

An Assessment of the Skills Development Levy Systems in Southern African Development Community (SADC) Countries

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Contents

EXECUTIVE SUMMARY	7
SECTION A	17
1. Introduction.....	17
2. Levy-Financed Training Funds: International Good Practice and Lessons	20
2.1. Background	20
2.1.1. Levy-financed training funds	22
2.2. Fund Purpose	23
2.2.1. What types of levy-financed training funds are there?	23
2.2.2. What are the usual purposes of levy-financed training funds?	23
2.2.3. National versus sectoral levy-financed training funds	24
2.3. Fund Mobilization	25
2.3.1. What should be levied?	25
2.3.2. How much levy?	26
2.3.3. Who should pay levies?	26
2.3.4. How should levies be collected?	27
2.4. Fund Expenditure	27
2.4.1. What training related services should levy-financed training funds support?	27
2.5. Fund Governance and Management	28
2.5.1. How do you get employer support?	28
2.5.2. What does good governance of a levy-financed training fund look like?	29
2.5.3. What does good management of a levy-financed training fund look like?	30
2.5.4. What monitoring is needed?	30
2.6. Fund Allocation.....	31
2.6.1. How should funds be allocated and on what basis?	31
2.6.2. Disbursement mechanisms targeting individual workers	34
2.6.3. Administrative issues of allocating funds	34
2.7. Fund Effectiveness.....	34
2.7.1. How should the effectiveness of levy-financed training funds be assessed?	34
2.7.2. What is the evidence that levy-financed training funds impact on individual employability, enterprise performance and sector growth?	35
2.7.3. What are some of the risks associated with levy-financed training funds?.....	37
2.8. Enabling Environment	38
3. An Assessment of the Skills Development Levy Systems in SADC Countries: Synthesis.....	41
3.1. Introduction.....	41
3.2. Objectives of the SADC Training Funds	41
3.3. Fund Mobilization: The Levies that Finance the SADC Training Funds	43
3.3.1. Levy rate, base and exemptions	43
3.3.2. Method used to collect the levy	44
3.3.3. Compliance and penalty	45

3.3.4.	Fund income and sustainability	45
3.3.5.	Employers' and workers' views of the levy	46
3.4.	Fund Expenditure	46
3.4.1.	Who decides?.....	46
3.4.2.	Types of allowable expenditure under the Training Funds	47
3.4.3.	Where funds have actually been spent	48
3.4.4.	Accumulated surplus	50
3.5.	Fund Allocation Mechanisms	50
3.5.1.	Allocation of funds to employers for training	50
3.5.2.	Incentivizing enterprises to train their employees	52
3.5.3.	Allocation of funds in relation to formal institution-based TVET providers.....	54
3.5.4.	Allocation of funds to individual learners	55
3.6.	Fund Effectiveness.....	55
3.6.1.	Improving access to training for disadvantaged groups.....	55
3.6.2.	Improving enterprise performance	56
3.6.3.	Improving individual employability.....	57
3.6.4.	Contribution of the training fund to national public education and training system.....	57
3.6.5.	Responsiveness to national skills priorities.....	58
3.7.	Fund Management and Governance	58
3.7.1.	Fund governance	58
3.7.2.	Fund management	60
3.8.	Recommendations	61
SECTION B		65
4.	Summary of Levy-financed Training Funds in Selected SADC Countries.....	65
4.1.	BOTSWANA COUNTRY BRIEF	69
4.2.	MALAWI COUNTRY BRIEF.....	77
4.3.	MAURITIUS COUNTRY BRIEF	92
4.4.	NAMIBIA COUNTRY BRIEF	104
4.5.	SOUTH AFRICA COUNTRY BRIEF	116
4.6.	TANZANIA COUNTRY BRIEF	132
4.7.	ZAMBIA COUNTRY BRIEF	143
4.8.	ZIMBABWE COUNTRY BRIEF.....	154
References		164
Annex 1. Methodology		173
Annex 2. SADC Training Funds: Themes and Questions for In-Depth Interviews		177
Annex 3. List of Key Stakeholders Interviewed.....		180

List of Acronyms

ADB	Asian Development Bank
ATE	Association of Tanzania Employers
BOTA	Botswana Training Authority
BQA	Botswana Qualifications Authority
BURS	Botswana Unified Revenue Services
CEDEFOP	European Centre for the Development of Vocational Training
Danida	Danish International Development Agency
DFAT	Department of Foreign Affairs and Trade (Australia)
DFID	Department for International Development (UK)
DHET	Department of Higher Education and Training Republic of South Africa
ESPJ	Education and Skills for Productive Jobs Programme (World Bank)
ETF	European Training Foundation
ETG	Employer Training Grant (Namibia)
GoB	Government of Botswana
GoM	Government of Malawi
GoT	Government of Tanzania
GoZ	Government of Zimbabwe
GTES	Graduate Training for Employment Scheme (Mauritius)
HESLB	Higher Education Student Loan Board (Tanzania)
HRDC	Human Resource Development Council
HRDF	Human Resources Development Fund (Botswana)
ILO	International Labour Organisation
ISC	Industry skills committee (Namibia)
IVTB	Industrial Vocational Training Board (Mauritius)
merSETA	Manufacturing, Engineering and Related Services SETA
MoHE	Ministry of Higher Education
MQA	Mauritius Qualifications Authority
MRA	Malawi Revenue Authority / Mauritius Revenue Authority
NAMACO	National Manpower Advisory Council (Zimbabwe)
NSA	National Skills Authority (South Africa)
NSDP	National Skills Development Programme (Mauritius)
NSDS	National Skills Development Strategy
NSF	National Skills Fund
NTA	Namibia Training Authority
NTFC	National Training Fund Council (Namibia)
OAG	Office of the Auditor General
PSET	Post School Education and Training
QCTO	Quality Council for Trades and Occupations
RoM	Republic of Mauritius
RoZ	Republic of Zambia
RSA	Republic of South Africa
SADC	Southern African Development Community
SAFLII	Southern Africa Legal Information Institute
SARS	South African Revenue Service
SDC	Swiss Agency for Development and Cooperation
SDL	Skills development levy
SDF	Skills Development Fund
SDP	Skills Development Plan, 2016-2020 (Namibia)

SETA	Sector Training and Education Authority
SME	Small and Micro Enterprise
SMME	Small Medium and Micro Enterprise
SSP	Sector Skills Plan
STEM	Science, technology, engineering, and mathematics
TEA	Tanzania Education Authority
TEVET	Technical, Entrepreneurial and Vocational Education Training
TEVETA	Technical, Entrepreneurial and Vocational Education Training Authority
TRA	Tanzania Revenue Authority
TVET	Technical and Vocational Education and Training
UNESCO	United Nations Educational, Scientific and Cultural Organisation
USD	United States Dollar
VET	Vocational Education and Training
VETA	Vocational Education and Training Authority (Tanzania)
VTC	Vocational Training Centre
ZFE	Zambia Federation of Employers
ZIMDEF	Zimbabwe Manpower Development Fund
ZRA	Zambia Revenue Authority

Exchange rates

Xe.com 28.09.19

Botswana

1 BWP = 0.0905796 USD

Malawi

1 MWK / K = 0.00136559 USD

Mauritius

1 MUR / Rs = 0.0274019 USD

Namibia

1 NAD = 0.0659945 USD

South Africa

1 ZAR = 0.0659945 USD

Tanzania

1 TZS = 0.000434939 USD

Zambia

1 ZMW / K = 0.0758955 USD

Zimbabwe

1 ZWD = 0.00276319 USD

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Foreword

This study was commissioned by the International Labour Organization (ILO) in response to a direct request of Southern African Development Community (SADC) regional employer and worker representatives to assess the skills development levy systems in selected SADC countries.

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 of 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 sectoral, or industry-specific, to support a particular sector (e.g. tourism, extractive industries). Training funds can be financed by employer levies, public subsidies or donor financing.

This review focusses on levy-financed training funds in eight Southern African Development Community (SADC) countries: Botswana, Malawi, Mauritius, Namibia, South Africa, 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 organisations managing the training funds, from workers' organisation and from employers' organisations). As this is a fairly high level review, the recommendations for the 8 SADC countries as a whole, as well as the country briefs in Section 2 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/or better communicated.*** Statements on the main purpose of the levy often don't match well with what key national stakeholders perceive the levy to be for, or what the levy actually gets spent on. Malawi, 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 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 8 SADC countries, the training funds in Malawi, Tanzania, Zambia and Zimbabwe do not make reference to increasing the incidence of training by firms in the fund objectives.
- ***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% - 4.5%, with the average being 1%. In terms of levy rate, the outlier is Tanzania, with a 4.5% 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, under 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, 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 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 that not only would the levy continue to come in, but that it would increase year on year. However, in at least two countries (Malawi, Tanzania), employers' and workers' organisations expressed concern about the very sustainability of the levy.

A majority of employers' and workers' organisations 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 noted their dissatisfaction with the levy on the basis that there is a lack of clarity, transparency and/or agreement on the allocation of the levy (Tanzania, Zambia).

Recommendations:

- **Tanzania should consider a levy rate review, ensuring to involve employers' and workers' organisations centrally in the process.** Most SADC training funds are financed via a payroll levy averaging about 1%; this rate is in line with commonly agreed rates across various countries and regions of the world. However, Tanzania's levy rate of 4.5% is quite a lot higher than international experience.
- **Malawi, Mauritius and Zimbabwe should consider introducing a threshold to levy payment, under which employers are not liable.** This is because small and micro-enterprises (most of whom operate in the informal economy) are less able to pay a levy (due to lower profit margins and/or cash-flow), 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 such small and micro-enterprises might outweigh the levy revenue received) and oftentimes almost impossible (based on

current lack of registration of most small and micro-enterprises, 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 entities managing the training fund that 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 minimise issues related to conflict of interest, detailed financial statements of levy collection and disbursement should be made public, and 3rd 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 approval of the government. In Zimbabwe's case, as there is no Board, the parent ministry determines the budget and then informs 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, Zambia); Disadvantaged groups' training (Botswana, Malawi and South Africa); Public vocational training programs, including indirect costs related to formal apprentices' expenses and direct costs like training infrastructure, equipment, trainers, (all SADC countries to varying degrees).

Expenditure on administrative and operating costs of the funds ranged significantly across the SADC countries in the study, from about 4% in Zambia to ten times that (40%) in Malawi. In South Africa, Namibia, Mauritius and Botswana, administration costs, including levy collection costs, ranged from 11-15% (Table i).

Training funds in Botswana and Mauritius provide their levy-paying employers with the highest direct return on their levy contribution, returning between 33-38% of the levy received to the firms in the form of training reimbursement. Namibia and South Africa return about 14% 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% of levy income back to levy paying firms as direct cost reimbursement on employee training. 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 Board¹ themselves - most of which relates to pre-employment institution-based training in public institutes – typically represents the bulk of training fund expenditure; between 20-70% of training fund expenditure. 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

¹ In the case of Zimbabwe, where there is no Board for ZIMDEF, this refers to the parent ministry.

training employees, went unspent and was reallocated to training determined directly by the fund's Board.

Table i. Proportion of Employer Training Levy Allocated to Key Areas (annual average %, based on actual expenditure, unless otherwise stated)

	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) (i)	<1%	33%	41%	10%
Mauritius (2017-18)	38%	18%	12%	22%
Namibia (2014-18)	14%	>70%	15%	<i>No data</i>
South Africa (NSF & merSETA, 2016-18) (ii)	14.5%	62%	11%	12.5%
Tanzania	0% (*)	<i>No data</i>	<i>No data</i>	<i>No data</i>
Zambia (2018) (iii)	3%	36%	>4%	58%
Zimbabwe (2015-16)	0% (*)	66%	28%	7%

Source: Country briefs, this report. (i) Malawi - about 15% of levy expenditure is also allocated to bad debts; (ii) South Africa – based on 20% total levy to NSF (18% training projects; 2% admin) and 80% to SETAs (merSETA example: 44% training projects / discretionary grants; 14.5% employer grant; 9% admin; 12.5% surplus); (iii) Zambia - based on actual expenditure of levies remitted to TEVETA, and estimated total levy income received; * There is no mechanism in Tanzania and Zimbabwe to provide grants to employers.

In all SADC countries in the study for which there was data, a sizeable amount of the levy collected annually ended up accruing as a surplus; ranging from 7-58% of the collected levy.

In all SADC countries studied, where data exists, training funds have accumulated large surpluses from their respective training levies (Fig i).

Fig i. Accumulated surplus in selected SADC training funds

Country	Accumulated surplus amount
Botswana	USD 63m
Mauritius	USD 37m
South Africa (National Skills Fund)	USD 440m
Zimbabwe	USD 70m

Source: Country Briefs, Section B

Namibia, South Africa (SETAs) and Zambia also have accumulated surpluses, but the aggregated amounts are not known. In Malawi, there is no public data on the extent of any surplus. In both South Africa and Mauritius, the government 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 that are regarded as an annual or accumulated surplus, since most of what appears to be a surplus are actually committed funds for training programs that haven't taken place yet. While this argument is logical and could account for some annual under-spending 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, Zimbabwe, South Africa) should consider undertaking periodic reviews of the levy rate, and develop 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 (e.g. 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 TEVET authority (TEVETA) responsible for managing the training fund is very heavily reliant on the levy for a large proportion of its overall income; and so it finds itself in a situation where over 40% of total levy income is spent on governance, management, quality assurance, communications and M&E – and not on training. TEVETA needs to move away from such a heavily 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 50% of levies received in a given financial year would be allocated to employers for training.

FUND ALLOCATION MECHANISMS

All funds in the study that operate structured employer training incentive mechanisms do so on the basis on levy-grant schemes, either cost-reimbursement or grants schemes. The most common form of employer training incentive scheme (found in Malawi, Mauritius and Namibia) is a cost-reimbursement scheme where 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 minimum a structured training plan (to be approved before training commences) and associated receipts and other paper work 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) as well as benefit from discretionary grants. 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% of the total number of levy payers contributing into the Fund claimed from the HRDF. In Malawi (2017), only 13 companies benefitted 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, South Africa); the type of training eligible for reimbursement (Botswana, Mauritius); a lack of awareness among employers (Malawi, Zambia).

Allocation of funds in relation to formal institution-based TVET providers is either done through issuing expressions of interest, and/or by making pre-determined 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 either provided to employers, to training institutions or to individuals in the form of stipends/bursaries as substitute for wages.

None of the SADC training funds reviewed provide 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 ensuring that the type of training eligible for reimbursement is less class-room based and more oriented to employer need (especially Botswana, Mauritius), as well as addressing a lack of awareness among employers about the employer training grants, eligibility and application process.
- ***In 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 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 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 and as such, effectiveness is difficult to judge. 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, 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/vulnerable groups. Both Zimbabwe and Malawi deploy approaches that may actually end up widening inequality of access. In Zimbabwe, some aspects of ZIMDEF's fund expenditure, like supporting polytechnic students, de facto excludes poorer students who have not been able to make it to tertiary education. Similarly, in Malawi, the subsidy financing approach adopted by TEVETA 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, Tanzania, Zambia, Zimbabwe). In South Africa, a perception survey of approximately 2,000 employers found that a majority of employers believe that levy-supported training has impacted favourably on their companies. Anecdotal opinions were put forward by some interviewed stakeholders in a number of countries reviewed (e.g. Botswana, Mauritius and Zimbabwe), claiming that enterprise performance was improved as a result of the levy-funded training. In several countries reviewed, there is an assumption that training levy funds channelled to formal technical and vocational institutes will 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 don't 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 incentivised 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 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% 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 Tanzania and Zimbabwe.

In the SADC countries reviewed, evidence on the extent to which training funds have improved individual employability is either 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 Tanzania, but it should be recalled that tracer studies are not evidence that the training itself led to the employment rates 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 funds 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 Tanzania, the organisations managing the training funds (NTA and VETA respectively) also run public vocational training centres; the bias 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 (e.g. Malawi, Mauritius, 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 programs and institutes connected to, or accredited by, the Ministry for 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, Tanzania, 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, to better monitor the efficiency of the fund itself (e.g. efficiency of the application processing, time taken to process and pay a claim, the uptake rate - % of levy-paying firms applying to available training grants etc).***
- ***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, Tanzania, Zambia) actually "govern", versus the real decision maker being the parent ministry.

In most cases, the training funds are not themselves separate entities but 'live' within organisations that have a wider remit than only the training fund (Botswana, Malawi, Mauritius, Namibia, South Africa's National Skills Fund, Tanzania, 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 (e.g. fund allocation areas/criteria, budget decisions) usually have to be approved by the respective government anyway.

In Malawi, Tanzania, Zimbabwe, and – to a lesser extent – Namibia, the organisations 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' organisations and workers' organisations 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, Tanzania's VETA, Zambia), the training funds are typically managed by a dedicated department within that organisation. 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 private sector, as well as employers' and workers' organisation representation 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, Tanzania and Zimbabwe need to be addressed. In both Malawi's and Namibia's cases, the organisation managing the training fund is a levy collector, spender, provider of training and TEVET regulator, resulting in conflicts of interest. In Namibia's case this is partially mitigated with the ring-fencing of the levy funds within the NTA, where it is controlled by a separate Board with employer and worker representatives. In Tanzania's case, the Vocational Education Training Authority (VETA) receives a proportion of the levy (as decided by the ministries of finance and education) which VETA is, in turn, responsible for allocating; meanwhile, VETA's triple role as training provider, financier and regulator result in conflicts of interest. In Zimbabwe's case, 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 in relation 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 (Tanzania, 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 organisations managing the training funds would strengthen 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, Zambia) which 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 organisation managing the training fund, and in Tanzania and Zimbabwe's cases there are no annual reports available.

SECTION A

1. Introduction

The Southern African Development Community (SADC) region is making considerable strides to achieve its mission of promoting sustainable equitable economic growth and development, enhancing the standard of living and livelihoods of the people of Southern Africa including the socially disadvantaged. Right from its Regional Indicative Strategic Development Plan (aimed at regional integration), to its Industrialization Strategy (which serves as a roadmap to a diversified, employment targeted, innovative and globally competitive industrial base), to the SADC Free Trade Area, Economic Partnership Agreement and the launch of the COMESA-EAC-SADC Tripartite Free Trade Area and the Continental Free Trade Area, progress is being made both at policy level and in practice.

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

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

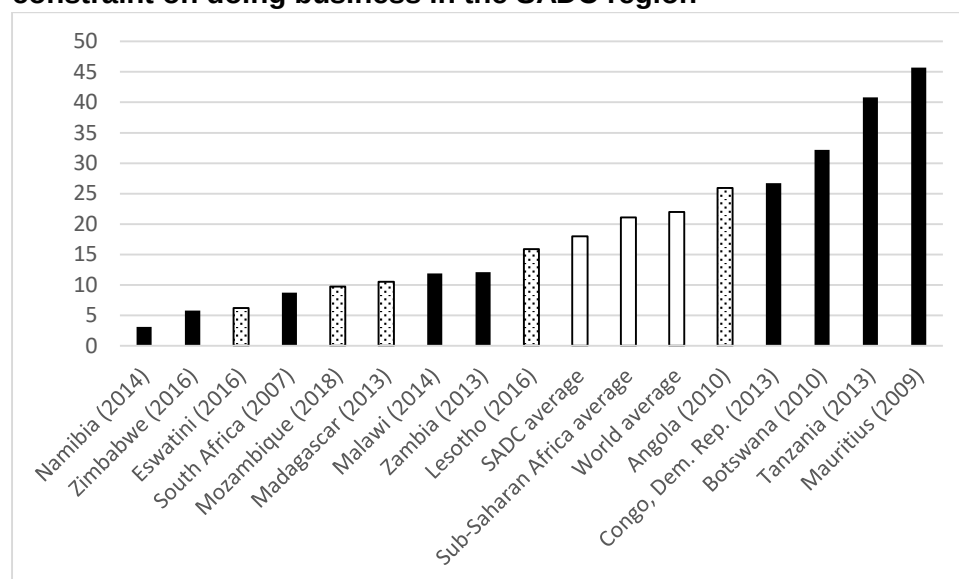
Country	Source type	Informal employment and informal sector as a percent of employment	
		Informal employment	Employment outside the formal sector
Botswana	no data	-	-
Malawi	Household survey (2012)	97	93
Mauritius	Labour force survey (2017)	52	39
Namibia	Labour force survey (2018)	56	57
South Africa	Labour force survey (2018)	35	45
Tanzania	Labour force survey (2014)	91	87
Zambia	Labour force survey (2017)	71	60
Zimbabwe	Labour force survey (2011)	86	77

Source: ILOSTAT. Last update on 12AUG19 (www.ilo.org/ilostat)

There is generally a mismatch between skills supply and demand of labour in all countries in the SADC sub-region 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 (Fig 1). This challenge for industry is exasperated by the constantly changing world of work where technological innovation is now profoundly affecting

job requirements and skills demand and the lack of capacity of the skills development systems to keep up with these demands.

Fig. 1. Percentage of firms identify inadequately trained employees as a major constraint on doing business in the SADC region



Note: black bars refer to SADC countries with training levies currently in place

Source: enterprisesurveys.org (accessed 15.08.19)²

In an effort to address these challenges, governments in the region have introduced skill reforms which have included a range of initiatives; these include, for example, increasing the proportion of work-based learning (through formal apprenticeships, internships). Further, governments are trying to involve the private sector more in the design and implementation of the educational curricula/training programmes with the aim to create a more equal share between enterprises and Governments when it comes to financing training activities. The intended objective is to try and bring together supply and demand from training while creating new opportunities in the training market. Although most of these initiatives have been in existence for a while now, the real benefits are yet to be realized. Financing has also been given greater attention, and not only from the perspective of looking for ways 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 and demand for skills. One such approach are the use of skills development levies.

Skills development levies have been in existence in some SADC countries for over 10 years. The levies are charged either as a percentage of the wage bill or turnover. In some countries the skills levy legislation provides exemptions for SMEs. In terms of utilization, employers who have incurred training costs are entitled to some form of partial reimbursement from the training of skills levy or through tax incentive by allowing such expenses deductible for tax purpose. While the levies are reported to be working well in some sectors, the majority of sectors - and employers and employees within them - are not really reaping the benefits. For those business that are not benefiting from the levies, it is seen as an additional tax which is simply another cost to doing business. This is besides the cost of robust institutional arrangements which ensure private sector and workers participation in the boards of technical

² In Mozambique, a National Training Fund has been established with the intention for it to be part funded by a 1% payroll levy of the private sector (World Bank, 2016a). It is not clear if this is currently operational.

vocational training and levy administration authorities. In most countries, the reality is the accumulation of the levy fund which often ends up being directed to other government driven initiatives which have very little relationship to enhancing skills and frequently with little or no private sector and workers' involvement.

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, Tanzania, Zambia and Zimbabwe) so as to optimally promote sustainable economic development, competitiveness, employment especially among the youth, and participation in the future world of work.

This report takes the following structure:

SECTION A – Main Report

- Literature review - Levy-Financed Training Funds: International Good Practice and Lessons Learned
- Research report - An Assessment of the Skills Development Levy Systems in SADC Countries: Synthesis

SECTION 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
- Tanzania Country Brief
- Zambia Country Brief
- Zimbabwe Country Brief

ANNEXES

- Methodology
- List of Key Stakeholders Interviewed

2. Levy-Financed Training Funds: International Good Practice and Lessons

2.1. Background

The need to increase and diversify 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 of 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 sectoral, or industry-specific, to support a particular sector (e.g. tourism, 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) (Table 4).⁴ A handful of these countries contain multiple levy-financed training funds, usually on a sector 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 (DFID), Cambodia (ADB), Ghana (Danida, World Bank), Nepal (DFID, SDC and the World Bank), Pakistan (DFID), Vanuatu (DFAT). An aggregate review of their experience is not available.

Three main types of training funds can be identified, linked to the main purpose of the fund: pre-employment training funds that finance initial 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 hybridisation 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; for example Singapore's (Box 1) Lifelong Learning Endowment Fund, the UK's general trade union - GMB - National Lifelong Learning Fund, and Finland's Employment Fund.⁵

³ While this review refers to 'Training Funds', the term 'Skills Development Fund' is also widely used; for the sake of this review, both terms should be read interchangeably.

⁴ A number of levy-financed training funds have closed in the last ten years, e.g. in Bahrain, Canada (Quebec), Egypt, Jordan, and the United States (Arizona). Similarly, a number of countries – interestingly, all in Asia - are actively exploring or planning to put in place levy-financed training funds in the future, including in Bangladesh, Cambodia, Indonesia, Lao People's Democratic Republic, Myanmar, Philippines, and Vietnam.

⁵ <https://www.tyollisyysrahasto.fi/en/employmentfund/>

Table 2. A 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- 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. The 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 SGD 500 million from the government, with a target size of SGD 5 billion 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: Ministry of Education, Singapore (2017)

There is a general lack of impact evaluation or performance assessments in relation to training funds. There is little 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 and comparing different funds directly is 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.

2.1.1. 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 under provision of training as a result of market failure; to address 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 a contribution of a certain per cent of a company’s salary bill (but levies 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 orientate entire TVET systems (or at least sectors) in the direction of national priorities whilst addressing immediate skill shortages. Encouraging more private resources for TVET financing, especially those coming from private enterprises, is strongly linked to policy objectives 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 their strengths and limitations and, in many cases, are poorly designed, inefficiently managed and governed, poorly monitored and/or evaluated, and effectively end up being another form of taxation on private enterprise, for which they see little benefit.

This section 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 mobilisation	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 do you get employer support? 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 on individual employability, enterprise performance and sector 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 mobilisation
- fund expenditure
- fund allocation
- fund effectiveness
- fund governance and management
- fund enabling environment

2.2. Fund Purpose

2.2.1. What types of levy-financed training funds are there?

Three of the most common types of levy schemes include revenue-generating schemes, levy-subsidies schemes, and levy-exemption schemes (Box 2).

Box 2. Types of Levy-Financed Training Funds

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

Levy-grant schemes. Firms pay levies which they can then claim back in the form of grants if they undertake certain types of training that meets the funds' criteria; firms are therefore incentivised to train more in order to get their contribution back. As such approaches typically require case-by-case decisions, there are higher administration costs on the part of the fund manager. Further, as such approaches typically require firms to provide a range of paperwork (training plans, attendance proof, invoices, receipts) the administrative burden on firm (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 of 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 also have provided without the levy-exemption.

Source: OECD, 2017; UNESCO, 2018a

2.2.2. What are the usual purposes of levy-financed training funds?

While it might be expected that levy-financed training funds would tend to focus on the issue of 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 (developed from ADB, 2014; ETF, 2018b; 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 public budgets;

- Addressing training market failures such as the poaching of employees, the ‘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 micro and small enterprises in the informal economy;
- Providing opportunities for the training and employment of disadvantaged and marginalized groups, including – for example - persons with disabilities, the unemployed etc.;
- Enhancing fairness - since firms receive benefits from training (e.g. higher productivity of a trained worker, increased earnings) they 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 – employers need to be heavily involved in the process of determining the fund purpose and objectives (as well as in its subsequent running – see later, this section). Without clarity of, and support for, the purpose and objectives, employers will likely 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 have their advantages and limitations.

- **Sectoral training levies** – when levy schemes are organised on a sectoral (or local) basis to focus on the training needs of particular sectors – 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 specialised knowledge about employment and training issues (OECD, 2017). Sectoral training funds are found in a number of European countries, including for example in Austria, Belgium, Denmark, Germany, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Switzerland and the United Kingdom. In Latin America, Brazil has six sectoral training funds called ‘National Service for Training’ (Serviço Nacional de Aprendizagem), while Peru has two. South Africa has over 20 sector 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 sector basis only, runs the risk that national skills priorities may be lost sight of, and that general training may become neglected (OECD, 2017). Moreover, they can require a certain level of administrative capacity in participating sectors (and therefore under-developed sectors are less likely to be able to set them up and run them effectively). Marginalised groups within sectors, especially those operating in the informal economy may not benefit from sector funds which are typically led and managed by formal sector firms.

- **National training levies** – when levy schemes are organised 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 industry 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 Asia-Pacific (for example in Fiji, the Republic of Korea, Malaysia, Singapore, Papua New Guinea 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, it is not necessarily this clear cut – either sector-based or national-based; where sectors have the administrative capacity to run their own sector 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% of the levy collected goes to sector training funds, 20% goes to a national skills fund which supports training areas according to the national skills plan. In other words, South Africa has both sectoral training funds and a national training fund linked together.

2.3. Fund Mobilization

2.3.1. What should be levied?

Globally, there is a very clear predominance of training levies coming from payroll taxes. Other bases upon which levies are calculated can include, for example, company profit, foreign worker permits, 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, Marshall Islands, Jordan
Payroll (63)	Algeria, Austria, Barbados, Belgium, Benin, Bolivia, Brazil (for SENAI, SENAC, SENAT, SEBRAE), Burkina Faso, Canada (Québec), 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, Korea, Luxembourg, Malawi, Malaysia, Mali, Mauritania, Mauritius, Morocco, Namibia, Netherlands, Nicaragua, Nigeria, Niger, Papua New Guinea, Paraguay, Peru, Poland, Senegal, Singapore, Slovenia, South Africa, Spain, Switzerland, Tanzania, Thailand, Togo, Tunisia, United Kingdom, Uruguay, Venezuela, Zambia, Zimbabwe
Fixed amount per worker (2)	Kenya, Denmark

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

Product value (3)	Australia, Brazil (SENAR), United Kingdom (Creative Skillset Film Skills Levy)
Social security / unemployment contributions (2)	Panama, Romania
Company turnover (1)	Botswana

Source: Palmer (2020)

2.3.2. How much levy?

In terms of the levy amount, 1-2% seems to be a commonly agreed percentage across countries and regions (UNESCO, 2018a); a range that has remained unchanged for a decade (cf 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 (e.g. so that there are not 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, employers need to be centrally involved in setting the levy rate. Where employers don't see the benefit of a levy-financed training fund, or don't 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' organisations 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 (e.g. Netherlands, Romania), and therefore need a voice.

Generally speaking, levies can be uniform – the same rate is applied to all (e.g. regardless of sector or firm size or payroll size), or variable – the rate varies according to specified criteria. Uniform rates are obviously 'simpler to administer and... more easily understood by employers' (ETF, 2018a: 41), and tend to be the most common approach (Dar et al., 2003); however, 'they can fail to recognise the different circumstances and training costs of firms in different industry sectors and firms of different sizes' (ibid.).

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. Who should pay levies?

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

As in other aspects of levy design, consultation and agreement with employer and worker organisations is crucial, and the way public and private entities are treated must be clear (ETF, 2018b).

2.3.4. How should levies be collected?

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 agencies.

Efficiency and effectiveness of collection are important, and administrative costs of levy collection need to be minimised.

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

2.4. Fund Expenditure

2.4.1. What training related services should levy-financed training funds support?

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). In some training funds, funds are sometimes diverted 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 lead 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.

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

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

There can be some benefit in cross-subsidisation, where a share of the funds from levy-paying enterprises are used to support those that have not contributed. Using levy-financed training fund resources to support national priorities outside of the immediate collection area (e.g. non-levy paying small enterprises, and those operating in the informal

sector) can be beneficial. For example, in Colombia, 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% of levy proceeds are allocated to the National Skills Fund which is partly used to support marginalised groups (see South Africa country brief, this report).

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.

2.5. Fund Governance and Management

2.5.1. How do you get employer support?

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

According to evaluations and international experience, getting 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, 2018a; 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; are introduced after extensive consultation, and have general support from employers’ (ETF, 2018a: 42). Experience from the Asian 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 of course.

On the other hand, however, 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’ (ibid.: 41), countries with lower sector administrative capacity with no existing levy system, or a dysfunctional national levy system,

may need to invest in capacity strengthening of sector 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, run by a national entity (linked to a government ministry) or an NGO (usually in partnership with a government ministry), and typically contain funding windows with disbursement ceilings (e.g. windows for formal sector enterprise-based training, small enterprise / informal sector training, pre-employment training, innovation). As noted above, examples of training funds set up by international donors can be found in: Bangladesh (DFID), Cambodia (ADB), Ghana (Danida, World Bank), Nepal (DFID, SDC and the World Bank), Pakistan (DFID), Vanuatu (DFAT/Australia). Ensuring government ownership and support for the fund during set up is key, so that they are able to identify sustainable funding sources, and enact 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. What does good governance of a levy-financed training fund look like?

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

Giving ‘employers to have a major - if not majority - say on fund allocations’ (Johanson, 2009: 48), is of particular importance, and ‘can go a long way to gaining their support for the levy’ (ibid.). 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 (e.g. see Arias et al., 2019; Johanson, 2009; Müller and Behringer, 2012). For example, in Brazil the governing body of the sector 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 (SDF) is the strong role assigned to employers: nine of the fifteen members of the SkillsFuture Singapore (SSG) Board – the agency that controls the SDF – represent employers (including the Chair and Vice-Chair) and there are three government, one worker representative and two others (www.ssg-wsg.gov.sg/boards-members).

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, for example, 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) and 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, government) can also be successful, so long as this does not lead to over-control 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. What does good management of a levy-financed training fund look like?

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).

2.5.4. What monitoring is needed?

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

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 how much funds are raised. Such data needs 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 into the training fund in a given financial year; % 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: the number of applications processed as a % to the number of applications received.
- The turnaround time in the processing and payment of claims (measured in days/weeks/months).
- Companies claiming from the training fund as a % of the total number of levy payers
- Total value of claims paid in that financial year.
- % of processed claims.
- % of funds spent on key priority interventions.
- Training fund utilisation rate: the total value of claims paid as a % 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 the ongoing 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; % of graduates from training fund supported programs who are employed or self-employed within six months of graduation; % of employees trained through training fund grants who improved job performance; how staff training supported increased productivity and firms.

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. How should funds be allocated and on what basis?

The administrative ways funds are allocated (e.g., grants, scholarships, loans, training vouchers etc.) and the criteria applied to these ways (e.g., specific eligibility criteria, targeted/untargeted etc) 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 levy-financed training fund design (and any subsequent reform) and needs the agreement of key tripartite-plus stakeholders (consisting of government, employer, and worker representatives, in addition to training organisations and civil society organisations). 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 of where funds are spent – who the target groups are (e.g. new entrants to the labour force, people already employed and specific disadvantaged groups), which beneficiaries are eligible to receive the funds (e.g. individuals directly, formal enterprises, informal sector associations, social partner organisations, training institutions etc), how much they could apply for and what funds could be spent on needs to be determined from the outset. 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, 2018a: 42). Where funds can be spent, on whom, on what and by who – should be directly linked to the levy-financed training fund purpose/objectives and 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 window(s) 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 organisations 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 et al., 2013; Johanson, 2009; UNESCO 2018a): 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 (e.g. Ireland, Kenya, Netherlands, Nigeria, Malaysia, Singapore);
- grant schemes – grants for 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 (e.g. France, Cote d'Ivoire, 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 organisations managing such training funds have to first process applications to undertake training (and given approvals to process, or not), and after the training they need to process the claim and verify the submitted information (to make sure the training actually took place and its cost etc). 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 scrutinised so that they do not become easy to avoid’ (ETF, 2018a: 42).

Table 5. Advantages and Limitations of Enterprise Training Incentive Schemes

Type of incentive scheme	Advantages	Disadvantages
Cost-Reimbursement	Mutualisation 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 Possibility to support company contribution to apprenticeship schemes	Imposes high administrative and maintenance costs which reduce the amounts that can be returned to employers. Requires effective management capacities by training authority Tends to favour routine training instead of new programs Deters many enterprises (especially small ones) from applying because of bureaucratic requirements and paperwork. Delays training within enterprises in some cases because of a slow approval process Using 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 programs. 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, manage their funds and administer their training. Considerably simplifies procedures (reduced central administration 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.	Ineffective spending of resources (no mutualisation of training amongst companies) No mutualisation at national or sectoral level to support strategic priorities

Source: based on Comyn (2018), Johanson (2009), 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; for example, 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 the transportation costs, the accommodation expenses, the costs of study materials, and the forgone earnings. There may be cost-sharing with employers and / or the individual. 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 unless targeted, there is high potential 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 organisations, training providers, or enterprises directly), one common approach used is for them to publicise 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 are typically seeking proposals from intermediary organisations (training providers, enterprise associations etc).

2.7. Fund Effectiveness

2.7.1. How should the effectiveness of levy-financed training funds be assessed?

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

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 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 training workers' (Johanson, 2009: 19).

Enterprise training funds - One measure of effectiveness is to look at whether the incidence of in-firm training increased since 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 been effective at improving access to training of the stated target beneficiaries, and the extent to which these 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, youth, people with disabilities, and those working in the informal sector.

However, determining causality with regards 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 more to do with the increase firm training than the levy. More studies are needed to untangle this.

2.7.2. What is the evidence that levy-financed training funds impact on individual employability, enterprise performance and sector growth?

Sector-level effects

What is the evidence that training funds have sector wide 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 (e.g. increase in in-firm training incidence) may be more driven by sector performance during times of economic growth, than by the level of incentives provided from a levy instrument (ibid).

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 incentivising an increase in in-firm training are limited,⁷ 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 et al., 2003: 6). In recent years, there have been several robust (quantitative) evaluations emerging from among donor-financed training funds, such as those in Nepal (cf World Bank, 2015) and Ghana (cf World Bank, 2017).

A small number of more robust evaluations of levy-financed training funds do exist that adopt quasi- 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

⁷ Johanson (2009) highlighted this ten years ago, and this appears to have changed little since. For example, a UK Department for Business, Innovation and Skills' evidence review in 2013 also found that 'robust, quantitative evidence on the impacts of co-funding instruments is sparse' (Marsden and Dickinson, 2013: 38).

did so among medium and large firms. In Mauritius the evidence paints an opposite picture; large firms are not incentivised but small firms are. More studies on the impact of training funds are urgently needed to inform the design and reform of such funds.

Table 6. Evaluations Using Quasi- or Randomized Experiments (Selected Examples)

Type	Scheme	Method/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. It involves comparing 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	Mauritius Training Fund (Mauritius)	Kuku et al (2015). Using an administrative dataset on the Mauritius training fund, 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 (2010). Using a comprehensive dataset on Dutch firms, 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 Resource 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 1450 firms eligible to participate in the HRDF. It found that 402 firms (27.7 percent) were not registered with the HRDF. Of those registered, another 34.5 percent reported that they did not claim reimbursements under HRDF. The study compared the training activity of two groups of firms: those registered with the HRDF, and those who were eligible but chose not to register. Regression analysis showed that while HRDF did not have any impact on increasing training by small firms, it did have a role in increasing training by medium and large firms.

Source: Dostie (2012) and Kamphius (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, et al., 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 organisations to reach small formal enterprises. For example, Ireland's Skillnets which receives annual allocations from the National Training Levy Fund places particular emphasis on supporting formal sector small and medium-sized enterprises; in 2017, over half of the Skillnet membership network was micro-enterprises (1-9 employees) (Indecon, 2018). In other cases, levy schemes can be designed in such a way as to target more resources on small and medium enterprises (e.g. Spain) and/or grant them reductions in (or exemptions from) the levy fee (France, United Kingdom, Quebec) (OECD, 2017). In Malaysia, the Human Resource Development Fund is a good example of engagement with formal sector SMEs; over 80% 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 (*Fonds de Développement de la Formation professionnelle* - FDFP) which has created a unit dedicated to the management of training projects from the informal sector, including the agricultural and rural sector (Ukhu, 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 (see for example findings outlined in www.enterprisesurveys.org), and the reasons for this are well known; e.g. difficulty to release workers for training, capacity to assess needs and plan training, the opportunity cost of training, cash-flow problems, being less aware of the potential benefits etc (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/vulnerable groups?

International experience suggests that hard-to-reach target groups, such as the low skilled, tend to miss out and the more highly paid or qualified receive the most training (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).

However, this has not been the case for many donor-financed equity funds that have predictable (though 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. What are some of the 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 then disburse them again may be an unnecessary cost. Being able to identify such firms, and then deploying a levy-exemption approach with these 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, 2018b: 8). This demonstrates the need for effective monitoring and evaluation systems so that such approaches could 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, 2018b; 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 get diverted into general public accounts, or else to be diverted into areas other than supporting training (ETF, 2018b: 8). As noted below, giving employers a leading role in 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 where the ability to actually spend funds is reduced (e.g. through lack of training supply, through lack of administrative capacity within training fund management etc). In such cases, difficult-to-spend surpluses may accumulate, leading levy-payers to question the purpose (and/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, NGO). This actively operates against the principle of encouraging ‘competition among training providers and development of training markets’ (Johanson, 2009: 49).

2.8. Enabling Environment

How can countries create the right environment for levy-financed training funds?

Levy-financed training funds don’t operate in a vacuum and their effectiveness is not only linked to the processes, policies, and governance of the fund itself, but by factors beyond the training fund such as those relating to enterprise development and the education and training system itself. 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.

National TVET coordination mechanisms need to be strengthened (or established where they don’t exist) that can 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 this needs to be linked to wider sector 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 taken 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 under-investing in training. Targeting does not only have to relate to which groups or categories of people or enterprises should be the priority, but it can also refer to which types of skills should

be the priority. 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 are 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 (e.g. 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 organisations.

A national environment where decision-making is more decentralised 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 centralised systems, governments tend to resist granting power to non-governmental entities – employers in this instance; by contrast, countries that pursue more decentralised 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 noted in Table 7.

Table 7. Payroll Levies: Advantages and Limitations

Advantages	Limitations
Training levies usually do not require any public funds and are therefore represent a “cheap” way (from the public purse’s point of view) to increase investment in training	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
Diversifies the revenue base for financing training, by mobilizing additional revenues	Take autonomy about training investments away from employers
Can provide a stable and protected source of funding for national training provision; this is particularly important in the context of national budgetary instability	Given their particular training needs, many firms, particularly small ones, do not benefit from the institutional training funded by levies; this breeds resentment, opposition and compromises the status of training levies as “benefit taxation”
Can be viewed “benefit taxation” if earmarked for training – those that receive benefits should pay for them	Earmarked taxation does not conform well with the principles of sound public finance and weaken attempts to unify the national tax system
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 Ensures 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, encourages firms to intensify training efforts and capacities and raise training quality	Under fiscal pressure, government may incorporate training levy proceeds into general public tax revenues Payroll levies may constitute an over-sheltered 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 on to 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
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Source: Comyn, 2018; Marsden and Dickinson, 2013; OECD, 2017; Zideman, 2016

3. An Assessment of the Skills Development Levy Systems in SADC Countries: Synthesis

3.1. Introduction

The chapter of the report provides a synthesis of the eight country briefs (see Section 2 of this report): Botswana, Malawi, Mauritius, Namibia, South Africa, Tanzania, Zambia and Zimbabwe.

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, finally, 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 was related to employers; though not always explicitly related to providing incentives for employers to train their employees.

Malawi, 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).

Table 8. Main Stated Purpose(s) of the Levies in Selected SADC Countries

Country	Main stated purpose(s) 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 (GoB, 2013: section 26)
Malawi	'To improve skills development in Malawi'.	Interview, Government official, Malawi, 06.09.19
	'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'.	Mauritius HRDC (www.hrdc.mu)
	'To provide training incentives to employers'.	Interview, organisation managing the fund, Mauritius 06.08.19
Namibia	For the purpose of 'facilitating and encouraging vocational education and training'.	Vocational Education and Training Act (RoN, 2008: article 35).
	• To mobilise additional resources for skills development;	Namibia Training Authority (NTA, 2019).

	• 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 skill shortages that impede enterprise growth.	
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 (2013: 7)
Tanzania	To support technical and vocational skills	VET Act (GoT, 1994; 2006); Interview, employer organization, Tanzania 13.08.19; Interview, workers' organization, Tanzania 13.08.19.
	To support skills development, including non-technical tertiary education	Interview, Government official, Tanzania 13.08.19
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 (RoZ, 2017a: 3)
Zimbabwe	To develop 'skilled manpower in Zimbabwe'	Manpower Planning and Development Act (GoZ, 1994: section 47).

Source: Source: Country briefs in Section B, this report.

These statements of main purpose don't 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/or communicating the levy purpose. For example, in Malawi, Mauritius, Namibia and Zambia, key stakeholders think that the training levy in their respective country is to support a very wide range of training activities including: providing incentives to employers to train employees; supporting small and medium firms; training disadvantaged and marginalised groups; general youth training programs; supporting secondary and tertiary level technical and vocational training. Further, in six out of eight SADC countries reviewed, key

stakeholders thought that the training levy is to be used to incentivise employers to train their employees; only stakeholders in Tanzania and Zimbabwe did not perceive this as a function of the levy (see Table 9).

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

	Botswana	Malawi	Mauritius	Namibia	South Africa	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 youth as a means to address youth unemployment								
To fund training for disadvantaged and marginalized groups, including – for example - persons with disabilities								
To fund training 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, polytechnics before they are working								

Source: 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 relate to incentivising employers to train their employees, levy expenditure is also allowable to on other skills programmes determined by the respective Human Resource Development Councils of Botswana and Mauritius (Botswana country brief; Mauritius country brief). Meanwhile, in Tanzania a large proportion of the training levy has been allocated to non-technical tertiary level expenditure in recent years, an area which both employers' and workers' organisations in the country consider to be outside the remit of the levy (Tanzania country brief).

3.3. Fund Mobilization: The 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% - 4.5%, with the average being 1%. In terms of levy rate, the outlier is Tanzania, with a 4.5% 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 employers meant to pay the levy and, while 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 Tanzania), commercially run parastatals / 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 and ranges from USD 33-66 thousand (for payroll levies) and reaches USD 90 thousand for the turnover-based levy in Botswana. In 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	USD 90,000 (P 1m)
Malawi - TEVETA Fund	1%	Payroll	None
Mauritius - National Training Fund	1% - 1.5% (only 0.5-1% goes to Training Fund)	Payroll	None
Namibia - National Training Fund	1%	Payroll	USD 66,000 (NAD 1m)
South Africa - National Skills Fund / Sector Education and Training Authorities	1%	Payroll	USD 33,000 (R 500,000)
Tanzania - Skills Development Levy	4.5%	Payroll	Enterprises with four or more employees
Zambia - Skills Development Fund (SDF) (Levy funded)	0.5%	Payroll	USD 61,000 (K 800,000)
Zimbabwe - Zimbabwe Manpower Development Fund (ZIMDEF)	1%	Payroll	None

Source: Country Briefs, Section 2, this report.

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

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 (including Botswana, Malawi, Mauritius, South Africa, 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 Namibian Training Authority. Other collection options claim to have been explored, including using the Namibian 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%; in Mauritius, 4%; in South Africa, 2%; but the Zambia Revenue Authority reportedly does not charge. There is no data on the collection fees charged by the Malawi Revenue Authority. The organisations managing the training funds in both Namibia and Zimbabwe collect the levies directly, and there is 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 that a lack of data means that collection authorities often have great difficulties in establishing how many and which companies should be paying levy in the first place. While some training authorities annually track the increase in 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 actually about the lack of an enterprise register or simply that training funds (or their collection agencies) don't have (good enough) systems 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 micro-enterprises under the levy thresholds (Table 1), only Malawi and Zimbabwe find themselves with especially large informal economies (93% and 77% respectively) and no minimum threshold for levy payment. Both these countries, and Mauritius (which has about 40% of its employment outside the formal sector), may do well to consider introducing a levy threshold. This is because small and micro-enterprises (most of whom operate in the informal economy) are less able to pay a levy (due to lower profit margins and/or cash-flow), 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 such small and micro-enterprises might outweigh the levy revenue received) and oftentimes almost impossible (based on current lack of registration of most small and micro-enterprises, particularly those operating informally).

Several SADC countries have the legal responsibility to penalise non-levy compliant firms (typically in the form of interest on unpaid levies), but lack of enforcement of such penalties in some countries (e.g. Malawi, 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, there has been a decrease in ZIMDEF's monthly revenue, which is attributable to the economic crisis and the subsequent firm closure or informalisation 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 the behalf of government and organizations managing the training funds, that not only would the levy continue to come in, but that it 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, Tanzania, 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' organisations in the selected SADC countries perceived the training levy as just another form of taxation. Employer representatives and other key stakeholders suggest that this is particularly the case among small firms.

Mauritius is perhaps the exception to this, where formal employers generally see the training fund as *'instrumental to the developmental needs of the country'* (interview, employers' organisation, Mauritius 06.08.19). 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' organisation 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, Tanzania). In Malawi one employers' organization input to this review echoed the Malawian government official interviewed, that there is a risk to the training funds sustainability without training fund governance reform (Malawi country brief). In Tanzania, it was noted that employers' and workers' organisations consider the levy to be too high, and as a result there is a chance that employer's may simply stop paying it, threatening overall levy sustainability.

Employers also noted their dissatisfaction with the levy as there is a lack of clarity, transparency and/or agreement in how levy funds are spent (Tanzania, Zambia).

3.4. Fund Expenditure

3.4.1. Who decides?

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 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 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 (Tanzania country brief).

3.4.2. Types of allowable expenditure under the Training Funds

Administrative costs of running and managing the training fund itself 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, Zambia). In Tanzania there is currently 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 (Tanzania country brief). In Zimbabwe, ZIMDEF's website notes that employers can get 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/September 2019 that there is no direct incentive from ZIMDEF to encourage employers to train their employees (Zimbabwe country brief).

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

Public vocational training programs (including indirect costs related to formal apprentices' expenses and direct costs like training infrastructure, equipment, trainers, etc) 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 organisation that manages the training fund. In Tanzania, funding is used to fund VET training in all VETA-run institutions across Tanzania.

In Mauritius, South Africa and Tanzania, the training levy collected is immediately diverted to other entities for subsequent allocation. In Mauritius, 0.5% of the total levy is allocated to the workfare programme, managed by the Ministry of Labour, 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 SETA-managed training funds (80% of levy), the National Skills Fund (18% of levy), and the levy collection agency (2%). 80% of the levy is allocated to SETAs to encourage levy paying enterprises to train their employees – this covers discretionary grants (49.5%), mandatory grants (20%), and administration and quality assurance costs (10.5%). 20% of the total levy goes to the NSF to fund skills areas not covered by the SETAs, including national priorities of the NSDS III, including 2% to levy collection costs (South Africa country brief). In 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 Student Loan Board, and a further unknown proportion is used to fund other unknown government activities (Tanzania country brief).

3.4.3. Where funds have actually been spent

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

Table 11. Proportion of Employer Training Levy Allocated to Key Areas (annual average %, based on actual expenditure, unless otherwise stated)

	Employer Grants (to train own employees)	Other Training decided by Training Fund Board	Administrative and operating costs	Allowed to accrue surplus as
Botswana (2008-18)	33%	20%	15-25%	20-30%
Malawi (2014-17) (i)	<1%	33%	41%	10%
Mauritius (2017-18)	38%	18%	12%	22%
Namibia (2014-18)	14%	>70%	15%	<i>No data</i>
South Africa (NSF & merSETA, 2016-18) (ii)	14.5%	62%	11%	12.5%
Tanzania	0% (*)	<i>No data</i>	<i>No data</i>	<i>No data</i>
Zambia (2018) (iii)	3%	36%	>4%	58%
Zimbabwe (2015-16)	0% (*)	66%	28%	7%

Source: Country briefs, this report.

Notes: (i) Malawi - about 15% of levy expenditure is also allocated to bad debts; (ii) South Africa – based on 20% total levy to NSF (18% training projects; 2% admin) and 80% to SETAs (merSETA example: 44% training projects / discretionary grants; 14.5% employer grant; 9% admin; 12.5% surplus); (iii) Zambia - based on actual expenditure of levies remitted to TEVETA, and estimated total levy income received; * There is no mechanism in Tanzania and Zimbabwe to provide grants to employers.

Expenditure on administrative and operating costs ranged significantly across the SADC countries in the study, from about 4% in Zambia to ten times that (40%) in Malawi. In South Africa, Namibia, Mauritius and Botswana, administration costs, including levy collection costs, ranged from 11-15%.⁸ **In Malawi, over 40% of total levy income was on governance, management, quality assurance, communications and M&E.** It does not seem justifiable that the majority of levy funds are allocated to management and other non-training related costs associated with TEVETA and the TEVET Fund, rather than the majority of levy funds being allocated to training (Malawi country brief). In Zimbabwe, about 28% of levy income goes on administrative costs of the training fund itself.

Training funds in Botswana and Mauritius provide their levy-paying employers with the highest direct return on their levy contribution, returning between 33-38% 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 Botswana's and Mauritius' training fund 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% 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% of levies received in a given financial year would be allocated

⁸ In Botswana a further 10% of levy expenditure appears to go on quality assurance costs.

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’ organisation, 02.09.19). What is happening is that the majority of levy funds (almost 80%) meant for employer training grants in Namibia don’t end up getting allocated to enterprises and end up being reallocated to the Key Priority Grant allocation/reserve 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 Namibian Training Authority to develop approaches that enterprises can engage with (Namibia country brief).

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

Tanzania and Zimbabwe appear to have zero expenditure on employer training grants, but neither fund has this as a stated objective.⁹

Expenditure on training decided by the training fund Board¹⁰ themselves - most of which relates to pre-employment institution-based training in public institutes – typically represents the bulk of training fund expenditure; between 20-70% of training fund expenditure. 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 2016-2020 Skills Development Plan for the VET Sector (including procuring training from accredited local and SADC-based VET institutions), VET institute expansion, formal apprenticeship and traineeships, and capacity building (Namibia country brief). In Malawi (2014-17), about half of all funds spent on training (16% out of 33%) were spent on formal apprenticeships delivered by TEVET institutions.

In all SADC countries in the study for which there was data, a sizeable amount of the levy collected annually ended up accruing as a surplus; ranging from 7-58% of the collected levy. In Malawi, South Africa and Zimbabwe, 7-12% of the collected levy typically accrued as a surplus. In Botswana and Mauritius it was more like 20% accruing as a surplus. In Zambia (2018), 58% 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% of the levy to training fund (Zambia country brief).

⁹ There is some confusion about whether or not Zimbabwe offers grants to employers to cover employee training costs (see Zimbabwe country brief).

¹⁰ In the case of Zimbabwe, where there is no Board for ZIMDEF, this refers to the parent ministry.

3.4.4. Accumulated surplus

In all SADC countries studied, where data exists, training funds have accumulated large surpluses from their respective training levies; the training fund in Botswana has an accumulated surplus of USD 63m, in Mauritius it is USD 37m, and in Zimbabwe it is USD 70m. In South Africa's National Skills Fund there was an accumulated surplus of some R6.5b / USD 440m in 2018-19. Namibia, South Africa (SETAs) and Zambia also have accumulated surpluses, but the aggregated amounts are not known. In Malawi, there is no data on the extent of any surplus.

Accumulated surpluses is a serious issue for social partners, who see it as a sign of poor fund governance. It 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' organisation, South Africa 10.09.19). SETAs, on the other hand, argue that they don't actually have a surplus, since most of what appears to be a surplus are actually committed funds for training programs that haven't taken place yet. Nonetheless, the South African government through amendments to the 2012 Grant Regulation introduced a directive that if a SETA has not spent at least 95% 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 between the DHET and Business Unity South Africa suspended such payments. South Africa's National Skills Fund has also accumulated large surpluses and the government has noticed; 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; the government required the NSF to fund 50% of this 'No Fee Increase' for the 2016 academic year and 100% of the No Fee Increase 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 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 on levy-grant schemes, operating as either cost-reimbursement or grants schemes.

The most common form of employer training incentive scheme (found in Malawi, Mauritius and Namibia) is a cost-reimbursement scheme where employers can claim

back a proportion of the direct training costs incurred.¹¹ In Malawi, TEVETA reimburses 20% of direct training costs for a company, and reimburses 50% of direct costs if it is an association. For companies that seek to engage an expert to help with on the job coaching for their employees, TEVETA reimburses 50% of the cost. In Mauritius, employers can recover up to 75% 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% of employer's contribution for financial year.

South Africa operates a grant scheme, where employers can access a 'mandatory grant', equivalent to 20% 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 BWP 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 minimum a structured training plan (to be approved before training commences) and associated receipts and other paper work proving the training took place, after the training activity. Mauritius appears to operate the easiest to use training reimbursement application process; since March 2017, the HRDC has operated an online system for application (and progress tracking) of approvals for a training course as well as 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 of 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% of the total number of levy payers contributing into the Fund claimed from the HRDF. In Malawi (2017), only 13 companies benefitted from the training cost reimbursement.

Reasons behind the low uptake of the funds include:

- **The process of applying for the funds** (Botswana, Malawi, Namibia, South Africa) – the process of employers obtaining rebates is regarded by employers as not straightforward, involving excessive paperwork and long delays.
- **The type of training eligible for reimbursement** (Botswana, Mauritius) – regulations linking the levy system are sometimes biased towards academic and class-room based training, rather than more practical training that firms are after.

¹¹ Zambia also operates a scheme, but there is no information on the proportion of the levy that employers can claim back against training costs.

- **A lack of awareness among employers** (Malawi, Zambia) - a lack of awareness among employers about whether and how they are able to access such resources.
- **Company cash flow problems** (Botswana) – levy-paying firms having to pay the levy, then paying again for the training (before claiming costs back) can result in company cash flow problems, especially among small and medium companies.
- **Cash flow problems for the training fund** (Botswana) – perhaps a particular problem for Botswana; as companies can claim more than the levy they paid, and this can result in HRDF cash flow problems if large employers exhaust the fund with large 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 incentivised 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% of collected levies to employers in the form of training grants is not matched by reality; an average of 14% of levy funds over the period 2014-18 have 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 among 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% of contributing small firms benefit from the training grant, compared to 69% 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' organisation noted that the training fund (through SETAs) has been '*able to turn workplaces into dynamic learning spaces, because it has made training mandatory for every employer*' (interview, workers' organisation, South Africa 10.09.19). Similarly, a senior government official noted that the mandatory grants do incentivise enterprises to train (interview, Government official, South Africa 19.09.19). However, an employers' organisation noted that a lot of business does training outside of the formal skills levy system - the '*levy then becomes an additional responsibility*' (interview, employer organisation, South Africa, 12.09.19) – and is not in itself incentivising enterprises to train.

Malawi and Zambia both have very small expenditure on industry training grants, amounting to 1-3% 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% (13) benefitted 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% of formal firms in Malawi offer formal training to their employees; this is higher than the Sub-Saharan Africa average of 29% and the same as the global average (33%) (Fig. 2).

In Malawi, considering the very small amount of funding going to private sector training from the TEVETA 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. Likely most companies 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 pressurise government to abolish the levy (Malawi country brief).

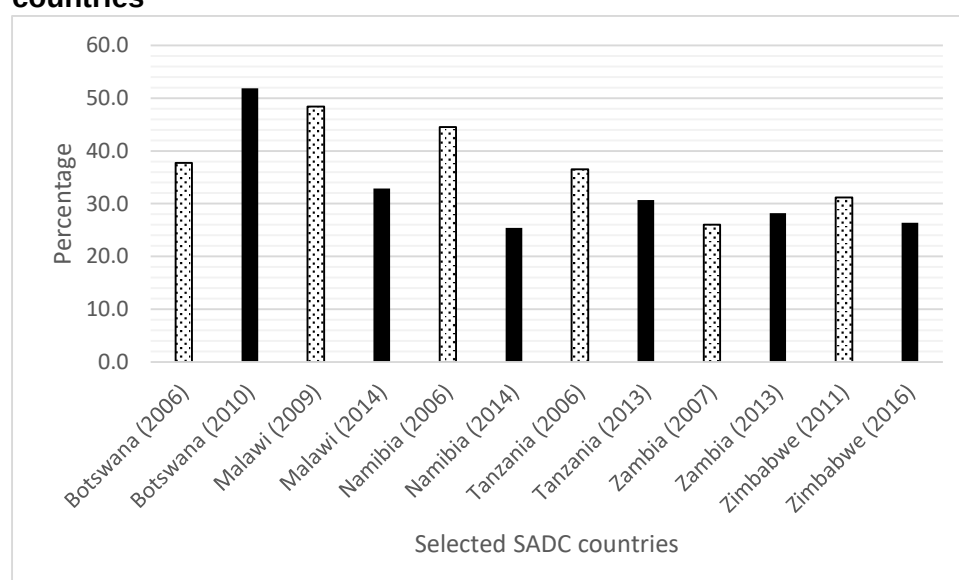
There is no incentive mechanism to encourage firms to train their staff in Tanzania and Zimbabwe. In Tanzania, the Skills Development Fund (launched 2018) does have a funding window for private employer-based training, intended to support skills upgrading pre- and post-employment training programs. However, it is not clear if this is yet operational, and in any case Tanzania's training levy 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, organisation managing the fund, Zimbabwe, 02.09.19). The government believes that ZIMDEF *'removes the burden [of training] from individual companies to a pooled resource [ZIMDEF], and that companies benefit through better skilled pipeline of employees'* (interview, government official, Zimbabwe, 16.08.19). However, something is clearly not working since over one quarter of Zimbabwean formal firms are involved in training their employees (Fig. 2), without being incentivised 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 (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 between the last two rounds of data collection, despite a training levy being in existence since 1999.
- Both Tanzania and Zimbabwe showed declines in the percentage of firms offering training, despite there being an employer levy in place (in 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 the data in Fig. 2 shows is the steep decline in in firm training 2006-2014; which may have been an impetus for the launch in 2014.
- In Zambia, the enterprise survey data from 2007 and 2013 predates the Skills Development Levy Act 2016 and the year the fund became operational (2017).

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



Note: dotted bar lines show earlier year data of each country.

Source: enterprisesurveys.org (accessed 16.08.19)

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 Boards¹² - and most of this relates to formal institution-based TVET provision. At least two mechanisms can be identified by which funds are allocated:

Issuing expressions of interest – In Namibia, the ‘Key Priority Grants’ are allocated to those short-listed applicants who have responded to an expressions of interest issued by the NTA. In South Africa, ‘Discretionary Grants’ are allocated by SETAs based on a shortlisting of applicants who have responded to an advertised call for applications. In Zambia, call 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).

¹² In the case of ZIMDEF, which has no board, by the parent ministry.

Pre-determined stipend to individuals or institutions – For example, in Malawi TEVETA subsidises training in both national and community technical colleges on a per capita basis, for ‘regular students’ only, with payments made to institutions.¹³ TEVETA (Malawi) also makes direct ‘allowance’ payments to apprentices during their industrial attachment.

3.5.4. Allocation of funds to individual learners

None of the training funds provide resources to individual learners to allow them to choose or purchase training that meets their needs directly. Funds are either provided to employers, to training institutions or to individuals in the form of stipends/bursaries as 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, Tanzania and Zambia) make funds available to improve the 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 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 youth (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 Centers, which provide vocational training that targets marginalized populations. In South Africa, SETAs’ plans are guided by the transformational imperatives of the NSDS III (2011-2016) such as gender, race, class, geography etc. In 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.

However, in both Botswana and Zimbabwe the training funds do not appear to do anything to help improve access to training for disadvantaged/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 Zimbabwe and Malawi deploy approaches that may end up widening inequality of access. In Zimbabwe, some aspects of ZIMDEF’s fund expenditure, like supporting polytechnic students, of supporting STEM students who have achieved grades C or above de facto excludes poorer students who have not been able to make it to tertiary education, or

¹³ ‘Regular’ students are those who have been selected onto courses by TEVETA and whose place is heavily subsidized by TEVETA.

been able to secure high enough grades to have been supported via the (now closed) STEM Initiative. In Malawi, the subsidy financing approach adopted by TEVETA in relation to formal apprenticeships fails to promote equity among students. TEVETA'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 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, Tanzania, Zambia, Zimbabwe). In South Africa, a perception survey of approximately 2,000 employers found that a majority of employers believe that levy-supported training has impacted favourably on their companies; for example, over 80% of employers stated that training has contributed to an increase in employee productivity, over 73% of employers stated that there was a decrease in errors in the workplace, and almost 80% of employers stated that there was an improvement in the quality of product or service delivered (NSA, 2019: 99)

Anecdotal opinions were put forward by some interviewed stakeholders in a number of SADC countries reviewed (e.g. Botswana, Mauritius and Zimbabwe), claiming that enterprise performance was improved as a result of the levy-funded training. For example, in Zimbabwe, key stakeholders comment that students on industrial attachment help to save companies money as they don't have to *'employ qualified and experienced personnel who are more costly [and] company productivity definitely increases'* as a result (interview, employers' organisation, Zimbabwe, 07.08.19). In Mauritius, the organization that 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, organisation managing the fund, Mauritius 06.08.19). However, there is no evidence to back up such assertions.

In several SADC countries reviewed, there is an assumption that training levy funds channelled to formal technical and vocational institutes will 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 don't 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 the suggestion that the training levy actually hindered improvement in enterprise performance. For example, in 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 impeded[es] their competitiveness'* (ATE, 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%) of informal sector firms have 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/opinion-based, or based on output and/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) is a common metric cited in a number of training fund annual reports (where these are available) (for example in Mauritius, Namibia, South Africa, Zambia). This data says 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 Tanzania. In Malawi for example tracer studies of national technical college graduates suggest that over 80% 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 2017-8 financial year, found that 77% of them were employed in the labour market. In Tanzania, a forthcoming tracer study of VETA graduates apparently shows that over 93% 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 programs paid for by the fund. Without knowledge of what would have happened in the absence of the training (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 toward 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/collected.

3.6.4. Contribution of the 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 "regular" courses; induction of apprentices and instructors; attachment of apprentices and trainers/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 2016-2020 Skills Development Plan 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 skill system through a sector focus.

However, the way in which training funds 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 centralised recruitment of students for technical colleges' regular courses, its centralised approach to arranging student attachments with industry, and its blanket subsidy approach to apprentices operate against principles of decentralisation 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 (VTCs), but doing so with such an exclusive bias is actually serving to distort the national training market. In 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, organisation managing the training fund, Malawi 16.08.19). 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 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 Student Loan 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 skill demands of the labour force and regarded by many in industry as disconnected from their needs. Both 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 don't 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 (e.g. Malawi, Mauritius, 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% of the levy funding being allocated via the 21 sector-based SETAs, there is arguably a closer connection to sector priorities.

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 the sole trustee of the Fund, however there are intentions to establish a ZIMDEF Board as soon as the new Manpower Development Act gets established. Importantly, there is a question about the extent to which many of the other training fund Boards (in Malawi, Mauritius, Tanzania, Zambia) actually "govern", versus the real decision maker being the parent ministry. International good practice suggests funds operate best when they have decision making autonomy and control over budget allocations (Johanson, 2009; Ziderman, 2016). This is clearly not the case Malawi, Mauritius, Tanzania, Zambia and Zimbabwe where the fund Boards still defer to Ministry decisions.

In most cases, the training funds are not themselves separate entities but 'live' within organisations that have a wider remit than only the training fund (Botswana, Malawi, Mauritius, Namibia, South Africa's National Skills Fund, Tanzania, Zambia); as such the Boards of these entities are the ones responsible for overall governance of these training funds, even where sub-committees 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; 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 (e.g. fund allocation areas/criteria, 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' organisation out of a Board of 16 persons; whatever is decided by the Board then goes to the line Ministry and thereafter to Parliament for approvals. In Mauritius, it is noted by interviewed stakeholders that the government has the final say on decisions taken by the HRDC Board. In Tanzania, under current governance arrangements, the ministries of finance and education 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' organisations and two members from workers' organisations), 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 Namibian Training Authority's Board of 10 persons (4 private sector representatives, 1 employers' organisation representative, 2 workers organisation representatives, and 3 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, Tanzania and Zimbabwe, the organisations governing (and managing) the training funds have conflicts of interest that inhibit effective governance

of those funds. In Malawi, the TEVET Act 1999 created an ‘obvious conflict of interest’ (UNESCO, 2019: 98) for TEVETA; giving it responsibility over levy mobilization and management, as well as levy utilization (including through the provision of training). In Namibia, the Namibian Training Authority has a similar triple mandate: regulator, training provider, manager of the national training fund. This is recognised by the NTA itself as ‘not an ideal situation’. Tanzania’s Vocational Education and Training Authority 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 CEO 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 organisation 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.

There is a strong perception among employers, employers’ organisations and workers’ organisations 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, Tanzania’s VETA, Zambia), the training funds are typically managed by a dedicated department within that organisation. This department is typically responsible for managing the fund, processing applications and reporting. In the case of Namibia, where the Namibian Training Authority 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 noted 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, Tanzania, 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 focussed 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 the 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.¹⁴

¹⁴ 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’.

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 8 SADC countries as a whole, as well as the country briefs in Section 2 of this report should inform country discussions.

Fund Purpose

2. **The levy purpose in most SADC countries needs to be better clarified and/or better communicated.** Statements on the main purpose of the levy often don't match well with what key national stakeholders perceive the levy to be for, or what the levy actually gets spent on. Malawi, 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 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 8 SADC countries, the training funds in Malawi, Tanzania, Zambia and Zimbabwe do not make reference to increasing the incidence of training by firms in the fund objectives.
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. **Tanzania should consider a levy rate review, ensuring to involve employers' and workers' organisations centrally in the process.** Most SADC training funds are financed via a payroll levy averaging about 1%; this rate is in line with commonly agreed rates across various countries and regions of the world. However, Tanzania's levy rate of 4.5% is quite a lot higher than international experience.
6. **Malawi, Mauritius and Zimbabwe should consider introducing a threshold to levy payment, under which employers are not liable.** This is because small and micro-enterprises (most of whom operate in the informal economy) are less able to pay a levy (due to lower profit margins and/or cash-flow), 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 such small and micro-enterprises might outweigh the levy revenue received) and oftentimes almost impossible (based on

current lack of registration of most small and micro-enterprises, 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 entities managing the training fund that 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 minimise issues related to conflict of interest, detailed financial statements of levy collection and disbursement should be made public, and 3rd 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, Zimbabwe, South Africa) should consider undertaking periodic reviews of the levy rate, and develop 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 (e.g. 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 TEVET authority (TEVETA) responsible for managing the training fund is very heavily reliant on the levy for a large proportion of its overall income; and so it finds itself in a situation where over 40% of total levy income is spent on governance, management, quality assurance, communications and M&E – and not on training. TEVETA 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 50% of levies received in a given financial year would be allocated 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 ensuring that the type of training eligible for reimbursement is less classroom based and more oriented to employer need (especially Botswana, Mauritius), as well as addressed a lack of awareness among employers about 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 large training claims that exceed their levy payments before other employers can claim.
13. **In 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 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 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 (e.g. efficiency of the application processing, time taken to process and pay a claim, the uptake rate - % of levy-paying firms applying to available training grants etc).
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**

private sector, as well as employers' and workers' organisation representation 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.

19. **The conflicts of interest that inhibit the effective governance of training funds in Malawi, Namibia, Tanzania and Zimbabwe need to be addressed.** In both Malawi's and Namibia's cases, the organisation managing the training fund is a levy collector, spender, provider of training and TEVET regulator, resulting in conflicts of interest. In Tanzania's case, the Vocational Education Training Authority (VETA) receives a proportion of the levy (as decided by the ministries of finance and education) which VETA is, in turn, responsible for allocating; meanwhile, VETA's triple role as training provider, financier and regulator result in conflicts of interest. In Zimbabwe's case, 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 in relation 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 (Tanzania, 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 organisations managing the training funds would strengthen 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, Zambia) which 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 organisation managing the training fund, and in Tanzania and Zimbabwe's cases there are no annual reports available.

SECTION 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 P1,000,000 P1,000,000-2 billion = 0.2% levy of enterprise turnover Over 2 billion = 0.05% levy of enterprise turnover	• Revenue generating • Levy-grant	Collected by the Botswana Unified Revenue Service (BURS) 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 the Human Resource Development Council.
Malawi - TEVETA 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. • An 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 the Malawi Revenue Authority	• Fund administration: 40% • Industry reimbursement: <1% • Other skills programmes: 32% • Retained as surplus: 10% (2014-17 average expenditure)	Managed by the Technical Education, Vocational and Entrepreneurship Training Authority

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 the 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 programs and projects (up to 35% of fund) • Employer training grants (up to 50% of fund – but unspent amount is allocated to training programs window) • Namibia Training Authority's administration costs (up to 15% of fund)	1% of payroll for private companies (employers with a projected annual payroll of less than N\$1 million / USD 70,000 are exempt)	• Revenue-generating • Levy-grant	Collected by Namibia Training Authority	• Fund administration: 15% • Industry reimbursement: 14% • Other skills programmes: >70% • Retained as surplus: no data (2014-18 expenditure)	Managed by the Namibia Training Authority
South Africa - National Skills Fund / Sector Education and Training Authorities (established 2000) www.dhet.gov.za/NSF/ www.nationalgovernment.co.za	• 80% of levy is distributed to the different Sector Education and Training Authorities (SETAs); used to pay employer training grants. • 20% of levy is paid into the National	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 the South African Revenue Service	• Fund administration: 11% • Industry reimbursement: 14.5% • Other skills programmes: 62%	Managed by the National Skills Fund / Sector Education and Training Authorities

Official objective: • To fund the skills development initiatives in the country • To fund education and training within various economic sectors in South Africa	Skills Fund to support skills development projects that don't fall under the SETAs (e.g. drive key skills strategies, meet the training needs of the unemployed etc).				• Retained as surplus: 12.5% (NSF & example of merSETA, 2016-18)	
Tanzania - Skills Development Levy (established 1994) Objective: • To support technical and vocational skills (according to employers' and workers' organisations) • 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 Student Loan 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 the Vocational Education and Training Authority; two thirds is retained by the Ministry of Finance.	Collected by the Tanzanian 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 Vocational Education and Training Authority
Zambia - Skills Development Fund (SDF) (Levy funded) (established 2017) www.teveta.org.zm Main objectives: • To enhance the provision of skills development in a more efficient and effective manner. • To promote private sector participation.	Window 1 – Employer Based Training. Window 2 - infrastructure and equipment; TEVET systems development; human resource development	0.5% payroll for private companies	• Revenue-generating • Levy-grant - under window 1 (only on approval of a proposal submitted to TEVETA).	• Collected by the 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

To facilitate predictability of resources to the institutions.	Window 3 – Pre-employment training Window 4 - SME and Informal Sector Training.					
Zimbabwe - Zimbabwe Manpower Development Fund (ZIMDEF) (established 1994) www.zimdef.org.zw Official objective: To develop skilled manpower in Zimbabwe	- Formal apprentices - Training equipment (e.g. computers, machinery, tools etc) 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% 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

BACKGROUND AND FUND PURPOSE

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

The existence of a training fund in Botswana predates the establishment of the HRDF. The Levy Grant System was initiated by the then Botswana Training Authority (BOTA) in 2008¹⁵ and was run by that organisation until there was extensive reorganisation of the Ministry of Education which resulted in Botswana Qualifications Authority (BQA) and Human Resources Development Council (HRDC) being formed to replace BOTA and the Tertiary Education Council. The Vocational Training Fund was transferred to the new HRDC and renamed the HRDF, as per the HRDC Act No. 17 of 2013.

The main stated purpose of the HRDF, according to the 2013 HRDC Act, was that it should be used ‘for the purpose of reimbursing employers who have incurred training costs for apprentices or trainers’ (GoB, 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, August 2019). 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’ organisation, Botswana, 27.08.19).

FUND MOBILIZATION

The levy rate

The levy rate is 0.05-0.2% of enterprise turnover:

- 0.2% levy in respect of an employer with a turnover of BWP 1,000,000 and not more than BWP 2 billion; and
- 0.05% levy in respect of a turnover in excess of BWP 2 billion.

Exemption from levy

The following employers are exempted from payment of the levy:

- **A private employer with a turnover of less than BWP 1,000,000 per annum.** Such employers may be eligible to claim from the fund nevertheless through the Special groups and small, micro and medium enterprises clause.

¹⁵ 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).

- **All public sector employers.** They also cannot claim from the fund. (interview, organisation managing the fund, Botswana, 08.08.19)

Method used to collect the levy

The training levy is collected by the tax collection authority of Botswana, the Botswana Unified Revenue Services (BURS), from eligible companies through the Value Added Tax system, with funds deposited into the Human Resource Development Fund Account. BURS receive 5% 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 month or part thereof, compounded monthly (GoB, 2008a).

Fund income

Levy fund income has increased over the period 2017-19, and reached BWP 344m (USD 31m) in 2018-19 (Table 11). Levy income does not represent the only income to the HRDF, however (Table 12).

Table 11. Levy collection amounts 2014-2019

Year	Gross levy (BWP)
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 OAG, Botswana (2018, 2017). Gross levy for 2014-15, 2015-16 and 2018-19 from HRDC (interview, organisation managing the fund, Botswana, 08.08.19).

Table 12. Summary Income and Expenditure for the HRDF (2016-18)

	2017-18	2016-17
	BWP	BWP
Income		
Levy Income	311,206,196	281,068,425
Interest Earned	27,568,145	23,863,422
Other income *	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

Source: OAG, Botswana (2018; 2017)

* 'Other income' is not defined in the OAG report.

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, 08.08.19).

FUND EXPENDITURE

Types of allowable expenditure under the Training Fund

Annual financial expenditure data of the HRDF was not made available for this study, despite requests to the HRDC. The HRDF has a separate set of accounts than the HRDC annual accounts (which appear in the HRDC Annual Reports).

Nonetheless, it is possible to note the main areas of expenditure of the HRDF, which include:

- **Reimbursement to eligible claimants** (levy paying firms);
- **Training of Special Groups, Emergent Industries and Small, Micro and Medium Enterprises;**¹⁶ Special Groups refers to employees who have particular training needs (meant to receive 2.5% of the levy fund); Emergent Industries refers to an infant industry identified by the HRDC as requiring special training (meant to receive 1% of the levy fund); small, micro and medium enterprises refers to enterprises with a turnover of less than BWP 500,000 per annum (meant to receive 5% 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 (BURS) – set at 5% of the training levy collected;
- **Fund administration fees;** paid to the Human Resource Development Council for administering the fund – set at 10% of the training levy collected;
- **Quality assurance fees;** paid to the Botswana Qualifications Authority – set at 10% of the training levy collected. The BQA verifies the training has taken place (interview, organisation managing the training fund, 08.08.19).

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 (Daily Hansard, 2019). From this it is possible to fill in some gaps and provide a high level estimate for the period (Table 13).

Over the last decade, over BWP 2.8 billion income has been received from the levy (and associated interest payments on accumulated levy surpluses) (Table 13).

¹⁶ The percentage allocations are from GoB (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% of the amount allocated from the Fund' (interview, organization managing the fund, Botswana, 08.08.19).

Up to one quarter of levy income over the period 2008-18 was spent on administrative and operating costs; 5% levy collection costs, 10% administration costs (of HRDC and the Botswana Training Authority before this), and up to 10% on quality assurance costs (BQA).¹⁷

Only one-third of levy income over the period 2008-18 was spent on industry reimbursement of training fees (Table 13). It will be recalled that the main purpose of the HRDF, according to the 2013 HRDC Act, was to reimburse employers who have incurred training costs.

Twenty percent of levy income over the period 2008-18 was spent on other skills programmes, determined by HRDC (Table 13). For details on the kinds of programs supported here, see below.

Over twenty percent of levy income over the period 2008-18 has been accumulated as a surplus (Table 13).

Table 13. Estimated Summary Income and Expenditure for the HRDF, October 2008 to December 2018

Income		Expenditure as a % of gross levy
Gross total levy received	2,601,176,566	
Interest Earned (8% of gross levy)	208,094,125	
Total Income	2,809,270,691	
Expenditure		
Administration and Operating Costs		
<i>Administration (10% gross levy)</i>	<i>280,927,069</i>	<i>10</i>
<i>Botswana Unified Revenue Service (5% gross levy)</i>	<i>140,463,535</i>	<i>5</i>
<i>Botswana Qualifications Authority (10% gross levy)</i>	<i>280,927,069</i>	<i>10</i>
Total Administration and Operating Costs	702,317,673	25
Training		
<i>Industry Reimbursement</i>	<i>955,125,763</i>	<i>34.0</i>
<i>Skills Initiative Programmes</i>	<i>538,742,651</i>	<i>19.2</i>
Total Training	1,493,868,414	53.2
Other (assumed to be accumulation of annual surplus)	613,084,604	21.8

Source: calculated from figures provided by the Assistant Minister of Tertiary Education, Research, Science and Technology, Mr Molao, 13.03.2019 (marked with #) in the transcript of Parliamentary proceedings (Daily Hansard, 2019)

* Interest assumed to be 8%; the same level as listed in the summary HRDF accounts from the OAG, Botswana (2018; 2017) reports.

** According to the organisation managing the training fund, the BQA receives 10% of the gross levy (Interview, organisation managing the training fund, 08.08.19); However, it is not clear how many years this has been the case. It may be that some – or most – of this amount listed here is in fact additional to the accumulated surplus.

¹⁷ As noted in Table 13, it is not clear from available sources and interviews if the BQA is allocated 10% of the gross levy, and if it is how long this has been the arrangement for.

Accumulated Surplus

Unspent levy funds are carried forward year on year (HRCD, 2018). According to the estimated summary income and expenditure for the HRDF over the period 2008-18, there are accumulated annual surpluses of over BWP 600m. Indeed, during Parliamentary proceedings in March 2019, the Assistant Minister of Tertiary Education, Research, Science and Technology revealed that the HRDF balance as at 31st December 2018 was BWP 696,557,874 (approx. USD 63 million) (Daily Hansard, 2019).

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 BWP 1 paid as levy up to a maximum of BWP 1,000 generates a grant of BWP 7.5; every BWP 1 paid as levy in excess of BWP 1,000 but below BWP 5,000 generates a grant of BWP 3.75; every BWP 1 paid as levy in excess of BWP 5,000 generates a grant of BWP 2. This means, for example, a firm paying a levy of BWP 55,000 (USD 5,000) in one financial year would be eligible for a grant of BWP 122,500 (USD 11,000) (HRDC, 2017b).

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, 2017b).

Low uptake of Industry reimbursement

Only 20% of the total number of levy payers contributing into the Fund claimed from the HRDF in 2017-18 (HRDC Botswana, 2018), though this is a slight increase from 17% in 2016-17 (HRDC Botswana, 2017a) and 15% in 2015-16 (HRDC Botswana, 2016). Low uptake of the HRDF has been identified as a challenge in the last several HRDC Annual Reports (HRDC Botswana, 2018; 2017a; 2016). There are several reasons behind the low uptake of the fund:

- Company cash flow problems, especially among small and medium 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 6 months to a year' (interview, employers' organisation, Botswana, 27.08.19). The processing time is now down to 4 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' organisation, Botswana, 27.08.19).
- The regulations 'linking the Levy system to the BQA 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 BQA or to even get approval for it to enable industry to recover their training costs' (interview,

employers' organisation, Botswana, 27.08.19). Hence, the kind of training that industry appears to favour has not been eligible for reimbursement.

- Lack of structured training plans (HRDC Botswana, 2018; Sunday Standard, 2019).
- A feature of the reimbursement model designed to incentivise firms can lead to HRDF cash flow problems arising from large claims. Companies which train their employees in approved programmes can claim more than the levy they paid, and this can result in HRDF cash flow problems if large employers exhaust the fund with large training claims that exceed their levy payments before other employers can claim (interview, organisation managing the fund, Botswana, 08.08.19).

In 2019, some minor revisions to the reimbursement regulations were made, noting that BQA 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 have more far reaching amendments to the regulations covering the following key issues:

- Sustainability model for the Fund
- The operational Model of the Fund
- The Fund Utilisation strategy (HRDC Botswana, 2019).

FUND EFFECTIVENESS

Improving access to training for disadvantaged groups

The training fund does not (at all) help to improve access to training for disadvantaged/vulnerable groups, according to both the organisation managing the training fund and a representative from a workers' organisation (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' organisation 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' organisation, Botswana, 27.08.19). 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 incentivise 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' (GoB, 2013: section 26). One workers' organisation interviewed commented that: *'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 realise it is meant to incentivise them to train their employees'* (interview, workers' organisation, Botswana, 09.08.19).

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' organisation who responded to the online survey, it does not improve individual employability (online survey, workers' organisation, Botswana 01.08.19) – but no evidence was referred to 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 organise training and claim from the Fund' (interview, organisation managing the fund, Botswana, 08.08.19; Sunday Standard, 2019; interview, employers' organisation, Botswana, 27.08.19).

Effectiveness of monitoring and evaluation systems

Reporting on the effectiveness of the fund to date has either been anecdotal or very output focussed (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 (since March 2019) to assess the successes and failures of the Fund, and was completed for the 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. Nonetheless, it is positive that such a study was commissioned.

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 three¹⁸ funds, including the HRDF. At the time of the interview with the HRDC in early August 2019, membership of the HRDC Fund Committee was currently 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 5 persons as being on the HRDC Funding Committee, which contains at least 2 employers (Fig. 3).

¹⁸ the Public Tertiary Education Institutions Fund (PTEIF) and the Tertiary Education Student Support Fund (TESSF) are currently being established.

Fig. 3. Membership of the HRDC Funding Committee

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	CEO of HRDC

Source: HRDC website (19.10.19)

Description of fund management

Since 2014, the Department of Funding at the HRDC has been responsible for managing the HRDF (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, 08.08.19).

In terms of efficiency of application processing, the HRDC appears to be doing quite well; for example, 98% 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

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 (GoM, 1999), and introduced in 2000-01.

The ‘primary function of the levy is to improve skills development in Malawi’ (interview, Government official, Malawi, 06.09.19), 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 TEVETA’s operations covering six different areas** (Box 3). These include training programs and cost-reimbursement to industry, but also the cost of running TEVETA itself and its associated regulatory activities.

Box 3. Areas the TEVET fund can be used to finance according to the 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 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: GoM (1999)

During the last 5 years there have been some changes, *‘particularly the request from government to have the Fund support construction of technical colleges in districts’* (interview, organisation managing the training fund, Malawi 16.08.19).

FUND MOBILIZATION

The levy rate

A 1% 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) (GoM, 2006: Section 36B). Originally a 2% levy (GoM, 1999) it was later reduced as *‘employers lobbied with government’* (interview, employers’ organisation, Malawi 02.08.19)

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 itself was collecting the levy directly, but was *'failing'* (interview, Government official, Malawi, 06.09.19). Since November 2015, the Malawi Revenue Authority (MRA) has been mandated to collect the levy (MRA, 2018) *'as it has database of all employers in Malawi'* (ibid) and on doing so, it deposits it into the TEVETA account. *'There have been some improvements but not much. MRA is currently overwhelmed'* (ibid) *'is busy with its core mandate'* (interview, workers' organisation, Malawi 08.08.19 and 23.08.19). When MRA took over the levy collection from TEVETA, it *'did not have a special department [responsible]; as such, it was relying on same officers who prioritise MRA's own targets more than TEVETA's. But after a series of meetings, [the] MRA set up a section to focus on collection of the levy'* (interview, organisation managing the training fund, Malawi 16.08.19).

Compliance

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 between 50-80% of formal sector employers are paying the levy (interview, Government official, Malawi, 06.09.19; interview, organisation managing the training fund, Malawi 16.08.19). Micro, small and medium-sized enterprises appear particularly disconnected from the levy; in 2012 only 2% of these enterprises reported compliance with paying the levy (Finmark Trust, 2012). During the last two-three years, the tough business climate in Malawi *'explains why some employers default payments of the levy'* (interview, employers' organisation, Malawi 02.08.19). Moreover, the lack of *'any clear cases of enforcement of penalties that are stipulated in the Act'* encourages firms to default (interview, workers' organisation, Malawi 08.08.19 and 23.08.19).

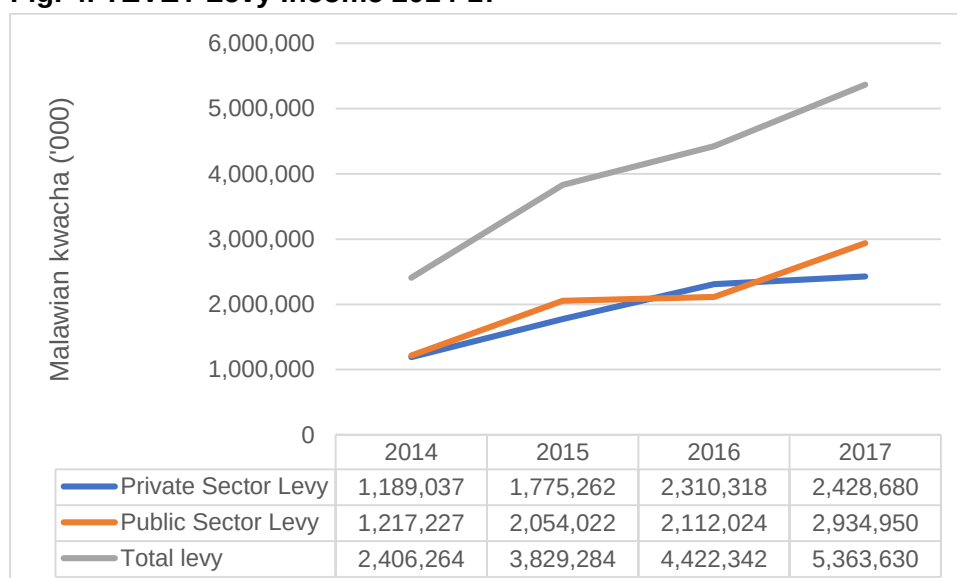
Unlike in many other countries, public sector employers are also obliged to pay the TEVET levy; while levy from public employers usually exceeds that from private employers, *'government has not paid its full share'* (UNESCO, 2019: 96) and efforts to enforce compliance have been largely unsuccessful.¹⁹

Levy income

Levy income from both the public and private sectors increased, year on year, 2014-17, reaching K 5.3 billion in 2017 (Fig. 4).

¹⁹ TEVETA 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 MK2.6 billion. In accordance with the TEVET Act, 20% interest is chargeable on this amount every month meaning that as at 20 June 2014 the amount had accumulated to MK7.8 billion (TEVETA Malawi, 2015). It is not known if this has been paid as of 2019.

Fig. 4. TEVET Levy Income 2014-17



Source: TEVETA Malawi, 2015; 2017

The TEVETA Strategic Plan (2018-2023) intends to increase the revenue from the levy through a mix of measures: awareness campaigns to promote awareness of employers on 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 interview, 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, 06.09.19).

The collected levy income represents the most significant source of income for TEVETA. As a source of funding, the levy represents over 90% of all TEVETA income. Total income to TEVETA in 2018-19 was 8.38 MK billion of which only 0.72 MK billion (8.5%) was from government subvention (GoM, 2018: 221).

Employers' and workers' views of the levy

In general, employers' view of the TEVET levy is that it is 'affordable', but that it is just 'another form of taxation' (interview, employers' organisation, Malawi 02.08.19). According to one employers' organisation:

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 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' organisation, Malawi 02.08.19).

FUND EXPENDITURE

Who decides?

It is TEVETA management which prepares the budget and then submits it to its Board for approval. It takes a bottom up approach, requesting Regional TEVETA 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, 06.09.19; interview, organisation managing the training fund, Malawi 16.08.19). During budgeting TEVETA *'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 and enrolled in private colleges, and stipends for college students on industry attachment); Curriculum reviews; Research; Informal sector training; Regulation (interview, organisation managing the training fund, Malawi 16.08.19). 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 the TEVET fund can be used to finance (Box 3).

Where funds have actually been spent²⁰

The majority of expenditure of the levy-funded training fund is not on training

The majority - about two-thirds – of all levy expenditure are not being spent on training. As a mechanism to channel funding to training, the current allocation of levy resources is very inefficient; between 2014-17 only about one third of total fund expenditure was actually spent on training. The rest was allocated to TEVETA management, fund management, monitoring, quality assurance and other non-training related expenditure. In addition 15% of expenditure on 'bad debts' (Table 14).²¹

Between 2014-17 over 40% of total levy expenditure was on governance, management, quality assurance, communications and M&E. According to the TEVET Act 1999, four of the six listed areas 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 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 provide for in the Act' (Mambo, 2019: 12), it does not seem right that the majority of levy funds are allocated to management and other non-training related costs associated with TEVETA

²⁰ This section draws on Palmer (2019), but using more recent 2016-17 data from TEVETA Malawi (2017).

²¹ The TEVETA annual reports from 2014-15 and 2016-17, shows that the training fund lists as an item of expenditure 'bad debts'. These bad debts apparently refer to 'resources that are budgeted for in the TEVETA 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.

and the TEVET Fund, rather than the majority of levy funds 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 TEVET Act 1999 needs adjusting so that more of the levy funds are actually allocated to funding training. For example, it would be a good idea for there to be well-defined funding windows with expenditure ceilings, whereby a maximum percentage of levy funds could be spent on types of training versus TEVETA management and other non-training costs. Others have expressed concern about the lack of funding for training; for example, the Treasury has allegedly 'raised concerns about the high administration costs incurred by TEVETA since it erodes funds intended for training' (Rasool and Rasool, 2018: 43).

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 and the TEVET Fund should be reduced to less than 20% of total levy income (Mambo, 2019).

In 2014-17, about half of all funds spent on training were spent on formal apprenticeships (Table 14); these formal apprenticeships are delivered by TEVET institutions, and TEVETA allocates funding to cover: recruitment of apprentices on "regular" courses;²² induction of apprentices and instructors; attachment of apprentices and trainers/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 K 410m in 2014 to K 1.2 billion in 2017 (Table 14).

Other training priorities receive less attention and are not well thought out

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, in 2014-17, an average of 10% of funds were spent on private sector training,²³ and a further 32% on implementing 'strategic skills development' programs.²⁴

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

²² "Regular" courses refer to government-approved courses run in technical colleges where students are centrally selected onto the courses by TEVETA. Students who have not been selected via the formal selection route onto 'regular' courses (via TEVETA) are referred to as undertaking "parallel" courses.

²³ Including: provision of company or organisation-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 (e.g. on finance or leadership); facilitation of associations or industrial groupings demand-based training; and carrying out door to door promotional activities (apparently to advertise TEVETA to the business community; so not really 'training' at all).

²⁴ These include, for example, support to 12 Community Skills Development Centres (CSDC) (part of World Bank Skills Development Project support, managed by TEVETA), and the implementation of other training projects supported by development partners.

- KW 653m was spent on private sector training between 2014-17; this represents only 3.5% of total TEVETA income (Table 14).
- In 2017, only 13 companies benefitted from the 20% training cost reimbursement (for training of their employees conducted in-house), amounting to KW 16m (TEVETA Malawi, 2017a). To put this in perspective, this compares to KW 134m expenditure to cover the expenses of the Director of TEVETA 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 benefitted from the 20% training cost reimbursement, with the expenses of the Director of TEVETA during the same year; being almost double the total levy reimbursement to all companies (Table 14).
- Companies complain that the process of receiving the 20% training cost reimbursement from TEVETA is not straightforward.

TEVETA 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. 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, organisation managing the training fund, Malawi 16.08.19). 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 like they are (directly) benefiting from it; as it stands, this is not the case.

Table 14. TEVETA Statement of Income and Expenditure, 2014-2017

	2017		2016		2015		2014		2014-17	
INCOME AND EXPENDITURE		expenditure as % of total income		expenditure as % of total income		expenditure as % of total income		expenditure as % of total income		expenditure as % of total income
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
A. Income										
<i>Levy Collected (Gross)</i>	5,363,630		4,422,342		3,829,287		2,406,264		16,021,523	
<i>Other income</i>	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
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

Source: TEVETA Malawi (2015; 2017a)

FUND ALLOCATION MECHANISMS

Apprenticeship subsidies to colleges - TEVETA subsidises training in both national and community technical colleges on a per capita basis, for 'regular students' only.²⁵

This TEVETA 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 KW 378,000 to KW 484,000 (TEVETA Malawi, 2015). These unit costs are much higher than for other types of training funded by TEVETA (Mambo, 2019).

Allowances to Apprentices on Attachment - During industrial attachment, TEVETA pays formal apprentices training in technical colleges upkeep allowances.

Employer grants - TEVETA has been providing financial support to companies that conduct trainings for their employees to upgrade skills. TEVETA reimburses 20% of direct training costs for a company, and reimburses 50% of direct costs if it is an association. For companies that seek to engage an expert to help with on the job coaching for their employees, TEVETA reimburses 50% of the cost (interview, organisation managing the training fund, Malawi 16.08.19). The process of employers obtaining rebates is 'not straightforward' (UNESCO, 2019: 97), and full of 'bureaucratic red tape delays and administrative hurdles' (interview, employers' organisation, Malawi 02.08.19). There is also a lack of awareness among employers about whether and how they are able to access such resources (ibid).

FUND EFFECTIVENESS

Improving access to training for disadvantaged groups

Funds to 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, which 'does not provide equitable support to all the students' (Mambo, 2019: 10). The subsidy financing approach adopted by TEVETA in relation to formal apprenticeships fails to promote equity among students. TEVETA'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 selection. The general blanket subsidy of TEVETA selected students, therefore, excludes the most disadvantaged (Palmer, 2018b).

However, TEVETA provides bursaries to assist needy apprentices (who have the prerequisite grades) to access training in national technical colleges, with an emphasis on

²⁵ 'Regular' students are those who have been selected onto courses by TEVETA and whose place is heavily subsidized by TEVETA.

needy girls. In 2017, 782 students were supported with an average of K 6,800 (USD 9) each (TEVETA Malawi, 2017); this is meant to help them afford to pay K15,000 termly fee when they enrol at a technical college (interview, organisation managing the training fund, Malawi 16.08.19).

The establishment of Community Technical Colleges, which TEVETA 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' organisation, Malawi 08.08.19 and 23.08.19).

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

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% 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' organisation, Malawi 02.08.19).

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 don't 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 (online survey, organisation managing the training fund, Malawi, 05.08.19).

Only 1-2% of companies benefit from training cost-reimbursement but companies are training anyway; this is a dangerous signal.²⁶ Levy compliant employers can be reimbursed up to 20% of their total direct training cost of any TEVETA approved in-house training (Malawi Revenue Authority, 2018). However, the number of companies benefitting from training reimbursement is extremely low; for example, of the approximately 1,200 levy-compliant companies less than 2% (20) benefitted in 2014-15 and 1% (13) benefitted 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 the World Bank Enterprise Surveys, in 2014-15 33% of formal firms in Malawi offered formal training to their employees; this is higher than the Sub-Saharan Africa average of 29% and

²⁶ Below is from Palmer (2019).

the same as the global average (33%) (www.enterprisesurveys.org).²⁷ A 2009 firm survey in Malawi noted that while over 70% of surveyed firms engaged in in-house training, only a few made use of the cost-reimbursement facility of the TEVET Fund (cited in Sabrina De Gobbi and Anang, 2013).

Considering the very small amount of funding going to private sector training from the TEVETA 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. Likely most companies 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 countries²⁸ shows that when the private sector sees a training levy as an irrelevance, they will ultimately pressurise 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% of formal companies are providing to their employees, and if it 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 incentivise them to train in the areas identified in the national development strategies and the priority areas identified in MGDS III.

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

Improving individual employability

Tracer studies of national technical college graduates suggest that over 80% 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 conducted a tracer study of national technical college graduates (who graduated in December 2014) (TEVETA Malawi, 2017b) to establish, among other things, the employment status of these graduates two years after graduation; it found that 61% were in wage-employment and 21% in self-employment. Tracer studies, however, do not give any indication of causation (ie that it was the training received that resulted in the graduates being employed/self-employed), nor is there any comparison group that compares the employment

²⁷ The latest round of the World Bank Enterprise Survey in Malawi was conducted April 2014 through February 2015 with 523 firms completing (56% small enterprises, sized 5-19 persons; 28% medium enterprises, 20-99 persons; 16% large enterprises, 100+ persons). Interestingly, the percentage of firms in Malawi offering formal training to their employees decreased from 48% in 2009 to 33% in 2014; it is unknown why (<https://databank.worldbank.org/data/reports.aspx?source=enterprise-surveys>).

²⁸ For example, Jordan previously had a training levy on the private sector of 1% 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, or E-TVET Fund).

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 is a requirement of course at technical colleges, are supported by TEVETA (for ‘regular’ courses only), and this practical work experience should help to make students more employable (interview, employers’ organisation, Malawi 02.08.19; interview, workers’ organisation, Malawi 08.08.19 and 23.08.19).

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

The TEVET Fund has existed for two decades and still the TEVET system in Malawi is chronically weak, is unable to meet the skill demands of the labour force and regarded by many in industry as disconnected from their needs. As the largest amount 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 has not worked and an alternative approach needs to be introduced (Palmer, 2019).

TEVETA’s centralised recruitment of students for technical colleges’ regular courses, its centralised approach to arranging student attachments with industry, and its blanket subsidy approach to apprentices operate against principles of decentralisation and competition and are therefore disabling to the national system. TEVETA operates a centralized recruitment system for selection into National Technical Colleges, as well as gets directly involved in arranging students’ industry attachments thereby disempowering colleges themselves who should be the ones responsible for this. TEVETA subsidises 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 was ‘requested to support... a recent presidential directive to have community colleges in every district’ (interview, organisation managing the training fund, Malawi 16.08.19). *‘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, 06.09.19). 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’ organisation commented that there is a problem with the *‘quality of the skills [or technical college graduates] and a mismatch in some cases with what the industry wants’* (interview, employers’ organisation, Malawi 02.08.19). 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, 06.09.19).

Since earlier in 2019, the fund is also being 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 sit down to discuss the needs of the industry and what technical colleges and TEVETA need to do (interview, employers’ organisation, Malawi 02.08.19).

Sectors where the levy is working well, or not

According to key stakeholders, the construction sector is said to benefit most, but other benefitting sectors include: manufacturing; administrative and support service activities; electricity, gas, steam and air conditioning supply; information and communication; wholesale and retail trade, repair of motor vehicles and motorcycles (online survey responses, Malawi: employer, 13.09.19; employer, 07.08.19; employer organisation, 30.07.19; organisation managing the training fund, 05.08.19; workers’ organisation, 06.08.19; government official, 01.08.19).

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 M&E 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).

FUND MANAGEMENT AND GOVERNANCE

Description of fund governance

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

TEVETA is a government institution and board members are appointed by government; it implements its plans in-line with government system and plans (interview, Government official, Malawi, 06.09.19; interview, organisation managing the training fund, Malawi 16.08.19). 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’ organisation, Malawi 02.08.19).

The influence of employers is ‘low’ (UNESCO, 2019: 13) in the governance and management of the TEVET fund. Since the payroll levy is responsible for the bulk of all funding for the TEVET fund, it should be expected that employers should have some control on 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’ organisation out of a Board of 16 persons, representing 18% 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, 06.09.19). Furthermore, one employers’ organisation notes that the employer representative on the TEVETA Board does not communicate with other employers *‘to know what is happening at TEVETA’* (interview, employers’ organisation, Malawi 02.08.19).

The TEVET Act 1999 has created a conflict of interest for TEVETA 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 1999 has created ‘obvious conflict of interest’ (UNESCO, 2019: 98) for TEVETA; 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 currently has the authority to determine levy allocation, and at the same time it is using a large proportion of these resources to cover its own management and administration costs as well as to provide training programs.

A senior government official agrees 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, 06.09.19).

Some have suggested that TEVETA’s mandate needs to be reduced ‘to that of regulation and oversight of the TEVET sector’ (Mambo, 2019: 28); the current situation of TEVETA as a ‘facilitator, regulator and implementer’ [has resulted in TEVETA]... spreading itself too thin’ (Mambo, 2019: 13). Indeed, some of the activities that TEVETA is currently involved with 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’ organisations and workers’ organisations that the TEVET fund is subject to political influence (interview, workers’ organisation, Malawi 08.08.19 and 23.08.19; interview, employers’ organisation, Malawi 02.08.19). Some employers went further, suggesting that the TEVET Fund is *‘too pro government/ruling party’* (online survey, employer, Malawi, 13.09.19) and may be being *‘used to advance political interests’* (online survey, employer organisation, Malawi, 30.07.19). Rather than

‘pursuing interests of the powers that be’, employers want the training fund to *‘prioritize their [own] interests’* (interview, employers’ organisation, Malawi 02.08.19). 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, 06.09.19). Clearly, there is a strong need for much greater transparency and greater involvement of employers in allocation decisions.

Description of fund management

Administration of the TEVET Fund is done by TEVETA staff and transparency appears to be an issue. Every quarter TEVETA management reports to the Board on expenditure for all programmes (interview, organisation managing the training fund, Malawi 16.08.19). TEVETA also produces annual accounts (audited by Deloitte) and reports and reportedly shares these with interested stakeholders (interview, employers’ organisation, Malawi 02.08.19). However, this is clearly not the case for all stakeholders, as illustrated by one workers’ organisation who notes that they *‘have never seen any of their financial audits. They are not shared. In fact, there is high levels of secrecy among our Board representatives’* (interview, workers’ organisation, Malawi 08.08.19 and 23.08.19). What is a fact it that these annual audited accounts and reports are not publically available on TEVETA’s website; until earlier in 2019 there was one TEVETA Annual Report available via TEVETA’s website (but for 2014-15), now even this is no longer accessible.

Internal and government auditing of accounts has been relatively weak to date. Before around 2017, TEVETA did not have an Internal Auditor but the Board decided to engage one (interview, organisation managing the training fund, Malawi 16.08.19). A senior government official interviewed noted that *‘to date [TEVETA] has never been audited by government’s Auditor General’s department. This is one of the major weaknesses’* (interview, Government official, Malawi, 06.09.19).

‘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

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’ (Mauritius HRDC, www.hrdc.mu). An apparent focus on providing training incentives to employers (interview, organisation managing the fund, Mauritius 06.08.19) 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 HRDC has been managing the National Training Fund, and providing training incentives to employers represents one of its main functions. HRDC is not involved in the delivery of training.

FUND MOBILIZATION

The levy rate

Every employer is required to pay training levy at the rate of 1.5 % of the total basic wage or salary of its employees other than a household worker (Mauritius Revenue Authority, 2019). The HRDC receives 1% of the levy amount and the remaining 0.5% is transferred to the Workfare Programme Fund²⁹ managed by the Ministry of Labour, Industrial Relations, Employment and Training (HRDC Mauritius, 2019a). The 2019-20 Budget speech noted that from July 2019, employers with a salary bill not exceeding Rs 10,000 per month will pay 0.5% to the HRDC instead of 1% (RoM, 2019).³⁰

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 (MRA) collects the levy. Prior to this it was the responsibility of the Ministry of Social Security. The levy collection fee, agreed to be 4% of the collected levy, is not received by the MRA, but still by the Ministry of Social Security; the MRA collects the levy and remits it to Ministry of Social Security which in turn gives it to HRDC (interview, organisation managing the fund, Mauritius 06.08.19).

²⁹ To cover unemployment benefit for workers in the private sector who are laid-off. The training levy attributable to HRDC has fluctuated over the years, from 1% (1988-2008) to 0.5% (2009-2013), to 1% (since 2014).

³⁰ No mention was made of the other 0.5% levy payable for the Workfare Programme Fund; it is assumed that this stands.

Compliance

1,600 employers participate in the fund (approximate number of levy-paying employers) (interview, Government official, Mauritius, 06.08.19), **though it is not known what proportion of eligible employers this represents.**

Levy income

Levy income has been increasing annually over the last five years (Table 15).

Table 15. Levy Income in Mauritius 2013-2018 (Rs)

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

Sources: 2017-18 from HRDC Mauritius 2019b; 2018; 2016; 2014. NB: the financial accounting year changed in 2017-18, so the accounts to 30th June 2017 are for 18 months, not 12.

Employers' views of the levy

Formal employers generally the training fund as '*instrumental to the developmental needs of the country*' (interview, employers' organisation, Mauritius 06.08.19). 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 (e.g. Environment Protection Fund, Portable Retirement Gratuity Fund, National Solidarity Fund), the levy rate is starting to be perceived as '*high in the present context*' (ibid).

However, '*most smaller enterprises view the levy as a form of taxation*', and only '*a small percentage of SMEs take advantage*' of it (interview, organisation managing the fund, Mauritius 06.08.19).

FUND EXPENDITURE

Who decides?

The HRDC decides the training fund budget but it needs the approval of the government (interview, organisation managing the fund, Mauritius 06.08.19),

Types of allowable expenditure under the Training Fund

HRDC Administration and Salaries - Including salaries, office and administrative expenses

Levy collection fees

Industry training grant - To encourage employers to invest in the training of their employees.

Approved national HRD projects - The largest of these, in recent years, is the **National Skills Development Programme** (NSDP) launched in December 2016; a training and placement programme of 3-12 months, the NSDP aims to provide industry-driven training to unemployed youth (16 to 35 years old) 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 (GTES)** introduced in 2015; this targets unemployed graduates whose existing training does not match market requirements. Like the NSDP this is a training and placement programme of 3-12 months, with training costs and trainee stipends funded by the HRDC (HRDC Mauritius, 2019b).

Other expenditure areas that deviate from the original fund objectives – Acquisition of property is not in the objective of the Fund, but the HRDC purchased its offices from the levy collected (interview, employers' organisation, Mauritius 06.08.19). *'Over the years given the surplus accumulated the fund has been used to finance other governmental projects e.g. as Free Tertiary Education Scheme, SME Graduate Scheme and National Apprenticeship Scheme'* (interview, employers' organisation, Mauritius 06.08.19).

Workfare programme – as noted above, the workfare programme, managed by the Ministry of Labour, takes 0.5% of levy. This provides support to workers who have lost their jobs, and is unsurprisingly popular among workers (interview, workers' organisation, Mauritius 06.08.19). 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' organisation, Mauritius 06.08.19). The workfare programme is not addressed further below.

Where funds have actually been spent

About 12% of levy income over the period 2014-18 was spent on administrative and operating costs; this includes 4% levy collection fees, about 6% for staff costs and 1% for other office and administrative costs (Table 16).

An average of 38% of levy income over the period 2014-18 was spent on industry reimbursement of training fees (Table 16). 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 HRDC, was relatively minor over the period 2014-18, except for 2017-18 when 18% of levy income that financial year was spent on other skills programmes – mainly the National Skills Development Programme (Table 16).

Over the period January 2013 – 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% of levy income that year was added to the accumulated surplus (Table 16).

Table 16. Mauritius National Training Fund Account - Income and Expenditure (2014-18)

	12 Mths ended 30 June 2018		18 Mths ended 30 June 2017		12 Mths ended 31 Dec 2015		12 Mths ended 31 Dec 2014	
INCOME AND EXPENDITURE	Rs	expenditure as % of total income	Rs	expenditure as % of total income	Rs	expenditure as % of total income	Rs	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 & 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 & Career Cube	n/a	n/a	n/a	n/a	29,900	0.005	47,590	0.01
Career Development Stairway (ICT & Finance)	n/a	n/a	n/a	n/a	383,156	0.06	145,684	0.03

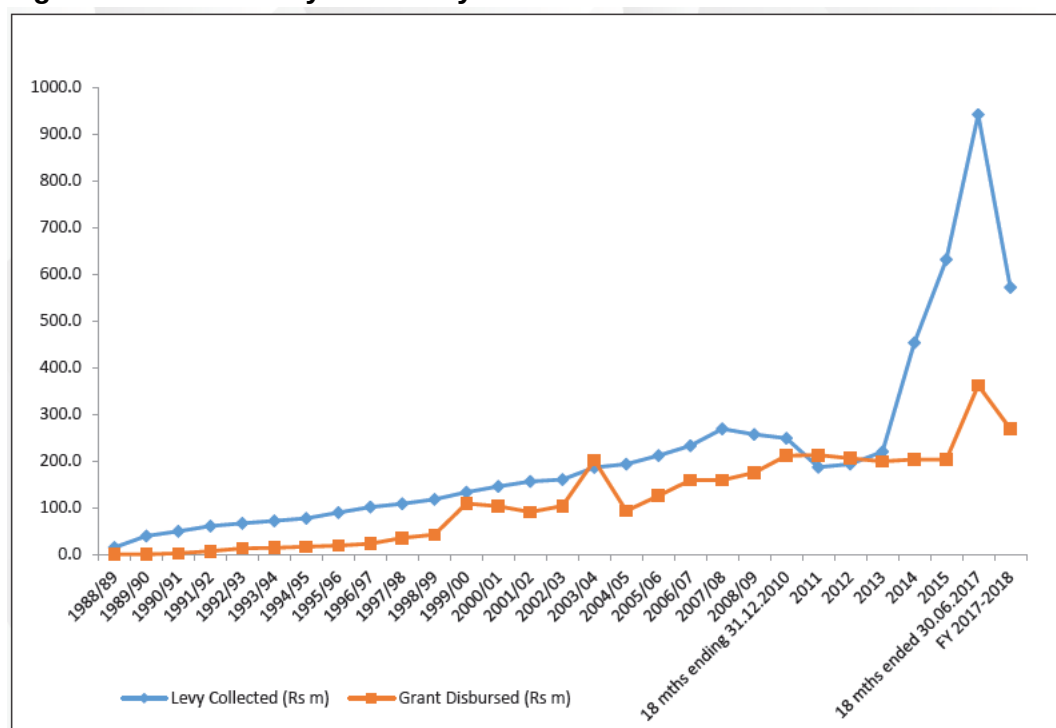
<i>Evaluation of Training</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>808,968</i>	<i>0.1</i>	<i>0</i>	<i>n/a</i>
<i>Skills for Growth - SMEs</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>18,160</i>	<i>0.003</i>	<i>0</i>	<i>n/a</i>
<i>Skills Studies</i>	<i>117,550</i>	<i>0.02</i>	<i>1,380,000</i>	<i>0.1</i>	<i>0</i>	<i>n/a</i>	<i>0</i>	<i>n/a</i>
<i>Career Counselling / Development of a Career Web Portal</i>	<i>670,196</i>	<i>0.1</i>	<i>1,678,258</i>	<i>0.2</i>	<i>16,600</i>	<i>0.003</i>	<i>16,600</i>	<i>0.003</i>
<i>HR Projects</i>							<i>28,000</i>	<i>0.01</i>
<i>Training for "Technicien Salle D'operation"</i>							<i>7,201,971</i>	<i>1.3</i>
<i>Skills Pledge</i>							<i>53,584</i>	<i>0.01</i>
<i>Career Aspirations of UOM Students & Let's Talk Career Series</i>							<i>57,830</i>	<i>0.01</i>
<i>HSC Pro with MES - Pilot Phase</i>	<i>390,000</i>	<i>0.1</i>	<i>337,308</i>	<i>0.0</i>	<i>0</i>	<i>n/a</i>	<i>0</i>	<i>n/a</i>
<i>Training Grant</i>	<i>336,625,422</i>	<i>46.8</i>	<i>361,771,920</i>	<i>36.5</i>	<i>202,924,927</i>	<i>30.6</i>	<i>203,289,761</i>	<i>37.3</i>
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
<i>National Skills Development Programme (NSDP)</i>	<i>99,620,453</i>	<i>13.8</i>	<i>31,094,842</i>	<i>3.1</i>	<i>0</i>	<i>n/a</i>	<i>0</i>	<i>n/a</i>
<i>Graduate Training for Employment Scheme (GTES)</i>	<i>7,412,258</i>	<i>1.0</i>	<i>11,502,877</i>	<i>1.2</i>	<i>0</i>	<i>n/a</i>	<i>0</i>	<i>n/a</i>
<i>Financing for EOY Bonus for YEP Trainees</i>	<i>57,652</i>	<i>0.01</i>	<i>1,832,839</i>	<i>0.2</i>	<i>0</i>	<i>n/a</i>	<i>0</i>	<i>n/a</i>
<i>Dual Training Programme (DTP)</i>	<i>1,794,578</i>	<i>0.2</i>	<i>4,356,537</i>	<i>0.4</i>	<i>90,000</i>	<i>0.01</i>	<i>0</i>	<i>n/a</i>
Total Other Programmes	108,884,941	15.1	48,787,095	4.9	90,000	0.01	0	n/a
<i>Mauritius Institute of Training & Development – Apprenticeship Scheme</i>	<i>6,828,930</i>	<i>0.9</i>	<i>17,256,797</i>	<i>1.7</i>	<i>5,132,383</i>	<i>0.8</i>	<i>6,007,040</i>	<i>1.1</i>
<i>Mauritius Polytechnics Ltd (Part Financing of 2017/2018 Budget)</i>	<i>14,565,458</i>	<i>2.0</i>	<i>0</i>	<i>n/a</i>	<i>0</i>	<i>n/a</i>	<i>0</i>	<i>n/a</i>
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 the 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

Source: HRDC Mauritius, 2019b: 36-37; HRDC Mauritius, 2018; HRDC Mauritius, 2016. Percentages calculated by author. See annual reports for project details. NB: As from July 2016, the financial year of HRDC covers the period 01 July to 30 June.

Levy Surplus

As of the end of June 2018, there was a 1.35 billion MUR (USD 37m) accumulated levy surplus (HRDC Mauritius, 2019b). Disbursement from the Fund has not kept pace with levy collection leading to a large accumulated surplus 2014-2018 (Fig. 5). Any annual surplus is invested in Treasury Bills as approved by the HRDC Board (interview, organisation managing the fund, Mauritius 06.08.19).

Fig. 5. Historical Analysis of Levy/ Grant



Source: HRDC Mauritius (2019b)

The accumulated surplus did not go unnoticed by government, who have tapped into it to fund all manner of activities: capital projects (online survey, employer, Mauritius 31.07.19); the Free Tertiary Education Scheme; SME Graduate Scheme and the National Apprenticeship Scheme which should all be funded from budgetary allocations have been financed by the training fund (interview, organisation managing the fund, Mauritius 06.08.19). '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 31.07.19).

FUND ALLOCATION MECHANISMS

Employer training grant

Employer training grants are based on a cost-sharing principle; employers can recover up to 75% 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 (MQA) (HRDC Mauritius, 2016). Training incentives for firms have been revised regularly by the HRDC - in 2006, 2009, 2010, 2012, 2014, 2016 and 2017 – in the 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 form of partial refund, including under the levy-grant scheme and additional incentive schemes (Fig 6).

Fig. 6. Training incentives schemes offered by the HRDC of Mauritius

Levy / Training Grant³¹ (subject to annual training grant ceiling)	Additional Incentives³² (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

HRDC Mauritius (2019a; 2019b)

The refund rate (of up to 75%) is based on the annual levy paid by employer and subject to the limit set under the Training Incentive Scheme. For courses starting as from 9th August 2018, the rate of refund of training cost is noted below (Fig. 7):

Fig. 7. Rate of refund

Annual Levy Paid for Previous Financial Year	HRDC Rate of Refund
(i) Up to Rs 20,000	75%
(ii) Above Rs 20,000 and up to Rs 100,000	75%
(iii) Above Rs 100,000	70%

Source: HRDC Mauritius (2019a)

The process of accessing funding

Only training courses and programmes which 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 as well as grant reimbursement after the completion of training (see <http://www.levy.hrdc.mu/>) (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 is '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 31.07.19). The normal processing time for both online and manual applications is 24 hours, provided all information and documents have been submitted (HRDC Mauritius, 2019a).

³¹ 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).

³² A 4th incentive scheme, 'Pre-Operational Training Incentive Scheme' was discontinued in 2017-18.

Challenges and risks associated with fund allocation

Verification of the authenticity of training being held and claims of refund – this represents a large challenge, even though a mechanism already exists to try to counter such malpractices (interview, Government official, Mauritius, 06.08.19).

Type of training eligible for reimbursement – The Training Fund focuses on reimbursement for formal training ‘with greater restrictions on training offered in firms rather than classrooms’ (Kuku et al., 2015: 6).

FUND EFFECTIVENESS

Improving access to training for disadvantaged groups

The Mauritius Training Fund’s main support for disadvantaged groups appears to be via its National Skills Development Programme, which is targeting unemployed youth (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 the Training Fund improves enterprise performance or not, does not exist or was not referred to by any stakeholder. The HRDC, that 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, organisation managing the fund, Mauritius 06.08.19). 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, organisation managing the fund, Mauritius 05.08.19). However, these claims were not able to be verified with evidence.

It has been noted that the majority (55% in 2016-17) of employee training is conducted through institutional training in classrooms, rather than on-the-job (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 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).

Incentivizing enterprises to train their employees

The HRDC points towards simple correlational evidence that the Training Fund is incentivising 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 Rs 3.3 billion 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, organisation managing the fund, Mauritius 06.08.19). One employer also offered correlational evidence noting 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 31.07.19).

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 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. Small firms (paying an annual levy up to Rs 20,000) make up the majority (over 80%) of all contributing firms, but only contribute 10% of the levy, whereas large firms (above Rs 100,000) make up less than 6% of the total number of employers but contribute almost three-quarters (73%) of the total levy. Only 2% of contributing small firms benefit from the training grant, compared to 69% of large companies (Table 16).

Table 16. Number of employers and trainees benefitting from the training grant by company size

ANNUAL LEVY PAID (Company Size)	No of employers contributing annual levy in FY 2016-17	No of employers benefitting from grant in FY 2017-18	% of employers benefitting from grant / No of employers contributing to annual levy	No of trainees in FY 2017-18	% of trainees in FY 2017-2018	% total levy contribution for FY 2016-17
Up to Rs 20,000	13,729	330	2%	1,978	4%	10%
Above Rs 20,000 and up to Rs 100,000	2,282	604	26%	7,368	14%	17%
Above Rs 100,000	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 noted some of the reasons why it is such a challenge for SMEs in Mauritius to receive grant support from the Training Fund: *‘Micro enterprises 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, 06.08.19).

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 improved). The HRDC noted 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, organisation managing the fund, Mauritius 06.08.19). Meanwhile, the HRDC Annual Report 2017-18 notes that training for over 2,850 unemployed youth 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 training/skills system

The 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 program, and funding for the Mauritius Polytechnic to part 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, organisation managing the fund, Mauritius 06.08.19).

Responsiveness to national skills priorities

The Training Fund in Mauritius has been criticised for not being very responsive to the development needs of the country. For example, it is noted that *'Metro Leger [a light metro] is being introduced in Mauritius and 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' organisation, Mauritius 06.08.19). 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 up-skill their workforce as quickly as possible, especially in tech-driven sectors (interview, employers' organisation, Mauritius 06.08.19).

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, and wholesale and retail trade, repair of motor vehicles and motorcycles. These sectors represent 80% 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; education (online survey, workers' organisation, Mauritius 31.07.19; online survey, organisation managing the fund, Mauritius 05.08.19; online survey, employer, Mauritius 31.07.19).

Effectiveness of monitoring and evaluation systems

The M&E system of the Mauritius Training Fund is currently 'not effective as there is no mechanism to assess the training and labour market outputs' (interview, employers' organisation, Mauritius 06.08.19). 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, organisation managing the fund, Mauritius 06.08.19).

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 Funds, the Council of HRDC set up a sub-committee called the National Training Fund Committee (Fig. 8). The National Training Fund Committee mandate is to:

- Analyse periodic reports from Management on the functioning of the NTF 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; and
- Advise on other related issues concerning the Levy / Grant System. (HRDC Mauritius, 2019b)

Fig 8. Mauritius National Training Fund Committee 2017-18

	Affiliation
Mr Christ Paddia - Chairperson	Lead Analyst, Ministry of Finance and Economic Development
Members	
Mrs Shabina Lotun	Deputy Permanent Secretary (Finance & Audit, Planning & Budgeting), Ministry of Education and Human Resources, Tertiary Education and Scientific Research
Mr Kamalanaden Vella Mooten	Acting Deputy Director & 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' organisation, Mauritius 06.08.19). What is more, levy paying companies are not providing information to this Committee on their training needs which can then inform sector and national skill needs (interview, Government official, Mauritius, 06.08.19). However, workers' organisations 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 functioning of the fund (interview, workers' organisation, Mauritius 06.08.19).

The HRDC National Training Fund Committee, and the HRDC Board it reports to, is 'under the aegis of the Prime Ministers' Office' (interview, Government official, Mauritius, 06.08.19), **'does not have full autonomy and government has the final say'** on decisions taken by the HRDC Board (interview, employers' organisation, Mauritius 06.08.19). Greater autonomy *'is needed to improve efficiency'* (ibid).

In the past, the organisation 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 (IVTB), 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 IVTB 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 IVTB would concentrate on its role as provider of training. In 2002, the role of regulator was transferred to the Mauritius Qualification Authority (MQA). The role of facilitator (design and management of the levy grant scheme) was transferred to the Human Resource Development Council (HRDC) in 2004.

Source: 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 / training grant system, and advises on improvements to be brought to the HRDC training incentive schemes (HRDC Mauritius, 2019b). According to the HRDC that manages the Training Fund, 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; adequate manpower to manage the fund (online survey, organisation managing the fund, Mauritius 05.08.19). The government agrees that in general the Training Fund *'is being managed efficiently by the HRDC'* (interview, Government official, Mauritius, 06.08.19). In terms of monitoring and tracking fund income and expenditure, regular reports from the collecting agent and reconciliation of funds collected are carried out which are subject to audit (interview, organisation managing the fund, Mauritius 06.08.19), and monthly expenditure reports are produced (interview, organisation managing the fund, Mauritius 06.08.19).

4.4. NAMIBIA COUNTRY BRIEF

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 2008 VET Act, which made provision for its establishment (RoN, 2008),

According to the VET Act 2008, the levy on employers was to be ‘for the purpose of facilitating and encouraging vocational education and training’ (RoN, 2008: article 35). The Namibia Training Authority (NTA) which manages the National Training Fund which the VET levy finances, lists the objectives of the National Training Fund as being:

- to mobilise 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 skill shortages that impede enterprise growth (NTA, 2019).

According to an employers’ organisation, *‘the main drive [of setting up the National Training Fund] was to try and encourage employers to do more training’* (interview, employers’ organisation, 02.09.19).

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, 19.09.19).

FUND MOBILIZATION

The levy rate

The levy rate is 1% of payroll, and is payable by all employers with a payroll of 1 million Namibian dollars or more (RoN, 2014; interview, organisation managing the training fund, 04.09.19). There was a previous attempt to reduce the rate from 1% to 0.7% and remove the employer training refund; while the NTA supported this, but government turned it down (employers’ organisation, personal communication, 28.04.20).

Exemptions

A number of types of employers are exempted from payment of the levy: the State; regional councils; local authorities; employers, whether or not supported wholly or partly by grants from public funds, that meet the criteria for - (i) public educational institutions; (ii) faith based organisations; (iii) charitable organisations; (iv) private education and training institutions; (v) diplomatic and consular missions and offices of representatives of other states; (vi) donor

organisation and their agencies; (vii) non-profit making voluntary organisations or non-government organisations; or (viii) non-profit making non-voluntary organisations (RoN, 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 Disbursement Reporting System.

Other collection options have been explored and dismissed to date. One option was to use the Social Security Commission to do the collection *'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' organisation, 02.09.19). As a result the NTA does the collection; indeed 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'* (employers' organisation, personal communication, 28.02.20).

Compliance

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

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 suggests that the approximately 2,900 NTA-registered employers could only represent *'about 15% of the eligible levy payers'* (interview, organisation managing the training fund, 18.08.19). This challenge stems from the lack of a unified database of Namibian employers (interview, organisation managing the training fund, 18.08.19; Velyvis et al., 2017b). 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' database related to work visas and work permits, the Ministry of Finance's database on registered companies, the Namibia Revenue Agency database for registered tax payers, the Ministry of Labour's database of employers, and the Social Security agency's database of employers (interview, employers' organisation, 02.09.19). As a result, the NTA recognises 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, organisation managing the training fund, 04.09.19). To address this issue of compliance, the NTA will deploy compliance inspectors *'to ensure that all eligible levy payers are contributing'* (online survey, organisation managing the fund, Namibia, 09.08.19 & 03.09.19).

Levy income

Since the inception of the VET Levy in April 2014 to the end of March 2019, a cumulative total of N\$ 1.7 billion was collected in levies and accrued in interest earned on levy funds in the National Training Fund Account (NTA, 2019).³³

Table 17. VET Levy Income 2014-2019

	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 (2019; 2018a; 2017; 2016; 2015)

Levy income in the 2018-19 financial year amounted to N\$ 380m (USD 25m) as collections, in addition to N\$ 49m (USD 3.2m) interest earned (NTA, 2019). Total annual levy income has increased year on year since the launch in 2014 (Table 17).

The VET Act (2008) notes that financing for the National Training Fund does not only come from the training levy, but from multiple sources: money voted by Parliament; any money received by the NTA (e.g. donations); 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 N\$ 400m [USD 26m] to N\$ 95m [USD 6m]'* (interview, organisation managing the training fund, 18.08.19). The effect has been that there has been increased overall reliance on the levy funding, and at the 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 NTF system'* (interview, organisation managing the training fund, 18.08.19). 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' organisation and the NTA official interviewed for this review agreed that employers have mixed feelings about the training levy; the employers' organisation was of the view that about half employers consider it as a tax, and were *'advocating to reduce the levy from 1% to 0.7%,'* while another 50% *'see it as an opportunity for improving training provision'* (interview, employers' organisation, 02.09.19); the NTA was of the view that the *'majority of*

³³ Equivalent to about USD 112m at the 2019 exchange rate.

[employers see the levy] as just another tax... [but some] are actually quite excited about... what it can do' (interview, organisation managing the training fund, 04.09.19). The latter point about employers being excited, was refuted by a former Board member and representative of an employers' organisation: *'Having served on the Board of the Training authority for 6 years and covering the time of implementation of the Fund, I have NEVER heard of anybody being excited about it'* (personal communication, employers' organisation, 14.11.19).

FUND EXPENDITURE

Types of allowable expenditure under the Training Fund

According to the 2008 VET Act (RoN, 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** -
 - identified in the national policy on vocational education and training or the NTA's strategic plan for vocational education and training; or
 - that the NTA considers necessary to achieve the objects of the VET Act.
- To fund the **operational and administrative costs incurred by the NTA** in the performance of its functions under the VET 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, organisation managing the training fund, 04.09.19). In the January of the same year that the levy was eventually launched (2014), government regulations were released related to the allocation of funds (see further below).

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 N\$ 164m has been disbursed to employers as training grants, representing only 14% of total levy income over those financial years (Table 18); when the intention was that up to 50% 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 launched in 2014, from 22% to 9%. The fact that so little has been *'given back to the employers... [is a] reflection that something is not working'* (interview, employers' organisation, 02.09.19).

Table 18. Employer Training Grant Disbursements 2014-18

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

Source: Calculated by author from NTA (2019; 2018a; 2017; 2016; 2015)

The majority of levy funds (almost 80%) meant for employer training grants end up being reallocated to the Key Priority Grant allocation/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% of levy expenditure.

Funds meant to be allocated annually to employers to support in-firm training (via the ETG) which 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 (RoN, 2014, they are reallocated to the Key Priority Grant allocation when the original allocation to ETG 'is no longer eligible as a grant to the registered employers' (NTA, 2018a: 90; NTA, 2017; 85). 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 (RoN, 2014: 4).

Over the two-year period 2016-18, N\$ 255m (approx. USD 17m) meant to support employer training was reallocated to general NTA funds (NTA, 2018a; 2017). This represents almost 80% of the levy funds collected 2016-18 (N\$ 332m)³⁴ meant to be allocated to employer training. Over the same two-year period (2016-18) only N\$ 70m (approx. USD 4.6m) was allocated to employers via employer training grants.

Employer Training Grant disbursements by sector has 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 19).

³⁴ Over the period 2016-18, N\$ 664m levy was collected (see Table 18 above on levy income); 50% of this is meant to be allocated to employer training.

Table 19. Employer Training Grant Summative Disbursements 2014-2018

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, Warehousing & 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 ETG (discussed above), Key Priority Grant allocation makes up more like 75% of levy expenditure, when it is only meant to account for up to 35%.

In the period 2016-19, the bulk of the Key Priority Training Grant has been spent on four main areas (Table 20):³⁵

- **About half of the Key Priority Training Grant expenditure was on the implementation of the 2016-2020 Skills Development Plan for the VET Sector (SDP1)** - including procuring training from accredited local and Southern Africa Development Community (SADC)-based VET institutions.
- **6% of expenditure on apprenticeship and traineeships** – including the drafting of a Work-Integrated Learning (WIL) Policy and the cost of a pilot apprenticeship programme.
- **18% of expenditure on capacity building and production unit support** - upskilling of trainers from public VTCs, public enterprises and private training institutions.
- **15% of expenditure on VET expansion** – upgrading and expansion of existing (NTA-run) public Vocational Training Centres (VTCs) - including infrastructure development, upgrading and renovation of facilities, procuring of equipment - and the establishment of new VTCs. According to an employers' organisation, *'largely the NTA have been*

³⁵ Table 20 shows the % allocation by year. The average % allocation 2016-19 was calculated by the author from NTA (2019; 2018; 2017).

responding to the call from parliament which announced that there should be a VTC in every region... this makes political sense but does not make practical sense' (interview, employers' organisation, 02.09.19). The NTA also noted the intention to support the *'construct[ion of] new public VTC centres... in all 14 political regions in order to issue of accessibility'* (online survey, organisation managing the fund, Zambia, 09.08.19 & 03.09.19).

The remaining approximately 10% of expenditure on other areas including for example: development of qualifications, unit standards and training programmes, support for inclusive TVET, and TVET Advocacy (including participating in WorldSkills International Competition) (NTA, 2019; 2018a; 2017; interview, organisation managing the training fund, 04.09.19).

Table 20. Key Priority Training Grant Funding – Percentage of fund allocation by main investments areas (2016-19)

	2018-19	2017-18*	2016-17*
SDP1 Training Procurement	52	44	40
Apprenticeship and Traineeships	11	4	0
Capacity building and production unit support	19	26	1
Development of Qualifications, Unit Standards & Training Programmes	3	4	0
Entrepreneurship	1	1	2
VET Expansion	5	7	48
PPP 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: World Skills, National Skills Competition & 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

Source: NTA (2019; 2018a; 2017)

* Figures provided in NTA Annual Reports do not add to 100%

Administration

More levy funds are spent on administration of the levy than employers receive back at training grants. According to the 2018 and 2017 NTA Annual Reports, about 15% of the collected levy was spent on administration (in line with the allocation limit, see below); this means that as much as N\$ 176m could have been allocated to this over the period 2014-18. This is over N\$ 10m more than the N\$ 164m spent on employer training grants over the same period. Employers are not happy about the amount spent on administration, with one employer organisation 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' organisation, 02.09.19).

Levy Surplus

At end of March 2018, the NTA had a N\$ 1.1 billion surplus (NTA, 2018a).

FUND ALLOCATION MECHANISMS

The 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 administration costs of NTA, an amount not exceeding 15 percent of the levies received for that financial year
- to pay training grants, an amount not exceeding 50 percent of the levies received for that financial year;
- to pay key priority grants, an amount not exceeding 35 percent of the levies received for the financial year. (RoN, 2014: 2)

The process of accessing funding

Employer Training Grants

Levy-paying employers wishing to do so must claim the Employer Training Grant (ETG) **within 31 days after the end of the NTA's 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 ETG funding allocation, training interventions need to be either NQA accredited VET courses, 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% of employer's contribution for financial year.

Since the launch of the Training Fund in 2014, the process of employers getting a refund by accessing the ETG remains ***'the biggest hurdle... It was and is still very complex process to get a refund'*** (interview, employers' organisation, 02.09.19). In 2015, employers noted '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 et al., 2017b: 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' organisation noted that *'it can take as long as a couple of years until the claim is finalised'* (interview, employers' organisation, 02.09.19). 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' organisation, Namibia, 01.08.19). 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' organisation, 02.09.19).

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 et al., 2017a: 43).

Key Priority Grants

Key Priority Grants are allocated to those short-listed applicants who have responded to an expressions 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.

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 youth but also low-skilled adults) (NTA, 2018a; Velyvis et al., 2017a).

However, in terms of the NTA-run VTCs, which are funded via the levy, one employer organisation notes that there has not been *'an impact with disadvantaged groups. It is not very common to go into a VTC and see a trainee on crutches working on an engine of a car or wheeling a wheel chair doing some plumbing work'* (interview, employers' organisation, 02.09.19).

Improving enterprise performance

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

Incentivizing enterprises to train their employees

The National Training Fund's ambition to return up to 50% of collected levies to employers in the form of training grants is not matched by the reality; an average of 14% 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 incentivised 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' organisation, 02.09.19).

The outreach of the employer training grants to levy-paying employers is very low; only 9% of the total number of employers registered with the Training Fund (2014-18) have received employer training grants (Table 21).

Table 21. Take up rate of Employer Training Grant among Levy-Contributing Firms

	2014-15	2015-16	2016-17	2017-18	2014-18
# employers receiving employer training grant	274	253	254	141	922
# 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 (2019; 2018a; 2017; 2016)

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, 11.11.19).

Improving individual employability

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

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

About half of the Key Priority Training Grant expenditure (2016-19) was on the implementation of the 2016-2020 Skills Development Plan for the VET Sector (SDP1). The Training Fund also supports the NTA-run public Vocational Training Centres (VTCs), 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% of the levy, but in practice up to 75% as unspent ETG funds get re-allocated to key priority grants), understanding and responding to market demand for skills is necessary to ensure effective use levy funds. The 10 industry skills committees (ISCs), 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 et al., 2017a: 40).

'What is not working well is the Labour Market Information System to determine the skills shortage and the occupations in demand. Ministry of Labour has a Labour Market Information System but it is not working' (interview, employers' organisation, 02.09.19).

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 et al., 2017a: 35). As noted above, Employer Training Grant disbursements by sector has 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.

FUND GOVERNANCE AND MANAGEMENT

Description of fund governance

The National Training Fund is ultimately overseen by the NTA Board of Directors, comprised of 10 person (4 private sector representatives, 1 employers’ organisation representative, 2 workers organisation representatives, and 3 government representatives).

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

The triple role of the NTA (regulator, training delivery, manager of the national training fund) can result in conflicts of interest (Box 6).

Box 6. The Namibian Training Authority’s triple mandate: regulator, training delivery, manager of the national training fund

The Namibia Training Authority recognises that they are a ‘referee and player’ as they are both a national regulator of training and also involved in the delivery of training, and this this ‘is not an ideal situation’ and that it ‘acts in the context it finds itself in’ (at its establishment, the NTA inherited the former state-owned Vocational Training Centres, which were run by the Ministry of Education). In fact, the NTA is more than a only ‘referee and player’ since they also manage the National Training Fund which provides funding to the training the NTA-run vocational training centres deliver. This triple mandate invariably leads to conflicts of interest.

The NTA recognises 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 Centers to being semi-autonomous.

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** – responsible for disbursement of 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/accounting records.

Financial reporting of the National Training Fund includes annual financial statements and reports, as well as a quarterly basis press release *‘showing up until the latest where are we 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, organisation managing the training fund, 04.09.19).

4.5. SOUTH AFRICA COUNTRY BRIEF

BACKGROUND AND FUND PURPOSE

South Africa introduced a compulsory levy scheme in 2000, through its Skills Development Levies Act (RSA, 1999). The Department of Higher Education and Training, in conjunction with the various Sector Training and Education Authorities (SETAs) (Box 7), is responsible for administering the Act. The primary purpose of the Skills Development Levy (Macikama, 2019) is:

- 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 workplace-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 (SSPs) to outline the strengths and challenges of a sector in terms of employment and skills development. SETAs are governed by the Skills Development Act and Skills Development Levies Act of 1999.

Source: Andreoni (2018: 41)

FUND MOBILIZATION

The levy rate

The skills development levy (SDL) amount is 1% 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 who has registered their employees with the South African Revenue Service (SARS) for tax purposes (Pay As You Earn (PAYE)) and with a payroll in excess of R 500,000 (DHET, 2017a; Macikama, 2019; SARS, 2019).

Exemption from levy

Exemptions from the payment of SDL

- Any public service employer in the national or provincial sphere of Government;
- Any national or provincial public entity if 80% or more of its expenditure is paid directly or indirectly from funds voted by Parliament;
- Any public benefit organisation which solely carries on certain welfare, humanitarian, health care, religion, belief or philosophy public benefit activities or solely provides funds to such a public benefit organisation and to whom a letter of exemption has been issued by the SARS Tax Exemption Unit; and
- 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 (SARS) is responsible for the collection of levies and receives up to 2% 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'* (employers' organisation, personal communication, 11.12.19). A senior government official noted 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 19.09.19).

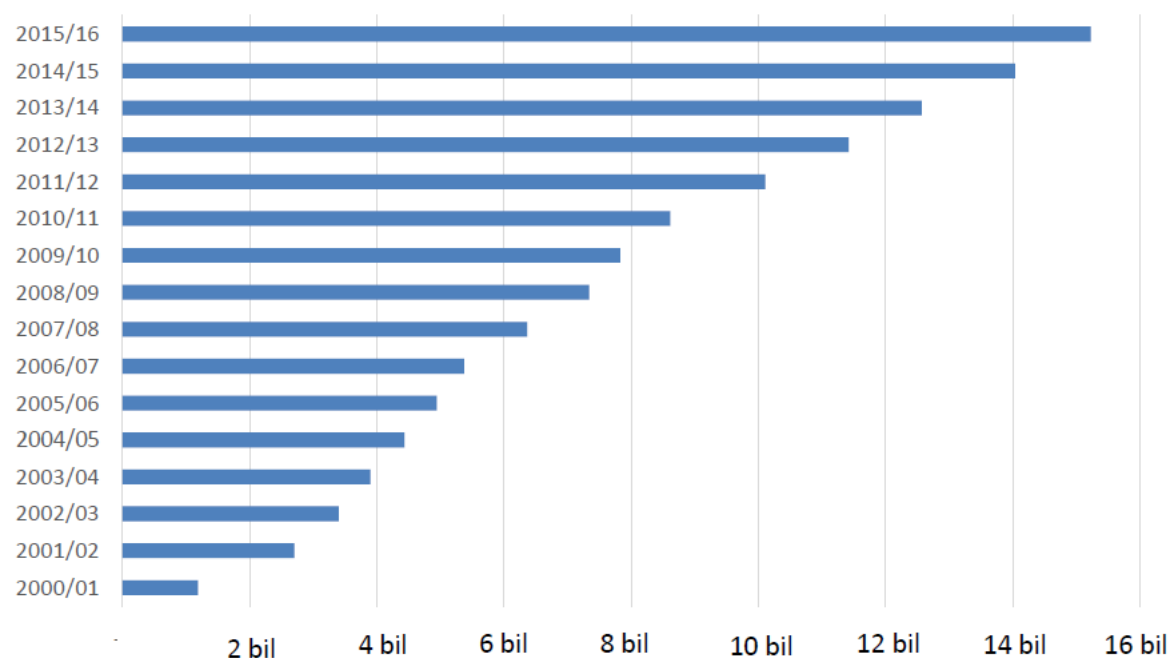
Fund income

Since 2000, there has been a steady increase in the amount of levy received annually, expected to be over R16 billion in 2017-18 (Fig. 9 and Table 22). The reasons for this high percentage growth in the SDL include:

- The lower limit of R500,000 after which employers have to pay the SDL has not increased in line with inflation, since inception of SDL (though it has increased from the original amount set in 1999 of R250,000);
- SARS efficiency and improvements in general payroll tax collection, and steady improvements in compliance;
- General increase in salary levels, particularly in higher salary bands (DHET, 2017a: 43).

Going forwards, the expectation is that the levy will remain, and this has been further confirmed by the publication of the National Skills Development Plan (2020-2030) 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 SDL 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 06.09.19). The government's projections for the National Skill Fund levy revenue to 2024 show a year on year increase (Table 23).

Fig. 9. Skills Development Levy Growth Since 2000



Source: DHET (2017a)

Table 22. Total Actual Levies per Entity

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&M SETA	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	16 234 599 239

Source: Macikama, 2019

Table 23. Skills development levy revenue estimates for the National Skills Fund to 2023/24 (R'000)

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 16.09.19; official, Sector Education and Training Authority, South Africa, 26.09.19; NSA, 2019), even though business understands the need for skills development (interview, employers' organisation, South Africa 12.09.19).

With the economic downturn *'business is in survivalist mode... and there is an overall lull [of support for the levy]'* (interview, employers' organisation, South Africa 12.09.19); *'more and more business is getting impatient and people asking more questions about the levy'* (interview, Government official, South Africa 06.09.19).

The Employers' lengthy court challenge from 2012, on the mandatory grant reduction from 50% to 20%, *'had significant impact on employers' perception of the levy grant'* (employers' organisation, personal communication, 05.12.19). Not only did this reduction of the mandatory grant significantly reduce employers' flexibility and access to funds for work place training, but the protracted nature of the court case challenged the nature of the supposedly mutually-beneficial government-employer partnership. The previous reduction in the mandatory grant to 20% resulted in many of the smaller levy paying companies withdrawing from, and participating with, the SETA's as they perceived the time and work involved with submitting the paperwork required to access the mandatory grant *'to be a waste of time'* (employers' organisation, personal communication, 05.12.19). At the same time, *'the huge challenges that are inherent in the discretionary grant application and the management of these programs is a negative which result in non-participation. SETA's focus is often on achieving "targets" set by the DHET, rather than the outcomes and the real impact of the funding initiatives and interventions'* (ibid).

FUND EXPENDITURE

Types of allowable expenditure under the Training Fund

The levy is collected by the SARS and distributed via the Department of Higher Education and Training (DHET) to the 21 SETAs and the National Skills Fund (NSF) in the following way:

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

80% levy allocation to SETAs

There are three expenditure areas in relation to the 80% of the total levy paid to the SETAs:

- **Administrative costs (10.5% of total levy)** - 10% used to cover operational expenditure (e.g. salaries, rental, insurance, legal and accounting costs, etc) incurred by the SETAs; 0.5% transferred to the Quality Council for Trades and Occupations (QCTO) (NSA, 2019: 66).
- **Mandatory grants (20% of total levy)** – a grant 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% of total levy)** – grants ‘utilised to fund discretionary projects and programmes within [a] sector that are aligned with the national skills and sector 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, and skills programmes and Work Integrated Learning (interview, Government official, South Africa 19.09.19).

20% levy allocation to the National Skills Fund

The remaining 20% of the total levy is used to finance the National Skills Fund (NSF) – which is an example of a levy-financed equity fund. The NSF 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 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’ (NSA, 2019: 62).

Where funds have actually been spent

SETA actual expenditure

Each of the 21 SETAs are responsible for disbursement of the levy funds allocated to them from the skills development levy. Below is an illustration of this expenditure from one SETA, merSETA (Manufacturing, Engineering and Related Services SETA), from the last two years of available data, 2016-18 (Table 24):

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

Table 24. Income and Expenditure for merSETA (2016-18)

	2017-18		2016-17	
INCOME AND EXPENDITURE	R'000	% of total income	R'000	% of total income
A. Income				
Admin 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	n/a	1,146,744	n/a
Surplus				
End of year surplus (A-B)	504,900	n/a	364,676	n/a
Total Expenditure	1,651,783		1,511,420	

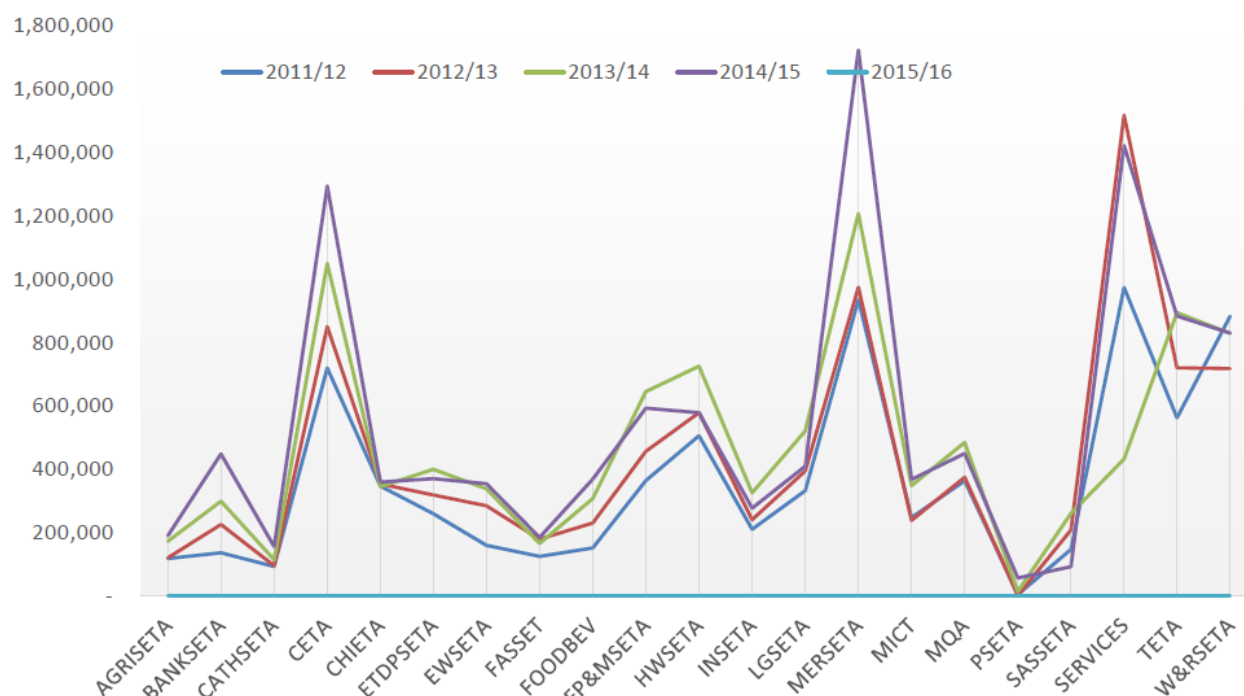
Source: merSETA (2018)

Accumulation of Reserves - SETAs

SETAs have accumulated large surpluses over the years (Fig. 10). 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' organisation, South Africa 10.09.19). SETAs, on the other hand, argue that they don't actually have a surplus, since most of what appears to be a surplus are actually committed funds for training programs that haven't taken place yet; *'we have to put aside money for the full duration of the qualification (in the case of apprentices-3/4 years) at the outset. We have to commit funds for the full qualification, so the balance appears a surplus, but is actually 'committed''* (official, Sector Education and Training Authority, South Africa,

26.09.19). As an illustration of this, according to its latest annual report the merSETA has discretionary grant reserves of R3 billion, of which almost three-quarters (R2.2 billion) 'is committed to signed contracts. These apply to learnerships, apprenticeships, skills programmes, projects and partnerships that will continue to be implemented' (merSETA, 2018: 67).

Fig 10. SETAs - Accumulation of Surpluses



Source: DHET (2017a)

SETA surplus to NSF

The 2012 Grant Regulation introduced a directive that if a SETA has not spent at least 95% 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 between the DHET and Business Unity South Africa suspended such payments. The government claims that the *'reason for utilising any surpluses [from levies allocated to SETAs] is underpinned by the need to utilise funds for national projects'* (interview, Government official, South Africa 09.09.19). As the NSA noted, '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' (NSA, 2019: 65). However, business 'objected strongly to SETA funds being 'swept' into the NSF and used (without accountability to stakeholders) to fund the public PSET system' (NSA, 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' organisation, South Africa 12.09.19). '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' (NSA, 2019: 123).

Business Unity South Africa (BUSA), an employer organisation, took the Minister of Higher Education to court over this matter, contending that the Minister never consulted with National Skill Authority in these 2012 SETA Grant Regulations as required by law. The court found in favour of BUSA, but the matter of surpluses being transferred to NSF is still being disputed in court and remains unresolved in September 2019 (SAFLII, 2017; interview, employers' organisation, South Africa 12.09.19).

National Skills Fund actual expenditure

2016-18 expenditure (Table 25) from the NSF was as follows:

Administration – 2-4% of total NSF income.

Skills Development Grant Disbursements – 96-98% of total NSF income, comprising:

- Education and Training – approximately 40% of total NSF income to fund: bursaries for university and university of technology students; public TVET colleges; workplace-based learning initiatives;
- PSET System Development and Capacity Building - over 50% of NSF income. There is a need for greater detail and facts to indicate where the monies were allocated as the perception is the bulk of funding went to weak public PSET institutions (employers' organisation, personal communication, 05.12.19).
- Skills Infrastructure Development – 1-5% of NSF income
- Skills Development Research, Innovation and Communication – about 1% of NSF income

Table 25. South Africa National Skills Fund - Income and Expenditure 2013-2018

	2017-18		2016-17		2015-16		2014-15		2013-14	
INCOME AND EXPENDITURE	R'000	% of total expenditure	R'000	% of total expenditure	R'000	% of total expenditure	R'000	% of total expenditure	R'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 (2016-2018)										
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
PSET 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 (2016-2018)	6,970,099	97.6	4,321,987	96.1	4,357,162	96.7	n/a	n/a	n/a	n/a
Skills Development Grant Disbursements and Other Expenses (2013-2015)										

Provision for impairment	n/a	n/a	n/a	n/a	n/a	n/a	16,777	0.5	0	0.0
NSA 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; the Industrial Policy Action Plan; skills to support rural development; support towards 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 under and post-graduate bursaries, and DHET 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 II - 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 (2013-2015)							3,107,320	95.7	2,978,413	96.9
Other Income (Expenditure)										
<i>Loss on disposal of assets</i>	(19)	n/a	(5)	n/a	(47)	n/a	(163)	n/a	0	n/a
<i>Fair value adjustments</i>	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 Training 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

Sources: DHET (2018; 2017b; 2016; 2015)

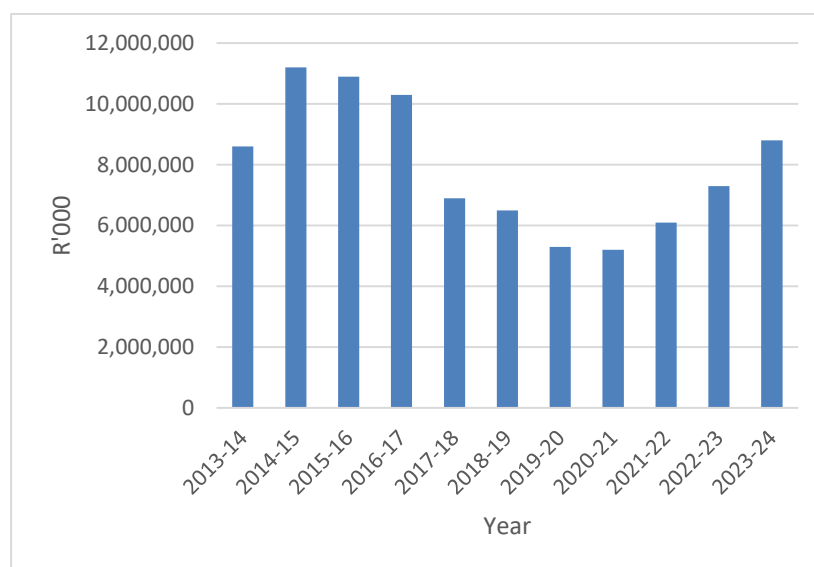
Accumulation of reserves – NSF

The NSF's accumulated surplus grew significantly in the 2014-15, 2015-16 and 2016-17 financial years (Fig 11) due to additional one-off funding received from SETA uncommitted surpluses transferred to the NSF; a result of the 2012 Grant Regulation noted above.

The NSF'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 NSF to fund 50% of the No Fee Increase for the 2016 academic year and 100% 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'* (employers' organisation, personal communication, 05.12.19).

While the accumulated surplus of the NSF is expected to decline to 2020-21, forecasts show that it will increase again for the following three years to reach about R 8.8 billion by 2023-24; approximately the same level it was at in 2013-14 before the influx of SETA funding (Fig 11).

Fig 11. South Africa National Skills Fund Accumulated Surplus and Reserves (2013-24)



Sources: DHET, 2015; 2016; 2019: 20. Figures for 2018-19 onwards are estimates.

FUND ALLOCATION MECHANISMS

NSF allocation mechanisms

There is no clarity on the mechanism by which NSF funds are allocated; neither the NSA Annual reports or the interviews provided information on this. This is a key finding as significant funding is allocated as well as the sweeping of the surplus funds.

Some parties believe that if funds are released from the SETA's to the NSF they should still be ring-fenced to support the sector that paid the SDL, others differ (employers' organisation, personal communication, 05.12.19).

SETA allocation mechanisms

Mandatory Grants

In order to receive payment of a mandatory grant, equivalent to 20% 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 19.09.19; DHET, 2017a). The reporting varies between SETAs and is not standardised (employers' organisation, personal communication, 05.12.19).

In terms of accessing the mandatory grants, 'large numbers of small companies [note] that the processes for applying were too complex and/or time consuming' (NSA, 2019: 123). As a result, many such small firms end up viewing the SDL *'as a tax and don't look to reclaim any portion'* (official, Sector Education and Training Authority, South Africa, 19.09.19). The information and support documentation used to populate the Workplace Skills Plan and Annual Training Report should be standardised for all SETAs (employers' organisation, personal communication, 05.12.19).

Discretionary Grant

With regards to accessing Discretionary Grant, each SETA has to develop Discretionary Grant Policy specifying how the SETA discretionary funds will be allocated to meet sector needs as set out in the Sector Skills Plan of the SETA. In line with its Discretionary Grant policy, SETAs advertise a call for applications for the Discretionary Grant. Eligible applicants apply and if they meet the requirements set out in the SETA Discretionary Grants policy and in line with the SETA Grant Regulations, eligible applicants access the funds (interview, Government official, South Africa 19.09.19). The criteria for accessing the Discretionary Grants are often restrictive and are *'neither agile nor meeting the needs of the labour market'* (employers' organisation, personal communication, 05.12.19). For example, there is a 'significant focus on public sector providers [which] often do not have the appropriate "fit for purpose" programs available for the specific skills development needs of the company / 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' (employers' organisation, personal communication, 11.12.19). Discretionary Grant funds *'need to be made available for more skills programs that are non-credit bearing and industry specific'* (ibid).

Further, and as noted above, employers face *'huge challenges'* in the discretionary grant application and management which discourages their participation (employers' organisation, personal communication, 05.12.19). This is particularly the case for small, medium and micro enterprises who do not have HR departments. The process and rules pertaining to Discretionary Grant funding needs to be simplified and the SETAs need to upgrade their technology to address

these challenges for both the stakeholder as well as the SETAs themselves (employers' organisation, personal communication, 11.12.19).

FUND EFFECTIVENESS

Improving access to training for disadvantaged groups

At the centre of the NSDS III (2011-2016) are transformational imperatives such as gender, race, class, geography etc. In developing their Sector Skills Plans, SETAs are required to indicate how they intend to address these transformational imperatives (interview, Government official, South Africa 19.09.19). SETA initiatives are governed by the '*default DHET criteria of 85% Black African, 54% women and 4% disability*' (official, Sector Education and Training Authority, South Africa, 19.09.19).

Improving enterprise performance

An employer survey (of approximately 2,000 employers) found that employers' self-reported belief is that training has impacted favourably on their companies:

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

It should be emphasised 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*' (employers' organisation, personal communication, 05.12.19). More valid impact research is needed (official, Sector Education and Training Authority, South Africa, 19.09.19).

What is clear is that informal sector firms are seeing no real improvement as a result of the SDL and SETA work; indeed the majority have not even heard of SETAs; a study conducted by merSETA 'in four provinces found that 99% of the respondents operating businesses in the informal sector have never heard of a SETA or merSETA' (NSA, 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 utilised as intended*' (2013: 12). The previous year, 2012, amendments to the Grant Regulations reduced the mandatory grant that an employer could claim back from 50% to 20% 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' organisation noted that the training fund (through SETAs) has been *'able to turn workplaces into dynamic learning spaces, because it has made training mandatory for every employer'* (interview, workers' organisation, South Africa 10.09.19). Similarly, a senior government official noted that the mandatory grants do incentivise enterprises to train (interview, Government official, South Africa 19.09.19). However, an employers' organisation noted that a lot of business does training outside of the formal skills levy system - the *'levy then becomes an additional responsibility'* (interview, employer organisation, South Africa, 12.09.19) – and is not in itself incentivising enterprises to train.

The skills development levy does not provide financial incentives for small and medium sized firms to train their employees (interview, employers' organisation, South Africa 12.09.19). 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), who 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' (p.2). A more recent tracer study just completed (2019) by the DHET of artisans who passed their trade test in the 2017-8 financial year, found that 77% of these artisans were employed in the labour market (74% in employment and 3% in self-employment) (interview, Government official, South Africa 19.09.19). Such tracer studies can be a useful measure, by they are not a tool for determining causally if 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 training/skills system

Through its support to funding NSDS III priorities, the NSF has certainly contributed to the national public education and training/skills system. The NSF also 'drove skills development implementation in areas of the [NSDS III] strategy that SETAs found difficult. For example, the NSF 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' (NSA, 2019: 43). Arguably, the draw-down of the NSF 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 NSA as beyond the remit of the NSF (cf NSA, 2019).

SETA-managed levy funds arguably contribute to funding the national skill system through a sector 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 discretionary grant mechanism.

According to a senior government official, the sectors which benefit most from the SDL 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; Human health and social work activities (online survey, government official, South Africa, 01.08.19)

Effectiveness of monitoring and evaluation systems

According to one senior official in one of the largest SETAs, *'the M&E systems at SETAs is still in its infancy'* (official, Sector Education and Training Authority, South Africa, 19.09.19); it is clear that there is a general focus on reporting outputs (e.g. numbers trained) and where other measures exist (e.g. 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 19.09.19). Employers would like to see more rigorous impact assessments conducted, especially given the significant levy funding contributions (employers' organisation, personal communication, 05.12.19).

FUND GOVERNANCE AND MANAGEMENT

The governing and managing the skills development levy and the associated training funds is done by the DHET, the NSF and the 21 SETAs.

Description of fund governance

NSF

The NSF 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 for Higher Education and Training, is responsible – among other things – 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 organised labour and six nominated by organised employers.

Description of fund management

NSF

The NSF is run by a secretariat of some 129 persons (with 39 of these posts being vacant in 2017-18). As NSF was originally set up as a government programme, until it became a public entity in 2012, all NSF employees are still employed by DHET within the public service, though the NSF refunds the DHET for the employee costs incurred by them on behalf of the NSF. Since 2014, the NSF has been addressing capacity constraints with regard to its ability to plan, manage and monitor spending (NSA, 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); the Strategic Plans (which outlines the strategic objectives and goals of the SETA) and the 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 then are required to also develop Annual Reports and in the Annual Reports, they detail how they have used the funds and resources towards achieving the SETA objectives and goals set in the Annual Performance Plan of the SETA (interview, Government official, South Africa 19.09.19).

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' organisation, South Africa 10.09.19).

Box 8. Allegations of fund misuse by SETAs

While there has been an increase in number of SETAs with clean audits over the past 5 years, 'there are some challenges in some SETAs regarding to corruption, maladministration and governance' (interview, Government official, South Africa 19.09.19). For example, a recent article in the Star newspaper, referring to a report that the DHET has presented to Parliament's committee on higher education, alleges that by 12 of the 21 SETAs have made a total of 'R216 million 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' organisation, South Africa 12.09.19).

4.6. TANZANIA COUNTRY BRIEF

BACKGROUND AND FUND PURPOSE

Skills Development Levy

A Vocational Education and Training Levy (now referred to as a Skills Development Levy, SDL) was introduced in 1994, and later revised in 2006, through the VET Act (GoT, 1994; 2006) to provide funding to a newly created VET Fund.³⁶ 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 which was 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% 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%) 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 appears to be an ongoing disagreement about the objectives of the SDL between employers' and workers' organisations, on the one hand, and government, on the other hand. Employers' and workers' organisations view the SDL purpose as to support technical and vocational skills, while the government on the other hand, sees the primary purpose of the SDL as '*skills development*' in the wider sense of the term (interview, Government official, Tanzania 13.08.19) – to include non-technical education at the tertiary level.

Skills Development Fund

Under the World Bank supported Education and Skills for Productive Jobs Programme (ESPJ) that emerged from the National Skills Development Strategy (NSDS) 2016-2027, a Skills Development Fund (SDF) was established by the Government of Tanzania.³⁷ The SDF is jointly funded by the World Bank (loan) and the Government of United Republic of Tanzania via the ESPJ and became operational in 2018. The Tanzania Education Authority manages the SDF. During the implementation of the NSDS, it is expected that the 'SDL 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 (Andreoni et al., forthcoming, 2019: 28). The remainder of this country brief will focus on the existing Skills Development Levy, but makes reference to future plans where known.

³⁶ The VET Fund was also to be resourced from government budgetary support, as well as from grants/donations from without or outside Tanzania.

³⁷ www.tea.or.tz/skills-development-fund

FUND MOBILIZATION

The levy rate

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

Levy exemptions

The SDL does not apply 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 organisations; international and other foreign institutions dealing with aid or technical assistance; religious institutions whose employees are solely employed to either administer places of worship, or give religious instructions or generally to administer religion; charitable organisations; local government authority; farm employers; registered educational institutions (private schools including nurseries, primary and secondary schools; VET schools; universities and higher learning institutions) (Andreoni, 2018: 23).

Method used to collect the levy

The SDL is collected by the Tanzania Revenue Authority (TRA).

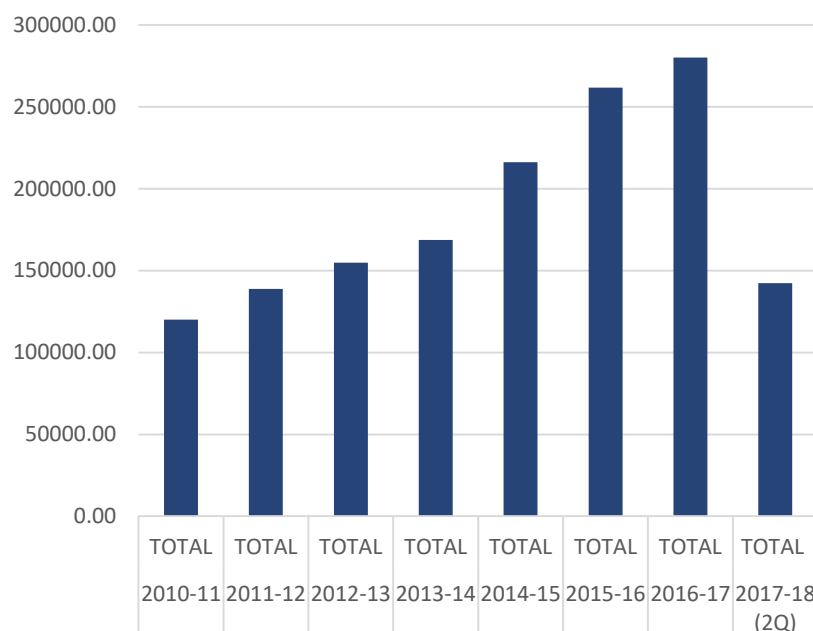
Compliance

Stakeholders did not raise the issue of lack of compliance with the paying of the levy by firms. The employer organisation interviewed noted simply that they *'believe that whoever responsible for paying it... is actually doing so'* (interview, employer organization, Tanzania 13.08.19). Meanwhile the VET Authority which receives funds to administer from the SDL noted that employers *'pay [the levy] because they know that the funds are spent well'* (interview, VET Authority, Tanzania 13.08.19).

Levy income

The amount collected through the SDL has continued to rise over the years. Fig. 12 shows the total SDL collected between 2010-11 and the second quarter of 2018 (Andreoni et al., forthcoming, 2019).

Fig. 12. SDL Collection in Tanzania, 2010-2017/18 (2Q), in Million TShs.



Source: Andreoni et al., forthcoming, 2019; based on TRA Tax Collection Statistics

An interesting aspect of the SDL income in Tanzania is the ‘growing importance of small and medium sized-firms in revenue collection’ (Andreoni et al., forthcoming, 2019: 11). In 2010, two-thirds of the SDL came from large taxpayers, but by Q2 of 2017-18 ‘small and medium-sized firms and large firms contributed almost equal proportions’ (ibid.).

Sustainability

From the government’s perspective, there is certainly the assumption that the SDL will continue, and revenue from it continue to grow in the years ahead. The TRA projections suggests government expectation of a significant and steady increase of SDL revenue (Table 26).

Table 26. SDL Revenue Projections for Tanzania Mainland and Zanzibar, from 2017/18 to 2021/22, in Billion TShs.

SDL Revenue Projections	2017-18	2018-19	2019-20	2020-21	2021-22
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 et al., forthcoming, 2019; based on TRA Corporate Plan 2017/18 – 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 it the funds are very sustainable because, it is well rooted in the government policies and regulations. Employers and workers’ representative 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, Tanzania 13.08.19). However, this enthusiasm for the SDL is not at all shared by employers' and workers' organisations as 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%... is too heavy'* (interview, employer organization, Tanzania 13.08.19).
- *The levy rate is 'not at an affordable rate'* (interview, workers' organization, Tanzania 13.08.19).

In May 2019, it was reported that the government has promised to review skills development levy of 4.5%. '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% (ATE, 2019). Meanwhile, the Confederation of Tanzania Industries has proposed a reduction to 3.5% (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, Tanzania 13.08.19).

Employers are also dissatisfied with the levy as there is a 'lack of clarity in how the money is used' (Andreoni et al., forthcoming, 2019: 4). A workers' organisation interviewed noted that *'there is no transparency and accountability for the funds'* (interview, workers' organization, Tanzania 13.08.19). Employers and workers are frustrated that the levy *'fund is not utilized according to the intended purposes'* – vocational training (interview, employer organization, Tanzania 13.08.19). The VET Fund *'was started to support skills development through TVET... but it has been used to [also] finance general education'* (interview, workers' organization, Tanzania 13.08.19). Indeed, 'the private sector has little to no say in how resources are used' (Billetoft 2016, quoted in Arias et al., 2019: 200). Furthermore, employers are frustration that *'some private organisations 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, employer organization, Tanzania 13.08.19).

Employers don't 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 SDL 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 et al., forthcoming, 2019: 4).

FUND ALLOCATION

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 SDL, but the allocative details remained murky... The distribution of the SDL has grown more opaque since 2013’ (Andreoni et al., forthcoming, 2019: 14). 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 the any government money is determined by the government itself’* (interview, Government official, Tanzania 13.08.19). It is the central government that determines where the levy funds are spent, and how much of it is allocated where.

There connection between levy funds raised and funding for vocational training is getting weaker. As noted above, the government (Ministry of Finance) decides on the percentage of the levy to allocate to vocational training and recently introduced an annual ceiling of funds going to VETA (interview, VET Authority, Tanzania 13.08.19; interview, workers’ organization, Tanzania 13.08.19; interview, employer organization, Tanzania 13.08.19). The government also decided to uses some of the levy funds to finance university education through HESLB as well as financing the free primary education (interview, workers’ organization, Tanzania 13.08.19). Determining where levy funds are spent by VETA and HESLB is also largely *‘predetermined by the central government’* (interview, employer organization, Tanzania 13.08.19); this is because the Ministry of Education and the Ministry of Finance need to approve the budgets of the VETA and HESBL governing boards (interview, Government official, Tanzania 13.08.19).

In the VET Act (1994, revised 1996) there was a dedicated percentage of the levy allocated to VETA; since 2013 the levy funds collected by TRA are sent to the central government and (since 2016) a ceiling amount is then allocated to VETA, rather than a dedicated percentage of the levy. This has constrained VETA’s autonomy (interview, VET Authority, Tanzania 13.08.19).

With the launch of the new Skills Development Fund mechanism in 2018 – which has been brought into being through a World Bank loan program (World Bank, 2016b) – there is the stated intention over the coming years that the skills development levy ‘will be gradually redirected’ (ibid.: 38) 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). The plan is that by 2021, ‘two-fifths of the SDL will directly support implementing the government program

(NSDS), 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, internal auditors as well as the Controller and Auditor General scrutinising the funds.

The transparency concern of employers' and workers' organisations 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, employer organization, Tanzania 13.08.19). 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' (ATE, 2011: 4). This concern over transparency is not at all felt by government, who note 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, Tanzania 13.08.19).

FUND EXPENDITURE

Types of expenditure under the Training Fund

VETA support

Approximately one-third of the levy money collected goes to the VETA³⁸ which accounts for 100% of all VETA training and administrative budget (interview, VET Authority, Tanzania 13.08.19).

Broad expenditure areas for VETA include:

- **VETA administration;**
- **The funding of VET training in all VETA-run institutions across Tanzania** – this would include development and maintenance of teaching and learning infrastructure, include maintaining labs and workshops, acquiring new technologies, building more training centres, capacity building of teacher/instructors;
- **Special programmes** - a skills recognition and formalization programme which aims at recognizing the skills of young people who have not been through formal training; graduate internship and apprenticeship in collaboration with the Ministry of Labour;
- **Quality assurance** (registration, assessment and certification). (interview, VET Authority, Tanzania 13.08.19; interview, workers' organization, Tanzania 13.08.19; World Bank, 2016b: 10).

³⁸ But as noted, since 2016 this is now a ceiling amount as opposed to a one third part of the levy.

Higher Education Student Loan 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 Student Loan Board (HESLB), and a further unknown proportion is used to fund other unknown government activities. The use of the training levy to fund the HESLB is seen by employers' and workers' organisations is not only seen as a significant shift in the original VET Fund purpose (interview, workers' organization, Tanzania 13.08.19), but as *'against the original aim of the levy'* (interview, employer organization, Tanzania 13.08.19). 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 SDL susceptible to being diverted to other uses' (World Bank, 2016b: 10). The 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, Tanzania 13.08.19). A stakeholder interview with an employers' organisation 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 legalised by the [VET] Act of 1994'* (interview, employer organization, Tanzania 13.08.19). However, government consider 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, Tanzania 13.08.19).

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 (cf. ATE, 2011: 4). According to the World Bank, in 2015-16 the Government and employers agreed that a percentage of the SDL '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.

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, VET Authority, Tanzania 13.08.19). VETA has reportedly lowered their fees *'as many young people from financially challenged families cannot afford to pay the fee'* (interview, Government official,

Tanzania 13.08.19). Furthermore, VETA's new recognition of prior learning programme will help those who *'did not get the opportunity to go through the formal TVET training'* to help link them to formal job opportunities (interview, Government official, Tanzania 13.08.19).

According to a senior government official, the *'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% sponsorship'* (interview, Government official, Tanzania 13.08.19).

Improving enterprise performance

There is no tangible evidence that the training levy in Tanzania improves enterprise performance (interview, employer organization, Tanzania 13.08.19). 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 impeded[es] their competitiveness'* (ATE, 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 noted that the training fund incentivizes enterprises to train their employees *'to no extent'* (online survey, consultant, formerly VET Authority, Tanzania 13.08.19). The lack of incentives for Tanzania's private sector to invest in human capital development and ongoing training has been flagged up for many years, with no action (cf ATE, 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 programs including (a) apprenticeships, internships and other work-based placements; (b) short-term training (several days to several months) (<http://www.tea.or.tz/funding-windows>). However, it is not clear if this is yet operational, and in any case the SDL 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% supported via levy funds, appear to have a relatively good reputation in the labour market, *'continue to be valued by employers'* (Andreoni et al., forthcoming, 2019: 21), and are regarded as *'doing very well'* (interview, employer organization, Tanzania 13.08.19). A 2010 VETA tracer study suggested that *'as many as 66% of VET graduates were employed'* (Andreoni et al., forthcoming, 2019: 20). A forthcoming 2019 tracer study of VETA graduates apparently shows that *'over 93% of the VETA graduates are employed in various capacities in both private and public sectors'* (interview, VET Authority, Tanzania 13.08.19).

VETA's more recent programmes, including the skills recognition programme, also aids employability as it *'helps people access more formal jobs in the labour market'* (interview, workers' organization, Tanzania 13.08.19). Furthermore, the graduate internship and apprenticeship programme is seen as giving these graduates *'an opportunity to... experience[e] the real work experience. This evidently adds to their chances of individual employment'* (interview, workers' organization, Tanzania 13.08.19).

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 training/skills system

The use of levy funds by VETA for the VETA-run training centres distorts the training market and limits competition (cf ATE, 2011). By subsidizing 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 focussed and 'does not promote quality instruction' (ATE, 2011: 4).

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% of Tanzanian firms (2013) covered by the World Bank enterprise survey identified an inadequately educated workforce as a major constraint (enterprisesurveys.org).

Again, the 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 total alleviated at all levels of study (vocational to university level)'* (online survey, Government official, Tanzania, 01.08.19).

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 VET Authority, Tanzania 13.08.19; online survey, VET Authority, Tanzania 05.08.19; online survey, workers' organization, Tanzania 03.08.19; online survey, Government official, Tanzania, 01.08.19).

Effectiveness of monitoring and evaluation systems

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

FUND GOVERNANCE AND MANAGEMENT

Description of fund governance

Overall levy governance

Under current arrangements, the overall governance of the 4.5% training levy is through the ministries of finance and education. They decide on the ceilings and levy allocation to VETA and other areas. Workers' and employers' organisations, as well as private firms, are not involved in any of the decisions about levy allocation or funding ceilings that directly impact on where levy funds are allocated to 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 (TEA) will manage the Skills

Development Fund, in governance and management of the fund TEA will be accountable directly to the planned National Skills Council, and not to the TEA board (World Bank, 2016b).

VETA governance

Governance of the proportion of the levy fund remitted to VETA³⁹ is through the VETA governing Board. The Board prepare plans and budgets for the money based on the ceiling given to them (interview, employer organization, Tanzania 13.08.19). As noted above, the VETA Board decisions on planning and budgeting still needs the approval of government, meaning that their degree of autonomy is limited.

Only two out of eleven members of the VETA Board represent the levy-paying employers. The VETA Board comprises of 11 persons; the chairman, appointed by the President; two members from employers' organisations; two members from workers' organisations; three members from each of the ministries responsible for industries, education and labour; three members representing vocational education and training institutions (GoT, 2006). What is more, *'since the Government decides on the percentage of the levy that is remitted to VETA, the [employers' organisations on the VETA Board are] not able to have a say on where a large part of the collected levy is spent'* (interview, employer organization, Tanzania 13.08.19)

VETA's triple role as training provider, financier and regulator results in an in-built conflict of interest in their operations, thus not making most effective use of levy funds 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. Tanzania's Vocational Education and Training Authority triple role as training provider, financier and regulator

Since the mid-1990s when Vocational Education and Training Authority (VETA) was set up through the VET Act of 1994, VETA it has been mandated with a triple role as national training provider, financier and regulator. In 2019, its functions are 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 VET Fund for Vocational Education and Training.

Promoting Vocational Educational and Training in the country

Being a provider, a financier, and an overseer of the national TVET system, inevitably has led to conflicts of interest – an issue first raised in the early 2000s (cf Zideman, 2002) – which does not help the national

³⁹ Previously this was on third, but since 2016 there has been a budget ceiling linked to levy allocation from central government to VETA.

TVET system 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> (accessed 12.10.19)

Furthermore, it has been noted that VETA is under the umbrella of the Ministry of Education, while the mandate to engage with the private sector on TVET matters is under the Ministry of Labour (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 (GoT, 2016b), there are no workers' or employers' organisation representatives and no private employers on the board of the HESLB.

Description of fund management

Overall management

The Tanzania Revenue Authority and the Ministry of Finance are involved directly in the collection and allocation, respectively, of levy resources (interview, employer organization, Tanzania 13.08.19). 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 about how much funds are allocated to HESLB are not transparent, nor is it known what other levy funds are still left over, what surplus might have accumulated, or else how 100% 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, Tanzania 13.08.19). Since the introduction of the levy, and increasingly during the last decade, the skills levy has become a major source of tensions 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 Controller and Auditor General'* (interview, employer organization, Tanzania 13.08.19).

4.7. ZAMBIA COUNTRY BRIEF

BACKGROUND AND FUND PURPOSE

In Zambia the Skills Development Levy Act 2016 introduced a Skills Development Levy (SDL) payable by employers, which became operational in 2017 (RoZ, 2016). Resources from the SDL, known as the 'Skills Development Fund' (SDF), are managed by the Ministry of Higher Education (MoHE), and allocated by them to the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) to resource their TEVET Fund,⁴⁰ which was itself established via the TEVET Act 1998 (amended 2005) (RoZ, 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. (RoZ, 2017a: 3)

The driver for the introduction of the training fund appeared to be the government's desire to expand the revenue envelope to get the private sector to contribute 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 high time that companies complimented government in skills development in the country'* (interview, Government official / institution managing the training fund, Zambia, 29.08.19).

FUND MOBILIZATION

The levy rate

A levy of 0.5% of gross payroll applies to all private sector employers whose annual turnover is above K 800,000 (RoZ, 2016).

⁴⁰ The TEVET Fund, established under the amended 1998 TEVET Act in 2005, was initially resourced by government funds, as well as through loans, grants or donations paid to TEVETA, and a percentage of the registration, examination, assessment and other fees payable to TEVETA under the 1998 TEVET Act (amended 2005). The amended 1998 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' (RoZ, 2005: 21A). Following the establishment of the Skills Development Levy in 2017, the TEVET Fund receives funding from this source too.

Exemption from levy

Public sector employers; Private sector employers whose annual turnover is below K 800,000; Public benefit organisations are exempt from levy payment (RoZ, 2016).

Method used to collect the levy

The levy is collected by the Zambia Revenue Authority (ZRA) through PAYE in the course of ZRA's regular duties and *'there are no charges for the collection'*. The levy is deposited at Bank of Zambia and then transferred to 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). 16 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

The penalties for non-payment of the levy have been proposed to be reduced in the 2019 National Budget. The SDL Act (2016) originally noted that the provisions of the Income Tax Act would apply in respect of non-payment of the SDL. In the 2019 National Budget, these penalties – which range from 17.5-52.5% of the under declared amount – have been proposed to be reduced to 0.25-0.75% of the undeclared amount (BDO Zambia, 2018)

Compliance levels for this skills levy are still understood to be 'very low', despite there being no available statistics to verify this (online survey, Government official, Zambia, 01.08.19). Challenges with the collection of the levy include that there is no data base for the companies who should pay the levy. There is also a significant challenge in engaging the informal sector; the current levy system does not capture them.

Fund income

According to the national budget, funding from the Skills Development Fund (SDF) is projected to be K164m in 2019 (RoZ, 2019). In 2018 and 2017 not all levy income was remitted to TEVETA, so the exact amount collected in those years is unknown, but it is possible to estimate what this was (see more below). A majority of responding employers (12 out of 17 who responded to an online survey) noted that they don't have access to information about how much funding is actually collected by the levy each year (online survey results, Zambia, September 2019). However, it has been noted that this may *'just be a case of not reading or having interest, as this information was disseminated by the Federation [Zambia Federation of Employers], both through newsletters as well as some sensitisation workshops that ZFE and Ministry of Higher Education held with employers'* (employers' organisation, personal communication, 11.12.19).

Employers' and workers' views of the levy

Employers were opposed to the levy from the start as it feared funds would not be used as intended. According to a press release (31st 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 do not seem to have changed. 18 out of 18 employers responding to an online survey thought that companies/enterprises view the training levy as just another form of taxation (online survey results, Zambia, September 2019).

Much 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, 19.09.19).
- *'The government has thus far failed to provide [an] accountability report of the usage to justify it well enough to the [levy] payers'* (online survey, employer, Zambia, 19.09.19).
- *'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, 19.09.19).

However, it is not clear how representative these views are. Indeed, these may be the *'opinions of a few who may have shunned the sensitisation 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'* (employers' organisation, personal communication, 11.12.19).

FUND EXPENDITURE

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

Skills Development Fund Expenditure

In both 2017 and 2018, there has been a significant variance between the approved SDF budget and the actual expenditure from the SDF; in 2017, the approved SDF budget was K 236m, but actual expenditure from the SDF that year was K 73.5m; in 2018, the approved SDF budget was K 177m, but actual expenditure that year was K 94.8m (RoZ, 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

monthly levies collected since January 2017 was on average K 19m a month, implies a yearly collection of K 228m (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 (see further below).

TEVETA manages the bank account of the Skills Development Fund and therefore TEVETA's annual financial statements for 2017 and 2018 include an account of Skills Development Fund expenditure. However, the stated expenditure from the SDF does not include the cost of fund administration on the part of TEVETA. While the SDF does not provide for administrative expenses and the fund is controlled by MoHE, there do appear to be higher administrative costs at TEVETA since the introduction of the SDF. It is possible to estimate this as follows: following the introduction of the SDL in 2017, the annual administrative expenditure of TEVETA increased from an average of K 12.7m per year 2014-15 to K 19.2m per year 2017-18; an annual average increase of K 6.5m a year (calculated by author from TVETA Zambia, 2019; 2016). Since the SDF was launched in 2017, it is therefore assumed that an average of K 6.5m is required each year in relation to SDF administration at TEVETA. 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 27). As noted above, it appears that the Ministry of Finance retains some of the total levy amount collected.

Table 27. Income and Expenditure of the Levy-Funded Skills Development Fund in Zambia (2017-18) (estimated)

	2018		2017	
INCOME AND EXPENDITURE		expenditure as % of total levy income		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)				
<i>Monitoring and Evaluation</i>	2,354,006	1.0	0	0.0
<i>Annual average increase in administrative costs at TEVETA since SDF introduced</i>	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				
<i>Infrastructure Development</i>	23,374,433	10.3		
<i>Equipment Purchase for Institutions</i>	2,535,673	1.1		
<i>Capacity Building</i>	624,330	0.3		
<i>Curriculum and Systems Development</i>	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				
<i>SDF Asset Purchase</i>	3,299,811		0	
<i>Proposal Adverts and Evaluations</i>	0		475,124	0.2
<i>Disburements to TEVETA</i>	3,900,000		11,137,274	4.9
<i>Disburements to Institutions</i>	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 the Skills Development Fund (A-B)	131,144,798	57.5	179,900,926	78.9

Source: TEVETA Zambia, 2019a; Administrative costs estimated based on the difference between 2014-15 and 2017-18 TEVETA administrative expenditure (before and after the SDL introduced). Levy income retained by the Ministry of Finance from figures quoted by the Zambian Revenue Authority (ZFE, 2018).

In 2018, estimated expenditure was as follows:

- **4% of levy income was spent on TEVETA administrative costs.** The administrative costs at the Ministry of Higher Education are unknown.
- **Only 3% of levy income was spent on industry reimbursement of training fees** (SDF window 1).
- **12% of levy income was spent on infrastructure development (10%), equipment (1%), capacity building (0.3%) and curriculum development (0.1%)** (SDF window 2).
- **12% of levy income was spent on pre-employment training** (SDF window 3).
- **9% of levy income was spent on SME and informal sector training** (SDF window 4).
- **58% 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 [ZRA] to get an update on the skills development levy funding to the Ministry of Higher Education and subsequently to TEVETA'. At this meeting, the ZRA confirmed that 'since January 2017 they have been collecting skills development levy from the private sector ranging from K 17-21 million 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 have only received about K 108m from the Ministry of Finance, meaning 'that the ministry of finance has held a sum of k 197,651,242 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% of the levy to MoHE... [moreover that] 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 good will by MoHE 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 K 300m. According to the Zambia Revenue Authority and interviewed stakeholders, the Ministry of Finance has previously retained a portion of the collected levy before it is disbursed to TEVETA. If the figures quoted by the Zambia Revenue Authority are correct, and an average of K 19m monthly is received in levy income, the accumulated surplus 2017-18 could be in the region of K 300m. This is only an estimate based on available data and unverified.

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. According to a press release (31st 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... [Furthermore] 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, 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. The MoHE Fund Manager will allocate the levy resources according to the Skills Development Strategy (RoZ, 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 institutional based learning programs and apprenticeship training;
- **Window 4 - SME training and informal sector training** - to finance training of MSMEs 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) (RoZ, 2017a; 2017b)

Eligibility and process of accessing the funds is outlined in the SDF Operational Manual (RoZ, 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, 29.08.19).

Window 1 – Employer Based Training. The company must be registered and operating in Zambia, get a reference from a bank and be able to show evidence of its ability to manage funds (e.g. through financial audited accounts); the employer must provide a Training Needs Analysis (TNA), which details the training requirements of their employees; the employer must demonstrate how the proposed skills requirements will benefit the company; the company must be current in levy payments due to the SDF; the employers will be required to show evidence of there being a training agreement with a TEVET accredited/registered training provider identified to deliver the training and the training should lead to national certification (RoZ, 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

is not clear (online survey results, Zambia, September 2019). One employers' organisation noted 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' organisation, Zambia, 01.08.19).

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 (e.g. through financial audited accounts), and get a reference from a bank; training should lead to national certification and be based on their strategic plan (to include a Training Needs Analysis where relevant).

Window 4 - SME training and informal sector training. An intermediary institution (a cooperative, association, 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 accredited/registered training providers and should lead to national certification (RoZ, 2017a). TEVETA periodically releases 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, 19.09.19).

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/impact of those trained or productivity gains to businesses as a result of training (online survey, organisation managing the fund, Zambia, 30.07.19).

In an online survey conducted as part of this review, almost 70% (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' organisation considers that the training levy is *'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' organisation, Zambia, 01.08.19).

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 funds spent on the construction and rehabilitation of infrastructure is expected to *'lead to increased access to skills development'* (RoZ, 2017a: 15), though this is not known to be targeted at disadvantaged groups. Levy funds spent on SME and informal sector training (9% of SDF expenditure in 2018) will go some way to supporting

underserved groups; in 2018 eighty-five 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 incentivising employers to train. With an estimated 3% of collected levy funds allocated to employer based training, it is not surprising that one employers' organisation noted that the training fund incentivizes enterprises to train their employees *'to no extent'* (online survey, employers' organisation, Zambia, 01.08.19).

Improving individual employability

Output data exists on the number of individuals who undertook training funded by the Skills Development Fund; almost 10,500 individuals in 2018 (TEVET Zambia, 2019). However, there are no outcomes/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 training/skills system

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

Responsiveness to national skills priorities

The TEVET Fund (supported by the SDL) 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 which 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, 01.08.19; online survey, employers' organisation, Zambia, 01.08.19; online survey, organisation managing the fund, Zambia, 30.07.19; online survey, organisation managing the fund, Zambia, 06.08.19).

Effectiveness of monitoring and evaluation systems

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

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 the following: Ministry of Higher Education- Chair; Ministry of Finance; Ministry of Justice; Ministry of Youths, Sports and Child Development; A representative of the Zambia Federation of Employers; A representative of Zambia Chamber of Small and Medium Business Association; A representative of the Chamber of Mines; Representative of Energy Sector (private sector representative); Representative of TEVETA Principals Forum.

A Stakeholders Advisory Council will be established by the MoHE to advise it in relation to the SDF, and will include representatives from industry, employers, SME Sector, financial institutions, universities, training institutions, line ministries and TEVETA (RoZ, 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. It's being under the Ministry means there is no autonomy and the private sector has little or no say'* (online survey, employers' organisation, Zambia, 01.08.19). Workers' and employers' representatives are of the view that autonomy of the SDF from government is required to enhance transparency and accountability (interviews, employers' organisation and workers' organisation, Zambia, 26.08.19, 27.08.19). 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, 29.08.19).

TEVET Fund Governance

Funds that are disbursed to TEVETA are used to resource the TEVET Fund. However, TEVETA has not have a board since 7th May 2017 (TEVETA Zambia, 2019a) and as of September 2019 no board has been appointed. As a result, TEVTA 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' organisation, Zambia, 01.08.19).

The government considers that the use of already established organisations (Ministry of Higher Education, TEVETA) helps to reduce overhead costs of administering the fund (interview, Government official / institution managing the training fund, Zambia, 29.08.19).

Monitoring of funds is done through quarterly reports and annual reports to the SDF Management Committee.

4.8. ZIMBABWE COUNTRY BRIEF

BACKGROUND AND FUND PURPOSE

The Zimbabwe Manpower Development Fund (ZIMDEF) has the objective to develop ‘skilled manpower in Zimbabwe’ (GoZ, 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 1994 Manpower Planning and Development Act (revised 1996).

FUND MOBILIZATION

The levy rate

The levy rate is 1% on 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, organisation managing the training fund, Zimbabwe 02.09.19).

Exemptions

NGOs and the government are not asked to contribute (interview, organisation managing the training fund, Zimbabwe 02.09.19).

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% levy is a criminal offence (www.zimdef.org.zw, accessed 30.07.19); 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’ organisation, Zimbabwe, 07.08.19). This is not surprising in a country where about 90% of employment is informal (www.ilo.org/ilostat). Economic hardship is resulting in the further informalisation 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’ organisation, Zimbabwe, 07.08.19; interview, workers’ organisation, Zimbabwe, 27.08.19; interview, organisation managing the fund, Zimbabwe, 02.09.19).

Employer perceptions on how ZIMDEF money is used is another key factor affecting the willingness of the 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, 21.08.19).

Levy income

In 2015, ZIMDEF had a monthly revenue stream of about USD 3.4m, decreasing to USD 3.3m in 2016 and USD 3.2m in 2017 (OAG Zimbabwe, 2016; UNESCO, 2018b); 'decreasing due to the economic crisis' (UNESCO, 2018b: 77).

Employers' views of the levy

Both employers' and workers' organisations interviewed perceived the levy as a form of taxation (interview, employers' organisation, Zimbabwe, 07.08.19), and simply '*a fundraising activity by the government*' (interview, workers' organisation, Zimbabwe, 27.08.19).

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' organisation, Zimbabwe, 27.08.19).

FUND EXPENDITURE

Who decides?

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, organisation managing the fund, Zimbabwe, 02.09.19). The Ministry comes up with the expenditure priorities in consultation with National Manpower Advisory Council (NAMACO), and then ZIMDEF 'only facilitate payments on priorities already laid out' (ibid.).

While NAMACO has several employers' organisations represented on it, it is regarded (at least by workers' organisations) as '*redundant and ineffective because the government has now appointed its own people on to the council*' (interview, workers' organisation, Zimbabwe, 27.08.19)

Types of allowable expenditure under the Training Fund

ZIMDEF's very general official objective – to develop skilled manpower 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, organisation managing the training fund, Zimbabwe, 02.09.19).

According to its website, there are several areas where ZIMDEF funds are allocated to:

ZIMDEF administration costs – mainly comprised of 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 (UNESCO, 2018b; www.zimdef.org.zw, accessed 10.07.19; interview, employers' organisation, Zimbabwe, 07.08.19; interview, government official, Zimbabwe, 21.08.19). It was noted by one employers' organisation 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 RTGS 50 dollars per month per student, equivalent to USD 5 on the parallel market rate; but in mid-2018 apprentices were getting USD 50 when the local currency had not depreciated (interview, employers' organisation, Zimbabwe, 07.08.19).

Training equipment (e.g. computers, machinery, tools etc) 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 (www.zimdef.org.zw, accessed 10.07.19; UNESCO, 2018b).

Infrastructure Development at Institutions of Higher Learning – the provision of physical infrastructure and academic facilities in Ministry approved tertiary institutions, including universities, polytechnics, and teachers' colleges (www.zimdef.org.zw, accessed 10.07.19; UNESCO, 2018b).

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 (www.zimdef.org.zw, accessed 10.07.19; UNESCO, 2018b). Their website also notes that employers can get reimbursed if they release their employees for upgrade training courses (www.zimdef.org.zw, accessed 10.07.19); it notes that 'employers facilitating the training of their own employees by financing and releasing them to attend formal courses conducted by institutions recognised by the Ministry may claim rebates for the proven expenses incurred on tuition, examination and boarding' (ibid). 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/September 2019 that there is no direct incentive from ZIMDEF to encourage employers to train their employees (interview, organisation managing the fund, Zimbabwe, 02.09.19; interview, government official, Zimbabwe, 21.08.19).

Industrial attachment allowances for polytechnic students – payment of an allowance to polytechnic students while they are on industrial attachment; in 2017, about 4,000 polytechnic students received USD 100 per month allowance (www.zimdef.org.zw, accessed 10.07.19; UNESCO, 2018b).

Where funds have actually been spent

Administration – about 30% of ZIMDEF funds (2015-16) were spent on administrative costs (Table 28).

Formal apprentices – 20% of ZIMDEF expenditure (2015-16) was on supporting formal (pre-tertiary) apprenticeships (Table 28)

Training equipment (e.g. computers, machinery, tools etc) for polytechnics and other tertiary institutions – Less than 4% of ZIMDEF expenditure (2015-16) went on training equipment (Table 28). 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, organisation managing the training fund, Zimbabwe, 02.09.19).

Infrastructure Development at Institutions of Higher Learning – in 2015-16, ZIMDEF spent about 6% on infrastructure works, presumably those related to tertiary institutions (Table 28).

Reimbursement of expenses to employers – over a quarter of expenditure (2015-16) went on reimbursement to employers for participating in apprenticeships and for other areas (unspecified) (Table 28).

Funding a STEM (Science, technology, engineering, and mathematics) Initiative – in 2015-16, ZIMDEF spent, on average, 9% 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 noted that it was closed as it was *'introduced by the former Minister... [and] had challenges regarding transparency'* (interview, government official, Zimbabwe, 21.08.19). However, according to ZIMDEF, it was closed as it was *'realized that the challenge was shortage of science teachers and secondary school level'* (interview, organisation managing the training fund, Zimbabwe, 02.09.19). 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, 21.08.19).

Table 28. ZIMDEF Income and Expenditure 2015-2016

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 projects disbursements	2,329,542	5.6	2,285,825	4.7	2,307,684	5.1
Training institutions 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

Source: OAG, Zimbabwe (2016)

Other expenditure areas, which have been deemed “allowable” in more recent years, include:

Payment of allowances to lecturers teaching Bachelor of Technology programmes at the polytechnics (UNESCO, 2018b).

Presidential Scholarship Fund – a representative from a workers’ organization noted 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/idea of the fund’* (interview, workers’ organisation, Zimbabwe, 27.08.19).

Examinations for polytechnic students – ZIMDEF funds have been used to set up and undertake examinations for polytechnic students (interview, organisation managing the fund, Zimbabwe, 02.09.19).

Student loans - ZIMDEF has helped to established a loan facility at the CBZ Bank through which university students can apply for a loan ‘(not only for technical students but all students in general)’ (interview, organisation managing the fund, Zimbabwe, 02.09.19). So far USD 5m 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 USD 70m (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, 21.08.19; interview, organisation managing the fund, Zimbabwe, 02.09.19). In **Table XX**, which shows 2015-16 ZIMDEF income and expenditure, 2016 showed an annual deficit of USD 386,678, whereas 2015 showed an annual surplus of almost USD 6.5m.

FUND ALLOCATION MECHANISMS

The criteria with regard to who is eligible to access ZIMDEF funds, as well as the process of accessing these funds is not at all clear and not described in any public material on the ZIMDEF website.

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, 21.08.19). **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, 21.08.19).

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, like supporting polytechnic students, of supporting STEM students who have achieved grades C or above de facto excludes poorer students who have not been able to make it to 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' organisation and one senior government official interviewed (interview, employers' organisation, Zimbabwe, 07.08.19; interview, government official, Zimbabwe, 21.08.19) both commented that students on industrial attachment help to save those companies money as they don't have to *'employ qualified and experienced personnel who are more costly [and] company productivity definitely increases'* as a result (interview, employers' organisation, Zimbabwe, 07.08.19). 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, 21.08.19).

Incentivizing enterprises to train their employees

ZIMDEF reportedly does nothing to incentivise 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' organisation all unambiguously commented that ZIMDEF does nothing to incentivise enterprises to train their employees:

- There is *'no specific programme to incentivize employers to train their employees'* (interview, organisation managing the fund, Zimbabwe, 02.09.19).
- *'There are no direct incentives from the fund for enterprises to train their own employees'* (interview, government official, Zimbabwe, 21.08.19).
- *'In most cases companies always have their own training. The fund does not in any way incentivise employers to train their employees'* (interview, employers' organisation, Zimbabwe, 07.08.19).

The 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 better skilled pipeline of employees'* (interview, government official, Zimbabwe, 16.08.19). However, something is clearly not working since over one quarter of Zimbabwean formal firms are involved in training their employees (enterprisesurveys.org, accessed 15.08.19), seemingly without being incentivised 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 on 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, 16.08.19; interview, employers' organisation, Zimbabwe, 07.08.19).

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 programs and institutes connected to, or accredited by, the Ministry for Higher and Tertiary Education and 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' organisation, Zimbabwe, 27.08.19).

UNESCO's 2018 review further notes that ZIMDEF does not target its support on 'support strategically-important skills development programmes for the economy of Zimbabwe' (UNESCO, 2018b: 76).

Sectors where the levy is working well, or not

According to one stakeholder (and employer), the sectors that ZIMDEF appears to have benefitted the most include: agriculture, forestry and fishing; mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; construction; professional, scientific and technical activities (online survey, employer, Zimbabwe, 06.08.19).

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 level of output data is collected (numbers trained etc) but that it is unlikely that any outcome or impact data exists. There is no information on ZIMDEF's monitoring and evaluation systems.

FUND GOVERNANCE AND MANAGEMENT

Description of fund governance

The most striking immediate governance issue for ZIMDEF, is that there is no Board. Indeed, the 1994 Manpower Planning and Development Act (revised 1996) contained no provision for a ZIMDEF Board, and instead made the 'Minister of Higher Education and Technology' (now renamed as Minister of Higher and Tertiary Education, Science and Technology Development) the sole trustee of the Fund (GoZ, 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, 21.08.19). 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 something that is required (interview, government official, Zimbabwe, 21.08.19).

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 (OAG) 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’ (Office of the Auditor General, Zimbabwe, 2018: 354). The OAG report noted payments related to T-shirts purchases for a By-election (USD 29,000), Samsung Galaxy S7 edge smart phones as gifts for the Minister’s Aides and drivers (USD 10,000), food and accommodation for a memorial service (USD 26,000), and donations (USD 20,000), among others (ibid: 352-354).

Allegations of the misuse of ZIMDEF funds have also been widely reported in the media in Zimbabwe over the years (cf. Mambo, 2016; Maodza, 2017), as well as in academic journals (cf. 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 are currently in the process of establishing a board for ZIMDEF and 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, 16.08.19). The Board will be established as soon as the new Manpower Development Act gets established (interview, government official, Zimbabwe, 21.08.19). 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’ organisation, Zimbabwe, 07.08.19). The government regards funds collected by ZIMDEF as ‘public funds’ and therefore the government needs to manage these funds (interview, government official, Zimbabwe, 21.08.19; interview, government official, Zimbabwe, 16.08.19). Interestingly, the same senior government official also noted that ZIMDEF being accountable to government ‘will avoid any situations of misappropriation of funds and lack of accountability’ (interview, government official, Zimbabwe, 21.08.19) – which doesn’t 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, Indigenisation and Economic Empowerment receive no funding from ZIMDEF (UNESCO, 2018b).

Description of fund management

The ZIMDEF fund is managed by a staff at ZIMDEF, headed by a CEO.

ZIMDEF reportedly produce quarterly and annual reports for the Ministry of Higher Education and Tertiary Education and Parliament (interview, organisation managing the fund, Zimbabwe, 02.09.19). A senior government official noted 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, 21.08.19).

However, these reports are not made public, nor is there any annual report on the ZIMDEF website. A representative from a workers' organisation noted 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' organisations'* (interview, workers' organisation, Zimbabwe, 27.08.19).

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 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, 21.08.19).

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Annex 1. 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 8 SADC countries (Botswana, Malawi, Mauritius, Namibia, South Africa, Tanzania, Zambia and Zimbabwe).

For the 8 SADC countries, a mixed-methods approach was adopted including:

- Reviewing publicly available information related to training funds in the 8 SADC countries
- Key informant interviews
- An electronic survey
- A review of the financial data of the funds

Secondary data collection and analysis

Literature review of global evidence

A literature review was drafted to summarise 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 region.

Review of publicly available information related to training funds in the 8 SADC countries

There is quite a lot of general information in the public domain on the basic context of training funds in the countries under review. For example, this included information in the UNESCO TVET Policy Reviews for Zimbabwe (2018), Namibia (2016) and Malawi (2010 and 2019), information contained in the UNEVOC World TVET Database, commissioned reviews for some countries (e.g. Andreoni, 2018), World Bank Project Appraisal Documents (where TVET projects exist in the SADC countries under review), as well as the websites of the training funds themselves (Fig A1.1). Other public documentation was sourced via various internet searches. Publicly available literature for two of the study countries – Tanzania and Zimbabwe – was more limited than for the other six countries in the study.

The organisations managing the National Training Funds in each country were contacted and invited to share their more recent annual reports (where available or exist).

Fig 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	www.dhet.gov.za/NSF/
Tanzania	www.tea.or.tz/skills-development-fund
Zambia	www.teveta.org.zm

As a first step this publicly available information was reviewed and synthesized. For each country, draft notes were prepared for the interviewers which highlighted what is currently known about each training fund (from the public information), and what the information gaps

and issues of clarification are. Interviewers were then asked to fill these gaps, as well as verify core information, as part of the key informant interviews.

Financial data

It was originally hoped to do a trend analysis of the last five years financial performance of the funds. However, there was an uneven availability of financial data in the public domain and there was some resistance from training funds to release any financial data that was not already in their public annual reports. As some countries didn't even have annual reports, there were some gaps. Also, comparability between financial data was limited to what is in these public reports. It should be noted that the Mauritius HRDC, the Namibia Training Authority and Zambia's TEVETA were particularly helpful in getting the latest annual reports to the lead consultant. Botswana's HRDF wanted to share the latest report, but were unable to do so as it had not been approved by their board. Obtaining data from Malawi, Tanzania and Zimbabwe proved to be the most difficult.

Summary of available financial data:

- **Botswana** - annual reports of the Human Resources Development Fund were available for the four year period 2014-15 to 2017-18. The 2018-19 report was complete, but the HRDF management were unable to share it as their Board had not approved it.
- **Malawi** - the latest annual report available online from Malawi's Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) is 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 Human Resource Development Council, 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 Namibia Training Authority, including the 2019 report, were available (with the most recent one being sent by the NTA).
- **South Africa** - The National Skills Fund Annual Reports are available for the period 2013-2018. Annual reports of the various SETAs were available online, and this report looked at merSETA (Manufacturing, Engineering and Related Services SETA) as a case study.
- **Tanzania** – the Tanzania Education Authority, which manages the Skills Development Fund, have not done annual reports since FY 2013-14.
- **Zambia** – annual reports of Zambia's Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) were available for the period 2015-2018 (with the most recent one being sent by Zambia's TEVETA).
- **Zimbabwe** - The website of the Zimbabwe Manpower Development Fund (ZIMDEF) was frequently offline, but when access was finally achieved there are no ZIMDEF annual reports available. Through internet search it was possible to find one public document from the Office of Auditor General, the ZIMDEF Audited Financial Statement 2016.

Primary data collection and analysis

Key informants

A comprehensive list of key informants from workers' and employers' organisations, from the organisations managing the training fund, and from government officials was compiled. This list comprised 141 persons: Botswana (21); Malawi (18); Mauritius (14); Namibia (12); South Africa (21); Tanzania (20); Zambia (21); Zimbabwe (13); SADC regional (1).⁴¹

Challenges: While it was possible for the ILO to provide 45 names of key informants (not all with contact information),⁴² 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 which numbered 141 persons: Botswana (21); Malawi (18); Mauritius (14); Namibia (12); South Africa (21); Tanzania (20); Zambia (21); Zimbabwe (13); SADC regional (1).⁴³

Selected key informant interviews

An in-depth interview discussion guide was drafted by the lead consultant, with inputs from the ILO team (see Annex 2).

The original aim was to have 24-32 key informant interviews across the 8 SADC countries under review; this was to cover 3-4 interviews per country to include key persons from government, employers and worker organizations.

In the end, it was possible to undertake 34 key informant interviews (see Annex 3 for a full list of organisations): Botswana (4); Malawi (4); Mauritius (4); Namibia (4); South Africa (6); Tanzania (4); Zambia (4); Zimbabwe (4). The aim of these key informant interviews was to verify information obtained from the public sources, and seek clarification on issues, but also provide an opportunity to allow 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, Prof Salim Akoojee, to support the selected key informant interview process.⁴⁴ Salim Akoojee's role was to identify and manage (and ensure quality of) a number of key informant interviewers who could conduct face to face interviews in some of the 8 SADC countries, as well as conduct some of the interviews directly, via skype/phone. The list of fieldwork professionals involved in conduct the in-depth interviews is shown in Fig A1.2.

⁴¹ For data protection purposes, this full list of SADC stakeholders is not included in this report.

⁴² Botswana (4); Malawi (4); Mauritius (9); Namibia (5); South Africa (6); Tanzania (8); Zambia (5) Zimbabwe (3); Regional SADC (1)

⁴³ For data protection purposes, this full list of SADC stakeholders is not included in this report.

⁴⁴ 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.

Fig A1.2. List of identified fieldwork professionals who conducted the key informant interviews

Country	Fieldwork Professional	Contact Details
Mauritius (Antananarivo)	Kaylash Allgoo, PhD	kaylash_allgoo@yahoo.com
Malawi (Lilongwe)	Shawo G. Mwakilama, PhD	smwakilama@yahoo.co.uk
Tanzania (Dar es Salaam)	Emmanuel J. Munishi, PhD	e.munishi@cbe.ac.tz
Zimbabwe (Harare)	James Kumbirai Jowa, MA	jowaj2009@gmail.com or 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 is despite having in-country personnel (in the form of fieldwork professionals) who were able to follow up in person and/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 in the stakeholder list.⁴⁵ 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 were received from the 141 individual emails sent (a response rate of 22%): Botswana (3), Malawi (7), Mauritius (3), Namibia (4), South Africa (4), Tanzania (5), Zambia (4) and Zimbabwe (2). As a next step, the lead consultant invited the employer organisations 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 only of Zambian employers. The total number of responses to the online survey was therefore 68. As the survey is not representative, and almost 60% 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' organisations from the start, and asking them to share a survey with their members could be a useful approach.

⁴⁵ The original aim was to send the online survey to a minimum of 80 persons/organizations (10 per country).

Annex 2. SADC Training Funds: Themes and Questions for In-Depth Interviews

[information collected on respondent, e.g. name, job role and institution (& time with them), etc]

SECTION 1 – SPECIFIC OPENING QUESTIONS FOR DIFFERENT CATEGORIES OF RESPONDENTS

For policy makers (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 be 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 organisation do? *(note to interviewer: we want to find out if the organisation running the training fund is also directly involved in the delivery of training).*

For worker 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 organisation play in the training fund?
- How could workers organizations have a greater role in the management and governance of the fund?

For employer organizations

- How do employers an employer organisations view the training fund? Explain.
 - Probing question: Do employers / employer organisations currently consider the training fund a success? Why? Why not?
 - Probing question: How did the employers / employer organisations 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 employer organizations have an active/influential role in the fund? What role does your organisation play in the training fund?
- How could employer organizations have a greater role in the management and governance of the fund?

SECTION 2 – MAIN QUESTIONNAIRE - GENERAL QUESTIONS FOR ALL

FUND PURPOSE(S) – THE OBJECTIVE AND GOAL 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 who?
- Have the objective, 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 was 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 %)?

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? Please 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 aren't?
- 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 financial year?
 - Do any organisations 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 doesn't work so well with regard to how funds are allocated from the training fund?

FUND EFFECTIVENESS – THE TRAINING AND LABOUR MARKET OUTPUTS AND OUTCOMES OF THE 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 funds' objectives achieved?

FUND MANAGEMENT AND GOVERNANCE – HOW FUNDS ARE MANAGED AND GOVERNED

- Who decides on the fund governance arrangements?
- Do workers and employer 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 which 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?

Annex 3. List of Key Stakeholders Interviewed

Those who participated in the in-depth interviews included the following⁴⁶

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);

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).

⁴⁶ 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'.