BRITISH COUNCIL

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

Executive Summary

About the British Council

The British Council is the UK's international organisation for cultural relations and educational opportunities. We support peace and prosperity by building connections, understanding and trust between people in the UK and countries worldwide. We work with people in over 200 countries and territories and are on the ground in more than 100 countries.

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.

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 full text of the report, summarised here, contains full details of all references and sources and is available at www.britishcouncil.org/education/skills-employability/research/skills-levies-in-africa.

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% and 2%, with the Tanzanian scheme an outlier with a rate of 3.5% (see Table A). Most countries exempt smaller employers, and sometimes public sector employers.

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.

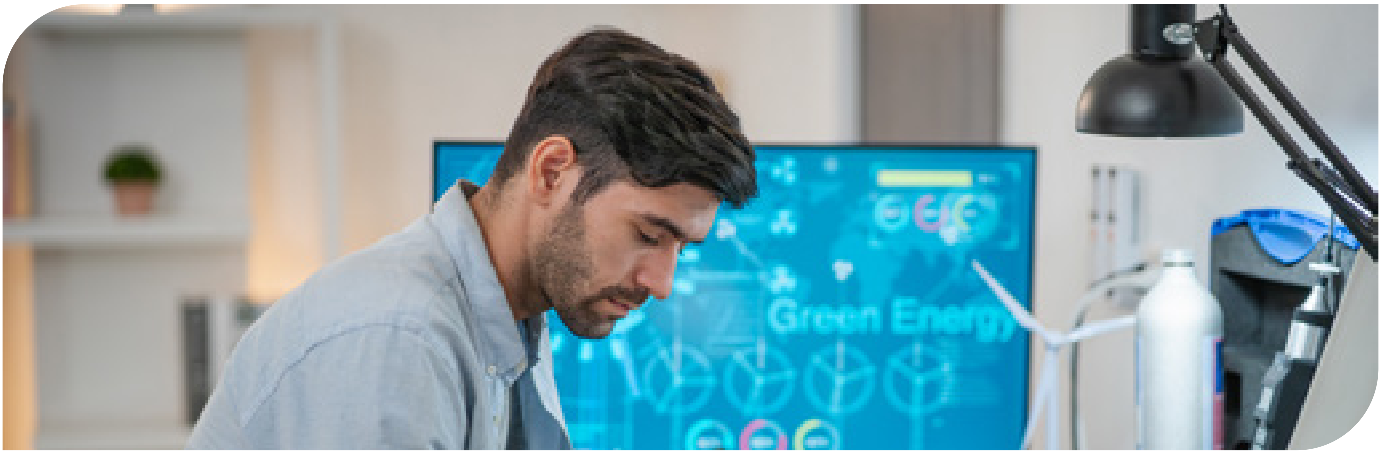


Table B. Levy rate and annual revenue

	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.

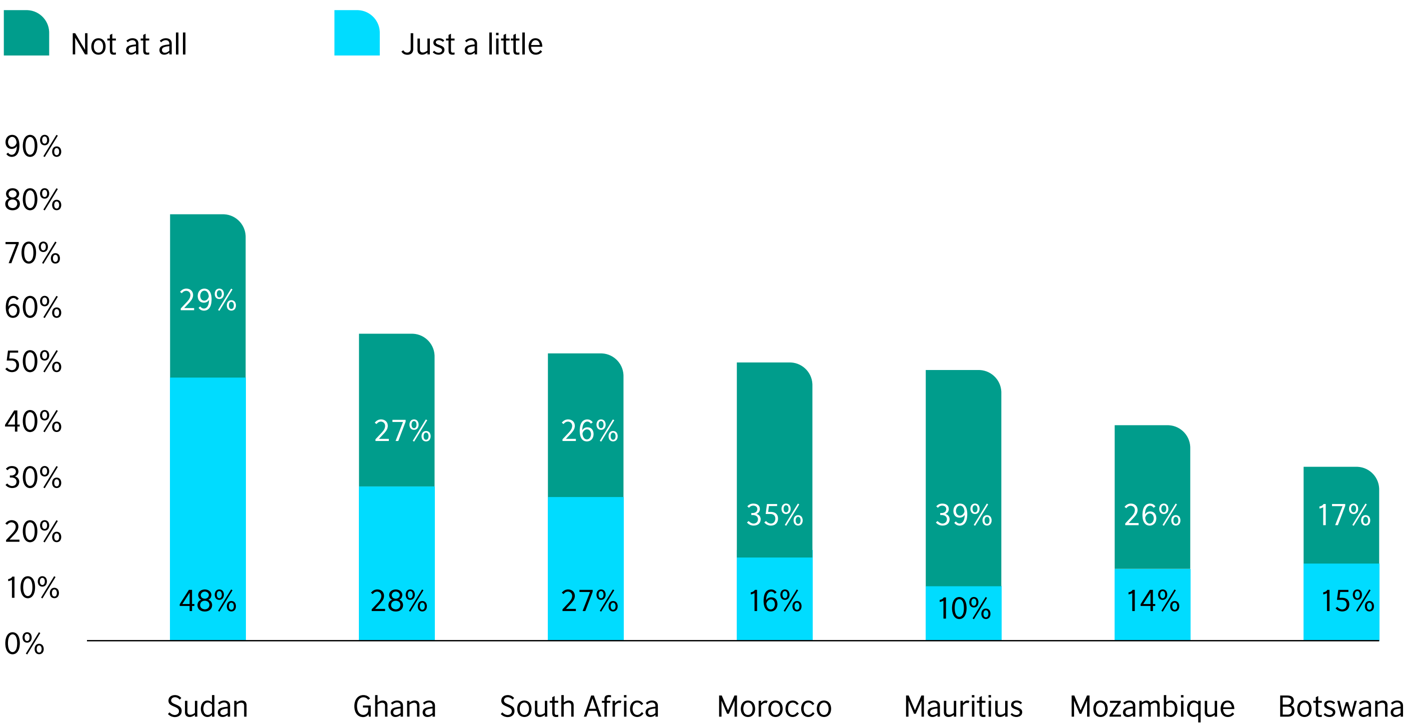
Skills levies are a form of earmarked taxes

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).

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).

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.

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

1

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.

2

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.

3

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.

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.