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A Review of Skills Levy Systems in Countries of the Southern African Development Community

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Robert Palmer

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Abbreviations

COMESA	Common Market for Eastern and Southern Africa
DFID	Department for International Development
EAC	East African Community
HESLB	Higher Education Students' Loans Board
HRDC	Human Resource Development Council
merSETA	SETA for Manufacturing, Engineering and Related Services
NSDS III	third National Skills Development Strategy
NGO	non-governmental organization
NTA	Namibia Training Authority
PAYE	pay as you earn
SADC	Southern African Development Community
SDF	Skills Development Fund
SETA	sector education and training authority
SMEs	small and medium-sized enterprises
STEM	science, technology, engineering and mathematics
TEVET	technical, entrepreneurial and vocational education and training (Malawi); technical education, vocational and entrepreneurship training (Zambia)
TEVETA	Technical, Entrepreneurial and Vocational Education and Training Authority (Malawi); Technical Education, Vocational and Entrepreneurship Training Authority (Zambia)
TVET	technical and vocational education and training
UNESCO	United Nations Educational, Scientific and Cultural Organization
UR Tanzania	United Republic of Tanzania (in tables)
VET	vocational education and training
VETA	Vocational Education and Training Authority
ZIMDEF	Zimbabwe Manpower Development Fund

Exchange rates (as at 28 September 2019)[1]

Botswana: 1 Botswana pula (BWP) = 0.0905796 United States dollars (US$)
Malawi: 1 Malawian kwacha (MWK) = US$ 0.00136559
Mauritius: 1 Mauritian rupee (MUR) = US$ 0.0274019
Namibia: 1 Namibian dollar (NAD) = US$ 0.0659945
South Africa: 1 South African rand (ZAR) = US$ 0.0659945
United Republic of Tanzania: 1 Tanzanian shilling (TZS) = US$ 0.000434939
Zambia: 1 Zambian kwacha (ZMW) = US$ 0.0758955
Zimbabwe: 1 Zimbabwean dollar (ZWD) = US$ 0.00276319

1 Source: https://www.xe.com.

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Foreword

This study was commissioned by the ILO in response to a direct request from the Southern African Development Community (SADC) regional employers' and workers' representatives to assess the skills development levy systems in selected SADC countries.

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Executive summary

Training funds are an increasingly popular approach to mobilize funding for skills development. Whilst a definitive number is not known, the literature suggests they operate in close to 100 countries. Training funds are dedicated funds, usually outside normal government budgetary channels, aimed at developing productive work skills. Training funds can be national or regional, covering a range of sectors, or can be sector or industry specific, to support a particular sector or industry (such as tourism or extractive industries). Training funds can be financed by employer levies, public subsidies or donor financing.

This review focuses on levy-financed training funds in eight Southern African Development Community (SADC) countries: Botswana, Malawi, Mauritius, Namibia, South Africa, United Republic of Tanzania, Zambia and Zimbabwe. It is based on an analysis of secondary data and studies, an online survey, and in-depth interviews with 34 key stakeholders in these eight countries (from government, from the organizations managing the training funds, from workers' organizations and from employers' organizations). As this is a fairly high-level review, the recommendations for the eight SADC countries as a whole, as well as the country briefs in Part B of this report, should inform country discussions that identify more country-specific recommendations.

Objectives of the SADC training funds

In many SADC countries, the main stated objectives of the training funds are not well articulated, and are either not understood or contradicted by the approved use of the funds. In other words, there are often differences between what the stated purpose of the training fund is, what key stakeholders in the country think the training fund is for, and, finally, what the approved expenditure is under the training fund.

Recommendations

- The levy purpose in most SADC countries needs to be better clarified and better communicated. Statements on the main purpose of the levy often do not match well with what key national stakeholders perceive the levy to be for, or what the levy actually gets spent on. Malawi, the United Republic of Tanzania and Zimbabwe appear to have the vaguest stated raison d'être for a training levy, simply noting that the purpose of the levy is to improve skills development. In these three countries, international experience suggests that employers need to be heavily involved in the process of determining (or in this case reviewing) the fund purpose and objectives, if they are expected to be engaged with the training fund.
- Given that levy contributions come from employers, the purpose of a levy – and associated training fund in each country – should clearly identify the goal of increasing training in firms or encouraging employers to train their staff. Among the eight SADC countries, the training funds in Malawi, the United Republic of Tanzania, Zambia and Zimbabwe do not make reference in the fund objectives to increasing the incidence of training by firms.
- The purpose of all the training funds should be reviewed to ensure that employer training, or encouraging skills development in firms, should be a stated aim, and that funds are better aligned with national priorities and labour market information.

Fund mobilization

The majority of training levies in the selected SADC countries are based on payroll, with these levies ranging from 0.5 to 4.5 per cent, with the average being 1 per cent. In terms of levy rate, the outlier is the United Republic of Tanzania, with a 4.5 per cent payroll levy. In terms of levy base, the exception to the payroll levies is Botswana, which has a levy based on company turnover.

In almost all selected SADC countries (except Malawi), the levy does not apply to public sector employers. A majority of all selected SADC countries apply a threshold to levy payment, below which employers are not liable to contribute.

The national revenue authority is responsible for levy collection in six of the eight selected SADC countries (including Botswana, Malawi, Mauritius, South Africa, United Republic of Tanzania and Zambia), and typically charges a levy collection fee based on a percentage of the total training levy collected. In both Namibia and Zimbabwe, the authority managing the training fund also collects the levy.

One of the biggest challenges faced in terms of levy compliance is that a lack of data on firms means that collection authorities often have great difficulties in establishing who should be paying the levy in the first place (and how many are not doing so).

Levy fund income among almost all selected SADC training funds (except Zimbabwe) has increased over the last three or more years. Government and organizations managing the training funds express little concern about the future sustainability of levy income across the selected SADC countries; there is a general assumption and expectation not only that the levy would continue to come in, but also that the levy would increase year on year. However, in at least two countries (Malawi and United Republic of Tanzania), employers' and workers' organizations expressed concern about the very sustainability of the levy.

A majority of employers' and workers' organizations in the selected SADC countries perceived the training levy as just another form of taxation. This is particularly the case among small firms. However, in Mauritius, formal employers generally see the training fund as "instrumental to the developmental needs of the country". Employers also expressed their dissatisfaction with the levy on the basis that there is a lack of clarity, transparency or agreement on the allocation of the levy (United Republic of Tanzania and Zambia).

Recommendations

- The United Republic of Tanzania should consider a levy rate review, ensuring involvement of employers' and workers' organizations centrally in the process. Most SADC training funds are financed via a payroll levy averaging about 1 per cent; this rate is in line with commonly agreed rates across various countries and regions of the world. However, the Tanzanian levy rate of 4.5 per cent is quite a lot higher than international experience.
- Malawi, Mauritius and Zimbabwe should consider introducing a threshold to levy payment, below which employers are not liable. This is because small enterprises and microenterprises, most of whom operate in the informal economy, are less able to pay a levy (due to lower profit margins and cash flow), because those enterprises benefit less (or often not at all) from a levy-financed fund, and – crucially – because levy collection from such enterprises is inefficient (the cost of collecting levies from small enterprises and microenterprises might outweigh the levy revenue received) and often almost impossible (based on the current lack of registration of most small enterprises and microenterprises, particularly those operating informally).
- Namibia and Zimbabwe should both examine again if their levies could be more efficiently collected by a national revenue authority, which is in line with international experience. Among the countries in the study, these are the only two in which the entities managing the training fund also collect the levy. If the review judges that the current collection approach, by the training authority itself, is the most efficient in that country context, then for the sake of transparency, and to minimize issues related to conflict of interest, detailed financial statements of levy collection and disbursement should be made public, and third-party audits should also be made public.
- Investment in data collection and data systems is needed in order for data collection authorities (and training fund management) to know how many and which companies should be paying a levy in the first place. Each country needs to improve its database of levy-eligible employers.

Fund expenditure

It most SADC countries, the board of the organization managing the training fund determines the annual total allocation of the training fund; but this then usually needs the approval of the government. In Zimbabwe's case, as there is no board, the parent ministry determines the budget and then informs the Zimbabwe Manpower Development Fund (ZIMDEF).

Types of allowable expenditure under the training funds include administrative costs of running and managing the training fund itself (all SADC countries included in this review); employer training grants (Botswana, Malawi, Mauritius, Namibia, South Africa and Zambia); training for disadvantaged groups (Botswana, Malawi and South Africa); Public vocational training programmes, including indirect costs related to formal apprentices' expenses and direct costs such as training infrastructure, equipment and trainers (all SADC countries to varying degrees).

Expenditure on administrative and operating costs of the funds range significantly across the SADC countries in the study, from about 4 per cent in Zambia to ten times that (40 per cent) in Malawi. In Botswana, Mauritius, Namibia and South Africa, administrative costs, including levy collection costs, range from 11 per cent to 15 per cent (table ES.1).

Training funds in Botswana and Mauritius provide their levy-paying employers with the highest direct return on their levy contribution, returning between 33 per cent and 38 per cent of the levy received to the firms in the form of training reimbursement. Namibia and South Africa return about 14 per cent of levy income to employers to cover the training costs of employees. Malawi and Zambia, despite having employer grants as a specific allowable expenditure item, only disburse 1–3 per cent of levy income back to levy-paying firms as direct cost reimbursement on employee training. The United Republic of Tanzania and Zimbabwe appear to have zero expenditure on employer training grants, but neither fund has this as a stated objective.

Expenditure on training decided by the training fund boards[2] themselves – most of which relates to pre-employment, institution-based training in public institutes – typically represents the bulk of training fund expenditure (20–70 per cent of training fund expenditure). The training fund in Namibia has the largest expenditure on such training, largely because so much of the employer training grant, meant to reimburse employers for training employees, went unspent and was reallocated to training determined directly by the fund's board.

▶ Table ES.1 Proportion of employer training levy allocated to key areas, by country

	Employer grants (to train own employees)	Training decided by training fund board	Administrative and operating costs	Allowed to accrue as surplus
Botswana (2008–18)	33%	20%	15–25%	20–30%
Malawi (2014–17)[1]	< 1%	33%	41%	10%
Mauritius (2017–18)	38%	18%	12%	22%
Namibia (2014–18)	14%	> 70%	15%	n.a.
South Africa (National Skills Fund and merSETA, 2016–18)[2]	14.5%	62%	11%	12.5%
UR Tanzania	0%[4]	n.a.	n.a.	n.a.
Zambia (2018)[3]	3%	36%	> 4%	58%
Zimbabwe (2015–16)	0%[4]	66%	28%	7%

1 Malawi: about 15% of levy expenditure is also allocated to bad debts.
2 South Africa: based on 20% total levy to National Skills Fund (18% training projects; 2% administration) and 80% to sector education and training authorities (SETAs) (for example, the SETA for Manufacturing, Engineering and Related Services, or merSETA): 44% training projects and discretionary grants, 14.5% employer grant, 9% administration, 12.5% surplus).
3 Zambia: based on actual expenditure of levies remitted to the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA), and estimated total levy income received.
4 There is no mechanism in the United Republic of Tanzania and Zimbabwe to provide grants to employers.
n.a. = data not available.
Note: Percentages indicate annual average, based on actual expenditure, unless otherwise stated.
Source: Country briefs in Part B of this report.

2 In the case of Zimbabwe, where there is no board for ZIMDEF, this refers to the parent ministry.

In all SADC countries in the study for which there were data, a sizeable amount of the levy collected annually ended up accruing as a surplus, ranging from 7 per cent to 58 per cent of the collected levy.

In all SADC countries studied, where data exist, training funds have accumulated large surpluses from their respective training levies (table ES.2).

▶ Table ES.2 Accumulated surplus in selected SADC training funds

Country	Accumulated surplus amount
Botswana	US$63 million
Mauritius	US$37 million
South Africa (National Skills Fund)	US$440 million
Zimbabwe	US$70 million

Source: Country briefs, Part B.

Namibia, South Africa (SETAs) and Zambia also have accumulated surpluses, but the aggregated amounts are not known. In Malawi, there are no public data on the extent of any surplus. In both Mauritius and South Africa, the Governments found ways to access some of these accumulated surpluses to fund capital projects (Mauritius) or political commitments (South Africa's no-fee pledge). In South Africa, SETAs argue that the funds should be regarded as an annual or accumulated surplus, since most of what appears to be a surplus is actually committed funds for training programmes that have not taken place yet. While this argument is logical and could account for some annual underspending of levy funds in the SADC countries, it does not explain the very large accumulated surpluses that many training funds have.

Recommendations

- Those countries with large accumulated surpluses (Botswana, Mauritius, South Africa and Zimbabwe) should consider undertaking periodic reviews of the levy rate, and developing action plans with social partners to agree on how the surplus can best be used to achieve the stated purposes of the respective funds. Such periodic rate reviews are in line with international experience. Where details of an accumulated surplus are not publicly known (for example, Malawi), such a rate review should also be conducted. In addition to reviewing the levy rate, a specific action plan needs to be developed to plan how the surplus funds are going to be spent (against the purposes of the fund), keeping in mind the need to retain an operating surplus for contingencies. Any fund surplus should be used for the purposes for which the funds were originally collected and not diverted into other government priorities or to pay for politically driven promises.
- There should be a review in Malawi and Zimbabwe of the very high levels of the collected levies used to fund administrative and other non-training-related costs. Malawi has a particular problem as the authority responsible for managing the training fund (Technical, Entrepreneurial and Vocational Education and Training Authority; TEVETA) is very heavily reliant on the levy for a large proportion of its overall income, and so finds itself in a situation where over 40 per cent of total levy income is spent on governance, management, quality assurance, communication, and monitoring and evaluation – and not on training. TEVETA Malawi needs to move away from such a heavy reliance on the levy to fund all its activities.
- All countries reviewed, but especially Malawi and Zambia, need to increase the actual direct allocation to employers as reimbursement of employee training costs. Namibia needs to pay particular attention to its failure to achieve anywhere near the target to allocate 50 per cent of levies received in a given financial year to employers for training.

Fund allocation mechanisms

All funds in the study that operate structured employer training incentive mechanisms do so on the basis of levy-grant schemes, operating as either cost reimbursement or grant schemes. The most common form of employer training incentive scheme (found in Malawi, Mauritius and Namibia) is a cost reimbursement scheme whereby employers can claim back a proportion of the direct training costs incurred. In all cases, employers applying for reimbursement of training costs have to submit paperwork to the training fund; at a minimum, that submission will be a structured training plan (to be approved before training commences) and associated receipts and other paperwork proving the training took place, after the training activity. In South Africa (SETAs), levy-paying employers receive mandatory grants (as an incentive to plan and implement training for their employees) and also benefit from discretionary grants. Uptake by levy-paying employers of the training levygrant incentives in the six SADC countries in this review with such structured approaches was generally low. For example, in Botswana (2017/18), only 20 per cent of the total number of levy payers contributing into the Human Resource Development Fund claimed from the fund. In Malawi (2017), only 13 companies benefited from the training cost reimbursement.

Reasons behind the low uptake of the funds include an inefficient process of applying for the funds (Botswana, Malawi, Namibia and South Africa), the type of training eligible for reimbursement (Botswana and Mauritius), and a lack of awareness among employers (Malawi and Zambia).

Allocation of funds in relation to formal, institution-based providers of technical and vocational education and training (TVET) is either done through issuing expressions of interest or by making predetermined grants to individuals or institutions. None of the funds provide resources to individual learners that allow them to choose or purchase training that meets their needs directly. Funds are provided to employers, to training institutions or to individuals in the form of stipends or bursaries as substitute for wages.

None of the SADC training funds reviewed provides entitlements to individuals within a framework of lifelong learning.

Recommendations

- The efficiency of the process of employers obtaining reimbursement from the training fund needs to be revisited in Botswana, Malawi, Namibia and South Africa. Other factors behind the low uptake of the funds by employers should continue to be addressed, including through ensuring that the type of training eligible for reimbursement is less classroom based and more oriented to employer needs (especially in Botswana and Mauritius), and raising awareness among employers of the employer training grants, eligibility and application process. A particular challenge in Botswana is that the training fund can experience cash flow problems if large employers exhaust the fund with training claims that exceed their levy payments before other employers can claim.
- In the United Republic of Tanzania, there needs to be a particular effort to achieve legal clarity with regard to the allocation of the skills development levy. The majority of the levy (at least two thirds) is currently directed to the Treasury, and allocation decisions appear to be at the whim of the Government.
- SADC training funds need to do significantly more to reach employers and workers in the informal economy. While they should not be asked to contribute to the levy (see recommendation above), training funds should adopt more innovative approaches, including through the use of intermediaries, to reach these groups, and should allocate a dedicated proportion of fund expenditure to such a training fund window. Lessons from international experience show that it is possible to reach such disadvantaged groups.
- SADC training funds should examine approaches for individual learners that allow them to choose or purchase training that meets their needs directly. Such an approach will better enable individuals to learn continuously over their life.

Fund effectiveness

There are no regular performance reviews of the funds, making it difficult to judge their effectiveness. There is a real dearth of information on various measures of fund effectiveness, and such information, where it exists, is not collected regularly.

A majority of training funds covered in this review (Malawi, Mauritius, Namibia, South Africa, United Republic of Tanzania and Zambia) have goals and mechanisms intended to improve the access to training for disadvantaged groups. However, in both Botswana and Zimbabwe, the training funds do not appear to do anything to help improve access to training for disadvantaged or vulnerable groups. Both Malawi and Zimbabwe deploy approaches that may actually end up widening inequality of access. In Zimbabwe, some aspects of ZIMDEF's fund expenditure, such as supporting polytechnic students, de facto exclude poorer students who have not been able to make it to tertiary education. Similarly, in Malawi, the subsidy financing approach adopted by TEVETA Malawi in relation to formal apprenticeships fails to promote equity among students; student selection is based on obtaining high enough grades, which will exclude the most marginalized.

There is no quantitative evidence on the relationship between funded training and improvements in enterprise performance in almost all SADC countries reviewed (Botswana, Malawi, Mauritius, Namibia, United Republic of Tanzania, Zambia and Zimbabwe). In South Africa, a perception survey of approximately 2,000 employers found that a majority of employers believed that levy-supported training had impacted favourably on their companies. Anecdotal opinions were put forward by some interviewed stakeholders in a number of countries reviewed (for example, Botswana, Mauritius and Zimbabwe) claiming that enterprise performance was improved as a result of the levy-funded training. In several countries reviewed, there was an assumption that training levy funds channelled to formal technical and vocational institutes would increase the supply of relevantly qualified graduates and therefore lead to improvements in enterprise performance. However, there are reasons to question this assumption.

As a tool to incentivize enterprises to train their employees, the levy-financed training funds in the SADC countries studied do not appear to be very effective; however, more rigorous studies are urgently needed to assess this. In both Botswana and Namibia, there is no evidence that the National Training Fund has incentivized employers to train more than they would have done without the levy. Mauritius is the only SADC country covered in this review where there is a piece of robust quantitative evidence on the relationship between the levy and the incidence of firm training; it actually finds that "the training fund may well lower the overall incidence of training" among the largest and most capital-intensive firms in Mauritius. Since the largest and most capital-intensive firms would be the ones most likely to train employees in the absence of a levy, the fact that the levy-grant system takes in more in taxes than it pays out in subsidies to these firms may result in firms actually training less. In South Africa, this review noted mixed qualitative opinions regarding the extent to which the mandatory grants (of the SETA training funds) serve to incentivize in-firm training. Malawi and Zambia both have very small expenditure on industry training grants, amounting to 1–3 per cent of the levy collected; it is not surprising that the training funds in both these countries are not seen as a mechanism to incentivize enterprises to train their employees. There is no incentive mechanism to encourage firms to train their staff in the United Republic of Tanzania or Zimbabwe.

In the SADC countries reviewed, evidence on the extent to which training funds have improved individual employability is anecdotal, opinion based, or focused on outputs (underpinned by the assumption that if someone is trained their employability has improved). Tracer studies have been conducted in Malawi, South Africa and the United Republic of Tanzania, but it should be recalled that tracer studies are not evidence that the training itself led to the employment rates that such studies find among the trained graduates.

Most, if not all, of the training funds in the selected SADC countries are used to fund various parts of the public education and training system. However, the way in which training fund resources are deployed to fund part of the public education and training system is a key determinant of whether this funding is actually helping or hindering the national system. For example, in both Namibia and the United Republic

of Tanzania, the organizations managing the training funds (the Namibia Training Authority and the Vocational Education and Training Authority (VETA), respectively) also run public vocational training centres; the bias towards use of levy funds for these training centres distorts the training market and limits competition.

Training funds in at least several countries in this study (for example, Malawi, Mauritius and Zimbabwe) do not function well as a tool for steering various TVET programmes in their respective countries towards responding to the demands for skills in the economy. For example, in Zimbabwe, ZIMDEF funding clearly favours training programmes and institutes connected to, or accredited by, the Ministry of Higher and Tertiary Education and Science and Technology Development. In Mauritius, on the other hand, the training fund does not seem very strong at skills foresight, which may result from weak labour market information systems.

Overall, monitoring and evaluation systems in the training funds are weak. There is a heavily reliance on output data (often without disaggregation) (Botswana, Malawi, South Africa, United Republic of Tanzania and Zambia), and it is therefore not easy to determine the overall impact of the training funds.

Recommendations

- Monitoring and evaluation systems at training funds need to be strengthened in all SADC countries in order to better monitor the efficiency of the fund itself (for example, efficiency of the application processing, time taken to process and pay a claim, and the uptake rate – the percentage of levy-paying firms applying for available training grants).
- There is a need for most countries to develop and strengthen proper mechanisms to measure the effectiveness of training being financed by the funds. Information on internal efficiency indicators, such as completion rates, pass rates, repetition rates and dropout rates, are needed, and there needs to be a move away from only reporting on outputs to more rigorous tracer studies and a select number of robust impact evaluations.

Fund management and governance

All the SADC training funds in this review, with the notable exception of ZIMDEF in Zimbabwe, have boards that are meant to govern their operations. Importantly, there is a question about the extent to which many of the training fund boards (in Malawi, Mauritius, United Republic of Tanzania and Zambia) actually “govern”, versus the real decision-maker in the form of the parent ministry.

In most cases, the training funds are not themselves separate entities but reside within organizations that have a wider remit than only the training fund (Botswana, Malawi, Mauritius, Namibia, South Africa’s National Skills Fund, United Republic of Tanzania and Zambia). This limits the governance role that the boards have.

Overall, the influence of employers in the governance of the SADC training funds is low (with the exceptions of Namibia and South Africa’s SETAs). This is reflected not only in the composition of training fund boards, where representation from the private sector is insufficient, but also by the fact that key decisions taken by the boards (for example, fund allocation areas or criteria, and budget decisions) usually have to be approved by the respective government anyway.

In Malawi, the United Republic of Tanzania and Zimbabwe, and – to a lesser extent – in Namibia, the organizations governing (and managing) the training funds are subject to conflicts of interest that inhibit effective governance of those funds.

There is a strong perception among employers, employers’ organizations and workers’ organizations that the training funds are subject to political influence (especially in Malawi and Zimbabwe). For example, in Malawi, some of the training fund expenditure is said to go towards projects that are politically favoured. In Zimbabwe, ZIMDEF’s direct association with the Minister of Higher and Tertiary Education, Science and Technology Development may have contributed to alleged fund misappropriation; in one case, a report

from Zimbabwe's Office of the Auditor General found that payments from the training fund had been used to buy T-shirts for a by-election.

Where training funds are run by training authorities as part of their wider operations (Botswana, Malawi, Mauritius, Namibia, the Tanzanian VETA and Zambia), the training funds are typically managed by a dedicated department within that organization. Insufficient transparency in reporting is noted as an issue in several SADC countries under review (especially Malawi and Zimbabwe).

Recommendations

- The composition of the various boards needs to be reviewed to give greater representation and responsibilities to private sector representatives. Increasing representation of the private sector, as well as of employers' and workers' organizations, in the governance of training fund boards needs to go hand in hand with the boards being given greater autonomy from any parent ministry. In Zimbabwe, the plans to establish a ZIMDEF board should be welcomed, and stakeholders should ensure that it is done so on a tripartite basis, with levy-paying employers given a significant voice.
- The conflicts of interest that inhibit the effective governance of training funds in Malawi, Namibia, the United Republic of Tanzania and Zimbabwe need to be addressed. In the cases of both Malawi and Namibia, the organization managing the training fund is a levy collector, spender, provider of training, and regulator of technical, entrepreneurial, and vocational education and training, resulting in conflicts of interest. In Namibia's case this is partially mitigated by the ring-fencing of the levy funds within the Namibia Training Authority, where it is controlled by a separate board with employer and worker representatives. In the case of the United Republic of Tanzania, VETA receives a proportion of the levy (as decided by the Ministry of Finance and Planning and the Ministry of Education, Science and Technology), which VETA is, in turn, responsible for allocating; meanwhile, VETA's triple role as training provider, financier and regulator results in conflicts of interest. In the case of Zimbabwe, there is simply no board, and the Minister of Higher and Tertiary Education, Science and Technology Development is the sole trustee of the fund. Again this leads to conflicts of interest. International practice is to at least separate the role of training provider and regulator from that of a training fund; this is to avoid conflicts of interest potentially leading to the training fund giving preference to its own training provision (which results in market distortion).
- More effort should be paid to ensuring greater transparency of expenditure, as this builds and maintains trust, especially between the levy-paying firms and the entity managing the training fund. For example, several training funds (United Republic of Tanzania and Zimbabwe) do not publish annual reports (with financial information) on their websites. In the case of Malawi, TEVETA only has one outdated annual report online (from 2014/15). Even those SADC training funds that do have annual reports could go further by publishing financial data on quarterly levy collection and disbursement amounts (and areas of expenditure).
- Strengthening of accounting practices in the organizations managing the training funds would improve financial reporting, and also better inform training fund boards of longer-term sustainability issues. While most funds have public annual reports (Botswana, Malawi, Mauritius, Namibia, South Africa and Zambia) that contain high-level annual accounts, few funds undertake projections of income and expenditure. In Malawi's case it can be very hard to extract the most recent annual report from the organization managing the training fund, and in the cases of the United Republic of Tanzania and Zimbabwe there are no annual reports available.

Part A

1. Introduction

The Southern African Development Community (SADC) is making considerable strides towards achieving its mission of promoting sustainable, equitable, economic growth and development in Southern Africa, and enhancing the standard of living and livelihoods of its people, including the socially disadvantaged. Progress is being made both at policy level and in practice through a number of initiatives, including the Regional Indicative Strategic Development Plan (aimed at regional integration); the Industrialization Strategy (which serves as a roadmap towards a diversified, employment-targeted, innovative and globally competitive industrial base); the SADC Free Trade Area; the Economic Partnership Agreement with the European Union; the Tripartite Free Trade Area encompassing the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and SADC; and, most recently, the launch of the African Continental Free Trade Area.

However, despite these remarkable efforts to promote sustainable growth, poverty and unemployment still persist in the SADC subregion. Approximately half of the population live on less than US$1 a day. Unemployment is rising, especially among young people, and most employment in many SADC countries remains informal (table 1). At least 106 million people across SADC are unemployed; half are youths. Further, the livelihoods of many and the economic prospects of most countries in the subregion are threatened by environmental degradation.

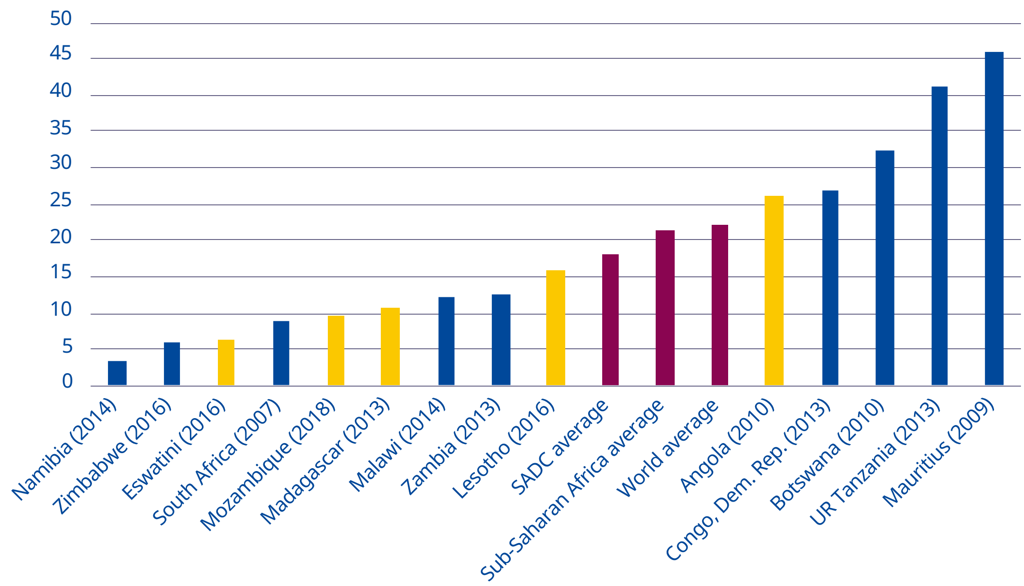
Table 1. Extent of informal economic activity in selected SADC countries (%)

		Informal employment and informal sector as % of employment	
Country	**Source**	**Informal employment**	**Employment outside formal sector**
Botswana	–	n.a.	n.a.
Malawi	Household survey (2012)	97	93
Mauritius	Labour force survey (2017)	52	39
Namibia	Labour force survey (2018)	56	57
South Africa	Labour force survey (2018)	35	45
UR Tanzania	Labour force survey (2014)	91	87
Zambia	Labour force survey (2017)	71	60
Zimbabwe	Labour force survey (2011)	86	77

n.a. = data not available.
Source: ILOSTAT (www.ilo.org/ilostat).

There is generally a mismatch between skills supply and demand for labour in all countries in the SADC subregion because the education and training system is too often disconnected from industry. However, the extent to which firms in SADC countries identify inadequately trained employees as a major constraint on doing business varies considerably and does not appear to follow a clear pattern (figure 1). This challenge for industry is exacerbated by the constantly changing world of work, where technological innovation is now profoundly affecting job requirements and skills demands, and skills development systems lack the capacity to keep up with those demands.

Figure 1. Percentage of firms identifying inadequately trained employees as a major constraint on doing business in the SADC subregion



Black bars refer to SADC countries with training levies currently in place. Dotted bars indicate SADC countries with no training fund present.
Note: In Mozambique, a National Training Fund has been established with the intention that it be partly funded by a 1 per cent payroll levy of the private sector (World Bank 2016a). It is not clear if this is currently operational.
Source: World Bank Enterprise Surveys (https://www.enterprisesurveys.org).

In an effort to address these challenges, governments in the region have introduced skills reforms that have included a range of initiatives, for example, increasing the proportion of work-based learning (through formal apprenticeships and internships). Further, governments are trying to involve the private sector more in the design and implementation of educational curricula and training programmes with the aim of creating a more equal share between enterprises and governments in financing training activities. The objective is to try and bring together supply and demand through training while creating new opportunities in the training market. Although most of these initiatives have been in existence for some time, the real benefits are yet to be realized. Financing has also been given greater attention, not only from the perspective of exploring opportunities to increase the resource envelope, but also from the perspective of strengthening financing approaches, which themselves can lead to a closer match between the supply of and demand for skills. One such approach is the use of skills development levies.

Skills development levies have been in existence in some SADC countries for over ten years. The levies are charged as a percentage of the wage bill or of turnover. In some countries, the skills levy legislation provides exemptions for small and medium-sized enterprises (SMEs). In terms of utilization, employers who have incurred training costs are entitled to some form of partial reimbursement from the training fund or through a tax incentive by allowing such expenses to be deductible for tax purposes. While the levies are reported to be working well in some sectors, the majority of sectors – and employers and employees within them – are not reaping the benefits. For those businesses that are not benefiting from the levies, it is seen as an additional tax that is simply another cost of doing business. This is additional to the cost of robust institutional arrangements that ensure the participation of the private sector and workers on the boards of technical and vocational training and levy administration authorities. In most countries, the reality is an accumulation of the levy fund, which often ends up being directed to other government-driven initiatives that have very little relationship to enhancing skills, and frequently with little or no involvement of the private sector or of workers.

This report

It is against this backdrop that this study assesses the skills development levy system in eight SADC countries (Botswana, Malawi, Mauritius, Namibia, South Africa, United Republic of Tanzania, Zambia and Zimbabwe) and its role in optimally promoting sustainable economic development, competitiveness, employment (especially among youths), and participation in the future world of work.

The report takes the following structure.

Part A: Main report

- Literature review: levy-financed training funds: international good practice and lessons learned
- Research report: assessment of the skills development levy systems in SADC countries: synthesis

Part B: Country briefs

- Summary of levy-financed training funds in selected SADC countries
- Botswana country brief
- Malawi country brief
- Mauritius country brief
- Namibia country brief
- South Africa country brief
- United Republic of Tanzania country brief
- Zambia country brief
- Zimbabwe country brief

Appendices

- Methodology
- SADC training funds: Themes and questions for in-depth interviews
- List of key stakeholders interviewed

2. Levy-financed training funds: International good practice and lessons

2.1 Background

The need to increase and diversify the funding available for skills development is typically the focus of government interest in reforms related to financing skills development. Of lesser interest, but perhaps as important, is the need to pay more attention to the decisions regarding where funds are spent, and the mechanisms by which they are allocated.

Skills development funding typically comes from three main sources: government budgets, student fees, and the private sector. In addition, other sources might include private donations, income-generating activities, and external assistance (Palmer 2018a).

Training funds are an increasingly popular approach to mobilize funding for skills development.[3] Training funds are dedicated funds, usually outside normal government budgetary channels, aimed at developing productive work skills. Training funds can be national or regional, covering a range of sectors, or can be sector or industry specific, to support a particular sector or industry (such as tourism or extractive industries). Training funds can be financed by employer levies, public subsidies, donor financing or a mixture of all three.

According to the latest global review, in 2020 about 70 countries operate levy-financed training funds of different types (Palmer 2020, forthcoming) (see table 4 below).[4] A handful of these countries contain multiple levy-financed training funds, usually on a sectoral basis. In addition to the levy-financed funds, there are an unknown number of donor-financed training funds that have been introduced or tried out in many other countries over the last decade, for example in Bangladesh (United Kingdom Department for International Development (DFID)), Cambodia (Asian Development Bank), Ghana (Danish International Development Agency and World Bank), Nepal (DFID, Swiss Agency for Development and Cooperation and World Bank), Pakistan (DFID) and Vanuatu (Department of Foreign Affairs and Trade, Australia). An aggregate review of their experience is not available.

2.1.1 Types of training funds

Three main types of training funds can be identified, linked to the main purpose of the fund: pre-employment training funds that finance initial technical and vocational education and training (TVET) before employment; enterprise training funds that finance in-firm training of employees; and equity training funds that finance the training of disadvantaged groups (table 2). In practice, there is significant hybridization of type, with many training funds set up to serve two or all of these purposes at the same time. A fourth type of training fund can be highlighted: a lifelong learning fund. Examples include Singapore's Lifelong Learning Endowment Fund (box 1), the National Lifelong Learning Fund of the United Kingdom's general trade union (GMB), and Finland's Employment Fund.[5]

3 While this review uses the term "training fund", the term "skills development fund" is also widely used; for the purpose of this review, both terms should be read interchangeably.

▶ Table 2. Typology of training funds

Type	Main purpose	Financing sources
Pre-employment training fund	Provide funding for initial training before employment, typically through formal secondary- and tertiary-level TVET institutes, usually to fund expansion (to increase access) and delivery (including quality enhancements). Over the last decade, some donor-financed training funds of this type have also tried to promote better graduate employment outcomes through performance-based measures	Public subsidy, levies or donors
Enterprise training fund	Provide incentives to increase incidence of training among enterprises' current workers (including through on-site and off-site training)	Levies, donors and, to a lesser extent, public subsidy
Equity training fund	Increase opportunities for skills acquisition by disadvantaged groups not covered by enterprise or pre-employment schemes	Public subsidy, donors and, to an infrequent extent, levies
Lifelong learning fund	To encourage individuals to engage in lifelong learning	Public funding, levies

Source: Author.

▶ Box 1. Lifelong Learning Endowment Fund, Singapore

The Singapore Government established a unique financing mechanism for continuing education and training, the Lifelong Learning Endowment Fund, in 2001. This was introduced under the Lifelong Learning Endowment Fund Act, 2001, to provide increased funding for the acquisition of skills and expertise; to develop and upgrade skills and expertise; and to enhance the employability of individuals. The fund was set up with an initial capital of 500 million Singapore dollars from the Government, with a target size of 5 billion Singapore dollars to be funded by further government payments. The endowments are progressively set aside and the fund uses the interest earned on these endowments to fund training. This fund complements the levy-funded Skills Development Fund in Singapore (set up in 1979).

Source: Government of Singapore 2017.

There is a general lack of impact evaluation or performance assessments in relation to training funds. There are few publicly available data on many of the funds, despite the fact that they are responsible for managing substantial amounts of money.

The literature indicates that there is no single ideal fund type. Comparing different funds directly is therefore not very useful, as each fund pursues different goals. Fund type is linked to the main purpose and policy objectives of having a fund in the first place. What is important is to clearly articulate what the purpose of the fund is. International experience underlines the need to be clear about the desired purpose of a levy-financed training fund – what it is aiming to accomplish – and the need to give it a clear mandate and operating guidelines directly related to this.

2.1.2 Levy-financed training funds

Training levies are a way to "pool resources from employers and earmark them for expenditure on training" (OECD 2017, 87). Levy schemes are usually set up to address the underprovision of training as a result of market failure, resulting from the concern that firms have that if they invest in training their workers will be "poached" by non-training firms (OECD 2017; UNESCO 2018a).

Training levies are usually based on contribution of a certain percentage of a company's salary bill (though they may also be based for example on exports, the employment of migrant workers, or enterprise profit), with the levy amount decided either by government (usually in consultation with employers) or via a more collective agreement (involving employers and workers in the decision-making process). The levy is normally paid by the company itself (not the employee).

If used strategically, levy-financed training funds can help to orient entire TVET systems (or at least sectors) in the direction of national priorities while addressing immediate skills shortages. Encouraging more private resources for TVET financing, especially those coming from private enterprises, is strongly linked to the policy objective of making TVET systems more demand driven, responsive and relevant (Atchoarena 2009). Where resources from the private sector are channelled into TVET, employers may be encouraged to be involved in "steering and delivering mechanisms for training" (Dunbar 2013, 26), and in demanding training relevance and cost-effectiveness (Johanson and Adams 2004). However, levy-financed training funds have both strengths and limitations and, in many cases, are poorly designed, inefficiently managed and governed, and poorly monitored and evaluated, and effectively end up being another form of taxation on private enterprises, for which they see little benefit.

This part of the report refers specifically to the international literature on levy-financed training funds, and addresses a range of issues – and associated questions – related to good practice and lessons (table 3).

▶ Table 3. Issues and questions related to levy-financed training funds

Issues	Questions
Fund purpose	What types of levy-financed training funds are there?
	What is the purpose of levy-financed training funds?
Fund mobilization	What should be levied?
	How much levy?
	Who should pay levies?
	How should levies be collected?
Fund expenditure	What should levy-financed training funds be used to support?
Fund governance and management	How is employer support obtained?
	What does good governance of a levy-financed training fund look like?
	What does good management of a levy-financed training fund look like?
	What monitoring is needed?
Fund allocation	How should funds be allocated and on what basis?
Fund effectiveness	How should the effectiveness of levy-financed training funds be assessed?
	What are some of the risks associated with levy-financed training funds?
	What is the evidence that levy-financed training funds impact individual employability, enterprise performance and sectoral growth?
Enabling environment	How can countries create the right environment for levy-financed training funds?

There are a number of key questions that need to be considered when examining levy-based training funds. These relate to:

- fund purpose
- fund mobilization
- fund expenditure
- fund governance and management
- fund allocation
- fund effectiveness
- fund enabling environment.

Each of these is addressed in turn in the following sections.

2.2 Fund purpose

2.2.1 Types of levy-financed training funds

Three of the most common types of levy schemes are revenue-generating schemes, levy-grant schemes, and levy-exemption schemes (box 2).

Box 2. Types of levy-financed training funds

Revenue-generating schemes. This is essentially little more than an earmarked tax, whereby firms pay levies to fund publicly provided training (in vocational schools, institutes or colleges). Such schemes do little to alter the incentives of employers to invest in training.

Levy-grant schemes. Firms pay levies that they can then claim back in the form of grants if they undertake certain types of training that meet the fund's criteria. Firms are therefore incentivized to train more in order to get their contribution back. As such approaches typically require case-by-case decisions, there are higher administrative costs on the part of the fund manager. Further, as such approaches typically require firms to provide a range of paperwork (training plans, proof of attendance, invoices and receipts), the administrative burden on firms, especially smaller firms, can be heavy.

Levy-exemption schemes. A levy is imposed on firms, but the rate payable is reduced by the amount that the firm spends on allowable training activities. This scheme has a lower administrative burden than the levy-grant scheme, but it assumes that firms know what their (and society's) training needs are. Moreover, it may subsidize training that employers would have provided without the levy exemption.

Sources: OECD 2017; UNESCO 2018a.

2.2.2 Purposes of levy-financed training funds

While it might be expected that levy-financed training funds would focus on addressing training market failures so as to encourage levy-paying firms to undertake more training, in low- and middle-income countries this is often not the case. In such contexts, rather than addressing training market failures, the drive to introduce training levies is typically to address public financing failures. The stated purposes of levy-financed training funds tends to cover the whole spectrum of issues (ADB 2014; ETF 2018a; ILO 2017), for example:

- revenue raising for initial TVET – increasing the current resource envelope for public (and, less often, private) TVET providers;
- creating a dedicated (and predictable) finance source earmarked for TVET separate from public budgets;
- addressing training market failures such as the poaching of employees, or "free riding" on other firms' TVET expenditure;
- increasing the incidence of employee training in levy-contributing firms (including through in-firm training, or sending employees on external training courses);
- providing opportunities for the training of SMEs in the informal economy;
- providing opportunities for the training and employment of disadvantaged and marginalized groups, including persons with disabilities and the unemployed;
- enhancing fairness, on the basis that firms receiving benefits from training (for example, higher productivity of a trained worker, increased earnings) should pay at least in part;
- creating a mechanism to share and pool private and public funding;
- providing business development and consulting services to enterprises.

These illustrative purposes are not mutually exclusive, and funds typically have more than one objective.

If employers are to become engaged with the purpose and objectives of the fund – which is of course to be financed by levies they are paying – they need to be heavily involved in the process of determining the fund's purpose and objectives (as well as in its subsequent running – see below). Without clarity of, and support for, the purpose and objectives, employers will probably just see the training fund as an irrelevance and the levy simply as another form of taxation and administrative burden. Such a scenario can ultimately lead to the collapse of the levy completely, as employers and workers pressure their politicians and government to cancel it.

2.2.3 National versus sectoral levy-financed training funds

Both types of training fund (national, sectoral) have their advantages and limitations.

- **Sectoral training levies.** When levy schemes are organized on a sectoral (or local) basis to focus on the training needs of particular sectors, they tend to achieve a higher sense of ownership among participating employers compared to national training funds covering all sectors. Such approaches are also better able to develop more specialized knowledge about employment and training issues (OECD 2017). Sectoral training funds are found in a number of European countries, including Austria, Belgium, Denmark, Germany, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Switzerland and the United Kingdom. In Latin America, the Brazilian S-System comprises nine sectoral training funds, while Peru has two such funds. South Africa has over 20 sectoral training funds and is the only country in sub-Saharan Africa with this type of fund (the majority are national training funds) (Palmer 2020, forthcoming). However, having training funds run on a sectoral basis runs the risk that national skills priorities may be lost sight of, and that general training may become neglected (OECD 2017). Moreover, such funds can require a certain level of administrative capacity in participating sectors (and therefore underdeveloped sectors are less likely to be able to set them up and run them effectively). Marginalized groups within sectors, especially those operating in the informal economy, may not benefit from sectoral funds, which are typically led and managed by formal sector firms.

- **National training levies.** These apply in levy schemes organized on a national basis to support the training needs of all sectors. Such training levies tend to support national skills objectives, and can therefore be supportive of industrial sectors considered a national priority. As they tend to "require comparatively less administrative capacity than sectoral funds", they are sometimes seen as more "preferable in developing countries" (Johanson 2009, 52). National training levies are found particularly in the Asia and the Pacific region (for example in Fiji, Malaysia, Papua New Guinea, Republic of Korea, Singapore and Thailand), in the Arab States (for example in Algeria, Jordan, Morocco and Tunisia), and in almost all sub-Saharan African countries with training levies. A few national training funds also exist in Europe (for example in Denmark, Ireland and the United Kingdom) (Palmer 2020, forthcoming).[6]

However, the division between sectoral and national training levies is not necessarily clear-cut. Where sectors have the administrative capacity to run their own sectoral training funds, the design of the fund, and the distribution of the levy, can incorporate an element of redistribution according to national skills priorities. In South Africa, for example, while 80 per cent of the levy collected goes to sectoral training funds, 20 per cent goes to a National Skills Fund that supports training areas according to the National Skills Plan. In other words, South Africa has both sectoral training funds and a national training fund that are linked together.

6 Both Denmark and the United Kingdom also have sectoral training funds. The national training fund in the United Kingdom is focused on apprenticeship.

2.3 Fund mobilization

2.3.1 Sources of levies

Globally, there is a very clear predominance of training levies coming from payroll taxes. Other bases upon which levies are calculated can include company profit, foreign worker permits and turnover (table 4).

Table 4. Overview of active levy-financed training funds, by type of levy base (2020)

Levy base (number of funds identified)	Country
Company profit (1)	Gambia
Foreign worker permits (3)	Australia, Jordan, Marshall Islands
Payroll (63)	Algeria, Austria, Barbados, Belgium, Benin, Bolivia, Brazil (for SENAI, SENAC, SENAT, SEBRAE), Burkina Faso, Canada (Quebec), Central African Republic, Chad, Côte d'Ivoire, Colombia, Costa Rica, Cyprus, Denmark, Dominican Republic, Ecuador, El Salvador, Fiji, France, Germany, Greece, Guatemala, Guinea, Honduras, Hungary, Iceland, Italy, Ireland, Jamaica, Luxembourg, Malawi, Malaysia, Mali, Mauritania, Mauritius, Morocco, Namibia, Netherlands, Nicaragua, Niger, Nigeria, Papua New Guinea, Paraguay, Peru, Poland, Republic of Korea, Senegal, Singapore, Slovenia, South Africa, Spain, Switzerland, United Republic of Tanzania, Thailand, Togo, Tunisia, United Kingdom, Uruguay, Venezuela (Bolivarian Republic of), Zambia, Zimbabwe
Fixed amount per worker (2)	Denmark, Kenya
Product value (3)	Australia, Brazil (SENAR), United Kingdom (Creative Skillset's Film Skills Levy)
Social security or unemployment contributions (2)	Panama, Romania
Company turnover (1)	Botswana

Source: Palmer 2020, forthcoming.

2.3.2 Amount of levy

In terms of the levy amount, 1–2 per cent appears to be a commonly agreed percentage across countries and regions (UNESCO 2018a), a range that has remained unchanged for a decade (compare Johanson 2009). This said, there is no good practice answer as to how much a levy should be in a given country, since so many determining variables are country specific. As a general rule of thumb, a levy amount should be as high as the administrative capacity to efficiently and effectively allocate such resources (so that there are no unspent funds or the creation of "lavish bureaucracies" (Johanson 2009, 52)), and as low as the willingness and ability of employers to pay it.

As employers are paying the levy, they need to be centrally involved in setting the levy rate. Where employers do not see the benefit of a levy-financed training fund, or do not have confidence in its operation, they will understandably want to pay as low a levy as possible, as it will simply be viewed as another form of taxation. Employers will be more likely to agree to a higher levy rate where they have real support for the fund, are confident that it is well managed and governed, and know clearly how and when, and how much, they will benefit from it.

In contexts where workers are contributing to the levy, workers' organizations also need to be included in setting the levy rate. In countries where funds are a consequence of collective bargaining processes, workers are also contributing to the training fund through wage offsets (for example in the Netherlands and Romania), and therefore need a voice.

Generally speaking, levies can be uniform, where the same rate is applied to all (regardless of sector or firm size or payroll size), or variable, where the rate varies according to specified criteria. Uniform rates are obviously "simpler to administer and … more easily understood by employers" (ETF 2018b, 41), and tend to be the most common approach (Dar, Canagarajah, and Murphy 2003). However, "they can fail to recognise the different circumstances and training costs of firms in different industry sectors and firms of different sizes" (Dar, Canagarajah, and Murphy 2003).

International experience suggests that levy rates should be periodically reviewed and (as appropriate) revised, for example "to ensure that the training is neither underfunded nor leads to surpluses" (Johanson 2009, 52).

2.3.3 Payers of levies and exemptions

Levies can be charged to all enterprises (private and public), or designed to target or exempt some (ETF 2018a). Most levy schemes exempt the public sector from collections (Johanson 2009), and it is also common for levy systems to exempt SMEs (either measured by number of workers or size of payroll).

As in other aspects of levy design, consultation and agreement with employers' and workers' organizations is crucial, and the way public and private entities are treated must be clear (ETF 2018a).

2.3.4 Methods of collection of levies

Collection methods need to be efficient and effective; it is most common to integrate the levy collection with the collection of taxes (Johanson 2009, 12) or social security contributions. Efficiency and effectiveness of collection are important, and administrative costs of levy collection need to be minimized.

Transparency of levy collection needs to be ensured so that levy payers (and other stakeholders) know the amount of funds collected and can therefore hold the training fund to account. For example, in five of the eight SADC countries in this review (Malawi, Mauritius, United Republic of Tanzania, Zambia and Zimbabwe), lack of transparency of collected levies was a stated issue (see country synthesis and briefs in Part B for further discussion).

2.4 Fund expenditure

2.4.1 Training-related services supported by levy-financed training funds

Levy-financed training "funds should be earmarked to be used only for training purposes" (Johanson 2009, 53). International good practice shows that levy funds should not be used for non-training purposes, including being appropriated by the central government (Johanson 2009; Ziderman 2016). Funds are sometimes diverted from training funds for purposes not connected with the original (training) objectives of the fund. Where this happens, the private sector will rightly see the training levy as just another form of general taxation over which they have little or no say in how it is used. This can in turn increase the risk of fund collapse, when the private sector – seeing little or no benefit from the training levy they are paying – lobby politicians and government to cancel the levy completely.

Ensuring transparency of expenditure builds and maintains trust, especially between the levy-paying firms and the entity managing the training fund. Where expenditure is not transparently reported, oversight of the entity managing the training fund is limited, which can lead to mistrust and misallocation of funds. This is especially the case where the entity managing the training fund is also using the funding to deliver training directly.

2.4.2 Levy-financed activities and cross-subsidization

Levy-financed training funds typically support a range of activities (Comyn 2018; ILO 2017; Johanson 2009):

- basic, technical and employability skills training;
- pre-employment training in training institutions (for example, training activity costs, infrastructure, training of trainers);
- training of workers in enterprises (for example, apprenticeship incentives and direct costs, internships);
- training of disadvantaged and marginalized groups, including informal economy workers (usually via an intermediary organization);
- assessment and trade testing costs, recognition of prior learning;
- industry skills councils;
- training needs analysis, labour market observatories and analysis;
- skills–work linkages (business development consulting services, job search support, enterprise institute linkages).

There can be some benefit in cross-subsidization, whereby a share of the funds from levy-paying enterprises is used to support those that have not contributed. Using levy-financed training fund resources to support national priorities outside the immediate collection area (for example, non-levy-paying small enterprises, and those operating in the informal sector) can be beneficial. For example, in Colombia, the National Training Service (Servicio Nacional de Aprendizaje; SENA) permits "funds raised from formal sector enterprises to be spent on training of workers in the informal sector" (Johanson 2009, 51–52). In South Africa, cross-subsidization is built into the levy design: 20 per cent of levy proceeds are allocated to the National Skills Fund, which is partly used to support marginalized groups (see South Africa country brief, Part B of this report).


Key to understanding of the University of Zambia grading
A+ 90 – 100 Distinction
A 80 – 90 Distinction
B+ 70 – 80 Merit

2.5 Fund governance and management

2.5.1 Obtaining employer support

International experience unambiguously shows that getting employer support for levy schemes is crucial for their effectiveness and sustainability (ADB 2014; ETF 2018b; Johanson 2009; Müller and Behringer 2012; OECD 2017). This should hardly be surprising, since the employers are being asked to pay the levy; yet so many such schemes around the world operate (sometimes very) suboptimally precisely because this lesson has not been taken on board.

According to evaluations and international experience, obtaining employer buy-in requires extensive employer consultation, as well as their direct involvement in the design, governance and management of training levies and associated training funds (including in decisions on training priorities and funding allocation) (ADB 2014; ETF 2018b; OECD 2017). More specifically, such levies and funds "are most likely to have a positive impact when they: are designed and managed with strong social partner control or involvement, rather than by government acting alone. Both schemes that give a leading role to employers and schemes that have balanced tripartite governance can be successful." They are also more likely to have a positive impact when they "are introduced after extensive consultation, and have general support from employers" (ETF 2018b, 42). Experience from the Asia region suggests that "the best levy systems are those *controlled by employers*" (ADB 2014, 50; emphasis added).

National (universal) levies seem to work against the principle of employer support, but may still be preferable to sectoral levies where administrative capacity is lacking. As noted above, international experience suggests that national levies may be more suitable than sectoral levies in developing countries where administrative capacity in a sector is weak. Much depends on the administrative arrangements that are put in place.

On the other hand, the evidence also suggests that "universal levies seem to work against the principle of employer buy-in; being incapable of addressing specific sectoral needs they do not convey a sense of ownership to employers" (Müller and Behringer 2012, 40). But again, the extent to which this is true depends on how employers are engaged and represented.

While "sectoral levies may be more attractive to firms" (Müller and Behringer 2012, 41), countries with lower sectoral administrative capacity and with no existing levy system, or a dysfunctional national levy system, may need to invest in strengthening the capacity of sectoral administrative systems before introducing (or switching to) a sectoral levy approach.

Training funds that are introduced and financed solely by international donors may have a good chance of functioning efficiently and effectively, but may also undermine employer support for the introduction of a levy to ensure sustainability. These are training funds set up with external donor financing and run by a national entity (linked to a government ministry) or a non-governmental organization (NGO) (usually in partnership with a government ministry). They typically contain funding windows with disbursement ceilings (for example, windows for formal sector enterprise-based training, informal sector small enterprise training, pre-employment training and innovation). As noted above, examples of training funds set up by international donors can be found in Bangladesh (DFID), Cambodia (Asian Development Bank), Ghana (Danish International Development Agency and World Bank), Nepal (DFID, Swiss Agency for Development and Cooperation and World Bank), Pakistan (DFID) and Vanuatu (Department of Foreign Affairs and Trade, Australia). Ensuring government ownership and support for the fund during set-up is key, so that government is able to identify sustainable funding sources and enact the required legislation. However, where the long-term funding source is expected to be in the form of an enterprise levy, employer involvement in the design and operation needs to be first and foremost, as noted above.

2.5.2 Good governance of a levy-financed training fund

Where training levies are in place, and where these provide a substantial part of training fund income, international experience clearly emphasizes the need for substantial representation of employers in the governance of such funds (Johanson 2009; Müller and Behringer 2012; Ziderman 2002, 2016).

Allowing "employers to have a major – if not majority – say on fund allocations" is of particular importance, and "can go a long way to gaining their support for the levy" (Johanson 2009, 48). Where levy-contributing employers are given a significant voice in the disbursement policy, firms may be less likely to regard the scheme as "just another tax" (Ziderman 2016).

Brazil, Malaysia and Singapore are often cited as successful examples of levy-financed training funds that give a leading role to employers (Arias, Evans, and Santos 2019; Johanson 2009; Müller and Behringer 2012). For example, in Brazil the governing bodies of the sectoral training funds in industry, commerce, agriculture and transport are entirely privately managed by national federations of employers; the strong sense of ownership over these funds by companies is a key factor in their success. In Singapore, a key characteristic of the successful Skills Development Fund is the strong role assigned to employers: 9 of the 15 board members of SkillsFuture Singapore – the agency that controls the Skills Development Fund – represent employers (including the chairperson and vice-chairperson), and there are three government representatives, one worker representative and two others.[7]

However, the simple presence of a substantial representation of employers on a training fund board does not automatically lead to a more effective training fund. It is important to pay attention to the composition of employer representation, and the extent to which it is representative of the employers in the country (Ziderman 2002). It is often the case that there is little representation by small enterprises, especially those operating in the informal economy (which often form the majority of all enterprises in low- and middle-income countries), yet their involvement is crucial (ILO 2017). Employers sitting on training fund boards may also lack the needed capacities to be able to contribute effectively at the governance level of a training fund.

Balanced, tripartite governance (employers, workers and government) can also be successful, as long as this does not lead to overcontrol by government (Johanson 2009, 48; Müller and Behringer 2012).

Decision-making autonomy and control over budget allocations are two key principles of the most effective training funds (Johanson 2009; Ziderman 2016). Governance bodies need to be "free from political influence" (Ziderman 2002, 39), so that they can assess demand and priorities based on market needs, not political preference. "Where ministerial control remains strong [and] where governing boards are advisory rather than managerial," training funds will not see the benefits of autonomy and not function well (Ziderman 2002, 39).

2.5.3 Features of good management of a levy-financed training fund

Successful training funds have strong administrative capacity and autonomy, and operate with full transparency. For example, "most successful levy-financed training funds in Latin America and elsewhere have a high degree of administrative independence. Administrative efficiency is required to reduce red tape and ease access to funds by deserving firms. … Transparency in decision-making is also important" (Johanson 2009, 49).

7 https://www.ssg-wsg.gov.sg/boards-members.html.

2.5.4 Monitoring and evaluation requirements

Monitoring and evaluation of all key aspects of levy-financed training funds are needed, including collection, expenditure, governance, and outputs, outcomes, and impact.

Monitoring the collection of funds by levy-paying firms is important so that training fund management know which firms are compliant (paying the levy when they are due to do so) and the amount of funds raised. Such data need to be made transparent so that levy payers can compare the amount of funds collected with the expenditure. Examples of indicators related to levy collection include total amount of levy collected in a given financial year; total number of levy payers contributing to the training fund in a given financial year; and percentage of eligible levy-paying firms who paid the levy in a given financial year.

Monitoring the expenditure of funds from a levy-financed training fund, and making such data public, will give levy-paying firms information on where their payments are going and – hopefully – increase their confidence in the training fund and improve its effectiveness. Examples of indicators related to levy expenditure include:

- the effectiveness of the training fund administration, for example measured by the number of applications processed as a percentage of the number of applications received;
- the turnaround time in the processing and payment of claims (measured in days, weeks or months);
- companies claiming from the training fund as a percentage of the total number of levy payers;
- total value of claims paid in that financial year;
- percentage of processed claims;
- percentage of funds spent on key priority interventions;
- training fund utilization rate, measured by the total value of claims paid as a percentage of the total levy collected.

Monitoring and evaluation of the outputs, outcomes and impact of activities funded via the training fund can help to increase fund efficiency and effectiveness, and provide continuing evidence to justify maintaining the training levy itself. Few levy-financed training funds go beyond reporting about outputs, though clearly such data are important – especially where the provision of training triggers a payment from the fund to an enterprise (cost reimbursement). However, more than just output data are needed. Examples of indicators related to levy outputs, outcomes and impact include number of firms reached; number of employees trained; percentage of graduates from training fund-supported programmes who are employed or self-employed within six months of graduation; percentage of employees trained through training fund grants who improved job performance; and increased productivity of firms as a consequence of staff training.

Monitoring the effectiveness of governance arrangements of training funds could also be important to ensure that key stakeholders, especially levy-paying enterprises, are given sufficient voice.

2.6 Fund allocation

2.6.1 Allocation of funds and related criteria

The administrative ways in which funds are allocated (such as grants, scholarships, loans and training vouchers) and the criteria applied (such as specific eligibility criteria, targeted or untargeted) can be just as important considerations as how much funding is available and how it is collected.

Determining eligible training activities and beneficiaries is part of the design of the levy-financed training fund (and any subsequent reform), and needs the agreement of key tripartite and other stakeholders (including representatives of government, employers and workers, in addition to training organizations and civil society organizations). In particular, where possible, employers should be given “a strong, even majority, voice in allocations of funds they provide to ensure relevance” (Johanson 2009, 48). Agreement needs to be reached at the outset on where funds are spent, who the target groups are (for example, new entrants to the labour force, people already employed or specific disadvantaged groups), which beneficiaries are eligible to receive the funds (for example, individuals directly, formal enterprises, informal sector associations, social partner organizations or training institutions), how much they can apply for, and what funds can be spent on. In some countries, training funds offer differentiated reimbursement rates for different training activities.

“Evaluations of training levies and associate training funds suggest that they are most likely to have a positive impact when they clearly specify the types of training or the types of [beneficiaries] that are the targets” (ETF 2018b, 42). Where funds can be spent, on whom, on what and by whom should be directly linked to the levy-financed training fund purpose and objectives, and should be clearly articulated in discrete “funding windows” (the major categories for the destination of funds). For example, if the primary fund objective is to increase in-firm training of employees, the training fund would (or should) contain funding windows earmarked for different types of firm, and potentially different approaches to reaching firms. For example, there may be a funding window for formal enterprises to apply to directly, another for informal sector associations who can apply for funds to provide training to their members, and a third for training organizations to design and deliver demand-driven training for firms.

These disbursement mechanisms and approaches for national training funds depend on the type of fund.

Pre-employment and equity training funds might typically have dedicated funding windows that are able to fund various quality-assured providers, including public and private training institutions and specified target beneficiaries. Some training funds of this type aim to improve the quality, relevance and value for money of funded training by using competitive bidding processes. Such approaches are most effective when they are open to both public and private providers. Such approaches work less well in contexts with limited choice (few training providers), where the availability of provision will be a more important determinant than competition, since the latter does not really exist without provider choice. Where employer levies are used to finance pre-employment training, “the lower the quality of public training supply and the lower responsiveness of public training providers to enterprise needs, the greater the … lack of employer commitment” (Müller and Behringer 2012, 40).

Levy-financed enterprise training funds typically have three ways by which accrued funds are allocated (Dar, Canagarajah, and Murphy 2003; Johanson 2009; UNESCO 2018a). These are cost reimbursement schemes, grant schemes, and exemption schemes.

- **Cost reimbursement schemes.** Enterprise training costs are reimbursed in part, within the limits of the levy paid by the enterprise, and after these costs have been incurred (for example, Ireland, Kenya, Malaysia, the Netherlands, Nigeria and Singapore).
- **Grant schemes.** Grants are allocated to enterprises to fund planned training, based on specific criteria (often available not just to levy contributors).
- **Exemption schemes** (also known as train-or-pay). Levy-eligible enterprises are exempt from paying the training levy up to the amount they spend of training directly (for example, Côte d’Ivoire, France and Thailand).

Approaches, of course, can be hybrid; using more than one such allocation scheme within the same enterprise training fund is not uncommon.

There is no "right" approach to adopt for fund allocation of levy-financed enterprise training funds – all have advantages and disadvantages (table 5). Such a design decision "depends greatly on country conditions and the goals pursued with the scheme" (Müller and Behringer 2012, 41). All types of scheme require some level of administrative capacity within enterprises, and therefore impose barriers to access by some firms (Johanson 2009). Cost reimbursement schemes "impose a high administrative burden on the training fund" (Johanson 2009, 53), as organizations managing such training funds have to first process applications to undertake training (and given approvals to proceed, or not). In addition, after the training they need to process the claim and verify the submitted information (to make sure that the training actually took place and cost the stated amount). There is also a high administrative burden on the firms themselves, who are required "to complete quite a bit of paperwork to apply for cost compensation" (Müller and Behringer 2012, 40).

Evaluations of levy-financed training funds also suggest that they are most likely to have a positive impact when they "contain few loopholes and exceptions that can be exploited, thus having administrative transparency and avoiding employer cynicism about the scheme; are simple for firms to access and administer; have relatively low administration and compliance costs for firms and for training funds; and are openly scrutinized so that they do not become easy to avoid" (ETF 2018b, 42).

▶ Table 5. Advantages and limitations of enterprise training incentive schemes

Type of incentive scheme	Advantages	Disadvantages
Cost reimbursement	• Allows mutualization of resources at sectoral or national level and reinvestment to support national skills development priorities or target groups • Enables lifelong learning process • Improves competitiveness at international level • Supports company contribution to apprenticeship schemes	• Imposes high administrative and maintenance costs, reducing the amount that can be returned to employers • Requires effective management capacities by training authority • Tends to favour routine training instead of new programmes • Deters many enterprises (especially small ones) from applying because of bureaucratic requirements and paperwork • Delays training within enterprises in some cases because of slow approval process • Uses the levy to finance public training institutions, which should be financed from government budget • Raises cost of labour
Levy-grant	• Promotes the allocation of resources to priority training programmes • Supports industry-wide training initiatives • Changes priorities flexibly in accordance with changed circumstances	• Imposes high administrative costs • Requires effective management skills and capacities • Excludes many enterprises paying the levy from funding
Levy-exemption	• Keeps financial allocations within enterprises; employers are free to plan and manage their funds and administer their training • Considerably simplifies procedures (reduced central administrative costs to manage levy) • Forges links between employers, schools and agencies, and stimulates the development of private training markets through the option for training institutions to compete for employer grants	• Can lead to ineffective spending of resources (no mutualization of training amongst companies) • Results in lack of mutualization at national or sectoral level to support strategic priorities

Sources: based on Comyn 2018; Johanson 2009; and UNESCO 2018a.

2.6.2 Disbursement mechanisms targeting individual workers

In addition to approaches targeting training institutions or enterprises, training funds can deploy disbursement mechanisms targeting individual workers, such as vouchers.

Vouchers might be offered to individuals that fully or partially cover the cost of training fees and sometimes the indirect training costs, such as transportation costs, accommodation expenses, costs of study materials and forgone earnings. There may be cost sharing with employers or individuals. Vouchers have the advantage of stimulating the purchasing power of individuals, and may help to promote competition among providers and therefore improvements in quality and cost reductions. They can help alleviate credit constraints on those who lack the resources to finance learning. However, voucher use tends to be higher among individuals with higher education levels, and there is high probability that beneficiaries would have paid for the training anyway, in the absence of vouchers.

2.6.3 Administrative issues of allocating funds

In order for training funds to administratively allocate funding to parties (individuals, intermediary organizations, training providers, or enterprises directly), one common approach used is for them to publicize calls for proposals.

Where the target beneficiary is a harder-to-reach group, for example disadvantaged individuals or those working in the informal economy, the call for proposals is typically seeking proposals from intermediary organizations (such as training providers and enterprise associations).

2.7 Fund effectiveness

2.7.1 Assessment of the effectiveness of levy-financed training funds

The effectiveness of different types of training fund should be assessed against the purpose they were set up for, and their stated objectives.

- Pre-employment training funds. One measure of effectiveness is the extent to which employers are happy with the skills of the graduates they hire who have received training via TVET institutes funded by the training fund. Pre-employment training funds are intended to fund training that improves the supply of (relevantly) skilled individuals to the labour market, so as to reduce the gap between supply of and demand for skills (Johanson 2009; Krishnan and Gelb 2018). Levy-paying firms are supposed to benefit indirectly in being able to recruit more highly trained workers (Johanson 2009, 19).
- Enterprise training funds. One measure of effectiveness is whether the incidence of in-firm training increased following the introduction of such a levy. Enterprise training funds are intended to increase the incidence of relevant in-firm training, which in turn increases the productivity and competitiveness of firms (ADB 2014; Johanson 2009).
- Equity training funds. One measure of effectiveness is to examine the extent to which such funds have been effective at improving access to training of the stated target beneficiaries, and the extent to which those beneficiaries benefited from the training. Equity training funds "aim at increasing opportunities for low-income and disadvantaged groups to raise their income and access the labour market by acquiring productive skills" (Johanson 2009, 33). They are intended to reach people not in formal employment, for example the unemployed, women, youths, people with disabilities and those working in the informal sector.

However, determining causality with regard to the effectiveness of different types of training fund can be problematic. For example, just because the incidence of in-firm training increased one or two years after the introduction of a levy-financed enterprise training fund, it is not possible to say, robustly, that the former caused the latter – though it is suggestive. There may have been a third variable – for example strong economic growth – the same year as the introduction of the training levy, which may have been a greater factor in the increase in firm training than the levy. More studies are needed to untangle these linkages.

2.7.2 Evidence on the impacts of levy-financed training funds

Sector-level effects

What is the evidence that training funds have sectorwide effects?

Evidence from the literature demonstrates that levy-financed national training funds **"have differential impacts on sectors" (Marsden and Dickinson 2013, 42), and that positive impacts (such as an increase in the incidence of in in-firm training) may be more driven by sectoral performance during times of economic growth than by the level of incentives provided by a levy instrument (Marsden and Dickinson 2013, 42).**

Enterprise-level effects

What is the evidence that training funds incentivize formal enterprises to train their employees?

The extent of robust evidence of the effects of levy-financed training funds on incentivizing an increase in in-firm training is limited,[8] and most evidence that exists is more correlational, qualitative or simply comparing before and after without any control group. (For example, just measuring the number of firms that received money from the fund for training versus the number that applied says nothing about the impact of the fund in the absence of a counterfactual.) Such evidence suggests that "in general, [levy schemes] had a positive impact on increasing in-service training, [but] they have been inequitable – large employers have benefited to a greater extent than small or medium-size employers" (Dar, Canagarajah, and Murphy 2003, 6). In recent years, there have been several robust (quantitative) evaluations emerging from among donor-financed training funds, such as those in Ghana (World Bank 2017) and Nepal (World Bank 2015).

A small number of more robust evaluations of levy-financed training funds do exist that adopt quasi-experimental or randomized experimental methods (table 6). However, as the evidence base is so thin it is not possible to draw general conclusions from them. For example, in Malaysia the training fund was found not to have had any impact on increasing training by small firms, but did so among medium and large firms. In Mauritius the evidence paints an opposite picture; large firms are not incentivized but small firms are. More studies on the impact of training funds are urgently needed to inform the design and reform of such funds.

8 Johanson (2009) highlighted this ten years ago, and it appears to have changed little since. For example, an evidence review by the United Kingdom Department for Business, Innovation and Skills in 2013 also found that "robust, quantitative evidence on the impacts of co-funding instruments is sparse" (Marsden and Dickinson 2013, 38).

▶ Table 6. Evaluations of training funds using quasi-experiments or randomized experiments (selected examples)

Type	Scheme	Method and findings
Training grants	Quebec training levy (Canada)	**Dostie 2012.** The paper presents an evaluation of a reform in a train-or-pay scheme used in Canada that exempted medium-sized workplaces from the training requirement. The study compares changes in training levels in medium-sized workplaces, before and after the reform, to changes in smaller and larger workplaces. It also compares relative changes in training intensities in Quebec to those observed in a neighbouring province in which no such changes took place. The paper finds that the change in policy had no impact on training levels but caused firms to change their human capital investments portfolio, substituting informal and formal training.
Training grants	National Training Fund (Mauritius)	**Kuku et al. 2015.** Using an administrative data set on the Mauritius National Training Fund, the authors find that the firms most likely to train pay more in taxes than they gain in subsidies. The smallest firms receive more benefits than they pay in taxes. The study notes that "the training fund may well lower the overall incidence of training" among the largest and most capital-intensive firms in Mauritius.
Training grants	Sectoral training funds (Netherlands)	**Kamphius et al. 2010.** Using a comprehensive data set on firms of the Netherlands, the paper compares training in sectors with and without a training fund. It finds no evidence "for the existence of a stimulating effect of the presence of a fund on the level of training investments of firms".
Training grants	Human Resources Development Fund (Malaysia)	**Tan and Gill 1998.** The paper examines whether reimbursements from the training levy led to increased training activity. The study is based on a survey conducted in 1994 of 1,450 firms eligible to participate in the Human Resources Development Fund. It found that 402 firms (27.7 per cent) were not registered with the fund. Of those registered, another 34.5 per cent reported that they did not claim reimbursements under the fund. The study compared the training activity of two groups of firms: those registered with the Human Resources Development Fund, and those who were eligible but chose not to register. Regression analysis showed that while the fund did not have any impact on increasing training by small firms, it did have a role in increasing training by medium and large firms.

Sources: Dostie 2012 and Kamphius, Glebbeck, and Lieshout 2010 (cited in ILO 2017); Kuku et al. 2015.

Training funds and reaching small enterprises

What is the evidence that training funds are able to support small enterprises?

The literature on training funds gives a clear message that, in the majority of cases, levy-financed training funds benefit larger firms to a greater extent than smaller firms (Dar, Canagarajah, and Murphy 2003; Johanson 2009; Marsden and Dickinson 2013; UNESCO 2018a; World Bank 2011). Even in cases where small firms are explicitly targeted, there may be "little or no impact" (Marsden and Dickinson 2013, 43).

There are some exceptions to this general rule. One approach adopted is where levy-financed training funds use intermediary organizations to reach small formal enterprises. For example, in Ireland, Skillnet networks, which receive annual allocations from the National Training Levy Fund, place particular emphasis on supporting formal sector small and medium-sized enterprises; in 2017, over half of the Skillnet membership network comprised microenterprises (one to nine employees) (Indecon 2018). In other cases, levy schemes can be designed in such a way as to target more resources on small and medium-sized enterprises (for example in Spain) or grant them reductions in (or exemptions from) the levy fee (as in Canada (Quebec), France and the United Kingdom) (OECD 2017). In Malaysia, the Human Resources Development Fund is a good example of engagement with formal sector SMEs; over 80 per cent of its registered companies are SMEs, and funds are disbursed via a grant mechanism (ILO 2017).

Examples of reaching informal sector enterprises via intermediary entities or other approaches, funded by levy-financed training funds, are not very common; one example is Côte d'Ivoire's Fund for the Development of Vocational Training, which has created a unit dedicated to the management of training projects from the informal sector, including the agricultural and rural sector (Uhder 2017). It should also be noted that many donor-funded training funds tend to have specific funding windows targeting small enterprises, including those in the informal economy.

With or without training funds, smaller firms are known to train less than larger firms.[9] The reasons for this are well known, including difficulty releasing workers for training, lack of capacity to assess needs and plan training, the opportunity cost of training, cash flow problems, and lack of awareness of the potential benefits (Johanson 2009; Müller and Behringer 2012). As such, it seems that in many cases, levy-financed training funds have not been able to help small enterprises overcome the barriers they face to training employees (not only barriers related to in-house capacity to train, but also the burden of application procedures).

Individual-level effects

What is the evidence that training funds improve individual employability and access to training for disadvantaged and vulnerable groups?

International experience suggests that more highly paid or qualified employees receive the most training, while hard-to-reach target groups, such as the low-skilled, tend to miss out (Marsden and Dickinson 2013). "Virtually all known levy schemes, even the sectoral ones set up through bipartite initiatives, fail to improve access to enterprise training for groups at risk" (Müller and Behringer 2012, 43).

This has not been the case for many donor-financed equity funds that have predictable (through often short-lived) financing, with dedicated funding windows to reach such groups. However, such donor-initiated funds are largely unsustainable without subsequent government or levy financing, which is a limit on their long-term effectiveness.

2.7.3 Risks associated with levy-financed training funds

Training funds can end up supporting in-firm training that would have taken place anyway (resulting in deadweight loss). Many firms may not need any kind of incentive to train their employees, and the existence of an architecture to collect levies and then disburse them again may be an unnecessary cost. Identification of such firms, and deployment of a levy-exemption approach with those firms, may be one way to address this.

Firms may end up "gaming" the training fund, for example by "providing training which is not useful, just to receive the funding" (ETF 2018a, 8). This demonstrates the need for effective monitoring and evaluation systems so that such approaches can be more easily detected.

With levy-exemption approaches, firms may actually reduce the amount of training that they would have provided to employees so that it matches the amount required to give them the levy exemption before the existence of the fund. This may happen when, rather than choosing the training programme that is most suitable for their purposes, firms spend the minimum to get the exemption (ETF 2018a; Johanson 2009).

Employers often see training levies as just another tax, and can therefore lack commitment to it or resist it. In some cases, this could lead to levy collapse, where firms exert pressure on politicians and government to cancel what they see as an irrelevant tax. Unfortunately, it is not uncommon in some countries for training levies to be diverted into general public accounts, or else to be diverted into areas other than supporting training (ETF 2018a, 8). As noted below, giving employers a leading role in

9 See for example the findings outlined in https://www.enterprisesurveys.org.

determining levy allocations and ensuring transparency of expenditure can go a long way to instilling confidence in employers that the funds are being effectively and efficiently used.

Some levy funds accumulate significant surpluses (Müller and Behringer 2012; Ziderman 2016). This may happen where levy rates are too high, demand for grants or cost reimbursement is low, or the ability to actually spend funds is reduced (for example, through lack of training supply or lack of administrative capacity within training fund management). In such cases, difficult-to-spend surpluses may accumulate, leading levy payers to question the purpose (or rate) of the levy, and leading training fund management into "questionable forays into fields unassociated with objectives of the fund (e.g. purchase of real estate)" (Johanson 2009, 13).

Conflicts of interest can arise where a training fund managing agency is also a direct provider of training services (which are funded via the training fund). In such cases, international experience shows that training funds' own training providers tend to receive preferential financing at the expense of other training providers (private or NGO). This actively operates against the principle of encouraging "competition among training providers and development of training markets" (Johanson 2009, 49).

2.8 Fund enabling environment

How can countries create the right environment for levy-financed training funds? Levy-financed training funds do not operate in a vacuum; their effectiveness is linked not only to the processes, policies and governance of the fund itself, but also to factors beyond the training fund, such as those relating to enterprise development and the education and training system. Governments need to create a conducive policy, regulatory and administrative climate in which levy-financed training funds can be enabled to function efficiently and effectively, and where private financing of training can flourish alongside public financing.

There is a need to strengthen or establish national TVET coordination mechanisms to coordinate demand and supply and set clear policy objectives that can inform levy-financed training fund priorities. As noted above, it is very important to clearly articulate what the purpose of the training fund is, and to link that to wider sectoral priorities.

Strengthened TVET and labour market information systems are essential for most financing mechanisms. For example, careful targeting of financing mechanisms at specific beneficiary groups can help to reduce the percentage of individuals or companies who would have undertaken the training anyway and paid for it themselves. For careful targeting to take place, it is essential to know which groups (categories of people or enterprises) are currently underinvesting in training. Targeting refers both to the groups or categories of people or enterprises to be prioritized, and also to the types of skills for priority attention. To know this, it is necessary to have adequate labour market information systems.

Tax and social security collection capabilities (and outreach) are important where the collection of training levies is integrated into such collection approaches. As noted above, this approach to collecting training levies tends to be more efficient and effective.

TVET quality assurance and accreditation may need to be strengthened. Training funds often need to specify what training providers are eligible to apply for funds (for example, to provide training to levy-paying enterprises, or to other beneficiaries in equity training fund approaches), making quality assurance and accreditation of providers an important prerequisite. If the quality assurance system is not operating effectively, fund operations may be compromised by the lack of eligible training organizations.

A national environment where decision-making is more decentralized could enable more empowered, employer-led governance structures within training funds. Autonomy of decision-making and control of resources are two of the key principles of successful levy-financed training funds. In other words, within centralized systems, governments tend to resist granting power to non-governmental entities – employers in this instance. By contrast, countries that pursue more decentralized governance approaches may be more likely to agree to employer-led governance structures within training funds.

Enterprises, especially smaller firms, often need to be made more aware of the benefits of training – notably, improved productivity. Lack of awareness of the benefits of training is a known issue, especially among small enterprises, and in such a context enterprise interest in a training levy would be less and there may be more resistance to its establishment.

A summary of the advantages and limitations of payroll levies is presented in table 7.

▶ Table 7. Payroll levies: Advantages and limitations

Advantages	Limitations
• Training levies usually do not require any public funds and therefore represent a "cheap" way (from the public purse's point of view) to increase investment in training • Diversify the revenue base for financing training by mobilizing additional revenues • Can provide a stable and protected source of funding for national training provision; this is particularly important in the context of national budgetary instability • Can be viewed as "benefit taxation" if earmarked for training – those that receive benefits should pay for them • Can serve as a vehicle for cross-subsidization of training, especially from the formal to the informal sector, when collected from formal sector employees • Through imposing a compulsory tax, payroll levies can raise awareness of, and commitment to, training activities • May offer economies of scale and reductions in transaction costs if training is procured collectively • Ensure a more equitable distribution of investment in training between employers (to discourage poaching) • Can be used to support financing of intermediary bodies that work with enterprises (industry skills councils, group training companies) • When part of a levy-grant system, payroll levies encourage firms to intensify training efforts and capacities and raise training quality	• In the absence of an established consensus on the collective value of training, non-voluntary contributions to levy funds typically encounter resistance from employers and are usually perceived by employers as nothing more than an additional tax • Take autonomy about training investments away from employers • Given their particular training needs, many firms, particularly small ones, do not benefit from the institutional training funded by levies; this breeds resentment and opposition, and compromises the status of training levies as "benefit taxation" • Earmarked taxation does not conform well with the principles of sound public finance and weakens attempts to unify the national tax system • Under fiscal pressure, government may incorporate training levy proceeds into general public tax revenues • Payroll levies may constitute an oversheltered source of funding, leading to unspent surpluses, inefficiencies and top-heavy bureaucracies • Payroll levies raise the cost of labour to the employer, possibly discouraging employment • Employers may shift the incidence of the levy onto workers in the form of lowered wages; in this case, workers would bear the burden of the tax • Compulsory investment in training can make employers less vigilant over the quality of training

Sources: Comyn 2018; Marsden and Dickinson 2013; OECD 2017; Ziderman 2016.

3. Assessment of the skills development levy systems in SADC countries: Synthesis

3.1 Introduction

This chapter of the report provides a synthesis of the eight country briefs (see Part B): Botswana, Malawi, Mauritius, Namibia, South Africa, the United Republic of Tanzania, Zambia and Zimbabwe. Many of the findings are based on interviews with a range of actors and stakeholders during August and September 2019.

3.2 Objectives of the SADC training funds

In many SADC countries, the main stated objectives of the training funds are not well articulated, are not understood, or else do not align with how funds are actually used. In other words, there are often differences between what the stated purpose of the training fund is, what key stakeholders in the country think the training fund is for, and what the approved expenditure areas of the training fund are.

In five of the eight selected SADC countries (Botswana, Mauritius, Namibia, South Africa and Zambia), at least one of the main stated purposes of the training levy is related to employers, though not always explicitly related to providing incentives for employers to train their employees.

Malawi, the United Republic of Tanzania and Zimbabwe appear to have the vaguest stated raison d'être for a training levy, simply noting that the purpose of the levy is to improve skills development. Botswana, Mauritius, Namibia, South Africa and Zambia appear to have the clearest stated articulation of levy purpose (table 8).

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▶ Table 8. Main stated purposes of the levies in selected SADC countries

Country	Main stated purposes of the levy	Source
Botswana	• "For the purpose of reimbursing employers who have incurred training costs for apprentices or trainers"	Human Resource Development Council Act, section 26 (Government of Botswana 2013)
Malawi	• "To improve skills development in Malawi"	Interview, government official, Malawi
	• "To finance programmes approved by the Board of the TEVET Authority"	TEVETA Malawi 2016
Mauritius	• To provide "training incentives … to employers in order to allow them to meet part of the training cost of their employees and to support other training initiatives both at enterprise and national levels"	Human Resource Development Council of Mauritius
	• "To provide training incentives to employers"	Interview, organization managing the fund, Mauritius
Namibia	• For the purpose of "facilitating and encouraging vocational education and training"	Vocational Education and Training Act, article 35 (Government of Namibia 2008)
	• To mobilize additional resources for skills development • To allocate funds to priority skills training area programmes • To stimulate more and better enterprise-based training • To stimulate the development of a training market and enhance the capacity of private training providers • To instil incentives for better performance by public training providers • To reduce skills shortages that impede enterprise growth	Namibia Training Authority (NTA) 2019
South Africa	• To fund the skills development initiatives in the country • To fund education and training within various economic sectors in South Africa	National Skills Fund (Macikama 2019)
	• "To provide incentives for employers to adopt a pro-active approach to skills development within the framework of the Skills Development Act"	Ministerial Task Team on SETA Performance (Government of South Africa 2013, 7)
UR Tanzania	• To support technical and vocational skills	Vocational Education and Training Act (Government of UR Tanzania 1994, 2006); interview, employers' organization, UR Tanzania; interview, workers' organization, UR Tanzania
	• To support skills development, including non-technical tertiary education	Interview, government official, UR Tanzania
Zambia	• To enhance the provision of skills development in a more efficient and effective manner • To promote private sector participation in skills development • To facilitate predictability of resources to the institutions • To facilitate the development of an objective model for TEVET training • To facilitate and enhance effective budget monitoring and evaluation • To result in enhanced focus on utilization of various funds in the TEVET sector	Ministry of Higher Education (Government of Zambia 2017a, 3)
Zimbabwe	• To develop "skilled manpower in Zimbabwe"	Manpower Planning and Development Act, section 47 (Government of Zimbabwe 1994)

Source: Country briefs in Part B of this report.

These statements of main purpose do not often match very well with what key national stakeholders perceive the levy to be for, suggesting that there needs to be work on clarifying and communicating the levy purpose. For example, in Malawi, Mauritius, Namibia and Zambia, key stakeholders thought that the training levy in their respective country was to support a very wide range of training activities, including providing incentives to employers to train employees; supporting small and medium-sized firms; training disadvantaged and marginalized groups; general youth training programmes; and supporting secondary- and tertiary-level technical and vocational training. Further, in six of the eight SADC countries reviewed, key stakeholders thought that the training levy was to be used to incentivize employers to train their employees; only stakeholders in the United Republic of Tanzania and Zimbabwe did not perceive this as a function of the levy (table 9).

▶ Table 9. Stakeholder understanding of the main activities for which SADC training levies can be used

	Botswana	Malawi	Mauritius	Namibia	South Africa	UR Tanzania	Zambia	Zimbabwe
To be used by government as they wish as though it were any other tax on employers								
To provide financial incentives for levy-paying employers to train their employees								
To provide financial incentives for small and medium-sized firms to train their employees, even if the firm is a non-levy payer								
To fund special government skills initiatives related to training youths as a means to address youth unemployment								
To fund training for disadvantaged and marginalized groups, for example persons with disabilities								
To fund training of young people in secondary-level technical and vocational institutes and centres before they are working								
To fund training young people in tertiary-level technical and vocational institutes, universities and polytechnics before they are working								

Sources: Online survey responses, 2019; key informant interviews, 2019.

There is a further area of disconnect between the stated and perceived purposes of the levy, and the expenditure activities actually approved, which is in effect the de facto purpose of the levy. For example, in both Botswana and Mauritius, while the stated purpose of the levies in these countries relates to incentivizing employers to train their employees, levy expenditure is also allowable on other skills programmes determined by the respective Human Resource Development Councils of Botswana and Mauritius (Botswana country brief; Mauritius country brief). Meanwhile, in the United Republic of Tanzania a large proportion of the training levy has been allocated to non-technical tertiary-level expenditure in recent years, an area that both employers' and workers' organizations in the country consider to be outside the remit of the levy (United Republic of Tanzania country brief).

3.3 Fund mobilization: Levies that finance the SADC training funds

3.3.1 Levy rate, base and exemptions

The majority of training levies in the selected SADC countries are based on payroll, with these levies ranging from 0.5 per cent to 4.5 per cent, with the average being 1 per cent. In terms of levy rate, the outlier is the United Republic of Tanzania, with a 4.5 per cent payroll levy. In terms of levy base, the exception to the payroll levies is Botswana, which has a levy based on company turnover.

In almost all selected SADC countries, the levy does not apply to public sector employers. Only in Malawi are public sector employers meant to pay the levy; however, while the levy from public employers usually exceeds that from private employers, "government has not paid its full share" (UNESCO 2019, 96), and efforts to enforce compliance have been largely unsuccessful (see Malawi country brief). In two other selected SADC countries (South Africa and United Republic of Tanzania), commercially run parastatals and State-owned enterprises are also included in the levy, though not public employers per se.

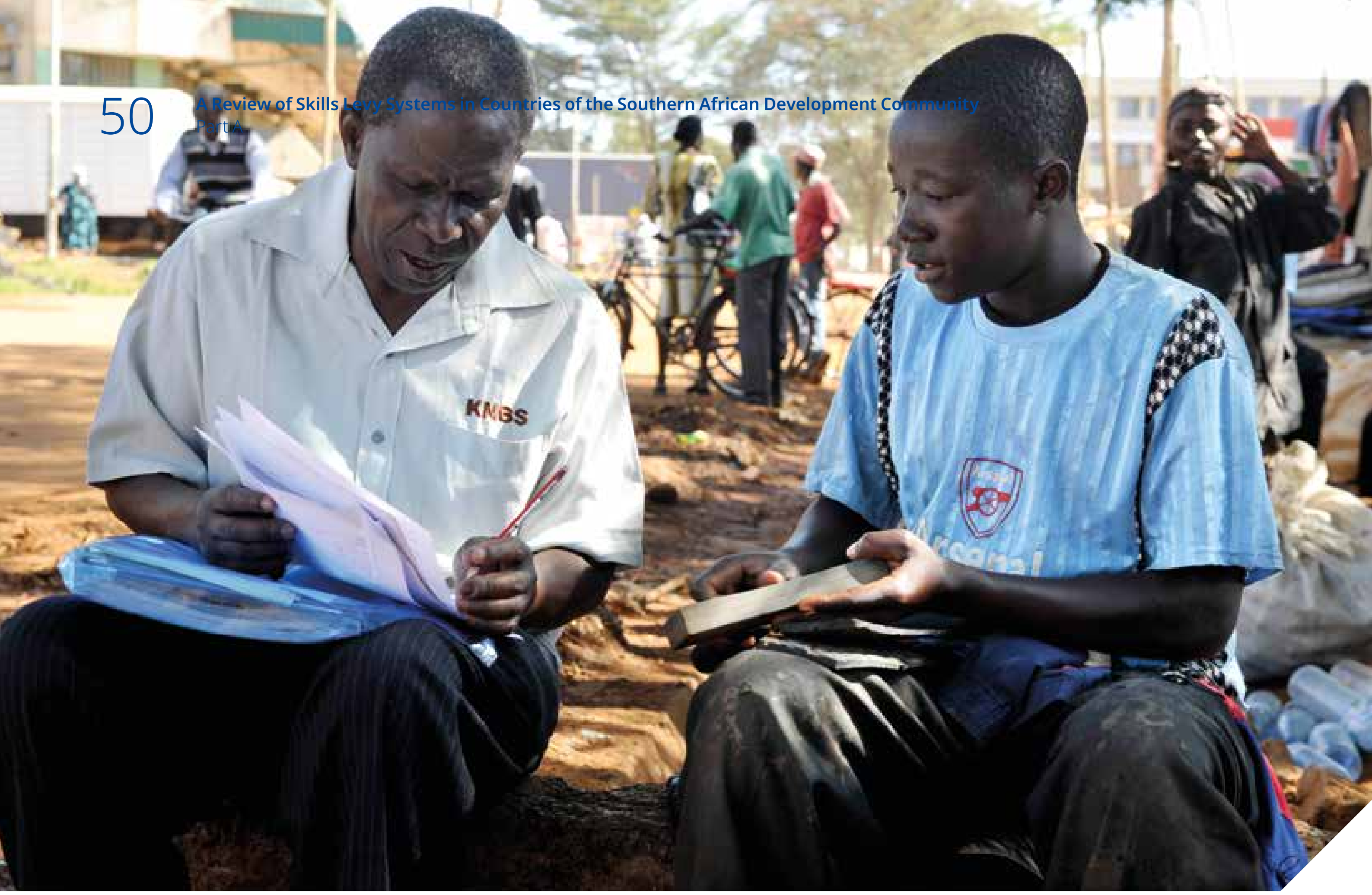
A majority of all selected SADC countries apply a threshold to levy payment, under which employers are not liable (table 10). This is usually a monetary threshold, which ranges from US$33,000 to US$66,000 for payroll levies and reaches US$90,000 for the turnover-based levy in Botswana. In the United Republic of Tanzania, the threshold is employer size; those with fewer than four employees are not liable.

▶ Table 10. Levy rate, base and threshold for SADC training funds

Country, organization, fund name	Levy rate	Levy base	Levy threshold
Botswana: Human Resource Development Fund	0.05–0.2%	Company turnover	US$90,000 (1 million Botswana pula)
Malawi: TEVET Fund	1%	Payroll	None
Mauritius: National Training Fund	1–1.5% (only 0.5–1% goes to fund)	Payroll	None
Namibia: National Training Fund	1%	Payroll	US$ 66,000 (1 million Namibian dollars)
South Africa: National Skills Fund, sector education and training authorities	1%	Payroll	US$33,000 (500,000 South African rand)
UR Tanzania: skills development levy	4.5%	Payroll	Enterprises with four or more employees
Zambia: Skills Development Fund (levy funded)	0.5%	Payroll	US$61,000 (800,000 Zambian kwacha)
Zimbabwe: Zimbabwe Manpower Development Fund	1%	Payroll	None

Source: Country briefs in Part B of this report.

Other types of exemption include non-governmental and charitable organizations (Namibia, United Republic of Tanzania and Zimbabwe) and private education and training institutions (Namibia and United Republic of Tanzania).



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3.3.2 Method used to collect the levy

The national revenue authority is responsible for levy collection in six of the eight selected SADC countries (Botswana, Malawi, Mauritius, South Africa, United Republic of Tanzania and Zambia). In both Namibia and Zimbabwe the authority managing the training fund also collects the levy. Namibia's levy, which was only established in 2014, is collected by the Namibia Training Authority (NTA). Other collection options were reportedly explored, including using the Namibia Social Security Commission, but were deemed to be too expensive (Namibia country brief). In Zimbabwe, the Zimbabwe Manpower Development Fund (ZIMDEF) has been collecting the levy since 1994.

The national revenue authorities typically charge a percentage of the total training levy collected as a levy collection fee: in Botswana, 5 per cent; in Mauritius, 4 per cent; and in South Africa, 2 per cent. The Zambia Revenue Authority reportedly does not charge. There are no data on the collection fees charged by the Malawi Revenue Authority. The organizations managing the training funds in both Namibia and Zimbabwe collect the levies directly, and there are no data on the cost of this collection.

3.3.3 Compliance and penalty

One of the biggest challenges faced in terms of levy compliance is the lack of data; consequently, collection authorities often have great difficulty in establishing how many and which companies should be paying the levy in the first place. While some training authorities annually track the increase in the number of levy-paying firms, these figures are relatively meaningless when there is no clarity on what proportion of eligible firms this represents. It is not known the extent to which this challenge is a result of the lack of an enterprise register, or of deficiencies in the systems that training funds (or their collection agencies) use to track who actually pays the levy.

The large informal economies in most of the selected SADC countries were highlighted as obstacles to levy compliance; however, given that the majority of informal firms are microenterprises under the levy

thresholds (table 1), only Malawi and Zimbabwe find themselves with especially large informal economies (93 per cent and 77 per cent respectively) and no minimum threshold for levy payment. Both these countries, and Mauritius (which has about 40 per cent of its employment outside the formal sector), may do well to consider introducing a levy threshold. This is because small enterprises and microenterprises, most of whom operate in the informal economy, are less able to pay a levy (due to lower profit margins and cash flow), because such enterprises benefit less (or often not at all) from a levy-financed fund, and – crucially – because levy collection from those enterprises is inefficient (so that the cost of collecting levies might outweigh the levy revenue received) and often almost impossible (based on current lack of registration of most small enterprises and microenterprises, particularly those operating informally).

Several SADC countries have the legal responsibility to penalize non-levy-compliant firms (typically in the form of interest on unpaid levies), but lack of enforcement of such penalties in some countries (for example, Malawi and Zimbabwe) encourages firms to default.

3.3.4 Fund income and sustainability

Levy fund income among almost all selected SADC training funds has increased over the last three or more years. Only in Zimbabwe has there has been a decrease, with a decline in ZIMDEF’s monthly revenue due to the economic crisis and the subsequent firm closure or informalization of the economy (Zimbabwe country brief).

There was little concern about the future sustainability of levy income across the selected SADC countries, and a general assumption and expectation on behalf of governments and organizations managing the training funds that the levies would not only continue to come in, but would increase year on year. Only in Malawi did a government official make the connection between the very sustainability of the fund and the extent to which levy payers – the employers – were happy with fund transparency and accountability in the collection and use of the funds (Malawi country brief).

Levy income projections were available in public documentation for some SADC countries (South Africa, United Republic of Tanzania and Zambia). It is unknown if other SADC countries make projections on income or expenditure.

3.3.5 Employers’ and workers’ views of the levy

A majority of employers’ and workers’ organizations in the selected SADC countries perceived the training levy as just another form of taxation. Employer representatives and other key stakeholders suggested that this was particularly the case among small firms.

Mauritius was perhaps the exception to this, as formal employers generally saw the training fund as “instrumental to the developmental needs of the country” (interview, employers’ organization, Mauritius). As employers were instrumental in introducing the training levy in 1988, this may not be surprising. Even in this context, however, the recent introduction of other funds that employers are expected to contribute to has led some to question the training levy rate (Mauritius country brief). In Namibia also there were some mixed feelings about the training levy; the employers’ organization interviewed estimated that about half its members considered it as a tax (Namibia country brief).

There was concern about the very sustainability of the levy in at least two countries (Malawi and United Republic of Tanzania). In Malawi, the input of one employers’ organization to this review echoed the Malawian government official interviewed in stating that there was a risk to the sustainability of training funds without training fund governance reform (Malawi country brief). In the United Republic of Tanzania, several employers’ and workers’ organizations considered the levy to be too high, and as a result there was a chance that employers may simply stop paying it, threatening overall levy sustainability.

Employers also noted their dissatisfaction with the levy due to the lack of clarity, transparency or agreement on how levy funds were spent (United Republic of Tanzania and Zambia).

3.4 Fund expenditure

3.4.1 Decision-making on fund expenditure

It most SADC countries, the board of the organization managing the training fund determines the annual total allocation of the training fund, though this then usually needs the approval of the government. In Zimbabwe's case, as there is no board, the parent ministry determines the budget and then informs ZIMDEF staff (Zimbabwe country brief). In the United Republic of Tanzania's case, the legal clarity on fund allocation has been problematic since the levy launch and appears to be at the whim of government (United Republic of Tanzania country brief).

3.4.2 Types of allowable expenditure under the training funds

Administrative costs of running and managing the training fund are allowable expenditures in all SADC countries included in this review. This includes, for example, salaries, office and administrative expenses associated with managing the training levy. In Malawi, however, the training fund can be used to fund general governance and management structures of the technical education and training system (beyond only training levy administrative costs).

Employer training grants are offered in most countries (Botswana, Malawi, Mauritius, Namibia, South Africa and Zambia). In the United Republic of Tanzania there is currently no grant or rebate system (from the training fund) for companies to support in-firm training, though firms have been asking for some time that such a system be put in place (United Republic of Tanzania country brief). In Zimbabwe, ZIMDEF's website notes that employers can be reimbursed if they release their employees for upgrade training courses, but both ZIMDEF itself and a senior government official clearly noted during interviews in August and September 2019 that there was no direct incentive from ZIMDEF to encourage employers to train their employees (Zimbabwe country brief).

Training of disadvantaged groups is an allowable expenditure area for Botswana, Malawi and South Africa. For example, in South Africa the original purpose of the National Skills Fund was to support non-levy payers, youths, women, people with disabilities and people living in disadvantaged rural areas. More recently, the National Skills Fund has been given the additional responsibility of funding "national priorities" outlined in the third National Skills Development Strategy (NSDS III) (South Africa country brief).

Public vocational training programmes (including indirect costs related to formal apprentices' expenses, and direct costs such as training infrastructure, equipment and trainers) are funded from levy funds in all SADC countries (to varying degrees). In some countries, such funding is used to directly fund training institutions run by the same organization that manages the training fund. In the United Republic of Tanzania, funding is used to fund vocational education and training (VET) in all institutions run by the Vocational Education and Training Authority (VETA) across the United Republic of Tanzania.

In Mauritius, South Africa and the United Republic of Tanzania, the training levy collected is immediately diverted to other entities for subsequent allocation. In Mauritius, 0.5 per cent of the total levy is allocated to the Workfare Programme, managed by the Ministry of Labour, Industrial Relations, Employment and Training to provide support to workers who have lost their jobs (Mauritius country brief). In South Africa, the skills development levy is split 80:18:2 between training funds managed by sector education and training authorities (SETAs) (80 per cent of levy), the National Skills Fund (18 per cent of levy), and the levy collection agency (2 per cent). Eighty per cent of the levy is allocated to SETAs to encourage levy-paying enterprises to train their employees; this covers discretionary grants (49.5 per cent), mandatory grants (20 per cent), and administrative and quality assurance costs (10.5 per cent), while 20 per cent of the total levy goes to the National Skills Fund to fund skills areas not covered by the SETAs, such as national priorities of the NSDS III, including 2 per cent to levy collection costs (South Africa country brief). In the

United Republic of Tanzania, approximately two thirds of the levy money collected currently goes to the general budget; an unknown proportion of this is used to fund the Higher Education Students' Loans Board, and a further unknown proportion is used to fund other unknown government activities (United Republic of Tanzania country brief).

3.4.3 Where funds have actually been spent

Table 11 summarizes the proportion of employer training levy allocated to key areas.

▶ Table 11. Proportion of employer training levy allocated to key areas in selected SADC countries

	Employer grants (to train own employees)	Other training decided by training fund board	Administrative and operating costs	Allowed to accrue as surplus
Botswana (2008–18)	33%	20%	15–25%	20–30%
Malawi (2014–17)[1]	< 1%	33%	41%	10%
Mauritius (2017–18)	38%	18%	12%	22%
Namibia (2014–18)	14%	> 70%	15%	n.a.
South Africa (National Skills Fund and merSETA, 2016–18)[2]	14.5%	62%	11%	12.5%
UR Tanzania	0%[4]	n.a.	n.a.	n.a.
Zambia (2018)[3]	3%	36%	> 4%	58%
Zimbabwe (2015–16)	0%[4]	66%	28%	7%

1 Malawi: about 15% of levy expenditure is also allocated to bad debts.
2 South Africa: based on 20% total levy to National Skills Fund (18% training projects; 2% administration) and 80% to SETAs (for example, the SETA for Manufacturing, Engineering and Related Services, or merSETA): 44% training projects and discretionary grants, 14.5% employer grant, 9% administration, 12.5% surplus).
3 Zambia: based on actual expenditure of levies remitted to the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA), and estimated total levy income received.
4 There is no mechanism in the United Republic of Tanzania and Zimbabwe to provide grants to employers.
n.a. = data not available.

Note: Percentages indicate annual average, based on actual expenditure, unless otherwise stated.
Source: Country briefs in Part B of this report.

Expenditure on administrate and operating costs ranged significantly across the SADC countries in the study, from about 4 per cent in Zambia to ten times that (40 per cent) in Malawi. In Botswana, Mauritius, Namibia and South Africa, administrative costs, including levy collection costs, ranged from 11 per cent to 15 per cent.[10] In Malawi, over 40 per cent of total levy income was on governance, management, quality assurance, communications, and monitoring and evaluation. It does not seem justifiable that the majority of levy funds are allocated to management and other non-training-related costs associated with the Technical, Entrepreneurial and Vocational Education and Training Authority (TEVETA) and the fund for technical, entrepreneurial and vocational education and training (TEVET Fund), rather than the majority of levy funds being allocated to training (Malawi country brief). In Zimbabwe, about 28 per cent of levy income goes on administrative costs of the training fund.

10 In Botswana, a further 10 per cent of levy expenditure appears to go on quality assurance costs.

Training funds in Botswana and Mauritius provide their levy-paying employers with the highest direct return on their levy contribution, returning between 33 and 38 per cent of the levy received to the firms in the form of training reimbursement. While these are the highest reimbursement rates among the SADC countries in the study, it should be noted that the main stated purpose of both the Botswana and Mauritius training funds is to reimburse employers who have incurred training costs. In Mauritius, the view of employers towards the training fund seems, in general, to be positive.

Namibia and South Africa return about 14 per cent of levy income to employers to cover the training costs of employees. In Namibia, it is particularly striking that the stated intention in levy allocation is that up to 50 per cent of levies received in a given financial year would be allocated to employers for training; the fact that so little has been "given back to the employers [is a] reflection that something is not working" (interview, employers' organization, Namibia). In fact, the majority of levy funds (almost 80 per cent) meant for employer training grants in Namibia are not allocated to enterprises but rather end up being reallocated to the key priority grant funding allocation within the National Training Fund. While this is portrayed as a failure on behalf of enterprises to comply with the eligibility criteria, it is really a failure of the NTA to develop approaches with which enterprises can engage (Namibia country brief).

Malawi and Zambia, despite having employer grants as a specific allowable expenditure item, only disburse 1–3 per cent of levy income back to levy-paying firms as direct cost reimbursement on employee training. In Malawi (2017), only 13 companies actually benefited from the 20 per cent training cost reimbursement (for in-house training of their employees), amounting to 16 million Malawian kwacha (TEVETA Malawi 2017a). To put this in perspective, this compares to 134 million kwacha expenditure to cover the expenses of the Director of TEVETA Malawi during the same year, more than eight times the total levy reimbursement to all companies (Malawi country brief).

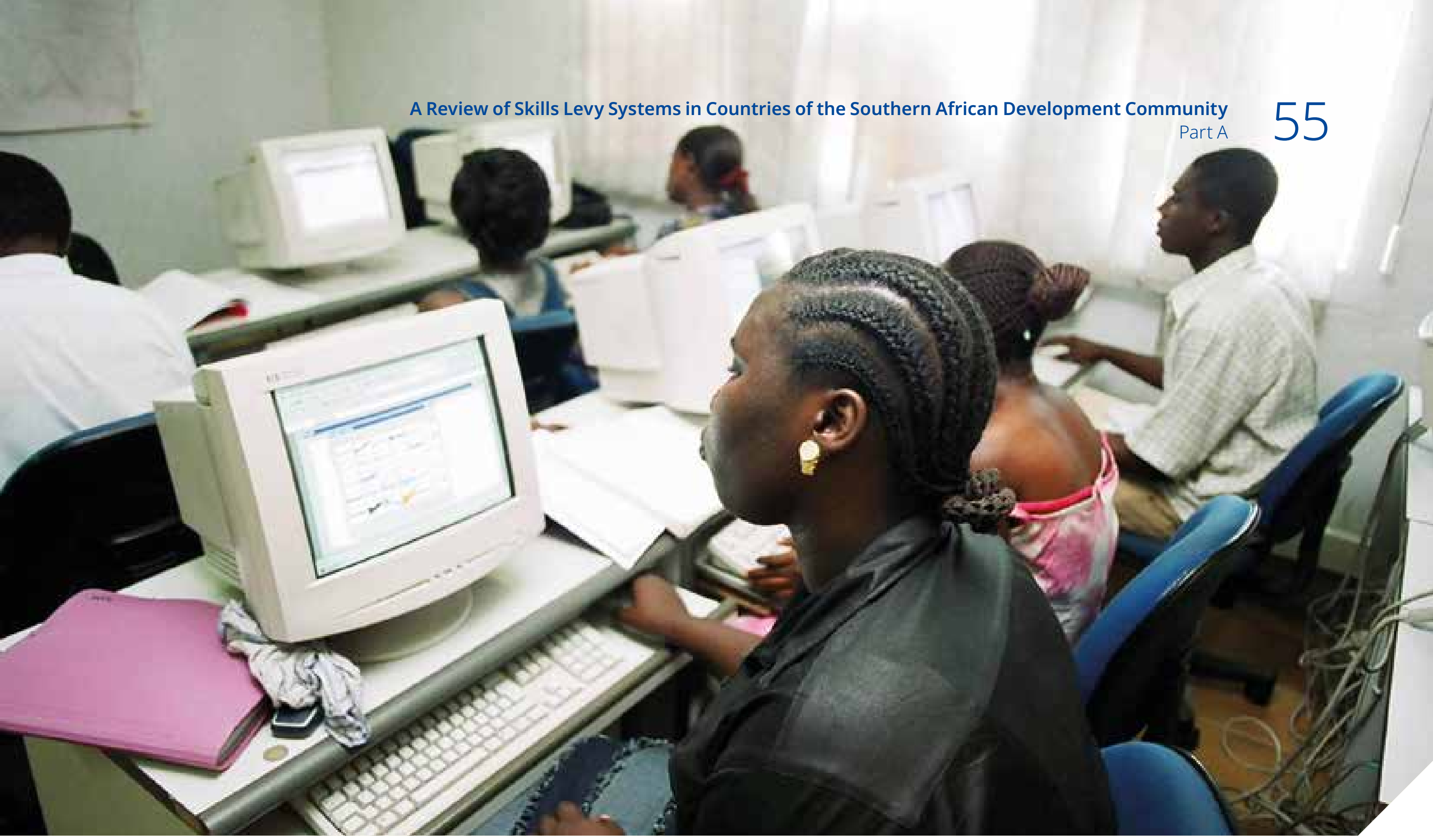
The United Republic of Tanzania and Zimbabwe appear to have zero expenditure on employer training grants, but neither fund has this as a stated objective.[11]

Expenditure on training decided by the training fund boards[12] – most of which relates to preemployment, institution-based training in public institutes – typically represents the bulk of training fund expenditure (between 20 per cent and 70 per cent). The training fund in Namibia had the largest expenditure on such training, largely because so much of the employer training grant, meant to reimburse employers for training employees, went unspent. This funding was spent on the implementation of the Skills Development Plan (2016–20) for the VET sector (including procuring training from accredited local and SADC-based VET institutions), VET institute expansion, formal apprenticeships and traineeships, and capacity-building (Namibia country brief). In Malawi (2014–17), about half of all funds spent on training (16 per cent out of 33 per cent) went to formal apprenticeships delivered by TEVET institutions.

In all SADC countries in the study for which there were data, a sizeable amount of the levy collected annually ended up accruing as a surplus, ranging from 7 per cent to 58 per cent of the collected levy. In Malawi, South Africa and Zimbabwe, 7–12 per cent of the collected levy typically accrued as a surplus. In Botswana and Mauritius, around 20 per cent accrued as a surplus. In Zambia (2018), 58 per cent of the collected levy went unspent and was technically a surplus, but in this instance the funds were unspent as they were deliberately retained by the Ministry of Finance; in mid-2019 the Ministry of Finance reportedly remitted 100 per cent of the levy to the training fund (Zambia country brief).

11 There is some confusion about whether or not Zimbabwe offers grants to employers to cover employee training costs (see Zimbabwe country brief).

12 In the case of Zimbabwe, where there is no board for ZIMDEF, this refers to the parent ministry.



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3.4.4 Accumulated surplus

In all SADC countries studied, where data exist, training funds have accumulated large surpluses from their respective training levies. The training fund in Botswana has an accumulated surplus of US$63 million, in Mauritius the surplus is US$37 million, and in Zimbabwe it is US$ 70 million. South Africa's National Skills Fund showed an accumulated surplus of some 6.5 billion rand (US$440 million) in 2018/19. Namibia, South Africa (SETAs) and Zambia also have accumulated surpluses, but the aggregated amounts are not known. In Malawi, there are no data on the extent of any surplus.

Accumulated surpluses are a serious issue for social partners, who see it as a sign of poor fund governance. The matter needs to be addressed if employer engagement and support of the funds are to be secured into the future.

In South Africa, SETAs have accumulated large surpluses over the years. For some this represents a "problem because of the immediate challenges facing the country and the skills deficits that need to be addressed" (interview, workers' organization, South Africa). SETAs, on the other hand, argue that they do not actually have a surplus, since most of what appears to be a surplus is actually committed funds for training programmes that have not taken place yet. Nonetheless, the South African Government, through amendments to the 2012 grant regulation, introduced a directive stipulating that if a SETA has not spent at least 95 per cent of its discretionary funds, the surplus will be "swept" into the National Skills Fund. This took place for a couple of years until a court judgement on the matter, involving the Department of Higher Education and Training and Business Unity South Africa, suspended such payments. South Africa's National Skills Fund has also accumulated large surpluses, and the Government has taken notice; as a result of national student protests, the Government promised not to increase the fees of students from poor and working class families for the 2016 and 2017 academic years, and required the National Skills Fund to fund 50 per cent of this "no fee increase" for the 2016 academic year and 100 per cent for the 2017 academic year from its accumulated surpluses (South Africa country brief).

In Mauritius, the accumulated levy surplus also did not go unnoticed by the Government, who have tapped into it to fund all manner of activities, including capital projects, a free tertiary education scheme, an SME graduate scheme and the National Apprenticeship Scheme.

3.5 Fund allocation mechanisms

3.5.1 Allocation of funds to employers for training

All SADC countries in the study that offer structured employer training incentive mechanisms do so on the basis of levy-grant schemes, operating as either cost reimbursement or grant schemes.

The most common form of employer training incentive scheme (found in Malawi, Mauritius and Namibia) is a cost reimbursement scheme whereby employers can claim back a proportion of the direct training costs incurred.[13] In Malawi, TEVETA reimburses 20 per cent of direct training costs for a company, and reimburses 50 per cent of direct costs to employers' organizations. For companies that seek to engage an expert to help with on-the-job coaching of their employees, TEVETA Malawi reimburses 50 per cent of the cost. In Mauritius, employers can recover up to 75 per cent of their eligible training costs, with the balance paid by the employer. In Namibia, the maximum amount reimbursable is the actual cost of training up to 50 per cent of the employer's contribution for the financial year.

South Africa operates a grant scheme whereby employers can access a "mandatory grant", equivalent to 20 per cent of the levy amount paid by the compliant and participating employer.

In Botswana, firms can claim more for training than the levy they paid; the amount is calculated based on the total levy amount paid per annum, which in turn is based on a firm's turnover. Smaller firms can claim back proportionally more per amount paid as a levy compared to larger firms.

In all cases, employers applying for reimbursement of training costs have to submit paperwork to the training fund – at a minimum, a structured training plan (to be approved before training commences) and associated receipts and other paperwork proving that the training took place (to be submitted after the training activity). Mauritius appears to operate the easiest-to-use training reimbursement application process; since March 2017, the Human Resource Development Council (HRDC) has operated an online system for application (and progress tracking) of approvals for a training course and for grant reimbursement after the completion of training. Hard copy applications can still be sent to the HRDC, and training approval applications can still be faxed (Mauritius country brief).

Various training initiatives for enterprises are supported by the training funds. For example, in Mauritius, there are incentives related to local training (in firm or off site), online training and overseas training. In Namibia, short courses, in-house training and training outside Namibia are all eligible for reimbursement (provided other criteria are met).

Uptake by levy-paying employers of the training levy-grant incentives in the six SADC countries in this review with such structured approaches was generally low. For example, in Botswana (2017/18), only 20 per cent of the total number of levy payers contributing to the Human Resource Development Fund claimed from the fund. In Malawi (2017), only 13 companies benefited from the training cost reimbursement.

Reasons behind the low uptake of the funds include the following.

- Application process for the funds (Botswana, Malawi, Namibia and South Africa). The process by which employers obtain rebates is regarded by employers as not straightforward, involving excessive paperwork and long delays.
- Type of training eligible for reimbursement (Botswana and Mauritius). Regulations linking the levy system are sometimes biased towards academic and classroom-based training, rather than the more practical training that firms prefer.

13 Zambia also operates a scheme, but there is no information on the proportion of the levy that employers can claim back against training costs.

- Lack of awareness among employers (Malawi and Zambia). Employers often lack awareness as to whether and how they are able to access the resources available.
- Company cash flow problems (Botswana). Levy-paying firms having to pay the levy, then pay again for the training (before claiming costs back), which can result in company cash flow problems, especially among small and medium-sized companies.
- Cash flow problems for the training fund (Botswana). This problem is perhaps particular to Botswana, as companies can claim more than the levy they paid, and this can result in cash flow problems for the Human Resource Development Fund if large employers exhaust the fund with training claims that exceed their levy payments before other employers can claim.

3.5.2 Incentivizing enterprises to train their employees

In both Botswana and Namibia there is no evidence that the National Training Fund has incentivized employers to train more than they would have done without the levy. In Namibia, the National Training Fund's ambition to return up to 50 per cent of collected levies to employers in the form of training grants is not matched by reality; an average of 14 per cent of levy funds over the period 2014–18 has been returned to less than one in ten levy-paying employers in this way (Namibia country brief).

Mauritius is the only SADC country covered in this review where there is a piece of robust quantitative evidence on the relationship between the levy and the incidence of firm training; it actually finds that "the training fund may well lower the overall incidence of training" among the largest and most capital-intensive firms in Mauritius (Kuku et al. 2015, 23). The study notes that the levy reimbursement to firms does "raise the likelihood of training for firms that would not have trained otherwise, [with] the greatest effect [being] on the smallest firms. As a result, the program disproportionately taxes the largest and most capital intensive firms that would be most likely to train without the program, and disproportionately benefits the smallest firms that would have the least incentives to train" (Kuku et al. 2015, 22).

Despite the finding above that for the smallest firms the levy-grant system increases the likelihood of their training (to a higher extent than among the largest firms), the fact is that the smallest firms benefit least from the training fund in terms of receiving grants. In Mauritius, only 2 per cent of contributing small firms benefit from the training grant, compared to 69 per cent of large companies (Mauritius country brief).

In South Africa, there are mixed qualitative opinions regarding the extent to which the mandatory grants (of the SETA training funds) serve to incentivize in-firm training. Two stakeholders interviewed in September 2019 both affirmed that the mandatory grants do act as an incentive; one representative of a major workers' organization stated that the training fund (through SETAs) had been "able to turn workplaces into dynamic learning spaces, because it has made training mandatory for every employer" (interview, workers' organization, South Africa). Similarly, a senior government official stated that the mandatory grants do incentivize enterprises to train (interview, government official, South Africa). However, an employers' organization noted that many businesses undertook training outside the formal skills levy system – the "levy then becomes an additional responsibility" (interview, employers' organization, South Africa), and is not in itself incentivizing enterprises to train.

Malawi and Zambia both have very small expenditure on industry training grants, amounting to 1–3 per cent of the levy collected. It is not surprising that the training funds in both these countries are not seen as a mechanism to incentivize enterprises to train their employees. In Malawi, of the approximately 1,200 contributing companies, only 1 per cent (13) benefited from training cost reimbursement in 2017. With

such a low percentage of companies benefiting from training cost reimbursement, it could be expected that formal companies in Malawi would not be involved in training. However, 33 per cent of formal firms in Malawi offer formal training to their employees; this is higher than the sub-Saharan Africa average of 29 per cent and the same as the global average (33 per cent) (figure 2).

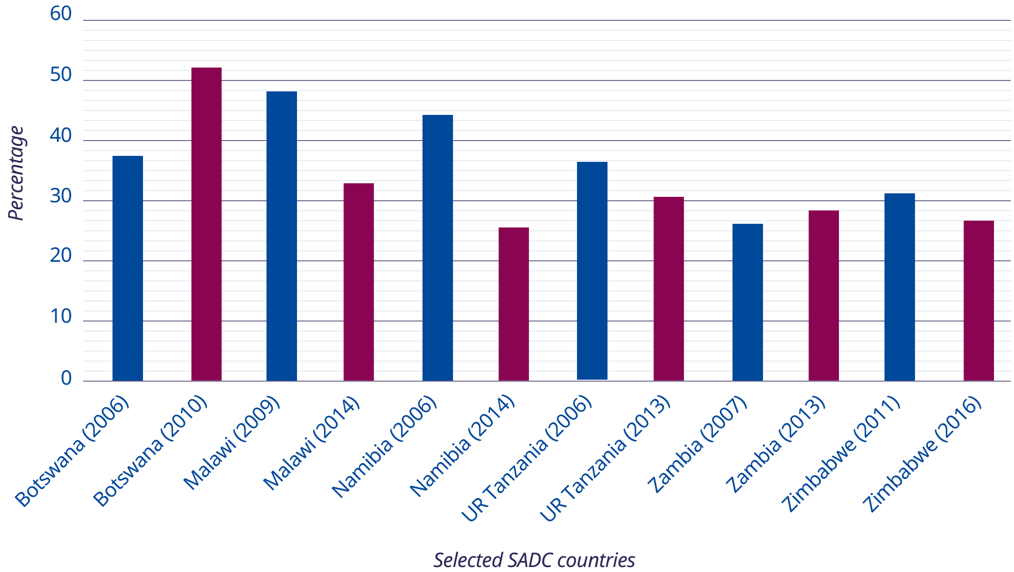
In Malawi, considering the very small amount of funding going to private sector training from the TEVETA Malawi levy, and the limited number of beneficiary firms, one has to conclude that it is not the levy driving formal company training. Private formal companies must be training in spite of there being a levy in place, leading to the possible conclusion that most companies that do train are able and willing to pay for this training directly without there being a levy. Most companies probably see the levy as irrelevant to them and another form of tax they have to pay. This is dangerous from a levy sustainability perspective; evidence from other countries shows that when the private sector sees a training levy as an irrelevance, they will ultimately pressurize government to abolish the levy (Malawi country brief).

There is no incentive mechanism to encourage firms to train their staff in the United Republic of Tanzania and Zimbabwe. In the United Republic of Tanzania, the Skills Development Fund (launched in 2018) does have a funding window for private employer-based training, intended to support skills upgrading pre- and post-employment training programmes. However, it is not clear if this is yet operational, and in any case the training levy of the United Republic of Tanzania is not yet linked to financing the Skills Development Fund. Nonetheless, this is a positive sign. In Zimbabwe, ZIMDEF has "no specific programme to incentivize employers to train their employees" (interview, organization managing the fund, Zimbabwe). The Government believes that ZIMDEF **"**removes the burden [of training] from individual companies to a pooled resource [ZIMDEF], and that companies benefit through a better skilled pipeline of employees" (interview, government official, Zimbabwe). However, something is clearly not working, since over one quarter of Zimbabwean formal firms are involved in training their employees (figure 2), without being incentivized by ZIMDEF to do so, and despite the fact that this **"burden of training" is supposed to have been removed from them.**

The incidence of in-firm training in countries with training levies does not have a clear story to tell. For five of the eight SADC countries covered by this study there are multiple data points showing the change in percentage of firms offering formal training in a given country that overlap with these same countries having private firm-funded training levies. In four of these five SADC countries, there was a decline in the percentage of firms offering formal training despite training levies being in existence in all these countries; however, in two cases (Tanzania and Zimbabwe) there is no stated aim of the levy to increase in-firm training, and in one case (Namibia) the data predates the levy existence (2014). Only one of the six countries alluded to in figure 2 – Botswana – showed any real increase.

- Botswana showed a significant increase in the percentage of firms offering formal training between 2006 and 2010. The training levy for all firms was introduced in 2008 (though the construction and tourism industry had already been employing a levy for training before 2008).
- Malawi showed a decline in the percentage of firms offering formal training between the last two rounds of data collection, despite a training levy being in existence since 1999.
- Both the United Republic of Tanzania and Zimbabwe showed declines in the percentage of firms offering training, despite there being an employer levy in place (in the United Republic of Tanzania since 1995 and in Zimbabwe since 1984); however, neither of these levies has the aim of increasing employer training.
- In the case of Namibia, the training fund was launched in 2014, so all that the data in figure 2 show is the steep decline in in-firm training over the period 2006–14, which may have been an impetus for the launch in 2014.
- In Zambia, the enterprise survey data from 2007 and 2013 predate the Skills Development Levy Act of 2016 and the year the fund became operational (2017).

Figure 2. Change in percentage of firms offering formal training in selected SADC countries



Note: Dotted bars show earlier year data for each country.
Source: https://www.enterprisesurveys.org.

3.5.3 Allocation of funds in relation to formal institution-based TVET providers

As noted previously, in most SADC funds covered by this review, the majority of expenditure is on areas decided by the training fund boards,[14] and most of this relates to formal institution-based TVET provision. At least two mechanisms can be identified by which funds are allocated.

- **Expressions of interest.** These employ different modalities. In Namibia, the "key priority grants" are allocated to those short-listed applicants who have responded to an expression of interest issued by the NTA. In South Africa, "discretionary grants" are allocated by SETAs based on a shortlist of applicants who have responded to an advertised call for applications. In Zambia, calls for applications are also used to allocate funding according to the various funding windows (infrastructure and equipment, pre-employment training, SME training and informal sector training).
- **Predetermined stipends.** These are available to individuals or institutions. For example, in Malawi, TEVETA subsidizes training in both national and community technical colleges on a per capita basis, for "regular students" only, with payments made to institutions.[15] TEVETA Malawi also makes direct "allowance" payments to apprentices during their industrial attachment.

14 In the case of ZIMDEF, which has no board, by the parent ministry.

15 "Regular" students are those who have been selected for courses by TEVETA Malawi and whose places are heavily subsidized by TEVETA Malawi.

3.5.4 Allocation of funds to individual learners

None of the training funds provides resources to individual learners to allow them to choose or purchase training that meets their needs directly. Funds are provided to employers, to training institutions or to individuals in the form of stipends or bursaries as a substitute for wages. Individual learners, therefore, have fewer options when it comes to lifelong learning.

3.6 Fund effectiveness

3.6.1 Improving access to training for disadvantaged groups

A majority of training funds covered in this review (Malawi, Mauritius, Namibia, South Africa, United Republic of Tanzania and Zambia) make funds available to improve access to training for disadvantaged groups. In Malawi, TEVETA provides bursaries to assist needy apprentices (who have the prerequisite grades) to access training in national technical colleges, with an emphasis on needy girls. Further, the establishment of community technical colleges, which TEVETA Malawi is supporting via the TEVET Fund, is intended to bring training closer to rural communities and therefore open up access to training for more disadvantaged groups. In Mauritius, a proportion of training fund expenditure supports the National Skills Development Programme, which is targeting unemployed youths (aged 16–35 years) with training and work placement. In Namibia, the training fund has been used to support Namibia's network of community skills and development centres, which provide vocational training that targets marginalized populations. In South Africa, the plans of SETAs are guided by the transformational imperatives of the NSDS III (2011–16), such as gender, race, class, and geography. In the United Republic of Tanzania, the training fund supports the VETA-run training centres, which have reportedly lowered their fees to better enable access. In Zambia, levy funds spent on SME and informal sector training will go some way to supporting underserved groups.

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However, in both Botswana and Zimbabwe, the training funds do not appear to do anything to help improve access to training for disadvantaged or vulnerable groups. For example, UNESCO's 2018 TVET policy review for Zimbabwe noted that "the financing mandate of ZIMDEF does not extend to the vocational training centres that target economically and academically vulnerable groups of learners" (UNESCO 2018b, 76).

Both Malawi and Zimbabwe deploy approaches that may end up widening inequality of access. In Zimbabwe, some aspects of ZIMDEF's fund expenditure, such as supporting polytechnic students, or supporting science, technology, engineering and mathematics (STEM) students who have achieved grades C or above, de facto exclude poorer students who have not been able to attain tertiary education, or to secure high enough grades to have been supported via the (now closed) STEM initiative. In Malawi, the subsidy financing approach adopted by TEVETA Malawi in relation to formal apprenticeships fails to promote equity among students. TEVETA Malawi's selection of students to join the "regular" courses is based on students obtaining high enough grades; this will de facto exclude the most marginalized, who have typically had fewer (and lower-quality) educational opportunities in the years before TEVETA Malawi selection.

3.6.2 Improving enterprise performance

There is no quantitative evidence on the relationship between funded training and improvements in enterprise performance in almost all SADC countries reviewed (Botswana, Malawi, Mauritius, Namibia, United Republic of Tanzania, Zambia and Zimbabwe). In South Africa, a perception survey of approximately 2,000 employers found that a majority believed that levy-supported training had impacted their companies favourably; for example, over 80 per cent of employers stated that training had contributed to an increase in employee productivity, over 73 per cent of employers stated that there had been a decrease in errors in the workplace, and almost 80 per cent of employers stated that there had been an improvement in the quality of product or service delivered (National Skills Authority 2019, 99).

Anecdotal opinions were put forward by some interviewed stakeholders in a number of SADC countries reviewed (for example, Botswana, Mauritius and Zimbabwe) claiming that enterprise performance was improved as a result of the levy-funded training. For example, in Zimbabwe, key stakeholders commented that students on industrial attachment helped to save companies money, as they did not have to "employ qualified and experienced personnel who are more costly [and] company productivity definitely increases" as a result (interview, employers' organization, Zimbabwe). In Mauritius, the organization that manages the training fund argued that it "contributes towards improving the performance of workers in the workplace. Output is higher and the morale of workers also is high" (interview, organization managing the fund, Mauritius). However, there is no evidence to back up such assertions.

In several SADC countries reviewed, there was an assumption that training levy funds channelled to formal technical and vocational institutes would increase the supply of relevantly qualified graduates and therefore lead to improvements in enterprise performance; however, there are reasons to question this assumption. For example, in Malawi, employers generally do not have a very positive view of the graduates of technical colleges, so the claim that enterprises will benefit indirectly is tenuous.

In some cases, there was a suggestion that the training levy actually hindered improvement in enterprise performance. For example, in the United Republic of Tanzania, even though employers are contributing to the levy, they still have to cover the cost of training their own staff, which "increas[es] their costs of doing business and imped[es] their competitiveness" (Association of Tanzania Employers 2011, 4).

The extent to which the training funds help to improve enterprise performance among those operating in the informal economy was not addressed by most respondents. However, in South Africa it was specifically noted that the majority (99 per cent) of informal sector firms had not even heard of SETAs, let alone benefited from them.

3.6.3 Improving individual employability

Evidence on how the SADC training funds in this review have improved individual employability is either anecdotal or opinion based, or based on output or tracer study data. Further, it is underpinned by the assumption that if someone is trained their employability has improved.

Output data – number of individuals trained – are a common metric cited in a number of training fund annual reports, where these are available (for example, in Mauritius, Namibia, South Africa and Zambia). These data say nothing about the employment outcomes of these individuals; there is often an assumption that the act of training an individual can, by itself, lead to improved individual employability.

Tracer studies have been conducted in Malawi, South Africa and the United Republic of Tanzania. In Malawi, for example, tracer studies of national technical college graduates suggest that over 80 per cent of them are working two years after graduating. In South Africa, a recent tracer study (2019) of artisans who passed their trade test in the 2017/18 financial year found that 77 per cent of them were employed in the labour market. In the United Republic of Tanzania, a forthcoming tracer study of VETA graduates apparently shows that over 93 per cent of them are employed in various capacities.

It should be recalled that tracer studies are not evidence that the training itself led to the rates of employment among the trained graduates, nor indeed that these individuals were in programmes paid for by the fund. Without knowledge of what would have happened in the absence of the training (using a control group), it is impossible to say. Also, not all tracer studies are methodologically rigorous: they are often not representative, as those easiest to find and most likely to respond are going to be those who have employment, and this positively skews the data towards those in employment. The type of employment being undertaken and whether it is related to the training or not is also a key piece of information usually not divulged or collected.

3.6.4 Contribution of training fund to national public education and training system

Most, if not all, of the training funds in the selected SADC countries are used to fund various parts of the public education and training system. In Malawi, TEVETA uses training fund resources to fund formal apprenticeships delivered by the country's public technical colleges. This funding is used to cover recruitment of apprentices on TEVETA Malawi regular courses; induction of apprentices and instructors; attachment of apprentices, trainers and instructors to industry; inspection and monitoring of apprentices; payment of subsidies, bursaries and attachment allowances; career guidance activities in primary and secondary schools; and the provision of tools to apprentices. In Mauritius, training fund resources are used to support the Mauritius Institute of Training and Development, the Mauritius Polytechnic, and the free higher education run by public universities in Mauritius. In Namibia, about half of the key priority training grant expenditure (2016–19) was on the implementation of the Skills Development Plan 2016–20 for the VET sector. In South Africa, training levy resources are used (through the National Skills Fund) to support the funding of NSDS III priorities. Further, South Africa's SETA-managed levy funds contribute to funding the national skills system through a sectoral focus.

However, the way in which training fund resources are deployed to fund part of the public education and training system is a key determinant of whether this funding is actually helping or hindering the national system. For example, in Malawi, TEVETA's centralized recruitment of students for regular courses in technical colleges, its centralized approach to arranging student attachments with industry, and its blanket subsidy approach to apprentices operate against the principles of decentralization and competition and are therefore disabling to the national system (Malawi country brief). In Namibia, the training fund supports the NTA-run public vocational training centres, but doing so with such an exclusive bias is actually serving to distort the national training market. In the United Republic of Tanzania, the use of levy funds by VETA for the VETA-run training centres distorts the training market and limits competition.

Several of the training funds have found themselves pulled in the direction of politicians, with fund resources (including surpluses) being redirected away from areas that the levy-paying employers might consider priorities. In Malawi, "TEVETA was requested to support … a recent presidential directive to have community colleges in every district" (interview, organization managing the training fund, Malawi). In South Africa, training levy resources in the National Skills Fund were redirected towards the tertiary-level no fee increase pledge of the Government. In the United Republic of Tanzania, about two thirds of the training levy is retained by government, with a large part of that being used to support the Higher Education Students' Loans Board.

Even in those countries that have had training funds the longest, the national education and training systems are not functioning as effectively as they need to be. Malawi has had a levy-financed TEVET Fund for two decades, and still the TEVET system in Malawi is chronically weak, is unable to meet the skills demands of the labour force, and is regarded by many in industry as disconnected from their needs. Both the United Republic of Tanzania and Zimbabwe have also had levy-financed training funds since the mid-1990s, but both public education and training systems remain weak. Of course, we do not know what would have happened in the absence of the training funds in these countries, and it is possible that the national systems would be in an even weaker state now had the training funds not existed. However, there is an obligation to ensure that such long-running training funds are being used most effectively in such contexts.

3.6.5 Responsiveness to national skills priorities

Training funds in at least several countries in this study (for example, Malawi, Mauritius and Zimbabwe), do not function well as a tool for steering various TVET programmes in their respective countries towards responding to the demands for skills in the economy. In South Africa, with 80 per cent of the levy funding being allocated via the 21 sector-based SETAs, there is arguably a closer connection to sectoral priorities.

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3.7 Fund management and governance

3.7.1 Fund governance

All the SADC training funds in this review, with the notable exception of ZIMDEF in Zimbabwe, have boards that are meant to govern their operations. In Zimbabwe, the Minister of Higher and Tertiary Education, Science and Technology Development is the sole trustee of the fund; however, there are intentions to establish a ZIMDEF board as soon as the new Manpower Development Act is established. Importantly, there is a question about the extent to which many of the other training fund boards (in Malawi, Mauritius, United Republic of Tanzania and Zambia) actually "govern", versus the real decision-maker in the form of the parent ministry. International good practice suggests that funds operate best when they have decision-making autonomy and control over budget allocations (Johanson 2009; Ziderman 2016). This is clearly not the case in Malawi, Mauritius, the United Republic of Tanzania and Zambia, where the fund boards still defer to ministry decisions.

In most cases, the training funds are not themselves separate entities but "live" within organizations that have a wider remit than only the training fund (Botswana, Malawi, Mauritius, Namibia, South Africa's National Skills Fund, United Republic of Tanzania and Zambia). As such, the boards of those entities are responsible for overall governance of the training funds, even where subcommittees to govern the respective training funds may also be in operation. In Botswana, a Funding Committee from the HRDC Board oversees the training fund; in Mauritius, a National Training Fund Committee of the HRDC Board is responsible for the training fund; and in Namibia, a National Training Fund Council, a committee of the NTA Board, is more directly responsible for governing the National Training Fund. In Zimbabwe, ZIMDEF exists as a separate entity, but in the absence of a board it is little more than an extension of the overseeing ministry.

Overall, the influence of employers in the governance of the SADC training funds is low (with the exceptions of Namibia and South Africa's SETAs). This is reflected not only in the composition of training fund boards, but also by the fact that key decisions taken by the boards (such as fund allocation areas and criteria, and budget decisions) usually have to be approved by the respective government anyway. In Malawi, the TEVETA Board contains only two representatives of private employers and one from a workers' organization out of a board of 16 persons; whatever is decided by the board then goes to the line ministry and thereafter to Parliament for approval. In Mauritius, it is noted by interviewed stakeholders that the Government has the final say on decisions taken by the HRDC Board. In the United Republic of Tanzania, under current governance arrangements, the Ministry of Finance and Planning and the Ministry of Education, Science and Technology govern the levy directly; they decide on the ceilings and levy allocation to VETA and other areas. Governance of the proportion of the levy fund remitted to VETA is through the VETA Governing Board (made up of 11 persons, including two members from employers' organizations and two members from workers' organizations), but decisions taken here still need the approval of the parent ministry. In Zambia, the Skills Development Fund Board of nine persons is chaired by the Ministry of Higher Education and includes four representatives of employers. Key decisions taken by the board need ministry approval.

In Namibia, by contrast, the private sector makes up the majority of the NTA Board of ten persons (four private sector representatives, one employers' organization representative, two workers' organization representatives, and three government representatives). In South Africa, each of the 21 SETAs is led by its own board, structured to involve labour and business representatives from that particular sector.

In Malawi, Namibia, the United Republic of Tanzania and Zimbabwe, the organizations governing (and managing) the training funds have conflicts of interest that inhibit effective governance of those funds. In Malawi, the TEVET Act of 1999 created an "obvious conflict of interest" (UNESCO 2019, 98) for TEVETA by giving it responsibility over levy mobilization and management, as well as levy utilization (including through the provision of training). In Namibia, the NTA has a similar triple mandate: regulator, training provider and manager of the National Training Fund. This is recognized by the NTA itself as "not an ideal situation". The United Republic of Tanzania's VETA finds itself with a similar triple role (training provider, financier and regulator). In Zimbabwe, there is no board for ZIMDEF and the associated direct reporting of ZIMDEF's Chief Executive Officer to the minister results in an obvious conflict of interest vis-à-vis the use of ZIMDEF funds to support the ministry-run public TVET providers, such as polytechnics and technical colleges. In the past, a similar conflict of interest existed in Mauritius when the organization governing the training fund, the Industrial Vocational Training Board, was also responsible for training provision and for regulation, which led to conflicts of interest. With the establishment of the HRDC this situation was successfully addressed.

There is a strong perception among employers, employers' organizations and workers' organizations that the training funds are subject to political influence (especially in Malawi and Zimbabwe). There is a strong need for much greater transparency and greater involvement of employers in allocation decisions.

3.7.2 Fund management

Where training funds are run by training authorities as part of their wider operations (Botswana, Malawi, Mauritius, Namibia, United Republic of Tanzania's VETA and Zambia), the training funds are typically managed by a dedicated department within that organization. This department is usually responsible for managing the fund, processing applications and reporting. In the case of Namibia, where the NTA is also responsible for levy collection, there are two dedicated departments, one for fund administration and disbursement and another for fund collection. In South Africa, the National Skills Fund is run by a dedicated secretariat of some 129 persons (with 39 of these posts being vacant in 2017/18).

Insufficient transparency in reporting is seen as an issue in several SADC countries under review (especially Malawi and Zimbabwe). This is further evidenced by the lack of official data that we were able to consult in the conduct of this study.

Overall, monitoring and evaluation systems in the training funds are weak. There is a heavily reliance on output data (often without disaggregation) (Botswana, Malawi, South Africa, United Republic of Tanzania and Zambia), and it is therefore not easy to determine the overall impact of the training funds. In Zimbabwe, there is no public release of any monitoring and evaluation data, output focused or otherwise. In Botswana, what has been described as an "impact research study" was conducted in 2019 to assess the successes and failures of the fund, and was completed for approval by the HRDC Board meeting at the end of September 2019. Despite multiple requests, this has not been shared so cannot be referred to here.[16]

16 As this report has not been seen, it is not known if it is a robust impact evaluation (with rigorous methods and a control group) or another perception study simply being referred to as an "impact study".

© ILO/Osseiran Nadine,September 2012, Malawi.

3.8 Recommendations

Country-specific recommendations

1. Country-level consultations and reviews to identify more country-specific recommendations are needed. As this is a fairly high-level review, the recommendations for the eight SADC countries as a whole, as well as the country briefs in Part B of this report, should inform country discussions.

Fund purpose

2. The levy purpose in most SADC countries needs to be better clarified and better communicated. Statements on the main purpose of the levy often do not match well with what key national stakeholders perceive the levy to be for, or what the levy actually gets spent on. Malawi, the United Republic of Tanzania and Zimbabwe appear to have the vaguest stated raison d'être for a training levy, simply noting that the purpose of the levy is to improve skills development. In these three countries, international experience suggests that employers need to be heavily involved in the process of determining (or in this case reviewing) the fund purpose and objectives, if they are expected to be engaged with the training fund.

3. Given that levy contributions come from employers, the purpose of a levy – and associated training fund in each country – should clearly identify the goal of increasing training in firms or encouraging employers to train their staff. Among the eight SADC countries, the training funds in Malawi, the United Republic of Tanzania, Zambia and Zimbabwe do not make reference in the fund objectives to increasing the incidence of training by firms.

4. The purpose of all the training funds should be reviewed to ensure that employer training, or encouraging skills development in firms, should be a stated aim, and that funds are better aligned with national priorities and labour market information.

Fund mobilization

5. The United Republic of Tanzania should consider a levy rate review, ensuring involvement of employers' and workers' organizations centrally in the process. Most SADC training funds are financed via a payroll levy averaging about 1 per cent; this rate is in line with commonly agreed rates across various countries and regions of the world. However, the United Republic of Tanzania's levy rate of 4.5 per cent is quite a lot higher than international experience.

6. Malawi, Mauritius and Zimbabwe should consider introducing a threshold to levy payment, below which employers are not liable. This is because small enterprises and microenterprises, most of whom operate in the informal economy, are less able to pay a levy (due to lower profit margins and cash flow), because those enterprises benefit less (or often not at all) from a levy-financed fund, and – crucially – because levy collection from such enterprises is inefficient (the cost of collecting levies from small enterprises and microenterprises might outweigh the levy revenue received) and often almost impossible (based on the current lack of registration of most small enterprises and microenterprises, particularly those operating informally).

7. Namibia and Zimbabwe should both examine again if their levies could be more efficiently collected by a national revenue authority, which is in line with international experience. Among the countries in the study, these are the only two in which the entities managing the training fund also collect the levy. If the review judges that the current collection approach, by the training authority itself, is the most efficient in that country context, then for the sake of transparency, and to minimize issues related to conflict of interest, detailed financial statements of levy collection and disbursement should be made public, and third-party audits should also be made public.

8. Investment in data collection and data systems is needed in order for data collection authorities (and training fund management) to know how many and which companies should be paying a levy in the first place. Each country needs to improve its database of levy-eligible employers.

Fund expenditure

9. Those countries with large accumulated surpluses (Botswana, Mauritius, South Africa and Zimbabwe) should consider undertaking periodic reviews of the levy rate, and developing action plans with social partners to agree on how the surplus can best be used to achieve the stated purposes of the respective funds. Such periodic rate reviews are in line with international experience. Where details of an accumulated surplus are not publicly known (for example, Malawi), such a rate review should also be conducted. In addition to reviewing the levy rate, a specific action plan needs to be developed to plan how the surplus funds are going to be spent (against the purposes of the fund), keeping in mind the need to retain an operating surplus for contingencies. Any fund surplus should be used for the purposes for which the funds were originally collected and not diverted into other government priorities or to pay for politically driven promises.

10. There should be a review in Malawi and Zimbabwe of the very high levels of the collected levies used to fund administrative and other non-training-related costs. Malawi has a particular problem as the authority responsible the managing the training fund (TEVETA Malawi) is very heavily reliant on the levy for a large proportion of its overall income, and so finds itself in a situation where over 40 per cent of total levy income is spent on governance, management, quality assurance, communication, and monitoring and evaluation – and not on training. TEVETA Malawi needs to move away from such a heavy reliance on the levy to fund all its activities.

11. All countries reviewed, but especially Malawi and Zambia, need to increase the actual direct allocation to employers as reimbursement of employee training costs. Namibia needs to pay particular attention to its failure to achieve anywhere near the target to allocate 50 per cent of levies received in a given financial year to employers for training.

Fund allocation mechanisms

12. The efficiency of the process of employers obtaining reimbursement from the training fund needs to be revisited in Botswana, Malawi, Namibia and South Africa. Other factors behind the low uptake of the funds by employers should continue to be addressed, including through ensuring that the type of training eligible for reimbursement is less classroom based and more oriented to employer needs (especially in Botswana and Mauritius), and raising awareness among employers of the employer training grants, eligibility and application process. A particular challenge in Botswana is that the training fund can experience cash flow problems if large employers exhaust the fund with training claims that exceed their levy payments before other employers can claim.

13. In the United Republic of Tanzania, there needs to be a particular effort to achieve legal clarity with regard to the allocation of the skills development levy. The majority of the levy (at least two thirds) is currently directed to the Treasury, and allocation decisions appear to be at the whim of the Government.

14. SADC training funds need to do significantly more to reach employers and workers in the informal economy. While they should not be asked to contribute to the levy (see recommendation above), training funds should adopt more innovative approaches, including through the use of intermediaries, to reach these groups, and should allocate a dedicated proportion of fund expenditure to such a training fund window. Lessons from international experience show that it is possible to reach such disadvantaged groups.

15. SADC training funds should examine approaches for individual learners that allow them to choose or purchase training that meets their needs directly. Such an approach will better enable individuals to learn continuously over their life.

Fund effectiveness

16. Monitoring and evaluation systems at training funds need to be strengthened in all SADC countries to better monitor the efficiency of the fund itself (for example, efficiency of the application processing, time taken to process and pay a claim, and the uptake rate – the percentage of levy-paying firms applying for available training grants).

17. There is a need for most countries to develop and strengthen proper mechanisms to measure the effectiveness of training being financed by the funds. Information on internal efficiency indicators, such as completion rates, pass rates, repetition rates and dropout rates, are needed, and there needs to be a move away from only reporting on outputs to more rigorous tracer studies and a select number of robust impact evaluations.

Fund management and governance

18. The composition of the various boards needs to be reviewed to give greater representation and responsibilities to private sector representatives. Increasing representation of the private sector, as well as of employers' and workers' organizations, in the governance of training fund boards needs to go hand in hand with the boards being given greater autonomy from any parent ministry. In Zimbabwe, the plans to establish a ZIMDEF board should be welcomed, and stakeholders should ensure that it is done on a tripartite basis, with levy-paying employers given a significant voice.

19. The conflicts of interest that inhibit the effective governance of training funds in Malawi, Namibia, the United Republic of Tanzania and Zimbabwe need to be addressed. In the cases of both Malawi and Namibia, the organization managing the training fund is a levy collector, spender, provider of training, and regulator of technical, entrepreneurial and vocational education and training, resulting in conflicts of interest. In Namibia's case this is partially mitigated by the ring-fencing of the levy funds within the Namibia Training Authority, where it is controlled by a separate board with employer and worker representatives. In the case of the United Republic of Tanzania, VETA receives a proportion of the levy (as decided by the Ministry of Finance and Planning and the Ministry of Education, Science and Technology), which VETA is, in turn, responsible for allocating; meanwhile, VETA's triple role as training provider, financier and regulator results in conflicts of interest. In the case of Zimbabwe, there is simply no board, and the Minister of Higher and Tertiary Education, Science and Technology Development is the sole trustee of the fund. Again this leads to conflicts of interest. International practice is to at least separate the role of training provider and regulator from that of a training fund; this is to avoid conflicts of interest potentially leading to the training fund giving preference to its own training provision (which results in market distortion).

20. More effort should be paid to ensuring greater transparency of expenditure, as this builds and maintains trust, especially between the levy-paying firms and the entity managing the training fund. For example, several training funds (United Republic of Tanzania and Zimbabwe) do not publish annual reports (with financial information) on their websites. In the case of Malawi, TEVETA only has one outdated annual report online (from 2014/15). Even those SADC training funds that do have annual reports could go further by publishing financial data on quarterly levy collection and disbursement amounts (and areas of expenditure).

21. Strengthening of accounting practices in the organizations managing the training funds would improve financial reporting, and also better inform training fund boards of longer-term sustainability issues. While most funds have public annual reports (Botswana, Malawi, Mauritius, Namibia, South Africa and Zambia) that contain high-level annual accounts, few funds undertake projections of income and expenditure. In Malawi's case it can be very hard to extract the most recent annual report from the organization managing the training fund, and in the cases of the United Republic of Tanzania and Zimbabwe there are no annual reports available.

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Part B

4. Summary of levy-financed training funds in selected SADC countries

Country, organization, fund name	Activities funded	Levy rate	Levy type	Levy collection process	Levy allocation	Fund governance
BOTSWANA: **Human Resource Development Fund** (established 2008) www.hrdc.org.bw Official objective: • To reimburse employers who have incurred training costs for apprentices or trainers	• Reimbursement to eligible claimants (levy-paying firms) • Training of special groups, emergent industries and small, micro and medium enterprises • Government training programmes	• All private companies that have a turnover above the current value added tax threshold of 1 million Botswana pula • 1 million to 2 billion pula = 0.2% levy of enterprise turnover • Over 2 billion pula = 0.05% levy of enterprise turnover	• Revenue-generating • Levy-grant	• Collected by Botswana Unified Revenue Service through the value-added tax system	• Fund administration: 25% • Industry reimbursement: 33% • Other skills programmes: 20% • Retained as surplus: 20% • (2008–18 average expenditure)	• Managed by Human Resource Development Council
MALAWI: **TEVET Fund** (established 2000/01) www.teveta.mw Official objective: • To improve skills development in Malawi	• Approved technical education and training programmes • Scholarships, grants and loans • Work-based training of industry employees • Endowment fund to support TVET • Governance and management structures of the TVET system	• 1% of payroll for all private and public employers	• Revenue-generating • Levy-grant • Employers can recover up to 20% of course fees	• Collected by Malawi Revenue Authority	• Fund administration: 40% • Industry reimbursement: < 1% • Other skills programmes: 32% • Retained as surplus: 10% • (2014–17 average expenditure)	• Managed by TEVETA Malawi
MAURITIUS: **National Training Fund** (established 1988/89) www.hrdc.mu Official objective: • To provide training incentives to employers	• Industry training grant • Government training programmes	• 1.5% of payroll for all private companies; only 1% goes to training fund	• Levy-grant • Employers can recover up to 75% of training expenses	• Collected by Mauritius Revenue Authority	• Fund administration: 12% • Industry reimbursement: 38% • Other skills programmes: 18% • Retained as surplus: 22% • (2017/18 expenditure)	• Managed by Human Resource Development Council
NAMIBIA: **National Training Fund** (established 2014) www.nta.com.na Official objective: • To facilitate and encouraging vocational education and training	• Training programmes and projects (up to 35% of fund) • Employer training grants (up to 50% of fund – but unspent amount is allocated to training programmes window • NTA administrative costs (up to 15% of fund)	• 1% of payroll for private companies (employers with a projected annual payroll of less than 1 million Namibian dollars (US$70,000) are exempt)	• Revenue-generating • Levy-grant	• Collected by NTA	• Fund administration: 15% • Industry reimbursement: 14% • Other skills programmes: > 70% • Retained as surplus: no data • (2014–18 expenditure)	• Managed by NTA
SOUTH AFRICA: **National Skills Fund, sector education and training authorities (SETAs)** (established 2000) www.dhet.gov.za/NSF/ Official objectives: • To fund the skills development initiatives in the country • To fund education and training within various economic sectors in South Africa	• 80% of levy is distributed to the different SETAs; used to pay employer training grants • 20% of levy is paid into the National Skills Fund to support skills development projects that do not fall under the SETAs (e.g. drive key skills strategies, meet the training needs of the unemployed)	• 1% of total payroll for private companies and State-owned enterprise employers	• Revenue-generating • Levy-grant • 20% of levies paid are reimbursed by SETAs as a grant towards company training plans	• Collected by South African Revenue Service	• Fund administration: 11% • Industry reimbursement: 14.5% • Other skills programmes: 62% • Retained as surplus: 12.5% • (National Skills Fund and example of merSETA, 2016–18)	• Managed by National Skills Fund and SETAs

Country, organization, fund name	Activities funded	Levy rate	Levy type	Levy collection process	Levy allocation	Fund governance
UNITED REPUBLIC OF TANZANIA: **skills development levy** (established 1994) Official objectives: • To support technical and vocational skills (according to employers' and workers' organizations) • To support skills development, including non-technical tertiary education (according to government)	• To support government-run vocational education and training institutions • To support other public training programmes • Quality assurance • Funding to general budget (some used for Higher Education Students' Loans Board)	• 4.5% of payroll for all private employers and commercially run parastatals who employ four or more employees	• Revenue-generating • About one third of the collected levies goes to VETA; two thirds is retained by the Ministry of Finance and Planning	• Collected by the Tanzania Revenue Authority	• Fund administration: no data • Industry reimbursement: 0% • Other skills programmes: no data • Retained as surplus: no data	• Centrally managed by government; one third transferred to VETA
ZAMBIA: **Skills Development Fund** (established 2017) www.teveta.org.zm Official objectives: • To enhance the provision of skills development in a more efficient and effective manner • To promote private sector participation • To facilitate predictability of resources to the institutions	• Window 1: employer-based training • Window 2: infrastructure and equipment, technical education, vocational and entrepreneurship training (TEVET) systems development, human resource development • Window 3: pre-employment training • Window 4: SME and informal sector training	• 0.5% of payroll for private companies	• Revenue-generating • Levy-grant • Under window 1 (only on approval of a proposal submitted to TEVETA Zambia)	• Collected by Zambia Revenue Authority	• Fund administration: 4% • Industry reimbursement: 3% • Other skills programmes: 36% • Retained as surplus: 58% • (2018 expenditure)	• Managed by the Ministry of Higher Education, with accounts managed by TEVETA Zambia
ZIMBABWE: **Zimbabwe Manpower Development Fund (ZIMDEF)** (established 1994) www.zimdef.org.zw Official objective: • To develop skilled manpower in Zimbabwe	• Formal apprenticeships • Training equipment (e.g. computers, machinery, tools) for polytechnics and other tertiary institutions • Infrastructure development at institutions of higher learning • Reimbursement of expenses to employers • Industrial attachment allowances for polytechnic students	• 1% of payroll for parastatals, State-owned and private companies	• Revenue-generating • Levy-grant	• Collected by ZIMDEF directly	• Fund administration: no data • Industry reimbursement: 0% • Other skills programmes: no data • Retained as surplus: no data	• Minister of Higher and Tertiary Education, Science and Technology Development is the sole trustee of the fund

Source: Compiled by author from training fund country briefs, this report (October 2019).

4.1 Botswana country brief

4.1.1 Background and fund purpose

The Human Resource Development Fund was established by the Vocational Training Act of 2013, which had a provision that stipulated establishment of a fund for the purpose of financing the administration of vocational education and of a levy-grant system for encouraging training of staff by employers. The fund regulations were enacted after extensive consultation with stakeholders in government and industry.

The existence of a training fund in Botswana predates the establishment of the Human Resource Development Fund. The levy-grant system was initiated by the then Botswana Training Authority in 2008[17] and was run by that organization until there was extensive reorganization of the Ministry of Education, which resulted in the Botswana Qualifications Authority and Human Resource Development Council (HRDC) being formed to replace the Botswana Training Authority and the Tertiary Education Council. The Vocational Training Fund was transferred to the new HRDC and renamed the Human Resource Development Fund, in accordance with the Human Resource Development Council Act No. 17 of 2013.

The main stated purpose of the Human Resource Development Fund, according to the HRDC Act, was that it should be used "for the purpose of reimbursing employers who have incurred training costs for apprentices or trainers" (Government of Botswana 2013, section 26). This main purpose is reiterated by the HRDC (HRDC Botswana 2016, 30) and by respondents to an online survey of key TVET stakeholders in Botswana in 2019 (online survey results, Botswana). According to some employers, there has been a "failure to adhere to this original aim … [vocational] training that directly upgrades the practical skill of employees" (interview, employers' organization, Botswana).

4.1.2 Fund mobilization

Levy rate

The levy rate is 0.05–0.2 per cent of enterprise turnover:

- 0.2 per cent levy in respect of an employer with a turnover of 1 million Botswana pula and not more than 2 billion pula; and
- 0.05 per cent levy in respect of a turnover in excess of 2 billion pula.

Exemption from levy

The following employers are exempted from payment of the levy:

- a private employer with a turnover of less than 1 million pula per annum – such employers may be eligible to claim from the fund nevertheless through the special groups and small, micro and medium enterprises clause;
- all public sector employers, who also cannot claim from the fund (interview, organization managing the fund, Botswana).

17 Prior to this, the construction and tourism industries already had an employer levy for training and, in 2008, the Ministry of Labour and Home Affairs introduced the levy system for all vocational training in the country (Fasih et al. 2014, 10).

Method used to collect the levy

The training levy is collected by the tax collection authority of Botswana, the Botswana Unified Revenue Service, from eligible companies through the value-added tax system, with funds deposited into the Human Resource Development Fund account. The Botswana Unified Revenue Service receives 5 per cent of the training levy collected as a levy collection fee.

Compliance and penalty

An employer who fails to pay a levy by the due date shall be liable to pay interest on the unpaid amount at the rate of 2 per cent per month or part thereof, compounded monthly (Government of Botswana 2008a).

Fund income

Levy fund income increased over the period 2017–19, and reached 344 million pula (US$31 million) in 2018/19 (table 12). Levy income does not represent the only income to the Human Resource Development Fund, however (table 13).

Table 12. Levy collection amounts 2014–19, Botswana

Year	Gross levy (pula)
2014/15	290,754,282
2015/16	282,284,764
2016/17	281,068,425
2017/18	311,206,196
2018/19	344,529,041

Sources: Gross levy 2016/17 and 2017/18 from Botswana OAG 2017, 2018; gross levy for 2014/15, 2015/16 and 2018/19 from HRDC (interview, organization managing the fund, Botswana).

Table 13. Summary income and expenditure for Human Resource Development Fund, 2016–18, Botswana

Income and expenditure	2017/18 (pula)	2016/17 (pula)
Income		
Levy income	311,206,196	281,068,425
Interest earned	27,568,145	23,863,422
Other income[1]	132,021,822	95,899,509
Total income	*470,796,163*	*400,831,356*
Total expenditure	*434,348,761*	*400,831,356*
Excess income over expenditure	36,447,402	0

1 “Other income” is not defined in the report of the Office of the Auditor General.
Sources: Botswana OAG 2017, 2017.

Employers' and workers' views of the levy

"Most companies treat the levy as a form of tax as most do not bother submitting training claims, probably because they also do not do much training of staff" (interview, government official, Botswana).

4.1.3 Fund expenditure

Types of allowable expenditure under the training fund

Annual financial expenditure data of the Human Resource Development Fund was not made available for this study, despite requests to the HRDC. The Human Resource Development Fund has a separate set of accounts from the HRDC annual accounts (which appear in the HRDC annual reports).

Nonetheless, it is possible to note the main areas of expenditure of the Human Resource Development Fund, which include:

- reimbursement to eligible claimants (levy-paying firms);
- training of special groups, emergent industries and small, micro and medium enterprises:[18] special groups refers to employees who have particular training needs (meant to receive 2.5 per cent of the levy fund), emergent industries refers to infant industries identified by the HRDC as requiring special training (meant to receive 1 per cent of the levy fund), small, micro and medium enterprises refers to enterprises with a turnover of less than 500,000 pula per annum (meant to receive 5 per cent of the levy fund);
- skills initiative programmes, including those run by the Department of TVET/Skills Development at the Ministry of Employment, Labour Productivity and Skills Development;
- levy collection fees, paid to the collecting agency, the Botswana Unified Revenue Service – set at 5 per cent of the training levy collected;
- fund administration fees, paid to the Human Resource Development Council for administering the fund – set at 10 per cent of the training levy collected;
- quality assurance fees, paid to the Botswana Qualifications Authority – set at 10 per cent of the training levy collected (the Botswana Qualifications Authority verifies that the training has taken place) (interview, organization managing the training fund, Botswana).

Where funds have actually been spent

Parliamentary proceedings in March 2019 led the Assistant Minister of Tertiary Education, Research, Science and Technology to review some income and expenditure data over the period 2008–18 (Government of Botswana 2019). From this it is possible to fill in some gaps and provide a high-level estimate for the period (table 14).

Over the last decade, income of over 2.8 billion pula has been received from the levy (and associated interest payments on accumulated levy surpluses). Up to one quarter of levy income over the period 2008–18 was spent on administrative and operating costs; 5 per cent on levy collection costs; 10 per cent on administrative costs (of the HRDC and the Botswana Training Authority before this); and up to 10 per cent on quality assurance costs (Botswana Qualifications Authority).[19]

18 The percentage allocations are from Government of Botswana 2008b. The allocation to training of special groups, emergent industries and small, micro and medium enterprises was confirmed in 2019 to be "consistently less than 10 per cent of the amount allocated from the fund" (interview, organization managing the fund, Botswana).

19 As noted in table 14, it is not clear from available sources and interviews if the Botswana Qualifications Authority is allocated 10 per cent of the gross levy, and if so, how long this has been the arrangement.

Only one third of levy income over the period 2008–18 was spent on industry reimbursement of training fees. It will be recalled that the main purpose of the Human Resource Development Fund, according to the HRDC Act, 2013, was to reimburse employers who had incurred training costs. Twenty per cent of levy income over the period 2008–18 was spent on other skills programmes, determined by the HRDC. For details on the kinds of programmes supported here, see below. Over 20 per cent of levy income over the period 2008–18 has been accumulated as a surplus (table 14).

Table 14. Estimated summary income and expenditure for the Human Resource Development Fund, October 2008 to December 2018, Botswana

Item	Income	Expenditure as % of gross levy
Income		
Gross total levy received	2,601,176,566	
Interest earned (8% of gross levy)[1]	208,094,125	
Total income	2,809,270,691	
Expenditure		
Administrative and operating costs		
Administration (10% gross levy)	280,927,069	10
Botswana Unified Revenue Service (5% gross levy)	140,463,535	5
Botswana Qualifications Authority (10% gross levy)[2]	280,927,069	10
Total administrative and operating costs	702,317,673	25
Training		
Industry reimbursement	955,125,763	34.0
Skills initiative programmes	538,742,651	19.2
Total training	1,493,868,414	53.2
Other (assumed to be accumulation of annual surplus)	613,084,604	21.8

1 Interest assumed to be 8%, the same level as listed in the summary Human Resource Development Fund accounts from Botswana OAG 2017, 2018.
2 According the organization managing the training fund, the Botswana Qualifications Authority receives 10% of the gross levy (interview, organization managing the training fund, Botswana); However, it is not clear how many years this has been the case. It may be that some – or most – of the amount listed here is in fact additional to the accumulated surplus.

Source: Calculated from figures provided by the Assistant Minister of Tertiary Education, Research, Science and Technology, Mr Molao, 13.03.2019, in the transcript of Parliamentary proceedings (Government of Botswana 2019).

Accumulated surplus

Unspent levy funds are carried forward year on year (HRDC Botswana 2018). According to the estimated summary income and expenditure for the Human Resource Development Fund over the period 2008–18, there are accumulated annual surpluses of over 600 million pula. Indeed, during Parliamentary proceedings in March 2019, the Assistant Minister of Tertiary Education, Research, Science and Technology revealed that the Human Resource Development Fund balance as at 31 December 2018 was 696,557,874 pula (approximately US$63 million) (Government of Botswana 2019).

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4.1.4 Fund allocation mechanisms

Levy-grant incentive: Firms can claim back more than they pay

In Botswana, firms can claim more for training than the levy they paid: every 1 pula paid as levy up to a maximum of 1,000 pula generates a grant of 7.5 pula; every 1 pula paid as levy in excess of 1,000 pula but below 5,000 pula generates a grant of 3.75 pula; and every 1 pula paid as levy in excess of 5,000 pula generates a grant of 2 pula. This means, for example, that a firm paying a levy of 55,000 pula (US$5,000) in one financial year would be eligible for a grant of 122,500 pula (US$11,000) (HRDC Botswana 2017a).

Levy reimbursement process

- Levy-compliant firms must submit and get approval on a structured training plan.
- A levy reimbursement claim is submitted after the training, with accompanying paperwork (HRDC Botswana 2017b).

Low uptake of industry reimbursement

Only 20 per cent of the total number of levy payers contributing into the fund claimed from the Human Resource Development Fund in 2017/18 (HRDC Botswana 2018), though this is a slight increase from 17 per cent in 2016/17 (HRDC Botswana 2017b) and 15 per cent in 2015/16 (HRDC Botswana 2016). Low uptake of the Human Resource Development Fund has been identified as a challenge in the last several HRDC annual reports (HRDC Botswana 2016, 2017b, 2018). There are several reasons behind the low uptake of the fund.

- Companies face cash flow problems, especially small and medium-sized companies, as a result of having to pay the levy, pay for the training and then claim the costs back (Sunday Standard 2019), which previously could "take anything from six months to a year" (interview, employers' organization, Botswana). The processing time is now down to four weeks on average (HRDC Botswana 2018).
- The claims process is regarded as "cumbersome and involves excessive paperwork ... even for companies who submitted training plans" (interview, employers' organization, Botswana).
- The regulations "linking the levy system to the Botswana Qualifications Authority accreditation requirements, which are decidedly biased towards academic training, is the weak link as far as industry is concerned. The practical training is often difficult or impossible to accredit with the Botswana Qualifications Authority or to even get approval for it to enable industry to recover their training costs" (interview, employers' organization, Botswana). Hence, the kind of training that industry appears to favour has not been eligible for reimbursement.
- There is a lack of structured training plans (HRDC Botswana 2018; Sunday Standard 2019).
- A feature of the reimbursement model designed to incentivize firms can lead to cash flow problems for the Human Resource Development Fund arising from large claims. Companies that train their employees in approved programmes can claim more than the levy they paid, and this can result in cash flow problems for the Human Resource Development Fund if large employers exhaust the fund with large training claims that exceed their levy payments before other employers can claim (interview, organization managing the fund, Botswana).

In 2019, some minor revisions to the reimbursement regulations were made, noting that the Botswana Qualifications Authority has also developed a quality assurance criterion to cover other courses not previously accredited, such as product-related training (HRDC Botswana 2019).

Starting later in 2019, it is expected that a major review will be undertaken that will entail far-reaching amendments to the regulations covering the following key issues:

- sustainability model for the fund;
- operational model of the fund;
- fund utilization strategy (HRDC Botswana 2019).

4.1.5 Fund effectiveness

Improving access to training for disadvantaged groups

The training fund does not (at all) help to improve access to training for disadvantaged or vulnerable groups, according to both the organization managing the training fund and a representative from a workers' organization (online survey results, Botswana, 2019). However, there is no evidence available to confirm this.

Improving enterprise performance

There is no quantitative evidence on the relationship between funded training and improvements in enterprise performance. Anecdotal evidence from an employers' organization suggests that where the levy "has worked smoothly to support practical vocational training, such as in the mines, it has enhanced productivity and was value for money to the companies" (interview, employers' organization, Botswana). There is no evidence available to confirm this.

Incentivizing enterprises to train their employees

There is currently no available information on the extent to which the training fund is able to incentivize enterprises to train employees. As noted above, the main stated purpose of the training fund was that it should be used "for the purpose of reimbursing employers who have incurred training costs for apprentices or trainers" (Government of Botswana 2013, section 26). One workers' organization interviewed commented: "Many people do not really understand the fund and its purpose. Lots of companies paying the levy just assume it is a tax collected when they pay their VAT and don't realize it is meant to incentivize them to train their employees" (interview, workers' organization, Botswana).

Improving individual employability

There is no quantitative evidence on the extent to which the training fund helps to improve individual employability. According to the views of one workers' organization who responded to the online survey, it does not improve individual employability (online survey, workers' organization, Botswana) – but no evidence was provided to support this view.

Sectors where the levy is working well, or not

Key stakeholders comment that the sectors where the levy appears to be most effective include the mining, transport, wholesale and retail industries: "These are the sectors where the biggest companies in Botswana are located based on the structure of the economy … Big companies usually have big training functions and thus can organize training and claim from the fund" (interview, organization managing the fund, Botswana; interview, employers' organization, Botswana) (Sunday Standard 2019).

Effectiveness of monitoring and evaluation systems

Reporting on the effectiveness of the fund to date has either been anecdotal or very output focused (without disaggregation). For example, the latest HRDC annual report for 2017/18 simply notes that "more than 30,000 employees from Levy Payers, Special Groups, Emergent Industries and Small Medium and Micro Enterprises (SMMEs) were trained on personal development skills and Apprenticeship Programmes" (HRDC Botswana 2018, 48). No breakdown is provided.

An impact research study was conducted (starting March 2019) to assess the successes and failures of the fund, and was completed for the approval of the HRDC Board meeting at the end of September 2019. Despite multiple requests, this has not been shared so cannot be referred to here. Nonetheless, it is positive that such a study was commissioned.

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4.1.6 Fund governance and management

Description of fund governance

The Human Resource Development Fund is managed by the HRDC, and is therefore governed by the HRDC Board. Under this board is an HRDC Funding Committee, which oversees three funds,[20] including the Human Resource Development Fund. At the time of the interview with the HRDC in early August 2019, membership of the HRDC Fund Committee was being reorganized and the HRDC was unable to provide the names and institutional affiliations of its members. As of October 2019, the HRDC website lists five persons as being on the HRDC Funding Committee, which contains at least two employers (table 15).

▶ Table 15. Membership of the HRDC Funding Committee, Botswana

Name	Affiliation
Dr Thapelo Matsheka, Chairperson	Managing Director of Fiducia Services Ltd, a pension fund administration business in Botswana
To be appointed: Vice-Chairperson	Directorate of Public Service Management, Ministry of Employment, Labour Productivity and Skills Development
Ms Seilaneng Godisang, member	Legal partner at Kelobang Godisang Attorneys
Ms Ruth Mphathi, member	Unknown affiliation
Dr Raphael Dingalo, ex officio member	Chief Executive Officer of HRDC

Source: HRDC website.

20 The Public Tertiary Education Institutions Fund and the Tertiary Education Student Support Fund are currently being established.

Description of fund management

Since 2014, the Department of Funding at the HRDC has been responsible for managing the Human Resource Development Fund (HRDC Botswana 2015).

Both the HRDC and the levy collection agency (Botswana Unified Revenue Service) are government agencies, and their accounts are audited and published annually. The Government further audits the levy fund through the Auditor General and publishes the figures for collections in the annual statements of accounts (interview, government official, Botswana).

In terms of efficiency of application processing, the HRDC is doing quite well; for example, 98 per cent of applications received in 2017/18 were processed in the same year, and the time taken to process and pay a claim also improved from six months in 2016 to four weeks as at the end of 2017/18 (HRDC Botswana 2018).

4.2 Malawi country brief

4.2.1 Background and fund purpose

In Malawi, the TEVET Fund and the levy that provides revenue to the fund were established under the TEVET Act, 1999 (Government of Malawi 1999), and introduced in 2000/01.

The "primary function of the levy is to improve skills development in Malawi" (interview, government official, Malawi), and "to finance programmes approved by the board of the TEVET Authority" (TEVETA Malawi 2016). The levy is paid to a TEVET Fund that in turn funds the operations of the Technical, Entrepreneurial and Vocational Education and Training Authority (TEVETA) covering six different areas (box 3). These include training programmes and cost reimbursement to industry, but also the cost of running TEVETA Malawi itself and its associated regulatory activities.

▶ Box 3. Areas the TEVET Fund can be used to finance according to the Malawi TEVET Act, 1999

(a) Approved technical education and training programmes
(b) Special programmes to support the technical education and training system
(c) User-free subsidization through scholarships, grants and loans in accordance with priorities determined by the Board
(d) Incentives to employers to directly invest in technical education and training
(e) An endowment fund to support technical education and training, and
(f) Governance and management structures of the technical education and training system.

Source: Government of Malawi 1999.

During the last five years there have been some changes, "particularly the request from government to have the fund support construction of technical colleges in districts" (interview, organization managing the training fund, Malawi).

4.2.2 Fund mobilization

Levy rate

A 1 per cent levy on the basic payroll for both private employers and the Government is payable. This payroll levy is an allowable deduction against assessable taxable income (for levy-compliant employers who are also taxpayers) (Government of Malawi 2006, section 36B). Originally a 2 per cent levy (Government of Malawi 1999), it was later reduced as "employers lobbied with government" (interview, employers' organization, Malawi).

Exemptions

There are no stated exemptions; both private and public employers – of all sizes – are meant to pay the levy.

Method used to collect the levy

The Malawi Revenue Authority now collects the levy. Initially, TEVETA Malawi collected the levy directly, but was "failing" (interview, government official, Malawi). Since November 2015, the Malawi Revenue Authority has been mandated to collect the levy (Malawi Revenue Authority 2018) "as it has a database of all employers in Malawi" (interview, government official, Malawi). It deposits the collected levies into the TEVETA Malawi account. "There have been some improvements but not much. The Malawi Revenue Authority is currently overwhelmed" (interview, government official, Malawi) and "is busy with its core mandate" (interview, workers' organization, Malawi). When the Malawi Revenue Authority took over the levy collection from TEVETA Malawi, it "did not have a special department [responsible]; as such, it was relying on the same officers who prioritize the Malawi Revenue Authority's own targets more than TEVETA's. But after a series of meetings, [the] Malawi Revenue Authority set up a section to focus on collection of the levy" (interview, organization managing the training fund, Malawi).

Levy payment compliance

The proportion and number of firms not complying with the levy is not known. "It is understood that only one third of the potential [total levy] amount is being collected" (UNESCO 2019, 13).

Stakeholders estimate that 50–80 per cent of formal sector employers are paying the levy (interview, government official, Malawi; interview, organization managing the training fund, Malawi). Micro, small and medium-sized enterprises appear particularly disconnected from the levy; in 2012, only 2 per cent of these enterprises reported compliance with paying the levy (Finmark Trust 2012). During the last two to three years, the tough business climate in Malawi "explains why some employers default payments of the levy" (interview, employers' organization, Malawi). Moreover, the lack of "any clear cases of enforcement of penalties that are stipulated in the Act" encourages firms to default (interview, workers' organization, Malawi).

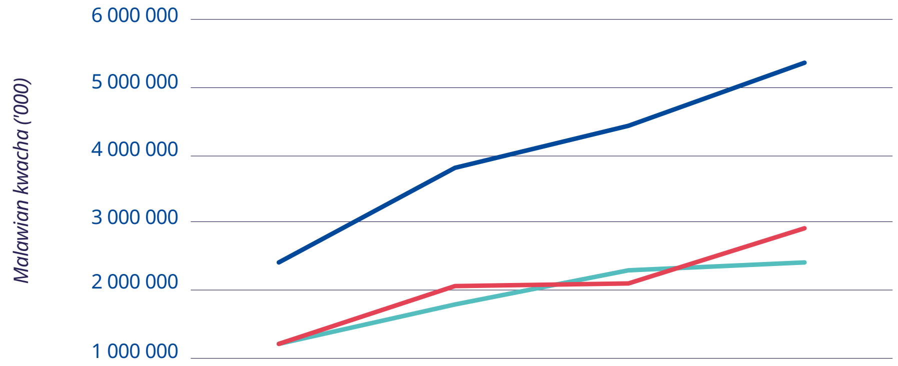
Unlike in many other countries, public sector employers are also obliged to pay the TEVET levy. While the levy from public employers usually exceeds that from private employers, "government has not paid its full share" (UNESCO 2019, 96), and efforts to enforce compliance have been largely unsuccessful.[21]

21 TEVETA Malawi did win a legal claim against the Government over the unpaid TEVET levy for the period up to 30 June 2011, with a total amount payable of 2.6 billion Malawian kwacha. In accordance with the TEVET Act, 20 per cent interest is chargeable on this amount every month, meaning that as at 20 June 2014 the amount had accumulated to 7.8 billion kwacha (TEVETA Malawi 2015). It is not known if this has been paid as of 2019.

Levy income

Levy income from both the public and private sectors increased, year on year, over the period 2014–17, reaching 5.3 billion Malawian kwacha in 2017 (figure 3).

Figure 3. TEVET levy income, 2014–17, Malawi



	2014	2015	2016	2017
Private sector levy	1 189 037	1 775 262	2 310 318	2 428 680
Public sector levy	1 217 227	2 054 022	2 112 024	2 934 950
Total levy	2 406 264	3 829 284	4 422 342	5 363 630

Sources: TEVETA Malawi 2015, 2017a.

The TEVETA Strategic Plan (2018–23) intends to increase the revenue from the levy through a mix of measures: awareness campaigns to promote awareness of employers on the TEVET levy, prosecution of non-compliant employers, and lobbying government to review the TEVET Act to enhance enforcement of levy payment (TEVETA Malawi 2018, 62–63).

According to one senior government official interviewed, the levy "is sustainable but only if there is transparency and accountability in the collection and use of the funds, so that all employers should be happy. But if they are not, they might pull out" (interview, government official, Malawi).

The collected levy income represents the most significant source of income for TEVETA Malawi. As a source of funding, the levy represents over 90 per cent of all TEVETA Malawi income. Total income to TEVETA Malawi in 2018/19 was 8.38 billion kwacha, of which only 0.72 billion kwacha (8.5 per cent) was from government subvention (Government of Malawi 2018, 221).

Employers' and workers' views of the levy

In general, the employers' view of the TEVET levy is that it is "affordable", but that it is just "another form of taxation" (interview, employers' organization, Malawi). According to one employers' organization:

> Most employers think the training fund is not sustainable. This is so because most of the decisions made concerning the fund have elements of political influence. On top of this, there is another problem, which is that a body that collects the funds (i.e. TEVETA) is the same body that administers the funds. Thus, there is a need for separation of roles, as is the case in other sectors in the country. The implication for now is that some employers are defaulting due to these issues (interview, employers' organization, Malawi).

4.2.3 Fund expenditure

Decision-making on fund expenditure

TEVETA Malawi management prepares the budget and then submits it to its board for approval. It takes a bottom-up approach, requesting regional TEVETA Malawi offices to consolidate demands from stakeholders, which are then reviewed in relation to the TEVETA Strategic Plan and included in the draft budget accordingly (interview, government official, Malawi; interview, organization managing the training fund, Malawi). During budgeting, TEVETA Malawi "considers the core business of the authority first, and those are the areas that receive a lion's share". These activities include formal apprenticeships (training materials for public colleges, tuition fee subsidies for students selected by TEVETA Malawi and enrolled in private colleges, and stipends for college students on industry attachment); curriculum reviews; research; informal sector training; and regulation (interview, organization managing the training fund, Malawi). Employer-based training of own employees is not considered a priority.

Types of allowable expenditure under the training fund

The TEVET Act, 1999, specifies the areas that the TEVET Fund can be used to finance (box 3).

Where funds have actually been spent

The majority – about two thirds – of all levy expenditure is not being spent on training.[22] As a mechanism to channel funding to training, the current allocation of levy resources is very inefficient; between 2014 and 2017, only about one third of total fund expenditure was actually spent on training. The rest was allocated to TEVETA Malawi management, fund management, monitoring, quality assurance and other non-training-related expenditure. In addition, 15 per cent of expenditure was on "bad debts" (table 14).[23]

Between 2014 and 2017, over 40 per cent of total levy expenditure was on governance, management, quality assurance, communications, and monitoring and evaluation. According to the TEVET Act, 1999, four of the six listed areas that the TEVET Fund can be used to finance relate to training, one relates to establishing an endowment, and one to "governance and management structures of the technical education and training system". In practice, however, the levy's primary de facto function has become to fund the governance and management structures of TEVETA Malawi itself, as well as associated non-training-related costs. While "there is no apparent evidence that [levy] funds have been diverted by TEVETA or by Government to fund areas that are not provided for in the Act" (Mambo 2019, 12), it is not in accordance with usual practice that the majority of levy funds are allocated to management and other non-training-related costs associated with TEVETA Malawi and the TEVET Fund, rather than being allocated to training. In other words, while levy funds are currently being used in ways that are aligned with the TEVET Act, 1999, it is clear that the Act needs amending so that more of the levy funds are actually allocated to funding training. For example, well-defined funding windows with expenditure ceilings could be put in place, whereby a maximum percentage of levy funds could be spent on types of training versus TEVETA Malawi management and other non-training costs. Others have expressed concern about the lack of funding for training; for example, the Treasury has reportedly "raised concerns about the high administrative costs incurred by TEVETA since it erodes funds intended for training" (Rasool and Rasool 2018, 43).

22 This section draws on Palmer 2019, using also more recent 2016/17 data from TEVETA Malawi 2017a.

23 The TEVETA Malawi annual reports from 2014/15 and 2016/17 show that the training fund lists "bad debts" as an item of expenditure. These bad debts apparently refer to "resources that are budgeted for in the TEVETA Malawi budget based on expected levy collection but are not collected in reality", and that "defaulting [on levy payments] has resulted in a huge amount of bad debts" (Mambo 2019, 7). However, it is not at all clear why debts are listed as an item of expenditure in the first place; it is not clear what is actually being purchased here. Clarity on this is needed.

While the TEVET Act of 1999 allows for the levy to be used to fund “governance and management structures” of the TEVET system, there needs to be a reasonable limit set on this, so that the majority of all levy funds are used for the main purpose of training. An industry training levy should not be used to fund a TEVET coordination entity to this extent. Mambo (2019) suggests that the resources allocated to the management of TEVETA Malawi and the TEVET Fund should be reduced to less than 20 per cent of total levy income (Mambo 2019).

Over the period 2014–17, about half of all funds spent on training were spent on formal apprenticeships (table 16); these formal apprenticeships are delivered by TEVET institutions, and TEVETA Malawi allocates funding to cover recruitment of apprentices on “regular” courses;[24] induction of apprentices and instructors; attachment of apprentices, trainers and instructors to industry; inspection and monitoring of apprentices; payment of subsidies, bursaries and attachment allowances; career guidance activities in primary and secondary schools; and the provision of tools to apprentices (TEVETA Malawi 2015). The absolute amount of levy income spent on formal apprenticeships has increased from 410 million kwacha in 2014 to 1.2 billion kwacha in 2017 (table 16).

Attention to, and quality of, other training priorities

As levy resources spent on training are “skewed towards [formal] apprenticeship training”, this comes “at the expense of the other two priorities of private sector training and the informal sector outreach programmes” (Mambo 2019, 14). As a percentage of levy funds spent on training, over the period 2014–17 an average of 10 per cent of funds were spent on private sector training,[25] and a further 32 per cent on implementing “strategic skills development” programmes.[26]

Overall, less than 4 per cent of total TEVET levy income is returned to the private sector to encourage training of employees (and less than 1 per cent goes to companies’ training cost reimbursement).

- A total of 653 million kwacha was spent on private sector training over the period 2014–17, representing only 3.5 per cent of total TEVETA Malawi income (table 16).
- In 2017, only 13 companies benefited from the 20 per cent training cost reimbursement (for training of their employees conducted in house), amounting to 16 million kwacha (TEVETA Malawi 2017a). To put this in perspective, this compares to 134 million kwacha expenditure to cover the expenses of the Director of TEVETA Malawi during the same year, more than eight times the total levy reimbursement to all companies. This situation has changed little in the last few years; in 2015, only 20 companies benefited from the 20 per cent training cost reimbursement, with the expenses of the Director of TEVETA Malawi during the same year being almost double the total levy reimbursement to all companies (table 16).
- Companies complain that the process of receiving the 20 per cent training cost reimbursement from TEVETA Malawi is not straightforward.

24 “Regular” courses refer to government-approved courses run in technical colleges, where students are centrally selected onto the courses by TEVETA Malawi. Students who have not been selected via the formal selection route onto regular courses (via TEVETA Malawi) are referred to as undertaking “parallel” courses.

25 Private sector training includes provision of company- or organization-specific support (including training cost reimbursement to companies or organizations that conduct in-house training for their employees at the workplace); provision of common tailor-made courses (for example, on finance or leadership); facilitation of demand-based training for associations or industrial groupings; and carrying out door-to-door promotional activities (apparently to advertise TEVETA Malawi to the business community, so not really “training” at all).

26 These include support to 12 community skills development centres (part of support from the World Bank Skills Development Project, managed by TEVETA Malawi), and the implementation of other training projects supported by development partners.

TEVETA Malawi acknowledges this large discrepancy in expenditure between levy funds being returned to the private sector to encourage training of employees on the one hand, and expenditure on pre-employment training in technical colleges on the other hand. In its view this is justified, as employer-based training is "not as expensive compared to those done by students in technical colleges. Colleges require many things, including procurement of new machinery, while industries already have [this] and they simply hire an expert to facilitate the training. This is why overall there is that huge difference in expenditure between the two" (interview, organization managing the training fund, Malawi). This view loses sight of the fact that it is the employers who are paying the levy in the first place, and that the very sustainability of the levy itself rests on there being a satisfactory arrangement whereby levy-paying employers feel as though they are (directly) benefiting from it; as it stands, this is not the case.

▶ Table 16. TEVETA (Malawi) statement of income and expenditure, 2014–17 (Malawian kwacha)

Income and expenditure	2017		2016		2015		2014		2014–17	
	Kwacha ('000)	Expenditure as % of total income	Kwacha ('000)	Expenditure as % of total income	Kwacha ('000)	Expenditure as % of total income	Kwacha ('000)	Expenditure as % of total income	Kwacha ('000)	Expenditure as % of total income
A. Income										
Levy collected (gross)	5,363,630		4,422,342		3,829,287		2,406,264		16,021,523	
Other income	672,185		1,789,315		155,266		240,335		2,857,101	
Total income	**6,035,815**	**n.a.**	**6,211,657**	**n.a.**	**3,984,553**	**n.a.**	**2,646,599**	**n.a.**	**18,878,624**	**n.a.**
B. Expenditure										
Administrative expenditure										
Administrative expenses	891,691	14.8	749,707	12.1	594,602	14.9	298,185	11.3	2,534,185	13.4
Director's expenses	133,679	2.2	27,753	0.4	72,569	1.8	27,061	1.0	261,062	1.4
Loss on asset disposal	5,869	0.1	23,924	0.4	0		0		29,793	0.2
Office expenses (rents and rates)	87,884	1.5	54,574	0.9	57,238	1.4	38,583	1.5	238,279	1.3
Total administrative expenditure	**1,119,123**	**18.5**	**855,958**	**13.8**	**724,409**	**18.2**	**363,829**	**13.7**	**3,063,319**	**16.2**
Operating expenditure										
Quality assurance and services	390,382	6.5	272,061	4.4	212,456	5.3	110,755	4.2	985,654	5.2
Planning and monitoring	255,010	4.2	185,923	3.0	141,385	3.5	101,548	3.8	683,866	3.6
Information, education and communication	312,670	5.2	228,078	3.7	171,050	4.3	58,579	2.2	770,377	4.1
Fund management	570,233	9.4	442,122	7.1	189,211	4.7	152,254	5.8	1,353,820	7.2
Risk management services	49,761	0.8	50,910	0.8	40,608	1.0	41,768	1.6	183,047	1.0
Service centre management	258,469	4.3	219,278	3.5	179,517	4.5	158,506	6.0	815,770	4.3
Total operating expenditure	**1,836,525**	**30.4**	**1,398,372**	**22.5**	**934,227**	**23.4**	**623,410**	**23.6**	**4,792,534**	**25.4**

Income and expenditure	2017		2016		2015		2014		2014–17	
	Kwacha ('000)	Expenditure as % of total income	Kwacha ('000)	Expenditure as % of total income	Kwacha ('000)	Expenditure as % of total income	Kwacha ('000)	Expenditure as % of total income	Kwacha ('000)	Expenditure as % of total income
Training expenditure										
Private sector training	277,495	4.6	143,342	2.3	150,359	3.8	81,786	3.1	652,982	3.5
Apprenticeship training	1,223,593	20.3	856,010	13.8	620,420	15.6	409,713	15.5	3,109,736	16.5
Strategic skills development	1,071,023	17.7	494,959	8.0	368,683	9.3	87,563	3.3	2,022,228	10.7
Specific donor funded programmes	258,469	4.3	10,012	0.2	53,158	1.3	169,517	6.4	491,156	2.6
Total training expenditure	**2,830,580**	**46.9**	**1,504,323**	**24.2**	**1,192,620**	**29.9**	**748,579**	**28.3**	**6,276,102**	**33.2**
Bad debts										
Bad debts/provision for bad debts	849,940		588,433		932,909		469,532		2,840,814	
Total bad debts	**849,940**	**14.1**	**588,433**	**9.5**	**932,909**	**23.41**	**469,532**	**17.7**	**2,840,814**	**15.0**
Total expenditure	**6,636,168**		**4,347,086**		**3,784,165**		**2,205,350**		**16,972,769**	
Surplus / deficit										
End of year surplus / (deficit) under the National Training Fund (A – B)	**(600,353)**	**(9.9)**	**1,864,571**	**30.0**	**200,388**	**5.0**	**441,249**	**16.7**	**1,905,855**	**10.1**

n.a. = data not available.
Sources: TEVETA Malawi 2015, 2017a.

4.2.4 Fund allocation mechanisms

With regard to apprenticeship subsidies to colleges, TEVETA Malawi subsidizes training in both national and community technical colleges on a per capita basis, for “regular” students only.[27]

This TEVETA Malawi subsidization per student on the regular courses at technical colleges comes at high unit costs, indicating programme inefficiencies. For example, between 2014 and 2015, the unit cost per apprentice increased from 378,000 to 484,000 kwacha (TEVETA Malawi 2015). These unit costs are much higher than for other types of training funded by TEVETA Malawi (Mambo 2019).

With regard to allowances to apprentices on industrial attachment, TEVETA Malawi pays upkeep allowances to formal apprentices training in technical colleges.

On the matter of employer grants, TEVETA Malawi has been providing financial support to companies that conduct trainings for their employees to upgrade skills. TEVETA Malawi reimburses 20 per cent of direct training costs for a company, and reimburses 50 per cent of direct costs for employers’ organizations. For companies that seek to engage an expert to help with on-the-job coaching of their employees, TEVETA Malawi reimburses 50 per cent of the cost (interview, organization managing the training fund, Malawi). The process of employers obtaining rebates is “not straightforward” (UNESCO 2019, 97), and is characterized by “bureaucratic red tape delays and administrative hurdles”. There is also a lack of awareness among employers about whether and how they are able to access such resources (interview, employers’ organization, Malawi).

4.2.5 Fund effectiveness

Improving access to training for disadvantaged groups

Funding of formal apprenticeships is not an equity-enhancing financing approach. Of the levy funds spent on training, the majority (over half) goes on pre-employment formal apprenticeships delivered via TEVET institutes, which industry regards as largely disconnected from their needs, and which “does not provide equitable support to all the students” (Mambo 2019, 10). The subsidy financing approach adopted by TEVETA Malawi in relation to formal apprenticeships fails to promote equity among students. TEVETA Malawi’s selection of students to join the regular courses is based on students obtaining high enough grades; this will de facto exclude the most marginalized, who have typically had fewer (and lower-quality) educational opportunities in the years before TEVETA Malawi selection. The general blanket subsidy of TEVETA-selected students, therefore, excludes the most disadvantaged (Palmer 2018b).

However, TEVETA Malawi provides bursaries to assist needy apprentices (who have the prerequisite grades) to access training in national technical colleges, with an emphasis on needy girls. In 2017, 782 students were supported with an average of 6,800 kwacha (US$9) each (TEVETA Malawi 2017a); this is meant to help them afford to pay the 15,000 kwacha termly fee when they enrol at a technical college (interview, organization managing the training fund, Malawi).

The establishment of community technical colleges, which TEVETA Malawi is supporting via the TEVET Fund, is intended to bring training closer to rural communities and therefore open up access to training for more disadvantaged groups (interview, workers’ organization, Malawi).

With regard to technical college formal apprenticeships in Malawi, supported by the TEVET Fund, two thirds of all apprentices are male (TEVETA Malawi 2017a).

27 “Regular” students are those who have been selected onto courses by TEVETA Malawi and whose place is heavily subsidized by TEVETA Malawi.

Improving enterprise performance

There is no quantitative evidence on the relationship between levy-funded training and improvements in enterprise performance. It is known that only 1–2 per cent of levy-paying firms benefit directly from the levy fund (and receive grants towards in-firm training). “Employers would like to be seeing direct benefits from the fund” (interview, employers’ organization, Malawi).

The assumption appears to be that training levy funds channelled to technical colleges will increase the supply of relevantly qualified graduates; however, there are reasons to question this assumption. However, employers generally do not have a very positive view of the graduates of technical colleges, so the claim that enterprises will benefit indirectly is also tenuous.

Incentivizing enterprises to train their employees

“To no extent” does the training fund incentivize enterprises to train their employees – is the unambiguous response from a representative of TEVETA Malawi (online survey, organization managing the training fund, Malawi).

Only 1–2 per cent of companies benefit from training cost reimbursement but companies are training anyway; this is a dangerous signal.[28] Levy-compliant employers can be reimbursed up to 20 per cent of their total direct training cost of any TEVETA-approved in-house training (Malawi Revenue Authority 2018). However, the number of companies benefiting from training reimbursement is extremely low; for example, of the approximately 1,200 levy-compliant companies, less than 2 per cent (20) benefited in 2014/15 and 1 per cent (13) benefited in 2017 (Mambo 2019; TEVETA Malawi 2015, 2017a).

With such a low percentage of companies benefiting from training cost reimbursement, it could be expected that formal companies in Malawi would not be involved in training. However, according to World Bank Enterprise Surveys,[29] in 2014/15 33 per cent of formal firms in Malawi offered formal training to their employees; this is higher than the subSaharan Africa average of 29 per cent and the same as the global average (33 per cent).[30] A 2009 firm survey in Malawi noted that while over 70 per cent of surveyed firms engaged in in-house training, only a few made use of the cost reimbursement facility of the TEVET Fund (De Gobbi and Anang 2013).

Considering the very small amount of funding going to private sector training from the TEVETA Malawi levy, and the limited number of beneficiary firms, one has to conclude that it is not the levy driving formal company training. Private formal companies must be training in spite of there being a levy in place, leading to the possible conclusion that most companies that do train are able and willing to pay for this training directly without there being a levy. Most companies probably see the levy as irrelevant to them and another form of tax they have to pay. This is dangerous from a levy sustainability perspective; evidence from other countries[31] shows that when the private sector sees a training levy as an irrelevance, they will ultimately pressurize government to abolish the levy.

Also, even though firms appear to be training their employees, it is not known what type of training the 33 per cent of formal companies are providing to their employees, or whether that training is mostly soft skills as opposed to more advanced hard skills. There is a need to strengthen the rebate system for employers to benefit more from their contribution to the fund and incentivize them to train in the areas

28 Below is from Palmer 2019.

29 https://www.enterprisesurveys.org.

30 The latest round of the World Bank Enterprise Survey in Malawi was conducted during April 2014 to February 2015, with 523 firms completing (56 per cent small enterprises, sized 5–19 persons; 28 per cent medium enterprises, 20–99 persons; and 16 per cent large enterprises, 100+ persons). Interestingly, the percentage of firms in Malawi offering formal training to their employees decreased from 48 per cent in 2009 to 33 per cent in 2014; it is unknown why (https://databank.worldbank.org/data/reports.aspx?source=enterprise-surveys).

31 For example, Jordan previously had a training levy on the private sector of 1 per cent of profits, but firms had no say in how it was used and therefore pressured government to cancel it. In early 2010, changes to the Tax Law cancelled private sector resources going to the training fund (known as the Employment and TVET Fund, or E-TVET Fund).

identified in the national development strategies and the priority areas identified in the third Malawi Growth and Development Strategy.

As in other countries, it is unlikely that small to medium-sized companies have benefited much from the cost reimbursement approach of the TEVET Fund (Mambo 2019). UNESCO also notes that small enterprises and microenterprises have not benefited much from the training fund (UNESCO 2019, 99).

Improving individual employability

Tracer studies of national technical college graduates suggest that over 80 per cent of them are working two years after graduating; but this is not evidence that the training itself was the cause of this. In 2016, TEVETA Malawi conducted a tracer study of national technical college graduates who graduated in December 2014 to establish, among other things, the employment status of these graduates two years after graduation (TEVETA Malawi 2017b). The study found that 61 per cent were in wage employment and 21 per cent in self-employment. Tracer studies, however, do not give any indication of causation (whereby it was the training received that resulted in the graduates being employed or self-employed), nor is there any comparison group that compares the employment outcomes of those of a similar age that did not complete technical college. The findings, therefore, cannot be used to suggest that training resulted in such labour market outcomes.

Student industry attachments, which are a requirement of courses at technical colleges, are supported by TEVETA Malawi (for regular courses only), and this practical work experience should help to make students more employable (interview, employers' organization, Malawi; interview, workers' organization, Malawi).

Contribution of the training fund to national public education and skills training system

The TEVET Fund has existed for two decades, and still the TEVET system in Malawi is chronically weak, is unable to meet the skills demands of the labour force, and is regarded by many in industry as disconnected from their needs. As the levy is the largest contributor of funding to the sector, the efficient and effective use of funds from the levy is critical. Clearly, the current approach to the TEVET Fund under TEVETA Malawi has not worked, and an alternative approach needs to be introduced (Palmer 2019).

TEVETA Malawi's centralized recruitment of students for regular courses at technical colleges, its centralized approach to arranging student attachments with industry, and its blanket subsidy approach to apprentices operate against principles of decentralization and competition, and are therefore disabling to the national system. TEVETA Malawi operates a centralized recruitment system for selection into national technical colleges, and is directly involved in arranging students' industry attachments. This disempowers the colleges themselves, who should be responsible for such arrangements. TEVETA Malawi subsidizes training in both national and community technical colleges; this approach ends up causing financial hardship to many colleges, and also serves to distort the national training market (Palmer 2019).

TEVETA Malawi was "requested to support … a recent presidential directive to have community colleges in every district" (interview, organization managing the training fund, Malawi). "This is due to government being overwhelmed by the construction of community technical colleges (an executive decision was made to have a technical college in every district in the country), so TEVETA is assisting" (interview, government official, Malawi). While this support will further national plans, it is diverting levy funds even further away from the employers paying them.

Responsiveness to national skills priorities

The national technical colleges that receive the bulk of levy funding allocated to training are regarded as being not responsive or of little relevance to the labour market, and at least several in industry are not confident that what is currently being delivered in TEVET institutions is in line with what is needed

(see references to interviews in Palmer 2018b). One employers' organization commented that there is a problem with the "quality of the skills [of technical college graduates] and a mismatch in some cases with what the industry wants" (interview, employers' organization, Malawi). A senior government official reiterated this, noting that "what is becoming apparent is that our situation is supply driven and [the] demand side is not really fitting well. It appears some skills are not relevant in the labour market" (interview, government official, Malawi).

Since earlier in 2019, the fund has also been used to better identify the kinds of skills that industry needs graduates to have. A public–private sector skills development programme has been established, under which stakeholders discuss the needs of the industry and what technical colleges and TEVETA Malawi need to do (interview, employers' organization, Malawi).

Sectors where the levy is working well, or not

According to key stakeholders, the construction sector benefits most from the levy. Other benefiting sectors include manufacturing; administrative and support service activities; electricity, gas, steam and air-conditioning supply; information and communication; wholesale and retail trade; and repair of motor vehicles and motorcycles (online survey responses, Malawi: employers, employers' organization, organization managing the training fund, workers' organization, government official).

Effectiveness of monitoring and evaluation systems

Monitoring and evaluation focuses on outputs, not outcomes or impact. "TEVETA's annual reports do provide information on internal efficiency indicators such as completion rates, pass rates, repetition rates and dropout rates. The monitoring and evaluation framework focuses on outputs and not outcomes and impact, so it is not easy to determine the overall impact of the Training Fund on the TEVET system" (UNESCO 2019, 99).

4.2.6 Fund governance and management

Description of fund governance

The TEVET Act of 1999 also made TEVETA Malawi the custodian of the TEVET Fund. The TEVETA Board is therefore responsible for the key decisions on allocations of funding from the levy-financed TEVET Fund.

TEVETA Malawi is a government institution and board members are appointed by government; it implements its plans in line with government systems and plans (interview, government official, Malawi; interview, organization managing the training fund, Malawi). As a result, "ultimately it is government [that makes the decisions] since whatever is decided at TEVETA Board level, e.g. budget, it goes to the line ministry and thereafter to Parliament for approvals" (interview, employers' organization, Malawi).

The influence of employers is "low" in the governance and management of the TEVET Fund (UNESCO 2019, 13). Since the payroll levy is responsible for the bulk of all funding for the TEVET Fund, it should be expected that employers have some control over the uses of the levies, as is the case in successful levy funds in other countries. This is currently not the case in Malawi. The TEVETA Board contains only two representatives of private employers and one from a workers' organization out of a board of 16 persons, representing 18 per cent of the board. Aside from having low representation on the TEVETA Board, employers on the board are given "very little room [to] voice their concerns" (interview, government official, Malawi). Furthermore, one employers' organization stated that the employer representative on the TEVETA Board does not communicate with other employers "to know what is happening at TEVETA" (interview, employers' organization, Malawi).

The TEVET Act of 1999 has created a conflict of interest for TEVETA Malawi by giving it responsibility over levy mobilization and management, as well as levy utilization (including through the provision of training) (box 4). This conflict of interest leads to governance challenges.

Box 4. TEVETA Malawi is a levy collector, spender and TEVET regulator

The TEVET Act of 1999 has created “obvious conflict of interest” for TEVETA Malawi (UNESCO 2019, 98), giving it responsibility over levy mobilization and management, as well as levy utilization (including through the provision of training).

There are “inadequate checks and balances” (UNESCO 2019, 98) to ensure the most efficient and effective use of the levy resources, since TEVETA Malawi currently has the authority to determine levy allocation, while at the same time it is using a large proportion of these resources to cover its own management and administrative costs, as well as to provide training programmes.

A senior government official agreed that “the problem is that TEVETA is both a collector and a spender … and that there is a need to have some demarcation” (interview, government official, Malawi).

Some have suggested that TEVETA Malawi’s mandate needs to be reduced “to that of regulation and oversight of the TEVET sector” (Mambo 2019, 28); the current situation of TEVETA Malawi as a “facilitator, regulator and implementer [has resulted in TEVETA] spreading itself too thin” (Mambo 2019, 13). Indeed, some of the activities that TEVETA Malawi is currently involved in are “not part of its mandated responsibilities derived from the Act” (Mambo 2019, 13).

UNESCO comments that “reforms should lead to a separation of the collection and spending functions. This will require a review of the TEVET Act which set up both the Authority and the Training Fund” (UNESCO 2019, 98).

There is a strong perception among employers, employers’ organizations and workers’ organizations that the TEVET Fund is subject to political influence (interview, workers’ organization, Malawi; interview, employers’ organization, Malawi). Some employers went further, suggesting that the TEVET Fund is “too pro government/ruling party” (online survey, employer, Malawi) and may be being “used to advance political interests” (online survey, employers’ organization, Malawi). Rather than “pursuing interests of the powers that be”, employers want the training fund to “prioritize their [own] interests” (interview, employers’ organization, Malawi). The Government is not blind to how employers feel, acknowledging that “there are perceptions out there that some of the funds go towards projects that have political influence. This displeases employers who are made to contribute to the fund” (interview, government official, Malawi). Clearly, there is a strong need for much greater transparency and greater involvement of employers in allocation decisions.

Description of fund management

The TEVET Fund is administered by TEVETA Malawi staff. Transparency appears to be an issue. Every quarter, TEVETA Malawi management reports to the board on expenditure for all programmes (interview, organization managing the training fund, Malawi). TEVETA Malawi also produces annual accounts (audited by Deloitte) and reportedly shares these with interested stakeholders (interview, employers’ organization, Malawi). However, this is clearly not the case for all stakeholders, as illustrated by one workers’ organization who stated that they “have never seen any of their financial audits. They are not shared. In fact, there are high levels of secrecy among our board representatives” (interview, workers’ organization, Malawi). It is indeed the case that annual audited accounts and reports are not publicly available on TEVETA Malawi’s website; early in 2019 there was only one TEVETA Malawi annual report available via the website (but for 2014/15), and even this is no longer accessible.

Internal and government auditing of accounts has been relatively weak to date. Before around 2017, TEVETA Malawi did not have an internal auditor; the board then decided to engage one (interview, organization managing the training fund, Malawi). A senior government official interviewed noted that “to date [TEVETA] has never been audited by the government Auditor General’s department. This is one of the major weaknesses” (interview, government official, Malawi).

“TEVETA is overwhelmed with funds management responsibilities. In addition to the Training Fund it maintains the Endowment Fund, Apprenticeship Credit Fund, Capital Fund, General Fund and Capital Development Fund” (UNESCO 2019, 98).

4.3 Mauritius country brief

4.3.1 Background and fund purpose

In Mauritius, the main objective of the training fund is to provide "training incentives … to employers in order to allow them to meet part of the training cost of their employees and to support other training initiatives both at enterprise and national levels".[32] An apparent focus on providing training incentives to employers (interview, organization managing the fund, Mauritius) is perhaps not surprising since the training levy originated from employers' demand; a levy of the wage bill was proposed by the Mauritius Employers' Federation in 1987, with the levy starting to be collected in 1988/89 (Dubois and Balgobin 2010). Since 2004, the Human Resource Development Council (HRDC) has been managing the National Training Fund, and providing training incentives to employers represents one of its main functions. The HRDC is not involved in the delivery of training.

4.3.2 Fund mobilization

Levy rate

Every employer is required to pay a training levy at the rate of 1.5 per cent of the total basic wage or salary of its employees, other than household workers (Mauritius Revenue Authority 2019). The HRDC receives 1 per cent of the levy amount and the remaining 0.5 per cent is transferred to the Workfare Programme Fund[33] managed by the Ministry of Labour, Industrial Relations, Employment and Training (HRDC Mauritius 2019a). The 2019/20 budget speech stated that from July 2019, employers with a salary bill not exceeding 10,000 Mauritian rupees per month would pay 0.5 per cent to the HRDC instead of 1 per cent (Government of Mauritius 2019).[34]

Exemptions

All public sector employers are exempted from payment of the levy.

Method used to collect the levy

Since January 2018, the Mauritius Revenue Authority has collected the levy. Prior to that it was the responsibility of the Ministry of Social Integration, Social Security and National Solidarity. The levy collection fee, agreed to be 4 per cent of the collected levy, is not received by the Malawi Revenue Authority, but still by the Ministry of Social Integration, Social Security and National Solidarity; the Malawi Revenue Authority collects the levy and remits it to the Ministry, which in turn gives it to the HRDC (interview, organization managing the fund, Mauritius).

Compliance

A total of 1,600 employers participate in the fund (approximate number of levy-paying employers) (interview, government official, Mauritius), though it is not known what proportion of eligible employers this represents.

32 Mauritius HRDC: www.hrdc.mu.

33 To cover unemployment benefit for workers in the private sector who are laid off. The training levy attributable to the HRDC has fluctuated over the years, from 1 per cent (1988–2008) to 0.5 per cent (2009–13) and back to 1 per cent (since 2014).

34 No mention was made of the other 0.5 per cent levy payable for the Workfare Programme Fund; it is assumed that this still stands.

Levy income

Levy income has been increasing annually over the last five years (table 17).

▶ Table 17. Levy income in Mauritius, 2013–18, (Mauritian rupees)

12 months ended 31 Dec 2013	12 months ended 31 Dec 2014	12 months ended 31 Dec 2015	18 months ended 30 June 2017	12 months ended 30 June 2018
233,928,724	520,377,054	638,786,078	957,372,110	693,151,056

Note: The financial accounting year changed in 2017/18, so the accounts for 1 January 2016 to 30 June 2017 are for 18 months, not 12 months.
Sources: HRDC Mauritius 2014, 2016, 2018, 2019b.

Employers' views of the levy

Formal employers generally viewed the training fund as "instrumental to the developmental needs of the country" (interview, employers' organization, Mauritius). As employers were instrumental in introducing the training levy in 1988, this may not be surprising. However, with the growing number of other funds that employers are expected to contribute to (Environment Protection Fund, Portable Retirement Gratuity Fund, National Solidarity Fund), the levy rate is starting to be perceived as "high in the present context" (interview, employers' organization, Mauritius).

However, "most smaller enterprises view the levy as a form of taxation", and only "a small percentage of SMEs take advantage" of it (interview, organization managing the fund, Mauritius).

4.3.3 Fund expenditure

Decision-making on fund expenditure

The HRDC decides the training fund budget but it needs government approval (interview, organization managing the fund, Mauritius).

Types of allowable expenditure under the training fund

Allowable expenditure under the fund includes HRDC salaries and office and administrative expenses.

Levy collection fees

An industry training grant is available to encourage employers to invest in the training of their employees.

The largest approved national human resource development project of recent years is the National Skills Development Programme, launched in December 2016. A training and placement programme of 3–12 months, the National Skills Development Programme aims to provide industry-driven training to unemployed youths (aged 16 to 35 years) to boost their employability skills. Training costs and trainee stipends are funded by the HRDC (HRDC Mauritius 2019b). Another HRD project is the Graduate Training for Employment Scheme, introduced in 2015, which targets unemployed graduates whose existing training does not match market requirements. Like the National Skills Development Programme, this is a training and placement programme of 3–12 months, with training costs and trainee stipends funded by the HRDC (HRDC Mauritius 2019b).

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Some other expenditure areas deviate from the original fund objectives. Acquisition of property is not an objective of the fund, but the HRDC purchased its offices from the levy collected (interview, employers' organization, Mauritius). "Over the years, given the surplus accumulated, the fund has been used to finance other governmental projects, e.g. the Free Tertiary Education Scheme, SME Graduate Scheme and National Apprenticeship Scheme" (interview, employers' organization, Mauritius).

As noted above, the Workfare Programme, managed by the Ministry of Labour, Industrial Relations, Employment and Training, takes 0.5 per cent of levy**. This provides support to workers who have lost their jobs, and is unsurprisingly popular among workers (interview, workers' organization, Mauritius). However, there is a "lack of transparency at the level of the Ministry of Labour" with regard to how funds are allocated from this scheme (interview, employers' organization, Mauritius). The Workfare Programme is not addressed further below.**

Where funds have actually been spent

About 12 per cent of levy income over the period 2014–18 was spent on administrative and operating costs; this includes 4 per cent levy collection fees, about 6 per cent for staff costs and 1 per cent for other office and administrative costs (table 18).

An average of 38 per cent of levy income over the period 2014–18 was spent on industry reimbursement of training fees (table 18). It will be recalled that the main purpose of the training fund was to provide training incentives to employers.

Funding of other skills programmes, determined by the HRDC, was relatively minor over the period 2014–18, except for financial year 2017/18, when 18 per cent of levy income was spent on other skills programmes, mainly the National Skills Development Programme.

Over the period January 2013 to June 2017, about half – or more than half – of annual levy income to the training fund was being accumulated as a surplus. In 2017/18 this had reduced, but still 22 per cent of levy income that year was added to the accumulated surplus (table 18).

Table 18. Mauritius National Training Fund account: Income and expenditure, 2014–18 (Mauritian rupees)

Income and expenditure	12 months ended 30 June 2018		18 months ended 30 June 2017		12 months ended 31 Dec 2015		12 months ended 31 Dec 2014	
	Rupees	Expenditure as % of total income	Rupees	Expenditure as % of total income	Rupees	Expenditure as % of total income	Rupees	Expenditure as % of total income
A. Income								
Levy collected (gross)	693,151,056	n.a.	957,372,110	n.a.	638,786,078	n.a.	520,377,054	n.a.
Other income	26,410,592	n.a.	33,899,932	n.a.	23,695,670	n.a.	24,477,691	n.a.
Total income	**719,561,648**	**n.a.**	**991,272,042**	**n.a.**	**662,481,748**	**n.a.**	**544,854,745**	**n.a.**
B. Expenditure								
Staff cost	44,118,732	6.1	57,850,375	5.8	36,779,534	5.6	34,759,891	6.4
Depreciation of fixed assets	4,574,776	0.6	6,645,557	0.7	6,260,966	0.9	5,705,359	1.0
Commission payable on collection of levy (4% of gross levy collected)	27,726,042	3.9	38,294,884	3.9	25,551,443	3.9	20,815,082	3.8
Total operating expenditure	**76,419,550**	**10.6**	**102,790,816**	**10.4**	**68,591,943**	**10.4**	**61,280,332**	**11.2**
Office and administrative expenses	8,142,665	1.1	11,034,549	1.1	6,673,131	1.0	7,924,597	1.5
Training	181,687	0.03	536,502	0.1	325,026	0.05	481,435	0.1
Missions and allowances	0	n.a.	0	n.a.	65,594	0.01	0	n.a.
Total administrative expenditure	**8,324,352**	**1.2**	**11,571,051**	**1.2**	**7,063,751**	**1.1**	**8,406,032**	**1.5**
Projects emanating from sectoral committees	7,981,199	1.1	2,966,405	0.3	689,897	0.1	1,560,457	0.3
HRD excellence award and HRD conference	n.a.	n.a.	n.a.	n.a.	(3,910)	n.a.	4,481	0.001
Rodrigues: HRD projects	n.a.	n.a.	4,686	0.000	608,873	0.09	336,058	0.1
Placement and employability skills development for lower six students	n.a.	n.a.	(2,700)	n.a.	28,345	0.004	332,019	0.1
Career talks for secondary school students and career cube	n.a.	n.a.	n.a.	n.a.	29,900	0.005	47,590	0.01
Career development stairway (ICT and finance)	n.a.	n.a.	n.a.	n.a.	383,156	0.06	145,684	0.03
Evaluation of training	n.a.	n.a.	n.a.	n.a.	808,968	0.1	0	n.a.
Skills for growth: SMEs	n.a.	n.a.	n.a.	n.a.	18,160	0.003	0	n.a.

Income and expenditure	12 months ended 30 June 2018		18 months ended 30 June 2017		12 months ended 31 Dec 2015		12 months ended 31 Dec 2014	
	Rupees	Expenditure as % of total income	Rupees	Expenditure as % of total income	Rupees	Expenditure as % of total income	Rupees	Expenditure as % of total income
Skills studies	117,550	0.02	1,380,000	0.1	0	n.a.	0	n.a.
Career counselling, development of career web portal	670,196	0.1	1,678,258	0.2	16,600	0.003	16,600	0.003
Human resources projects							28,000	0.01
Training for *technicien salle d'operation*							7,201,971	1.3
Skills pledge							53,584	0.01
Career aspirations of University of Mauritius students and Let's Talk career series							57,830	0.01
HSC Pro with Mauritius Examinations Syndicate, pilot phase	390,000	0.1	337,308	0.0	0	n.a.	0	n.a.
Training grant	336,625,422	46.8	361,771,920	36.5	202,924,927	30.6	203,289,761	37.3
Total HRD projects and training grant	**345,784,367**	**48.1**	**368,135,877**	**37.1**	**205,504,916**	**31.0**	**213,074,035**	**39.1**
National Skills Development Programme	99,620,453	13.8	31,094,842	3.1	0	n.a.	0	n.a.
Graduate Training for Employment Scheme	7,412,258	1.0	11,502,877	1.2	0	n.a.	0	n.a.
Financing for end of year bonus for YEP trainees	57,652	0.01	1,832,839	0.2	0	n.a.	0	n.a.
Dual Training Programme	1,794,578	0.2	4,356,537	0.4	90,000	0.01	0	n.a.
Total other programmes	**108,884,941**	**15.1**	**48,787,095**	**4.9**	**90,000**	**0.01**	**0**	**n.a.**
Mauritius Institute of Training and Development, apprenticeship scheme	6,828,930	0.9	17,256,797	1.7	5,132,383	0.8	6,007,040	1.1
Mauritius Polytechnics Ltd (part financing of 2017/18 budget)	14,565,458	2.0	0	n.a.	0	n.a.	0	n.a.
Total financing other institutions	**21,394,388**	**3.0**	**17,256,797**	**1.7**	**5,132,383**	**0.8**	**6,007,040**	**1.1**
Total expenditure	**560,807,598**	**77.9**	**548,541,636**	**55.3**	**286,382,993**	**43.2**	**288,767,439**	**53.0**
Surplus								
End of year surplus under National Training Fund (A – B)	**158,754,050**	**22.1**	**442,730,406**	**44.7**	**376,098,755**	**56.8**	**256,087,306**	**47.0**

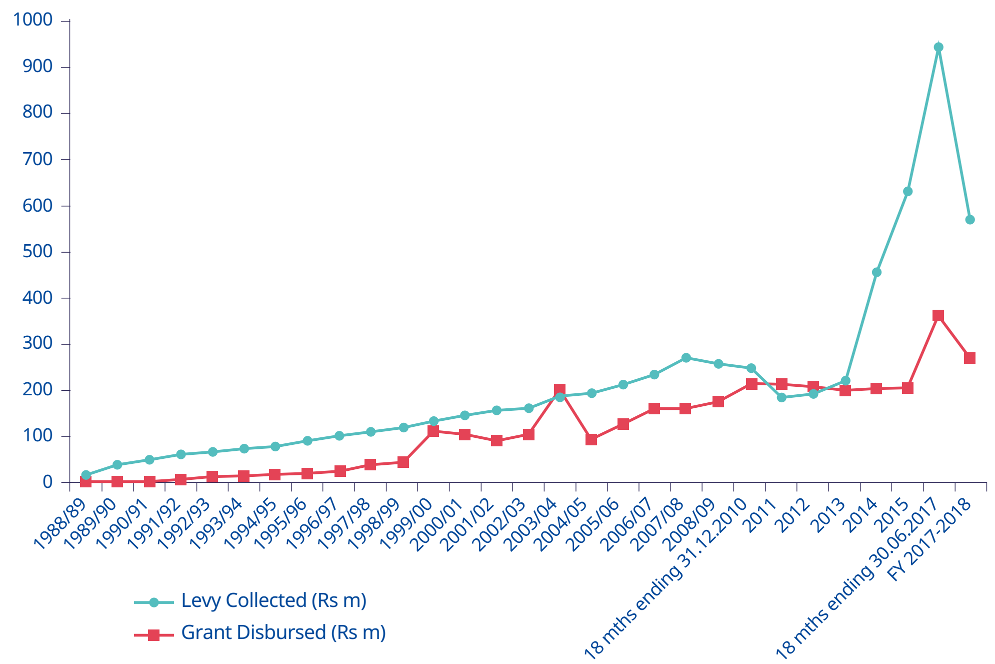
n.a. = data not available.

Note: As from July 2017, the financial year of the HRDC covers the period 1 July to 30 June.
Sources: HRDC Mauritius 2016, 2018, 2019b, 36–37. Percentages calculated by author. See annual reports for project details.

Levy surplus

As of the end of June 2018, there was a 1.35 billion rupee (US$37 million) accumulated levy surplus (HRDC Mauritius 2019b). Disbursement from the fund has not kept pace with levy collection, leading to a large accumulated surplus over the period 2014–18 (figure 4). Any annual surplus is invested in Treasury bills, as approved by the HRDC Board (interview, organization managing the fund, Mauritius).

▶ Figure 4. Historical trends of levy and grant, Mauritius



Sources: TEVETA Malawi 2015, 2017a.

The accumulated surplus did not go unnoticed by government, who have tapped into it to fund all manner of activities, including capital projects (online survey, employer, Mauritius), the Free Tertiary Education Scheme, the SME Graduate Scheme and the National Apprenticeship Scheme, which should all be funded from budgetary allocations but have been financed by the training fund (interview, organization managing the fund, Mauritius). "This is a serious departure from the aims of the Fund [to provide training incentives to employers]. On this score it is becoming just another tax on businesses" (online survey, employer, Mauritius).

4.3.4 Fund allocation mechanisms

Employer training grant

Employer training grants are based on a cost-sharing principle; employers can recover up to 75 per cent of their eligible training costs, with the balance paid by the employer. Employee training can be either in house or run externally by training institutions registered with the Mauritius Qualifications Authority (HRDC Mauritius 2016). Training incentives for firms have been revised regularly by the HRDC – in 2006, 2009, 2010, 2012, 2014, 2016 and 2017 – in an attempt to encourage enterprises to invest more in the training of their employees and at the same time ensure the sustainability of the training fund (HRDC Mauritius 2019b, 41).

Various training initiatives for enterprises are supported by the fund in the form of partial refunds, including under the levy-grant scheme and additional incentive schemes (table 19).

▶ Table 19. Training incentive schemes offered by HRDC, Mauritius

Levy/training grant[1] (subject to annual training grant ceiling)	Additional incentives[2] (on top of annual training grant ceiling)
1. Local Training Scheme	1. Foreign Expertise Scheme
2. Online Training Scheme	2. Multi-media Facilities Scheme
3. Overseas Training Scheme	3. Training Needs Analysis Scheme

1 As of August 2017, what was previously called the In-house Training Scheme and the Institutional Training Scheme have been grouped into one Local Training Incentive Scheme (HRDC Mauritius 2019b).
2 A fourth incentive scheme, the Pre-operational Training Incentive Scheme, was discontinued in 2017/18.

Sources: HRDC Mauritius 2019a, 2019b.

The refund rate (of up to 75 per cent) is based on the annual levy paid by the employer and subject to the limit set under the Training Incentive Scheme. For courses starting as from 9 August 2018, the rate of refund of training cost is presented in table 20.

▶ Table 20. Rate of refund of training cost, HRDC, Mauritius

Annual levy paid for previous financial year	HRDC rate of refund
Up to 20,000 rupees	75%
Above 20,000 rupees up to 100,000 rupees	75%
Above 100,000 rupees	70%

Source: HRDC Mauritius 2019a.

Process of accessing funding

Only training courses and programmes that have received the prior approval of the Mauritius Qualifications Authority will qualify for reimbursement after the training is delivered. Since March 2017, the HRDC has operated a new online system for application (and progress tracking) of approvals for a training course and for grant reimbursement after the completion of training[35] (HRDC Mauritius 2019b). Hard copy applications can still be sent to the HRDC, and training approval applications can still be faxed. Employers appear to find the process easy, noting that the criteria with regard to who is eligible to access the funds are "clear", and it is "very simple" for eligible beneficiaries to access funds from the training fund; "the current process is online and very responsive" (online survey, employer, Mauritius). The normal processing time for both online and manual applications is 24 hours, provided all information and documents have been submitted (HRDC Mauritius 2019a).

Challenges and risks associated with fund allocation

Verification of the authenticity of training being held and claims for refund represent a large challenge, though a mechanism already exists to try to counter any malpractices (interview, government official, Mauritius).

With regard to the type of training eligible for reimbursement, the focus of the training fund is on reimbursement for formal training "with greater restrictions on training offered in firms rather than classrooms" (Kuku et al. 2015, 6).

4.3.5 Fund effectiveness

Improving access to training for disadvantaged groups

The Mauritius National Training Fund's main support for disadvantaged groups is via its National Skills Development Programme, which targets unemployed youths (aged 16–35 years) with training and work placement. During 2017/18, 1,875 unemployed youths received support under this scheme (HRDC Mauritius 2019b).

Improving enterprise performance

Evidence on whether or not the training fund improves enterprise performance does not exist, and was not referred to by any stakeholder. The HRDC, which manages the training fund, argues that it "contributes towards improving the performance of workers in the workplace. Output is higher and the morale of workers also are high" (interview, organization managing the fund, Mauritius). It adds that "the fund allows private sector enterprises to invest in the training and skills development of their people and make them more competent and productive" (online survey, organization managing the fund, Mauritius). However, these claims were not verifiable with evidence.

It has been noted that the majority (55 per cent in 2016/17) of employee training is conducted through institutional training in classrooms, rather than on-the-job training (HRDC Mauritius 2018). Meanwhile, "evaluations in both developed and developing countries have found greater benefits from on-the-job training rather than the classroom training favoured by the Mauritius National Training Fund. If the performance of the training fund is to be improved, it should target the type of training that is most useful in its absence – training specific to the firm" (Kuku et al. 2015, 22).

35 See http://www.levy.hrdc.mu/.

Incentivizing enterprises to train their employees

The HRDC points to simple correlational evidence that the training fund is incentivizing enterprises to train their employees. It notes that over the last 28 years of the fund's existence, "the scheme has paid out a total amount of 3.3 billion rupees to employers as training incentives and has facilitated direct training of around 882,882 persons in the private sector, [which has] helped to create a national culture at the level of enterprises by promoting both institutional and in-house training" (HRDC Mauritius 2019b, 41). The HRDC further argues that the fund uses "several financial incentives and schemes to encourage [employers] to invest in training and capacity-building" (interview, organization managing the fund, Mauritius). One employer also offered correlational evidence that "the levy has been instrumental in encouraging firms to upskill their workforce, as witnessed by the transformation of our economy and widening of our productive base and emergence of services" (online survey, employer, Mauritius).

A piece of more robust evidence in the form of a quantitative study actually finds that "the training fund may well lower the overall incidence of training" among the largest and most capital-intensive firms in Mauritius, as the levy-grant system "takes in more in taxes than in pays out in subsidies" to these firms (Kuku et al. 2015, 23). The study notes that the levy reimbursement to firms does "raise the likelihood of training for firms that would not have trained otherwise, [with] the greatest effect [being] on the smallest firms. As a result, the program disproportionately taxes the largest and most capital intensive firms that would be most likely to train without the program, and disproportionately benefits the smallest firms that would have the least incentives to train" (Kuku et al. 2015, 22).

Despite the finding, above, that among the smallest firms the levy-grant system increases the likelihood of their training to a greater extent than among the largest firms, the fact is that the smallest firms benefit least from the training fund in terms of receiving grants. Only 2 per cent of contributing small firms benefit from the training grant, compared to 69 per cent of large companies (table 21).

▶ **Table 21. Number of employers and trainees benefiting from the training grant by company size, Mauritius**

Annual levy paid (company size)	No. of employers contributing annual levy in 2016/17	No. of employers benefiting from grant in 2017/18	% of employers benefiting from grant of no. of employers contributing to annual levy	No. of trainees in 2017/18	% of trainees in 2017/18	% total levy contribution for 2016/17
Up to 20,000 rupees	13,729	330	2%	1,978	4%	10%
20,000–100,000 rupees	2,282	604	26%	7,368	14%	17%
Above 100,000 rupees	967	663	69%	44,125	82%	73%
Total	**16,978**	**1,597**		**53,471**	**100%**	**100%**

Source: HRDC Mauritius 2019b, 48.

A government stakeholder interviewed stated some of the reasons why it is such a challenge for SMEs in Mauritius to receive grant support from the training fund: "Microenterprises indulge in minimum training or mostly unstructured/informal training. These are not refundable under the training fund. Hence it acts as a demotivator towards skill development for SMEs" (interview, government official, Mauritius).

Improving individual employability

Evidence on how the training fund has improved individual employability is either anecdotal or based on output data (and an assumption that if someone is trained their employability has increased). The HRDC affirmed that "the National Training Fund has contributed enormously towards enhancing the employability, skills and competitiveness of the local workforce. It has helped to equip workers, including those who missed out on formal schooling, with the foundational skills required to participate in the economy" (interview, organization managing the fund, Mauritius). Meanwhile, the HRDC annual report 2017/18 notes that training for over 2,850 unemployed youths was approved in that year, and that this will "boost [their] employability skills" (HRDC Mauritius 2019b).

Contribution of the training fund to national public education and skills training system

The National Training Fund in Mauritius has been used in recent years to fund aspects of the public education and training system. For example, the HRDC annual accounts since 2014 show funding support to the Mauritius Institute of Training and Development for the financing of an apprenticeship programme, and funding for the Mauritius Polytechnic to partly cover their 2017/18 budget. The fund is also financing to a large extent the free higher education run by public universities in Mauritius (interview, organization managing the fund, Mauritius).

Responsiveness to national skills priorities

The National Training Fund in Mauritius has been criticized for not being very responsive to the development needs of the country. For example, it was stated that "Metro Leger [a light metro] is being introduced in Mauritius and the HRDC should have responded to training in that particular sector. It should have prepared people in the pipeline so that skills would have been readily available … but it has not had any initiative in this venture yet" (interview, employers' organization, Mauritius). The biggest challenge faced for the training fund is that it needs to keep pace with the rapid decay of skills, the risks of skills obsolescence and the inability of firms to upskill their workforce as quickly as possible, especially in technology-driven sectors (interview, employers' organization, Mauritius).

Sectors where the levy is working well, or not

In 2017/18 the largest grant disbursements by sector included accommodation and food service activities, other service activities, financial and insurance activities, information and communication, manufacturing, wholesale and retail trade, and repair of motor vehicles and motorcycles. These sectors represent 80 per cent of total employees trained (42,811) during 2017/18 (HRDC Mauritius 2019b).

When asked which sectors benefit most from the training fund, key stakeholders noted five sectors, which largely correspond with the above: accommodation and food service activities; financial and insurance activities; information and communication; manufacturing; and education (online survey, workers' organization, Mauritius; online survey, organization managing the fund, Mauritius; online survey, employer, Mauritius).

Effectiveness of monitoring and evaluation systems

The monitoring and evaluation system of the Mauritius National Training Fund is currently "not effective as there is no mechanism to assess the training and labour market outputs" (interview, employers' organization, Mauritius). The HRDC notes that a challenge facing the training fund is "to come up with a proper mechanism to measure the effectiveness of training being financed by the fund" (interview, organization managing the fund, Mauritius).

4.3.6 Fund governance and management

Description of fund governance

The HRDC operates under the aegis of the Ministry of Education and Human Resources, Tertiary Education and Scientific Research. In carrying out the function of overseeing the National Training Fund, the Council of the HRDC set up a National Training Fund Committee (table 22). The mandate of the National Training Fund Committee is to:

- analyse periodic reports from management on the functioning of the National Training Fund and make recommendations thereon;
- look into the list of incentives being offered to employers and training institutions for promotion of training and make recommendations to the Council for the review of such incentives as and when required;
- look into the grievances made by employers for their grant applications for refund and make the necessary recommendations to management;
- advise on other related issues concerning the levy-grant system (HRDC Mauritius 2019b).

Table 22. Mauritius National Training Fund Committee, 2017/18

Members	Affiliation
Mr Christ Paddia, Chairperson	Lead Analyst, Ministry of Finance and Economic Development
Mrs Shabina Lotun	Deputy Permanent Secretary (Finance and Audit, Planning and Budgeting), Ministry of Education and Human Resources, Tertiary Education and Scientific Research
Mr Kamalanaden Vella Mooten	Acting Deputy Director and Registrar, Mauritius Qualifications Authority
Mr Dhiruj Ramluggun	Head of Training, Business Mauritius

Source: HRDC Mauritius 2019b.

Employers are represented on the HRDC National Training Fund Committee through Business Mauritius, which is the employers' association; however, "not all employers are members of the employers' association" (interview, employers' organization, Mauritius). What is more, levy-paying companies are not providing information to this committee on their training needs, which can then inform sectoral and national skill needs" (interview, government official, Mauritius). However, workers' organizations are not represented on the HRDC National Training Fund Committee, and there is a breakdown in communication between the HRDC and the trade unions in general; workers are not aware of the functioning of the fund (interview, workers' organization, Mauritius).

The HRDC National Training Fund Committee, and the HRDC Board it reports to, is "under the aegis of the Prime Minister's Office" (interview, government official, Mauritius), and as such it "does not have full autonomy and government has the final say" on decisions taken by the HRDC Board; greater autonomy "is needed to improve efficiency" (interview, employers' organization, Mauritius).

In the past, the organization governing the training fund in Mauritius, the Industrial Vocational Training Board, was also responsible for training provision and for regulation, which led to conflicts of interest. With the establishment of the HRDC this situation was successfully addressed (box 5).

Box 5. Mauritius: Historical example of conflict of interest and how it was eliminated

The training levy-grant scheme has been in operation since 1988, and was originally run by the Industrial Vocational Training Board, which was also both a provider of training at its own centres and a regulator of training in Mauritius. Experience showed that this triple role of the Industrial Vocational Training Board could give rise to conflicts of interest and discrimination against other private sector training providers, and was inconsistent with the principle of good governance. As a result, in 2001 it was decided that the Industrial Vocational Training Board would concentrate on its role as provider of training. In 2002, the role of regulator was transferred to the Mauritius Qualifications Authority. The role of facilitator (design and management of the levy-grant scheme) was transferred to the HRDC in 2004.

Sources: Müller and Behringer 2012; Various sources cited in Johanson 2009, 22.

Description of fund management

The finance division of the HRDC manages the National Training Fund; it is responsible for the administration of the levy and training grant system, and advises on improvements to be brought to the HRDC training incentive schemes (HRDC Mauritius 2019b). According to the HRDC the training fund is well managed, as it has a proper governance structure; a sound financial management system; an annual audit exercise by an external body; and adequate human resources to manage the fund (online survey, organization managing the fund, Mauritius). The Government agrees that in general the training fund "is being managed efficiently by the HRDC" (interview, government official, Mauritius). In terms of monitoring and tracking fund income and expenditure, there are regular reports from the collecting agent and reconciliation of funds collected, which are subject to audit (interview, organization managing the fund, Mauritius), and monthly expenditure reports are produced (interview, organization managing the fund, Mauritius).

4.4 Namibia country brief

4.4.1 Background and fund purpose

Namibia introduced a vocational education and training (VET) levy in 2014 (NTA 2019), some six years after the passing of the Vocational Education and Training Act, 2008, which made provision for its establishment (Government of Namibia 2008).

According to the Vocational Education and Training Act, 2008, the levy on employers was to be "for the purpose of facilitating and encouraging vocational education and training" (Government of Namibia 2008, article 35). The NTA, which manages the National Training Fund that the VET levy finances, lists the objectives of the National Training Fund as follows:

- to mobilize additional resources for skills development;
- to allocate funds to priority skills training area programmes.

Other responsibilities of the National Training Fund include to stimulate more and better enterprise-based training; to stimulate the development of a training market and enhance the capacity of private training providers; to instil incentives for better performance by public training providers; and to reduce skills shortages that impede enterprise growth (NTA 2019).

According to an employers' organization, "the main drive [of setting up the National Training Fund] was to try and encourage employers to do more training" (interview, employers' organization, Namibia).

A senior government official interviewed referred to two main goals of the National Training Fund: "to offer training opportunities to the Namibian workforce to be knowledgeable, competitive, skilled and productive; to make businesses more competitive and profitable" (interview, government official, Namibia).

4.4.2 Fund mobilization

Levy rate

The levy rate is 1 per cent of payroll, and is payable by all employers with a payroll of 1 million Namibian dollars or more (interview, organization managing the training fund, Namibia) (Government of Namibia 2014). There was a previous attempt to reduce the rate from 1 per cent to 0.7 per cent and remove the employer training refund; the NTA supported this, but government turned it down (personal communication, employers' organization, Namibia).

Exemptions

A number of types of employers are exempted from payment of the levy: the State; regional councils; local authorities; and employers, whether or not supported wholly or partly by grants from public funds, that meet the criteria for (a) public educational institutions, (b) faith-based organizations, (c) charitable organizations, (d) private education and training institutions, (e) diplomatic and consular missions and offices of representatives of other states, (f) donor organizations and their agencies, (g) non-profit-making voluntary organizations or non-government organizations, and (h) non-profit-making non-voluntary organizations (Government of Namibia 2018).

Method used to collect the levy

The NTA itself has been delegated by the Minister of Finance to collect the VET levy. To pay the levy, employers register with the NTA, which has developed an online system for registration, payments, payment of interest and penalties, and the disbursement of funds, known as the levy collection and disbursement reporting system.

Other collection options have been explored and dismissed to date. One option was to use the Social Security Commission to collect the levies, "but the cost of the collection exercise was proving to be high, since the Commission was charging a very high commission for doing the work". Another option was the Ministry of Finance, "but the Ministry indicated that once they have collected the levy then it would automatically go into the pot of the receiver of revenue [central government funds] and accessing the whole amount collected would be cumbersome" (interview, employers' organization). As a result the NTA does the collection; this is not regarded by employers as a problem as "the fund is ring-fenced and handled totally separately from the NTA normal funding and controlled by a separate board with employer and worker representatives" (personal communication, employers' organization, Namibia, 28.02.20).

Compliance

In the year that the levy was launched (2014/15), over 2,200 employers registered as levy payers. Five years later, by 2018/19, this had increased by over 30 per cent to almost 2,900 (NTA 2016, 2017, 2018a, 2019).

Only of the biggest challenges faced by the NTA, in terms of levy collection, is that it is difficult to establish how many and which companies should be paying levy. Unofficial data suggest that the approximately 2,900 NTA-registered employers could only represent “about 15 per cent of the eligible levy payers” (interview, organization managing the training fund, Namibia). This challenge stems from the lack of a unified database of Namibian employers (interview, organization managing the training fund, Namibia) (Velyvis, Mamun, Dumitrescu, and Khan 2017). In fact, “there are many ministries with databases, [but] they operate in silos without talking to each other”: there is the Ministry of Home Affairs, Immigration, Safety and Security database related to work visas and work permits, the Ministry of Finance database on registered companies, the Namibia Revenue Agency database for registered tax payers, the Ministry of Labour, Industrial Relations, Employment and Training database of employers, and the Social Security Commission database of employers (interview, employers’ organization, Namibia). As a result, the NTA recognizes that there are “a lot of employers that are playing the cat and mouse game; you know, the catch me if you can scenario” (interview, organization managing the training fund, Namibia). To address this issue of compliance, the NTA will deploy compliance inspectors “to ensure that all eligible levy payers are contributing” (online survey, organization managing the fund, Namibia).

Levy income

From the inception of the VET levy in April 2014 to the end of March 2019, a cumulative total of 1.7 billion Namibian dollars was collected in levies and accrued in interest earned on levy funds in the National Training Fund account (NTA 2019).[36] Levy income in the 2018/19 financial year amounted to 380 million Namibian dollars (US$25 million) as collections, in addition to 49 million Namibian dollars (US$3.2 million) interest earned (NTA 2019). Total annual levy income has increased year on year since the launch in 2014 (table 23).

▶ **Table 23. VET levy income, 2014–19, Namibia (Namibian dollars)**

Item	2014/15	2015/16	2016/17	2017/18	2018/19	Total 2014–19
VET levies collected	235,430,558	275,968,061	329,633,841	334,906,867	380,000,000	1,555,939,327
Interest on levy surplus	13,124,393	24,134,130	42,012,685	35,755,620	48,900,000	163,926,828
Total levy income	**248,554,951**	**300,102,191**	**371,646,526**	**370,662,487**	**428,900,000**	**1,719,866,155**

Source: Calculated by author from NTA 2015, 2016, 2017, 2018a, 2019.

The Vocational Education and Training Act, 2008, notes that financing for the National Training Fund comes not only from the training levy, but from multiple sources: money voted by Parliament; any money received by the NTA (such as donations); and any interest earned on investments of the fund (NTA 2019). From around 2015/16 onwards, the Namibian Government has been reducing its financial allocation to the NTA. In 2018, the amount expected was “significantly reduced … from 400 million Namibian dollars [US$26 million] to 95 million Namibian dollars [US$6 million]” (interview, organization managing the training fund, Namibia). The effect has been an increased overall reliance on the levy funding, and at the

36 Equivalent to about US$ 112 million at the 2019 exchange rate.

same time more pressure on the levy funding to be used to cover expenditure items it had not previously funded to that extent; for example, the reduction in government funding meant that levy funding was used to fund private, community and public training institutions in 2018/19 (NTA 2019).

Sustainability

While the sustainability of the training levy appears to be secure, the sustainability of the National Training Fund itself is challenged as a result of the large reduction in government subsidy. The NTA is looking for a way to "change the funding formula in order to mitigate shock to the National Training Fund system" (interview, organization managing the training fund, Namibia). It is possible that this funding pressure may result in a diversion of training levy funds away from areas traditionally supported by the levy, and result in even less levy funding finding its way back to employers in the form of training reimbursements.

Employers' views of the levy

Both the employers' organization and the NTA official interviewed for this review agreed that employers have mixed feelings about the training levy; the employers' organization was of the view that about half of employers consider it as a tax, and were "advocating to reduce the levy from 1 per cent to 0.7 per cent", while another 50 per cent "see it as an opportunity for improving training provision" (interview, employers' organization, Namibia). The NTA was of the view that the "majority of [employers see the levy] as just another tax [but some] are actually quite excited about … what it can do" (interview, organization managing the training fund, Namibia). The latter point about employers being excited was refuted by a former board member and representative of an employers' organization: "Having served on the board of the training authority for six years and covering the time of implementation of the fund, I have *never* heard of anybody being excited about it" (personal communication, employers' organization, Namibia).

4.4.3 Fund expenditure

Types of allowable expenditure under the training fund

According to the Vocational Education and Training Act, 2008, the training fund can be used:

- to provide financial and technical assistance to employers, vocational education and training providers, employees, learners and other persons or bodies to promote vocational education and training;
- to fund priority vocational education and training programmes and projects (a) identified in the National Policy on Vocational Education and Training or the NTA Strategic Plan for Vocational Education and Training, or (b) that the NTA considers necessary to achieve the objects of the Vocational Education and Training Act;
- to fund the operational and administrative costs incurred by the NTA in the performance of its functions under the Act.

These expenditure areas are very broad and, as one official from the NTA noted, cover "anything and everything to do with vocational education and training" (interview, organization managing the training fund, Namibia). In January of the same year that the levy was eventually launched (2014), government regulations were released related to the allocation of funds (see below for further information).

Where funds have actually been spent

Employer training grants

Employer training grants are grants paid to eligible levy-paying employers who engage in VET-related programmes that promote skills development. Such training programmes may be delivered in house or externally (NTA 2018b, 5).

Over the period 2014–18, a total of 164 million Namibian dollars was disbursed to employers as training grants, representing only 14 per cent of total levy income over those financial years (table 24), when the intention was that up to 50 per cent of levies received in a given financial year would be allocated to employers for training. In fact, the proportion of the levy actually disbursed to employers for training has been declining every year since the levy was launched in 2014, from 22 per cent to 9 per cent. The fact that so little has been "given back to the employers ... [is a] reflection that something is not working" (interview, employers' organization, Namibia).

▶ **Table 24. Employer training grant disbursements, Namibia, 2014–18**

Item	2014/15	2015/16	2016/17	2017/18	Total 2014–18
Total levy income (Namibian dollars)	235,430,558	275,968,061	329,633,841	334,906,867	1,175,939,327
Employer training grant disbursement (Namibian dollars)	50,982,583	42,970,567	40,824,388	29,249,145	164,026,683
Employer training grant as % of total levy income	21.7	15.6	12.4	8.7	13.9

Source: Calculated by author from NTA 2015, 2016, 2017, 2018a, 2019.

The majority of levy funds (almost 80 per cent) meant for employer training grants end up being reallocated to the key priority grant allocation or reserve within the National Training Fund; these are simply areas that the NTA Board has approved for investment and are meant to take up no more than 35 per cent of levy expenditure.

Funds meant to be allocated annually to employers to support in-firm training (via the employer training grant) that are unspent at the end of a financial year are not retained for employer training the following financial year; instead, in accordance with 2014 VET levy regulations (Government of Namibia 2014), they are reallocated to the key priority grant allocation when the original allocation to the employer training grant "is no longer eligible as a grant to the registered employers" (NTA 2017, 85; NTA 2018a, 90). The 2014 VET levy regulations note that this is because employers "fail to comply with the eligibility criteria" referred to in the VET levy regulations, or "fail to submit an application" for the employer training grant within 31 days after the end of the financial year (Government of Namibia 2014, 4).

Over the two-year period 2016–18, 255 million Namibian dollars (approximately US$17 million) meant to support employer training was reallocated to general NTA funds (NTA 2017, 2018a). This represents almost 80 per cent of the levy funds collected over the period 2016–18 (332 million Namibian dollars)[37] that were meant to be allocated to employer training. Over the same two-year period (2016–18), only 70 million Namibian dollars (approximately US$4.6 million) was allocated to employers via employer training grants.

37 Over the period 2016–18, 664 million Namibian dollars levy was collected (see table 23 on levy income); 50 per cent of this is meant to be allocated to employer training.

Employer training grant disbursements by sector have been uneven, with the bulk of grants going to four sectors: business and finance; manufacturing, automotive and sales; mining, quarrying and construction; and wholesale and retail trade (table 25).

▶ **Table 25. Employer training grant summative disbursements, 2014–18, Namibia**

Industry Sector	2014/15		2015/16		2016/17		2017/18	
	#	Value N$ (%)	#	Value N$ (%)	#	Value N$ (%)	#	Value N$ (%)
Agriculture & Forestry	3	130,101.09 (0.26%)	3	363,252.07 (0.85%)	5	149,035.44 (0.37%)	3	189,008.98 (0.65%)
Business & Finance	54	12,187,668.29 (23.9%)	54	8,340,535.58 (19.4%)	49	5,636,413.69 (13.8%)	19	2,172,016.00 (7.43%)
Fishing & Maritime	38	2,761,083.48 (5.42%)	24	1,900,998.07 (4.42%)	25	1,940,813.01 (4.75%)	17	1,409,776.66 (4.82%)
Health Care	12	955,283.49 (1.87%)	15	1,704,752.85 (3.97%)	13	2,332,747.42 (5.71%)	11	1,564,564.62 (5.35%)
Hospitality & Tourism	19	775,179.53 (1.52%)	22	798,976.73 (1.86%)	14	915,943.45 (2.24%)	5	528,405.19 (1.81%)
Manufacturing, Automotive & Sales	35	5,866,455.75 (11.5%)	39	798,976.73 (15.7%)	42	5,821,317.94 (14.2%)	25	3,485,520.33 (11.92%)
Mining, Quarrying & Construction	47	18,273,374.48 (35.8%)	41	14,726,099.86 (34.2%)	41	16,217,204.10 (39.7%)	22	14,310,839.70 (48.93%)
Public Administration	5	479,311.92 (0.94%)	2	188,060.57 (0.44%)	6	1,282,551.63 (3.14%)	3	196,183.64 (0.67%)
Post & Telecommunication	6	3,471,200.85 (6.81%)	7	2,393,726.39 (5.57%)	6	1,507,824.03 (3.69%)	3	1,569,162.24 (5.36%)
Transport, Ware-housing & Logistics	16	2,988,776.71 (5.86%)	11	2,132,045.04 (4.96%)	14	1,303,206.96 (3.19%)	7	595,790.19 (2.04%)
Wholesale & Retail Trade	39	3,094,147.82 (6.07%)	35	3,666,279.91 (8.53%)	39	3,717,330.50 (9.11%)	26	3,227,877.20 (11.04%)
TOTAL	**274**	**50,982,583.41**	**253**	**42,970,566.77**	**254**	**40,824,388.17**	**141**	**29,249,144.75**

Source: NTA 2019.

Key priority grants

Three quarters of levy funds are spent on key priority grants, which cover the cost of training interventions approved by the NTA Board of Directors. As a result of the annual reallocation of the employer training grant (discussed above), key priority grant allocation makes up more like 75 per cent of levy expenditure, when it is only meant to account for up to 35 per cent.

In the period 2016–19, the bulk of the key priority training grant has been spent on four main areas (table 26).[38]

- About half of the key priority training grant expenditure was on the implementation of the Skills Development Plan (2016–20) for the VET sector, including procuring training from accredited local and SADC-based VET institutions.
- Six per cent of expenditure was on apprenticeships and traineeships, including the drafting of a work-integrated learning policy and the cost of a pilot apprenticeship programme.
- Eighteen per cent of expenditure was on capacity-building and production unit support, including upskilling of trainers from public vocational training centres, public enterprises and private training institutions.
- Fifteen per cent of expenditure was on VET expansion, for example upgrading and expansion of existing (NTA-run) public vocational training centres, including infrastructure development, upgrading and renovation of facilities, procuring of equipment, and the establishment of new vocational training centres. According to an employers' organization, "largely the NTA have been responding to the call from Parliament which announced that there should be a [vocational training centre] in every region … this makes political sense but does not make practical sense" (interview, employers' organization, Namibia). The NTA also noted the intention to support the "construction of new public vocational training centres … in all 14 political regions in order to [improve] accessibility" (online survey, organization managing the fund, Namibia).

The remaining approximately 10 per cent of expenditure went on other areas, for example development of qualifications, unit standards and training programmes, support for inclusive TVET, and TVET advocacy (including participating in the WorldSkills International Competition) (interview, organization managing the training fund, Namibia) (NTA 2017, 2018a, 2019).

Table 26. Key priority training grant funding: Percentage of fund allocation by main investments areas, 2016–19, Namibia

Investment area	2018/19	2017/18[1]	2016/17[1]
Skills Development Plan training procurement	52	44	40
Apprenticeships and traineeships	11	4	0
Capacity-building and production unit support	19	26	1
Development of qualifications, unit standards and training programmes	3	4	0
Entrepreneurship	1	1	2
VET expansion	5	7	48
Public-private partnerships on TVET at WHK Technical High School	3	4	0
Support to trainees, provision of toolkits	1	1	1
Medical aid, accommodation and allowances to trainees	1	1	0
VET advocacy: WorldSkills, National Skills Competition and Expo	1	1	3
Recognition of prior learning	1	1	2
Support for VET inclusion of persons with disability	2	2	0
Support to trainees, job attachment	0	0	2

1 Figures provided in NTA annual reports do not add to 100%.
Sources: NTA 2017, 2018a, 2019.

38 Table 26 shows the percentage allocation by year. The average percentage allocation 2016–19 was calculated by the author from NTA 2017, 2018a, 2019.

Administration

More levy funds are spent on administration of the levy than employers receive back as training grants. According to the 2017 and 2018 NTA annual reports, about 15 per cent of the collected levy was spent on administration (in line with the allocation limit, see below); this means that as much as 176 million Namibian dollars could have been allocated to this over the period 2014–18. This is over 10 million Namibian dollars more than the 164 million Namibian dollars spent on employer training grants over the same period. Employers are not happy about the amount spent on administration, with one employers' organization noting that "so many millions are being wasted on NTF administration … it is not justifiable to spend [so much] of hard-earned levy money on administration instead of directing those funds to training provision" (interview, employers' organization, Namibia).

Levy surplus

At the end of March 2018, the NTA had a surplus of 1.1 billion Namibian dollars (NTA 2018a).

4.4.4 Fund allocation mechanisms

Government Gazette No. 5395 of January 2014 laid out the regulations relating to use of vocational and training levies, noting that the levies must be used:

- to defray the administrative costs of the NTA, an amount not exceeding 15 per cent of the levies received for that financial year;
- to pay training grants, an amount not exceeding 50 per cent of the levies received for that financial year;
- to pay key priority grants, an amount not exceeding 35 per cent of the levies received for the financial year (Government of Namibia 2014, 2).

Process of accessing funding

Employer training grants

Levy-paying employers wishing to do so must claim the employer training grant within 31 days after the end of the NTA financial year by submitting an application and supporting evidence of training implementation (course outline and attendance registers) and evidence of the actual cost (tax invoices and proof of payment). To be considered for the employer training grant funding allocation, training interventions need to be either VET courses accredited by the Namibia Qualifications Authority, or training courses not accredited, but related to accredited VET courses (NTA 2019, 35–36). The maximum amount reimbursable is the actual cost of training up to 50 per cent of the employer's contribution for the financial year.

Since the launch of the training fund in 2014, the process of employers obtaining a refund by accessing the employer training grant remains "the biggest hurdle … It was and is still a very complex process to get a refund" (interview, employers' organization). In 2015, employers noted that "the application process for obtaining grants for training they had conducted was cumbersome and difficult to understand, and that many of the in-service trainings employers provide are not eligible for grants. Applicants also experienced frustrating delays in the processing of their claims" (Velyvis, Mamun, Dumitrescu, and Khan 2017, 2–3). In the 2017/18 NTA annual report (NTA 2018a), similar challenges were noted again in relation to accessing the employer training grant, including the volume of evidence required in the claim process; the back-and-forth process between employers who have had their application rejected and the NTA; and, the type of training that is officially eligible for refund. Interviews with key stakeholders in mid-2019 revealed little change to this. Regarding the delays in the processing of claims, one employers' organization noted that "it can take as long as a couple of years until the claim is finalized" (interview, employers' organization, Namibia). Another stakeholder reiterated this by noting that "the claims procedure was very complicated

and restrictive and many companies did not bother to claim" (online survey, employers' organization, Namibia). Regarding the type of training eligible for refund, it can be "difficult to prove the cost of in-house training", and not all training that employers need is eligible (interview, employers' organization, Namibia).

With regard to smaller employers, "the current system can also be disadvantageous for smaller employers who do not have dedicated staff to process grant applications, or for whom the effort to receive funds simply outweighs the grant" (Velyvis, Mamun, Dumitrescu, Heinkel, and Khan 2017, 43).

Key priority grants

Key priority grants are allocated to those shortlisted applicants who have responded to an expression of interest issued by the NTA. The NTA accepts applications for key priority grants for the provision of technical and financial assistance to employers, VET providers, employees, learners and other persons or bodies, and funding of VET programmes and projects. The NTA publishes expressions of interest and interested parties (employers, VET providers) must complete and submit the required application to the NTA. All payments are made in line with a specific service-level agreement.

4.4.5 Fund effectiveness

Improving access to training for disadvantaged groups

In 2017 and 2018, key priority grants have been used to support Namibia's network of community skills and development centres, which provide vocational training that targets marginalized populations (mainly out-of-school youths but also low-skilled adults) (NTA 2018a; Velyvis, Mamun, Dumitrescu, Heinkel, and Khan 2017).

However, in terms of the NTA-run vocational training centres, which are funded via the levy, one employers' organization noted that there has not been "an impact with disadvantaged groups. It is not very common to go into a vocational training centre and see a trainee on crutches working on an engine of a car or wheeling a wheelchair doing some plumbing work" (interview, employers' organization, Namibia).

Improving enterprise performance

While there is output evidence on the number of persons trained through employer training grants, there is no outcome or impact evidence that this has improved enterprise performance.

Incentivizing enterprises to train their employees

The National Training Fund's ambition to return up to 50 per cent of collected levies to employers in the form of training grants is not matched by the reality; an average of 14 per cent of levy funds over the period 2014–18 have been returned to employers in this way.

There is no evidence that the National Training Fund has incentivized employers to train more than they would have done without the levy. Furthermore, at an NTA Board retreat in 2017, a member of the NTA Board as well as the managing director of a large levy-paying company "said that the amount of training happening before and after the levy introduction was the same" (interview, employers' organization, Namibia).

The outreach of the employer training grants to levy-paying employers is very low; only 9 per cent of the total number of employers registered with the training fund (2014–18) have received employer training grants (table 27).

▶ **Table 27. Take-up rate of employer training grant among levy-contributing firms, Namibia**

	2014/15	2015/16	2016/17	2017/18	2014–18
No. of employers receiving employer training grant	274	253	254	141	922
No. of contributing employers	2,202	2,398	2,669	2,842	10,111
Take-up rate (benefiting employers as a percentage of contributing employers)	12%	11%	10%	5%	9%

Sources: calculated from NTA 2016, 2017, 2018a, 2019.

The NTA Board recently made the recommendation to cancel the employer refunds and reduce the levy payable. To date there has been no final decision (personal communication, employers' organization, Namibia).

Improving individual employability

While there is output evidence on the number of persons trained through the levy-funded National Training Fund, there is no outcome or impact evidence that this has led to improved individual employability.

Regarding the contribution of the training fund to the national public education and skills training system, about half of the key priority training grant expenditure (2016–19) was on the implementation of the Skills Development Plan (2016–20) for the VET sector. The training fund also supports the NTA-run public vocational training centres, but doing so with such an exclusive bias is actually serving to distort the national training market.

Responsiveness to national skills priorities

Where such a large part of the training fund is, de facto, spent on priority skills (officially 35 per cent of the levy, but in practice up to 75 per cent, as unspent employer training grant funds are reallocated to key priority grants), understanding and responding to market demand for skills is necessary to ensure effective use of levy funds. The ten industry skills committees, which are meant to inform the NTA Board, do help to identify market demand, but "more effort might be required to ensure adequate representation of the interests of low-skilled workers and small companies" (Velyvis, Mamun, Dumitrescu, Heinkel, and Khan 2017, 40).

"What is not working well is the labour market information system to determine the skills shortage and the occupations in demand. The Ministry of Labour has a labour market information system but it is not working" (interview, employers' organization, Namibia).

Sectors where the levy is working well, or not

"Funding is not allocated equally by sector or industry … there are no set amounts allocated per sector or industry, as the key priorities determine where funds should go" (Velyvis, Mamun, Dumitrescu, Heinkel, and Khan 2017, 35). As noted above, employer training grant disbursements by sector have been uneven, with the bulk of grants going to four sectors: business and finance; manufacturing, automotive and sales; mining, quarrying and construction, and wholesale and retail trade.

4.4.6 Fund governance and management

Description of fund governance

The National Training Fund is ultimately overseen by the NTA Board of Directors, comprising ten persons (four private sector representatives, one employers' organization representative, two workers' organization representatives, and three government representatives).

Under the NTA Board, a National Training Fund Council (a committee of the NTA Board) is more directly responsible for governing the National Training Fund. The National Training Fund Council advises the board on the management of the National Training Fund, and oversees audits, risk, finance and procurement issues. Ten industry skills committees have also been established by the NTA Board, in accordance with the Vocational Education and Training Act of 2008, to assist the board in understanding market demand and establishing high-priority skills areas for NTF funding (NTA 2019).

The triple role of the NTA (regulation, training delivery, management of the National Training Fund) can result in conflicts of interest (box 6).

Box 6. Namibia Training Authority's triple mandate: Regulation, training delivery, management of the National Training Fund

The NTA recognizes that it is a "referee and player", as it is both a national regulator of training and is also involved in the delivery of training. It also recognizes that this "is not an ideal situation", but it "acts in the context it finds itself in" (at its establishment, the NTA inherited the formerly State-owned vocational training centres, which were run by the Ministry of Education). In fact, the NTA is more than only a "referee and player", since it also manages the National Training Fund, which provides funding to the training that the NTA-run vocational training centres deliver. This triple mandate invariably leads to conflicts of interest.

The NTA recognizes the conflict of interest of being both a regulator and a trainer, and does make it clear that it is trying to lead the State-owned vocational training centres in a semi-autonomous manner.

Source: www.nta.com.na.

Description of fund management

The National Training Fund Department of the NTA administers the VET levy through two divisions (NTA 2018a):

- fund administration and disbursement: disburse funds for VET interventions through the employer training grant and the key priority funding grant, in line with the National Training Fund regulations and associated legislation;
- fund collection: manage and administer the effective and efficient collection of levies, interest and penalties under the Act.

The Finance Department of the NTA is responsible for payments and financial and accounting records.

Financial reporting of the National Training Fund includes annual financial statements and reports, as well as a quarterly press release presenting latest information "in terms of collection, how many employers are registered, how much have we actually disbursed, what has actually gone to the administration of the fund itself. I would say the NTA has done a good job in being transparent in that regard" (interview, organization managing the training fund, Namibia).

4.5 South Africa country brief

4.5.1 Background and fund purpose

South Africa introduced a compulsory levy scheme in 2000, through the Skills Development Levies Act (Government of South Africa 1999). The Department of Higher Education and Training, in conjunction with the various sector education and training authorities (SETAs) (box 7), is responsible for administering the Act. The primary purposes of the skills development levy (Macikama 2019) are:

- to fund the skills development initiatives in the country;
- to regulate compulsory levy payment by employers to fund education and training within various economic sectors in South Africa.

Box 7. What are SETAs?

In South Africa, SETAs are the key implementation agencies for establishing and maintaining quality in work-place-based training and learning. They are responsible for overseeing training and skills development in a specific national economic sector (including learnerships, internships, unit-based skills programmes and apprenticeships), and for developing sector skills plans to outline the strengths and challenges of a sector in terms of employment and skills development. SETAs are governed by the Skills Development Act of 1998 and the Skills Development Levies Act of 1999.

Source: Andreoni 2018, 41.

4.5.2 Fund mobilization

Levy rate

The skills development levy amount is 1 per cent of the total amount paid to employees (including salaries, overtime payments, leave pay, bonuses, commissions and lump sum payments), and is payable by every enterprise that has registered their employees with the South African Revenue Service for tax purposes (pay as you earn; PAYE) and with a payroll in excess of 500,000 South African rand (DHET 2017a; Macikama 2019; SARS 2019).

Exemption from levy

Exemptions from payment of the skills development levy are as follows:

- any public service employer in the national or provincial sphere of government;
- any national or provincial public entity if 80 per cent or more of its expenditure is paid directly or indirectly from funds voted by Parliament;
- any public benefit organization that solely carries on certain welfare, humanitarian, health care, religion, belief or philosophy public benefit activities or solely provides funds to such a public benefit organization and to whom a letter of exemption has been issued by the Tax Exemption Unit of the South African Revenue Service;
- any municipality in respect of which a certificate of exemption is issued by the Director-General (DHET 2017a).

Method used to collect the levy

The South African Revenue Service is responsible for the collection of levies and receives up to 2 per cent of gross levy collected as collection costs (DHET 2017a; Macikama 2019; SARS 2019).

Compliance and penalty

Information on the total number of employers meant to pay the levy is not available, but the view is that "many companies are non-compliant and are not paying levies and this needs to be remedied" (personal communication, employers' organization, South Africa). A senior government official stated that the "lack of stringent measures to compel all companies that are eligible to pay the levy to pay" represents a challenge in the collection of levies (interview, government official, South Africa).

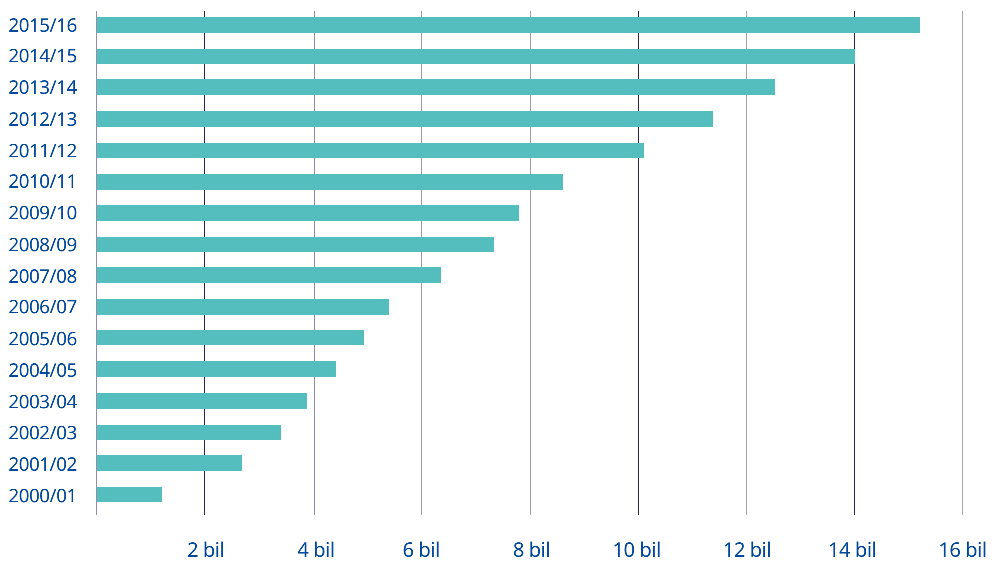
Fund income

Since 2000, there has been a steady increase in the amount of levy received annually, expected to be over 16 billion rand in 2017/18 (figure 5 and table 28). The reasons for this high percentage growth in the skills development levy include:

- the lower limit of 500,000 rand, after which employers have to pay the skills development levy, has not increased in line with inflation since the inception of the levy (though it has increased from the original amount set in 1999 of 250,000 rand);
- improvements in the efficiency of the South African Revenue Service, including with regard to general payroll tax collection and compliance;
- general increase in salary levels, particularly in higher salary bands (DHET 2017a, 43).

Going forward, the expectation is that the levy will remain, and this has been further confirmed by the publication of the National Skills Development Plan (2020–30) and the ten-year lease of life granted to SETAs as part of this plan. Further, according to a senior government official, the almost two-decade trend of a steady increase in skills development levy revenues is "likely to continue, but the economy is taking quite a bit of strain [recently]. So, one cannot predict the future" (interview, government official, South Africa). The Government's projections for the National Skills Fund levy revenue to 2024 show a year-on-year increase (table 29).

Figure 5. Skills development levy growth since 2000, South Africa



Source: DHET 2017a.

▶ **Table 28. Total actual levies per entity, SETAs and National Skills Fund, South Africa**

SETAs and NSF	2013/14	2014/15	2015/16	2016/17	2017/18
AGRISETA	261 707 000	295 007 943	327 493 386	342 116 293	400 613 958
BANKSETA	457 535 000	636 430 555	693 244 639	689 200 774	761 923 106
CATHSSETA	133 293 000	273 917 298	300 738 685	328 129 608	348 368 685
CETA	436 397 000	567 442 970	851 969 876	596 626 416	376 377 487
CHIETA	431 724 000	443 331 721	461 794 062	489 515 064	517 144 188
EWSETA	206 825 000	232 133 070	248 942 122	283 749 053	300 938 444
ETDPSETA	325 635 000	357 081 532	397 368 879	428 192 456	503 843 218
FASSET	396 236 000	396 458 898	427 907 814	470 616 092	532 217 271
FOODBEV	247 753 000	285 106 808	317 497 330	351 603 047	348 900 796
FP&MSETA	147 456 000	322 773 462	334 477 661	328 262 741	348 429 570
HWSETA	303 907 000	343 370 186	412 995 695	402 939 340	447 617 424
INSETA	326 267 000	377 963 578	430 460 475	443 919 472	482 073 937
LGSETA	408 352 000	480 332 305	525 475 201	560 135 929	626 074 842
MERSETA	1 157 926 000	1 274 093 329	1 344 088 695	1 337 641 522	1 440 446 674
MICT	580 263 000	680 402 201	724 630 112	766 710 568	851 729 148
MQA	859 647 000	959 773 020	994 608 821	982 288 362	965 141 724
PSETA	1 399 000	6 169 208	3 911 323	5 028 785	6 481 183
SASSETA	211 423 000	221 655 989	253 661 097	266 836 744	300 660 982
SERVICES	1 237 704 000	1 430 039 322	1 449 040 055	1 492 308 968	1 576 150 183
TETA	543 392 000	592 696 120	662 595 375	661 655 768	738 696 889
W&RSETA	752 680 000	828 193 595	963 784 052	972 387 588	1 113 849 528
NSF	2 511 390 000	2 818 082 000	3 044 212 000	3 046 235 000	3 246 920 000
TOTAL	**11 938 911 000**	**13 822 455 108**	**15 170 897 355**	**15 246 099 589**	**16 23 4 599 239**

Source: Macikama 2019.
For names of SETAs, see https://nationalgovernment.co.za/units/type/8/seta.

▶ **Table 29. Skills development levy revenue estimates for the National Skills Fund to 2023/24, South Africa (thousand rand)**

Audited			Revised estimate	Projections				
2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
3,414,964	3,051,030	3,204,737	3,385,876	3,555,170	3,732,928	3,919,575	4,115,553	4,321,331

Source: DHET 2019, 18.

Employers' and workers' views of the levy

Companies, especially small firms, largely view the skills levy as an additional tax (online survey, employer, South Africa; online survey, official, SETA, South Africa) (National Skills Authority 2019), even though business understands the need for skills development (interview, employers' organization, South Africa).

With the economic downturn, "business is in survivalist mode … and there is an overall lull [of support for the levy]" (interview, employers' organization, South Africa); "more and more business is getting impatient and people are asking more questions about the levy" (interview, government official, South Africa).

The employers' lengthy court challenge from 2012 on the mandatory grant reduction from 50 per cent to 20 per cent "had significant impact on employers' perception of the levy-grant" (personal communication, employers' organization, South Africa). Not only did this reduction of the mandatory grant significantly reduce employers' flexibility and access to funds for workplace training, but the protracted nature of the court case challenged the concept of the supposedly mutually beneficial government–employer partnership. The previous reduction in the mandatory grant to 20 per cent resulted in many of the smaller levy-paying companies withdrawing from, and no longer participating with, the SETAs, as they perceived the time and work involved in submitting the paperwork required to access the mandatory grant "to be a waste of time" (personal communication, employers' organization, South Africa). At the same time, "the huge challenges that are inherent in the discretionary grant application and the management of these programmes is a negative which results in non-participation. SETAs' focus is often on achieving targets set by the Department of Higher Education and Training rather than the outcomes and the real impact of the funding initiatives and interventions" (personal communication, employers' organization, South Africa).

4.5.3 Fund expenditure

Types of allowable expenditure under the training fund

The levy is collected by the South African Revenue Service and distributed via the Department of Higher Education and Training to the 21 SETAs and the National Skills Fund in the following way:

- 80 per cent to SETAs to encourage levy-paying enterprises to train their employees: this covers discretionary grants (49.5 per cent), mandatory grants (20 per cent), and administrative and quality assurance costs (10.5 per cent);
- 20 per cent to the National Skills Fund to fund skills areas not covered by the SETAs, including national priorities of the NSDS III: this includes the 2 per cent (maximum) levy collection cost (DHET 2017a).

Eighty per cent levy allocation to SETAs

There are three expenditure areas in relation to the 80 per cent of the total levy paid to the SETAs.

- **Administrative costs** (10.5 per cent of total levy): 10 per cent is used to cover operational expenditure (such as salaries, rental, insurance, legal and accounting costs) incurred by the SETAs, while 0.5 per cent is transferred to the Quality Council for Trades and Occupations (National Skills Authority 2019, 66).
- **Mandatory grants** (20 per cent of total levy): these are grants to employers as an incentive to plan and implement training for their employees, and to provide data about their employees and training needs in order for the SETAs to establish the skills needs of the sector (merSETA 2018).
- **Discretionary grants** (49.5 per cent of total levy): these are grants "utilized to fund discretionary projects and programmes within [a] sector that are aligned with the national skills and sectoral skills priorities and are approved by the sector" (merSETA 2018). Discretionary grants can be allocated to employers, education and training providers, and others, for example to fund learnerships, artisan training, bursaries, skills programmes and work-integrated learning (interview, government official, South Africa).

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Twenty per cent levy allocation to National Skills Fund

The remaining 20 per cent of the total levy is used to finance the National Skills Fund, which is an example of a levy-financed equity fund. The National Skills Fund was set up “to fund skills development for those that were unlikely to benefit from grants paid to employers. The focus was non-levy payers, youth, women, people with disabilities and people living in disadvantaged rural areas. With the adoption of the NSDS III the fund was given responsibility for funding ‘national priorities’ and so there was a shift in focus ... The intention was to enable the state to drive key skills strategies as well as to meet the training needs of the unemployed, non-levy-paying cooperatives, NGOs, community structures and vulnerable groups” (National Skills Authority 2019, 62).

Where funds have actually been spent: SETA actual expenditure

Each of the 21 SETAs is responsible for disbursement of the levy funds allocated to them from the skills development levy. Table 30 presents an illustration of this expenditure from one SETA, merSETA (SETA for Manufacturing, Engineering and Related Services), from the last two years of available data, 2016–18.

- **Administration.** Over the two-year period 2016–18, an average of 9 per cent of the total levy income was spent on administration, against the limit of 10.5 per cent.
- **Mandatory grants.** Over the two-year period 2016–18, an average of 14.5 per cent of the total levy income was spent on mandatory grants, against the target of 20 per cent.
- **Discretionary grants.** Over the two-year period 2016–18, an average of 44 per cent of the total levy income was spent on discretionary grants, against the limit of 49.5 per cent.
- **Annual surplus.** Over the two-year period 2016–18, there was an average annual underspend of 12.5 per cent of the total collected levy.

▶ Table 30. Income and expenditure for merSETA, South Africa, 2016–18

Income and expenditure	2017/18 Rand ('000)	2017/18 % of total income	2016/17 Rand ('000)	2016/17 % of total income
A. Income				
Administrative levy income (10.5%)	182,649	n.a.	171,717	n.a.
Grant levy income – mandatory grants (20%)	347,862	n.a.	327,026	n.a.
Grant levy income – discretionary grants (49.5%)	860,959	n.a.	809,389	n.a.
Penalties and interest	32,742	n.a.	27,519	n.a.
Investment income	227,448	n.a.	175,628	n.a.
Other income	123	n.a.	141	n.a.
Total income	**1,651,783**	**n.a.**	**1,511,420**	**n.a.**
B. Expenditure				
Administrative and operating expenditure				
Staff cost	117,888	10.3	112,280	9.8
Other administrative costs	42,771	3.7	33,698	2.9
Total administrative and operating expenditure	**160,659**	**14.0**	**145,978**	**12.7**
Employer grants and project expenses				
Mandatory grants	249,777	21.8	247,151	21.6
Discretionary projects	736,447	64.2	753,615	65.7
Total employer grants and project expenses	**986,224**	**86.0**	**1,000,766**	**87.3**
Total expenditure	**1,146,883**	**100.0**	**1,146,744**	**100.0**
Surplus				
End of year surplus (A – B)	**504,900**	**–**	**364,676**	**–**
Total expenditure	**1,651,783**		**1,511,420**	

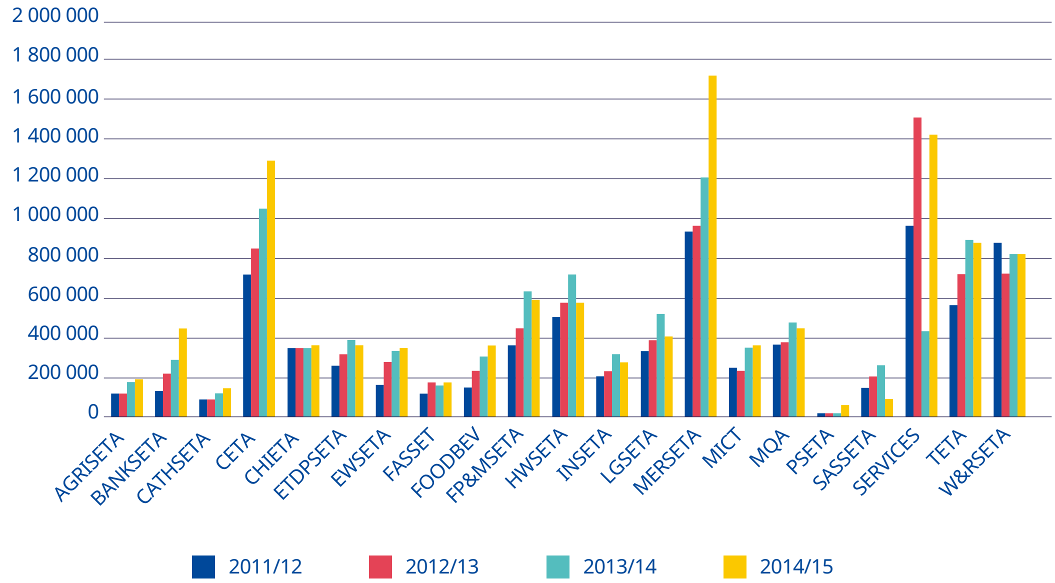
n.a. = data not available.

Source: merSETA 2018.

Accumulation of reserves: SETAs

SETAs have accumulated large surpluses over the years (figure 6). Some view "too great a surplus as a problem because of the immediate challenges facing the country and the skills deficits that need to be addressed" (interview, workers' organization, South Africa). SETAs, on the other hand, argue that they do not actually have a surplus, since most of what appears to be a surplus are actually committed funds for training programmes that have not taken place yet; "we have to put aside money for the full duration of the qualification (in the case of apprentices, three to four years) at the outset. We have to commit funds for the full qualification, so the balance appears a surplus, but is actually committed" (official, SETA, South Africa). As an illustration of this, according to its latest annual report, merSETA has discretionary grant reserves of 3 billion rand, of which almost three quarters (2.2 billion rand) "is committed to signed contracts. These apply to learnerships, apprenticeships, skills programmes, projects and partnerships that will continue to be implemented" (merSETA 2018, 67).

Figure 6. SETAs, South Africa: Accumulation of surpluses

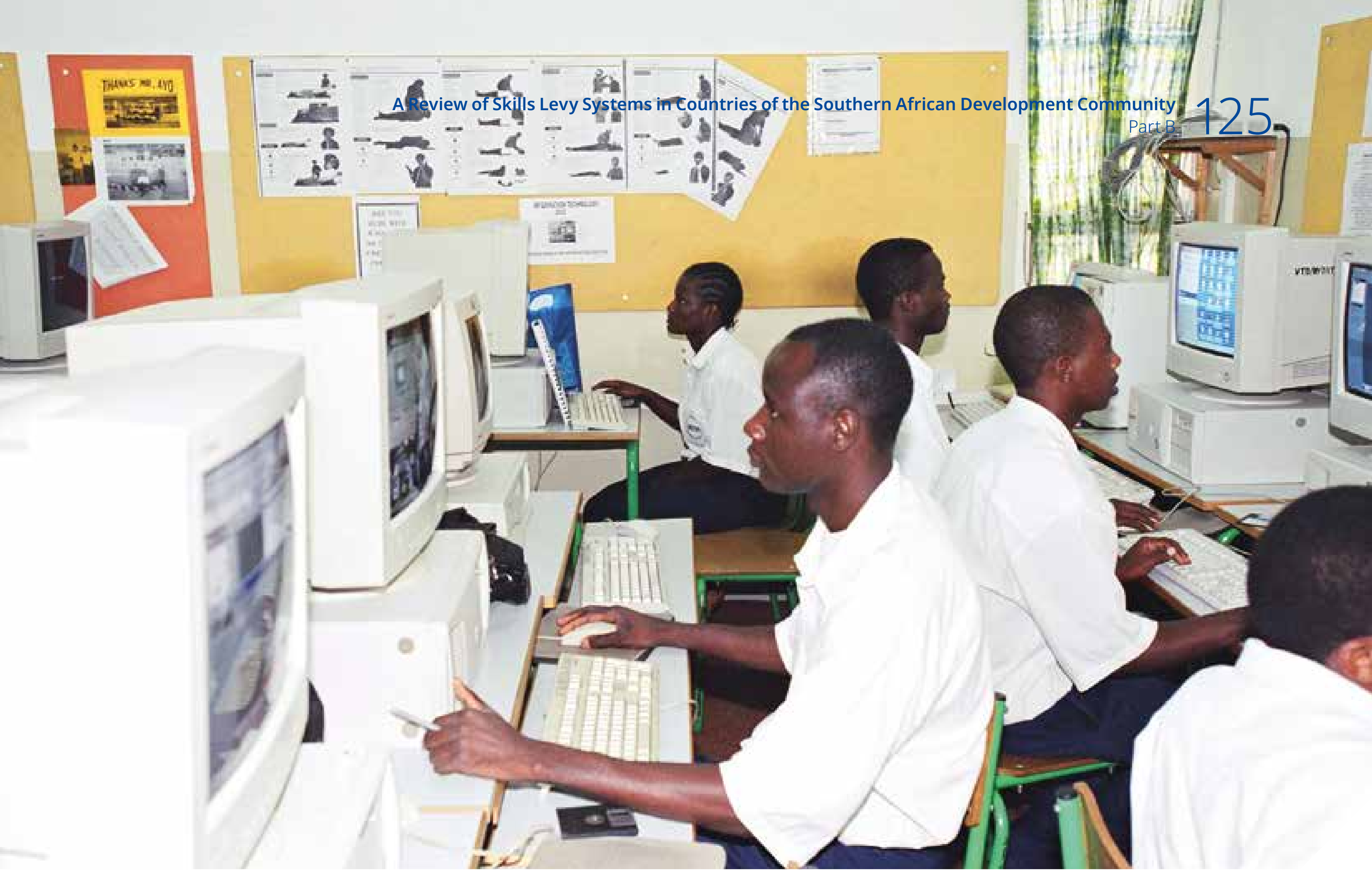


Source: DHET 2017a.

SETA surplus to National Skills Fund

The 2012 grant regulation introduced a directive that if a SETA has not spent at least 95 per cent of its discretionary funds, the surplus will be "swept" into the National Skills Fund. This took place for a couple of years until a court judgement on the matter, involving the Department of Higher Education and Training and Business Unity South Africa, suspended such payments. The Government claims that the "reason for utilizing any surpluses [from levies allocated to SETAs] is underpinned by the need to utilize funds for national projects" (interview, government official, South Africa). As the National Skills Authority stated, "the uncommitted surplus was increasing each year and this was a cause for concern, as it meant that the funds available for skills development were lying idle in SETA investment accounts" (National Skills Authority 2019, 65). However, business "objected strongly to SETA funds being 'swept' into the National Skills Fund and used (without accountability to stakeholders) to fund the public [post-school education and training] system" (National Skills Authority 2019, 47). Employers contended that "the mandatory grant was intended for business and not general education. The levy needs to support workers in employment or those wanting to get into employment, not the whole education and training sector" (interview, employers' organization, South Africa). "SETA managers were unhappy that they were being required to spend levy money on funding university and TVET college programmes, and employers generally expressed the view that it was not the function of the levy to fund the public education system" (National Skills Authority 2019, 123).

Business Unity South Africa, an employers' organization, took the Minister of Higher Education to court over this matter, contending that the Minister had not consulted with the National Skills Authority in the formulation of the 2012 SETA grant regulations, as required by law. The court found in favour of Business Unity South Africa, but the matter of surpluses being transferred to the National Skills Fund is still being disputed in court and remained unresolved in September 2019 (interview, employers' organization, South Africa) (SAFLII 2017).



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National Skills Fund actual expenditure

Expenditure for the period 2016–18 (table 31) from the National Skills Fund was as follows.

- Administration: **2–4 per cent of total National Skills Fund income.**

- Skills development grant disbursements: 96–98 per cent of total National Skills Fund income, comprising:
    - Education and training: approximately 40 per cent of total National Skills Fund income to the fund, including bursaries for university and university of technology students, public TVET colleges, and workplace-based learning initiatives.
    - Post-school education and training system development and capacity-building: over 50 per cent of National Skills Fund income. There is a need for greater detail and facts to indicate where the monies have been allocated, as the perception is that the bulk of funding went to weak public post-school education and training institutions (personal communication, employers' organization, South Africa).
    - Skills infrastructure development: 1–5 per cent of National Skills Fund income.
    - Skills development research, innovation and communication: about 1 per cent of National Skills Fund income.

Table 31. South Africa National Skills Fund: Income and expenditure, 2013–18 (South African rand)

Income and expenditure	2017/18		2016/17		2015/16		2014/15		2013/14	
	Rand ('000)	% of total expenditure	Rand ('000)	% of total expenditure	Rand ('000)	% of total expenditure	Rand ('000)	% of total expenditure	Rand ('000)	% of total expenditure
A. Income										
Levy collected (gross)	3,199,737	n.a.	3,051,030	n.a.	3,033,122	n.a.	2,750,601	n.a.	2,514,907	n.a.
Income from SETAs	5,000	n.a.	0	n.a.	381,842	n.a.	2,646,428	n.a.	1,077,854	n.a.
Other income	551,016	n.a.	822,804	n.a.	720,938	n.a.	481,703	n.a.	194	n.a.
Total income	**3,755,753**	**n.a.**	**3,873,834**	**n.a.**	**4,135,902**	**n.a.**	**5,878,732**	**n.a.**	**3,592,955**	**n.a.**
B. Expenditure										
Administrative and operating expenditure										
Staff cost	59,661	0.8	45,742	1.0	40,502	0.9	29,229	0.9	24,496	0.8
Depreciation of fixed assets	4,965	0.1	6,205	0.1	5,099	0.1	2,724	0.08	287	0.01
Commission payable on collection of levy	48,353	0.7	48,465	1.1	48,629	1.1	48,561	1.5	48,745	1.6
Operating expenses	53,241	0.7	68,434	1.5	49,101	1.1	51,485	1.6	19,760	0.6
Management fees and bank charges	1,915	0.03	2,924	0.07	3,165	0.1	2,343	0.07	2,092	0.07
Total administrative and operating expenditure	**168,135**	**2.4**	**171,770**	**3.8**	**146,496**	**3.3**	**134,342**	**4.1**	**95,380**	**3.1**
Skills development grant disbursements (2016–18)										
Education and training	2,884,176	40.4	1,724,589	38.4	2,311,816	51.3	n.a.	n.a.	n.a.	n.a.
Post-school education and training system development and capacity-building	3,970,941	55.6	2,322,075	51.7	1,723,416	38.3	n.a.	n.a.	n.a.	n.a.
Skills infrastructure development	70,477	1.0	218,254	4.9	278,153	6.2	n.a.	n.a.	n.a.	n.a.
Skills development research, innovation and communication	44,505	0.6	57,069	1.3	43,777	1.0	n.a.	n.a.	n.a.	n.a.
Total skills development grant disbursements (2016–18)	**6,970,099**	**97.6**	**4,321,987**	**96.1**	**4,357,162**	**96.7**	**n.a.**	**n.a.**	**n.a.**	**n.a.**

Income and expenditure	2017/18 Rand ('000)	2017/18 % of total expenditure	2016/17 Rand ('000)	2016/17 % of total expenditure	2015/16 Rand ('000)	2015/16 % of total expenditure	2014/15 Rand ('000)	2014/15 % of total expenditure	2013/14 Rand ('000)	2013/14 % of total expenditure
Skills development grant disbursements and other expenses (2013–15)										
Provision for impairment	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	16,777	0.5	0	0.0
National Skills Authority ministerial (emphasis on capacity-building)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	58,524	1.8	15,172	0.5
Government priorities (mainly funding NSDS III priorities in the following areas: New Economic Growth Path; Industrial Policy Action Plan; skills to support rural development; support to artisan development)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,186,769	36.5	1,306,866	42.5
Director-General priorities (mainly postgraduate bursaries, and Department of Higher Education and Training projects for academic research and development)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,411,903	43.5	1,523,696	49.6
Skills infrastructure (mainly public delivery infrastructure)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	425,439	13.1	144,941	4.7
Human Resource Development Strategy for South Africa	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7,908	0.2	19,833	0.6
NSDS III: critical skills support	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(32,095)	n.a.
Total skills development grant disbursements and other expenses (2013–15)							**3,107,320**	**95.7**	**2,978,413**	**96.9**
Other income (expenditure)										
Loss on disposal of assets	(19)	n.a.	(5)	n.a.	(47)	n.a.	(163)	n.a.	0	n.a.
Fair value adjustments	0	n.a.	1,734	0.04	0	n.a.	6,896	0.2	0	0.0
Total other programmes	**(19)**	**n.a.**	**1,729**	**0.04**	**(47.00)**	**n.a.**	**6,733**	**0.2**	**0**	**0.0**
Total expenditure	**7,138,215**	**n.a.**	**4,495,486**	**n.a.**	**4,503,611**	**n.a.**	**3,248,395**	**n.a.**	**3,073,793**	**n.a.**
Surplus										
End of year surplus under the National Skills Fund (A – B)	**(3,382,462)**	**n.a.**	**(621,652)**	**n.a.**	**(367,709)**	**n.a.**	**2,630,337**	**n.a.**	**519,162**	**n.a.**
Current assets: accumulated surplus (opening balance)	10,253,534	n.a.	10871728	n.a.	11,239,531	n.a.	8,609,194	n.a.	8,075,752	n.a.
Surplus / (deficit)	(3,382,462)	n.a.	(621,652)	n.a.	(367,709)	n.a.	2,630,337	n.a.	519,162	n.a.
Current assets – accumulated surplus (closing balance)	**6,871,072**	**n.a.**	**10,250,076**	**n.a.**	**10,871,822**	**n.a.**	**11,239,531**	**n.a.**	**8,594,914**	**n.a.**

n.a. = data not available or applicable.

Sources: DHET 2015, 2016, 2017b, 2018.

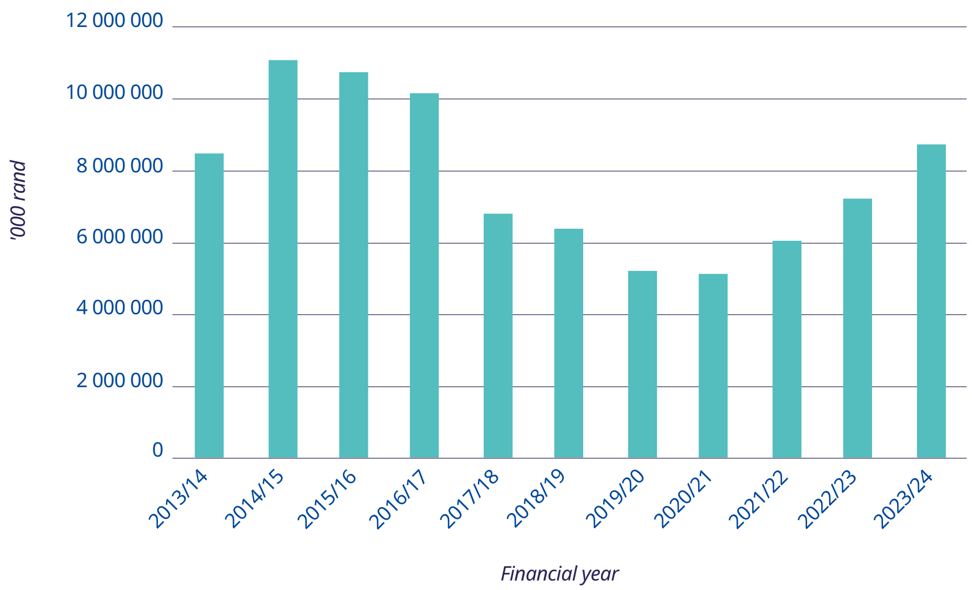
Accumulation of reserves: National Skills Fund

The National Skills Fund's accumulated surplus grew significantly in the 2014/15, 2015/16 and 2016/17 financial years (figure 7) due to additional one-off funding received from SETA of uncommitted surpluses transferred to the National Skills Fund as a result of the 2012 grant regulation noted above.

The National Skills Fund's accumulated surplus had declined significantly by 2017/18 due to its contribution towards the no fee increase for the 2016 and 2017 academic years for university and TVET college students (DHET 2019). As a result of national student protests, the Government promised not to increase the fees of students from poor and working class families for the 2016 and 2017 academic years (DHET 2018); the Government required the National Skills Fund to fund 50 per cent of the no fee increase for the 2016 academic year and 100 per cent of the no fee increase for the 2017 academic year from its accumulated surpluses (DHET 2019). This use of levy funds to support the no fee increase "was announced without consultation of business [and] this is not perceived [by them] to be the core focus of the levy-grant" (personal communication, employers' organization, South Africa).

While the accumulated surplus of the National Skills Fund is expected to decline to 2020/21, forecasts show that it will increase again for the following three years to reach about 8.8 billion rand by 2023/24, approximately the same level it was at in 2013/14 before the influx of SETA funding (figure 7).

Figure 7. South Africa National Skills Fund: Accumulated surplus and reserves, 2013–24



Sources: DHET 2015, 2016, 2019. Figures for 2018/19 onwards are estimates.

4.5.4 Fund allocation mechanisms

National Skills Fund allocation mechanisms

There is no clarity on the mechanism by which funds from the National Skills Fund are allocated; neither the National Skills Authority annual reports nor the interviews provided information on this. This is significant, given the large amounts of funding allocated and the fact that surplus funds are swept into the National Skills Fund.

Some parties believe that if funds are released from the SETAs to the National Skills Fund they should still be ring-fenced to support the sector that paid the skills development levy, though others differ (personal communication, employers' organization, South Africa).

SETA allocation mechanisms

Mandatory grant

In order to receive payment of a mandatory grant, equivalent to 20 per cent of the levy amount paid by the compliant and participating employer, firms need to submit (in advance) a workplace skills plan (indicating the planned training) and (after the training) an annual training report to the relevant SETA to which they pay the levy (interview, government official, South Africa) (DHET 2017a). The reporting varies between SETAs and is not standardized (personal communication, employers' organization, South Africa).

In terms of accessing the mandatory grants, "large numbers of small companies [noted] that the processes for applying were too complex and/or time consuming" (National Skills Authority 2019, 123). As a result, many such small firms end up viewing the skills development levy "as a tax and don't look to reclaim any portion" (official, SETA, South Africa). The information and support documentation used to populate the workplace skills plan and annual training report should be standardized for all SETAs (personal communication, employers' organization, South Africa).

Discretionary grant

With regards to accessing discretionary grants, each SETA has to develop a discretionary grant policy specifying how the SETA discretionary funds will be allocated to meet sectoral needs, as set out in the sector skills plan of the SETA. In line with their discretionary grant policy, SETAs advertise a call for applications for the discretionary grant. If the applications of eligible applicants meet the requirements set out in the SETA discretionary grants policy and the SETA grant regulations, then the applicants can access the funds (interview, government official, South Africa). The criteria for accessing the discretionary grants are often restrictive and are "neither agile nor meeting the needs of the labour market" (personal communication, employers' organization, South Africa). For example, there is a "significant focus on public sector providers, [which] often do not have the appropriate fit-for-purpose programmes available for the specific skills development needs of the company or sector. The SETAs' support of public providers is in some cases to the detriment of the levy-paying companies, as public providers do not always have the capacity to deliver what is required." Discretionary grant funds "need to be made available for more skills programmes that are non-credit bearing and industry specific" (personal communication, employers' organization, South Africa).

Further, and as noted above, employers face "huge challenges" in the discretionary grant application and management, which discourages their participation (personal communication, employers' organization, South Africa). This is particularly the case for small, medium and micro enterprises that do not have human resource departments. The process and rules pertaining to discretionary grant funding need to be simplified, and the SETAs need to upgrade their technology to address these challenges for both the stakeholders and the SETAs themselves (personal communication, employers' organization, South Africa).

4.5.5 Fund effectiveness

Improving access to training for disadvantaged groups

At the centre of the NSDS III (2011–16) are transformational imperatives such as gender, race, class and geography. In developing their sector skills plans, SETAs are required to indicate how they intend to address these transformational imperatives (interview, government official, South Africa). SETA initiatives are governed by the "default [Department of Higher Education and Training] criteria of 85 per cent black African, 54 per cent women and 4 per cent disability" (official, SETA, South Africa).

Improving enterprise performance

An employer survey (of approximately 2,000 employers) found that employers' self-reported belief was that training had impacted their companies favourably.

- Over 80 per cent of employers stated that training had contributed to an increase in employee productivity.
- Over 73 per cent of employers stated that there was a decrease in errors in the workplace.
- Almost 80 per cent of employers stated that there was an improvement in the quality of product or service delivered.
- Almost 75 per cent of employers stated that training had also increased the work readiness of young people entering the workplace (National Skills Authority 2019, 99).

It should be emphasized that the above employer survey is a perception survey, and also that it "fails to identify if this was training through the SETAs using funding" (personal communication, employers' organization, South Africa). More valid impact research is needed (official, SETA, South Africa).

What is clear is that informal sector firms are seeing no real improvement as a result of the skills development levy and SETA work. Indeed, the majority have not even heard of SETAs; a study conducted by merSETA "in four provinces found that 99 per cent of the respondents operating businesses in the informal sector have never heard of a SETA or merSETA" (National Skills Authority 2019, 121).

Incentivizing enterprises to train their employees

The mandatory grants issued by the SETAs are specifically meant to be an incentive to employers to plan and implement training for their employees. It is not clear to what extent enterprises are encouraged to train as a result of this. Indeed, in the 2013 report of the Ministerial Task Team on SETA performance it was noted that "there [was] very little credible evidence to suggest that mandatory grants … [were] being utilized as intended" (Government of South Africa 2013, 12). In the previous year, 2012, amendments to the grant regulations reduced the mandatory grant that an employer could claim back from 50 per cent to 20 per cent of the total levies paid by the employer.

Two stakeholders interviewed in September 2019 both affirmed that the mandatory grants do act as an incentive; one representative of a major workers' organization expressed the opinion that the training fund (through SETAs) had been "able to turn workplaces into dynamic learning spaces, because it has made training mandatory for every employer" (interview, workers' organization, South Africa). Similarly, a senior government official affirmed that the mandatory grants do incentivize enterprises to train (interview, government official, South Africa). However, an employers' organization noted that many business carry out training outside the formal skills levy system. The "levy then becomes an additional responsibility" (interview, employers' organization, South Africa), and is not in itself incentivizing enterprises to train.

The skills development levy does not provide financial incentives for small and medium-sized firms to train their employees (interview, employers' organization, South Africa). As noted above, smaller companies find it particularly difficult to access funding, even if they are eligible for it.

Improving individual employability

Learnership and apprenticeship systems lead to employment, according to a study by the Human Sciences Research Council (Kruss et al. 2014), which tracked the trajectories of individuals after they completed these qualifications. They found that "the majority of apprenticeship and learnership participants (70% and 86% respectively) who completed their qualification experienced a smooth transition directly into stable employment" (Kruss et al. 2014, 2). A more recent tracer study (2019) by the Department of Higher Education and Training of artisans who passed their trade test in the 2017/18 financial year found that 77 per cent were employed in the labour market (74 per cent in employment and 3 per cent in self-employment) (interview, government official, South Africa). Such tracer studies can be a useful measure, but they are not a tool for determining causally whether training resulted in improved individual employability. This requires a control group and a more robust approach to assessing impact.

Contribution of the training fund to national public education and skills training system

Through its support to funding NSDS III priorities, the National Skills Fund has certainly contributed to the national public education and skills training system. The National Skills Fund also "drove skills development implementation in areas of the [NSDS III] strategy that SETAs found difficult. For example, the [National Skills Fund] allocated funds to strengthen infrastructure in the public TVET colleges, to support research into skills development and TVET, to train cooperatives and to help bring state owned entities such as Eskom and Transnet back into the training of artisans for the wider economy and not just their own needs" (National Skills Authority 2019, 43). Arguably, the drawdown of the National Skills Fund to support the no-fee increase for university and TVET college students also supported the national skills system, even though this was seen by the National Skills Authority as beyond the remit of the National Skills Fund (National Skills Authority 2019). In addition, SETA-managed levy funds may contribute to funding the national skills system through a sectoral focus.

Sectors where the levy is working well, or not

Some sectors, such as services, find themselves with large proportions of their member companies below the threshold of being levy payers (Services SETA 2018). As they are non-levy payers, such companies would not receive mandatory grants, but they may be eligible for support through the discretionary grant mechanism.

According to a senior government official, the sectors that benefit most from the skills development levy include mining and quarrying; manufacturing; wholesale and retail trade; repair of motor vehicles and motorcycles; accommodation and food service activities; financial and insurance activities; professional, scientific and technical activities; and human health and social work activities (online survey, government official, South Africa).

Effectiveness of monitoring and evaluation systems

According to one senior official in one of the largest SETAs, "the [monitoring and evaluation] systems at SETAs is still in its infancy" (official, SETA, South Africa). It is clear that there is a general focus on reporting outputs (such as numbers trained), and, where other measures exist (such as tracer studies), the limitations of these are not made clear enough. From 2020, the National Skills Authority will take on a new role of monitoring and evaluation of SETAs (interview, government official, South Africa). Employers would like to see more rigorous impact assessments conducted, especially given the significant levy funding contributions (personal communication, employers' organization, South Africa).

4.5.6 Fund governance and management

Governance and management of the skills development levy and the associated training funds are the responsibility of the Department of Higher Education and Training, the National Skills Fund and the 21 SETAs.

Description of fund governance

National Skills Fund

The National Skills Fund reports to the Minister of Higher Education and Training and does not appear to have its own board. The National Skills Authority, under the Minister of Higher Education and Training, is responsible for the strategic framework and criteria for allocation of funds from the National Skills Fund.

SETAs

Each of the 21 SETAs is led by its own board, structured to take into account labour and business in that particular sector. For example, of the 14 persons making up the Accounting Authority of merSETA, six are nominated by organized labour and six nominated by organized employers.

Description of fund management

National Skills Fund

The National Skills Fund is run by a secretariat of some 129 persons (with 39 of these posts being vacant in 2017/18). As the National Skills Fund was originally set up as a government programme, until it became a public entity in 2012, all employees are still employed by Department of Higher Education and Training within the public service, though the fund refunds the Department of Higher Education and Training for the employee costs incurred by the them on its behalf. Since 2014, the National Skills Fund has been addressing capacity constraints with regard to its ability to plan, manage and monitor spending (National Skills Authority 2019).

SETAs

SETAs are required to develop sector skills plans (which identify the skills needs of the sector and indicate broadly the interventions that the SETA intends to employ in addressing those needs); strategic plans (which outline the strategic objectives and goals of the SETA); and annual performance plans (which detail how the SETA intends to steer and allocate resources towards achieving its goals and objectives in a specific financial year). They are also required to develop annual reports, in which they detail how they have used the funds and resources towards achieving the SETA objectives and goals set out in the annual performance plan of the SETA (interview, government official, South Africa).

SETAs are required to report on a quarterly basis to the Minister regarding both their financial and non-financial performance information. SETAs are required to account for the levies allocated to them via their financial statements.

However, “management of SETAs is sometimes problematic. The negative publicity around the SETAs [see box 8] tends to undermine the whole system. There should be tighter controls” (interview, workers' organization, South Africa).

Box 8. Allegations of fund misuse by SETAs

While there has been an increase in the number of SETAs with clean audits over the past five years, “there are some challenges in some SETAs regarding to corruption, maladministration and governance” (interview, government official, South Africa). For example, a recent article in *The Star* newspaper, referring to a report that the Department of Higher Education and Training had presented to Parliament's Portfolio Committee on Higher Education, Science and Technology, alleges that 12 of the 21 SETAs have made a total of 216 million rand “in dubious transactions over the past financial year”, and that “executives at several of the Setas ... face corruption allegations” (Nkosi 2019).

Such newspaper articles “tend to reinforce negative perceptions” about SETAs (interview, employers' organization, South Africa).

4.6 United Republic of Tanzania country brief

4.6.1 Background and fund purpose

Skills development levy

A vocational education and training levy (now referred to as a skills development levy) was introduced in 1994, and later revised in 2006, through the Vocational Education and Training Act (Government of United Republic of Tanzania 1994, 2006) to provide funding to a newly created Vocational Education and Training (VET) Fund.[39] The legislation required employers to pay a fixed percentage of their wage bill to fund vocational training. The VET Act (1994 and 2006 revised Act) did not actually specify the objectives of the VET Fund that were being resourced by the levy. Initially, the intention was for the levy to support vocational education in the country; the 1994 VET Act set the levy at 2 per cent of the wage bill, with all of it going to the VET Fund. However, subsequent revisions of the VET Act increased the levy amount (to 6 per cent) with only one third going to the VET Fund and the remaining two thirds to central government. Over the years that followed there were subsequent changes to this levy rate (see below), but levy funds continued to be used beyond supporting vocational training.

There is an ongoing disagreement about the objectives of the skills development levy between employers' and workers' organizations, on the one hand, and government, on the other hand. Employers' and workers' organizations view the purpose of the skills development levy as support for technical and vocational skills, while the Government sees the primary purpose of the skills development levy as "skills development" in the wider sense of the term (interview, government official, United Republic of Tanzania), including non-technical education at the tertiary level.

Skills Development Fund

Under the World Bank-supported Education and Skills for Productive Jobs Programme that emerged from the National Skills Development Strategy 2016–27, a Skills Development Fund (SDF) was established by the Government of the United Republic of Tanzania.[40] The SDF, which is jointly funded by the World Bank (loan) and the Tanzanian Government via the Education and Skills for Productive Jobs Programme, became operational in 2018. The Tanzania Education Authority manages the SDF. During the implementation of the National Skills Development Strategy, it is expected that the skills development levy will be gradually redirected toward the SDF (World Bank 2016b, 38), with the SDF used to allocate revenues generated by the skills development levy to vocational and technical areas (Andreoni, Jesse and Turkewitz, forthcoming). The remainder of this country brief will focus on the existing skills development levy, but makes reference to future plans where known.

4.6.2 Fund mobilization

Levy rate

The levy rate currently stands at 4.5 per cent of payroll for all private employers and commercially run parastatals that employ four or more employees. The original levy was set at 2 per cent in the 1994 VET Act, and later increased to 6 per cent (Government of United Republic of Tanzania 1994, 2006). Following "significant lobbying from private companies and employers" (Andreoni 2018, 24), the rate was lowered again to 5 per cent in 2013, and lowered again in 2016 to 4.5 per cent (Government of United Republic of Tanzania 2013, 2016a).

39 The VET Fund was also to be resourced from government budgetary support, as well as from grants and donations from without or outside the United Republic of Tanzania.

40 www.tea.or.tz/skills-development-fund.

Levy exemptions

The skills development levy does not apply to several types of employers, including the Government. Specifically, the following institutions are exempt: government departments or public institutions that are wholly financed by the Government; diplomatic missions; the United Nations and its organizations; international and other foreign institutions dealing with aid or technical assistance; religious institutions whose employees are solely employed to administer places of worship or give religious instructions, or generally to administer religion; charitable organizations; local government authorities; farm employers; and registered educational institutions (private schools, including nurseries and primary and secondary schools, VET schools, universities and higher learning institutions) (Andreoni 2018, 23).

Method used to collect the levy

The skills development levy is collected by the Tanzania Revenue Authority.

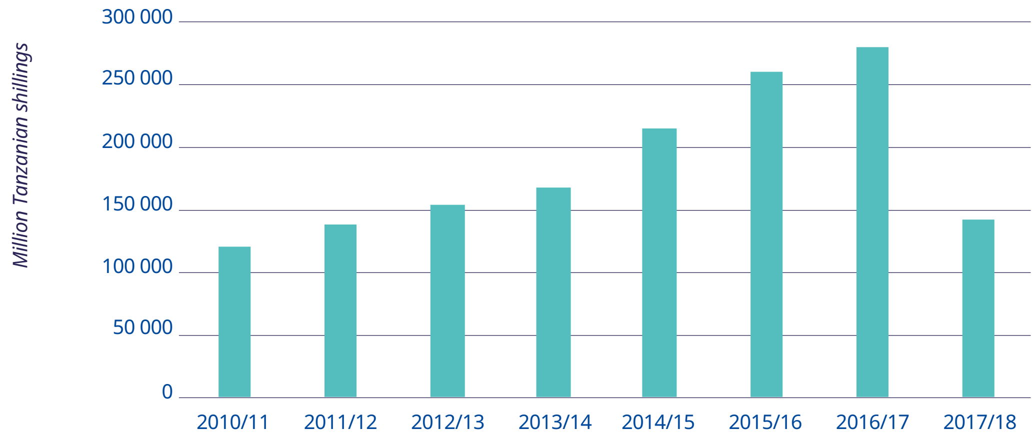
Compliance

Stakeholders did not raise the issue of lack of compliance with the payment of the levy by firms. The employers' organization interviewed stated simply that they "believe that whoever is responsible for paying it … is actually doing so" (interview, employers' organization, United Republic of Tanzania). Meanwhile, the Vocational Education and Training Authority (VETA), which receives funds for administration from the skills development levy, said that employers "pay [the levy] because they know that the funds are spent well" (interview, VETA, United Republic of Tanzania).

Levy income

The amount collected through the skills development levy has continued to rise over the years. Figure 8 shows the total skills development levy collected between 2010/11 and the second quarter of 2018 (Andreoni, Jesse and Turkewitz, forthcoming).

Figure 8. Skills development levy collection in United Republic of Tanzania, 2010 to 2017/18 (second quarter) (million Tanzanian shillings)



Source: Andreoni, Jesse and Turkewitz, forthcoming, based on Tanzania Revenue Authority tax collection statistics.

An interesting aspect of the skills development levy income in the United Republic of Tanzania is the "growing importance of small and medium-sized firms in revenue collection". In 2010, two thirds of the skills development levy came from large taxpayers, but by the second quarter of 2017/18 "small and medium-sized firms and large firms contributed almost equal proportions" (Andreoni, Jesse and Turkewitz, forthcoming).

Sustainability

From the Government's perspective, there is certainly the assumption that the skills development levy will continue, and revenue from it will continue to grow in the years ahead. Projections of the Tanzania Revenue Authority suggest a government expectation of a significant and steady increase in revenue from the skills development levy (table 32).

Table 32. Skills development levy revenue projections for United Republic of Tanzania mainland and Zanzibar, 2017/18 to 2021/22 (billion Tanzanian shillings)

Revenue projections	2017/18	2018/19	2019/20	2020/21	2021/22
UR Tanzania mainland	329.2	389.7	461.1	527.4	616.7
Zanzibar	10.4	12.1	13.7	15.5	17.7

Source: Andreoni, Jesse and Turkewitz, forthcoming, based on Tanzania Revenue Authority Corporate Plan, 2017/18 to 2021/22.

A senior government official commented: "Generally, there are no challenges [facing the training levy] … the levy rate is at an affordable rate … I am confident that the funds are very sustainable because it is well rooted in the government policies and regulations. Employers and workers' representatives are still positive about the levy, suggesting that they will still be in the position to pay. Moreover, the government institutions safeguarding the money are efficient enough … the funds are being used well, so there is nothing for them [employers] to complain about" (interview, government official, United Republic of Tanzania). However, this enthusiasm for the skills development levy is not at all shared by employers' and workers' organizations to the extent that the Government appears to think.

Employers' and workers' views of the levy

Employers consider that the levy is too high:

- "The levy is very high and therefore is putting burden on the employers – 4.5 per cent … is too heavy" (interview, employers' organization, United Republic of Tanzania).
- The levy rate is "not at an affordable rate" (interview, workers' organization, United Republic of Tanzania).

In May 2019, it was reported that the Government had promised to review the skills development levy of 4.5 per cent. "The Government's consideration comes after complaints from stakeholders [including the Association of Tanzania Employers] that the amount is high" (Lugongo 2019). The Association of Tanzania Employers is lobbying government to reduce the levy to 2 per cent (Association of Tanzania Employers 2019). Meanwhile, the Confederation of Tanzania Industries has proposed a reduction to 3.5 per cent (Malanga 2018). Indeed, the sustainability of the levy is in question; the high rate is demoralizing employers, they are complaining, and "they might end up resolving not to pay it" because of this (interview, workers' organization, United Republic of Tanzania).

Employers are also dissatisfied with the levy as there is a "lack of clarity in how the money is used" (Andreoni, Jesse and Turkewitz, forthcoming). A workers' organization interviewed expressed the opinion that "there is no transparency and accountability for the funds" (interview, workers' organization, United

Republic of Tanzania). Employers and workers are frustrated that the levy "fund is not utilized according to the intended purposes" of vocational training (interview, employers' organization, United Republic of Tanzania). The VET Fund "was started to support skills development through TVET … but it has been used to [also] finance general education" (interview, workers' organization, United Republic of Tanzania). Indeed, "the private sector has little to no say in how resources are used" (Billetoft 2016, quoted in Arias, Evans and Santos 2019, 200). Furthermore, employers are frustrated that "some private organizations such as the private schools and universities in Tanzania have been exempted from this levy. This is unfair and inappropriate because they are eroding the levy/tax base" (interview, employers' organization, United Republic of Tanzania).

Employers do not see the benefit in the training levy and "contend that they are forced to pay at least twice for needed skills – once when they pay the skills development levy and a second time when they either provide necessary training for the Tanzanians they do hire or pay for the right to hire foreign workers due to the absence of necessary skills in the local job market" (Andreoni, Jesse and Turkewitz, forthcoming).

4.6.3 Fund allocation

Legal context and government role

Legal clarity on fund allocation has been problematic since the levy launch. In the 1994 VET Act, "one third of the funds collected through the levy were directed to the VET Fund. The law was silent regarding the destination of the remaining two thirds of the funds … The revised 2006 VET Act modified several provisions of the Act but retained allocation of one third of the levy to the VET Fund. The law required that the remaining two thirds be directed to the Treasury, with no additional instructions about its utilization … In 2013 the Miscellaneous Laws Amendment Act No. 3 provided somewhat greater clarity regarding the flow of funds collected through the skills development levy, but the allocative details remained murky … The distribution of the skills development levy has grown more opaque since 2013" (Andreoni, Jesse and Turkewitz, forthcoming). In 2016, the one third allocation to VETA's VET Fund was amended and replaced by a funding ceiling to be determined by central government. There is therefore now no legal clarity on fund allocation, which appears to be at the whim of government.

The Government openly regards all the levy funds collected from employers as public money, noting that "spending of any government money is determined by the Government itself" (interview, government official, United Republic of Tanzania). It is the central government that determines where the levy funds are spent, and how much of it is allocated where.

The connection between levy funds raised and funding for vocational training is becoming weaker. As noted above, the Government (Ministry of Finance and Planning) decides what percentage of the levy is allocated to vocational training and recently introduced an annual ceiling of funds going to VETA (interview, VETA, United Republic of Tanzania; interview, workers' organization, United Republic of Tanzania; interview, employers' organization, United Republic of Tanzania). The Government also decided to uses some of the levy funds to finance university education through the Higher Education Students' Loans Board (HESLB), as well as to finance free primary education (interview, workers' organization, United Republic of Tanzania). Determining where levy funds are spent by VETA and HESLB is also largely "predetermined by the central government" (interview, employers' organization, United Republic of Tanzania); this is because the Ministry of Education, Science and Technology and the Ministry of Finance and Planning need to approve the budgets of the VETA and HESLB governing boards (interview, government official, United Republic of Tanzania).

In the VET Act (1994, revised 2006) there was a dedicated percentage of the levy allocated to VETA. Since 2013 the levy funds collected by the Tanzania Revenue Authority have been sent to the central government, and since 2016 a ceiling amount has then been allocated to VETA, rather than a dedicated percentage of the levy. This has constrained VETA's autonomy (interview, VETA, United Republic of Tanzania).

With the launch of the new Skills Development Fund mechanism in 2018 – which has been brought into being through a World Bank loan programme (World Bank 2016b) – there is the stated intention over the coming years that the skills development levy "will be gradually redirected" to feed the Skills Development Fund, with allocation of levy funds then being determined by the Skills Development Fund management (currently the Tanzania Education Authority) (World Bank 2016b, 38). The plan is that by 2021, "two-fifths of the skills development levy will directly support implementing the government program [National Skills Development Strategy], while one-fifth will go to VETA as general budget support and two fifths will continue to flow to the HESLB" (World Bank 2016b, 93).

Transparency

Expenditure of the levy funds disbursed by the central government to VETA and HESLB appear to be done so in a relatively transparent way, with appropriate checks and balances present; both have governing boards and internal auditors, with the Controller and Auditor General scrutinizing the funds.

The transparency concern of employers' and workers' organizations relates to "how much [levy funds] remain with the Government after the disbursement to VETA and HESLB as well as how and where this remaining amount is spent" (interview, employers' organization, United Republic of Tanzania). This is a similar concern to one made in 2011 by the Association of Tanzania Employers – that only the allocation to the VETA is "directly traceable" (Association of Tanzania Employers 2011, 4). This concern over transparency is not at all felt by government, which notes that "the governance and management of the fund is transparent because government planning, budgeting as well as auditing of funds are very clear and transparent" (interview, government official, United Republic of Tanzania).

4.6.4 Fund expenditure

Types of expenditure under the training fund

VETA support

Approximately one third of the levy money collected goes to VETA,[41] which accounts for 100 per cent of all VETA training and administrative budget (interview, VETA, United Republic of Tanzania).

Broad expenditure areas for VETA include:

- VETA administration;
- funding of VET training in all VETA-run institutions across the United Republic of Tanzania, including for development and maintenance of teaching and learning infrastructure (such as maintaining laboratories and workshops, acquiring new technologies, building more training centres, and capacity-building of teachers and instructors);
- special programmes, including a skills recognition and formalization programme aimed at recognizing the skills of young people who have not been through formal training, and a graduate internship and apprenticeship programme in collaboration with the Ministry of Labour and Employment;
- quality assurance (registration, assessment and certification) (interview, VETA, United Republic of Tanzania; interview, workers' organization, United Republic of Tanzania) (World Bank 2016b, 10).

41 But as noted, since 2016 this is now a ceiling amount as opposed to a one third part of the levy.

Higher Education Students' Loans Board and other unknown expenditure

Approximately two thirds of the levy money collected currently goes to the general budget; an unknown proportion of this is used to fund the Higher Education Students' Loans Board (HESLB), and a further unknown proportion is used to fund other unknown government activities. The use of the training levy to fund HESLB is seen by employers' and workers' organizations not only as a significant shift in the original VET Fund purpose (interview, workers' organization, United Republic of Tanzania), but also as "against the original aim of the levy" (interview, employers' organization, United Republic of Tanzania). The World Bank also notes that the use of the training levy for higher education student loans and grants "is not its intended use", noting further that "this inability to ring-fence the [levy] collection from employers for its originally intended purposes makes the skills development levy susceptible to being diverted to other uses" (World Bank 2016b, 10). HESLB uses the levy fund to cover the cost of research and education (student loans and grants) for non-technical higher education (interview, government official, United Republic of Tanzania). A stakeholder interview with an employers' organization revealed that "most of the university students are perusing non-technical education, meaning that the [levy] money is being diverted from technical education financing as originally planned and legalized by the [VET] Act of 1994" (interview, employers' organization, United Republic of Tanzania). However, government considers that there have been "no changes [as] the fund/levy was stated to support skills development and that's exactly what is being done at the moment" (interview, government official, United Republic of Tanzania).

Employer training

In 2019 there was no grant or rebate system (from the training fund) for companies to support in-firm training; but this is something that firms have been asking for some time (Association of Tanzania Employers 2011, 4). According to the World Bank, in 2015/16 the Government and employers agreed that a percentage of the skills development levy "would flow back to employer-led training, but there currently is no competitive and transparent mechanisms for it" (World Bank 2016b, 10).

Levy surplus

There is no information on levy surplus, as the full amount of the levy collection and allocation is not public information.

4.6.5 Fund effectiveness

Improving access to training for disadvantaged groups

Little information is available on the extent to which VETA-run training centres, which are all levy supported, help to improve access to training for disadvantaged groups. VETA notes that such groups receive "special consideration" so they can access training (interview, VETA, United Republic of Tanzania). VETA has reportedly lowered its fees "as many young people from financially challenged families cannot afford to pay the fee" (interview, government official, United Republic of Tanzania). Furthermore, VETA's new recognition of a prior learning programme will help those who "did not get the opportunity to go through the formal TVET training", and help link them to formal job opportunities (interview, government official, United Republic of Tanzania).

According to a senior government official, "HESLB gives special priority [to] girls and orphans. These groups are given priority in terms of being considered first before others and where possible they are given 100 per cent sponsorship" (interview, government official, United Republic of Tanzania).

Improving enterprise performance

There is no tangible evidence that the training levy in the United Republic of Tanzania improves enterprise performance (interview, employers' organization, United Republic of Tanzania). Indeed, employers would argue that it actually hinders their performance; this is because, even though they are contributing to the levy, they still have to cover the cost of training their own staff, which "increas[es] their costs of doing business and imped[es] their competitiveness" (Association of Tanzania Employers 2011, 4).

Incentivizing enterprises to train their employees

There is no incentive mechanism to encourage firms to train their staff. A senior (former) official in VETA simply stated that the training fund incentivized enterprises to train their employees "to no extent" (online survey, consultant, formerly of VETA, United Republic of Tanzania). The lack of incentives for the Tanzanian private sector to invest in human capital development and ongoing training has been flagged for many years, with no action (Association of Tanzania Employers 2011).

The Skills Development Fund (launched 2018) does have a funding window for private employer-based training, intended to support skills upgrading pre- and post-employment training programmes, including (a) apprenticeships, internships and other work-based placements; and (b) short-term training (several days to several months).[42] However, it is not clear if this is yet operational, and in any case the skills development levy is not yet linked to financing the Skills Development Fund. Nonetheless, this is a positive sign.

Improving individual employability

Graduates of VETA-run training centres, which are 100 per cent supported via levy funds, appear to have a relatively good reputation in the labour market, "continue to be valued by employers" (Andreoni, Jesse and Turkewitz, forthcoming), and are regarded as "doing very well" (interview, employers' organization, United Republic of Tanzania). A 2010 VETA tracer study suggested that "as many as 66 per cent of VET graduates were employed" (Andreoni, Jesse and Turkewitz, forthcoming). A forthcoming 2019 tracer study of VETA graduates apparently shows that "over 93 per cent of the VETA graduates are employed in various capacities in both private and public sectors" (interview, VETA, United Republic of Tanzania).

VETA's more recent programmes also aid employability, including the skills recognition programme, which "helps people access more formal jobs in the labour market" (interview, workers' organization, United Republic of Tanzania). Furthermore, the graduate internship and apprenticeship programme is seen as giving these graduates "an opportunity to … experience the real work experience. This evidently adds to their chances of individual employment" (interview, workers' organization, United Republic of Tanzania).

There is no available information on the employability of higher education graduates being supported by the (training levy funded) HESLB.

Contribution to the national education and skills training system

The use of levy funds by VETA for the VETA-run training centres distorts the training market and limits competition (Association of Tanzania Employers 2011). As this subsidizes VETA-provided training, the national training market is distorted and competition from private (and other public) providers is hindered. Moreover, within the VETA-run training centres, the funding provided is input focused and "does not promote quality instruction" (Association of Tanzania Employers 2011, 4).

42 http://www.tea.or.tz/funding-windows.

The national education and training system is not functioning as effectively as it needs to be. Despite the existence of the VET Fund since the mid-1990s, over 40 per cent of Tanzanian firms (2013) covered by the World Bank enterprise survey identified an inadequately educated workforce as a major constraint.[43]

Again, government views on this are at odds with evidence and the views of employers; the Government considers that it is “collecting the skills levy and us[ing] it very effectively so as to make sure that the issue of skills mismatch is totally alleviated at all levels of study (vocational to university level)” (online survey, government official, United Republic of Tanzania).

Sectors where the levy is working well, or not

The sectors that reportedly benefit most from the training levy include manufacturing; electricity, gas, steam and air-conditioning supply; construction; accommodation and food service activities; and, to a lesser extent, agriculture, forestry and fishing, and mining and quarrying (online survey, consultant, formerly of VETA, United Republic of Tanzania; online survey, VETA, United Republic of Tanzania; online survey, workers’ organization, United Republic of Tanzania; online survey, government official, United Republic of Tanzania).

Effectiveness of monitoring and evaluation systems

VETA periodically engages in tracer studies (in 2010 and in 2019) of graduates from its own vocational centres.

4.6.6 Fund governance and management

Description of fund governance

Overall levy governance

Under current arrangements, the overall governance of the 4.5 per cent training levy is through the Ministry of Finance and Planning and the Ministry of Education, Science and Technology. They decide on the funding ceilings and levy allocation to VETA and other areas. Workers’ and employers’ organizations, as well as private firms, are not involved in any of the decisions about levy allocation or funding ceilings that directly impact where levy funds are allocated and how much is allocated. As noted above, the intention is to transition (by 2021) the skills development levy to fund the newly created Skills Development Fund (launched in 2018). While the Tanzania Education Authority will manage the Skills Development Fund, in governance and management of the fund the Tanzania Education Authority will be accountable directly to the planned National Skills Council, and not to the Tanzania Education Authority Board (World Bank 2016b).

VETA governance

Governance of the proportion of the levy fund remitted to VETA[44] is through the VETA Governing Board. The board prepares plans and budgets for the funding based on the ceiling given to them (interview, employers’ organization, United Republic of Tanzania). As noted above, the VETA Board decisions on planning and budgeting still need the approval of government, meaning that its degree of autonomy is limited.

43 https://www.enterprisesurveys.org.

44 Previously this was one third, but since 2016 there has been a budget ceiling linked to levy allocation from central government to VETA.

Only two out of 11 members of the VETA Board represent the levy-paying employers. The VETA Board comprises 11 persons: the chairperson, appointed by the President; two members from employers' organizations; two members from workers' organizations; three members from each of the ministries responsible for industry, education and labour; and three members representing VET institutions (Government of United Republic of Tanzania 2006). What is more, "since the Government decides on the percentage of the levy that is remitted to VETA, the [employers' organizations on the VETA Board are] not able to have a say on where a large part of the collected levy is spent" (interview, employers' organization, United Republic of Tanzania).

VETA's triple role as training provider, financier and regulator results in an in-built conflict of interest in its operations, making effective use of levy funds difficult under the current arrangement (box 9). "It has been suggested that this governance model might affect VETA's overall capacity to exercise [all its] functions effectively and impartially" (Andreoni 2018, 45).

▶ Box 9. Tanzanian Vocational Education and Training Authority: Triple role as training provider, financier and regulator

Since the mid-1990s, when VETA was set up through the VET Act of 1994, VETA has been mandated with a triple role as national training provider, financier and regulator. In 2019, its functions were listed on its website as:

- **Training provision.** VETA provides training through 29 vocational training centres and institutes that it owns.
- **Coordination.** VETA coordinates more than 700 VET institutions owned by other VET providers in the country.
- **Regulation.** VETA regulates provision of vocational education and training in the country (registration of VET institutions, accreditation, standards, curriculum, auditing, assessment and certification).
- **Managing the VET Fund.** VETA finances and manages the VET Fund (for vocational education and training).

Promoting vocational educational and training in the country

Being a provider, a financer, and an overseer of the national TVET system has inevitably led to conflicts of interest – an issue first raised in the early 2000s (Ziderman 2002) – which does not help the national TVET system to function effectively. For example, a part of the VET Fund is dedicated solely to VETA and, therefore, to the VETA-run training providers; this subsidy distorts the training market and stymies national competition among public and private providers.

Source: https://www.veta.go.tz/about-us.

Furthermore, it has been noted that VETA is under the umbrella of the Ministry of Education, Science and Technology, while the mandate to engage with the private sector on TVET matters is under the Ministry of Labour and Employment (Andreoni 2018); arguably, this further disconnects VETA from the private sector.

HESLB governance

According to the amendment of the Higher Education Students' Loans Board Act (Government of United Republic of Tanzania 2016b), there are no representatives of workers' or employers' organizations or of private employers on the board of HESLB.

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Description of fund management

Overall management

The Tanzania Revenue Authority and the Ministry of Finance and Planning are involved directly in the collection and allocation, respectively, of levy resources (interview, employers' organization, United Republic of Tanzania). As noted above, there is no real transparency with regard to how funds are allocated; decisions on how much budget ceiling to award to VETA or the amount of funds allocated to HESLB are not transparent, nor is it know what other levy funds are still left over, what surplus might have accumulated, or how 100 per cent of the levy funds have been allocated over the years. Stakeholders comment that, in addition to the levy funds to VETA and HESLB, "there is more [levy] money that is left with the central government … we don't know how it's spent" (interview, workers' organization, United Republic of Tanzania). Since the introduction of the levy, and increasingly during the last decade, the skills levy has become a major source of tension between the public and private sector. "On several occasions the private sector has denounced the lack of transparency in the collection and allocation of the [levy], and there have been allegations of corruption or misallocation of the [levy] for funding political campaigns" (Andreoni 2018, 43).

VETA management

In terms of monitoring and tracking of expenditure managed by VETA, "the levy funds are audited at the end of each financial year by the Office of the Controller and Auditor General" (interview, employers' organization, United Republic of Tanzania).

4.7 Zambia country brief

4.7.1 Background and fund purpose

In Zambia, the Skills Development Levy Act, 2016, introduced a skills development levy payable by employers, which became operational in 2017 (Government of Zambia 2016). Resources collected via the skills development levy go into the Skills Development Fund (SDF), managed by the Ministry of Higher Education, which allocates them to the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) to resource their fund for technical education, vocational and entrepreneurship training (TEVET Fund),[45] which was itself established via the Technical Education, Vocational and Entrepreneurship Training Act (TEVET Act), 1998, amended in 2005 (Government of Zambia, 1998, 2005).

The SDF has the following objectives:

- to enhance the provision of skills development in a more efficient and effective manner;
- to promote private sector participation in skills development;
- to facilitate predictability of resources to the institutions;
- to facilitate the development of an objective SDF model for TEVET training;
- to facilitate and enhance effective budget monitoring and evaluation;
- to result in enhanced focus on utilization of various funds in the TEVET sector (Government of Zambia 2017a, 3).

The driver for the introduction of the training fund appeared to be the Government's desire to expand the revenue envelope by ensuring that the private sector contributed to TEVET in the country: "For a long time the Government was bearing the cost of skills training with little help from stakeholders and it was high time that companies complemented government in skills development in the country" (interview, government official, institution managing the training fund, Zambia).

4.7.2 Fund mobilization

Levy rate

A levy of 0.5 per cent of gross payroll applies to all private sector employers whose annual turnover is above 800,000 Zambian kwacha (Government of Zambia 2016).

Exemption from levy

Public sector employers, private sector employers whose annual turnover is below 800,000 kwacha, and public benefit organizations are exempt from levy payment (Government of Zambia 2016).

45 The TEVET Fund, established under the amended TEVET Act in 2005, was initially resourced by government funds, as well as through loans, grants or donations paid to TEVETA Zambia, and a percentage of the registration, examination, assessment and other fees payable to TEVETA Zambia under the 1998 TEVET Act (amended 2005). The amended TEVET Act of 2005 also made allowance for the TEVET Fund to receive "monies ... from any levy which may be imposed and collected for purposes of TEVET" (Government of Zambia, 2005, 21A). Following the establishment of the skills development levy in 2017, the TEVET Fund receives funding from this source too.

Method used to collect the levy

The levy is collected by the Zambia Revenue Authority through PAYE in the course of its regular duties, and "there are no charges for the collection". The levy is deposited at the Bank of Zambia and then transferred to the Ministry of Finance into a general purpose account. "Depositing funds into this account posed a challenge to the management of the funds and eventually a special and dedicated account for SDF was opened" (interviews, Zambia, August 2019). Sixteen out of 18 responding employers to an online survey thought that the method used to collect the levy was effective (online survey results, Zambia, September 2019).

Compliance and penalty

Proposals were made in the 2019 national budget to reduce the penalties for non-payment of the levy. The Skills Development Levy Act of 2016 originally stipulated that the provisions of the Income Tax Act would apply in respect of non-payment of the skills development levy. In the 2019 national budget, it was proposed that these penalties – which ranged from 17.5 per cent to 52.5 per cent of the undeclared amount – be reduced to 0.25–0.75 per cent of the undeclared amount (BDO Zambia 2018).

Compliance levels for the skills levy are still understood to be "very low", though there are no available statistics to verify this (online survey, government official, Zambia). Challenges with the collection of the levy include the fact that there is no database of the companies who should pay the levy. There is also a significant challenge in engaging businesses in the informal sector; the current levy system does not capture them.

Fund income

According to the national budget, funding from the SDF is projected to be 164 million kwacha in 2019 (Government of Zambia 2019). In 2017 and 2018, not all levy income was remitted to TEVETA Zambia, so the exact amount collected in those years is unknown, but it is possible to estimate what this was (see below). A majority of responding employers (12 out of 17 who responded to an online survey) stated that they did not have access to information about how much funding was actually collected by the levy each year (online survey results, Zambia, September 2019). However, this may "just be a case of not reading or having interest, as this information was disseminated by the [Zambia Federation of Employers], both through newsletters as well as some sensitization workshops that [the Federation] and Ministry of Higher Education held with employers" (personal communication, employers' organization).

Employers' and workers' views of the levy

Employers were opposed to the levy from the start, as they feared funds would not be used as intended. According to a press release (31 August 2018) from the Zambia Federation of Employers: "For a long time private sector was opposed to the introduction of a payroll based skills development levy as we feared that the funds to be raised by the Government may not find its way towards skills development in the country. Private sector has always allocated funds for staff development in terms of training based on the training needs of our employees and the funds going to the Government through this levy could instead be better used by the private sector itself to finance training programmes for its staff in a number of companies" (ZFE 2018, 2). As reported in national media in September 2018, according to the Zambia Federation of Employers, "government never meant well when introducing the skills development levy as it seems they were just finding another way of taxing the private sector" (Phiri and Chisanga 2018).

In September 2019, the views of employers did not seem to have changed; 18 out of 18 employers responding to an online survey thought that companies and enterprises viewed the training levy as just another form of taxation (online survey results, Zambia, September 2019).

Many of the employers' concerns may stem from what they perceive as an ongoing lack of transparency.

- "It is a fund that businesses have been contributing to but without any feedback on what the funds are used for" (online survey, employer, Zambia).
- "The Government has this far failed to provide [an] accountability report of the usage to justify it well enough to the [levy] payers" (online survey, employer, Zambia).
- "There is no record of youths that have so far been trained or are undergoing training through the initiatives of the training levy" (online survey, employer, Zambia).

However, it is not clear how representative these views are. Indeed, these may be the "opinions of a few who may have shunned the sensitization meetings thus far held on this information. What holds as true is that there has yet to be an evaluation of the impact of the levy to show comprehensive figures of what and whom it is benefiting" (personal communication, employers' organization).

4.7.3 Fund expenditure

The new skills development levy now accounts for the majority of TEVETA Zambia's income and expenditure. The SDF accounted for 72 per cent of the total income of TEVETA Zambia in 2017 and 74 per cent of the total income in 2018 (TEVETA Zambia 2019a). The remainder of TEVETA Zambia's income during those years came from similar funding sources as the years before the levy introduction (for example, examination fees, government grants, accreditation fees and registration fees). In terms of expenditure, in 2018, 17 per cent of TEVETA Zambia's total expenditure went on administrative expenses, 73 per cent on direct training expenses and about 10 per cent was left unallocated (TEVETA Zambia 2019a).

Skills Development Fund expenditure

In both 2017 and 2018, there was a significant variance between the approved SDF budget and the actual expenditure from the SDF. In 2017, the approved SDF budget was 236 million kwacha, but actual expenditure from the SDF that year was 73.5 million kwacha; in 2018, the approved SDF budget was 177 million kwacha, but actual expenditure that year was 94.8 million kwacha (Government of Zambia 2019; TEVETA Zambia 2019a). The reason for this large variance between budget and expenditure is unknown from available information. However, the fact that the Zambia Revenue Authority confirmed that the levies collected since January 2017 were on average 19 million kwacha per month implies a yearly collection of 228 million kwacha (ZFE 2018) – not too different from the approved 2017 SDF budget. This in turn implies that the Ministry of Finance is retaining a sizeable proportion of the levy funding collected and disbursing less than the total amount collected to TEVETA Zambia (see further below).

TEVETA Zambia manages the bank account of the SDF and therefore its annual financial statements for 2017 and 2018 include an account of SDF expenditure. However, the stated expenditure from the SDF does not include the cost of fund administration on the part of TEVETA Zambia. While the SDF does not provide for administrative expenses and the fund is controlled by the Ministry of Higher Education, there do appear to be higher administrative costs at TEVETA Zambia since the introduction of the SDF. It is possible to estimate this as follows: following the introduction of the skills development levy in 2017, the annual administrative expenditure of TEVETA Zambia increased from an average of 12.7 million kwacha per year in 2014/15 to 19.2 million kwacha per year in 2017/18, an annual average increase of 6.5 million kwacha (calculated by author from TEVETA Zambia 2016, 2019a). Since the SDF was launched in 2017, it is therefore assumed that an average of 6.5 million kwacha is required each year in relation to SDF administration at TEVETA Zambia. With this information, it is possible to give a truer picture of the income and expenditure of the levy funds remitted to TEVETA in Zambia (table 33). As noted above, it appears that the Ministry of Finance retains some of the total levy amount collected.

▶ Table 33. Income and expenditure of the levy-funded Skills Development Fund in Zambia, 2017/18 (estimated)

Income and expenditure	2018 Kwacha	2018 Expenditure as % of total income	2017 Kwacha	2017 Expenditure as % of total income
A. Income				
Levy income remitted to TEVETA	94,800,000	n.a.	73,545,840	n.a.
Levy income retained by Ministry of Finance (estimated)	133,200,000	n.a.	154,454,160	n.a.
Total income	**228,000,000**	**n.a.**	**228,000,000**	**n.a.**
B. Expenditure				
Administrative expenditure (TEVETA only)				
Monitoring and evaluation	2,354,006	1.0	0	0.0
Annual average increase in administrative costs at TEVETA since SDF introduced	6,500,000	2.9	6,500,000	8.8
Total administrative expenditure	**8,854,006**	**3.9**	**6,500,000**	**2.9**
SDF projects and allocation by funding window				
Window 1: Employer-based training	*6,990,900*	*3.1*	*0*	
Window 2				
Infrastructure development	23,374,433	10.3		
Equipment purchase for institutions	2,535,673	1.1		
Capacity-building	624,330	0.3		
Curriculum and systems development	238,620	0.1		
Total window 2	***26,773,056***	***11.7***	***0***	
Window 3: Pre-employment training	*27,340,360*	*12.0*	*0*	
Window 4: Informal sector/SME training	*19,697,069*	*8.6*	*0*	
Other				
SDF asset purchase	3,299,811		0	
Proposal adverts and evaluations	0		475,124	0.2
Disbursements to TEVETA	3,900,000		11,137,274	4.9
Disbursements to institutions	0		29,986,676	13.2
Total other	***7,199,811***	***3.2***	***41,599,074***	***18.2***
Total SDF projects and allocation by funding window	**88,001,196**	**38.6**	**41,599,074**	**18.2**
Total expenditure	**96,855,202**	**42.5**	**48,099,074**	**21.1**
Surplus / deficit				
End of year surplus/deficit under SDF (A – B)	**131,144,798**	**57.5**	**179,900,926**	**78.9**

Sources: TEVETA Zambia 2019a; administrative costs estimated based on the difference between 2014/15 and 2017/18 TEVETA Zambia administrative expenditure (before and after the skills development levy introduced). Levy income retained by the Ministry of Finance from figures quoted by the Zambia Revenue Authority (ZFE 2018).

In 2018, estimated expenditure was as follows.

- 4 per cent of levy income was spent on TEVETA Zambia administrative costs. The administrative costs at the Ministry of Higher Education are unknown.
- Only 3 per cent of levy income was spent on industry reimbursement of training fees (SDF window 1).
- 12 per cent of levy income was spent on infrastructure development (10 per cent), equipment (1 per cent), capacity-building (0.3 per cent) and curriculum development (0.1 per cent) (SDF window 2).
- 12 per cent of levy income was spent on pre-employment training (SDF window 3).
- 9 per cent of levy income was spent on SME and informal sector training (SDF window 4).
- 58 per cent of levy income is estimated to have been retained by the Ministry of Finance.

Use of levy funds for unintended purposes

In mid-2018 it was revealed that the Ministry of Finance was retaining large proportions of the collected skills levy. By mid-2019, this appears to have changed. According to an August 2018 press release from the Zambia Federation of Employers, in June 2018, the "Zambia Federation of Employers and the Chamber of Mines as private sector representatives had a meeting with the Ministry of Higher Education, Ministry of Finance and the Zambia Revenue Authority to get an update on the skills development levy funding to the Ministry of Higher Education and subsequently to TEVETA". At this meeting, the Zambia Revenue Authority confirmed that "since January 2017 they have been collecting skills development levy from the private sector ranging from [17–21 million kwacha] monthly which they have been remitting to the treasury as required of them. The Ministry of Finance confirmed this position". However, the Ministry of Higher Education noted that they had only received about 108 million kwacha from the Ministry of Finance, meaning "that the Ministry of Finance has held a sum of [197,651,242 kwacha] collected from the private sector but not released for the intended purpose" (ZFE 2018, 2).

According to stakeholders interviewed in August 2019, "the situation has changed, the Ministry of Finance remits 100 per cent of the levy to the Ministry of Higher Education … [moreover] the Ministry of Finance is aware of the money which was not remitted when the funds were in control account 99 [general revenue account] and the Ministry of Finance is committed to pay the money which is owed via supplementary funding. There is strong goodwill by the Ministry of Higher Education and the Ministry of Finance to see that the training fund is a success, and hence the opening of a special account and also facilitating a Ministry of Finance official to sit on the Management Committee" (interviewer, Zambia, recounting discussions with various key stakeholders, August 2019).

Accumulated surplus

The accumulated surplus (2017/18) could be in the region of 300 million kwacha. According to the Zambia Revenue Authority and interviewed stakeholders, the Ministry of Finance had previously retained a portion of the collected levy before it was disbursed to TEVETA Zambia. If the figures quoted by the Zambia Revenue Authority are correct, and an average of 19 million kwacha monthly is received in levy income, the accumulated surplus in 2017/18 could be in the region of 300 million kwacha. This is only an estimate based on available data and is unverified.

4.7.4 Fund allocation mechanisms

A lack of clarity on fund allocation at levy launch led to the Ministry of Finance retaining levy funds. In 2017 and (potentially) 2018 it appears that not all levy monies had been released by the Ministry of Finance to TEVETA Zambia. According to a press release (31 August 2018) from the Zambia Federation of Employers: the "Ministry [of Finance] has not been transferring the skills development levy to the Ministry of Higher Education because the Ministry of Higher Education misappropriated the first funding that was received from the Ministry of Finance as skills development funds … the other reason causing the Ministry of Finance not remitting the skills development levy to the Ministry of Higher Education is that there have been no clear guidelines in terms of how the funds could be used … The private sector … find it unacceptable that the Government could rush to introduce this levy before developing a clear road map on how to use the funds" (ZFE 2018, 1).

Current levy allocation mechanisms

Of those levy funds that are released to TEVETA Zambia, the utilization of the SDF is guided by a five-year Skills Development Strategy, drafted by the Ministry of Higher Education in collaboration with TEVETA Zambia. The Ministry of Higher Education fund manager will allocate the levy resources according to the Skills Development Strategy (Government of Zambia 2017a) based on four funding windows:

- window 1: employer-based training, to finance training for formal sector employers to upgrade or introduce new skills to their employees;
- window 2: infrastructure and equipment (construction, rehabilitation and maintenance of infrastructure, procurement of training equipment), TEVET systems development, human resource development;
- window 3: pre-employment training, to finance institution-based learning programmes and apprenticeship training;
- window 4: SME training and informal sector training, to finance training of medium, small and micro enterprises and informal sector operators through the provision of funds to training providers and intermediary institutions (such as cooperatives or associations who can be engaged to coordinate training for the SMEs and the informal sector) (Government of Zambia 2017a, 2017b).

The process for assessing eligibility for funding and accessing the funds is outlined in the *Skills Development Fund Operational Manual (Government of Zambia 2017c), and is noted below. Funds are allocated according to the funding windows, and* "although quotas exist, there is an element of flexibility and funds may be transferred to another window when there was a need to do so" (interview, government official, institution managing the training fund, Zambia).

- **Window 1: employer-based training.** The company, which must be registered and operating in Zambia, is required to obtain a reference from a bank and show evidence of its ability to manage funds (for example, through financial audited accounts). The employer must also provide a training needs analysis, which details the training requirements of employees; must demonstrate how the proposed skills requirements will benefit the company; and must be current in levy payments due to the SDF. Additionally, employers will be required to show evidence of the existence of a training agreement with a TEVET accredited and registered training provider identified to deliver the training, and the training should lead to national certification (Government of Zambia 2017a). Funds for the training are paid directly to the training provider. However, according to 11 out of 15 Zambian employers who responded to an online survey, the criteria with regard to who is eligible to access the funds are not clear (online survey results, Zambia, September 2019). One employers' organization said that "the condition of in-service training being provided by TEVET [accredited provider] for an employer to access funding should be removed" (online survey, employers' organization, Zambia).

- **Window 2: infrastructure and equipment, TEVET systems development, human resource development; and window 3: pre-employment training.** Applicants must be TEVET registered institutions, show evidence of their ability to manage funds (for example, through financial audited accounts), and obtain a reference from a bank. Training should lead to national certification and be based on the applicant's strategic plan (to include a training needs analysis where relevant).
- **Window 4: SME training and informal sector training.** An intermediary institution (cooperative, association or training provider) should coordinate the application under this window for the benefit of SMEs and those in the informal sector, and will be required to show evidence of an agreement with a TEVET institution to deliver training (if the applicant itself is not a training provider). Training can only be provided by TEVETA Zambia accredited and registered training providers and should lead to national certification (Government of Zambia 2017a). TEVETA Zambia periodically releases an invitation for proposals from applicants and, according to one training provider that has received SDF funding, "there is no planning on when that fund can be accessed. It all depends on the fund managers. Transparency is lacking" (online survey, training institution that receives funding from the training fund, Zambia).

4.7.5 Fund effectiveness

The SDF has now been operational for just less than three years, so it is possible to say something about its operational effectiveness and its outputs to date, while acknowledging that "it is still too early to make a proper judgement on its impact" in terms of labour market outcomes and impact of those trained, or productivity gains to businesses as a result of training (online survey, organization managing the fund, Zambia).

In an online survey conducted as part of this review, almost 70 per cent (15 out of 22) responding Zambian employers rated the success of the training levy as either "not successful" or "not successful at all" (online survey results, Zambia, September 2019). One employers' organization considered that the training levy was "not successful … For starters, collected money from the levy is not reaching the implementing Ministry in full, only a fraction of it is getting to the implementer thus far. At the same time, since inception two years ago to date the fund has been biased more to funding rehabilitation of government training institutions and financing bursaries for TEVET students" (online survey, employers' organization, Zambia).

Improving access to training for disadvantaged groups

There is little information on the extent to which the SDF helps to improve access to training for disadvantaged groups. The spending of funds on the construction and rehabilitation of infrastructure is expected to "lead to increased access to skills development" (Government of Zambia 2017a, 15), though the funding is not specifically targeted at disadvantaged groups. Levy funds spent on SME and informal sector training (9 per cent of SDF expenditure in 2018) will go some way to supporting underserved groups; in 2018, 85 training providers were supported to train such groups (TEVETA Zambia 2019a, 20).

Improving enterprise performance

There is no information on how the fund may have helped to improve enterprise performance.

Incentivizing enterprises to train their employees

There is no quantitative evidence on the extent to which the training levy is incentivizing employers to train. With an estimated 3 per cent of collected levy funds allocated to employer-based training, it is not surprising that one employers' organization stated that the training fund incentivizes enterprises to train their employees "to no extent" (online survey, employers' organization, Zambia).

Improving individual employability

Output data exist on the number of individuals who undertook training funded by the SDF – almost 10,500 individuals in 2018 (TEVET Zambia 2019a). However, there are no outcome or impact data to say to what extent, if any, the employability of these individuals was improved.

Contribution of the training fund to national public education and skills training system

The majority of the funds spent on training interventions went to supporting infrastructure and pre-employment training (SDF windows 2 and 3), which relate to the public education and skills training system.

Responsiveness to national skills priorities

The TEVET Fund (supported by the skills development levy) is regarded as an "effective instrument for responding to the Seventh National Development Plan (7NDP) goal to increase equitable access to quality education and skills training to enhance human capacity for sustainable national development" (TEVETA Zambia 2019a, 5).

Sectors where the levy is working well, or not

According to key stakeholders, the sectors that benefit most from the skills levy include agriculture, forestry and fishing; mining and quarrying; manufacturing; electricity, gas, steam and air-conditioning supply; water supply (sewerage, waste management and remediation activities); construction; and transportation and storage (online survey, government official, Zambia; online survey, employers' organization, Zambia; online survey, organization managing the fund, Zambia; online survey, organization managing the fund, Zambia).

Effectiveness of monitoring and evaluation system

The monitoring and evaluation system for assessing the labour market outputs and outcomes arising from training fund expenditure is yet to be fully developed.

4.7.6 Fund governance and management

Description of fund governance

SDF governance

The SDF Management Committee of nine persons is chaired by the Ministry of Higher Education and includes four representatives of employers. It comprises representatives of the following: Ministry of Higher Education (chairperson); Ministry of Finance; Ministry of Justice; Ministry of Youths, Sports and Child Development; Zambia Federation of Employers; Zambia Chamber of Small and Medium Business Association; Chamber of Mines; the energy sector (private sector representative); and the TEVETA Principals Forum.

A stakeholders advisory council will be established by the Ministry of Higher Education to advise it in relation to the SDF, and will include representatives from industry, employers, the SME sector, financial institutions, universities, training institutions, line ministries and TEVETA Zambia (Government of Zambia 2017a). It is not clear if this has been launched as of October 2019.

Despite there being four employers' representatives on the SDF Board, employers regard the SDF as a "government fund, financing a lot of rehabilitation and completing of public TEVET training institutions in the country. Its being under the Ministry means there is no autonomy and the private sector has little or no say" (online survey, employers' organization, Zambia). Workers' and employers' representatives are of the view that autonomy of the SDF from government is required to enhance transparency and accountability (interviews, employers' organization and workers' organization, Zambia). The Government, on the other hand, considers that it is its "responsibility … to play a leading role" (interview, government official, institution managing the training fund, Zambia).

TEVET Fund governance

Funds that are disbursed to TEVETA Zambia are used to resource the TEVET Fund. However, TEVETA Zambia has not had a board since 7 May 2017 (TEVETA Zambia 2019a), and as of September 2019 no board had been appointed. As a result, TEVETA Zambia management reports directly to the Ministry of Higher Education through the Office of the Permanent Secretary (TEVETA Zambia 2019a).

Description of fund management

The SDF is managed by the Ministry of Higher Education with bank accounts maintained at TEVETA (TEVETA Zambia 2018). A fund manager has been appointed under the supervision of the Ministry of Higher Education, "being supervised by the Ministry Directors and this means the fund is not autonomous" (online survey, employers' organization, Zambia).

The Government considers that the use of already established organizations (Ministry of Higher Education, TEVETA Zambia) helps to reduce overhead costs of administering the fund (interview, government official, institution managing the training fund, Zambia).

Monitoring of funds is done through quarterly reports and annual reports to the SDF Management Committee.

4.8 Zimbabwe country brief

4.8.1 Background and fund purpose

The Zimbabwe Manpower Development Fund (ZIMDEF) has the objective to develop "skilled manpower in Zimbabwe" (Government of Zimbabwe 1994, section 47). ZIMDEF is a government agency that operates under the Ministry of Higher and Tertiary Education, Science and Technology Development, and was set up via the Manpower Planning and Development Act, 1994 (revised 1996).

4.8.2 Fund mobilization

Levy rate

The levy rate is 1 per cent on an employer's gross wage bill (UNESCO 2018b), inclusive of salaries, allowances, benefits and bonuses. This levy applies to parastatals, State-owned and private companies (interview, organization managing the training fund, Zimbabwe).

Exemptions

NGOs and the Government are not asked to contribute (interview, organization managing the training fund, Zimbabwe).

Method used to collect the levy

The levy is collected by ZIMDEF directly; employers are required to register with ZIMDEF.

Compliance

Failure to register and pay the 1 per cent levy is a criminal offence.[46] However, it is unclear if there is any enforcement (and the extent to which such enforcement is actually possible, especially with regard to informal enterprises).

One of the biggest levy compliance challenges relates to applying the levy to informal economic activity (interview, employers' organization, Zimbabwe). This is not surprising in a country where about 90 per cent of employment is informal.[47] Economic hardship is resulting in the further informalization of work, as formal companies get pushed into the informal economy, or in firm closure, thereby reducing the levy amount contributed into the fund (interview, employers' organization, Zimbabwe; interview, workers' organization, Zimbabwe; interview, organization managing the fund, Zimbabwe).

Employer perceptions on how ZIMDEF money is used is another key factor affecting the willingness of companies to contribute; following "allegations of abuse of the funds by the former minister ... the level of payments by the companies have been going down" (interview, government official, Zimbabwe).

46 www.zimdef.org.zw.

47 www.ilo.org/ilostat.

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Levy income

In 2015, ZIMDEF had a monthly revenue stream of about US$3.4 million, decreasing to US$3.3 million in 2016 and US$3.2 million in 2017 (OAG Zimbabwe 2016; UNESCO 2018b). The revenues are "decreasing due to the economic crisis" (UNESCO 2018b, 77).

Employers' views of the levy

Both employers' and workers' organizations interviewed perceived the levy as a form of taxation (interview, employers' organization, Zimbabwe), and simply "a fundraising activity by the Government" (interview, workers' organization, Zimbabwe).

If the levy funds are seen to be of direct benefit to workers and employers "they will definitely support it and fund it" (interview, workers' organization, Zimbabwe).

4.8.3 Fund expenditure

Decision-making on fund expenditure

The Ministry of Higher and Tertiary Education, Science and Technology Development "comes up with the priorities and directs [ZIMDEF] on how [to] spend the money" (interview, organization managing the fund, Zimbabwe). The Ministry comes up with the expenditure priorities in consultation with the National Manpower Advisory Council, and then ZIMDEF "only facilitates payments on priorities already laid out" (interview, organization managing the fund, Zimbabwe).

While the National Manpower Advisory Council has several employers' organizations represented on it, it is regarded (at least by workers' organizations) as "redundant and ineffective because the Government has now appointed its own people onto the council" (interview, workers' organization, Zimbabwe)

Types of allowable expenditure under the training fund

ZIMDEF's very general official objective – to develop skilled manpower[48] in Zimbabwe – has opened the door for it "to finance the cost of any scheme of manpower development or … vocational education and training" (OAG Zimbabwe 2016, 10). Therefore, the overseeing Ministry is largely unconstrained in terms of what are allowable expenses; it appears that all expenditure is allowable so long as the Ministry can argue a link to manpower development or vocational education and training. Indeed, there is open acknowledgement from ZIMDEF that in the last few years, "there has been some widening of areas and scope of intervention" funded by ZIMDEF (interview, organization managing the training fund, Zimbabwe).

According to its website, there are several areas where ZIMDEF funds are allocated, as follows.[49]

- **ZIMDEF administrative costs.** These mainly comprise staff salaries, asset maintenance and running costs, depreciation on property and equipment, public relations, staff travel and subsistence costs, and office supplies.
- **Formal apprentices.** ZIMDEF finances the training of formal (pre-tertiary) apprenticeships in Zimbabwe, including the wages of apprentices and fees related to tuition, boarding and examination (interview, employers' organization, Zimbabwe; interview, government official, Zimbabwe). It was noted by one employers' organization that the depreciation of the local currency has meant that the value of the funds given to the students on attachment has diminished. They are currently given 50 RTGS dollars[50] per month per student, equivalent to US$5 on the parallel market rate; but in mid-2018 apprentices were getting US$50 when the local currency had not depreciated (interview, employers' organization, Zimbabwe).
- **Training equipment for polytechnics and other tertiary institutions.** ZIMDEF funds the procurement of training equipment, such as computers, computer accessories, engineering materials, workshop machinery, laboratory equipment and training consumables, for institutions of higher learning.
- **Infrastructure development at institutions of higher learning.** Physical infrastructure and academic facilities are provided in ministry-approved tertiary institutions, including universities, polytechnics, and teachers' colleges.
- **Reimbursement of expenses to employers.** ZIMDEF reimburses employers if they take on apprentices, provide trade testing facilities for assessing apprentices, or release their employees for part-time teaching at the ministry's training institutions. The ZIMDEF website also notes that employers can be reimbursed if they release their employees for upgrade training courses: "Employers facilitating the training of their own employees by financing and releasing them to attend formal courses conducted by institutions recognized by the Ministry may claim rebates for the proven expenses incurred on tuition, examination and boarding." However, it is not clear if this is still functioning, as both ZIMDEF itself and a senior government official clearly noted during interviews in August and September 2019 that there is no direct incentive from ZIMDEF to encourage employers to train their employees (interview, organization managing the fund, Zimbabwe; interview, government official, Zimbabwe).
- **Industrial attachment allowances for polytechnic students.** An allowance is paid to polytechnic students while they are on industrial attachment; in 2017, about 4,000 polytechnic students received US$100 per month allowance.

48 "Manpower" is the terminology adopted by the Government of Zimbabwe for "human resources".

49 See www.zimdef.org.zw and UNESCO 2018b for further information on the following.

50 In February 2019 Zimbabwe introduced a new national currency, the RTGS dollar. This was later renamed the Zimbabwean dollar.

Where funds have actually been spent

Areas where funds have actually been spent include the following (table 34).

- **Administration.** About 30 per cent of ZIMDEF funds (2015/16) were spent on administrative costs.
- **Formal apprenticeships.** Twenty per cent of ZIMDEF expenditure (2015/16) was on supporting formal (pre-tertiary) apprenticeships.
- **Training equipment for polytechnics and other tertiary institutions.** Less than 4 per cent of ZIMDEF expenditure (2015/16) went on training equipment. Though there are no more available recent expenditure figures for 2017–19 available, according to ZIMDEF in 2019 the fund has continued to support the purchase of training equipment, for example equipment and technology for DNA testing at the National University of Science and Technology, as well as equipment for a cattle breeding programme at Chinhoyi University of Technology (interview, organization managing the training fund, Zimbabwe).
- **Infrastructure development at institutions of higher learning.** In 2015/16, ZIMDEF spent about 6 per cent on infrastructure works, presumably those related to tertiary institutions.
- **Reimbursement of expenses to employers.** Over a quarter of expenditure (2015/16) went on reimbursement to employers for participating in apprenticeships and other areas (unspecified).
- **Funding a STEM (science, technology, engineering and mathematics) initiative.** In 2015/16, ZIMDEF spent, on average, 9 per cent of its funds per year on this new initiative. ZIMDEF had been asked by the Government to financially support a STEM programme that sought to encourage about 5,000 students per year to study a combination of mathematics, biology, physics and chemistry at A level. ZIMDEF paid students' tuition and boarding fees and other levies (UNESCO 2018b, 77). The STEM programme ran for only two intakes and was then closed down. A senior government official interviewed stated that it was closed as it was "introduced by the former minister [and] had challenges regarding transparency" (interview, government official, Zimbabwe). However, according to ZIMDEF, it was closed as it was "realized that the challenge was shortage of science teachers at secondary school level" (interview, organization managing the training fund, Zimbabwe). As a consequence, funding was subsequently diverted to the training of science teachers, for example at Mashingo and Mkoba teachers' colleges. "ZIMDEF is paying for the lab equipment and construction of the laboratories. The Government then pays for the salaries of the teachers" (interview, government official, Zimbabwe).

▶ Table 34. ZIMDEF income and expenditure, 2015/2016, Zimbabwe

Income and expenditure	2016		2015		2015/16 average	
	US$	% of total expenditure	US$	% of total expenditure	US$	% of total expenditure
A. Income						
Training levy	39,216,764	n.a.	41,050,512	n.a.	40,133,638	n.a.
Training revenue	1,167,785	n.a.	1,146,572	n.a.	1,157,179	n.a.
Other income	1,018,797	n.a.	6,628,801	n.a.	3,823,799	n.a.
Total income	**41,403,346**	**n.a.**	**48,825,885**	**n.a.**	**45,114,616**	**n.a.**
B. Expenditure						
Administrative and operating expenditure						
Staff cost	4,102,503	9.9	4,240,212	8.7	4,171,358	9.2
Other administrative costs	7,235,321	17.5	9,425,830	19.3	8,330,576	18.5
Total administrative and operating expenditure	**11,337,824**	**27.4**	**13,666,042**	**28.0**	**12,501,933**	**27.7**
Training and project expenses						
Grants and rebates	10,476,892	25.3	11,938,014	24.5	11,207,453	24.8
Building project disbursements	2,329,542	5.6	2,285,825	4.7	2,307,684	5.1
Training institution disbursements	1,061,088	2.6	1,843,716	3.8	1,452,402	3.2
Apprenticeship disbursements	7,664,530	18.5	8,766,694	18.0	8,215,612	18.2
Tuition fees for skilled workers	6,600	0.02	10,800	0.0	8,700	0.0
Curriculum and examinations	850,000	2.1	2,600,000	5.3	1,725,000	3.8
Industrial training and trade testing disbursements	690,000	1.7	690,000	1.4	690,000	1.5
National manpower advisory council expenses	3,009	0.01	520,062	1.1	261,536	0.6
STEM initiative	7,333,274	17.7	0	0.0	3,666,637	8.1
Total training and project expenses	**30,414,935**	**73.5**	**28,655,111**	**58.7**	**29,535,023**	**65.5**
Finance costs	**37,265**	**0.1**	**37,642**	**0.1**	**37,454**	**0.1**
Total expenditure	**41,790,024**	**n.a.**	**42,358,795**	**n.a.**	**42,074,410**	**n.a.**
Surplus						
End of year surplus (A – B)	**(386,678)**	**n.a.**	**6,467,090**	**13.2**	**3,040,206**	**6.7**

n.a. = not available.

Source: OAG Zimbabwe 2016.

Other expenditure areas that have been deemed "allowable" in recent years include the following.

- **Payment of allowances.** Allowances are paid to lecturers teaching Bachelor of Technology programmes at the polytechnics (UNESCO 2018b).
- **Presidential Scholarship Fund.** A representative from a workers' organization stated that the Presidential Scholarship Fund "is being financed from ZIMDEF, yet the impression given is that it comes from the President. This was never part of the original concept or idea of the fund" (interview, workers' organization, Zimbabwe).
- **Examinations for polytechnic students.** ZIMDEF funds have been used to set up and undertake examinations for polytechnic students (interview, organization managing the fund, Zimbabwe).
- **Student loans.** ZIMDEF has helped to established a loan facility at CBZ Bank through which university students can apply for a loan "not only for technical students but all students in general" (interview, organization managing the fund, Zimbabwe). So far, US$5 million has been allocated (Machivenyika 2019).

Levy surplus

ZIMDEF appears to have a massive unspent surplus; the total accumulated levy surplus at the end of 2016 was US$70 million (OAG Zimbabwe 2016). Where collected levy funds are not spent in a given financial year, they are retained by ZIMDEF and roll over to subsequent financial years (interview, government official, Zimbabwe; interview, organization managing the fund, Zimbabwe). In table 34, which shows 2015/16 ZIMDEF income and expenditure, 2016 showed an annual deficit of US$386,678, whereas 2015 showed an annual surplus of almost US$6.5 million.

4.8.4 Fund allocation mechanisms

The criteria with regard to who is eligible to access ZIMDEF funds, and the process of accessing these funds, are not at all clear and are not described in any public material on the ZIMDEF website.

4.8.5 Fund effectiveness

A senior government official regards the ZIMDEF training fund as "a very successful model. A model that other countries should emulate" (interview, government official, Zimbabwe). However, this view appears disconnected from fact, given that there appears to be a complete lack of any quantitative evidence of the labour market outcomes of trainees who have completed a ZIMDEF-funded programme. What anecdotal evidence exists does not portray a "very successful model". Further, the governance arrangements of ZIMDEF (see below) are far away from anything that can be considered "very successful".

Improving access to training for disadvantaged groups

There does not appear to be a specific, targeted approach within the use of ZIMDEF funds to improve access to training for disadvantaged groups. A senior government official notes that "the fund's approach is general and not specifically targeted at any groups in terms of economic or social background. Probably some improvement will be required on this aspect" (interview, government official, Zimbabwe).

UNESCO's 2018 TVET policy review for Zimbabwe noted that "the financing mandate of ZIMDEF does not extend to the Vocational Training Centres that target economically and academically vulnerable groups of learners" (UNESCO 2018b, 76).

Indeed, some other aspects of ZIMDEF's fund expenditure, such as supporting polytechnic students or supporting STEM students who have achieved grades C or above, de facto exclude poorer students who have not been able to achieve tertiary education, or been able to secure high enough grades to have been supported via the (now closed) STEM initiative.

Improving enterprise performance

There is no robust evidence that the ZIMDEF-funded training activities lead to improvements in enterprise performance. All that exists is anecdotal; for example, one employers' organization and one senior government official interviewed (interview, employers' organization, Zimbabwe; interview, government official, Zimbabwe) both commented that students on industrial attachment help to save those companies money as they do not have to "employ qualified and experienced personnel who are more costly [and] company productivity definitely increases" as a result (interview, employers' organization, Zimbabwe). It was also argued that smaller companies have "benefited significantly from the contributions made by these students in the growth of their small enterprises" (interview, government official, Zimbabwe).

Incentivizing enterprises to train their employees

ZIMDEF reportedly does nothing to incentivize enterprises to train their employees. As noted above, despite there supposedly being an opportunity for employers to be reimbursed for some of the costs of training employees, it is not clear if this actually happens in practice. Three key stakeholders interviewed, one from the training fund itself, another a senior government official, and a third from an employers' organization, all unambiguously commented that ZIMDEF does nothing to incentivize enterprises to train their employees.

- There is "no specific programme to incentivize employers to train their employees" (interview, organization managing the fund, Zimbabwe).
- "There are no direct incentives from the fund for enterprises to train their own employees" (interview, government official, Zimbabwe).
- "In most cases companies always have their own training. The fund does not in any way incentivize employers to train their employees" (interview, employers' organization, Zimbabwe).

Government logic is that the existence of ZIMDEF "removes the burden [of training] from individual companies to a pooled resource [ZIMDEF], and that companies benefit through a better skilled pipeline of employees" (interview, government official, Zimbabwe). However, something is clearly not working, since over one quarter of Zimbabwean formal firms are involved in training their employees,[51] seemingly without being incentivized by ZIMDEF to do so, and despite the fact that this "burden of training" is supposed to have been removed from them, according to government logic.

Improving individual employability

There is no hard evidence of a link between ZIMDEF-funded training and improvements in individual employability. However, students that go on industrial attachment are perceived to gain practical skills in the workplace, and also benefit from work references and improved CVs (interview, government official, Zimbabwe; interview, employers' organization, Zimbabwe).

Responsiveness to national skills priorities

ZIMDEF "does not function as a tool for steering various TVET programmes in Zimbabwe towards responding to the demands for skills in the economy" (UNESCO 2018b, 79). ZIMDEF bias is towards training programmes and institutes connected to, or accredited by, the Ministry of Higher and Tertiary Education, Science and Technology Development. As noted above, the fact that so many formal firms – about a quarter – provide formal training to their employees is a clear signal that employers "don't consider the pool of graduates trained through ZIMDEF funds have the right expertise … the skills being produced … are not the type that industry requires" (interview, workers' organization, Zimbabwe).

UNESCO's 2018 review further notes that ZIMDEF does not target its support on "strategically important skills development programmes for the economy of Zimbabwe" (UNESCO 2018b, 76).

51 https://www.enterprisesurveys.org.

Sectors where the levy is working well, or not

According to one stakeholder (and employer), the sectors that ZIMDEF appears to have benefited the most include agriculture, forestry and fishing; mining and quarrying; manufacturing; electricity, gas, steam and air-conditioning supply; construction; and professional, scientific and technical activities (online survey, employer, Zimbabwe).

Effectiveness of monitoring and evaluation systems

The lack of any public annual report from ZIMDEF contributes to the perception of low transparency. It is expected that some output data are collected (such as numbers trained) but it is unlikely that any outcome or impact data exist. There is no information on ZIMDEF's monitoring and evaluation systems.

4.8.6 Fund governance and management

Description of fund governance

The most striking immediate governance issue for ZIMDEF is that there is no board. Indeed, the Manpower Planning and Development Act of 1994 (revised 1996) contained no provision for a ZIMDEF board, and instead made the Minister of Higher Education and Technology (now renamed as the Minister of Higher and Tertiary Education, Science and Technology Development) the sole trustee of the fund (Government of Zimbabwe 1994, section 47). As a result, the CEO of ZIMDEF currently reports directly to the Minister.

A senior government official notes that the current governance arrangement means that there is "no board of directors to play an oversight role" and that "too much power is vested in the Minister" (interview, government official, Zimbabwe). In recent years, there have been a significant number of allegations concerning the misappropriation of funds from ZIMDEF (box 10), and a board "to provide oversight" is now regarded as something that is required (interview, government official, Zimbabwe).

▶ Box 10. Allegations of misappropriation of ZIMDEF funds

There have been a number of observations over the years concerning the alleged misuse of funds at ZIMDEF.

For example, for the 2017 financial year, a report of the Office of the Auditor General found that some expenditure was "not in line with the mandate of the Fund which is to finance the development of critical and highly skilled manpower in Zimbabwe" (OAG Zimbabwe 2018, 354). The report of the Office of the Auditor General noted payments related to T-shirts purchases for a by-election (US$29,000), Samsung Galaxy S7 smartphones as gifts for the Minister's aides and drivers (US$10,000), food and accommodation for a memorial service (US$26,000), and donations (US$20,000), among others (OAG Zimbabwe 2018, 352–354).

Allegations of the misuse of ZIMDEF funds have also been widely reported in the media in Zimbabwe over the years (Mambo 2016; Maodza 2017), as well as in academic journals (Makombe 2018). For example, in December 2017 *The Herald* reported that the senior management of ZIMDEF were sent on forced leave while the Office of the Auditor General conducted a financial audit following reports of corruption that allegedly involved the then Minister (Maodza 2017).

The Ministry is currently in the process of establishing a board for ZIMDEF. This is expected to be a "a tripartite arrangement which effectively includes employers, labour and government in the decision-making processes over how the fund is governed and managed" (interview, government official, Zimbabwe). The board will be established as soon as the new Manpower Development Act becomes established (interview, government official, Zimbabwe). The 2018 UNESCO TVET policy review for Zimbabwe reiterated the importance of "the representation of employers (who are the major contributors to the fund) on the board [as they] would increase ... confidence in the operations of ZIMDEF and dissipate any perceptions of misapplication of the funds" (UNESCO 2018b, 78).

There is no expectation that a ZIMDEF board would have much autonomy from government, despite this being the wish of employers "in order to minimize political interference" (interview, employers' organization, Zimbabwe). The Government regards funds collected by ZIMDEF as "public funds" and therefore the Government needs to manage these funds (interview, government official, Zimbabwe; interview, government official, Zimbabwe). Interestingly, the same senior government official also stated that ZIMDEF being accountable to government "will avoid any situations of misappropriation of funds and lack of accountability" (interview, government official, Zimbabwe) – which does not follow logic, given the allegations while ZIMDEF has been accountable to government.

Although ZIMDEF itself is not directly involved in the delivery of training, the absence of a board to date, and the associated direct reporting to the Minister, results in an obvious conflict of interest vis-à-vis the use of ZIMDEF funds to support the Ministry-run public TVET providers such as polytechnics and technical colleges. For example, the vocational training centres run by the Ministry of Youth, Indigenization and Economic Empowerment receive no funding from ZIMDEF (UNESCO 2018b).

Description of fund management

The ZIMDEF fund is managed by staff at ZIMDEF, headed by a CEO.

ZIMDEF reportedly produce quarterly and annual reports for the Ministry of Higher and Tertiary Education, Science and Technology Development and Parliament (interview, organization managing the fund, Zimbabwe). A senior government official said that "the last audit report was a very good report, and in there [ZIMDEF] show all that was collected and how it was used" (interview, government official, Zimbabwe).

However, these reports are not made public, nor is there any annual report on the ZIMDEF website. A representative from a workers' organization stated that "the management of the fund does not give regular briefings and does not seek for input on a regular basis from the employer and workers' organizations" (interview, workers' organization, Zimbabwe).

Financial management of ZIMDEF is not transparent and there are no public financial statements on the ZIMDEF website. The only place to find this information appears to be the website of the Office of the Auditor General in Zimbabwe, which contains a copy of ZIMDEF's financial statement, but only for the 2016 financial year. The regular monitoring and tracking of expenditure is done by the Ministry, but "this has not been done properly over the past few years given the connivance of the Ministry and the former CEO of the fund" (interview, government official, Zimbabwe).

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United Republic of Tanzania.

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Appendix I. Methodology

The assignment included a review of global good practice (as identified through a literature review) with a review of the skills development levy funds in the eight selected SADC countries (Botswana, Malawi, Mauritius, Namibia, South Africa, United Republic of Tanzania, Zambia and Zimbabwe).

For the eight SADC countries, a mixed methods approach was adopted, including:

- reviewing publicly available information related to training funds;
- key informant interviews;
- electronic survey;
- review of the financial data of the funds.

Secondary data collection and analysis

Literature review of global evidence

A literature review was drafted to summarize the global experience of training funds and identify key issues and success factors that would provide a wider context for the review of funds in the SADC subregion.

Review of publicly available information related to training funds in the eight SADC countries

There is quite a large quantity of general information in the public domain on the basic context of training funds in the countries under review. For example, relevant information is contained in the UNESCO TVET policy reviews for Malawi (2010 and 2019), Namibia (2016) and Zimbabwe (2018), the UNEVOC World TVET database, commissioned reviews for some countries (such as Andreoni 2018), World Bank project appraisal documents (where TVET projects exist in the SADC countries under review), and the websites of the training funds themselves (table A1.1). Other public documentation was sourced via various Internet searches. Publicly available literature for two of the study countries – the United Republic of Tanzania and Zimbabwe – was more limited than for the other six countries in the study.

The organizations managing the national training funds in each country were contacted and invited to share their more recent annual reports (where available or existing).

Table A1.1. Websites on the SADC countries' training funds

Country	Website
Botswana	www.hrdc.org.bw
Malawi	www.teveta.mw
Mauritius	www.hrdc.mu
Namibia	www.nta.com.na
South Africa (National Skills Fund)	www.dhet.gov.za/NSF/
United Republic of Tanzania	www.tea.or.tz/skills-development-fund
Zambia	www.teveta.org.zm
Zimbabwe	www.zimdef.org.zw

As a first step, this publicly available information was reviewed and synthesized. For each country, draft notes were prepared for the interviewers highlighting what is currently known about each training fund (from the public information), and what the information gaps and issues for clarification are. Interviewers were then asked to fill these gaps and verify core information as part of the key informant interviews.

Financial data

It was originally hoped to do a trend analysis of the financial performance of the funds over the last five years. However, there was uneven availability of financial data in the public domain, and some resistance from training funds to release any financial data that were not already in their public annual reports. As some countries did not even have annual reports, there were several gaps. Also, comparability between financial data was limited to the data presented in the public reports. It should be noted that the Mauritius Human Resource Development Council (HRDC), the Namibia Training Authority (NTA) and the Zambia Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) were particularly helpful in providing the latest annual reports to the lead consultant. The Botswana Human Resource Development Fund wanted to share the latest report, but was unable to do so as it had not been approved by the board. Obtaining data from Malawi, the United Republic of Tanzania and Zimbabwe proved to be the most difficult.

Summary of available financial data

- **Botswana.** Annual reports of the Human Resource Development Fund were available for the four-year period 2014/15 to 2017/18. The 2018/19 report was complete, but the Human Resource Development Fund management were unable to share it as the board had not approved it.
- **Malawi.** The latest annual report available online from TEVETA Malawi was 2014/15. After significant efforts on the part of the fieldwork professional in Malawi (Dr Mwakilama), the 2016/17 annual report was obtained.
- **Mauritius.** The last four annual reports of the Mauritius HRDC, including the 2019 report, were available (with the most recent one being sent by the Mauritius HRDC).
- **Namibia. The last four annual reports of the** NTA, including the 2019 report, were available (with the most recent one being sent by the NTA).
- **South Africa.** The National Skills Fund annual reports were available for the period 2013–18. Annual reports of the various SETAs were available online, and this report looked at merSETA (SETA for Manufacturing, Engineering and Related Services) as a case study.
- **United Republic of Tanzania.** The Tanzania Education Authority, which manages the Skills Development Fund, has not published annual reports since financial year 2013/14.
- v**Zambia.** Annual reports of TEVETA Zambia were available for the period 2015–18 (with the most recent one being sent by TEVETA).
- **Zimbabwe.** The website of the Zimbabwe Manpower Development Fund (ZIMDEF) was frequently offline, but when access was finally achieved there were no ZIMDEF annual reports available. Through Internet search it was possible to find one public document from the Office of the Auditor General, the ZIMDEF audited financial statement of 2016.

Primary data collection and analysis

Key informants

A comprehensive list of key informants from workers' and employers' organizations, from the organizations managing the training funds, and from government was compiled. This list comprised 141 persons: Botswana (21); Malawi (18); Mauritius (14); Namibia (12); South Africa (21); United Republic of Tanzania (20); Zambia (21); Zimbabwe (13); SADC subregion (1).[52]

Challenges. While it was possible for the ILO to provide 45 names of key informants (not all with contact information),[53] more time was spent than expected by the lead consultant in sourcing contact information for the names provided, as well as compiling a more comprehensive list of key informants.

Selected key informant interviews

An in-depth interview discussion guide was drafted by the lead consultant, with inputs from the ILO team (see Appendix II).

The original aim was to have 24–32 key informant interviews across the eight SADC countries under review; this was to cover three to four interviews per country, including key persons from government and employers' and workers' organizations.

In the end, it was possible to undertake 34 key informant interviews (see Appendix III for a full list of organizations): Botswana (4); Malawi (4); Mauritius (4); Namibia (4); South Africa (6); United Republic of Tanzania (4); Zambia (4); Zimbabwe (4). The aim of these key informant interviews was to verify information obtained from the public sources, and to seek clarification on issues, but also to provide an opportunity for the creation of richer insights into the challenges and opportunities in each country in relation to fund functionality, performance and governance.

The lead consultant worked with a partner in South Africa, Professor Salim Akoojee, to support the selected key informant interview process.[54] Salim Akoojee's role was to identify and manage (and ensure the quality of) a number of key informant interviewers who could conduct face-to-face interviews in some of the eight SADC countries, as well as conduct some of the interviews directly, via suitable electronic media. The list of fieldwork professionals involved in conducting the in-depth interviews is shown in table A1.2.

52 For data protection purposes, this full list of SADC stakeholders is not included in this report.

53 Botswana (4); Malawi (4); Mauritius (9); Namibia (5); South Africa (6); United Republic of Tanzania (8); Zambia (5); Zimbabwe (3); SADC subregion (1).

54 Salim Akoojee, a South African national, is an independent education and skills consultant and Associate Professor (Hon.), University of the Witwatersrand, Johannesburg. He formerly worked as a Senior Programme Manager (Research and Sector Skills Planning) at the Manufacturing, Engineering and Related Services Sector Education and Training Authority (merSETA) in Johannesburg, and before that was the Chief Researcher at the Human Sciences Research Council of South Africa.

▶ **Table A1.2. List of identified fieldwork professionals who conducted key informant interviews**

Country	Fieldwork professional	Contact details
Mauritius (Port Louis)	Kaylash Allgoo, PhD	kaylash_allgoo@yahoo.com
Malawi (Lilongwe)	Shawo G. Mwakilama, PhD	smwakilama@yahoo.co.uk
United Republic of Tanzania (Dar es Salaam)	Emmanuel J. Munishi, PhD	e.munishi@cbe.ac.tz
Zimbabwe (Harare)	James Kumbirai Jowa, MA	jowaj2009@gmail.com, jowaj@yahoo.com
Namibia (Windhoek)	Alpheas Chipapa Shindi, MA	alishindi@yahoo.com
Zambia (Lusaka)	Protasio Chipilu, MSc	pmchipulu@yahoo.co.uk/, sbi.protasio.chipulu@gmail.com
Botswana (Gaborone)	Ezekiel Raisaka Thekiso, MA	ethekiso@hotmail.com
South Africa (Pretoria)	c/o: Salim Akoojee, PhD	saimakoojee@live.co.za

Challenges. There were some delays due to respondent availability. This was despite having incountry personnel (in the form of fieldwork professionals) who were able to follow up in person or by local phone.

Online survey

A structured online survey was developed by the lead consultant, with comments received on it by the ILO. The questions were transferred to the online survey tool, SurveyMonkey, and then individual emails were sent out by the lead consultant to the 141 persons on the stakeholder list.[55] It was hoped that this would be a relatively easy way to reach out to a relatively large number of people.

The survey was never intended to be representative of different stakeholder groups, but to be more illustrative and qualitative in nature. It yielded quite a number of interesting quotes.

Challenges. The online survey approach did not yield as many responses as hoped for; after one month of being open only 32 responses had been received from the 141 individual emails sent (a response rate of 22 per cent): Botswana (3), Malawi (7), Mauritius (3), Namibia (4), South Africa (4), United Republic of Tanzania (5), Zambia (4) and Zimbabwe (2). As a next step, the lead consultant invited the employers' organizations in each country to forward the link to all their members; this invitation was only taken up in Zambia and resulted in an additional 36 responses from Zambian employers. The total number of responses to the online survey was therefore 68. As the survey was not representative, and almost 60 per cent of respondents ended up being Zambian employers, it did not make sense to refer to some of the results in aggregate. In future, it is suggested that online surveys of this sort, if not designed to be representative, should focus more on qualitative questions. Further, reaching out to employers' and workers' organizations from the start, and asking them to share a survey with their members, could be a useful approach.

55 The original aim was to send the online survey to a minimum of 80 persons/organizations (ten per country).

Appendix II. SADC training funds: Themes and questions for indepth interviews

Information was collected on each respondent, including name, job role, institution, and length of time in that employment.

Section 1. Specific opening questions for different categories of respondents

For policymakers (government representatives)

- How does the government view the training fund? Explain. (Probing question: Does the government consider the training fund a success? Why? Why not?)
- Does the [insert name of organization managing the training fund] do a good job in managing the training fund? What works well? What challenges exist?
- What should be the government's role in a training fund? Does the government play this role in [insert country]? Explain.
- What should levy-paying companies' role be in a training fund? Do levy-paying companies play this role in [insert country]? Explain.
- What should employers' and workers' organizations' role be in the training fund? Do employers' and workers' organizations play this role in [insert country]? Explain.

For organizations running the training fund

- Briefly explain how your organization came to be involved in the training fund.
- How did you select the board of the fund? And decide what role they play?
- How significant is the training fund within your organization?
- What would happen to your organization if the training fund did not exist?
- What else does your organization do? (Note to interviewer: we want to find out if the organization running the training fund is also directly involved in the delivery of training.)

For workers' organizations

- How do workers/employees view the training fund? Explain. (Probing question: Do workers/employees consider the training fund a success? Why? Why not?)
- Does the [insert name of organization managing the training fund] do a good job in managing the training fund? What works well? What challenges exist?
- Do workers' organizations have an active/influential role in the fund? What role does your organization play in the training fund?
- How could workers' organizations have a greater role in the management and governance of the fund?

For employers' organizations

- How do employers and employers' organizations view the training fund? Explain.
  - Probing question: Do employers/employers' organizations currently consider the training fund a success? Why? Why not?
  - Probing question: How did the employers/employers' organizations view the training fund at the outset? How (and why) has that changed (if at all)?
- Does the [insert name of organization managing the training fund] do a good job in managing the training fund? What works well? What challenges exist?
- Do employers' organizations have an active/influential role in the fund? What role does your organization play in the training fund?
- How could employers' organizations have a greater role in the management and governance of the fund?

Section 2. Main questionnaire: General questions for all

Fund purpose(s): Objectives and goals of the training fund

- What is the primary purpose of the training fund (its objectives and goals)?
- What is your view of the training fund objectives/goals?
- How were the training fund objectives/goals determined and by whom?
- Have the objectives/goals changed in the last five years? How and why?

Fund mobilization: Where the funding for the training fund comes from

The levy rate and who should pay

- Is the levy at an affordable rate? How was the rate decided?
- Who should pay the levy? How was this decided?

Levy collection

- What are the main challenges with regard to levy collection? Do all those that should pay, pay?
- How could the collection methods be improved?
- To what extent do companies/enterprises view the training levy as just another form of taxation?
- How transparent is the training fund management with regard to how much is actually collected by the levy each year?
- Does all the levy get paid into the training fund? If not, what else is it spent on (and what percentage)?

Sustainability

- Is the training fund sustainable in its current form? Explain.

Fund expenditure: Where funds are spent

- Who determines where funds are spent?
- Do you think the actual expenditure from the fund supports the stated objectives of the fund?
- What activities (broadly) are currently funded? Describe the types and levels of training covered by the training fund.
- What activities do you think should be funded through the levy that currently are not?
- Over the last five years have there been any significant changes to how funds from the training fund have been spent?
- How transparent is the training fund management with regard to where funds are spent?
  - What happens when collected funds are not spent in a financial year?
  - Do any organizations or enterprises receive preferential treatment when it comes to receiving funds? Explain.
- How effective is the monitoring and tracking of fund expenditure?

Fund allocation mechanisms: How funds are allocated

- Who determines how funds are spent?
- What works well and what does not work so well with regard to how funds are allocated from the training fund?

Fund effectiveness: Training and labour market outputs and outcomes of training fund expenditure

- Are the objectives and goals of the training fund being achieved? Explain.
- What would happen to TVET/skills development in [insert country name] if the training fund did not exist?
- How effective is the training fund's monitoring and evaluation system at assessing the training and labour market outputs and outcomes of the training fund expenditure?
- How does the training fund contribute to the national public education and training/skills system? What evidence is there of this?
- How does the training fund help to improve access to training for disadvantaged groups? What evidence is there of this?
- How does the training fund help to improve enterprise performance? What evidence is there of this?
- How does the training fund incentivize enterprises to train their employees? What evidence is there of this?
- How does the training fund help to improve individual employability? What evidence is there of this?
- To what extent are the fund's objectives achieved?

Fund management and governance: How funds are managed and governed

- Who decides on the fund governance arrangements?
- Do workers' and employers' organizations have a sufficient role in the management of the fund? Explain.
- Should the governing board of the training fund have autonomy from government to make decisions? Why? Why not?
- Is the training fund well managed? What is the evidence? What could be improved?
- Is the training fund well governed? What is the evidence? What could be improved?

Enabling environment: Other factors that are enabling or inhibiting training fund success

- Are there any issues that affect the success of the training fund? Explain.

Overall

- What is the biggest success of the training fund? Explain.
- What is the biggest challenge facing the training fund? Explain.
- What do you see as the future of this fund in general?

Appendix III. List of key stakeholders interviewed

Those who participated in the in-depth interviews included the following.[56]

Botswana: Mothusi Masole (HRDC); Thusang Butale (Botswana Federation of Trade Unions); Anonymous (Business Botswana); Anonymous (Ministry of Employment, Labour Productivity and Skills Development).

Malawi: Joseph Kankhwangwa (Malawi Congress of Trade Unions); Anonymous (Department of TEVET, Ministry of Labour); Anonymous (TEVETA); Anonymous (Employers Consultative Association of Malawi).

Mauritius: Pradeep Dursun (Business Mauritius); Haniff Peerun (Mauritius Labour Congress); Anonymous (Ministry of Education and Human Resources, Tertiary Education and Scientific Research); Anonymous (HRDC).

Namibia: Bro-Matthew Shinguadja (Ministry of Labour, Industrial Relations and Employment Creation); Tim Parkhouse (Namibia Employers Federation); Virginia Kaimu (Namibia Training Authority); Joseph Mukendwa (formerly of Namibia Training Authority).

South Africa: Beverley Jack (Business Unity South Africa); Zukile Mvalo (Department of Higher Education and Training); Melissa Erra (National Skills Fund); Anonymous (National Skills Authority); Anonymous (Federation of Unions of South Africa); Anonymous (merSETA).

United Republic of Tanzania: Yahya Msigwa (Trade Union Congress of Tanzania); Aggrey Mlimuka (Association of Tanzania Employers); Anonymous (Ministry of Education, Science and Technology); Anonymous (Vocational Education and Training Authority).

Zambia: Muzano Simumba (Ministry of Higher Education); Hilary Hazele Chilala (Zambia Federation of Employers); Anonymous (Zambia Congress of Trade Unions); Anonymous (TEVETA).

Zimbabwe: Simon Masanga (Ministry of Public Service, Labour and Social Welfare); Fanuel Tagwira (Ministry of Higher and Tertiary Education, Science and Technology Development); Nester Mukwenha (Employers' Confederation of Zimbabwe); Japhet Moyo (Zimbabwe Congress of Trade Unions).

56 Permission to mention these contributors by name was obtained by email by the author (except in the case of South Africa, where permission was obtained by Salim Akoojee on behalf of the lead consultant). Where no response was received in relation to acknowledging individuals by name, they are listed as "anonymous".

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