

Going Global Partnerships - TVET

Global Skills Spotlight on Skills Levy Systems

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Skills Levies

...are taxes on employers with the receipts earmarked to fund training.

...are widespread globally and common in Africa.

...were identified as a key issue for countries participating in the Going Global Partnership at a British Council event held in Wales in January 2024.

...here we look at skills levies in Botswana, Malawi, Mauritius, Morocco, South Africa, and Tanzania.

Most of the data comes from two major studies – a 2020 study of the SADC countries by Robert Palmer for the ILO, and a 2022 UNESCO study.

Levies have two aspects

...how money is collected

...how money is spent

How is the money collected? 2:

Sometimes small and public sector employers are not expected to pay the levy.

Exemptions for small employers are usual, for example in Morocco for those with 10 or less employees.

Botswana, Mauritius, South Africa and Tanzania also exempt public sector employers.

How is the money spent? 1:

It is used to fund the TVET system

In Morocco, the levy is the main source of funding for the TVET system.

In South Africa a wide range of training activities funded through the sectoral SETAs and the National Skills Fund.

In Tanzania between one sixth and one third of levy receipts fund vocational training.

How is the money spent? 2:

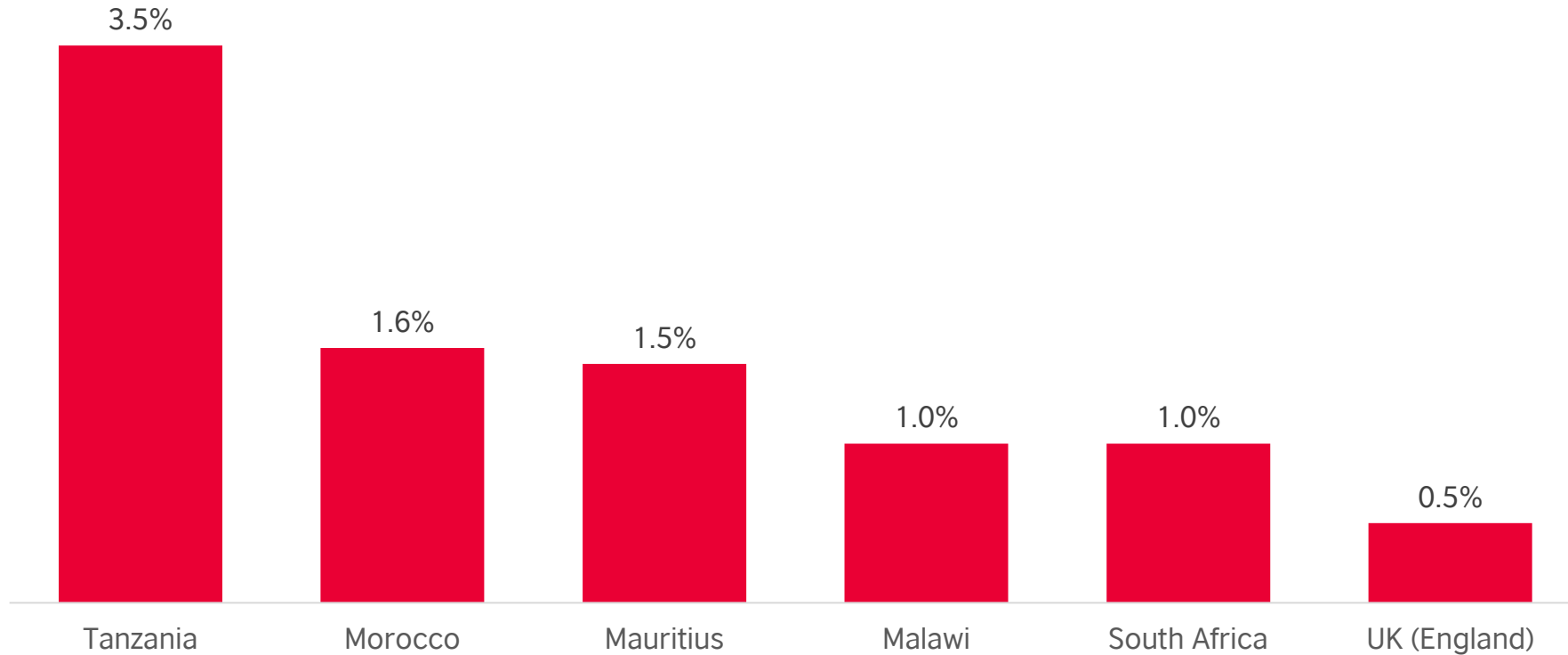
Levy-paying employers may get money back to fund their training efforts.

In Mauritius around 40% of levy receipts are used to reimburse up to 75% of the costs of training employees.

In Botswana one third of receipts are used for such reimbursements.

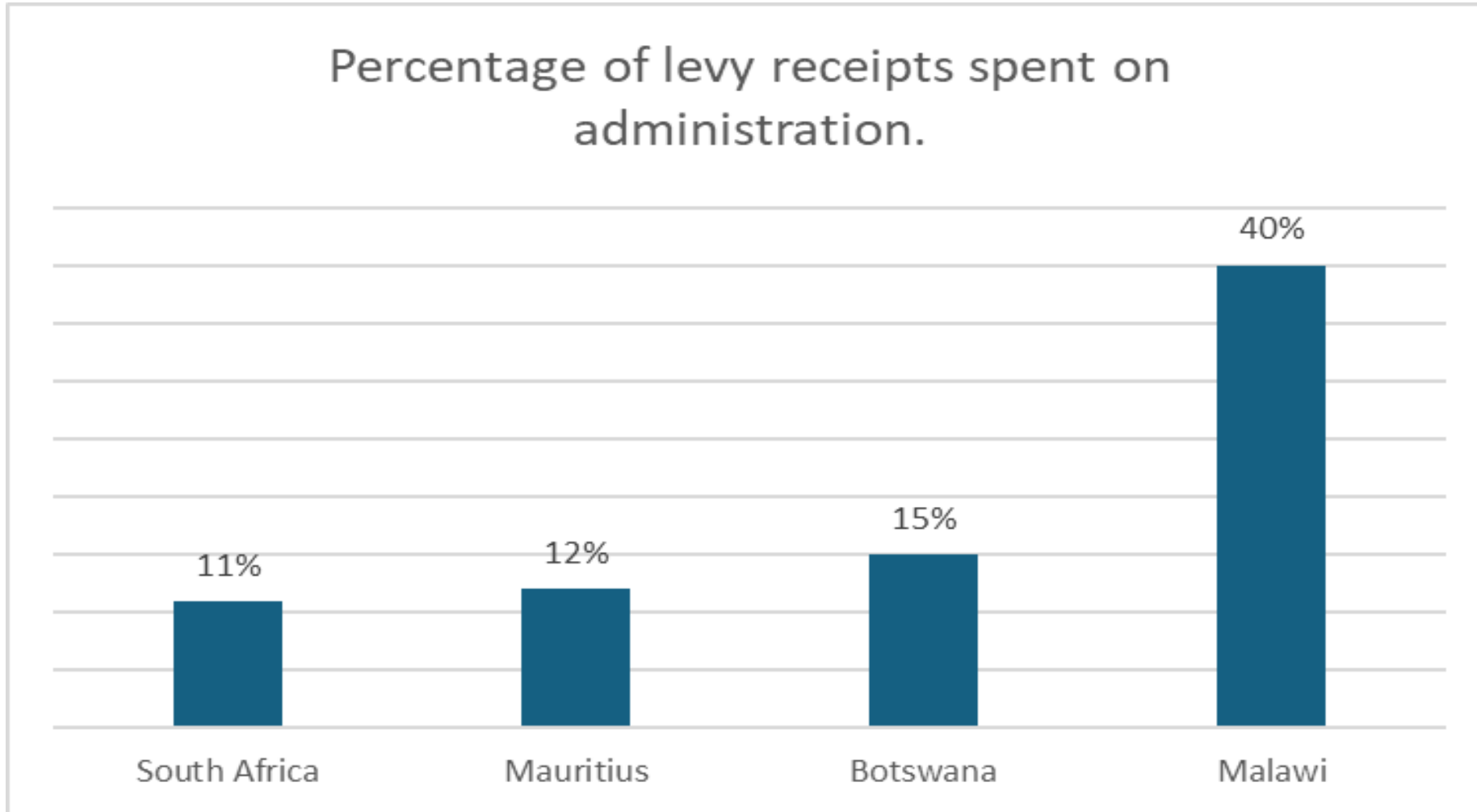
How is the money collected? 1.

Usually, skills levies collect a percentage of employer payroll.



How is the money spent? 3: Other types of spending

On administration, accumulating surplus, and other spending.



Three policy questions

1. Why use skills levies?
2. How can we best manage the inevitable challenges of skills levies?
3. Who pays? Who benefits?

The varying circumstances of countries bear on levy policy and practice.

- **Relationship of government to employers. Trust in government. The extent of resistance to ordinary taxes.**
- **Strength of government and administrative infrastructure.**
- **Country skills needs, including smaller employers and the informal economy.**

First question:

Why use skills levies?

It depends on the objectives...

One aim is to fund the TVET system... For many African skills levies, this is the main objective.

A second aim is to encourage training, by returning funds to levy-paying employers when they train.

If the aim is to fund the TVET system...

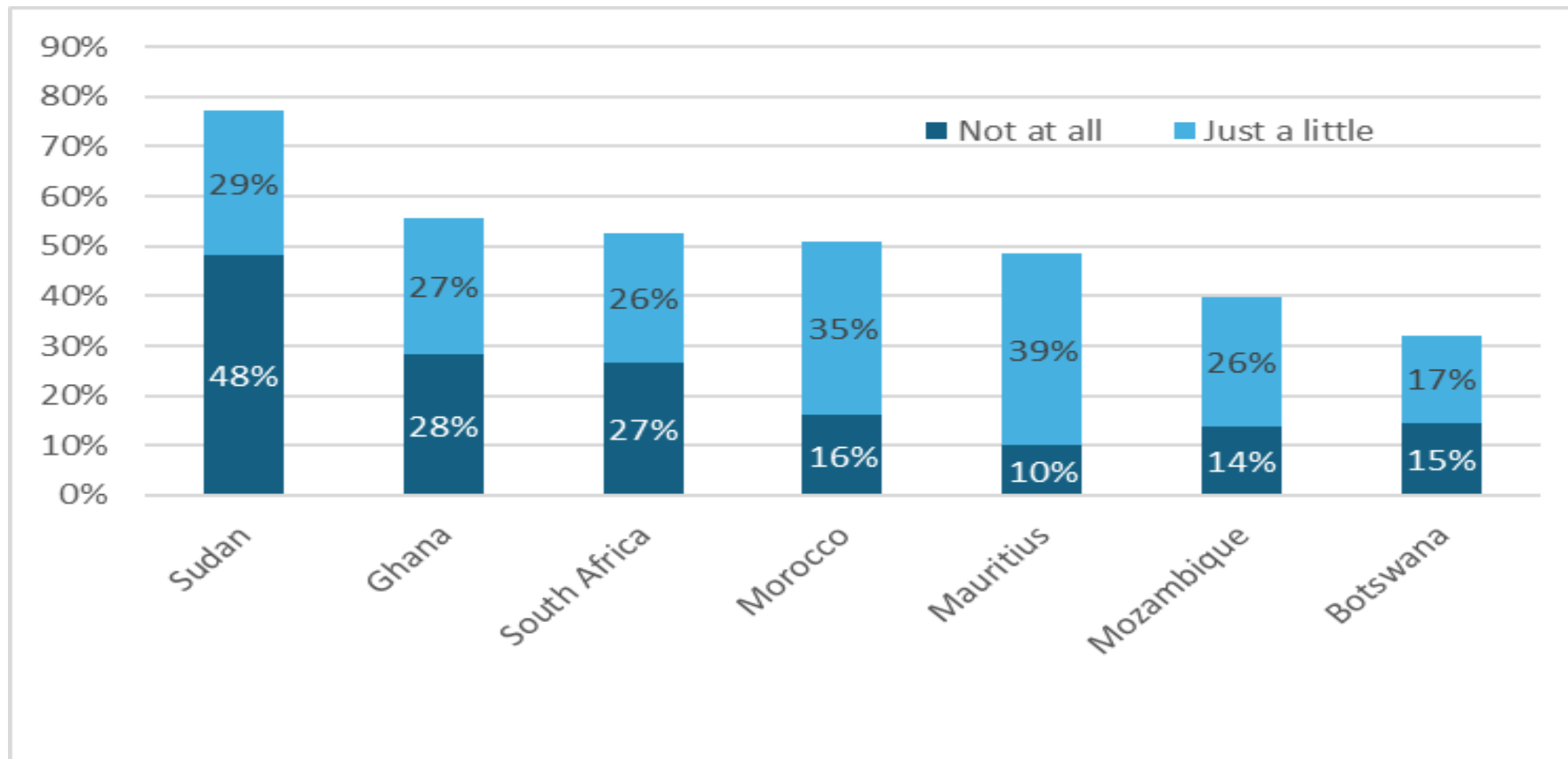
The alternative to skills levies is ordinary taxes.

Unlike ordinary taxes, levy receipts are earmarked to be used for TVET.

Earmarked taxes have a big advantage but also big problems.

A big advantage... Earmarked levies are more acceptable than regular taxes.

Respondents saying that they trusted the tax/revenue office 'just a little' or 'not at all'. Afrobarometer survey 2019/20



But earmarked taxes have big problems...

No link between tax income and spending need. Over time deficits and surpluses emerge.

Weak incentives for efficiency. Earmarked funding guarantees funding regardless of value for money.

Just another tax?– for example when an earmarked levy is just a contribution to a larger budget.

So, is a skills levy a good way of funding TVET?

It depends on national context

Skills levies require strong institutions, both to collect and allocate funds.

Most of the advantages of a skills levy at the point of introduction, with some downsides emerging later.

Sometimes, resistance to general taxation means that a skills levy is the only way of funding the TVET system.

Where it is acceptable, ordinary taxation may provide a better way of funding the TVET system.

Why use skills levies?

If the aim is to encourage employers to do more training...

Employers undertake a great deal of training on their own – so why force them to pay for training?

Employers, left to themselves, will tend to under-provide training because trained workers may move to another employer

So using a levy to pool funds to pay for training makes sense. Everyone benefits

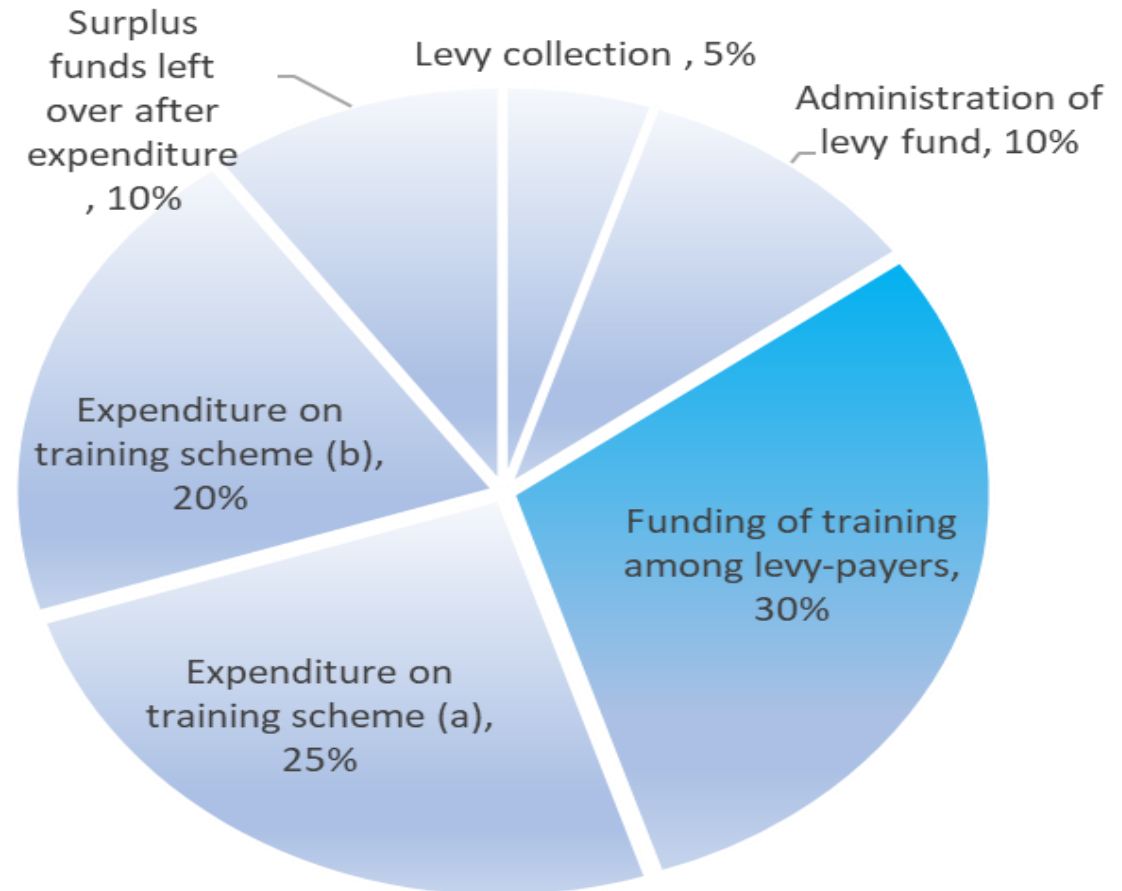
But that benefit in principle needs to be set against the administrative costs

**Second question:
How can we best
manage the inevitable
challenges of skills
levies?**

Skills levies are acceptable to employers because employers can see where their money is going.

So, they do need to see where their money is going.

A fictional example of clarity



How do we limit and manage surpluses?

For example, in Botswana £50M had accumulated by 2020.

Surpluses are undesirable, because of:

- diversion of levy funds for unintended purposes;
- less pressure to seek good value for money.

Surpluses may be limited and managed by:

- allowing levy funds to be used for wide range of training;
- regularly reviewing levy rates;
- having a system in place to handle surpluses.

Third question:

Who pays?

Who benefits?

Should employers who pay the levy, but not others, obtain reimbursement for their training efforts?

Botswana, Mauritius, Morocco and South Africa (like England) all have such arrangements.

This helps to make the levy acceptable to employers.

But often the biggest skills needs are in smaller employers in the informal economy.

So reimbursement of levy-paying should be balanced by support for those with the greatest needs.

Should public sector employers not have to pay the levy?

In Botswana, Mauritius, South Africa and Tanzania, public sector employers are exempted from the levy.

This avoids the transaction costs of inter-government transfers and reduces the public expenditure cost of the levy.

But exemption imposes costs on the private but not the public sector, removes incentives for public sector training, and decreases levy receipts.

So there is a case for reconsidering the public sector exemptions.

In conclusion..

Why skills levies?

Skills levies can be more acceptable but consider funding TVET out of general taxation otherwise.

Skills levies can work to pool funds to pay for training, but administration efficiency is critical.

How do we manage levies?

Make the use of levy funds transparent to all.

Limit surpluses by reviewing levy rates. Plan how to use surpluses.

Who pays?

Balance funding for big employers with training support for small employers and in the informal economy.

Who benefits?

Consider dropping exemption of the public sector from skills levies.

Panel Discussion / Q&A



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Thank you!