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Going Global Partnerships

Skills levies in Africa: a way forward

A study of skills levies in African countries participating in the British Council Going Global Partnerships programme

By Simon Field

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This research is part of the British Council Going Global Partnerships programme, which supports universities, colleges and wider education stakeholders around the world to work together towards stronger, equitable, inclusive, more internationally connected higher education and technical and vocational education and training (TVET) systems.

Through international partnerships, system collaborations and opportunities to connect and share, we enable stronger transnational education, more collaborative research, higher quality delivery, enhanced learner outcomes and stronger, internationalised, equitable and inclusive systems and institutions.

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Disclaimer

The views and opinions expressed in this report are those of the expert team and do not necessarily reflect the official policy or position of the British Council.

*Global Skills Spotlight webinar held on 22nd August 2024
www.britishcouncil.org/education/skills-employability/skills-policy/global-spotlight/events

Executive summary

Main findings

A research study for the British Council has looked at skills levies in Africa and the UK.

This study examines skills levies in the African countries participating in the British Council's Going Global Partnerships (GGP) programme[1] (Botswana, Ghana, Malawi, Mauritius, Morocco, Mozambique, South Africa, Sudan and Tanzania) and in the UK. It describes the characteristics of the levy systems, including their objectives, mechanisms for collection of the levy and for the utilisation of the funds collected. It explores the relationship between country context and the success of the skills levies in fulfilling their objectives. It looks at experience with other 'earmarked' taxes that share attractions and challenges with skills levies, and at recent experience with the UK apprenticeship levy. Drawing on this material, it offers pointers for policy development for African skills levies.

The achievements of skills levies are balanced by challenges

The African skills levies examined have funded TVET systems, provided a means for employers to pool their training efforts, and have usually been acceptable to stakeholders. Despite these achievements, many skills levies face emerging challenges: of handling surpluses; of providing an effective encouragement to employers to deliver relevant training; and of directing support to those who need it most. Comparative analysis, as in this study, can help to address these challenges.

Levy objectives and national context are critical

Levies have two main objectives: first, many skills levies in Africa are primarily designed to fund the TVET system; second, they very often also work to recycle funds back to employers who pay the levy to fund their training efforts. The balance between these objectives has implications for levy design that are set out in Table A. Country circumstances bearing on levy policy vary in three critical ways. First, the level of trust between employers and government is important: transparent levy arrangements, with employers engaged in fund governance should help to facilitate trust. Second, the quality of government institutions is critical to both the collection of the levy and the demanding task of fund governance. Third, country skills needs and how they are distributed between large and small employers, the informal economy and disadvantaged population groups must be taken into account. Levy objectives and country circumstances together bear on levy policy and practice.

1 The Going Global Partnerships builds stronger, more inclusive, internationally connected higher education and technical and vocational education and training (TVET) systems. (https://www.britishcouncil.org/education/skills-employability/programme/going-global-partnerships-tvet)

Table A. Implications of main levy objectives for levy design

Aim is to fund the TVET system. This implies:	Aim is to pool the training resources of levy-paying employers. This implies:
Meeting the skills needs of all, including smaller employers, disadvantaged groups and those working in the informal economy (as well as levy-paying employers).	Meeting the skills needs of levy-paying employers.
Governance of the training fund to engage employers, balanced by other stakeholders so as to ensure that the interests of all and the wider economy are fully taken into account.	Governance of the training fund to give a central role to levy-paying employers; tight ring-fencing of the fund to ensure that funds are not diverted from this purpose.
Given the objective of the levy is to meet national skills needs, levy receipts might be supplemented with funding from general taxation and from donors. The levy might also be based on turnover rather than payroll, so as to share the burden across the economy.	Fund collection based on the training needs of levy-paying employers – primarily based on payroll. Weak justification for additional contributions from general taxation and donors, given that it only serves the needs of large employers.

Levies are usually imposed on a percentage of payroll

National tax authorities usually collect the levy, and it is normally imposed as a percentage of employer payroll, often somewhere between 0.5 per cent and 2 per cent, with the Tanzanian scheme an outlier with a rate of 3.5 per cent (see Table B). Most countries exempt smaller employers, and sometimes public sector employers.

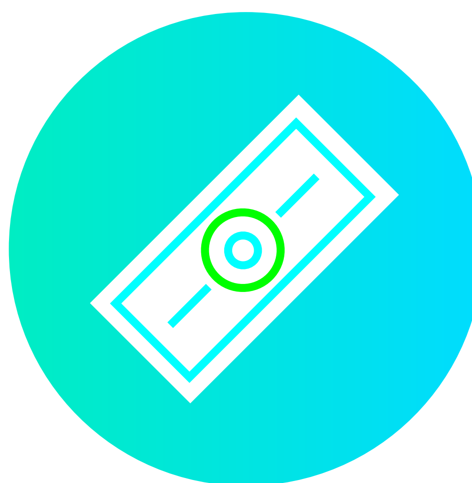


Table B. Levy rate and annual revenue

	Levy rate	Annual revenue
Botswana	Unusually, imposed on firm *turnover* between P 1 million and P 2 billion, 0.2%; plus an addition above P 2 billion, 0.05%.	£19 million in 2018–19.
Malawi	1% of payroll (previously 2%).	£5.7 million (2017).
Mauritius	1.5% of payroll since 2021.	£17.8 million (2018–19).
Morocco	1.6% of payroll.	£218 million (2019).
South Africa	1% of payroll for payroll above 500,000 SA rand.	In 2017–18, around £790 million.
Tanzania	From 2023, 3.5% of payroll. The levy rate has fallen over the years, from 6% to 5% in 2013, then 4.5% in 2016.	£96 million (2016–17).
UK	0.5% of payroll.	£3.3 billion in 2021–22 for the UK as a whole.

Table C. What happens to the funds collected through the levy?

	Allocation of funds to TVET agencies	Other sources of funds for TVET	How surpluses are handled
Botswana	HRDC	Yes, government.	Surpluses accumulate: £50 million reported to have accumulated by 2022.
Malawi	TEVETA	Yes, but the levy represents 90% of TEVETA income.	
Mauritius	0.75% goes to HRDC Mauritius, 0.75% goes to the Workfare fund, managed by the Ministry of Labour – workfare provides support to unemployed workers.		Surpluses accumulate: £29 million accumulated in 2019. The surpluses have also been used to fund other education activities.
Morocco	87% of funds collected in 2019 were transferred to the Office de la Formation Professionnelle et de la Promotion du Travail (OFPPT).	Yes. OFPPT receives 60% of its budget from the levy and 40% from other sources.	
South Africa	80% of the funds are directed to the 21 sectoral bodies (SETAs) established by the Skills Development Act. 20% goes to the National Skills Fund.	The SETAs are entirely financed through the levy.	£346 million accumulated by 2018–19 in National Skills Fund. (Surpluses are sometimes used for other purposes such as reducing fees for poorer students in tertiary education.)
Tanzania	Between one-third and one-sixth of the levy goes to the Vocational Education and Training Authority (VETA) to be used on training. The remaining funds are retained by the Ministry of Finance and Planning.	VETA seeks to supplement its income with short courses requiring fees in VETA training centres.	
UK (England)	The proceeds of the levy for the UK as a whole go to the Treasury. The Treasury then separately agrees an apprenticeships budget with the (England) Department for Education which is used to fund apprenticeships both in levy- and non-levy-paying employers.	The apprenticeship budget is the only source of government funds for apprenticeship training and the accompanying assessments. Other non-apprenticeship forms of vocational training are funded separately from general government funds.	Despite the apprenticeship budget set independently of levy receipts, commentators continue to identify 'surpluses'. FE week estimated a 'surplus' of more than £400 million in 2022–23.

Levy receipts are used both to fund the TVET system and to reimburse employers for training

The use of levy funds reflects the two main objectives of the levy, as set out above: funding the TVET system, and reimbursing levy-paying employers for their training activities. For example in Mauritius, most levy receipts allocated to HRDC Mauritius are used for reimbursement. Although in principle levy funds are earmarked to support training, the practice is not so straightforward. Sometimes levy funds are partitioned by design – for example, in Mauritius one-half of levy receipts are allocated to the Workfare fund to support the unemployed. In Tanzania, only around one-third of the funds collected are used to fund training (see Table C). Administrative costs can sometimes be substantial.

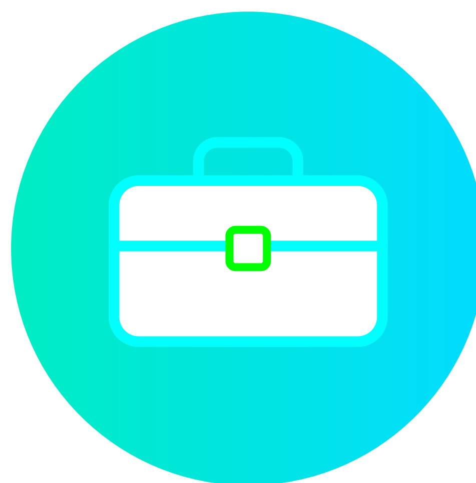
Some dilemmas are common to levies in Africa and the UK

A common feature across all the levy systems, including both the UK and the African GGP countries, is a tension between an initial objective of financing more training, and later experience in which levy funds are quite often used for other purposes. A connected tension lies between the aim of returning levy funds to levy-paying employers to encourage employers to train, and the different objective of offering training to disadvantaged groups, and to foster training among smaller employers.

Two lessons emerge from the UK experience

From the perspective of African levy systems, two lessons stand out from the UK experience:

- The UK apprenticeship levy is an unusual model in that it has avoided full earmarking. Instead, the link between levy receipts and apprenticeship expenditure is looser, being based on government statements linking receipts to expenditure and the virtual budgets for apprenticeship training held by levy-paying employers. Given all the challenges and rigidities of fully earmarked levy systems, this approach has some attractions. But the downside is that the whole approach may not be sustainable over the longer term, as the link between levy receipts and apprenticeship expenditure is becoming more tenuous.
- The apprenticeship levy, like many skills levies, offers levy-paying employers privileged access to levy funds. This allows them to obtain funding for the apprenticeships they offer without charge. But the effect has been to concentrate funding on the larger employers, disadvantaging smaller employers where needs are often greater. In response to this problem, modifications of the funding rules have minimised the difference between employers who do and do not pay the levy. Similarly in African levy systems, there is a difficult tension between two competing objectives of the levy system – on the one hand seeking to make levies acceptable by granting levy-paying employers privileged access to levy funds, and on the other hand seeking to support the training needs of smaller employers and their workers.



Skills levies are a form of earmarked taxes

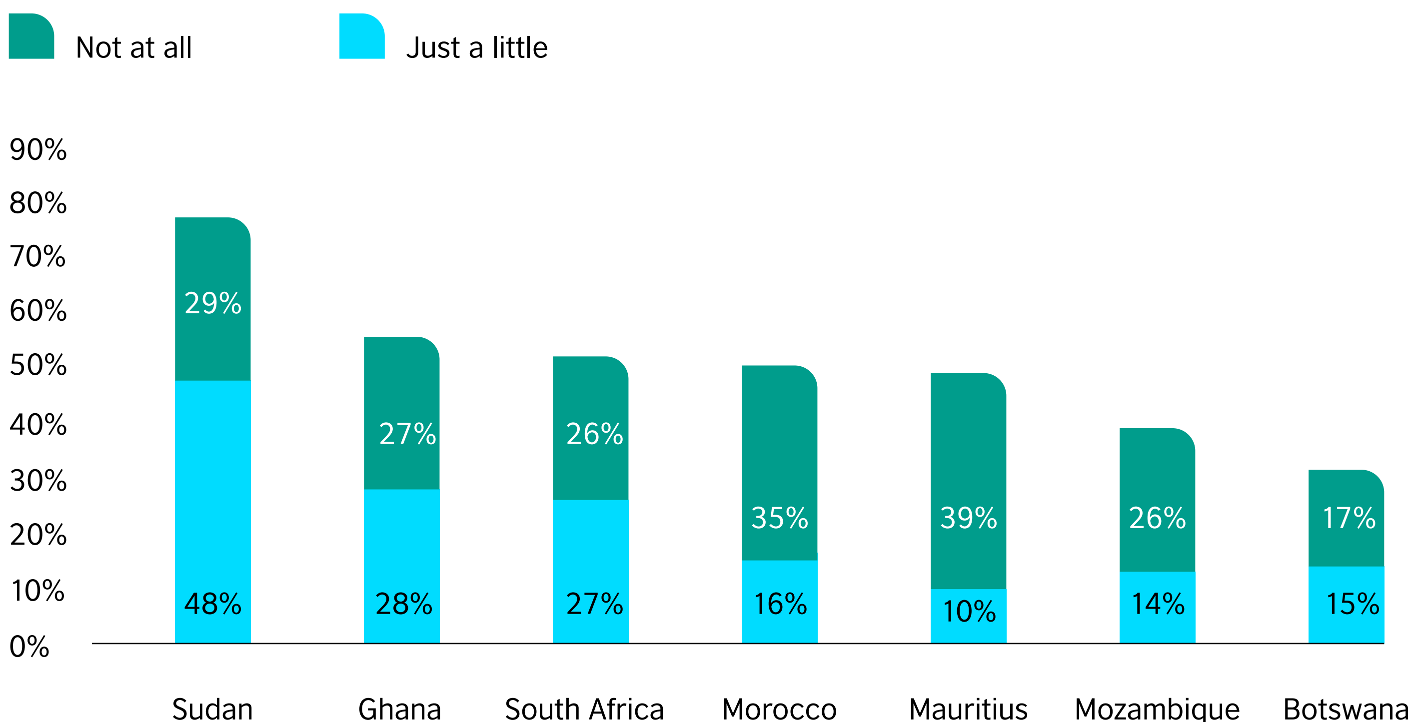
Skills levies are part of a wider class of 'earmarked' taxes, where the revenue from a tax or levy is placed in a ring-fenced fund to be used for a specific purpose. Such taxes are typically more acceptable to stakeholders, since they can see where their money is going. One UK survey found that when people were asked if they would be prepared to pay 1 per cent more in income tax, only 40 per cent agreed, but when respondents were told that this money would be earmarked to fund health services, 80 per cent were ready to accept the tax increase. In some African countries, trust in the tax authorities is low (see Figure A).

African skills levies share the advantages and disadvantages of other earmarked taxes

Similarly, for skills levies, employers will often be more prepared to contribute to a levy than a simple tax where they can see that the funds will support training, including in their own enterprise. But they also have significant drawbacks, especially because, over time, receipts from earmarked taxes tend to diverge from expenditure in the target sector that is funded. African skills levies share both the advantages and disadvantages of earmarked taxes, with the initial attractions of the levy in terms of acceptability balanced by emerging challenges of surpluses and deficits.

Figure A. Trust in the tax authorities in African GGP countries

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



Source: Afrobarometer survey 2019/20 (round 8) https://www.afrobarometer.org/online-data-analysis/. GGP countries (Tanzania and Malawi did not take part in this survey).

Sectoral levies have potential advantages relative to national levy

Sectoral levies, imposed just on one economic sector and used to fund training in that sector, have the advantage of responsiveness to varying training needs of industry sectors. When organised well, a sectoral levy should be able to deliver training of a type closely adapted to the needs of the industry sector. However, these advantages depend on good engagement by employers in the sector. For Africa, there would be potential attractions of sectoral levies, but they would depend on well-organised industrial sectors.

The greatest attractions of levies are at the point of introduction

The greatest attractions of levies come upfront, at the time of their introduction, when they are often presented and seen as an acceptable way to finance training. When levy-paying employers obtain a direct benefit through reimbursements for the training they undertake this adds to their acceptability. Moreover, in Africa a high level of resistance to general taxation makes it harder to fund TVET without recourse to skills levies.

While the drawbacks emerge over time

Some of the biggest challenges to levies emerge over time, following the almost inevitable divergence of levy receipts from expenditure requirements, yielding surpluses to manage, or deficits to make good through other budgetary contributions. The risk is that levies may, either in perception or reality, come to appear like a regular tax. Levy systems also face practical problems, including compliance challenges that limit receipts, high administrative costs, insufficient transparency, and employer concerns over bureaucracy.

Many of the challenges of levies can be managed

While skills levies face inevitable challenges, careful management can reduce the risks involved. Transparency, both financial and operational, will support the credibility of any levy. Regular review of levy rates can minimise surpluses. Effective governance of training funds to involve employers, workers' organisations and other stakeholders can enhance performance and increase acceptance.

This suggests that long-standing levies may require review

Against this background, for many African countries with mature levy arrangements, it may be time to review their levy systems. Botswana and Mauritius already have such reviews in train. Reviews might partly aim to look at the balance between the use of the levy and general taxation to fund TVET, taking into account some evidence that resistance to general taxation in Africa is weakening, potentially shifting the balance of argument away from levies as a means of funding TVET. Such reviews might also explore ways of reinforcing the link between levy receipts and expenditure, reducing the risk that the levy either is, or is perceived to be, simply a tax disguised as a levy. For countries introducing, or considering the introduction of, a skills levy, such as Mozambique, the evidence suggests that some thought should be given to whether it is the best way to fund TVET, balancing immediate acceptability with the challenges that are likely to emerge over time.

Varying country circumstances will bear on these reforms

In some countries, there may be so much employer resistance to general taxation that the only option for developing the TVET system is to sell a levy to employers with the promise of a return in the form of a better-skilled workforce. Other countries may have found the bureaucratic burden of managing a dedicated levy fund too difficult to pursue adequately. Others will find that the policy objective and priority is to reskill and upskill young people who are not in education or work, rather than to incentivise training in large employers through a levy scheme. Others still will want to engage the larger employers who feel that they contribute to the levy but see little in return. All these factors need to be taken into account.

Key policy findings

Policy conclusions are set out selectively in the answers to three policy questions:

- **First, why have skills levies?** Here, we look first at whether skills levies have advantages over general taxation as a means of funding TVET; second, at whether skills levies successfully encourage more employer training, relative to no government intervention.
- **Second, how can the main challenges of an earmarked skills levy be addressed?** Skills levies, like other earmarked taxes, raise some predictable challenges, but measures are possible to minimise the problems arising. Here, we look at how best to ensure transparency, so that stakeholders can see where their levy contributions are going; at how countries can limit and manage surpluses in levy accounts; and whether the status of a skills levy can be sustained when it does no more than make a budget contribution.
- **Third, who should benefit from a skills levy, and who should pay?** Here, we explore whether levy-paying employers should have privileged access to levy funds, and if public sector employers should be exempt from the levy.

Policy question 1
Why use skills levies?

Issue 1.1 Is it better to fund the TVET system from a skills levy or from general taxation?

‘Earmarked’ skills levies can be more acceptable to employers than a tax

Earmarked taxes, including skills levies, are usually more acceptable to employers than just a tax, because employers can see what happens to their contributions. In some domains, such as in the Ghanaian health service, earmarked taxes have been deployed with great success. In Africa, especially given greater resistance to general taxation than in some parts of the world, a skills levy may be more feasible, politically and practically, than general taxation as a means of funding the TVET system. In Sudan, Ghana and South Africa trust in the tax authorities is low, with more than half of respondents saying that they trust tax offices just a little or not at all. In some of the other GGP countries, trust is a little higher, with only one-third of respondents in Botswana having the same sceptical view (see Figure A). It is therefore no surprise that skills levies are found widely in Africa.

But earmarked taxes also have big problems

But skills levies also have drawbacks that tend to grow over time and are greater if the bodies that manage the training fund are weak. Problems have included difficult-to-manage surpluses, for example in South Africa and Botswana. In other contexts, for example in Morocco, the levy only provides partial funding of the TVET system, so it is unclear whether the levy is doing more than displacing the need for funding through ordinary taxation. African countries with established skills levies may therefore wish to at least consider transitioning TVET funding to general taxation.

Issue 1.1 Is it better to fund the TVET system from a skills levy or from general taxation?

There is a good argument in principle for funding TVET from general taxation, since, like other forms of education, it is offering a service to everyone and the whole economy. However, in practice, given resistance to general taxation, a skills levy may provide an effective way of supporting the TVET system, while recognising that, over time, the distinction between a levy and ordinary taxation may tend to erode.

Issue 1.2 Is it better to use a levy to ensure that employers train their workforce, or to leave them to make their own decisions over training?

There is an economic argument for using a levy to pool employer training resources

There is a good case in principle for using a levy to pool employer funds to pay for training that is in their collective interest. Employers, left to themselves, will tend to under-provide training even when it yields large productivity benefits, since productive workers can be poached by other employers. However, apart from Mauritius, none of the African levy systems examined here are devoting more than half their funds to the reimbursement of levy-paying employers for their training efforts. So the recycling of funds to levy-paying employers is often only a minor rationale for the levy. Where such reimbursements are significant, countries need to be able to offer efficient administration of the funds collected to realise the potential benefits of levies and to sustain the support and engagement of levy-paying employers.

A sectoral, rather than national, training fund has potential advantages

Sectoral funds allow employers to adjust both the rate of levy, and the form and content of training efforts in response to industry needs, providing that their governance permits an adequate representation of employers in their sector. They have successfully developed in several countries outside Africa. In sectors where employers and workers' organisations are well organised and can take the lead in the development, countries may wish to consider facilitating them.

Issue 1.2 Is it better to use a levy to ensure that employers train their workforce, or to leave them to make their own decisions over training?

There is a good case in principle for pooling funds from employers to pay for training. This can be done at national level through a levy, or through sectoral training levies. Where this represents the dominant objective of a skills levy, training fund governance needs to ensure that employers are well represented so that they can direct the training where it is most needed, while also minimising any bureaucratic burden involved in claiming reimbursements.

Policy question 2
How can the main challenges of an earmarked skills levy be addressed?

As with other earmarked taxes, some predictable problems affect skills levies, but with careful handling these problems can be reduced, even if not eliminated. Well-presented financial information is vital. Surpluses in levy accounts must be minimised and carefully managed. The status of a skills levy that makes no more than a partial contribution to a wider TVET budget may have to be sustained.

Issue 2.1 How can transparency in levy fund finance be achieved?

Countries must explain how they use levy funds

Regardless of country context, transparency in the use of levy receipts is vital, because it mobilises the central advantage of an earmarked tax by showing stakeholders what has happened to the money collected. Sometimes information on the skills levy is lacking: in Morocco, financial data is not reported, and Tanzania does not publish an annual report. Such transparency is particularly important in the face of criticism that the levy has become just another tax. A published report is necessary, setting out in simple terms how levy funds are used.

Issue 2.1 How can transparency in levy fund finance be achieved?

Transparency in government finance is always important, but especially important in skills levies where the rationale is to allow those paying into the levy to see what they are funding. Understandable, regularly published data on levy receipts and expenditure is essential.

Issue 2.2 How can countries limit and manage surpluses in levy accounts?

Accumulating surpluses in levy funds cause several problems

Large surpluses have emerged from time to time in the levy systems of Botswana, Mauritius and South Africa, reflecting levy receipts funnelled into tightly ring-fenced budgets, rather than being used in support of larger budgetary categories, as in Malawi and Morocco. For two main reasons, surpluses are undesirable. First of all, when surpluses accumulate, the political pressures to use these funds for wider purposes become irresistible. Even when these are good uses of the funds, they undermine the intended 'earmarking' of the levy. Secondly, surpluses reduce the pressure for value for money within the associated expenditure programme, since the ring-fencing of the budget removes the threat of a shift of resources to better uses. Over time, weak incentives for value for money may progressively damage the efficiency of spending.

Steps are needed to manage and reduce surpluses

Active steps have succeeded in managing down surpluses in some countries. Countries need to broaden the scope of levies and review levy rates to bring receipts in line with expenditure, maintain pressure to ensure programme efficiency, and establish a formal procedure to divert any remaining surpluses to other budgets.

Issue 2.2 How can countries limit and manage surpluses in levy accounts?

To avoid the accumulation of surpluses, the scope of funded training should be sufficiently broad, levy rates should be regularly reviewed, and residual arrangements put in place to divert any surpluses before they accumulate.

Issue 2.3 When a skills levy makes a partial contribution to a larger TVET budget, can the status of the levy be sustained?

Some levies, over time, may come to closely resemble ordinary taxes

In Morocco, the skills levy contributes around 60 per cent of the TVET budget. In these circumstances, it can become unclear if the levy is determining spending on TVET, since it could simply be displacing other budgetary contributions. This opens up the option of recognising these levies as ordinary taxes, as such recognition would have little practical import for spending and budgeting. However, such a move might also cause some hostility towards levy payments.

Issue 2.3 When a skills levy makes a partial contribution to a larger TVET budget, can the status of the levy be sustained?

Some skills levies over time become difficult to distinguish from ordinary taxes because their role is simply to provide a contribution to larger budgets, so that the terminology of a ‘skills levy’ can become misleading. In these circumstances the best approach may be one of gradual acceptance rather than an abrupt and destabilising redesignation.

Policy question 3 Who benefits? Who pays?

For all skills levies, a key issue is that of identifying the appropriate beneficiaries and contributors. Two policy issues arising are looked at here.

Issue 3.1 Should levy-paying employers have privileged access to levy funds to pay for training?

Often, employers who pay the levy have privileged access to levy funds to pay for training

Many levy schemes allow contributing employers to claw back a reimbursement on their contributions when they train their employees, thus sugaring the pill of their levy payments. In the African skills levies looked at here, Botswana, Mauritius, Morocco and South Africa (like England) all have such an arrangement. Their generosity is variable: in Mauritius, levy-paying employers may claim up to 75 per cent of their training costs. In South Africa, 20 per cent of the levy payment may be reimbursed on the basis of an employer's training plan.

But smaller employers who do not pay the levy also have training needs

Where the primary objective of the levy is to pool the training efforts of levy-paying employers, it makes sense to exclude non-levy payers from the benefits of the fund. However, many levies are also used to meet broader skills requirements, through funding of the TVET system. The needs of smaller employers are therefore important. One practical response would be to balance the support given to levy-payers with support for training in other sectors, including in smaller employers, in the informal economy, and for those who are unemployed and outside the labour market. Such measures might be financed either through the levy, or through general taxation.

Issue 3.1 Should levy-paying employers have privileged access to levy funds to pay for training?

Such privileged access is defensible in the case of levy systems designed solely to pool the training resources of levy-paying employers. However, most skills levies have broader objectives, and support for levy-paying employers needs to be balanced by arrangements to use levy funds to support the training needs of wider groups.

Issue 3.2 Should a skills levy exempt government and other public sector employers from paying the levy?

There are explanations for why the public sector is sometimes exempted from a skills levy

In Botswana, Mauritius, South Africa and Tanzania, government and other public sector employers are exempted from the levy. In Malawi, Morocco and the UK, there is no such exemption. Such exemption avoids the transaction costs of inter-government transfers when the levy is collected by one body from another public body; it also restrains expenditure in the public sector, given that otherwise the public sector would need to pay the levy.

But there are strong reasons for treating the public and private sectors equally

But exemption also decreases receipts from the levy. It also increases the costs of the private but not the public sector, potentially distorting the choices made by the government about whether to directly undertake public services itself or, alternatively, contract those services to the private sector. It also makes it presentationally more difficult for the government to defend the imposition of a levy on private sector employers if the government exempts itself from that burden. Moreover, if levy payment is linked to incentives for employers to train, public sector employers may need those incentives as much as the private sector.

So countries exempting the public sector may wish to reconsider

The credibility of any skills levy depends on employers perceiving government as behaving fairly towards them. The exemption of the public sector from the levy may undermine this perception and hence the credibility of the levy. As part of a broader strategy of enhancing trust in levies and the levy system, countries currently exempting the public sector from the levy should reconsider this position.

Issue 3.2 Should a skills levy exempt government and other public sector employers from paying the levy?

Countries should consider removing any exemption of the public sector from skills levy contributions. Such a step would enhance the fairness, and therefore credibility, of the levy system.

Introduction

This report looks at skills levies in Africa and the UK

This report examines skills levies in the nine countries in Africa participating in the British Council's Going Global Partnerships (GGP) programme[2] (Botswana, Ghana, Malawi, Mauritius, Morocco, Mozambique, South Africa, Sudan and Tanzania) and in the UK. It describes the characteristics of the different levy systems, including their objectives, and mechanisms for collecting the levy and using the funds. In exploring policy, it takes account both of the different objectives of levies, and the varying country contexts in which levies are pursued. It looks at other 'earmarked' taxes that share both the attractions and challenges of skills levies, and at recent experience with the UK apprenticeship levy. It offers conclusions to assist policy development.

Policy analysis will concentrate on the economic principles

In drawing conclusions and suggesting policies, the focus of the report is on the main economic principles that underpin the operation of skills levies. It therefore looks at the justification of levies as an alternative to general taxation as a means of supporting TVET, and the economic rationale for employers to pool training resources in pursuit of a shared benefit. It looks at some of main challenges that arise for skills levies, including the management of surpluses, and at the issues that arise over who contributes to levies, and who benefits.

Skills levies have become common globally

A recent UNESCO review identified 75 different skills levies globally. Over one-third were found in sub-Saharan Africa, but they are also common in Latin America, in many European countries and in some Asian countries such as Malaysia and Singapore. Many have come into existence over the last 30 years (UNESCO, 2022[1]).

Six African countries with active levy schemes will be examined

Of the nine African countries participating in the Going Global Partnerships programme, six have active levy schemes, with a seventh, Mozambique, planning the introduction of a levy. Ghana and Sudan lack levy schemes (see Table 1). Several of the levies are long established, for a half-century in Morocco and 30 years in Mauritius. Others are more recent innovations, and Mozambique is in the process of introducing a levy. For the purposes of comparison, the UK apprenticeship levy, dating from 2017, is also looked at here. Although some of its design features are distinctive, and the country context is different from most African countries, some of the challenges faced by this levy are similar to those seen in Africa.

There are seven sections in this report

Section 2 of this report advances a definition of skills levies and sets out the methodology to be used in the study, listing the levy systems examined. In Section 3, the different levy systems are described through tabular comparisons covering levy collection systems, the rate of levy and the groups of employers covered, and how the funds are used to support training. Section 4 explores levies from the perspective of experience with other

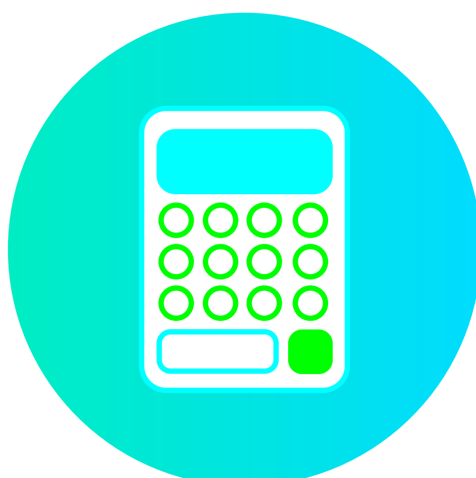
2 The Going Global Partnerships builds stronger, more inclusive, internationally connected higher education and technical and vocational education and training (TVET) systems. (https://www.britishcouncil.org/education/skills-employability/programme/going-global-partnerships-tvet)

earmarked taxes. Section 5 explores some of the UK experience and how it compares with that of African countries. Section 6 examines sectoral levies. Section 7 draws the threads together with some conclusions for policy. Annex A describes each levy scheme separately.

Table 1. GGP African countries and the UK: potential levies for examination

Country	Name of levy	Comments
Botswana	Human Resource Development Fund	
Ghana	Ghana Education Trust Fund Levy	Not a true skills levy, as funds are used for wider purposes.
Malawi	Technical, Entrepreneurial and Vocational Education and Training (TEVET) Fund	
Mauritius	National Training Fund	
Morocco	Taxe de Formation Professionnelle (professional training tax)	
Mozambique	National Fund for Professional Education	Levy not yet implemented.
South Africa	Skills Development Levy	
Sudan	None found	Recommendation by UNCTAD for a skills levy.
Tanzania	Skills Development Levy	
UK (England)	Apprenticeship Levy	
UK	CITB Levy	These sectoral levies will be described separately.
UK	ECITB Levy	

Sources: The sources for information in the tables of this report include national websites for both national revenue authorities and TVET agencies, UNESCO country fiches (UNESCO, 2022[2]), and the ILO survey of levies in the SADC countries (Palmer, 2020[3]). In the case of the UK, main details come from several sources (Powell, 2023[4]) (House of Commons, 2023[5]) (Press Release no.10 Downing street, 2024[6]). Where information comes from one source rather than many, this is recorded directly in the tables.



Methodology

Definitions and objectives

A training levy means that funds collected are earmarked to support training

We may define a training levy as a required financial contribution from employers that is used to fund training. Usually, the contributions are managed by the government so the levy takes the form of what may be called an 'earmarked' tax (sometimes also called a hypothecated tax), such that the money collected is directed to a particular function.

Levies may be appraised in terms of objectives, context and levy characteristics

Levy systems need to be appraised in terms of what they are seeking to achieve, the country context and their design features. That principle guides the analytical framework used here: it involves three dimensions: policy objectives, country context and levy characteristics. They are described below.

Levies have two main objectives: supporting TVET, and pooling employer training resources

Several different policy objectives have been advanced for skills levies (see Table 3 and (Johanson, 2009[7])). However, for the levies looked at here, two objectives are central:

- To provide funding for the TVET system, typically as a more acceptable means of funding than general taxation. For example, in Morocco and Malawi, a large proportion of levy receipts go to support the TVET system, and these funds represent most of the resources of this system.
- To offer a means for levy-paying employers to pool their resources to fund training from which they may collectively benefit, thereby encouraging training. For example in Mauritius, the majority of levy receipts received by HRDC Mauritius are devoted to such reimbursement.

In the countries examined, both objectives usually apply

For most of the six levies looked at in this review, both these objectives are critical. In all of the six countries the levy plays a large part in funding TVET, and in most of the countries there is a significant element of reimbursing levy-paying employers for their training efforts. However, in Malawi and Tanzania, few of the levy receipts go towards reimbursing employers for their training efforts, so the second objective is marginal (see Table 8).

Most schemes have multiple objectives

Some attempts have been made to classify levy schemes according to objectives. Some, described as 'levy-grant' or 'levy-exemption' schemes, compensate levy-paying employers for their training efforts (Palmer, 2020). Johanson (2009) distinguishes between 'pre-employment' funds to finance initial TVET, 'enterprise training' funds to support workforce training, and 'equity' funds for disadvantaged groups. The difficulty with such classifications is that they are often overlapping as most levies have multiple objectives.

Country contexts

Country circumstances bear on the function of skills levies

The characteristics of a country, its economy and its labour market are relevant to the rationale and effectiveness of skills levies. Three key elements are:

- **Relationship of government to employers.** This covers the ability of government to collect levies and other taxes from business, and on how levy systems are designed so as to engage employers. Many countries, but especially developing countries, find it hard to raise ordinary tax revenue from enterprises because of resistance and avoidance by employers. This obstacle may increase the attractions of using a skills levy as a more acceptable alternative to a regular tax to fund their TVET systems. However, some of the obstacles to raising revenue from regular taxes on enterprises may also limit compliance with a training levy.
- **Strength of government and administrative infrastructure.** This bears on the capacity of the levy-gathering body to ensure compliance with a levy. It also relates to the ability to construct a robust institution to spend levy funds wisely and to manage down administrative costs so that they do not absorb too large a proportion of the levy.
- **Skills needs.** As indicated above, skills levies often seek to meet country skills needs, and the skills needed by individuals and by the economy vary from country to country. In many countries, those working in the informal economy and for smaller employers have significant training needs. Newly emerging skills requirements, such as for green and digital skills, are also critical.

The approach to appraisal

Appraisal of a skills levy depends on the alternatives

Appraisal of a skills levy will depend on the alternatives with which it is being compared. Here, there are two comparators, both relevant to the levy systems examined here:

- For the dimension of a levy that funds the broader TVET system, the natural point of comparison is with the use of general taxation to fund this system.
- For the dimension of a levy that collects money from employers and recycles it back to them to fund training, the natural comparison is with an arrangement in which employers make their own decisions on whether and how to train.

Policy analysis links objectives, contexts and characteristics

Levy policy may be appraised by exploring whether, given certain policy objectives and country context, any given levy is best designed to realise those policy objectives. For example, where the objective is to provide funding for the TVET system, one key context is the relationship of government to employers, and whether that might preclude alternative arrangements such as general taxation to fund the TVET system.

Appraisal looks at two aspects of any levy

- **Policy alternatives and policy mix.** Is the levy the best way of achieving the policy objective or would an alternative measure be better? Is the balance between the use of the skills levy and other policy tools the right one?
- **Levy design.** Is the levy optimally designed to achieve the policy objective(s)? How could its design to be improved to this end?

The evidence base

Some countries are not included in the tabulated comparisons

Table 1 lists the nine GGP countries and the UK and their levies as potential subjects for analysis. In the UK, although the apprenticeship levy is imposed on employers throughout the UK, it is not a skills levy in Northern Ireland, Scotland, or Wales because the funds collected are used for common purposes, like any other tax, rather than being earmarked for skills development. Ghana, Mozambique and the Sudan do not currently have skills levies so do not appear in Section 3 (see Table 1 and Annex A). Similarly, sectoral levies in Brazil, the Netherlands and the UK are described in Section 6, but do not appear in Section 3. (Brazil and the Netherlands are outside the formal scope of this study but have been included as they offer interesting examples of sectoral levies.)

Recent reports from international bodies provide a good foundation of evidence

The factual evidence base on country levy systems is good: two major recent reviews provide coverage. An ILO report from 2020 (Palmer, 2020[3]) looked in some depth at the levy systems of the Southern African Development Community (SADC) countries. This report explored the documentary evidence, supported by interviews of key stakeholders in the SADC countries, therefore covering all the African GGP countries with active levy systems with the exception of Morocco. It also identified some key challenges and advanced policy recommendations, both for good practice generally and specifically identifying some issues that individual target countries should pursue. More recently, a (UNESCO, 2022[1]) report looked globally at skills levies. It updated some key data and identifies challenges and advances suggestions for good practice. It also includes a regional brief on sub-Saharan Africa. Several previous global reviews of skills levies are also relevant, from the World Bank (Dar and Canagarajah, 2003[8]) and Johanson (Johanson, 2009[7]), from the OECD (Muller and Behringer, 2012[9]), while Ziderman (Ziderman, 2009[10]) looked specifically at sub-Saharan Africa.

These are supplemented by national reports

At national level, most levy systems publish annual reports, and the websites of national governments provide up-to-date information on some of the levy rules. UNESCO TVET country profiles (UNESCO, 2022[2]) provide detailed information on the skills levies of all the countries examined in this study, using data collected as part of their 2022 global comparison of skills levies. Some additional national studies are important, including special reports on Tanzania (Andreoni, 2018[11]) and South Africa (James, 2009[12]). In the UK, the literature on the apprenticeship levy is extensive, including an OECD review, which compared the UK levy at its inception with levy systems internationally (Kuczera and Field, 2018[13]). Several more recent studies have examined the impact of the levy – see, for example, (CIPD, 2019[14]), (City & Guilds and The 5% Club, 2023[15]), (Dickinson and Hogarth, 2021[16]), (Henahan, 2019[17]), (Mansfield and Hirst, 2023[18]) (Field, 2023[19]).

This report draws on this evidence to look at the economic principles involved

This report therefore rests on an impressive body of evidence already available. It aims to add value by looking at the main economic principles of skills levies and how they apply in the contexts of the African countries examined. The report also makes use of broader evidence on earmarked taxes, on recent UK experience with the apprenticeship levy and on sectoral levies.

A tabular comparison of training levies

Features of skills levies

Skills levies are characterised by how they collect and spend funds

This section sets out a tabular comparison of training levies. It is supplemented, in Annex A, with a textual description of the levy systems in each of the African countries examined, while Section 5 describes the UK skills levy. Skills levies have two main features: how they collect money and how they use the funds collected (see Table 2).

Table 2. Characteristics of skills levies

Collecting the levy	Spending levy funds
The rate of levy and the base for the levy – usually payroll (see Table 4).	Initial allocation of levy funds, recognising that some funds may be retained for the administrative costs of the levy collection body, for the administration of the TVET system, and sometimes for other purposes outside TVET (see Table 6 and Table 7).
Employers who are exempt from the levy – usually small employers and sometimes public sector employers (see Table 5).	Whether and how employers who contribute to the levy acquire privileged access to levy funds to pay for the training of their employees. Many levies involve incentives for employers to train. Many levy schemes permit employers to claim funding for approved training. There are wide variations, with Mauritius returning 58% of levy funds to employers for these purposes, and Tanzania returning none (see Table 8). Often, only levy-paying employers can take advantage of this form of funding, wholly or partly gaining reimbursement of their levy payment. This is important, because training options for workers in smaller companies, and in the informal economy, will often be limited, a point further explored under issue 3.1 in the concluding policy recommendations. There are also wide variations between schemes in respect of the proportion of employer training expenses that can be reimbursed. So for example, in Botswana and the UK, all training costs can, under some conditions, be reimbursed; however, in South Africa, only 20% is reclaimable. A proportion of levy funds can also sometimes be used to support training for disadvantaged groups (see Table 11). However, this usually takes place through funded training programmes, rather than through reimbursements for employers. (see Table 8).
	How funds are used to support wider TVET activities (see Table 9).
Compliance challenges.	The institutions responsible for levy funds and their governance (see Table 10).
	How levy funds are used to support disadvantaged groups (see Table 11).

Origins and objectives

At the point of introduction, the stated objectives of skills levies are often very general. Some objectives become apparent over time, in the light of the use of levy funds for different purposes. Objectives may also change over time (see Table 3).

Table 3. The origins and objectives of skills levies

Name and legal basis	Origins and objectives
Botswana Human Resource Development Fund (Vocational Training Act 2013)	Act stipulated the levy is 'For the purpose of reimbursing employers who have incurred training costs for apprentices or trainers'.
Malawi TEVET Fund (TEVET Act 1999)	Although legislation has been in place since 1999, the levy only started to be collected from 2015. 'The purpose of the TEVET Levy is to fund approved technical education and training programmes in Malawi, special programmes to support the technical education and training system and user-free subsidization through scholarships, grants, and loans. The levy is also used to fund incentives to employers to directly invest in technical education and training, an endowment fund to support technical education and training, and government and management structures of the technical education and training system' (Malawi Revenue Authority, 2019[20]).
Mauritius National Training Fund	Employer initiative led to the creation of the fund in 1988. The declared objective 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' (Palmer, 2020[3]).
Morocco Taxe de Formation Professionnelle (1974 legislation)	The tax has existed since 1974 but amended several times. It is intended to encourage employee training among levy contributors, provide earmarked funding for the TVET system, and channel support to the most disadvantaged.
South Africa Skills Development levy (Skills Development Levies Act 1999)	This Act was intended to develop workforce skills, encourage employers to train their workers, and to improve the employment prospects of disadvantaged persons. Also 'To provide incentives for employers to adopt a pro-active approach to skills development within the framework of the Skills Development Act' (Palmer, 2020[3]).
Tanzania Skills Development Levy (Vocational Education and Training Acts 1994, 2006, 2013)	Objective stated in the legislation is to support technical and vocational skills, with one-third of the income going to the Vocational Education Training Authority (Palmer, 2020[3]). First introduced in 1994 and revised in 2013 to exclude the public sector from the scope of the levy and to clarify that two-thirds of the levy collected should be contributed to the Education Fund. which is managed by the Tanzania Education Authority.
UK (England) Apprenticeship Levy (Finance Act 2016)	At the time it was introduced, the (then) government stated that the levy 'will allow us to double investment in apprenticeships by 2020 from 2010 levels, to £2.5bn [per year]' while also increasing the quality of apprenticeships (Powell and Foley, 2020[21]).

Sources: see note to Table 1.

Levy collection

Levies are usually imposed as a percentage of payroll

With the exception of the Botswana scheme, all the levies looked at here are imposed on payroll (the total wage bill of employers). Usually, they are collected by national tax authorities, often alongside other employment taxes, thus facilitating enforcement. One exception is Morocco, where the levy is collected by the National Social Security Fund. Levy rates vary greatly, from 0.5 per cent of payroll in the UK, to 3.5 per cent of payroll in Tanzania (reduced from 4.5 per cent in 2023) (see Table 4).

Table 4. Levy rate and annual revenue

	Levy rate	Annual revenue
Botswana	Unusually, imposed on firm turnover between P 1 Million and P 2 Billion 0.2%; plus an addition above P 2 Billion 0.05% (HRDC Botswana, n.d.[22]).	£19 million in 2018–19.
Malawi	1% of payroll (previously 2%) (Malawi TEVET Authority, n.d.[23]).	£5.7 million (2017).
Mauritius	1.5% of payroll since 2021 (https://www.mra.mu/download/GuideToEmployersNPFNSF.pdf).	£17.8 million (2018–19).
Morocco	1.6% of payroll.	£218 million (2019).
South Africa	1% of payroll for payroll above 500,000 SA rand.	In 2017–18, around £790 million.
Tanzania	From 2023, 3.5% of payroll. The levy rate has fallen over the years, from 6% to 5% in 2013, then 4.5% in 2016 (SOAS ACE Consortium, 2018[24]) (Andreoni, 2018[11]).	£96 million (2016–17).
UK	0.5% of payroll.	£3.3 billion in 2021–22 for the UK as a whole.

Sources: see note to Table 1.
Note. Figures for the funds collected are derived from (UNESCO, 2022[1]) data presented in US dollars, converted to pounds sterling at current exchange rates £1 = $1.27).

Compliance with the levy is a challenge

Compliance with the levy is a long-standing challenge in many countries, especially developing countries (Dar and Canagarajah, 2003[8]). In Malawi, one estimate is that only one-third of the potential levy is being collected (UNESCO, 2022[1]). Even public sector employers may not comply fully with the levy, according to reports from Malawi and Morocco. In South Africa, many companies are apparently non-compliant (UNESCO, 2022[2]). However, good data on non-compliance is often lacking (Palmer, 2020[3]).

Small and public sector employers are often exempted from levies

Two main types of employers are often exempted from levies:

- *Smaller employers*, identified in terms of the number of employees or the wage bill (see Table 5). All the levy systems looked at here contain such an exemption except Malawi. This exemption avoids the fixed administrative costs of handling the levy both for the individual employer and for the tax collecting authority. Mauritius excludes certain *employees*, in effect excluding certain employers, such as household employers, and employers who employ only low-paid workers.
- *Public sector employers*. Here, the rationale may be to avoid recycling funds, since government would effectively be imposing the levy on itself. But the UK, Morocco and Malawi do not exempt the public sector, and there are arguments for sharing the levy burden across both public and private sector, a point that will be pursued in Section 7.

Table 5. How different levy systems exempt smaller and public sector employers

Types of employers exempted from levies

	Small employers	Public sector employers
Botswana	Employers with a turnover less than 1 million pula (£58,000) annually exempted.	Public sector employers.
Malawi	No exemptions.	
Mauritius	Exclusion of household employees and employees whose monthly wage does not exceed 10,000 Mauritian rupees (around £160).	Public sector employers and household workers.
Morocco	Employers with 10 or fewer employees exempt.	
South Africa	Employers with an annual payroll of less than 500,000 SA rand, (£21,000).	Public sector employers.
Tanzania	Employers with fewer than four employees.	Government, farm employers, local government, registered educational institutions (Palmer, 2020[3]).
UK	Employers with payroll of less than £3 million.	

Sources: see note to Table 1.

Levy allocation

The link between funds collected and TVET expenditure is not always simple

The route from levy receipts to the resourcing of training can be indirect. Sometimes this is by design – for example, the 1.5 per cent payroll levy in Mauritius allocates half of the sum collected (or 0.75 per cent of payroll) to the workfare programme to support the unemployed, with 0.75 per cent reserved for the training activities of HRDC Mauritius. Most of the funds collected through the Tanzanian levy are retained by the finance Ministry (see Table 6). In some cases, as in Ghana, the link between funds collected and TVET expenditure is so weak that the levy, regardless of its name, is not meaningfully earmarked, and so may best be conceived as a regular tax rather than a skills levy and is therefore excluded from the analysis here.

Table 6. What happens to the funds collected through the levy?

	Allocation of funds to TVET agencies	Other sources of funds for TVET	How surpluses are handled
Botswana	HRDC	Yes, government.	Surpluses accumulate ((£50 million reported to have accumulated by 2022 (UNESCO, 2022[1]).
Malawi	TEVETA	Yes, but the levy represents 90% of TEVETA income (Palmer, 2020[3]).	
Mauritius	0.75% goes to HRDC Mauritius, 0.75% goes to the Workfare fund, managed by the Ministry of Labour – workfare provides support to unemployed workers.		Surpluses accumulate. £29 million accumulated in 2019 (UNESCO, 2022[1]). The surpluses have also been used to fund other education activities.
Morocco	87% of funds collected in 2019 were transferred to the Office de la Formation Professionnelle et de la Promotion du Travail (OFPPT).	Yes. OFPPT receives 60% of its budget from the levy and 40% from other sources.	

South Africa	80% of the funds are directed to the 21 sectoral bodies (SETAs) established by the Skills Development Act. 20% goes to the National Skills Fund.	The SETAs are entirely financed through the levy.	£346 million accumulated by 2018–19 in National Skills Fund. Surpluses are sometimes used for other purposes such as reducing fees for poorer students in tertiary education – (UNESCO, 2022[1]).
Tanzania	Between one-third and one-sixth of the Levy goes to the Vocational Education and Training Authority (VETA) to be used on training. The remaining funds are retained by the Ministry of Finance and Planning (UNESCO, 2022[1]).		Government, farm employers, local government, registered educational institutions (Palmer, 2020[3]).
UK (England)	The proceeds of the levy for the UK as a whole go to the Treasury. The Treasury then separately agrees an apprenticeships budget with the (England) Department for Education, which is used to fund apprenticeships both in levy- and non-levy-paying employers.	The apprenticeship budget is the only source of government funds for apprenticeship training and the accompanying assessments. Other non-apprenticeship forms of vocational training are funded separately from general government funds.	Despite the apprenticeship budget set independently of levy receipts, commentators continue to identify 'surpluses'. FE week estimated a 'surplus' of more than £400 million in 2022–23 (Camden, 2023[25]).

Sources: see note to Table 1.

Note. Figures for the funds collected are derived from (UNESCO, 2022[1]) data presented in US dollars, converted to pounds sterling at current exchange rates £1 = $1.27).

Tightly ring-fenced levies are contrasted with looser arrangements

In some levy systems, levy receipts are directed into ring-fenced budgets with strict rules preventing receipts from being used for wider purposes. Mauritius, South Africa and Botswana are examples of this. Restrictions on spending from levy funds can cause surpluses to accumulate (see Table 6). Some countries report substantial surpluses, often leading to criticism from employers and workers' organisations. This gives rise to pressure to use the funds for other purposes. In Mauritius, the accumulated levy surplus has been used to fund different initiatives including a free tertiary education scheme (Palmer, 2020[3]). More broadly, UNESCO reports a tendency for levy schemes in Africa to divert funds in support of general budgetary requirements (UNESCO, 2022[1]). However, the challenge of accumulated surpluses in skills levies is global, found as widely as Canada, Malaysia and Ireland (UNESCO, 2022[1]).

Some levy schemes allow funds to be used more flexibly

Some levy schemes are more flexible over the use of funds, and surpluses are less likely. Sometimes a levy is one funding source among others for TVET. For example, in Morocco, the TVET authority obtains about 60 per cent of its funding from the levy, but 40 per cent from other sources. In Malawi also, TVET is funded from other sources including development aid and the general government budget, as well as from the levy (see Table 6).

Administration costs can be substantial

In some countries, the administrative costs of managing and collecting the levy can be substantial. These costs are not always clear, but some countries publish data (see Table 7).

Table 7. Administration and operating cost estimates

	Percentage of levy collected
Botswana	15% (5% levy collection cost, 10% administration of HRDC).
Malawi	40% (TEVETA administration costs).
Mauritius	About 12%.
South Africa	11%.

Source (Palmer, 2020[3]).

Many levies involve incentives for employers to train

Many levy schemes permit employers to claim funding for approved training. There are wide variations, with Mauritius returning 58 per cent of levy funds to employers for these purposes, and Tanzania returning none (see Table 8). Often, only levy-paying employers can take advantage of this form of funding, wholly or partly gaining reimbursement of their levy payment. This is important, because training options for workers in smaller companies and in the informal economy will often be limited, a point further explored under issue 3.1 in the concluding policy recommendations. There are also wide variations between schemes in respect of the proportion of employer training expenses that can be reimbursed. So, for example, in Botswana and the UK, all training costs can, under some conditions, be reimbursed. However, in South Africa, only 20 per cent is reclaimable. A proportion of levy funds can also sometimes be used to support training for disadvantaged groups (see Table 11). However, this usually takes place through funded training programmes, rather than through reimbursements for employers.

Table 8. How employers receive funding for training

	Percentage of levy income devoted to reimbursing employers for training costs	Public sector employers
Botswana	One-third of all levy income is used to reimburse employers for the training they provide, once they receive approval for a structured training plan.	Levy-paying employers may claim reimbursement on a sliding scale that may allow them to claim reimbursements for training costs as much as twice their initial levy payments (HRDC Botswana, n.d.[26]). But take-up is low – with only 23% of levy payers claiming in 2018/19 (UNESCO, 2022[1]).
Malawi	Less than 4% of levy funds are used to reimburse employers for their training costs (Palmer, 2020[3]).	20% of course fees, but only 13 companies benefited from this reimbursement in 2017 (Palmer, 2020[3]).
Mauritius	Levy receipts are split equally between HRDC Mauritius and the Workfare programme for the unemployed. Of the HRDC receipts, 58% was devoted to reimbursement of levy-paying employers for their training activities in 2022/23.	Up to 75% of the costs of training employees.
Morocco	By law, 30% of levy receipts are used to fund skills training by levy-paying companies. Non-levy-paying employers cannot benefit.	

South Africa	14.5% of total levy income is spent on reimbursing employers for the training they provide.	A levy-paying employer may, if they deliver an Annual Training Report providing evidence of training in line with a workplace skills plan, claim a reimbursement of 20% of their levy payments. In addition, 50% of levy payments are potentially reimbursable in respect of special programmes such as apprenticeships.
Tanzania	Currently, there is no grant system from the training fund to support employer training (Palmer, 2020[3]).	Government, farm employers, local government, registered educational institutions (Palmer, 2020[3]).
UK	Nearly all the apprenticeship budget (which is determined separately from the levy proceeds) is spent on reimbursing employers for their apprenticeship training.	Reimbursement for apprenticeships but not other forms of TVET. For levy payers, full reimbursement of the costs of off-the-job training and assessments up to 110% of levy payments. For non-levy payers, reimbursement of 95% of apprenticeship costs for older apprentices.

Sources: see note to Table 1.

Sometimes levies support wider TVET activities

In many countries, skills levies are used not only to support employer training but also to provide a source, quite often the main source, of funding for the TVET system as a whole. So, for example in South Africa, around two-thirds of receipts from the levy are spent on a diverse range of training initiatives and programmes, funded either through the National Skills Fund or more directly through an individual sectoral 'SETA' (see Table 9).

Table 9. How levies support wider TVET activities

Funding support for TVET other than training in levy-paying employers

Botswana	TVET initial training; special programmes.
Malawi	15% of levy funds spent on formal apprenticeships. Also subsidises training in TVET colleges.
Mauritius	18% of levy income was spent on training decided by the training fund board (Palmer, 2020[3]). The National Skills Development Programme from 2016 is one of the largest programmes – it provides 3–12 months of training to unemployed youths aged 16–35. The Graduate Training Scheme provides a training and placement programme of 3–12 months.
Morocco	Used as the main source of general funding for the TVET system. Mostly goes directly to fund TVET providers owned by OFPPT (UNESCO, 2022[1]).
South Africa	62% of levy income is spent on skills development initiatives of many types decided by the training fund board (Palmer, 2020[3]).
Tanzania	Between one-sixth and one-third of levy receipts go to fund TEVETA to provide vocational training.
UK (England)	Levy funds are currently only available for apprenticeships, but planned reforms will extend eligibility for funding to other forms of training.

Sources: see note to Table 1.

Governance is especially important when TVET bodies have discretionary powers

Usually funds collected by the levy are placed in the hands of a body with TVET responsibilities so that the funds can be used for training. Sometimes a set of legal or formal regulations stipulates how funding is to be allocated. For example, the UK apprenticeship levy sets out rules over how employers may claim funding for their apprentices. In cases such as these, the funding body has little discretion. However, often part or all of the funds are used according to looser criteria, so that the funding body has to exercise discretion when funding wider TVET initiatives and programmes. Palmer argues that in Malawi, Mauritius and Tanzania, key decisions are taken in the parent ministry rather than in the funding body (Palmer, 2020[3]).

Table 10. The institutions that govern fund expenditure

Botswana	The Human Resource Development Fund is managed by the HRDC Funding Committee, which includes one government, two formal private sector, and two other representatives. The Funding Committee reports to the HRDC Board, which has 13 members, including eight representatives of the private sector and four from government (UNESCO, 2022[2]).
Malawi	TEVETA is a government body that is both a regulator and provider of training and responsible for managing the collected levies. The TEVETA Board contains two representatives of private employers and one from a workers' organisation out of 16 persons; TEVETA Board recommendations also have to be agreed both by the parent ministry and Parliament (Palmer, 2020[3]), so in practice the influence of social partners is very small.
Mauritius	HRDC decides on funding, subject to the approval of government. The National Training Fund Committee includes three civil servants and one representative of business. The finance division of the HRDC manages the National Training Fund with an annual audit by an external body (ILO). The National Training Committee reports to the Board of HRDC, which has 12 members.
Morocco	The board of OFPPT includes 14 representatives of government, seven of private sector employers, and seven of workers' organisations.
South Africa	21 sectoral SETAs make decisions on funding.
Tanzania	VETA is under the Ministry of Education, Science and Technology. VETA is both a regulatory authority and VET provider. 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 (Palmer, 2020[3]).
UK (England)	Governance takes place through the Institute for Apprenticeships and Technical Education and other regulatory bodies including Ofqual (the qualifications authority) and the Education and Skills Funding Agency.

Sources: see note to Table 1.

Governance should include both employers and workers' representatives

Especially given discretion over funding, the governance of the TVET funding body is critical. It has been widely argued that for training levies to be credible and acceptable to employers and trade unions, these bodies need to be involved in the governance of the skills agencies that set policies and exercise discretion over the disbursement of levy funds (see, for example, (Johanson, 2009[7]) (Muller and Behringer, 2012[9]). The composition of funding bodies is described in Table 10.

Conflicts of interest may arise when the body allocating levy funds also delivers training

Some conflicts of interest may arise when the body deciding how to spend levy funds is also responsible for delivering training, for example in Malawi and Morocco. This is because such bodies may be biased in favour of supporting training providers for which they are directly responsible. In the light of such potential conflicts, in Mauritius a separation was therefore created between HRDC Mauritius as the manager of the fund, and the bodies responsible for delivering training.

Levy funds may be used to support disadvantaged groups

While it usually represents a small part of funding overall, many levy systems direct training resources to support disadvantaged groups (see Table 11).

Table 11. Support for disadvantaged groups

Botswana	Limited role.
Malawi	Bursaries assist apprentices to access training in national technical colleges, with an emphasis on needy girls. However, this measure may not help the most disadvantaged as good grades are required to access these apprenticeships. Funding is provided for community technical colleges, which are intended to bring training closer to rural communities (Palmer, 2020[3]).
Mauritius	Main support is through the National Skills Development Programme, which targets unemployed youths (aged 16–35 years) with training and work placements.
Morocco	The TVET agency (OFPPT) uses levy funds to support some specific NGOs who work with disadvantaged groups, for example to support the reintegration of prisoners.
South Africa	The plans of SETAs are in principle guided by principles that take into account measures of disadvantage including gender, race, class and geography (Palmer, 2020[3]). Support is directed through the National Skills Fund, which receives 20% of the levy. Programmes include support for learners through community-based skills development initiatives (Department of Higher Education and Training, 2023[27]).
Tanzania	The levy supports local training centres, which have reportedly lowered their fees to better enable access (Palmer, 2020[3]).
UK (England)	Both employers and training providers receive £1,000 from the apprenticeship budget (supported by the levy) for every apprentice they take on who is either aged between 16–18, or between 19–24 and has been in care or who has been subject to a local authority care plan (Powell, 2023[4]).

Sources: see note to Table 1.

Skills levies as earmarked taxes

International experience with earmarked taxes

Skills levies are a form of 'earmarked' or 'hypothecated' taxes

Skills levies are part of a wider class of taxes, where revenue is earmarked to be used for a specific purpose, rather than, as for most taxes, placed in a consolidated fund to support government spending generally. These taxes are also sometimes referred to as 'hypothecated' taxes, as in (Seely, 2011[28]), but here the more readily comprehensible terminology of 'earmarked' taxes will be used, as in (Cashin, Sparkes and Bloom, 2017[29]). Earmarked taxes have been used, for example, to support health services and fund road building and maintenance. This broader experience is relevant to skills levies and so will be looked at in this section.

Earmarked taxes have a long history

In the early 17th century, a tax called 'ship money' was imposed on ports and coastal regions of England to pay for the Royal Navy, the principle being (as with skills levies) that the main beneficiaries of a service should bear the cost (Seely, 2011[28]). Today, many countries use different forms of earmarked taxes to fund their health services, including Ghana and South Africa (see (Cashin, Sparkes and Bloom, 2017[29]) and Box 1). In Tanzania, it is planned to use taxes on gambling and alcohol to fund health services for vulnerable groups (Social Health Protection Network, 2024[30]).

Box 1. A successful earmarked tax: The Ghanaian National Health Insurance Scheme (NHIS)

In Ghana, 2003 legislation created this scheme, with 2.5 percentage points both of value-added tax receipts and national insurance contributions being directed to a ring-fenced fund to pay for the health service. The earmarked tax was established as a politically more acceptable way of funding the health service than increases in general taxation. There is consensus that the development of the scheme has yielded large health benefits and would not have been possible without the earmarking arrangement.

Some problems have emerged: over time, demand for health services and their costs have outpaced growth in NHIS receipts, and have had to be met through additional government contributions. While, on first introduction, the share of total government spending (including NHIS receipts) devoted to health increased from 11 to 14 per cent, this proportion subsequently fell back. Some have therefore suggested that while earmarking was an effective medium-term arrangement, general taxation will be necessary in the longer term to fund the health service.

Source: (Cashin, Sparkes and Bloom, 2017[29]).

Some earmarked taxes not only raise funds but also seek to change behaviour

Some earmarked taxes, sometimes called 'sin' taxes, aim to reduce the activity on which taxation falls, as well as providing a funding stream for a related purpose. For example, tobacco taxes may be earmarked to pay for health expenditure, congestion charges on vehicles in cities to fund public transport, or carbon taxes earmarked for climate change mitigation (Carattini, Carvalho and Fankhauser, 2017[31]). These earmarked taxes are analogous to those skills levies which impose a full levy on those employers who do not train, but allow some reimbursement for those who do train.

Different forms of earmarking can be identified

Some 'strict' earmarked taxes are designed so that all the tax receipts, and only those receipts, provide funding for a well-defined service. Others are less demanding, allowing the receipts to support broader budgets.

Pros and cons of earmarked taxes (and skills levies)

Earmarking taxes for their intended use can increase their acceptability

The key attraction of earmarked taxes, including skills levies, is that a visibly beneficial use of receipts makes the taxes more acceptable to those who pay them: people can see what they are getting for their money. Empirical research backs this up: one UK survey found that when people were asked if they would be prepared to pay 1 per cent more in income tax, only 40 per cent agreed, but when respondents were told that this money would be earmarked to fund health services, 80 per cent were ready to accept the tax increase (Seely, 2011[28]). Similarly, in the Australian state of Victoria, 47 per cent of survey respondents favoured increases in tobacco taxes, but this rose to 84 per cent when respondents were told that this would fund health and other community benefits (Doetinchem, 2010[32]). Similarly, for skills levies, employers will often be more prepared to contribute to a levy than a simple tax where they can see that the funds will support training, including in their own enterprise.

Transparency in the use of funds is needed to reap the benefits

To fully realise the acceptability benefit of an earmarked tax, transparency is essential. Clear published accounts and annual reports, setting out exactly what happens to the funds, in the language of ordinary users rather than accountants, are vital. In the case of skills levies, this means being able to track exactly what happens to the funds, how much is devoted to levy collection, how much to administration, and how much to different forms of training. This point is further pursued under issue 2.1 of the final section of this report.

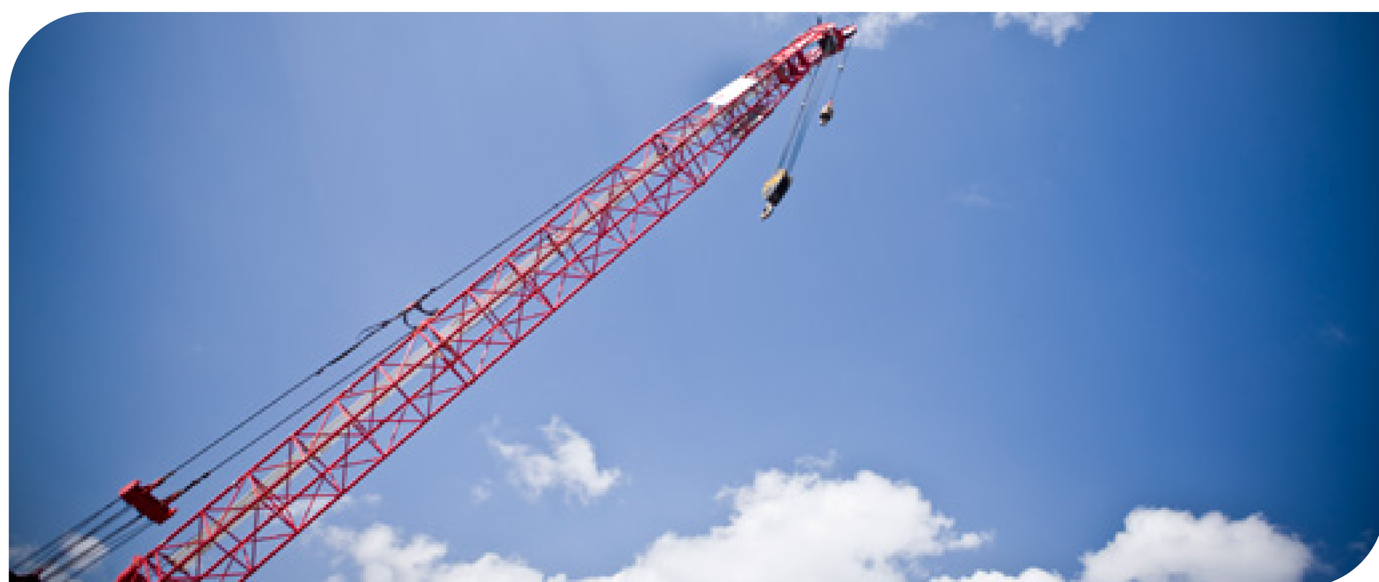
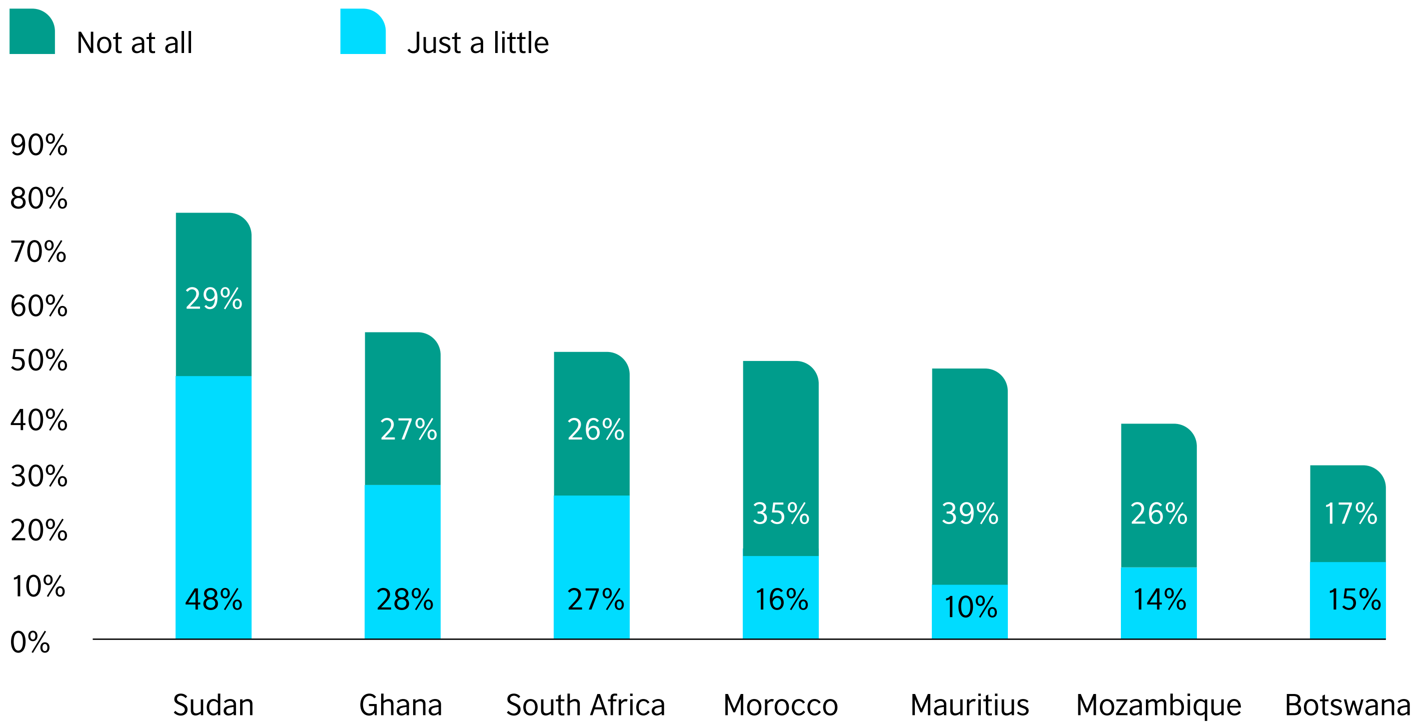


Figure 1. Trust in the tax authorities in African GGP countries

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



Source: Afrobarometer survey 2019/20 (round 8) https://www.afrobarometer.org/online-data-analysis/. GGP countries (Tanzania and Malawi did not take part in this survey).

In Africa, resistance to general taxation is high but declining

Resistance to taxes appears to be greater in developing countries, including many African countries. OECD and Latin American economies report more than 70 per cent of the population saying that they would never justify cheating on taxes, compared with just over 50 per cent in Africa (OECD, 2019[33]). However, support for taxation is growing in Africa, with the proportion of people in Africa believing that the tax authorities had the right to make people pay taxes increasing from just 22 per cent in 2005 to 30 per cent in 2015 (OECD, 2019[33]). Attitudes also vary greatly by country, as indicated in Figure 1.

Box 2. How taxes can gradually lose their earmark: the case of UK National Insurance

In the UK, workers and employers have paid National Insurance (NI) for more than one hundred years. It is paid into a special National Insurance fund used to pay for pensions, benefits and health services. In principle therefore, this is an earmarked tax. However, over time this earmarking has gradually lost its meaning. The authoritative Institute for Fiscal Studies recently commented:

'National insurance [NI] contributions are often thought of as being ring-fenced to pay for the contributory benefits described above or to pay for the National Health Service [NHS]. The reality is different. Some NI contribution revenue (about a fifth in recent years) is allocated directly to the NHS. That is topped up from general taxation to whatever the government wishes to spend on the NHS in total: how much of that total notionally comes from NI contributions revenue is irrelevant. The remaining NI revenue is paid into the National Insurance Fund. Notionally, the NI Fund is financially separate from other parts of government and is used to fund contributory benefits. In reality, however, this separation is illusory. In years when the fund is not sufficient to finance benefits, it is topped up from general taxation revenues; and in years when the fund builds up a surplus, it is used to reduce the national debt: essentially, the government lending money to itself. This makes the separation of the NI Fund from the main government account more or less meaningless. The government decides how much to raise in NI contributions, and how much to spend on the NHS and on contributory benefits; the amounts need not be related to each other, and generally are not.' (Institute of Fiscal Studies, 2024[35]).

Set against the attractions, earmarked taxes have several drawbacks

Earmarked taxes have several drawbacks, enumerated for example in (Mitha, 2018[34]) (Doetinchem, 2010[32]) (Cashin, Sparkes and Bloom, 2017[29]). Skills levies share most of these drawbacks.

- **No link between income and spending need.** There is no necessary connection between the income from an earmarked tax or levy and the associated expenditure requirement to which it is linked. Even if, at the point a levy is introduced, income is equal to expenditure, income and expenditure will potentially diverge over time, as in the case of the Ghanaian health service (see Box 1). Such a divergence implies either a growing shortfall in available funds, or, alternatively, surpluses that have to be managed. Surpluses can then be 'raided' for other purposes. In the 1930s, Winston Churchill called the UK vehicle excise tax, nominally earmarked for road building, the 'raid fund' with this in mind (Seely, 2011[28]); similarly in South Africa, political pressure led to surpluses from the skills levy being used to remit university tuition fees (UNESCO, 2022[1]).
- **Weak accountability and inefficiency.** Efficiency is underpinned when spending programmes have to demonstrate that they represent the best use of public money in the face of other needs. But earmarking undermines this process, since the spending programme benefits from earmarked and therefore guaranteed tax receipts, even if better uses for the money become evident. This is not only a problem when a spending programme turns out to be less effective than expected, it also means the incentives on those managing and delivering the programme to pursue value for money are reduced, because the spending is insulated from review and challenge.

- **Tendency for the significance of earmarking to decline over time.** When earmarked tax receipts diverge from the linked expenditure programme, it can become hard to see whether an earmarked tax is driving expenditure on the target area, except in the (rare) cases when expenditure in the target area is held firmly equal to the income from the tax. So, for example, earmarked tax receipts may rise while target expenditure declines, so the earmarking becomes meaningless (see Box 2).

The drawbacks may increase over time

Most of the drawbacks of earmarked taxes tend to grow over time. Tax receipts gradually diverge from earmarked expenditure. Weak accountability becomes an increasing problem when spending programmes lack incentives to pursue efficiencies. Over time, an initially earmarked tax may gradually come to resemble a general tax.

Several conclusions emerge

Earmarked taxes may be compared with the alternative of supporting spending programmes with general taxation. For skills levies in Africa, three conclusions are apparent:

- Skills levies as a means of funding TVET are likely to be more immediately acceptable to stakeholders than the use of general taxation, but this advantage is balanced by substantial problems of implementation of a ring-fenced budget, problems that are likely to increase over time.
- To reap the full advantages in terms of public acceptability of levies, transparency over the use of funds in spending programmes is essential.
- The resistance to general taxation is higher in most of Africa than in developed countries. While this strengthens the advantages of earmarked taxes such as skills levies, there is evidence that this resistance is decreasing in Africa, potentially altering the balance of argument in favour of the use of general taxation relative to earmarked taxes, such as skills levies used to fund TVET.

UK experience with a skills levy: implications for African levy systems

The UK skills levy will be extended from apprenticeships to cover wider TVET programmes

Announced in 2015 and introduced in 2017, the UK apprenticeship levy is collected at a rate of 0.5 per cent of all payroll over £3 million, thus exempting smaller and some medium-sized employers. Up to now, the levy has been dedicated to the funding of apprenticeships, but the new Labour government now plans to broaden its scope into a 'growth and skills levy' that would allow funding for a wider range of skills training (Labour Party, 2023).

This section explores if the UK levy has lessons for African levies

The levy is imposed across the UK, but it is only linked to apprenticeships in England. So in Scotland, Wales and Northern Ireland, it is simply a tax. This section will explore two aspects of the English experience which are most relevant to skills levies in Africa. Firstly, it will look at an unusual feature of the English model, whereby the linkage between levy receipts and the associated apprenticeship budget is indirect. Secondly, it will look at a challenge faced by both the English apprenticeship levy and the African skills levies looked at here, in the extent to which non-levy-paying employers may share in the funding available for training.

An indirect linkage of levy receipts with the apprenticeship budget

One rationale for the levy was to reverse a decline in employer-supported training

Prior to the introduction of the levy, concern had been expressed about a sharp decline in employer investment in workforce training (Green et al., 2013[36]). One response, in an influential paper, was to argue for a levy on employers yielding a ring-fenced budget to pay for apprenticeships, thus potentially reversing the decline (Wolf, 2015[37]). However, while the apprenticeship levy was introduced, levy receipts are not placed in a ring-fenced fund but instead are collected by the Treasury. Separately, an apprenticeship budget is set for England (Keegan, 2021[38]).

Two reasons why the levy is not just a tax

Given that the apprenticeship budget is set separately from the levy, and the levy receipts are pooled with other tax receipts, in what sense is the levy not just a tax? Two factors are relevant:

- *Government statements linked levy receipts to the apprenticeship budget.* When the levy was announced in 2015, the government stated that it would double the funding available for apprenticeship training, and apprenticeship funding in England did indeed rise to over £2.5 billion in 2019–20, double what was spent in 2010–11 in cash terms (Foley, 2020[39]). In 2019, it was argued by the government that the purpose of the levy was to create long-term sustainable funding

for apprenticeship (Milton, 2019[40]). It was also stated that 'Income from the levy is used to fund apprenticeships in all employers...' (Foley, 2020[39]). However, more recently, the previous government stated that the budget to fund apprenticeship training had been set on the basis of demand for apprenticeship, and was independent of the funds obtained from the levy (Keegan, 2021[38]).

- *Levy-paying employers can use their levy payments to fund apprenticeships.* In England (as in many levy systems) levy-paying employers have privileged access to levy funds to support the training of their employees. Funds contributed by each levy-paying employer are registered in a digital account where they can see 'their' levy contributions accumulating, topped up by a 10 per cent contribution from the government. Employers may use this account to pay registered training providers to offer apprenticeship training to their employees, and other bodies to undertake final assessments. From the perspective of the individual employer, it therefore appears that, as with most training levies, funds collected are being paid into a ring-fenced budget available only for apprenticeships. Indeed, this system was established to encourage employers to see their levy contributions as 'their' funds to be spent on apprenticeships (Julius, Faulkner-Ellis and O'Donnell, 2020[41]).

The indirect linkage of levy receipts to apprenticeship spending has attractions

In summary, therefore, the English apprenticeship levy links levy receipts to apprenticeship expenditure indirectly, without directing receipts into a ring-fenced budget. Given the disadvantages of earmarked taxes described in the previous section, the English approach has attractions, potentially having the advantages of a levy in terms of political acceptability, without the many problems of managing an earmarked tax.

But these attractions may not be sustainable

Despite these attractions, for several reasons the approach is running into difficulties:

- Among the government statements linking the levy to spending on apprenticeships, the only concrete commitment was to double such spending by 2019–20. This has been achieved but is now past.
- Many commentators have identified ‘underspends’ where the apprenticeship budget is less than levy receipts (Camden, 2023[25]), and there has been criticism that stakeholders were initially sold the levy on the basis of receipts being strictly earmarked for the apprenticeship budget, when that has turned out not to be the case (Crawford-Lee, 2024[42]). While these criticisms may be based on the misunderstanding that levy receipts were fully earmarked, it is a natural misunderstanding, given government statements linking the levy to apprenticeship spending. If those ‘underspends’ continue to increase, this may damage the acceptability of the levy.
- Individual levy-paying employers, as explained above, can draw on a virtual budget of their levy contributions to fund their apprenticeships. However, given some recent policy changes, to be further explained below, smaller employers who do not pay the levy have to contribute just 5 per cent of the cost of apprenticeships at most. So the virtual budget only accessible to levy payers is of limited real value.

Smaller, non-levy-paying employers

Excluding smaller employers from the levy has an unintended consequence

Primarily to avoid administrative costs both to employers and to levy collection agencies, most levy systems, including the UK, exempt smaller employers. In the UK, the exemption extends to some medium-sized employers with payroll of up to £3 million. At the same time, in England as in many other levy systems, employers who contribute to the levy have privileged access to levy funds for training (through their virtual levy accounts). One largely unintended consequence of these two factors is that, in the absence of any other measures, larger levy-paying employers have more incentives to train than smaller employers. This uncomfortable pattern is found both in England and in many African skills levy systems.

Potentially, the small employers with the greatest need to train have less incentive to do so

However, in England as in African countries, the need for training among those who work in SMEs, and in the informal economy in Africa, is often even greater than in the larger employers who pay the levy. Overall, following the introduction of the levy in England, there has been a decline in lower-level apprenticeships for young school leavers, and in the contribution of SMEs to apprenticeship numbers, and a rapid increase in higher level apprenticeships, especially at degree level (Julius, Faulkner-Ellis and O’Donnell,

2020[41]). Mostly, this was because of an increase in the proportion of higher level apprenticeships undertaken by levy-paying employers. This is presumably because levy-paying employers try hard to recoup their levy payments by taking advantage of the funds to pay for apprenticeships (Patrigani et al., 2021[43]). For SMEs, the obstacle was partly that they have to contribute slightly more to the costs of apprenticeships than larger employers, and partly because of the administrative hurdle, particularly burdensome for smaller employers, of coping with a new administrative funding system (Foley, 2020[39]).

The government has increased subsidy for smaller, non-levy-paying employers

In response to concern that the apprenticeship levy neglected the needs of smaller employers, the small employers who do not contribute to the levy have received enhanced subsidies, such that these employers now contribute just 5 per cent of the costs of apprenticeship. The Institute for Fiscal Studies has argued that even this small contribution makes no sense, as all employers should have similar incentives to offer apprenticeships (Tahir, 2023[44]). There is a good argument to ensure that smaller employers, given their training needs, have at least the same incentives to train as larger employers. However, one effect of implementing such a reform would be, as explained above, to remove the principle that employers paying into the levy can see where their money is going, and benefit from those funds.

Lessons from the UK experience

Two lessons emerge

From the perspective of African levy systems, two lessons stand out from the UK experience:

- The apprenticeship levy is an unusual model in that it has avoided full earmarking of levy receipts to be used for training. Instead, the link between levy receipts and apprenticeship expenditure is much looser, being based on government statements linking receipts to expenditure and the virtual budgets for apprenticeship training held by levy-paying employers. Given all the challenges and rigidities of fully earmarked levy systems, this approach has some attractions. But the downside is that the whole approach may not be sustainable over the longer term, as the link between levy receipts and apprenticeship expenditure is becoming more tenuous.
- The apprenticeship levy, like many skills levies, offers levy-paying employers privileged access to levy funds. This allows them to obtain funding for the apprenticeships they offer without charge. But the effect has been to concentrate funding on the larger employers, disadvantaging smaller employers where needs are often greater. In response to this problem, modifications of the funding rules have minimised the difference between employers who do and do not pay the levy. Similarly, in African levy systems, there is a difficult tension between two competing objectives of the levy system – on the one hand seeking to make levies acceptable by granting levy-paying employers privileged access to levy funds, and on the other hand seeking to support the training needs of smaller employers and their workers.

Sectoral levies and their potential for African countries

International experience with sectoral skills levies

Sectoral skills levies are found in several countries

'Sectoral' skills levies apply the skills levy principle to a single industrial sector rather than to the economy as a whole. Within that sector, employers contribute to the fund, which is then used to pay for training and skills for that industry sector. Such levies have a long history in mainland Europe and the UK, but are less common globally, although sectoral levies are found in Brazil, Peru and Malaysia (UNESCO, 2022[1]) (Gospel, 2012[45]). In South Africa, the expenditure side of the levy is delegated to sectoral bodies (the SETAs), but the levy itself is collected without reference to sectors. Some examples of sectoral levies are as follows:

- **Brazil** maintains a system of sectoral skills levies – known as the S-system – in which the government plays a facilitating role alongside the private sector in managing the system. The levies are organised around several broad and cross-cutting sectors of the economy, including, for example, the National Industrial Training Service (SENAI), the National Service for Commercial Apprenticeship (SENAC), and the Brazilian Micro and Small Business Support Service (SEBRAE). Payroll levies of between 1 per cent and 2.5 per cent are imposed on each sector and collected by the national tax authority on behalf of each sectoral body. Diverse training activities are supported. For example, SENAI involves a levy of 1–1.2 per cent of payroll for employers in the industrial sector, and this supports training in both levy-paying employers and in smaller employers and the informal economy. Some two-thirds of total spending are devoted to the skills needs of those with low incomes (UNESCO, 2022[46]). SENAC supports apprenticeships for young people, social inclusion programmes, and professional and tertiary-level education and training programmes. Governance of the sectoral funds usually involves the social partners, so that SENAC, for example, is governed by a mix of government, employers and workers' representatives (UNESCO, 2022[47]).
- **In the Netherlands**, there are around 100 sectoral training levies. The levies are not legally regulated, so local agreements determine policies and practices. Typically, employers in a sector pay a percentage of payroll into a common fund used primarily to support the training of employees in the sector, as well as some other training-related activities such as advising employers on training. For example, the levy in the metal-processing sector is set at 0.625 per cent of payroll, with most of the funds going to fund the training of employees of levy-paying employers. The fund is managed by employers alongside representatives of the workers (UNESCO, 2022[48]). A 2010 study of the Netherlands, which maintains a large number of sectoral training levies, found little evidence that the levies increased the amount of training (Kamphuis, 2010[49]).

- **In the UK**, following the 1964 Industrial Training Act, 27 sectoral Industrial Training Boards were established. These Boards included employer, trade union and education representatives, and had the power to operate sectoral levy-grant systems. Later reforms eliminated most of these Boards, but one legacy is two similar levies: the Construction Industry Training Board (CITB) Levy and the Engineering Construction Industry Training Board (ECITB) Levy (Gospel, 2012[45]). The CITB levy requires all employers in the construction industry to contribute 0.35 per cent of payroll, with subcontractors paying 1.25 per cent. For small employers with a total wage bill of under £120,000, no levy is payable. The levy is used to fund training, promote construction as a career choice, identify skills needs and develop occupational standards and qualifications (Construction Industry Training Board, n.d.[50]).

Sectoral levies have potential advantages relative to national levy

Sectoral levies have the potential advantage of responsiveness to the needs of the industry sector. When organised well, a sectoral levy should be able to deliver training of a type closely adapted to the needs of the industry sector and adjust the levy rate in response to the level of training demand. The sectoral body responsible may also develop and adapt qualifications in response to industry need.

But they also face difficulties in practice

These advantages depend on good engagement by employers in the sector. Challenges also may arise in relation to smaller employers in the sector, as they may be exempted from the levy, and not benefit from levy support for training. Many occupations, such as IT and HR specialists, are found across all industry sectors and others, such as mechanics and electricians, are needed in many if not all sectors.

For Africa, successful sectoral levies would depend on a lead from industry sectors

For Africa, there would be potential attractions of sectoral levies, but they would depend on well-organised industrial sectors. Successful sectoral levies tend to be led by industry sectors rather than by government, even if, as in Brazil, government plays a co-ordinating role.

Conclusions and policy implications

The achievements of skills levies are balanced by challenges

The African skills levies examined in this report have funded TVET systems, often provided a means for employers to pool their training efforts and have usually been acceptable to stakeholders. Despite these achievements, many skills levies face emerging challenges, of handling surpluses, of providing an effective encouragement to employers to deliver relevant training, and of directing support to those who need it most, including in the informal economy. Comparative analysis, as in this report, can help to address these challenges.

The importance of objectives

Skills levies often have two quite different objectives

The majority of the skills levies looked at here seek to provide funding for the entire TVET system. But in addition, they also aim to provide a means for employers who pay the levy to pool their training efforts, when levy receipts can be recycled back to levy-paying employers to fund training. These two different objectives involve different rationales for the levy, with different implications for the design of levy systems, as set out in Table 12.

A compromise between these different implications will often be necessary

As indicated in Table 12, these two objectives have different implications levy policy. This raises a difficulty for the levies, including many examined here, which pursue both objectives. One implication is that countries should be as clear as possible about the main objectives of their skills levies, as reflected in the use of levy receipts, as this should guide them in decisions about levy policy. However, given the conflicting implications of the two main policy objectives, there are arguments for separating the two functions of levies, for example by retaining a

skills levy to share funds for training among larger employers, while funding wider TVET from general taxation. However, this would only be possible where such taxation is seen as acceptable, so often a compromise will be necessary.

Table 12. Implications of main levy objectives for levy design

Aim is to fund the TVET system. This implies:	Aim is to pool the training resources of levy-paying employers. This implies:
Meeting the skills needs of all, including smaller employers, disadvantaged groups and those working in the informal economy (as well as levy-paying employers).	15% (5% levy collection cost, 10% administration of HRDC).
Governance of the training fund to engage employers, balanced by other stakeholders so as to ensure that the interests of all and the wider economy are fully taken into account.	Meeting the skills needs of levy-paying employers.
Given the objective of the levy is to meet national skills needs, levy receipts might be supplemented with funding from general taxation and from donors. The levy might also be based on turnover rather than payroll, so as to share the burden across the economy.	Fund collection based on the training needs of levy-paying employers – primarily based on payroll. Weak justification for additional contributions from general taxation and donors, given that it only serves the needs of large employers.

How national context bears on policy

Policy implications depend on country context

Appraisal of any levy, and options for reform, will depend not only on what that levy is seeking to achieve, but also on the country context – the characteristics of individual countries. Employer trust, institutional capacity, and the pattern of skills needs are all very relevant. These characteristics naturally vary between the different African countries examined in this report.

Employer trust in government is vital but variable

A critical contextual feature is the relationship between employers and government, and more specifically the degree to which employers have trust in government. A high level of trust is a vital enabler, easing compliance with the levy, supporting employer engagement in the TVET system and facilitating reimbursement arrangements for the training efforts of levy payers. If trust is high enough, it may allow funding for the TVET system to be provided through a regular tax on employers rather than through a levy, since employers will trust government to spend their taxes wisely.

Employer trust can be fostered

Some features of skills levies, and some of the policy recommendations set out below, are designed to foster employer trust. All skills levies seek to foster trust among levy payers by showing them how the levy receipts will be used for training purposes. That earmarking can be reinforced by ensuring full transparency in the use of levy receipts – a point pursued below. Conversely, when surpluses accumulate in levy funds, or when levy receipts represent only a partial contribution to a wider budget, it becomes harder to see what is happening to

levy payments, potentially undermining employer trust. Similarly, effective employer engagement in the governance of training funds encourages employer trust in the workings of the levy.

Institutional capacity is also critical

Strong government institutions allow a levy to be collected with a good level of compliance and low administrative costs. It also allows the establishment of a body able to manage and disburse the levy funds efficiently. There are special challenges in managing a ring-fenced fund, limiting surpluses and ensuring that value for money is realised. Overall, the strength of national institutions is one factor to be considered when a levy system is introduced, and some of the recommendations below are designed to strengthen the institutions involved.

Finally, the skills needs of a country matter overwhelmingly

The whole point of a TVET system is to meet those needs, and a skills levy needs to be appraised in terms of its capacity to do so. Those needs, and connected policy objectives, are diverse, but they will often include training support for the most vulnerable, and training for those in the informal economy and those separated from the labour market. It may also include the development of skills for a changing economy, including green and digital skills. TVET systems may or may not be effective at meeting all these needs. Reimbursing the training costs of larger levy-paying employers may not go far towards these broader skills needs. Appraisal of levy systems needs to consider how far the levy system helps to meet national skills needs.

Some general conclusions

The greatest attractions of levies are at the point of introduction

The greatest attractions of levies come upfront, at the time of their introduction, when they are presented, and seen, as an acceptable means of securing finance for training. Often, levy-paying employers also obtain a direct benefit through reimbursements for the training they undertake. Moreover, in Africa a high level of resistance to general taxation makes it harder to fund TVET without recourse to skills levies.

While the drawbacks emerge over time

Some of the biggest challenges to levies emerge over time, following the almost inevitable divergence of levy receipts from expenditure requirements, yielding surpluses to manage, or deficits to make good through other budgetary contributions. The risk is that levies may, either in perception or reality, come to appear like a regular tax. Levy systems also face practical problems, including compliance challenges that limit receipts, high administrative costs, insufficient transparency, and employer concerns over bureaucracy.

This suggests that long-standing levies may require review

Against this background, for many African countries with mature levy arrangements, it may be time to review their levy systems. Botswana and Mauritius already have such reviews in train. Reviews might partly aim to look at the balance between the use of the levy and general taxation to fund TVET, taking into account some evidence that resistance to general taxation in Africa is weakening, potentially shifting the balance of argument away from levies as a means of funding TVET. But such reviews might also explore ways of reinforcing the link between levy receipts and expenditure, reducing the risk that the levy either is, or is perceived to be, simply a tax disguised as a levy. For countries introducing, or considering the introduction of, a skills levy, such as Mozambique, the evidence suggests that some thought should be given to whether it is the best way to fund TVET, balancing immediate acceptability with the challenges that are likely to emerge over time.

Varying country circumstances will bear on these reforms

In some countries, there may be so much employer resistance to general taxation that the only option for developing the TVET system is to sell a levy to employers with the promise of a return in the form of a better-skilled workforce. Other countries may have found the bureaucratic burden of managing a dedicated levy fund too difficult to pursue adequately. Others will find that the policy objective and priority is to reskill and upskill young people

who are not in education or work, rather than to incentivise training in large employers through a levy scheme. Others still will want to engage the larger employers who feel that they contribute to the levy but see little in return. All these factors need to be taken into account.

Policy conclusions are set out selectively in the answers to three policy questions

In reviewing skills levies in Africa, three questions are addressed in the analysis that follows. The policy questions and issues are selected as those where this report can add value relative to analysis already available. The answers to these questions are explored in relation to the different circumstances of the African countries concerned, and the objectives and organisation of each skills levy.

- *First, why have skills levies?* Here, we look first at whether skills levies have advantages over general taxation as a means of funding TVET; second, at whether skills levies successfully encourage a better level of training among employers, relative to no government intervention.
- *Second, how can the main challenges of an earmarked skills levy be addressed?* Skills levies, like other earmarked taxes, raise some predictable challenges, but measures are possible to minimise the problems arising. Here, we look at how best to ensure transparency, so that stakeholders can see where their levy contributions are going; at how countries can limit and manage surpluses in levy accounts, and whether the status of a skills levy can be sustained when it does no more than make a budget contribution.
- *Third, who should benefit from a skills levy, and who should pay?* Here, we explore whether levy-paying employers should have privileged access to levy funds, and if public sector employers should be exempt from the levy.

Policy question 1. Why use skills levies?

Training can be funded without skills levies

In many countries, TVET systems are funded through general taxation, so why might skills levies offer a preferable funding model? Employers undertake a great deal of training on their own, without any encouragement or funding support from government – so why force them to pay for training? Here, the answers to these questions are examined.

Issue 1.1 Is it better to fund the TVET system from a skills levy or from general taxation?

Skills levies, like other earmarked taxes, have attractions in terms of acceptability

As explained in Section 4, earmarked taxes, including skills levies, are usually more acceptable to employers than just a tax, because employers can see what happens to their contributions. In some domains, such as in the Ghanaian health service, earmarked taxes have been deployed with great success (see Box 1). In Africa, especially given greater resistance to general taxation than in some parts of the world, a skills levy may be more feasible, politically and practically, than general taxation as a means of funding the TVET system. It is therefore no surprise that skills levies are found widely in Africa.

But challenges emerge over time

One of the main problems with earmarked taxes, including skills levies, is that a gap between receipts and associated spending on training often emerges over time. Surpluses in the training fund create several problems of one kind further discussed below under policy issue 2.2, or of

another kind when levy receipts make a partial contribution to a larger TVET budget, discussed below under policy issue 2.3. This divergence between receipts and expenditure means there is a gradual attrition of the status of the levy as one where employers can see where their contributions are going.

Institutional capacity is also necessary

A skills levy may present no greater challenge of collection and compliance than general taxation, but disbursements may be more challenging. (Johanson, 2009[7]) argues that 'payroll levies may not be appropriate in low income countries where the industrial base is limited and levy-income generating capacity is weak. Such schemes may also not be feasible where administrative or organizational capacity is weak for levy collection and administration.'

Where the primary objective is to fund the TVET system, implications for levy design emerge

Where funding the TVET system is the dominant objective of a skills levy, several implications for the design of the levy system emerge, reflecting the fact that the TVET system as a whole is a national resource (see Table 12). This implies that consideration might be given to applying the levy to turnover rather than payroll. It also implies that while employers should be involved in the governance of the levy fund, this should be balanced by representatives who can ensure that the TVET system is managed in the interests of all, and not just levy-paying employers. The same rationale implies that funding the TVET system through ordinary taxation rather than through a levy is a reasonable option. This represents a different way of thinking about levy design than that implied by a levy that is seen primarily as a way of pooling employer training resources (see below).

TVET systems may rely on skills levies to a varying extent

The desirability of a skills levy is not simply a binary question: in many of the levy systems looked at here, the levy only supports a proportion of the TVET spending, so the balance between the levy and general taxation needs to be determined. While many of the African countries looked at here will want to maintain their levies, they have choices over the weight to give levy funding relative to general taxation. This balance might sensibly be reviewed. For example, it might make sense to fund some employer-based training through a skills levy, while funding the rest of the TVET system through general taxation.

The English model might have attractions in some circumstances

The UK apprenticeship levy offers an unusual model that might have advantages in some circumstances. The levy does not yield a ring-fenced training fund, and therefore avoids the associated problems of such funds.

Instead, the link between levy and expenditure was maintained first through a government commitment, at the point when the levy was introduced, to double the apprenticeship budget over a ten-year period; and second, by allowing levy-paying employers to obtain reimbursement for their apprenticeship training.

Country contexts and policy conclusions

In Sudan, Ghana and South Africa, trust in the tax authorities is low, with more than half of respondents saying that they trust tax offices just a little or not at all. In some of the other GGP countries, trust is a little higher, with only one-third of respondents in Botswana having the same sceptical view (see Figure 1). Sometimes, a skills levy may appear a more acceptable way of funding the TVET system than general taxation. But skills levies also have drawbacks that tend to grow over time and are greater if the bodies that manage the training fund are weak. Problems have included difficult-to-manage surpluses – for example, in South Africa and Botswana. In other contexts, for example in Morocco, the levy only provides partial funding of the TVET system, so it is unclear whether the levy is doing more than displacing the need for funding through ordinary taxation. African countries with established skills levies may therefore wish to at least consider transitioning TVET funding to general taxation.

Issue 1.1 Is it better to fund the TVET system from a skills levy or from general taxation?

There is a good argument in principle for funding TVET from general taxation, since, like other forms of education, it is offering a service to everyone and the whole economy. However, in practice, given resistance to general taxation, a skills levy may provide an effective way of supporting the TVET system, while recognising that, over time, the distinction between a levy and ordinary taxation may tend to erode.

Issue 1.2 Is it better to use a levy to ensure that employers train their workforce, or to leave them to make their own decisions over training?

There is an economic rationale for collecting levies from employers to pay for training

Some levy receipts are used to reimburse levy-paying employers for their training efforts. In Mauritius, as much as 58 per cent of receipts are so recycled, in Morocco 30 per cent, and in South Africa around 15 per cent (see Table 8). There is a well-established economic rationale for this arrangement. Employers, left to themselves, will tend to under-provide training even when it yields large productivity benefits, because employers cannot capture those benefits, since productive workers can be poached by other employers (Brunello and De Paola, 2004[51]). In the UK, one reason advanced for the introduction of the apprenticeship levy was a decline in the amount of training provided by employers (Wolf, 2015[37]).

But the administrative costs of levies can be significant

The economic rationale for a levy must be set against the administrative costs of recycling funds back to employers to fund training. There is a cost both to employers and to government in levy collection, and further costs to both parties when employers claim back funds for training. Where figures exist, around 10 per cent or more of receipts to the African levy systems are devoted to levy collection and administration (see Table 7). Depending on how a scheme works, it might be argued that employers themselves can more accurately identify training needs and that the need to meet government eligibility criteria is therefore a wasteful constraint.

Reimbursement schemes need sufficient checks to avoid waste

When reimbursement systems exist, they are sometimes not heavily used by employers: in Botswana, only 23 per cent of levy payers claimed in 2018–19 and in Malawi, only 13 companies benefited from reimbursement in 2017. The challenge in managing the administration of a

reimbursement scheme is that the need to avoid bureaucracy is balanced by that of preventing waste. Botswana reports problems such as exorbitant pricing of training by providers (HRDC Botswana, 2023[52]). A further difficulty is that when there is extensive non-compliance with the levy, as appears to occur in some countries, employers who do pay the levy may not see it as a fair pooling of resources to fund training.

Where the primary objective of a levy is to pool training resources for employers, some levy design implications emerge

Some skills levies, including some sectoral levies, have little role beyond that of reimbursing levy-paying employers for their training activities. In these circumstances, it makes sense for levies to be based on payroll (reflecting workforce size) rather than turnover (reflecting economic scale). It also makes sense for levy-paying employers to have the leading role in the governance of the levy fund, since the rationale of the fund is to serve their training interests. In practice, for the African skills levies looked at here, this logic needs to be balanced by the role of most of these levies in serving the national interest through funding the TVET system.

Where employers are well organised, a sectoral training fund has attractions

A sectoral, rather than national, training fund has potential advantages. Sectoral funds allow employers to adjust both the rate of levy, and the form and content of training efforts in response to industry needs, providing that their governance permits an adequate representation of employers in their sector. They have successfully developed in several countries outside Africa (see Section 6 above). In sectors where employers and workers' organisations are well organised and can take the lead in the development, countries may wish to consider facilitating them.

Country contexts and policy conclusions

There is a good case in principle for using a levy to pool employer funds to pay for training that is in their collective interest. However, apart from Mauritius, none of the African levy systems examined here are devoting more than half of their funds to the reimbursement of levy-paying employers for their training efforts (see Table 8). This means that the recycling of funds to levy-paying employers is often only a minor part of the rationale for the levy. Where such reimbursements are significant, countries need to be able to offer efficient administration of the funds collected to realise the potential benefits of levies and to sustain the support and engagement of levy-paying employers. Consideration should be given to the use of sectoral training funds in contexts where employers are sufficiently well organised at sectoral level.

Issue 1.2 Is it better to use a levy to ensure that employers train their workforce, or to leave them to make their own decisions over training?

There is a good case in principle for pooling funds from employers to pay for training. This can be done at national level through a levy, or through sectoral training levies. Where this represents the dominant objective of a skills levy, training fund governance needs to ensure that employers are well represented so that they can direct the training where it is most needed, while also minimising any bureaucratic burden involved in claiming reimbursements.

Policy question 2. How can the main challenges of an earmarked skills levy be addressed?

The challenges raised by skills levies can be addressed

As with other earmarked taxes, some predictable problems affect skills levies, but with careful handling these problems can be reduced if not eliminated. Levy stakeholders can be reassured by well-presented financial information; levy surpluses can be managed and minimised; and the status of the levy as a levy rather than a tax needs careful handling.

Issue 2.1 How can transparency in levy fund finance be achieved?

The advantages of a skills levy depend on clarity over the use of levy receipts

Relative to general taxation, the advantage of earmarked taxes, including skills levies, is that those who pay can see where their money is going, rendering payment more acceptable. To reap this advantage, a readily understood and full account of the use of funds is essential. However, such clarity is elusive. (UNESCO, 2022[1]) argues that greater transparency is needed in the accounts of skills levies in sub-Saharan Africa.

Realising such transparency is not always easy

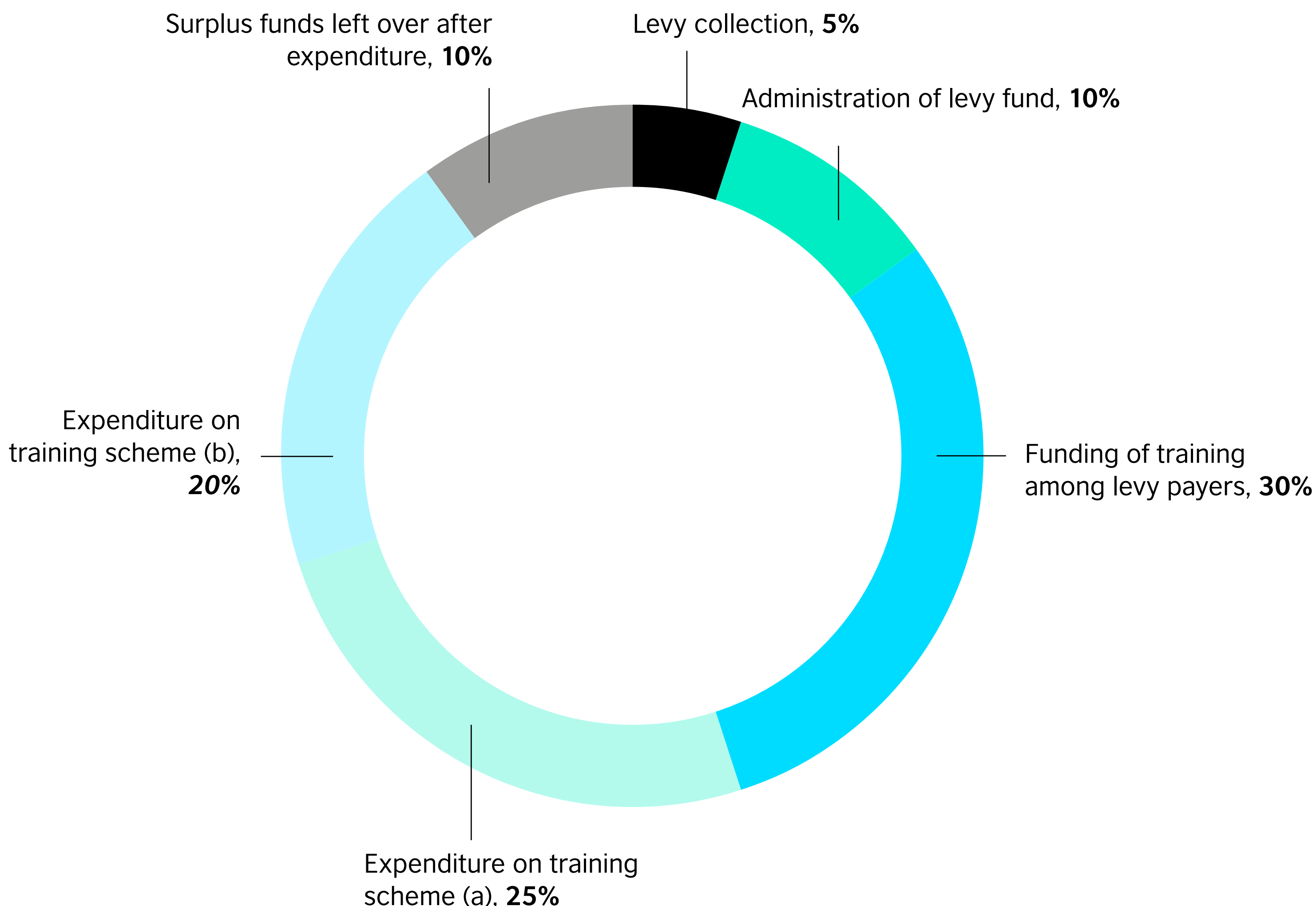
In many cases, a training body, funded mainly through a levy, may publish an annual report with a budget, but sometimes skills levies direct some of their receipts to administration, levy collection and other government functions as well as to a training fund, and sometimes training fund budgets are supported by other contributions, including those from government. Some detective work may therefore be necessary to track the flow of levy receipts and how those resources are used.

Even when accounts are fully documented, clarity can be elusive

For example, in Mauritius (where documentation is relatively good), the levy is set at 1.5 per cent of payroll with some exemptions. Half, or 0.75 per cent goes to the Workfare fund for the unemployed, with the remaining 0.75 per cent going to HRDC Mauritius. About 12 per cent of levy receipts are devoted to administration costs. Approaching 60 per cent of levy funds are devoted to reimbursing levy-paying employers for training, with the remainder going to various schemes. But not all levy receipts are spent, and surpluses accumulate – representing 22 per cent of the levy in 2019 (see Table 6). While the annual report of HRDC Mauritius sets out much financial detail, it is in the form of formal audited accounts, and is not an easy read for a stakeholder wanting to know, in broad terms, what happens to their levy contributions (HRDC Mauritius, 2023[53]).

Figure 2. What happens to funds collected through the skills levy? A fictional example

Percentage of funds collected through the levy and how they are spent on different functions. Financial year 2024, when x million currency units were collected.



Country contexts and policy conclusions

Regardless of country context, transparency in the use of levy receipts is vital, because it mobilises the central advantage of an earmarked tax by showing stakeholders what has happened to the money collected. (UNESCO, 2022[1]) recommends more transparency in this matter, pointing, for example, at Morocco where financial data is not reported, and Tanzania, which does not publish an annual report. Such transparency is particularly important in the face of criticism that the levy has become just another tax. Realising that transparency in a form that is easily communicable may take some work, but it is very much about conveying some relatively simple information in a clear manner. An illustration of how this might be presented, in a fictional levy scheme, is given in Figure 2.

Issue 2.1 How can transparency in levy fund finance be achieved?

Transparency in government finance is always important, but especially important in skills levies where the rationale is to allow those paying into the levy to see what they are funding. Understandable, regularly published data on levy receipts and expenditure is essential.

Issue 2.2 How can countries limit and manage surpluses in levy accounts?

Skills levies accumulate surpluses when receipts outpace expenditure

Looked at globally, skills levies frequently result in surpluses, for example in Ireland (Palmer, 2020[3]). Surpluses are most likely when levy receipts are firmly ring-fenced and are only available for limited categories of expenditure – for example, in Botswana, Mauritius and South Africa substantial surpluses have accumulated over time. Conversely, in Malawi and Morocco, where levy receipts contribute a proportion but not all TVET expenditure, surpluses are unlikely, since they are absorbed by larger budget categories (see Table 6).

For several reasons, surpluses are undesirable

- When surpluses accumulate, the political pressures to use levy funds for wider purposes become irresistible (UNESCO, 2022). Levy funds in South Africa have been used to support scholarships in tertiary education and, in Malawi, to fund a national network of community colleges (Palmer, 2020[3]). Even when these are good uses of the funds, they undermine the intended 'earmarking' of the levy.
- Surpluses reduce the pressure for value for money within the associated expenditure programme, since the ring-fencing of the budget removes the threat of a shift of resources to better uses. Over time, weak incentives for value for money may progressively damage the efficiency of spending.
- Surpluses undermine the implicit contract with employers to use their contributions for their intended purpose.

Practical steps are possible to avoid surpluses

Several steps are possible to manage down the incidence of surpluses, and ensure value for money:

- In terms of levy design, a ring-fenced levy fund is best associated with a sufficiently broad range of potential uses such that there will always be good options for using the levy fund constructively and using up the available funds. It should also improve value for money, since alternative uses for levy funds can be meaningfully compared.
- As recommended in (UNESCO, 2022[1]), levies and levy rates should be regularly reviewed and updated to ensure that levy receipts are consistent with the budget required for their intended purpose. In the context of regular review, the levy spending programme as a whole should be required to demonstrate its value, retaining the option of a reduction in the levy rate if it fails to do so.
- An organised system should be in place to handle those surpluses that emerge, despite the two steps listed above. One option would be to transfer a proportion of any surplus to general government funds at the end of each financial year. The accumulation of surpluses over time is particularly undesirable.

Country contexts and policy conclusions

Large surpluses have emerged from time to time in the levy systems of Botswana, Mauritius and South Africa, reflecting levy receipts funnelled into tightly ring-fenced budgets, rather than being used in support of larger budgetary categories, as in Malawi and Morocco. Some active steps have succeeded in managing down these surpluses. However, especially but not only in countries lacking strong government institutions, such surpluses make it harder to realise cost-effective TVET programmes because there is little pressure for efficiency. In response, countries need to broaden the scope of levies and review levy rates to bring receipts in line with expenditure, maintain pressure to ensure programme efficiency, and establish a formal procedure to divert any remaining surpluses to other budgets.

Issue 2.2 How can countries limit and manage surpluses in levy accounts?

To avoid the accumulation of surpluses, the scope of funded training should be sufficiently broad, levy rates should be regularly reviewed, and residual arrangements put in place to divert any surpluses before they accumulate.

Issue 2.3 When a skills levy makes a partial contribution to a larger TVET budget, can the status of the levy be sustained?

Skills levies that partially fund TVET provision have an unclear status

- Often, skills levies make a substantial contribution to the budget of the TVET system, even if other sources of income are also at work. In Malawi, Morocco and Tanzania skills levies play this role. As partial contributors to a larger budget, the problem of surpluses is avoided. But it becomes less clear whether the levy has a distinct role, rather than a disguised regular tax. The issue is one of degree, as illustrated by two polar cases:
- If levy receipts cover – say – 95 per cent of an associated TVET expenditure budget, then trends in levy receipts will drive TVET spending. In this case, the levy approximates to a strictly earmarked levy, in which the TVET budget is fully dependent on levy receipts. By the same token, there is a risk of surpluses or deficits in response to fluctuations in levy receipts.
- If levy receipts cover – say – 30 per cent of an associated TVET expenditure budget, then changes in expenditure will be primarily driven by government contributions, which may in fact operate to compensate for fluctuations in levy receipts. This is the case illustrated in the example in Box 2, so the levy has come to approximate a regular tax.

There is often no way of knowing whether levies are having a real impact on the training budget

When a levy contributes to a larger TVET budget, it might be asserted that levy receipts are an addition to the training budget, or conversely that the receipts are not an addition as they merely displace government expenditure. Either might be true, but it is almost impossible to tell, since this depends on the purely hypothetical situation of what would have happened if there had been no levy. This means that even if government sincerely intends a levy to provide an addition to training funds, there is no way for sometimes sceptical external stakeholders to verify this claim.

But there are presentational difficulties in identifying a levy as just a tax

Sometimes, it may become clear that a levy which makes a partial contribution to a wider TVET budget has become, in effect, no more than a regular tax. However, announcing that an initially earmarked skills levy has become a regular tax risks undermining the presentational advantage for the earmark as showing contributors where their money is going. As this is a matter of degree, depending on the proportion of a budget supported through the tax, any simple decision to relabel a skills levy becomes very difficult. In the UK, (Tahir, 2023[44]) suggests that the apprenticeship levy has effectively become just a tax, but he also suggests that relabelling it in these terms would be presentationally unwise. Similarly, it is no accident that despite the fact that UK National Insurance contributions are now effectively a tax, they are still entered into a nominally ring-fenced fund (see Box 2).

In Morocco, there is an issue about access to training funds by smaller employers

In Morocco, where the levy makes a partial contribution to overall TVET spending, one potential effect of redesignating the levy as an ordinary tax might be that employers who contribute to the levy would lose their privileged access to levy funds to reimburse them for their training efforts. However, there has been concern that the levy system in Morocco fails to support the smaller employers who do not pay the levy, and these employers may have greater needs for training support than larger employers. So, independently of the designation of the levy, there is an argument for permitting smaller employers the same opportunities to claim reimbursement for training as the larger employers who pay the levy.

Country contexts and policy conclusions

In Morocco, the skills levy contributes around 60 per cent of the TVET budget and in Malawi, around 90 per cent. Especially in Morocco, it can become unclear if the levy is determining spending on TVET, since it could simply be displacing other budgetary contributions and whether this is true or not is not easy to determine. In Tanzania, the majority of levy receipts support general government finance. This opens up the option of recognising these levies as ordinary taxes, as such recognition would have little practical import for spending and budgeting. However, such a move might also cause some hostility towards levy payments.

Issue 2.3 When a skills levy makes a partial contribution to a larger TVET budget, can the status of the levy be sustained?

Some skills levies over time become difficult to distinguish from ordinary taxes because their role is simply to provide a contribution to larger budgets, so that the terminology of a 'skills levy' can become misleading. In these circumstances the best approach may be one of gradual acceptance rather than an abrupt and destabilising redesignation.

Policy question 3: Who benefits? Who pays?

For all skills levies, a key issue is that of identifying the appropriate beneficiaries and contributors. Two policy issues arising are looked at here.

Issue 3.1 Should levy-paying employers have privileged access to levy funds to pay for training?

Many skills levies allow levy-paying employers easier access to levy funds

Many levy schemes allow contributing employers to claw back a reimbursement on their contributions when they train their employees, thus sugaring the pill of their levy payments. In the African skills levies looked at here, Botswana, Mauritius, Morocco and South Africa (like England) all have such arrangements (see Table 8). Their generosity is variable: in Mauritius, levy-paying employers may claim up to 75 per cent of their training costs. In South Africa, 20 per cent of the levy payment may be reimbursed on the basis of an employer's training plan.

But smaller employers who do not pay the levy have extensive skills needs

Most skills levies exclude smaller employers from contributing to the levy on practical grounds (see Table 5). However, this means that smaller employers are excluded from any privileged access to training funds on the part of levy payers. The informal sector is also automatically excluded. This is unfortunate, because very often the greatest needs for skills training are found in smaller companies, and in the informal sector, while training provision in larger companies, independently of the levy tends to be better. Recent work by the World Bank has underlined this point for Africa (Adams and Razmara, 2013[54]). In Morocco, there are concerns that SMEs, as non-levy payers, lack training support (World Bank, 2020[55]). In the UK, as discussed in Section 5 above, there has been pressure to allow SMEs the same level of apprenticeship training subsidy as that available to larger, levy-paying employers (Tahir, 2023[44]).

Privileged access to training funds by levy payers may be balanced by targeted support for those with the greatest needs

One option in response is to balance the privileged access to training funds of levy payers with programmes targeted at those who need it most, including the most disadvantaged. Most of the levy systems examined here fund programmes for the disadvantaged (see Table 11). While this approach makes sense, it has the risk of overlooking the skills needs of smaller employers, who do not pay the levy but where their workforce is not particularly disadvantaged.

Country contexts and policy conclusions

Where the primary objective of the levy is to pool the training efforts of levy-paying employers, it makes sense to exclude non-levy payers from the benefits of the fund. However, many skills levies, including the African skills levies looked at here, are used also to meet national skills needs through the TVET system. The needs of smaller employers are therefore important. One practical response would be to balance the support given to levy payers with support for training in other sectors, including in smaller employers, in the informal economy, and for those who are unemployed and outside the labour market. Such measures might be financed either through the levy, or through general taxation.

Issue 3.1 Should levy-paying employers have privileged access to levy funds to pay for training?

Such privileged access is defensible in the case of levy systems designed solely to pool the training resources of levy-paying employers. However, most skills levies have broader objectives, and support for levy-paying employers needs to be balanced by arrangements to use levy funds to support the training needs of wider groups.

Issue 3.2 Should a skills levy exempt government and other public sector employers from paying the levy?

Many skills levies exempt public sector employers

In Botswana, Mauritius, South Africa and Tanzania, government and other public sector employers are exempted from the levy, although in Malawi and Morocco, and in the UK, they are included (see Table 5).

There are arguments for an exemption

- It avoids the transaction costs of inter-government transfers when the levy is collected by one government department from another government department or public body.
- It restrains expenditure in the public sector, given that otherwise the public sector would need to pay the levy.

But also against exemption

- Exemption decreases receipts from the levy.
- It increases the costs of the private but not the public sector, potentially involving less-efficient choices made by the government about whether to directly undertake public services itself or alternatively contract those services to the private sector.
- It is more difficult for government to defend the imposition of a levy on private sector employers if government exempts itself from that burden.
- If levy payment is linked to incentives for employers to train, public sector employers may need those incentives as much as the private sector.

The weight of argument is against exemption

The arguments in favour of exemption are weak. The transaction costs of government-to-government transfers should be relatively low. Although removal of the exemption would increase public expenditure in many parts of government, this would be fully compensated in the increased funding available for TVET. Removing the exemption would also increase levy receipts, remove a potential distortion in policy decisions, and make the levy more defensible since government would impose it on itself.

Country contexts and policy conclusions

The credibility of any skills levy depends on employers perceiving government as behaving fairly towards them. The exemption of the public sector from the levy may undermine this perception and hence the credibility of the levy. As part of a broader strategy of enhancing trust in levies and the levy system, countries currently exempting the public sector from the levy should reconsider this position.

Issue 3.2 Should a skills levy exempt government and other public sector employers from paying the levy?

Countries should consider removing any exemption of the public sector from skills levy contributions. Such a step would enhance the fairness, and therefore credibility, of the levy system.

Annex A. Descriptions of the African levy schemes examined

Botswana

Under the Vocational Training Act, 2013, the Human Resource Development Fund was established, with the objectives of encouraging employer training through a levy grant system and supporting vocational training more broadly. Unusually, the levy is imposed on private sector employers on the basis of turnover, rather than on payroll. The rate is set at 0.2 per cent of turnover between 1 million Pula and 2 billion Pula, plus an addition for turnover above 2 billion Pula of 0.05 per cent. The levy is collected by the Botswana Unified Revenue Service through the Value Added Tax system (HRDC Botswana, n.d.[22]), which receives 5 per cent of the money collected for its own costs. In 2022–23, the levy collected was 422 million Pula (£24.5 million) (HRDC Botswana, 2023[52]). Levy funds are administered by the Human Resource Development Council (HRDC) of Botswana. Ten per cent of the money collected becomes available to the HRDC for its own administrative costs (Palmer, 2020[3]).

Levy-paying employers may claim for a range of training costs, including tuition and trainer fees as well as trainee salary costs once they receive approval for a structured training plan. Twenty-three per cent of levy-paying employers claimed from it in 2018–19 (UNESCO, 2022). Training (both programme and trainer) should be accredited with the Botswana Qualifications Authority. One hundred per cent reimbursement of training costs is possible (HRDC Botswana, n.d.[22]). During 2022–23, training reimbursement (including administration charges) was £14.5 million (HRDC Botswana, 2023[52]). Surpluses have been accumulating ((£50 million reported in 2022) (UNESCO, 2022[1])).

In 2022–23, just over 37,000 learners were trained – often on very short and one-day courses. About half of the training was in generic courses in fields like customer service, communication and performance management. Some challenges encountered include random training by levy payers that is not guided by approved training plans as required, exorbitant pricing of programmes by training providers, and some fraud (HRDC Botswana, 2023[52]).

Ghana

In Ghana, the Education Trust Fund Levy is imposed at 4.7 per cent on goods and services (as an addition to base VAT). When introduced in 2000 legislation (Parliament of Ghana, 2000[56]), it was intended to ‘provide finance to supplement the provision of education at all levels’. However, in 2023, only 40 per cent of the levy collected was allocated to the Ministry of Education (Manu, A; Kwabena, D., 2022[57]), a proportion of which was spent on scholarships for small numbers of university students to study overseas (Tetteh, 2020[58]). Given that relatively little of the levy is spent on skills training, it was excluded from the tabulated comparisons.

Malawi

Since 2015, a TEVET levy of 1 per cent of payroll has been imposed on all employers (Malawi TEVET Authority, n.d.[23]). The stated purpose is to fund employer training and other forms of technical training and to provide the funding for the management structures of TVET (see Table 3). Unusually, the levy is imposable on all employers, large and small, public and private. Compliance is a significant challenge, and a UNESCO review estimates that only one-third of the potential levy is collected (UNESCO, 2022[59]).

Much of the levy collected – around 40 per cent – goes to support administration in the TEVET authority. Much of the remainder goes to support

formal apprenticeships, with only 1 per cent going towards training cost reimbursement (UNESCO, 2022[59]).

Mauritius

The National Training Fund, administered by the Human Resource Development Council, was created in 1988, primarily on the initiative of employers. The initial objective was that of providing incentives to employers to contribute part of their training costs, and to support other training initiatives. The levy has been set at 1.5 per cent of payroll since 2021, exempting public sector employers, household workers and workers with a payroll of less than 10,000 Mauritian rupees per month (£170 per month).

Of the funds collected, from the 2023/24 financial year, half (the equivalent of a 0.75 per cent levy) goes to the Workfare fund, which supports unemployed workers and 0.75 per cent goes to HRDC Mauritius. Administration costs of the levy are around 12 per cent. Surpluses tend to accumulate, with £29 million reported in 2019.

Initially, the Industrial Vocational Training Board (IVTB) was responsible for both TVET provision, and management of the levy grant scheme. However, this gave rise to conflicts of interest and, since 2001, the IVTB concentrates on its role as provider of training, while HRDC Mauritius manages the levy grant scheme (Johanson, 2009[7]).

Employers may recover up to 75 per cent of the costs of training employees from the levy fund. One evaluation has suggested that the overall impact of the levy in Mauritius has been to reduce rather than increase training activity (Kuku et al., 2015[60]).

Morocco

In Morocco, the skills levy has been in existence since 1974. The objective was to earmark funds for TVET, encourage training among levy contributors and provide training for the most disadvantaged. It is imposed on all employers (public and private) with more than 10 employees and is 1.6 per cent of total payroll.

The levy raised £218 million in 2019. According to legislation, 70 per cent of the levy must be used to finance initial vocational training provided by TVET institutions run by Morocco's vocational training agency, Office de le Formation Professionnelle et de la Promotion du Travail (OFPPT) (UNESCO, 2022[1]). The remaining 30 per cent is used to finance the skills development needs of companies (World Bank, 2020[55]). The levy provides around 80 per cent of the funding for TVET through OFPPT.

OFPPT is under the authority of the Ministry of Education but has a board which includes 14 government representatives, seven from private sector employers, and seven from workers' organisations.

Mozambique

In Mozambique, the National Fund for Professional Education (NFPE) was created through enabling legislation in 2017. It is envisaged that private sector employers will contribute 0.65 per cent of their payroll. However, it has not yet been translated into an operational system. A current World Bank project is seeking to assist Mozambique in implementing the levy, both in respect of levy collection mechanisms and arrangements to fund training (World Bank, 2020[61]).

South Africa

South Africa has maintained a skills levy system since 2000, under the Skills Development Levies Act, 1999. It was intended to encourage employers to train their workers, develop workforce skills more generally, and to provide training for the disadvantaged. The levy is imposed at 1 per cent of payroll on all private companies and state-owned enterprises with payrolls of more than 500,000 South African rand (£21,000) (South African Revenue Service, 2024[62]). Despite significant non-compliance, the levy collected around £790 million in 2017–18.

Eighty per cent of levy funds are distributed between 21 Sector Education and Training Authorities (SETAs) – for example, for Manufacturing, Engineering and Related Services (MerSETA). Twenty per cent of levy funds go to the National Skills Fund (NSF).

The SETAs have a range of functions under the Skills Development Act, including that of developing and implementing a sector skills plan and liaising with the national skills authorities on policy strategy and the sector skills plan

(National Skillls Authority, 2024[63]). The SETAs provide a range of training services for both the unemployed and employed – especially through learnerships, skills programmes, internships and different forms of work-based learning. Of the levy funds received by each SETA, 10.5 per cent is used in administration costs, 20 per cent goes to provide mandatory grants to employers claiming for training costs, and 49.5 per cent goes to support discretionary grants and projects (Food and Beverage SETA, 2022/23[64]). These grants are allocated by SETAs from among applicants who have responded to an advertised call for applications. It has been suggested that the SETAs have insufficient monitoring and evaluation (UNESCO, 2022[2]).

The National Skills Fund is intended to support priority skills and innovative research in high-level occupationally directed programmes from universities to the workplace (UNESCO, 2022[2]). Part of the funds go to bursaries, scholarships, learnerships and skills programmes for learners. Part also goes to improving the infrastructure of the post-school education and training system (National Government of South Africa, 2024[65]). In 2016–18, over 50 per cent of NSF income was devoted to system development and capacity-building in the post-school education and training system.

A levy-paying employer may, if they deliver an Annual Training Report providing evidence of training in line with a workplace skills plan, claim a reimbursement of 20 per cent of the levy payments. In addition, 50 per cent of an employer's levy payments may be reimbursed through discretionary grants in respect of special programmes such as apprenticeships and internships (UNESCO, 2022[2]).

Sudan

In the Sudan, there is no training levy, but a 1997 law imposed some requirements on employers to offer training. A 2015 report by the United Nations Conference on Trade and Development (UNCTAD) recommended that this requirement should be transformed into a training levy, imposed on the payroll of companies employing foreign workers, and then used both to fund training by levy-paying employers and more widely (UNCTAD, 2015[66]).

Tanzania

The Tanzanian skills development levy, as set out in the Vocational Education and Training Act (introduced 1994, last revised 2013) is imposed as a percentage of payroll. While the rate was reduced to 3.5 per cent in 2023, it remains higher than most skills levies. It falls on employers who have four or more employees, so excludes the very smallest employers. Most public sector and farm employers are excluded, as are private registered educational institutions.

Under the original 1994 VET Act, one-third of the levy should be allocated to a ring-fenced VET fund, to finance the Vocational Education and Training Authority (VETA). VETA falls under the Ministry of Education, Science and Technology. It is both a regulatory body and a VET provider. The initial legislation was silent on the allocation of the other two-thirds, but further 2013 legislation clarifies that these funds should be directed to the 'Education Fund' designed to improve access, equity and quality of education, much of which supports soft loans to students in higher education (Andreoni, 2018[11]). In practice, the budget for VETA was capped by the Ministry of Finance in 2016, further constraining expenditure on TVET. Partly in response to this, VETA has developed many short courses.

Annex B. Acronyms and abbreviations

Acronym or abbreviation	Details
CITB (UK)	Construction Industry Training Board
ECITB (UK)	Engineering Construction Industry Training Board
GGP	Going Global Partnerships
HRDC (Botswana)	Human Resource Development Council
HRDC (Mauritius)	Human Resource Development Council
IVTB (Mauritius)	Industrial Vocational Training Board
NFPE (Mozambique)	National Fund for Professional Education
NSF (South Africa)	National Skills Fund
OFPPT (Morocco)	Office de la Formation Professionnelle et de la Promotion du Travail
SADC	Southern African Development Community
SETAs (South Africa)	Sector Education and Training Authorities
TEVET (Malawi)	Technical, Entrepreneurial and Vocational Education and Training
TEVETA (Malawi)	Technical, Entrepreneurial and Vocational Education and Training Authority
VETA (Tanzania)	Vocational Education and Training Authority
UNCTAD	United Nations Conference on Trade and Development

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