



South Africa's NEETs crisis

Why we are failing to connect young people to work

Executive Summary

"If you can't solve the problem of getting the majority of young people into work, it may not matter what other problems you solve."

Paul Romer, 2018 Nobel Prize for Economics, speaking to a South African audience, November 2020

There are more than nine million young people in South Africa who are neither in employment, education nor training (NEET). They are stuck in a 'cycle of dependence', referred to recently by the new Minister of Finance, Enoch Godongwana. Even if they undertake brief spells of employment, as many do, or participate in short training courses, they are failing to get onto a jobs ladder that would get them out of dependence on grants and hand-outs. The only way to break this cycle is to rapidly expand the economy. Such a growing economy must be more labour-intensive to generate many new mainly low-skill job opportunities for which most young people are suited.

The recent attempted insurrection in the country's two most populous provinces involved opportunistic looting, which reflected young people's rising frustration and desperation. It is increasingly clear that, unless we get most young people into work, we will be in deep trouble. We need decisive action on a number of fronts to initiate processes of change that can rapidly go to scale.

This report sets out what must be done to move South Africa out of this most pressing of all crises. It pulls together the latest research on young people and the challenges they confront and is informed by CDE fieldwork in the township of Alexandra, Gauteng, and the densely settled, remote, ex-'homeland' area of Bushbuckridge, Mpumalanga. On the basis of this work, we set out the various ways in which young people, once they have completed school, could be better connected to an expanding economy, and delves into specific interventions that should be considered to help the most disadvantaged NEETs.

The focus must be on connecting young people to an expanding economy. There are multiple ways to achieve this, and government needs to prioritise the most affordable,

implementable interventions that will have the biggest impact on the scale of the crisis. The private sector must also play a more positive and strategic role. However, the most important way to connect young people to the world of work at a large scale, as the minister of finance has recognised, is to get them into "better skills development programmes". Given the state of the country's skills system, this is a massive challenge, which must involve business in a fundamental way, but also requires that the state initiate significant changes in the publicly funded parts of the system. Decisive action in this area is critical and urgent.

Our post-school training system is a hugely expensive recycling system

International evidence highlights that the best way to provide meaningful training is through whole-hearted business involvement in the design and implementation phase. This includes demand-driven skills programmes combining classroom-based with on-the-job training.

The extent to which businesses have become involved in the South African training system has improved steadily over the last decade, but constructive cooperation between businesses and TVETs remains the exception rather than the rule. There is huge room for improvement.

Despite some improvements, South Africa's training system remains extremely inefficient. TVETs are characterised by massive dropout rates and, in general, fail to provide the kinds of skills employers are looking for. Skills expert Ken Duncan talks of TVETs as a "gigantic recycling system for secondary school finishers, keeping them occupied for another three to four years until they are re-introduced into the labour market with little new knowledge and skills and thus only slightly better job prospects than they had before".

The SETA system, meant to upskill the work force, has been broadly dysfunctional for many years. In just over five years (2011-2016), financial losses due to SETA trainees and learners not completing their programmes totalled R13.42 billion, 44 percent of the R30.79 billion allocated. All that money comes from businesses contributing 1 percent of their payroll to the skills development fund. Yet these businesses are receiving almost no value for their money. They are not getting a more suitably trained and productive workforce.

There is agreement across government, business, and unions that the SETA system is not working, but no one has come up with a broadly acceptable way to fix it. In the meantime, businesses are enmeshed in something for which they are required to pay without receiving benefits. Until this changes it is unlikely that we can expect many more businesses to contribute in new and improved ways to the training young South Africans so desperately need.

Current interventions are not addressing the scale of the problem

There are many governmental and nongovernmental organisations engaged in tackling the NEETs crisis. The most successful help thousands of young people, but, despite all the good they have achieved, they have not begun to transform the circumstances underpinning the current crisis. Something more is required than well-intentioned projects that provide assistance, often in the short term, to young people.

Organisations like Harambee and foundations like Tutuwa are aware of these challenges and are trying to overcome them by promoting partnerships across organisations and with government. They are increasingly ready to become involved in pilots and experiments. Many youth interventions supported by the Presidency are in the early phases of implementation and need to be thoroughly evaluated before their impact can be assessed. Some initiatives are pushing in the right direction, but the country needs a much stronger focus, from all stakeholders, on finding ways to link disconnected young people to real job opportunities.

Avoiding the big issues will not help South Africa. There are three things we need to prioritise: dramatically expanding the economy, fixing the labour market to ensure employers are incentivised to hire young people, and fixing the training system. Only by tackling the NEETs crisis on all three fronts will we ensure that opportunities are rapidly expanded at the scale we so desperately need.

Not all NEETs are disconnected from the world of work in the same way

The NEETs concept covers a broad range of people. To make it as useful as possible it is essential to disaggregate NEETs and reflect on the policy implications for different groups of young people.

Graduates are the least disconnected of all NEETs. They constitute only 7.4 percent of all NEETs and are more than two and a half times as likely as non-graduates to find jobs. Graduates, though facing a level of unemployment that, at 19% is higher than is desirable, have much better prospects in the labour market, so attention should focus on those whose prospects are most precarious.

By contrast, 44 percent of NEETs have only a matric, and young people without matric face the toughest obstacles. The close to 5 million NEETs who did not obtain a matric are most likely to be stuck in unemployment for long periods of time. They are frequently excluded from even applying for basic employment opportunities, as well as from most forms of training. Many of them experience this as a personal failure, which destroys their self-esteem. Consequently, interventions that focus on ways to help them get their matric would be positive and important for some of the most disadvantaged young people in South Africa.

Young people in townships and rural areas are mostly physically disconnected from the modern, formal economy. Rural youth are 21 percent more likely to be NEET compared to youth who live in cities. Many of them have given up looking for work. At the same time, many township youth find themselves located on the outskirts of sprawling metros and therefore remain physically disconnected from centres of economic activity. However, even in a centrally located area like Alexandra, young people's understanding of the world of work outside the township is severely limited. As a result, many are stuck in a kind of geographic bubble, where they may find occasional work and participate in short training courses, but never leave behind the circumstances that trap them in poverty. Consequently, improving access to valuable information about opportunities around and beyond their communities could, at the very least, somewhat reduce the extent of young people's disadvantage.

Three-fifths of economically inactive NEETs are women. Women are likely to be stuck in NEET status for longer periods than men, despite being more qualified on average. Having children decreases attachment to the labour market for women.

Consequently, if it becomes affordable, we can connect more women to the labour market by expanding subsidised early childhood development.

Recommendations

The best method of getting more employment is to foster an economy in which employment-generating firms are multiplying and expanding as fast as possible. It is vital to reduce the barriers on investment and entrepreneurship in as many spheres as possible and across all firm sizes. Outlining what a broad reform package would look like is beyond the scope of this paper, but for more detailed discussions on the changes required read these CDE reports here.

In terms of reforms that would impact most immediately on the position of young people, CDE believes that the following should be priorities:

Tackle the labour market constraints on hiring young people: Apart from growing the economy, the next most important intervention is to lower the costs of employing young people. As CDE has argued here, in the current labour market environment the costs of hiring young people are too high to make it worthwhile for many existing and potential employers. The challenge with realising reforms in this area, however, is entrenched opposition both within government and by powerful civil society organisations, especially unions. To overcome this, we should as a matter of urgency, experiment with a different, more flexible labour market regime in at least one SEZ (read CDE's proposal for this here).

Improve business involvement in the way young people are trained: This is a broad and long-term goal requiring bold action. Government has recognised the challenge, but real reforms have failed to appear. This must change. In the meantime, progress can be achieved by:

- attracting as many businesses as possible into meaningful partnerships with training institutions, both public and private; and
- engaging with business representatives, vocational training experts, and broader stakeholders to understand what it would take for businesses to take on extra training commitments.

Business must also stop investing in small, 'boutique' projects that have no impact on changing the circumstances that keep young people dependent on the state and excluded from the economy. Instead, they should devote more resources to change, so that they can become a louder, more effective voice for a different approach. This approach must focus on reforming, in a fundamental way, the public skills sector. At the same time, business must demand all

the changes, on both the demand and the supply side of the labour market, that are needed to connect young people to the real world of work.

Strengthen the entrepreneurship ecosystem: Youth entrepreneurship has become an increasingly popular idea for solving the NEETs crisis. The argument is that young unemployed people can employ themselves if no one else wants to hire them, and that this solution can be brought about via special financing vehicles, or set asides, possibly in conjunction with some kind of entrepreneurship training. As we argue here, raising our entrepreneurship levels requires substantial reforms and improvements in the environment for doing business. Currently, the entrepreneurial prospects for young unemployed people with a poor education and minimal work experience are extremely limited. This is not a scale solution and will set up many young people for failure.

Improve the public works programme: While we wait for the economy to recover, it will be important to provide young people with public forms of employment, especially in rural settlements where youth unemployment hovers between 70 percent and 80 percent. However, if these public employment opportunities take the form of short spells of unproductive work, with no real training attached, they may turn out to be a colossal waste of money. Unless we deliver such programmes in a substantially improved form, it could be better to consider using the money as youth-based transfers, or vouchers for travelling and/or training.

Pilot interventions that experiment with new ways of helping young people: These should be funded and/or undertaken by private sector organisations and must be accompanied by credible monitoring and evaluation strategies. CDE has identified four pilot interventions worth undertaking:

- Developing cost effective demand-led training programmes in sectors with growth potential, involving business in the most effective way possible, to provide youth with relevant skills that then lead directly and quickly to employment;
- Providing better information and other forms of support to young people, especially in townships, so that they have better awareness about and tools to connect to worthwhile training and/or job opportunities outside the townships;
- Subsidising job searches through access to data to reduce the penalties of living in areas physically distant from job opportunities, especially in remote rural settlements, but also in townships; and
- Supporting second chance matrices by more effectively involving private colleges and making more affordable the support they can deliver.

Concluding remarks

9.1 million young people are disconnected from work and have little hope of getting ahead in the current economy. South Africa has no choice but to tackle this massive and complex challenge now. The country stands a better chance of achieving this if it prioritises economic reform to promote the creation and expansion of many more firms, which are the only effective vehicles for delivering the millions of jobs we need. In the meantime, much work is required to improve the level of skills in the country. The priority should be to fix the public training system, which will require active

business involvement in designing training programmes, as well as in working with both the trainers and the students.

A faster growing economy that is more labour-intensive and needs the kinds of young inexperienced work seekers South Africa has in far too much abundance, will by necessity pull young people into work. Companies will devise ways to find and train workers. In this way the enormous challenge we face, will lessen as the pace of growth and demand for labour multiplies.

Read the full report available on CDE's website (www.cde.org.za)

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