)

INCOME GROUP	WESTERN CAPE	SOUTH AFRICA
< R500	16%	47%
R501 - R1 000	28%	22 %
R1 000 - R2 500	39%	20%
R2 500 - R8 000	10%	7%
R8 001 +	2%	1%
Don't know	5%	3%
Total	100%	100%

Labour Force Survey, Sep 2005

income above R1 000 is 51%, the respective percentages in KwaZulu-Natal are 33% and in Gauteng 24%. Likewise, the percentage of people in the informal economy in dire poverty (earning less than R500 per month) in the Western Cape is much lower (16%) than in KwaZulu-Natal (42%) and Gauteng (47%).

Race and gender in the Western Cape: Is there a race and gender question, and hence is an equity issue that the MEDS also needs to consider? Table 6.10 reveals that there is indeed an equity issue to address.

Table 6.8: Individuals (%) in informal enterprises by income Western Cape and South Africa (Sep 2005)

%	< R500		R501 - R1 000		R1 001 - R2 500		R2 501 - R8 000		R8 001 +		DON'T KNOW	
	WC	SA	WC	SA	WC	SA	WC	SA	WC	SA	WC	SA
Transport	0	16	29	24	41	36	30	17	0	3	0	4
Finance/Business	19	22	2	22	58	38	11	12	0	3	10	3
Manufacture	13	48	23	22	34	18	17	7	1	1	12	3
Services	11	34	30	20	45	22	3	17	11	3	0	3
Constuction	7	28	23	29	56	31	6	7	2	1	7	4
Trade	23	50	33	23	30	19	10	5	5	0	5	3

Labour Force Survey, Sep 2005

The primary beneficiaries in the informal economy in the Western Cape are coloured and white participants – 66% of coloured and 70% of white participants earn more than R1 000 per month. This contrasts starkly with 68% of African participants earning less than R1 000 per month. The racial profile of income is particularly concerning since, although Africans constitute only 27% of the provincial population, they make up 47% of the informal economy participants. Furthermore the primary beneficiaries of incomes over

R1 000 are men (58%) whereas 57% of women are survivalists earning less than R1 000. Clearly this racial and gender bias poses a policy challenge with respect to the survivalist segment of the informal economy.

Education levels: The key differentiating feature of the Western Cape, which the MEDS based its strategy on, has been the relatively knowledge-intensive character of

Table 6.9: Individuals (%) in informal enterprises by income Western Cape, KwaZulu-Natal and Gauteng (Sep 2005)

INCOME GROUP	WESTERN CAPE	KWAZULU-NATAL	GAUTENG
< R500	16	42	47
R501 - R1 000	28	23	28
R1 000 - R2 500	39	24	18
R2 500 - R8 000	10	8	5
R8 001 +	2	1	1
Don't know	5	2	1
Total	100	100	100

Labour Force Survey, Sep 2005

the Province. Table 6.11 sets out the education profile of individuals involved in the Western Cape informal economy by comparison with KwaZulu-Natal and Gauteng.

More than two-thirds of individuals participating in the Western Cape informal economy have secondary schooling qualifications. The key differentiating features of a comparison with KwaZulu-Natal and Gauteng's informal economy lies in the lower and

higher education levels. There are substantially less people with minimal education (primary school or none) in the Western Cape (27%) than KwaZulu-Natal (50%) and Gauteng (45%), and substantially more people with matric – 21% compared to 14% in the other two provinces. There is also a group of people participating in the Western Cape informal economy with tertiary level education. There is clearly a significant trend towards higher educational endowments in the Western Cape informal economy.

Table 6.10: Individuals (%) in informal enterprises by income Race and Gender in Western Cape (Sep 2005)

INCOME	AFRICAN		COLOURED		WHITE		MALE	FEMALE
< R500	14844	20%	8590	14%	2150	12%	13%	21%
R501 - R1000	35066	48%	7321	12%	468	3%	22%	36%
R1001 - R2500	19437	27%	32763	53%	5386	30%	44%	33%
R2501 - R8000	3014	4%	7883	13%	4058	23%	11%	8%
R8001+	0	0%	60	0%	3010	17%	3%	0%
Don't know	186	0%	4641	8%	2813	16%	7%	2%
Total	72546	100%	61301	100%	17885	100%	100%	100%

Labour Force Survey, Sep 2005

Education and income levels: Generally speaking one can expect a clear relationship between education and income returns. Table 6.12 shows that those with higher education levels form the majority of individuals in higher income categories. In the category R1 001 – R2 500 individuals with high school and higher education levels constitute 72% of income earners. For those earning R2 500 – R8 000, individuals with high school and higher education levels comprise 82% of income earners.

As Table 6.13 shows, there is not, however, a direct linear relation between increasing education levels and increased income. Instead of the modal point in each education

level advancing as income levels advance, it remains in the R1 001 – R2 500 band. This may be a simple function of those with greater education merely engaging in the informal economy activities to supplement income. Alternatively this may demonstrate the existence of blockages and constraints to better educated individuals realising income returns. Although there is no direct information to substantiate this, if the latter is the case, given the stress on knowledge-intensive activities as defining the provincial growth path, then this opens up a clear policy issue the MEDS needs to address.

Table 6.11: Individuals (%) In Informal Enterprises By Education, Western Cape, Kwazulu-Natal and Gauteng (Sep 2005)

EDUCATION LEVELS	WESTERN CAPE	KWAZULU-NATAL	GAUTENG
None	4	18	17
Grade 1-7	23	32	28
Grade 8-11	38	33	36
Grade 12	21	14	14
Higher	8	2	4
Other	1	0	0
Don't know	5	0	1
Total	100	100	100

Labour Force Survey, Sep 2005

6.5.2 Policy Directions

The informal economy provides the MEDS with a new thrust in respect of its objectives. On the available information the Western Cape has an informal economy which on the positive side yields greater income returns than elsewhere in the country.

Furthermore, those in the informal economy in the Western Cape have a higher level of formal schooling than in the informal economy in the other provinces. Earnings in the informal economy are significantly higher in the Western Cape.

However, all is far from rosy in this area. There are also clearly market and institutional failures that restrict entry into the informal sector and retard growth into the formal sector. This creates space for provincial and local government intervention to facilitate the movement of the upwardly mobile segments and support the survivalist elements. Policy centres round potential barriers to entry, constraints to participants migrating into more lucrative activities and sectors, and obstacles to survival. They are listed as:

economy. Unfortunately the data available from central sources does not reveal what is required. Either the questions are not asked or the sample sizes are too small to draw substantial conclusions to base policy directions on. Hence the first new strategy direction that the MEDS recommends is the need for a provincial survey focussing specifically on barriers to entry, constraints to operating successfully, obstacles to yielding greater income returns and sector specific problems.

- **Training support:** The fact that education levels are high but do not necessarily always yield increasing income returns in a direct manner suggests that some informal economy individuals may lack the necessary management skills to take advantage of the opportunities available. There is hence a role for the extension of the RED Door initiative to specifically create managerial and strategic training opportunities for those operating in the informal economy. It is expected that as a

Table 6.12: Individuals (%) in informal enterprises in Western Cape informal economy by income and education levels (Sep 2005)

EDUCATION LEVELS	<R500	R501 - R1000	R1001- R2500	R2501- R8000	R8001+	DON'T KNOW	TOTAL
None	12%	4%	0%	13%	0%	1%	4%
Grade 1-7	31%	26%	22%	5%	0%	30%	23%
Grade 8-11	38%	36%	41%	51%	15%	12%	38%
Grade 12	12%	22%	27%	19%	4%	22%	21%
Higher	1%	9%	5%	12%	81%	9%	8%
Other	4%	0%	0%	0%	0%	0%	1%
Don't know	1%	4%	6%	0%	0%	25%	5%
Total	100%	100%	100%	100%	100%	100%	100%

Labour Force Survey, Sep 2005

- **Information gaps:** The first problem is that although the MEDS research process has revealed an enormous amount of information through judicious analysis of the existing data, there are major gaps in knowledge about the informal

result of the large number of individuals in the informal economy in the Western Cape with high educational levels the returns from such training initiatives would yield greater returns than elsewhere in the country.

Table 6.13: Individuals (%) In Informal Enterprises in Western Cape by Income and Education Levels (Sep 2005)

EDUCATION LEVELS	<R500	R501 - R1000	R1001- R2500	R2501- R8000	R8001+	DON'T KNOW	TOTAL
None	45%	25%	1%	29%	0%	1%	100%
Grade 1-7	23%	32%	37%	2%	0%	7%	100%
Grade 8-11	17%	26%	42%	13%	1%	2%	100%
Grade 12	10%	28%	48%	9%	0%	5%	100%
Higher	3%	32%	24%	15%	21%	6%	100%
Don't know	4%	23%	47%	0%	0%	26%	100%
Total	17%	28%	39%	10%	2%	5%	100%

Labour Force Survey, Sep 2005

- Institutional advice:** It may be that individuals with higher educational levels are in the wrong sectors and/or face blockages which do not allow them to take advantage of opportunities. Provision of institutional business advice and mentoring support should be able to assist individuals in the informal economy to deal with these obstacles. This could be done either through the educational institutions or specialised service providers supported by the Province or creating specialised desks through the RED Door initiative.

- Credit:** Access to financial services in the informal economy has been identified as a major blockage and barrier. The provincial government could make a substantial difference by engaging in discussion to facilitate innovative mechanism for access to credit and operating capital. However, it should avoid the temptation to become a service provider itself, but rather broker entry for institutions operating elsewhere in the country with a track record of providing credit to informal economy clients.

- **Trade initiatives:** The largest concentration of informal activities is in trading.

Yet this does not yield the highest income returns. The MEDS research has identified a number of institutional blockages stemming from the application of municipal bylaws and regulations which act as barriers to entry or blockages to accumulating business activity. There is a clear role for provincial government to act in collaboration with local governments to free up this institutional space. Levers that are suggested are developing a clear provincial policy statement on the informal economy in consultation with local authorities and lawyers to resolve confusion around provincial and local competencies in informal trader regulation, including a set of guidelines, criteria and model bylaws. Further, the Province, in supporting a more developmental approach, should establish a fund for informal trade infrastructure and develop a programme to build capacity for local authorities and their negotiating partners in the informal economy to secure effective dialogue.

- **Survivalist support:** Given that the largest concentration of poorer segments of the informal economy lies in the trade sector, unblocking the institutional space around local

government regulations is likely to have the greatest impact for these poorer segments. In so doing its equity impacts on race and gender are also likely to be the most direct.

- **Other sector support:** Informal activities in construction, manufacturing and services yield the greatest income returns. Hence the MEDS has suggested a number of pilot strategic interventions for fruit and vegetable distribution, construction and clothing. The example of the KZN traditional medicine support programme is identified and, following this, the aim should be to identify strategic interventions and partners in the public and private sector to facilitate such programme interventions.
- **Property rights:** One of the key ways in which the Province can assist the informal sector is to start a process of evaluating whether the property rights regime in the Western Cape could be shaped to allow for those living in townships to leverage their way out of poverty. Since it is one of ASGISA's core objectives to positively influence the second economy, the Western Cape could take a leading role by commissioning a study identifying how the property rights regime may be changed.