ACE Anti-Corruption Evidence
SOAS Consortium Making Anti-Corruption Real

Briefing Paper 004

Realigning incentives, taking differences into account: Towards evidence-based reforms of the skills development sector in Tanzania

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Key messages

- There are a number of potential reform opportunities for improving the governance and financing of the skills development sector, and ultimately improving vocational skills in Tanzania.
- To build trust between the public and private sectors it is critical to improve the transparency and accountability of the Skills Development Levy (SDL), collected by the government from employers to promote skills development.
- Incentives should be restructured in a way that takes into account differences across sectors and organisation types, as well as different governance levels.
- Skills training should be differentiated to better meet employers' needs and enable trainees to establish new economic activities.
- The private sector should become more involved in on-the-job training through industrial placements, dual apprenticeships and internships.

What is ACE?

The Anti-Corruption Evidence (ACE) research programme takes an innovative approach to anti-corruption policy and practice. Working with a multi-country coalition of 12 partners over five years, ACE is responding to the serious challenges facing people and economies affected by corruption by generating evidence that makes anti-corruption real and using those findings to help policymakers, business and civil society adopt new, feasible, high-impact strategies to tackle corruption.

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November 2018

Challenges in Tanzania's skills sector

Vocational skills development and the effective organisation of skills are crucial for countries to be able to enhance their industrial competitiveness and, as a result, improve governance systems and the functioning of their institutions. Despite several efforts by government and the private sector to invest in the skills development sector in Tanzania, the sector remains weak and presents a number of critical challenges for the country.

For one, Tanzania needs to create employment for large groups of young people every year, many of whom come from the poorest segments of society. Around 850,000 young people enter the country's job market annually, but only 50,000 to 60,000 formal-sector jobs are created each year. With more than 66% of the population under age 25, this job shortage poses a critical challenge to the economy and broader society.

Second, the quality and types of skills developed in Tanzania do not meet organisations' requirements. At the same time, there are very few organisations capable of organising and deploying skills effectively, resulting in limited incentives for skills building. The dearth of competitive productive organisations also limits the development of experience-based technical skills, hurting economic productivity.

The third major challenge relates to the financing and governance of the skills sector. Vocational education training (VET) activities and services are run by both private and public providers, with publicly-run VET centres funded through a levy that employers must pay to the government. This Skills Development Levy (SDL) is significantly higher in Tanzania than in comparable countries, and there are worries that this can create a competitive disadvantage and discourage formal employment. Additionally, the financing and allocation of funds for skills development, in particular through the SDL, has created tensions between the government and the private sector, not least due to limited accountability over the distribution of the funds.

To inform the development of new strategies for reforming the skills sector, the SOAS Anti-Corruption Evidence (ACE) Research Consortium has carried out an in-depth analysis of the financing and governance of skills development. This brief is based on the working paper 006 "Skilling Tanzania: improving financing, governance and outputs of the skills development sector" (Andreoni, 2018), a background research report for a broader study whose goal is to assess the likelihood of success of different policy reforms for various target groups.

Financing the skills sector

The SDL is collected by the Tanzania Revenue Authority (TRA) and must be paid by organisations that employ four or more individuals, with exemptions for some institutions, such as diplomatic missions, charities and farm employees. In response to significant lobbying from private companies and employers, over the years the government has expanded the exemptions and revised the SDL rate - from 6% to 5% in 2013 and from 5% to 4.5% in 2016. The SDL is currently set at 4.5% of an employer's monthly payroll.

The SDL is a significant levy across tax departments in Tanzania, accounting for 4% of the total domestic revenue from direct tax (excluding large taxpayers). While in 2010 large enterprises paid a much higher share of the total levy than small and medium enterprises, the contribution of small and medium enterprises is now much closer to those of large taxpayers.

The allocation of the Skills Development Levy

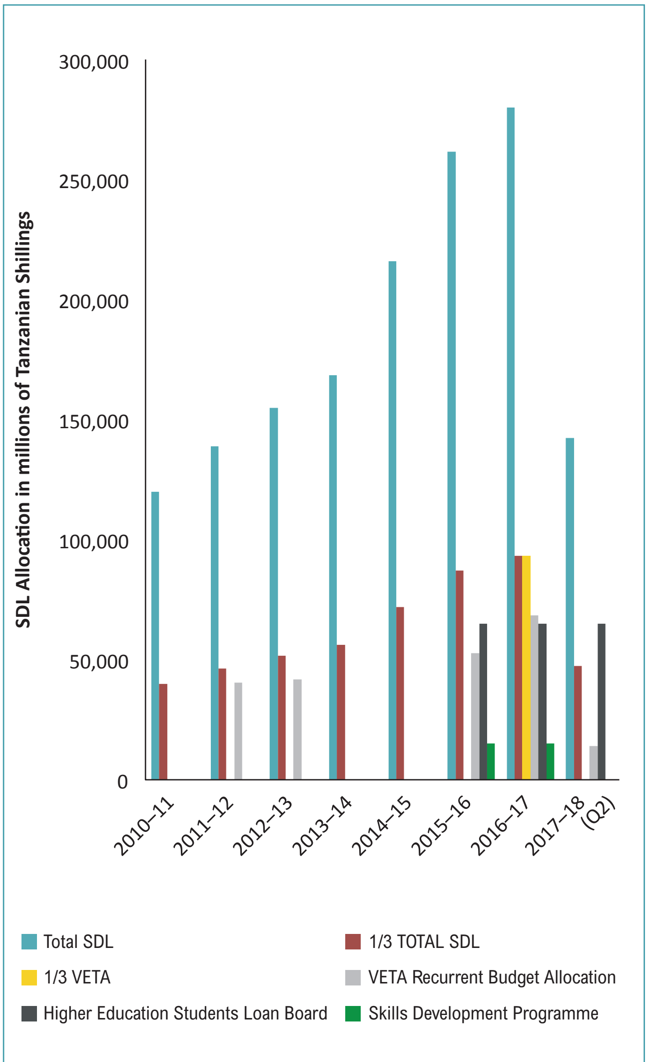
The legislation that established the levy stated that the SDL was to be collected directly by the TRA and that one third of the revenue was to be allocated to the VET Fund – a ring-fenced fund for financing activities of the governmental Vocational Education Training Authority (VETA). The legislation was silent with respect to the remaining two thirds of the levy. In 2006, new provisions were introduced with respect to collection and allocation of the SDL, as well as overall resources of the VET Fund. One third of the fund would continue being submitted to the VET Fund; the other two thirds would be submitted to the Treasury.

In 2013, new legislation linked the SDL to the Education Fund, which is managed by the Tanzania

Education Authority (TEA). Resources allocated to the Education Fund would include the SDL, and a new formula for allocation of funds was introduced. This legislation seemed to make reference to the remaining two thirds of the SDL but it did not explicitly say if it should all be allocated to the Education Fund.

These allocative rules have not changed formally since 2013, but in reality there have been two important changes. First, since 2013, all of the SDL revenue is directly transferred from TRA to the Treasury, which is then expected to allocate funds to the Ministry of Education, Science and Technology, which in turn transfers the resources to VETA, based on the agreed annual budget. Second, since 2016 the Ministry of Finance has started applying a budget ceiling of 53 billion Tanzanian Shillings on the VETA budgets and providing projections for the construction of the five-year VETA corporate plan.

Collection and Allocation of the SDL



Limited accountability

VETA is an autonomous government authority under the Ministry of Education, Science and Technology and carries overall responsibility for the VET sector. VETA is both a regulatory authority and VET provider, with a Head Office, nine Regional/Zonal Boards and an office governing and managing the nine zones. All VETA-owned and privately-owned VET centres are clustered under a region/zone and respond directly to their Regional/Zonal Board and indirectly to the National 'VET board'. Thus, VET activities are governed by different bodies at national and zone levels which are also in charge of budgeting approvals and accountability.

The composition of regional and national VET boards is mainly meant to ensure that the strategic interests of key stakeholders and partners in the VET system are taken into account through budgeting, allocation and outcome assessment processes. However, these boards are rarely used for accountability purposes and mainly focus on reforms to the curriculum. The Chief Internal Auditor is the only auditing process in place at the VETA Head Office level, and the 'external' auditing processes rely on the internal processes and data. Thus, there is no real external auditing.

Given that one third of SDL revenue is supposed to be allocated to VETA and that private VET centres can receive indirect SDL contributions only through VETA, the SDL accountability system relies mainly on the VETA governance and accountability structure, especially with respect to internal budgeting and allocation to VET activities. As for the remaining two thirds of SDL revenue, the Treasury is the only institution accountable for SDL allocation to the Education Fund.

Since 2015/16 the government has applied increasing pressure on the TRA to improve domestic resource mobilisation. This increasing pressure on tax collection has gone hand in hand with stronger control by the central government over domestic revenues generated by all government entities and a process of centralisation of financial resources. The centralisation of financial resources, budgeting and rents allocation has triggered (and in some cases is also a response to) the introduction of resource-generating activities across government entities, especially at the local level.

Innovation and trade-offs in VET provision

In the case of VETA, one means of income generation has been through complementing their more traditional long courses with additional short courses, and short VET courses have proliferated in Tanzania over recent years. While VETA centres do not make any margin on long courses, they charge full costs for their short courses, giving them an opportunity to earn an income that can be used to increase teachers' salaries. Although some short courses have been developed to better meet demand from employers and to make full use of the spare capacity of VETA centres, in some cases incentives might have induced an oversupply of short courses (for which trainees or employers pay a relative high fee) against long courses (which employers already pay for via the SDL). In 2013, VETA introduced new guidelines to regulate income-generating activities – for short courses in particular – and to address potential distortions in the system. Despite this, accountability of these activities remains opaque, and it is unclear if the income generated is allocated correctly or captured.

Over the last decade there have been several public–private partnership initiatives to promote skills development and bridge the gap between public providers and industry, led by both the public and private sector. The Integrated Mining Technical Training project is the oldest and perhaps the most established private-led initiative. Several factors have contributed to the success of the IMTT, including, importantly, on-the-job experience provided by companies with high operational and technical standards and organisational capabilities. This demonstrates that even for medium-/high-level technical skills, multiple years of mainly theoretical education is unnecessary, while more practical training and industry exposure can increase trainees' readiness and employability, suggesting the need to rethink the curriculum offered by VET centres, including to offer shorter courses.

Moving beyond mistrust

Over recent decades the public and private sectors have viewed each other with mistrust, and the SDL has become a major source of tensions. The private sector has denounced the lack of transparency in the collection and allocation of the SDL, including alleging corruption and misallocation of the SDL to fund political campaigns. And indeed there are a number of accountability issues. The lack of trust towards the government has pushed the private sector to lobby for a reduction in the levy rather than focusing on how to optimise its value add.

Companies and their representative bodies have expressed dissatisfaction with the fact that the SDL is not used for vocational training only and have argued that employers have been double taxed. This claim stems from three main facts. First, the SDL is not ring-fenced and tends to disappear in the Education Fund where it complements other central budget allocations for education. Second, companies have to pay additional costs if they want to access more focused short courses for training, upgrading and/or retraining their existing workers. Third, employers perceive that VETA graduates are often not ready to work and that the amount of on-the-job training they have to do to compensate for this is an additional cost.

On the other hand, the government has historically experienced significant challenges in collecting taxes from large and medium size employers and has witnessed limited tax compliance. As Tanzania's tax revenue collection has remained low compared to other East African Community countries, the government has always assumed that the private sector's complaints around the SDL were largely ungrounded.

Finally, the overall governance model around the SDL and technical and vocational education and training (TVET) system has been questioned. For instance, issues have been raised around the fact that VETA is under the umbrella of the Ministry of Education, while the mandate to engage with the private sector on TVET matters is under the Ministry of Labour – a misalignment in terms of mandate and functions.

Forging a new deal for skills development

In the current system, resources and rents are captured by both public and private actors, and the outcomes for the skills sector, employees and employers are poor. Recent government reforms have attempted to reduce rent capture through a process of re-centralisation of the SDL and a more centralised governance model. But as a result of this re-centralisation, the relationship between the SDL and skills training has been weakened.

Despite the various challenges, there are opportunities for reform.

Building trust

To ensure more constructive engagement between the public and private sector, there is a clear need for greater transparency and accountability of SDL fund flows. This implies a gradual move away from a centralised system where the SDL is used to fund general government expenditures; a less ambiguous legal framework which allows tracking of SDL collection and allocation; a more direct link between sectoral-level collection and allocation, while guaranteeing that cross-sectoral needs are met; and increased voice and accountability of trainees in the curriculum and determination of whether existing training models are fit for purpose.

Realigning incentives

Incentives could be restructured to take into account differences across sectors and firm types, as well as different governance levels. For example, at the zonal level, new ways to align the interests of the VET in the region with employers could result in greater employability and accountability.

The SDL itself could be reformed as well. For instance, it may be better to move away from calculating a rate based on payroll and instead using a lump sum contribution per employer. Or, instead of the payroll, the rate could be calculated based on total turnover to take into account differences in the size of the organisation. Finally, the threshold of four employees could be elevated to nine, which is the conventional definition of a small enterprise in Tanzania. These changes might reduce SDL-related disincentives to employment, especially among small and medium enterprises, without necessarily resulting in dramatic reductions in total SDL revenue.

Updating the design and delivery of skills training

The design and delivery of skills training can be reformed to better meet employers' needs and enable trainees to establish new economic activities. Incentives could also be introduced to overcome remaining resistance to change in VETA. For example, a number of demand-driven short courses could be funded directly by the SDL. This would increase the perception of added value from the SDL amongst companies, and in some cases could also reduce the overall costs faced by employers to train their workforce.

Involving the private sector in on-the-job training

Finally, promoting the involvement of the private sector in on-the-job training through industrial placements, dual apprenticeships and internships is critical to improve the overall supply of quality VET and a skilled workforce. The introduction of rebates or grants for employers to finance training could potentially improve the link between VETA and VET providers and private companies. This could also help reduce overall mistrust between the private and public sectors.

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About the Anti-Corruption Evidence (ACE) Research Consortium:

ACE takes an innovative approach to anti-corruption policy and practice. Funded by UK aid, ACE is responding to the serious challenges facing people and economies affected by corruption by generating evidence that makes anti-corruption real, and using those findings to help policymakers, business and civil society adopt new, feasible, high-impact strategies to tackle corruption.

ACE is a partnership of highly experienced research and policy institutes based in Bangladesh, Nigeria, Tanzania, the United Kingdom and the USA. The lead institution is SOAS, University of London. Other consortium partners are:

- BRAC Institute of Governance and Development (BIGD)
- BRAC James P. Grant School of Public Health (JPGSPH)
- Centre for Democracy and Development (CDD)
- Danish Institute for International Studies (DIIS)
- Economic and Social Research Foundation (ESRF)
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- Palladium
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- Transparency International Bangladesh (TIB)
- University of Birmingham
- University of Columbia

ACE also has well a established network of leading research collaborators and policy/uptake experts.

Disclaimer: This publication is an output of a research programme funded by UK aid from the UK Government. The views presented in this paper are those of the author(s) and do not necessarily represent the views of UK Government's official policies.

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