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Time for a skills rethink

A review of the SETA system

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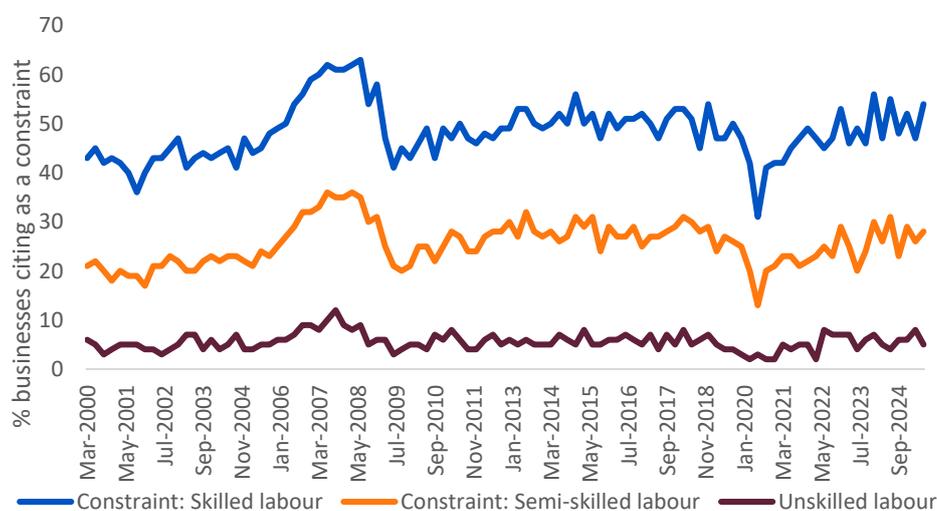
South Africa’s persistent skills shortage remains a critical barrier to economic growth, with around half of all manufacturing firms citing it as a significant constraint. The Sector Education and Training Authority (SETA) system was created to solve this problem but has proven to be inefficient and ineffective. The report proposes restructuring the system and moving towards a more effective approach that prioritises skills for growth.

This note summarises a longer research paper available here: <https://doi.org/10.71587/sfmjfa67>

POLICY PROBLEM

South Africa faces a serious skills shortage which is damaging long-run economic growth. The Manufacturing Survey conducted by the Bureau for Economic Research (BER), for example, shows that around half of all manufacturing businesses cite skilled labour as a significant business constraint.

Approximately 50% of manufacturing businesses cite the lack of skilled labour as a business constraint



Source: BER Manufacturing Survey (various)

SKILLS REVOLUTION

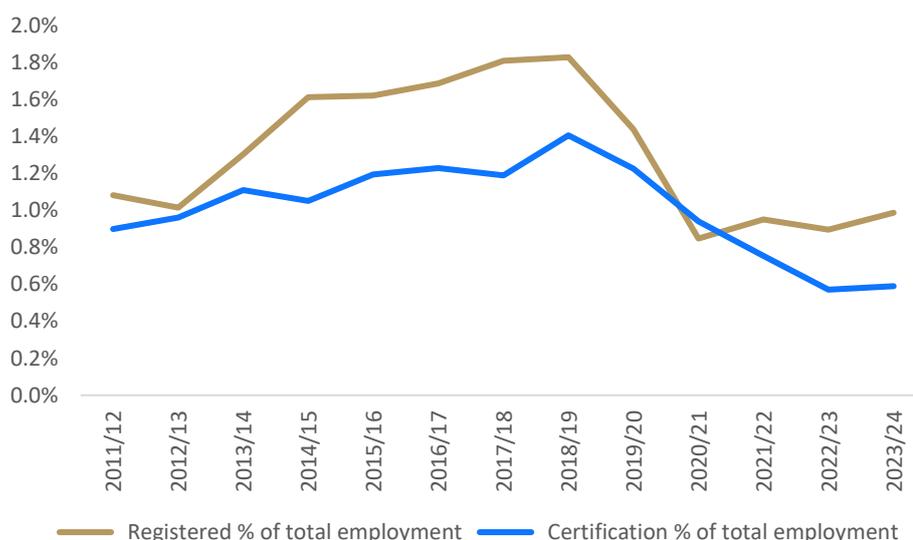
The introduction of the Sector Education and Authorities (SETAs) was intended to increase skills levels in the economy. The SETA system was a state-led intervention designed to catalyse a "skills revolution" to remedy the structural skills deficit inherited from the pre-1994 era. The primary rationale was to solve market failures in skills training, such as underinvestment in skills development, by compelling firms to contribute to the collective cost of training through a mandatory levy. However, more than two decades after its inception, South Africa continues to face a serious skills shortage that damages long-run economic growth. This persistent challenge calls into question the efficacy and impact of the SETA system.

INEFFECTIVE WITH SYSTEMIC UNDERPERFORMANCE

The system has been ineffective with systemic underperformance. While the SETA system operates at a significant scale, its performance is undermined by deep-rooted inefficiencies and a "leaky pipeline" where a substantial number of learners exit programmes without certification. Between 2011/12 and 2023/24, the system registered 2.6 million individuals across its various programmes, with 2 million completions. However, these headline figures mask critical weaknesses, as over 630 000 registrations did not lead to a successful certification. This leakage is most severe in the programmes designed to address deep skills and facilitate workforce entry.

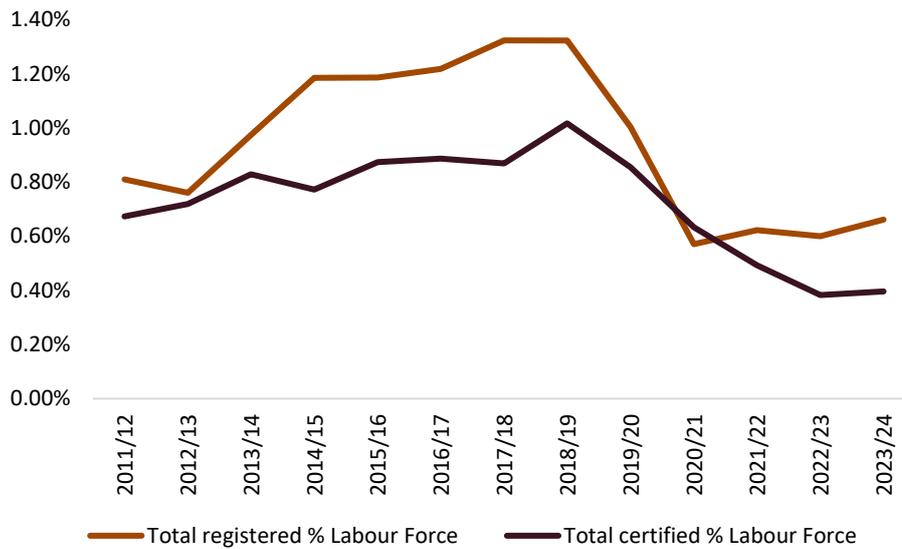
The total number of SETA skills programme registrations in 2023/24 was only 1% of the employed and 0.7% of the labour force. This is in sharp contrast to similar international schemes where take up is very high, e.g. the French equivalent scheme approximately 50% of employees participate, while in Canadian scheme approximately 30% participate.

Total SETA certifications amounted to only 0.6% of total employment in 2023/24 ...



Source: Authors' compilation based on data from DHET (2025) and Stats SA's Quarterly Labour Force Survey (QLFS)

And in 2023/24 barely 0.7% of the workforce (employed and unemployed) received any training

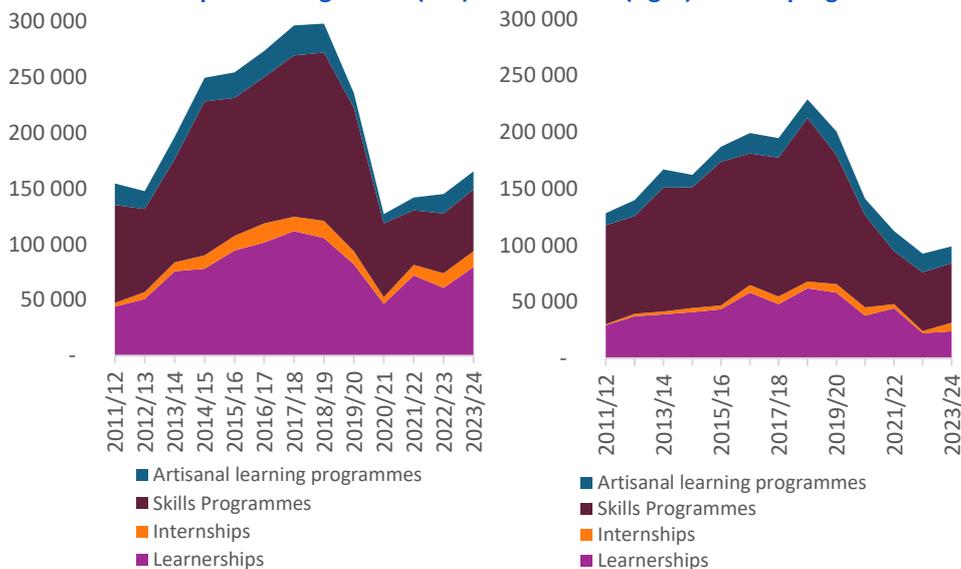


Source: Authors' compilation based on data from DHET (2025) and Stats SA's Quarterly Labour Force Survey (QLFS)

Reforms have been attempted but these have not improved performance. Shifts in the framework moved back and forth between more and less centralisation and active labour market policy. In addition, amendments attempted to increase accountability, however, it is questionable whether these shifts achieved the desired outcomes.

Even the weak overall performance is distorted by short skills programmes. The system's overall performance statistics are significantly inflated by short, arguably low-complexity skills programmes. These programmes account for 48.3% of all registrations and 60.8% of completions, boasting a high 96% throughput rate. When these short programmes are excluded, the throughput rate for more substantive interventions (learnerships, internships, and artisanal programmes) plummets to 57%.

Number and composition registered (left) and certified (right) in SETA programmes



Source: Authors' compilation based on data from DHET (2025)

The system consistently fails to meet performance targets. SETAs failed to achieve most of their cumulative targets over the period of review. For example, for internships, targets were missed for 10 out of the 13 years under review.

SETAs have highly variable labour market absorption rates. The ultimate goal of SETA programmes is employment, but tracer studies reveal vastly inconsistent absorption rates. This challenges the idea of a uniform "SETA absorption rate" and points to highly contextual performance. Tracer studies find absorption rates varied between 83% to 6.1%.

POOR FINANCIAL MANAGEMENT

The build-up and hoarding of surpluses and cash reserves points to significant financial inefficiency and chronic mismanagement. The SETA system commands significant financial resources but is defined by inefficiency and a failure to spend its budget on its core mandate. Over the review period, R164 billion was disbursed from the SDL fund to SETAs. Total revenue has consistently exceeded expenditure, leading to large net surpluses, which stood at R6.7 billion at the end of 2023/24. Cash and cash equivalents held by SETAs grew from R8.9 billion in 2011/12 to R27.1 billion in 2023/24 in nominal terms. After adjusting for inflation, they grew by 78%. This represents a massive opportunity cost, with billions of Rands intended for skills development sitting idle in bank accounts.

The SETA administrators (the SETAs themselves) have undergone a significant expansion in their employee headcount. The total number of employees grew by 60%, from 1 716 in 2011/12 to 2 748 in 2023/24. The wage bill grew by 12% on average annually between 2014/15 and 2023/24, significantly outpacing both average consumer price inflation (5%) and the growth of the broader public service wage bill.

The system has received multiple audit findings. The operational and financial inefficiencies are underpinned by systemic governance failures. This is reflected in an audit history that reveals a system in distress. From 2011/12 to 2023/24, across 273 individual audits, 54% were termed "unqualified with findings", 15% were "qualified", and 1% were issued with disclaimers or adverse audit opinions. The most common outcome, "unqualified with findings," masks significant governance problems as it indicates that while the entities' financial statements are reliable, they persistently fail to comply with key legislation.

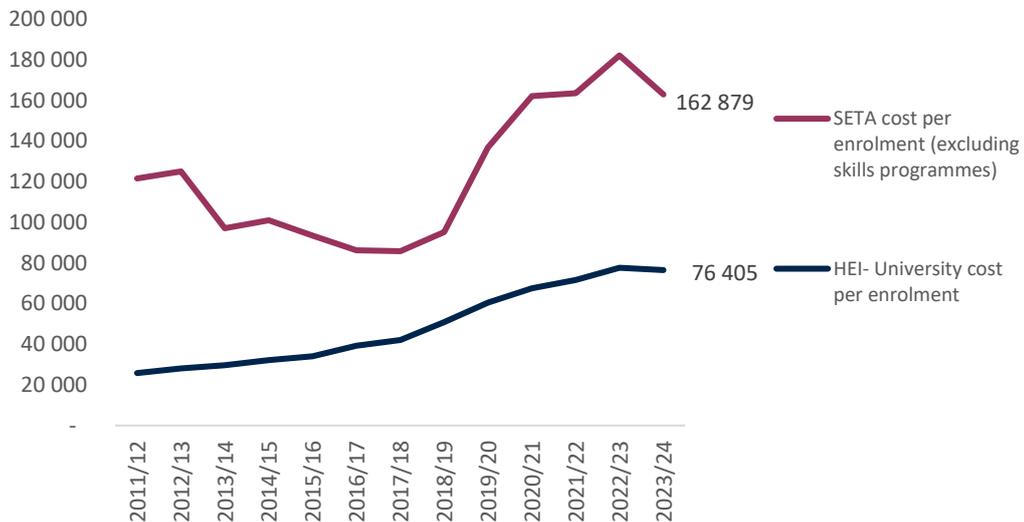
There is also evidence of a cumulative R9.147bn in irregular expenditure over the period under review, according to the Auditor-General. This represents 5.5% of the total revenue SETAs received from the SDL over the 13-year period. An additional R274.9 million of fruitless and wasteful expenditure was incurred over the same period, which represents money spent in vain due to negligence and is a severe indictment of operational competence.

COST COMPARISONS: AN EXPENSIVE SYSTEM

Cost comparisons per beneficiary highlight that the SETA system is excessively costly. In 2023/24, the cost per SETA certification was R181 269. This is significantly higher than the cost per university enrolment (R76 405), NSFAS funding per university student (R73 829),

and TVET college funding per student (R34 230). When the low-cost, high-volume skills programmes are excluded to get a truer picture of the cost for substantive qualifications, the SETA cost per certification skyrockets to R388 052, which is even higher than the cost per university graduate R370 923, even though universities also have research mandates.

The cost per SETA enrolment is over twice the cost of a university enrolment

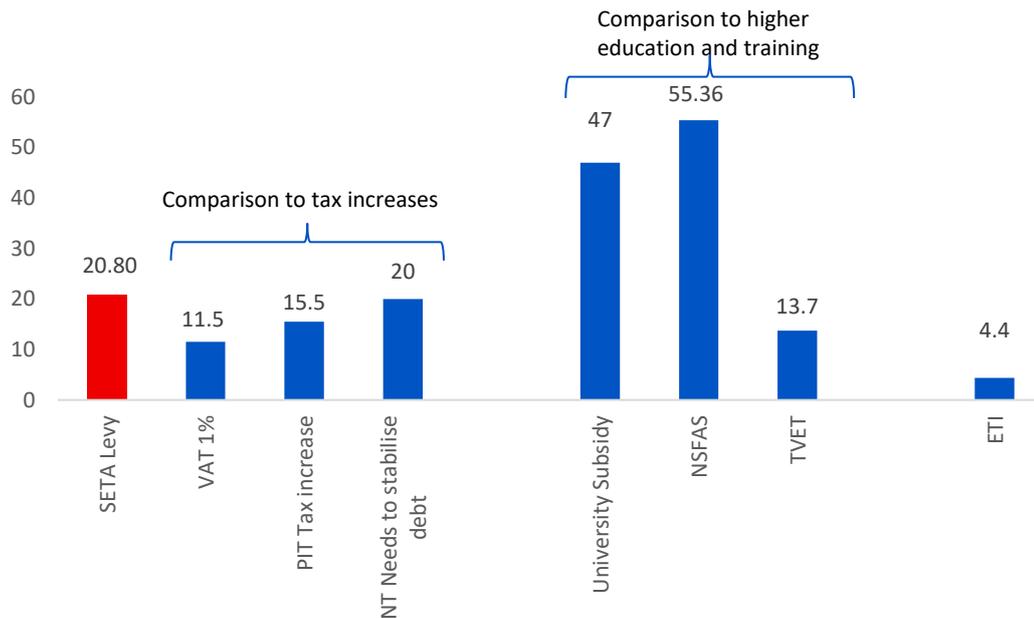


Source: Authors' calculation

Moreover, the SETA levy is significant relative to other tax and budget sources. In the 2025/26 budget, the SETA allocations from the SDL is approximately R20.8 billion, more than the net revenue from the withdrawn 1%pt increase in VAT (R11.5 billion). Alternatively, the effective increase in personal income tax (PIT) from the failure to adjust tax brackets for inflation, will raise an estimated R15.5 billion in 2025/26. The National Treasury has also indicated that it will require an extra R20 billion to help stabilise the debt ratio in 2026/2027.¹ The estimated allocation to SETAs also exceeds the transfers to TVET colleges and is approximately 44% of the subsidies to universities.

¹ As noted by National Treasury in the "Overview" that accompanied Budget 3.0, R20 billion in additional tax revenue is included in the fiscal framework for 2026/27 to account for revenue shortfalls. The 2026 Budget will present proposals to raise this amount.

The SETAs come at a high opportunity cost (R'bn)- 2025/26



Source: Authors' compilation based on National Treasury (2025b).

Over the review period there are signs of declining efficiency. While SETA revenue increased by 46% in real terms, the number of certifications decreased by 23%. An input-output analysis shows the system has become progressively less efficient. Productivity has collapsed, with the ratio of certifications per SETA staff member declining from 92:1 in 2014/15 to 35:1 in 2023/24.

The SETA system is only achieving 4% to 6.6% of the overarching target set out in the National Skills Development Plan, in conjunction with the National Development Plan and the New Growth Plan. Based on these overarching plans, the Seta system should aim to facilitate and co-finance training “for approximately 10% of the workforce annually”². In 2023/24, the labour force was 24 million, which would imply a target of 2.4 million. However, the total number of SETA registrations was 165 125 in that year while the total number of programmes completed was 98 834. Hence the system is only achieving 4%-6.6% of the target.

OPTIONS FOR REFORM

Option 1 is to phase out the SETAs entirely, including the levy. There are a number of advantages to this (relatively) radical approach. The first (and most important) is that the SETAs are funded through a payroll tax of 1%, which increases the cost of employment by 1%. Given that there is almost certainly a negative wage elasticity of employment, this increases unemployment. If the SETAs create skills, then this effect is outweighed. However, the paltry performance of skills development (barely 0.5% of the labour force obtains a certification per year), suggests that the effect is overwhelming negative.

² For the purpose of this paper “workforce” and “labour force” are used interchangeably and defined as per Stats SA’s definition for labour force: “The labour force comprises all persons who are employed, plus all persons who are unemployed.”.

In short, it is likely that SETAs increase unemployment on a net basis and phasing them out is likely to increase employment. Even if firms do not increase employees significantly, firm profits and thus corporate tax will rise.

The main disadvantage of Option 1 is that it would take away funding for skills development. Even though the SETAs are inefficient, the system creates an existing pool of funding that could arguably still be used for developing skills but in a better way.

Option 2 is to reduce the levy. The SETAs are currently not spending their entire allocations with excess funds accumulating in growing surpluses and cash reserves. This is the worst of both worlds – the cost of employment has increased, *and* the money is simply going into a SETA bank account. This increases unemployment without the offsetting benefit of an increase in skills. We evaluate this in some detail and conclude that (under this option) the deadweight losses of the SETA system will remain. The administrative costs of SETAs have risen, and the Auditor-General has found significantly more fruitless and wasteful expenditure over time.

Option 3 is to redirect the levy. There have been calls to use the levy for other purposes (e.g. to fund shortfalls in basic education). We evaluate this option and conclude that this is a second-best (but still relatively good) option. For instance, using the levy to fund early childhood development would support skills development over the long run. However, this does not directly address the skills shortages and mismatches that the economy currently faces.

Option 4 is to convert the system to one based on a revenue-neutral tax incentive. Economic theory suggests that a market failure in skills development arises because firms are not incentivised to skill up their employees with *general* skills, nor is there an incentive to skill up the unemployed. The market tends to underprovide training in general or transferable skills, as firms fear that once employees are trained, they may leave for competitors or be poached by them. Consequently, firms invest primarily in firm-specific training, which does not address broader labour market needs. Similarly, there is little to no incentive for firms to train unemployed individuals, as the return on such an investment is uncertain and may be captured by other employers. This results in a suboptimal equilibrium in which overall skill levels in the economy remain low, particularly among new entrants to the labour market. Public intervention - through subsidies, incentives, or the direct provision of training - is often justified on these grounds to correct the market failure and align private incentives with social benefits.

We argue that a more optimal solution may be to shift from the current SETA system to a revenue-neutral skills tax incentive, funded from the skills development levy, and paired with other employment creation incentives such as the Youth Employment Service (YES) and the Employment Tax Incentive (ETI). The proposed design would mirror the Research and Development Incentive. That is, firms would be able to claim their qualifying skills programme spend off their skills development levy contribution. This would essentially create a ring-fenced pool of money for each firm to spend on skills. The choice of skills development would be at the firm-level, rather than at a centralised SETA level. Depending on budget pressures, over time the deduction can be increased (e.g. the Research and Development Incentive allows for 150% of qualifying spend to be tax deducted).

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