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Skilling Tanzania: improving financing, governance and outputs of the skills development sector

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This paper is a background research report for a broader study on the skills development sector in Tanzania. This study is conducted by the Anti-Corruption Evidence (ACE) research consortium, with the direct involvement of REPOA in Tanzania, and aims to generate new evidence for improving the financing, governance and outputs of the skills sector in Tanzania. The broad study consists of an extended firm survey combined with a discrete choice experiment aimed at comparing different packages of incentives and matching the latter with firm characteristics. The final goal of the study is to assess the likelihood of success of different policy reforms for different target groups.

Executive summary

More skills, higher levels of skills, and different kinds of skills have to be developed and effectively organised if countries are to be able to enhance their industrial competitiveness and, as a result, improve their governance systems and the functioning of their institutions. Despite several efforts to invest in the skills development sector in Tanzania over the last decade, the sector has remained weak and presents a number of critical challenges for the country. First, Tanzania needs to integrate and create employment for large groups of young people every year, many of whom come from the poorest segments of society. Second, the quality and type of skills developed in Tanzania do not meet the requirements of productive organisations, while at the same time there are very few firms capable of organising and deploying skills effectively. The third major challenge that Tanzania faces relates to the financing and governance of the skills development sector.

In many countries in Southern and Eastern Africa, governments have relied on dedicated levies to finance the skills development sector (the Skills Development Levy (SDL) in Tanzania). The governance of these schemes is made particularly difficult by the fact that private organisations hardly see the results of their financial contribution on the ground. In some cases, this is because skills development takes time and is sector-specific, in other cases it is because firms themselves do not develop the organisational capabilities needed for them to be able to benefit from the improved skills. As a result – and despite the fact that both governments and companies have a strong joint interest in developing skills – more often the sector is affected by conflicting dynamics and allegations of resource misallocations and tax avoidance.

In Tanzania, vocational education and training (VET) activities and services are run by around 520 providers and promoted under more than thirty programmes and public–private partnership (PPP) schemes (e.g. Integrated Mining Technical Training (IMTT) in the mining sector). The existing VET centres are extremely heterogenous with respect to their capacity and training quality, but also with respect to the proportion of long and short courses they are able to provide. VET providers include public VET centres, some of which are owned by the VET Authority (VETA). The latter are funded through the SDL, which is set at 4.5% of firms' monthly payroll. The SDL in Tanzania is significantly higher than in Kenya and South Africa and there are worries that this can create a competitive disadvantage and discourage formal employment. Moreover, business organisations and associations have lamented the fact that the levy is not used entirely for VET programmes, and that accountability of the financing and allocation model needs improvements.

In order to ensure more constructive engagement between the public and private sector, the transparency and accountability of the fund flows seem to be an important preliminary condition. This implies: (i) a gradual move away from a centralised system where the SDL is used to fund general government expenditures; (ii) a less ambiguous legal framework which allows tracking of SDL collection and allocation; (iii) a more direct link between sectoral-level collection and allocation, while guaranteeing that cross-sectoral needs are met; (iv) increased voice and accountability in the curriculum and determination of whether existing training models are fit for purpose. Reform opportunities also exist in terms of restructuring incentives to take into account differences across sectors and firm types, as well as different governance levels. Another important area for reform relates to the design and delivery of skills training itself. There is a significant need for greater differentiation between skills training to meet the needs of current employers, and skills training to enable trainees to establish new economic activities (i.e. self-employment). 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 rebate or grant models such as those adopted in South Africa and Kenya could potentially improve the link between VETA and VET providers and private companies.

List of Acronyms

2Q	First two quarters of financial year
ATE	Association of Tanzania Employers
CAGR	Compound annual growth rate
CSO	Civil society organisation
DAT	Dual Apprenticeship Training
EAC	East African Community
EEVT	Enhancing Employability through Vocational Training
FBO	Faith-based organisation
FYDP	Five-Year Development Plan
HESLB	Higher Education Students Loan Board
IGA	Income generating activity
IMTT	Integrated Mining Technical Training
INTEP	Integrated Training for Entrepreneurship Promotion
LC	Long course
MVA	Manufacturing value addition
NACTE	National Council for Technical Education
NGO	Non-governmental organisation
NITA	National Industrial Training Authority
NSDS	National Skills Development Strategy
PAYE	Pay As You Earn
PPP	Public–private partnership
SARS	South African Revenue Service
SC	Short course
SDL	Skills Development Levy
SEP	Skills Enhancement Programme
SETA	Sector Training and Education Authority
TCME	Tanzanian Chamber of Minerals and Energy
TEA	Tanzania Education Authority
TNBZ	Tanzania National Business Council
TPSF	Tanzania Private Sector Foundation
TRA	Tanzania Revenue Authority
TShs	Tanzanian Shillings
TVET	Technical and vocational education and training
VET	Vocational education and training
VETA	Vocational Education and Training Authority

1. Introduction

The industrial competitiveness of countries depends on many factors; 'ultimately perhaps the most important single determinant is the level and improvement of workforce skills at all levels' (Lall, 1999: 2). More skills, higher levels of skills and different kinds of skills have to be developed and effectively organised if countries are to be able to enhance their industrial competitiveness and, as a result, improve their governance systems and the functioning of their institutions. Indeed, all countries that have experienced sustained economic growth and structural transformation have targeted and significantly invested in the development of their skills sector.

The importance of skills development as a driver of structural transformation becomes evident when we look at companies' technological efforts at the shop-floor level. For firms, the possibility of capturing new production opportunities in markets and introducing new production technologies – machines, equipment and tools, or selecting alternative technologies – critically depends on the domestic availability of relevant industrial skills and their effective organisation and deployment in production and innovation (Penrose, 1959; Lall, 2001; Toner, 2011; Andreoni, 2014).

Firms rely on workforce skills for absorbing and adapting technologies to local conditions, and to innovate and ultimately increase productivity. Organisational capabilities are the collective and managerial capacities that companies need to develop to make effective use of workers' improved skills. Organisational capabilities are also crucially important for the development of new modes of production, from the simple re-arrangement of production tasks up to the introduction of information technologies for process control, inventory systems and quality management (Penrose, 1959; Amsden, 1989; Andreoni and Chang, 2017; Khan, 2017).

From a country-level perspective, the importance of skills for technological development is just as clear as at the shop-floor level. Crucially, increasing skills changes the structural trajectories of countries: they move from simple to difficult technologies, and within them, from basic production functions (for simple components and assembly) to complex ones (for improvement, design and innovation). Engaging in more complex production activities generally leads to the creation and eventual capture of higher value, increased productivity and generates spillover benefits to local input-supplying companies, within and across industries (Chang, 2002; Cimoli et al., 2009; Andreoni, 2019, forthcoming).

In fact, the improvement of workforce skills is a core driver of structural transformation as well as one of its main outcomes. Specifically, the development of organisational capabilities and the expansion of technological processes within domestic and foreign companies create new demand for higher-skilled workers as well as generating resources to improve the education and vocational school system. Governments, in partnership with companies, have a fundamental role to play here. By investing increasing tax revenues in the education system and, in particular, in the vocational education and training (VET) system, they can help drive the cumulative self-reinforcing process of skills development and structural transformation (Noman et al., 2012; World Bank, 2012). Various forms of in-job training and re-skilling are integral to the VET system as they allow for experience-based technical skills development as well as for the transformation of formal education-based skills into production capabilities.

This working paper provides an in-depth analysis of the financing and governance of skills development in Tanzania, to inform the development of new strategies and, ultimately, to improve sectoral outcomes. While the sector presents several governance and accountability challenges, the paper aims to identify potential areas for improvement in the financing, design and delivery of VETs. The findings of the study have informed the design of an Anti-Corruption Evidence (ACE) discrete choice experiment that outlines different packages of incentives which might be used to re-align interests in the sector and to design new strategies that take account of company differences.

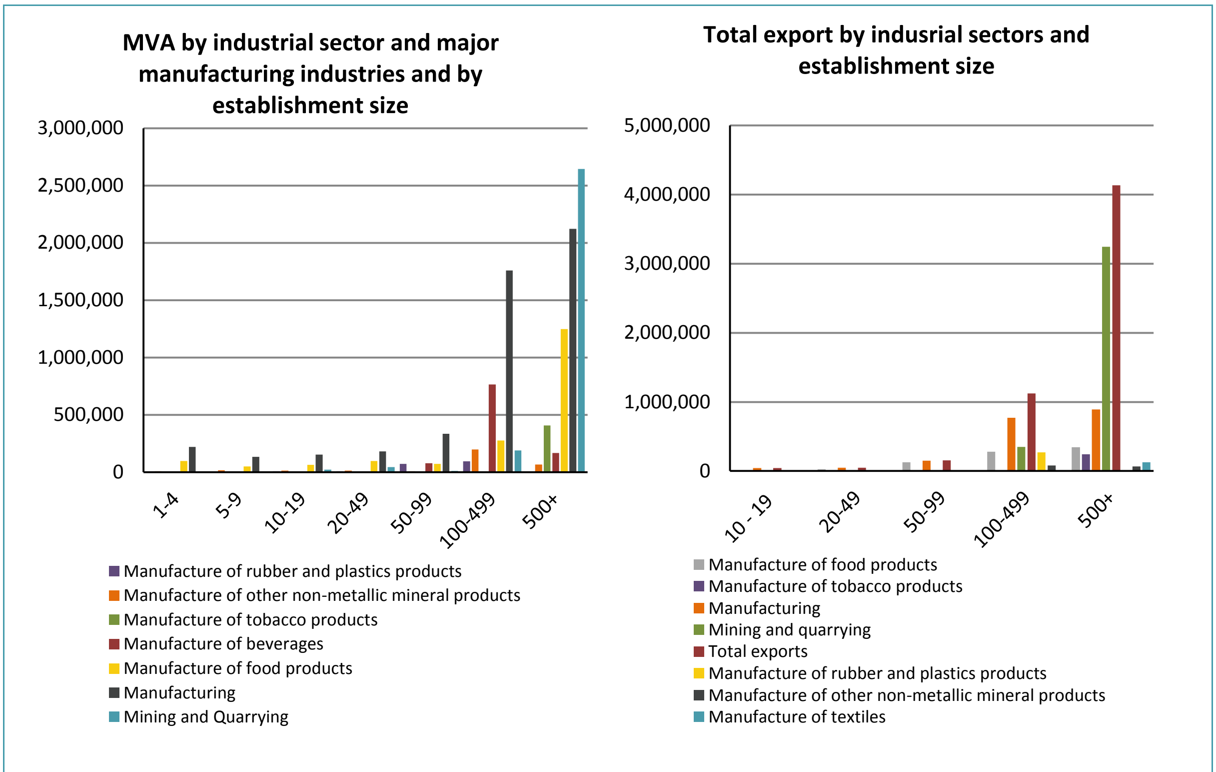
The feasibility of new strategies depends on policy-makers and practitioners having an in-depth understanding of the different organisations and institutions involved in the sector, as well as the flow of resources from collection to deployment and how these set up a specific type of incentive structure. Therefore, after providing background information on the composition of industry and skill sets in Tanzania (section 2) and introducing the VET system (section 3), the paper presents new quantitative evidence and rent analyses of the Skills Development Levy (SDL)-based VET model in Tanzania (sections 4 and 5). The paper concludes by outlining a number of potential areas for strategic intervention (section 6).

2. Background: industry and skill sets in Tanzania

2.1. Industry structure

The Tanzanian industrial sector is mainly composed of small establishments, accounting for 97.3% of a total of 49,243 establishments. There are only 1,322 large establishments with more than 10 employees, of which 998 operate in the manufacturing sector. Disaggregated analysis of 2013 firm census data for Tanzania (Andreoni, 2017b) reveals the high structural heterogeneity of the country's industrial sector, in particular the extreme differences in industrial performance and capabilities across types of establishment. Tanzania's production system represents a dualist structure, with a high concentration of industrial activities in a few industries (e.g. mining and quarrying, manufacturing, manufacturing of food products) and regions (e.g. Morogoro and Dar es Salam), and a limited number of large- and major-scale establishments. A vast group of micro- and small-scale firms remain largely excluded from value-added processes, scaling-up opportunities and market access. Indeed, 80% of manufacturing value addition (MVA) is generated by just 200 establishments employing at least 100 employees, and the same group of companies accounts for 87% of the total value exported. The limited number of medium-sized enterprises prevents any rebalancing of this dualist structure.

Figure 1: Structural heterogeneity in manufacturing in Tanzania (2013)



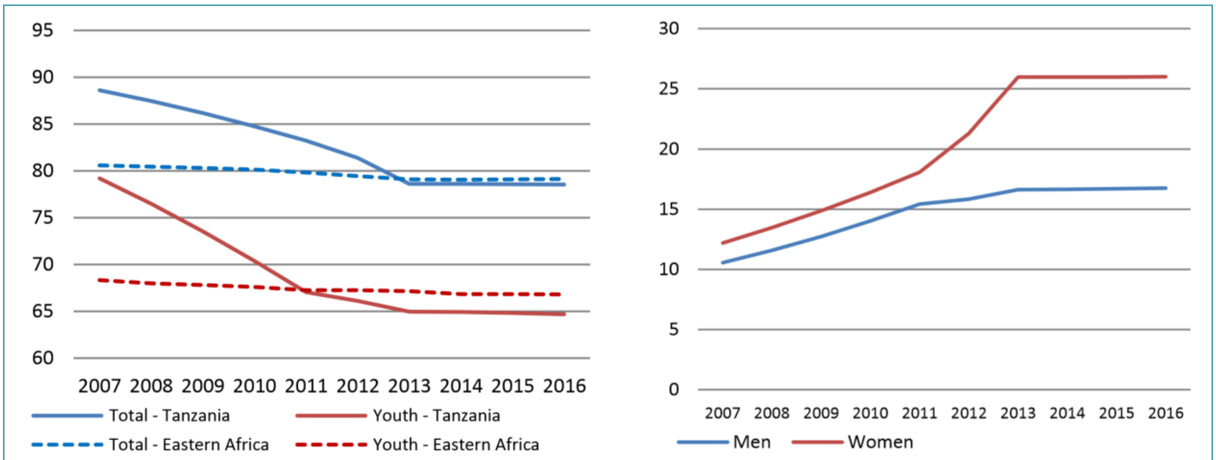
Source: Andreoni (2017a)

2.2. Skill levels and employment rates

In 2016 the total population of Tanzania was 51.1 million with an estimated working age population of around 23.8 million (ILO KILM, 2016). The employment to population ratio in Tanzania was 76% in 2016, slightly higher than the Eastern Africa ratio at 74%. On average, across age groups, men are more actively engaged than women in the labour market (81% against 71%). Young women between 15 and 24 years old are least engaged in the labour market in Tanzania, at only 55%. A majority of people in employment are concentrated in the agriculture sector (currently 67%, but 81% in 2001) followed by the service sector (27%, with more than half in hotel and restaurants) and the industry sector (6.4%). Figure 2 shows how the country's total employment rate has been on a decreasing trajectory between 2007 and 2013. Since then it has followed the Eastern Africa average rate.

According to the LO/FTF Council Report 2016, based on ILO data, 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. Moreover, given the limited absorption capacity of the formal sector, underemployment and informal-sector employment have been on a rising trend. Almost one out of five (22%) of the working-age population and 35% of the youth population (15-24 years old) are inactive in the labour market (Figure 2).

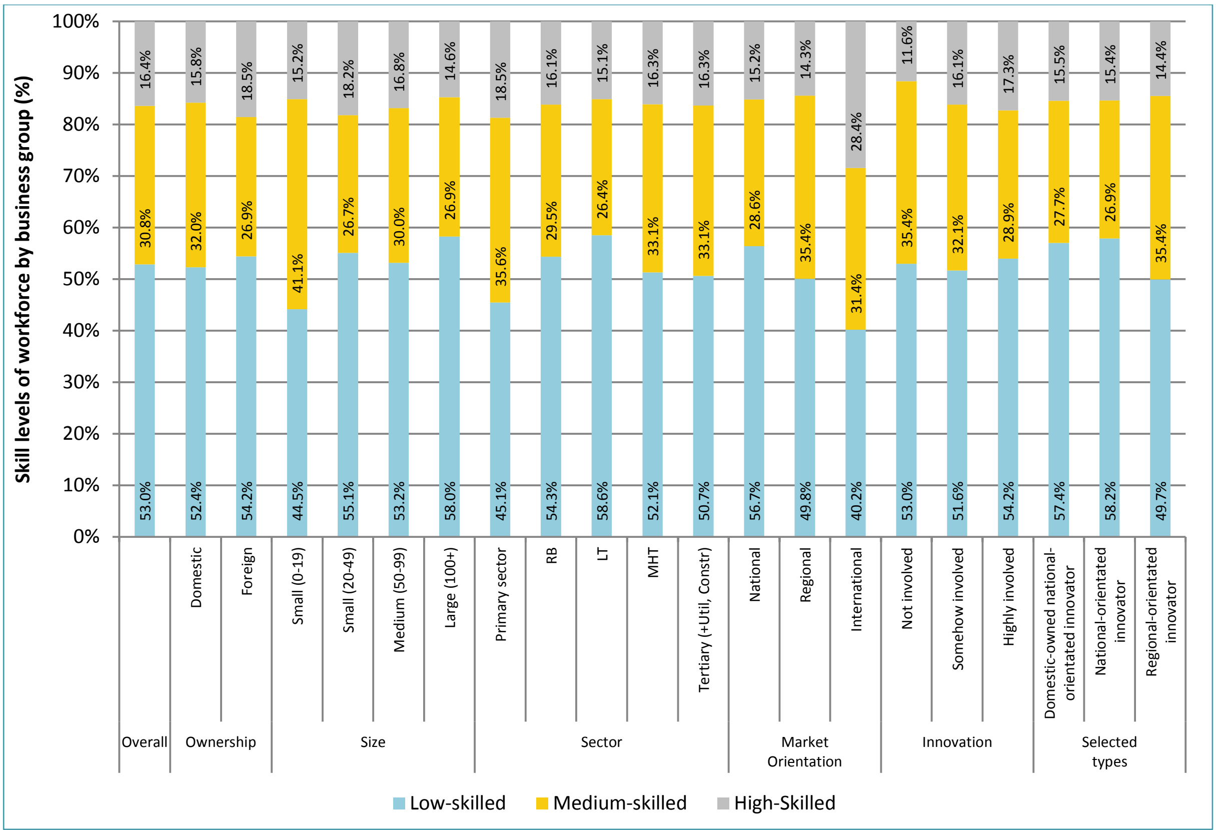
Figure 2: Labour force employment and inactivity trends 2007-2016



Source: LO/FTF Council (2016)

In 2012 a report by the United Nations Industrial Development Organization (MITI and UNIDO, 2012) showed a dominance of low-skilled employees (53%) across small, medium and large firms in Tanzania (Figure 3). Firms with an international market orientation had the highest skilled workforce, with low-skilled workers at 40%, medium-skilled at 31% and high-skilled at 28%. Extractive companies registered the highest proportion of medium-skilled workers.

Figure 3: Workforce skill levels by type of firm (2012)



Source: Andreoni in MITI and UNIDO (2012)

The positive relationship between establishment size and the presence of skilled operative workers is particularly pronounced in the manufacture of clothing, pharmaceutical products, and the repair and installation of machinery and equipment. On the flip side, the ratio of unskilled operatives is systematically higher among small and medium establishments and decreases for larger ones. The lack of a large pool of companies with adequate technological and organisational capabilities is a major demand constraint in the development of a skilled workforce in Tanzania, and cases from other countries confirm this challenging reality (for an example of skills development in the garment sector in Bangladesh, see Gereffi et al., 2011 and Khan, 2017).

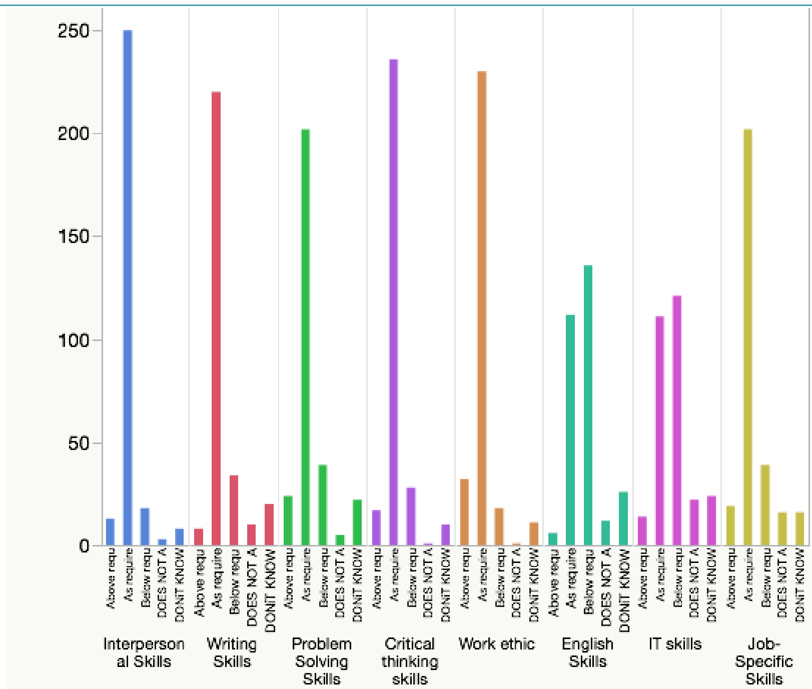
According to the 2013 Census of Industrial Production (see Andreoni (2017b) for a disaggregated analysis), in 2013 the industrial sector employed more unskilled operative workers (55%) than skilled operative workers (45%). The study found that operative skilled workers are largely concentrated in large establishments, especially in the mining and quarrying industry (91%). There is a higher distribution of skilled workers among small and medium establishments accounting for 30% and 11% of workers, respectively. This is especially evident for small establishments involved in the manufacturing of clothing, fabricated metal products (except machinery and equipment) and the furniture industry. Operative unskilled workers are primarily concentrated in the food industry.

The ratio between operative skilled and operative unskilled workers in the total number of employees for the different industries follows a consistent pattern. The operative skilled ratio goes from 0.3 to 0.4 and 0.5, progressing, respectively, from small to medium and finally to large establishments. The positive correlation between increased establishment size and increased presence of operative skilled workers (in particular, in the progression from medium to large establishments) is particularly strong in the manufacture of clothing, pharmaceutical products, repair and installation of machinery and equipment and other transport equipment. By contrast, the ratio of unskilled operatives is consistently higher among small and medium establishments and decreases for large ones (from 0.8 to 0.3 for mining and quarrying, and from 0.7 to 0.5 for manufacturing).

According to the LO/FTF Council Report 2016, based on ILO data, in Tanzania the skills mismatch between labour supply and demand by educational attainment reached 28% in 2013 (with a noteworthy gap between men at 21% and women at 32%). However, the skills mismatch between job requirements and qualifications was significantly higher and reached 40% in terms of incidence of under-education and 14% of over-education.

The most recent World Bank Economic Survey (2017) suggests that English and information technology (IT) skills are the two specific types of skills that are lacking according to employer assessments (Figure 4). Another type of skill set that has been widely reported as lacking among the workforce in Tanzania is work ethics and loyalty to employers. Such 'soft skills' have been identified in several interviews with the Association of Tanzania Employers (ATE) and other private-sector organisations. Further investigations have revealed that companies complain about lack of loyalty, especially with respect to the fact that workers may leave a company for a better salary in another company/competitor. Companies feel that they are thus not able to extract any value from any investments they make in terms of VET for workers.

Figure 4: Type of skills needed in Tanzania (2017)



Source: World Bank Economic Survey (2017)

At lower skill levels lack of work ethics is also mentioned, but with reference to basic skills and reliability of workers. Amongst this group, poor working conditions and salaries often mean that even when workers have formal employment, they also often undertake several other informal activities which implies that workers are not always reliable or fully committed.

Among small and medium enterprises with limited foreign market exposure, references to ’soft skills’ are often made because employers themselves lack the organisational capabilities to assess the specific types of skills that are required to reach certain products and raise quality standards. This is one of the reasons why the World Bank Economic Survey (2017) results do not appear to point to a skills crisis in Tanzania – on the contrary, in key areas such as problem-solving and job-specific skills, a majority of firms reported that their workers reach the required skill levels.

3. Tanzania's vocational education and training (VET) sector: activities, outputs and emerging models

Despite several efforts to invest in the skills development sector in Tanzania over the last decade, the sector has remained weak and presents a number of critical challenges for the country (Tanzania Planning Commission, 2014; see Hong et al., 2016 for an analysis of the impact of skills challenges on firms' productivity).

First, as in other Southern and Eastern African countries, Tanzania needs to integrate and create employment for large groups of young people every year, many of whom come from the poorest segments of society. In this respect, VET schemes attempt to achieve a twofold mandate of inclusiveness and skills development for productive organisations. While these goals can go hand in hand, the limited financial resources may lead to trade-offs and impact on the overall quality of VET. For example, VET programmes are affected by poor quality primary education and the overall adverse environment in which young people operate.

The second challenge relates to the fact that the quality and type of skills developed in Tanzania do not meet the requirements of productive organisations, while at the same time there are very few firms capable of organising and deploying skills effectively. The existence of skills gaps and mismatches has been widely documented in several developing countries (Gereffi et al., 2011; ADEA, 2012; Ansu and Tan, 2012; Adams et al., 2013; AfDB and BMGF, 2015; Fox and Kaul, 2017). Less emphasis has been given to the fact that a lack of competitive productive organisations can hamper the development of experience-based technical skills, which is particularly the case in Tanzania, given its small productive sector and the productivity challenges that the country faces (Andreoni, 2017b; Cti, 2018).

The third challenge that Tanzania faces relates to the financing and governance of the skills development sector. Countries around the world have designed and deployed different funding mechanisms for financing VET (for a review see Ziderman, 2016). In many countries in Southern and Eastern Africa (including Tanzania, Kenya and South Africa), governments have relied on dedicated levies to finance the skills development sector. The governance of these schemes is made particularly difficult by the fact that private organisations hardly see the results of their financial contribution on the ground. In some cases, this is because skills development takes time and is sector-specific, in other cases it is because firms themselves do not develop the organisational capabilities needed for them to be able to benefit from the improved skills (see Higuchi et al., 2017 for an experiment on the impacts of management training in Tanzania). As a result – and despite the fact that both governments and companies have a strong joint interest in developing skills – more often the sector is affected by conflicting dynamics and allegations of resource misallocations and tax avoidance. This is particularly the case in Tanzania, as demonstrated by the continuous conflicting claims around the Skills Development Levy (SDL) over the last decade (ATE, 2011; interviews in 2018 with Cti, the Tanzania Private Sector Foundation (TPSF) and the CEO Roundtable).

3.1. Activities, capacity and outputs

In Tanzania, VET activities and services are run by around 520 providers and promoted under more than 30 programmes operated by international organisations and partners (e.g. the Employment and Skills for Eastern Africa programme (E4D) and Skills for Oil and Gas Africa (SOGA)). VET providers include public VET centres (some owned by the VET Authority (VETA), others by the central and local government), private VET centres, civil society organisations (CSOs) and non-governmental organisations (NGOs), faith-based organisations (FBOs) and private companies in the industrial sector.

VETA is both a provider of VET activities/services with its own 28 VET centres across all regions of the mainland of Tanzania, as well as the regulatory body for the entire skills sector. The National Council for Technical Education (NACTE) is the authority responsible for regulating technical education in Tanzania,[1] but unlike VETA, it does not provide any technical education and training activities/services directly.

VET activities in Tanzania can be clustered into five main groups. The first four schemes are formalised under VETA, while the final scheme is less formal and is work-based.

(a) Institutional-based VET activities:

VET activities are conducted in a VETA-owned VET centre or a registered, privately owned VET centre. VET centres are supposed to be endowed with all the necessary facilities to provide training, including classrooms and workshops fitted with basic practical training equipment/machinery. The duration of VET is determined by the content of the curriculum and ranges between one and three years for ‘long courses’ (LCs) and from three to nine months for ‘short courses’ (SCs). During the training, trainees are scheduled to undergo practical training sessions (‘field attachment’) in an industry for a period ranging between four and eight weeks for the whole duration of long course training. Graduates receive a formal certification from VETA following completion of their training.

(b) Skills Enhancement Programme (SEP):

The SEP scheme is meant to update and/or upgrade the skills of existing employees with a view to upskilling individuals in the face of technical change. VETA collaborates with private companies in identifying skills needs/gaps and designs the curriculum. VETA also delivers trainings using both internal instructors or experts and those from other institutions or companies. The cost of the training is equally shared between the company and VETA (although contributions from VETA are often in the form of curriculum design). Graduates receive formal certification from VETA.

[1] NACTE was formed in 1997 as an autonomous public agency under the Ministry of Education (NACTE Act No. 9, 1997; Amended in 2012).

(c) Dual Apprenticeship Training (DAT, pilot phase run by VETA):

DAT is an LC scheme (running 52 weeks per year for three years) which involves both VET centres and specific industries providing structured training on an alternate basis (according to a 'block release system' model). The industry is supposed to provide well-trained supervisors who oversee on-the-job training, while VET centres are expected to complement this training with theory and additional hands-on training. Currently, the DAT scheme is in a pilot phase in VETA and covers the three sub-sectors of hospitality, electrical and motor-vehicle mechanics. It is under the sponsorship of the German government through the Hamburg Chamber of Skilled Craft.

(d) Integrated Training for Entrepreneurship Promotion (INTEP):

INTEP is an employment-oriented VET scheme focusing on unemployed people or people working in the informal sector (micro/small enterprises) in both rural and urban areas. It aims to improve employability and self-employment.

(e) Informal apprenticeships:[2]

In addition to the DAT scheme, there is also informal apprenticeship training where training is work-based and there is no structured curriculum. Supervisors have experience in their activities, but have limited pedagogical knowledge. No formal certification is issued to graduates, however the majority of apprentices become employed/absorbed within the organisation or enterprise where they have been trained. Such apprenticeships are common practice in both the informal sector and in some industries.

The number of VETA-owned and private VET centres has fluctuated dramatically over the last ten years and, with that, the overall VET enrolment capacity has varied too (see Table 1). In 2009 there were 672 VET centres in Tanzania (of which 21 were VETA-owned), which increased to over 1,000 in 2010. As a result of revisions to the licenses granted to private VET providers, the total number of VET centres went down to 750 in 2011. Since then, the total number of centres (especially privately owned ones) has increased up to 2015 to reach almost 900 centres. In the following two years (2016-17), the numbers have started to decline again and have stabilised at around 550 VET centres in total, 28 of which are VETA-owned (VETA data and interviews).

Since 2000, the growing number of students enrolled in VET programmes has been driven by the substantive increase in the number of students completing primary and lower secondary education. In fact, most entrants to VET programmes are Form 4 graduates rather than primary school leavers (B.E.S.T. various years, VET Data Handbook). According to VETA (2018) (See Table 1), the total number of enrolled students in VET programmes has doubled

[2] VETA also piloted a Recognition of Prior Learning (RPL) scheme to promote apprenticeship in the informal sector by undertaking assessment and recognition of skills acquired informally at a workplace. Informal apprentices' skills are assessed, and targeted programmes are provided to fill the gaps towards examination and certification. During the pilot period, 570 apprentices were identified, 487 were evaluated and 400 passed their examinations and received certification (VETA, 2018).

from 2007 to 2015, reaching around 196,000 students in 2015 (together, SEP and INTEP accounted for around 17,000 enrolled students in 2015). Almost one third of total enrolled students are trained in public VET centres, including those owned by VETA. In 2015, VETA reported that the average yearly drop-out rate was 8% over 2007-2015.

Table 1: Number of VET centres and enrolment rates in Tanzania (2007-2015)

Year	Number of centres			Enrolment						Total enrolment		
				Public (incl. VETA)			Private					
	Public	Private	Total	M	F	Total	M	F	Total	M	F	Total
2007										49153	46613	95766
2008										36152	29646	65798
2009										40304	32634	72938
2010										52666	52154	104840
2011	109	641	750							64,449	56849	121348
2012	173	586	759	21811	15173	36984	63436	45091	108527	85247	60264	145511
2013	179	670	849	37986	12022	50008	54849	49496	104345	102559	61518	164077
2014	189	705	894	44573	14650	59223	64573	65891	130464	109146	80541	189687
2015	189	709	898	55595	15349	70944	65147	60000	125147	120742	75349	196091
Average	165	588	753	33309	12336	45646	54217	52110	106326	89147	64446	153592

Source: VETA (2018)
Note: Enrolment includes both LCs and SCs.

According to VETA (2018), in 2015 the VET centres in Tanzania had a total enrolment capacity of around 190,000 students (see Table 2). More than half of students were enrolled in VET programmes offered by privately owned centres (57,268) and VETA-owned centres (54,000) combined. While the total number of enrolled students (196,091) was slightly above the total VET capacity, utilisation capacity varied greatly among the different types of VET institutions. VETA-owned centres operated significantly above their capacity at 126%, alongside private VET centres (129%), CSOs (128%) and local government centres (120%). In contrast, central government and FBOs were operating far below their capacity (42% and 78% respectively). According to VETA internal audits (personal interview), when underutilisation was reported, this was due to lack of machineries, tools and materials.

The existing VET centres are extremely heterogenous with respect to their capacity and training quality, but also with respect to the proportion of LCs and SCs they are able to provide. Overall, 64% of reported VET capacity is for SCs rather than LCs. The former are not only shorter in time, but also tend to have different offerings in terms of accommodation and access to facilities.

In 2015 the Government of Tanzania set ambitious targets for the end of the Five-Year Development Plan (FYDP 2020/21) of 700,000 VET graduates by 2020/21 (and one million by 2025/26), and an expected proportion of the working population with mid-level skills of 33.7% (and high-level skills of 12.1%). According to VETA (Table 2 and personal interviews) the achievement of these ambitious goals will require a significant scaling up in the capacity of existing VET centres in the country.

Table 2: Centre capacity and enrolment by centre ownership (2015)

Ownership of VET institution	CAPACITY			ENROLMENT			% Enrolment in VET	% Capacity utilisation
	Capacity (LCs)	Capacity (SCs)	Total capacity	Male	Female	Total		
Central government	11,507	16,806	28,313	8,279	3,565	11,844	6%	42%
CSO	4,264	3,127	7,391	5,217	4,218	9,435	5%	128%
FBO	16,387	9,074	25,461	11,078	8,876	19,954	10%	78%
Local government	2,419	1,122	3,541	2,497	1,754	4,251	2%	120%
Private company	9,192	20,544	29,736	19,222	19,268	38,490	20%	129%
Private individual	14,547	37,631	52,178	29,630	27,638	57,268	29%	110%
VETA	10,463	32,982	43,445	44,819	10,030	54,849	28%	126%
Grand total	68,779	121,286	190,065	120,742	75,349	196,091	100%	103%
Percent	36%	64%	100%	64%	40%	103%		

Source: VETA (2018)
Note: Percentage capacity utilisation is the ratio of enrolment against capacity of VET institution.

VETA conducts labour market surveys every year and tracer studies every five years to make sure that the skills provided as part of VET training address existing and future demand from employers. The VETA tracer study conducted in 2010 involving 18- to 29-year-olds suggested that as many as 66% of VET graduates were employed (Table 3) (VETA, 2010). Agriculture and food processing, construction, and clothing and textiles emerged as the sectors with the highest employment rates (above 90%). In terms of employment type, 43% of the employed VET graduates had paid employment in 2010, 50% were self-employed and 7% were employed without renumeration. These results confirm the twin goals of VET in Tanzania of skills development and inclusiveness, as well as the limited absorption capacity in the formal private sector (Moshi, 2014).

Table 3: Employability of VET trainees and reasons for unemployment/inactivity (2010)

	Gender			Employment type		
Employment status	Male	Female	Total	Self-employed	Paid employment	Employed without pay
Employed	67.4%	63.5%	66.1%	50%	43%	7%
Unemployed	22.1%	27.4%	23.9%			
Inactive	10.5%	9.1%	10.0%			
Total	100%	100%	100%			

Reasons for unemployment or inactivity	Male	Female	Total
No demand for the trained skill area/trade/course	19.2%	13.7%	15.8%
Not receiving expected salary/wages	5.4%	2.7%	4.3%
Lack of resources to start self-employment and confidence	22.3%	32.1%	26.3%
Health reasons	0.5%	2.7%	1.4%
Attending training to fill gaps/upgrading	47.5%	33.6%	41.8%
Housework	2.5%	11.8%	6.3%
Other external factors, including seasonality	2.6%	3.3%	2.9%
Total	100%	100%	100%

Source: Author based on VETA (2010)

The proportion of VET graduates who reported being unemployed or inactive in 2010 was 23.9% and 10% respectively. Unemployment rates were notably higher among female graduates than males and reached 27.4%. If we exclude the students who were still attending training to fill skills gaps at the time of the tracer study (41.8%, of which 47.5% males and 33.6% females), the two key reasons for unemployment/inactivity of VET graduates were: lack of resources to start a business (26.3%) and no demand for the trained skills (15.8%). Women seem to possess trained skills that are in relatively higher demand than men (13.7% of females' skills weren't in demand compared to 19.2% of males' skills). Given that male enrolment in VET programmes is higher overall (see Table 1 and 2), this proportion of men reporting no demand for their skills is highly problematic.

3.2. Emerging VET models: private- and public-led partnerships

Over the last decade there have been several public–private partnership (PPP) initiatives in Tanzania to promote skills development and bridge the gap between public providers and industry. The first private-led PPPs have been implemented across the three VETA centres in Moshi (Integrated Mining Technical Training – IMTT project), Lindi and Mtwara (Enhancing Employability through Vocational Training– EEVT project), and Mtwara (Petrobras programme). The IMTT project is the oldest and perhaps the most established initiative. More recently, the government has also launched two new DAT and National Internship schemes to be promoted by the Ministry of Labour under a new public-led PPP.

Private-led PPPs: the Moshi Centre

IMTT started in 2009 under the lead of the Tanzanian Chamber of Minerals and Energy (TCME) in partnership with its members – African Barrick Gold and Anglo Gold Ashanti initially, later joined by another six sponsors[3] – and the VETA Moshi campus. A Memorandum of Understanding (MOU) was signed between TCME and VETA to guide the project through the different phases of planning and implementation through to monitoring, evaluation and sustainability. TCME member companies made US$2.4 million available towards project implementation with a focus on: a) converting/refurbishing some of the existing VETA facilities; b) building a completely new training workshop and several classrooms; c) retooling/upgrading of the existing welding, electrical and motor vehicle mechanic workshops; d) training of trainees (six sent to South Africa to upgrade their skills by attending three-month tailormade 'Train the Trainer' programmes); e) exposing trainers to higher training standards by undergoing staff development at mines; f) recruiting a project manager from an overseas partner organisation to oversee implementation of the programme; and g) guaranteed maintenance of equipment by TCME.

The IMTT initiative started in response to the shortage of skills required by the highly technical mining operations in Tanzania and the increasing salaries that qualified miners were

[3] These are: Sandvik Mining, Kabanga Nickel, Pan African Mining Services, Shanta Mining, Mantra Resources (Uranium One) and Atlas Copco.

managing to secure with the opening up of new mines. The programme provides a three-year training course for students who have successfully passed lower secondary school as a minimum. After a generic four-month skills course in the use of hand and measuring tools, basic machine and drawing, students start on a continuous rotation between theoretical, practical and on-the-job training, which continues until they qualify at the end of the third year. Successful students receive a NACTE level four certificate at the end of the course in their area of specialisation. Five areas are offered: electrical, fitting/fitter mechanics, welding/plater welding, diesel mechanics/heavy moving equipment, and auto electrical.

TCME manages implementation of the programme and student scholarships. Companies provide scholarships of US$1,500 for each student, of which US$600 is transferred to VETA Moshi to cover full board and a small salary. The remaining resources are retained by TCME to maintain and upgrade training equipment, to train trainers and to provide training incentives. For 2013, the Voluntary Service Overseas (VSO) reported estimated costs of US$2,500 per student for the IMTT three-year programme, which targets four occupations. Annual enrolments were reported at 100 students per year (300 at any one time across the three-year course), with 90% (140) of graduates in employment with sponsor companies as at July 2013. Since then, the programme has increased its student enrolment numbers to 200 annually, and many graduates are in high demand in other sectors as well (IMTT, 2017).

Alongside these outcomes, the IMTT has reached a high level of efficiency by combining targeted investment with a radical reform of its curriculum to deliver a huge increase in capacity within its existing infrastructure. In 2013, the programme occupied 20% of the physical footprint of the VETA Moshi Centre, and employed approximately 20% of its teachers, but trained at least half of the total students on the site (VSO, 2014).

Several factors have contributed to the success of the IMTT initiative, including pre-assessment students; the quality of trainers; efficient use of facilities, tools and rotational system; and on-the-job experience provided by the various companies with high operational and technical standards and organisational capabilities. The latter is perhaps the most important factor and suggests the need to rethink the curriculum offered by VET centres for LCs. The IMTT initiative demonstrates that even for medium-/high-level technical skills, three years of mainly theoretical education is too much and ineffective, while more practical training and industry exposure can increase trainees' readiness and employability (ibid.). The shortening of courses could also increase VETA capacity and potentially increase the number of enrolled students.

3.2.1. Public-led PPPs: national apprenticeships and internship programmes

Over the last two years, the Prime Minister's Office for Labour, Youth, Employment and Persons with Disability has been assigned a share of the SDL to pilot two new national apprenticeship and internship programmes. These pilots are supposed to be part of a five-year skills development programme organised around three main activities:

(a) National apprenticeship (guidelines published in September 2017)

- A scheme for the tourist industry already involves 200 employees and consists of 40% formal training and 60% training in hotels

(b) National internship (guidelines published in September 2017)

- Only for graduates
- Interns receive a monthly salary of 300,000 Tanzanian Shillings (TShs): the money is transferred directly to a personal bank account that they have to open when they begin the scheme. Companies hosting interns sometimes top up this amount.
- The Ministry of Labour approached the Association of Tanzanian Employers (ATE) and the TPSF to identify possible companies willing to host interns but they found significant resistance and diffidence (companies fear this is a way to add new taxes/levies and are concerned about facing additional costs in hosting interns).

(c) Recognition of Prior Learning (RPL) (no guidelines produced so far)

- The Ministry of Labour agreed with some private companies about the possibility of obtaining a rebate if they want to invest in upskilling some of their worker.

The Skills Development Programme is run by a Steering Committee including: ATE, the Trade Union Congress of Tanzania, TPSF, the Ministry of Finance, the Ministry of Industry, the Tanzania National Business Council (TNBC), VETA and NACTE**.** The Department of Employment hosts the programme and has a small Skills Development Unit of three people to run the programme (at least during the two-year pilot phase, after which the programme will be evaluated at the end of 2018)**.** The Tanzania Employment Services Agency (TAESA) is expected to implement some of these new programmes after the pilot phase. The first pilots have focused on the leather sector and hotels in Arusha.

4. The Skills Development Levy (SDL): financing and governance of the skills sector

4.1. SDL regulatory framework and its recent development

The SDL is a levy collected by the Tanzania Revenue Authority (TRA) under the VET Act and Income Tax Act to promote skills development in Tanzania.[4]

According to the VET Act (Revised edition 2006; Section 14, Act No. 14 of 2001), 'the SDL is charged based on the gross pay of all payments made by the employer to the employees employed by such employer in the particular time. Where in any case an employer pays emoluments to any employee at intervals of less than a month or at intervals of greater than a month, such payments shall apply as if such employee was entitled to monthly payments and the monthly chargeable emoluments of such employee in respect of any month shall be deemed to be the chargeable emoluments that would have accrued to the employee had the emoluments been payable monthly. The gross emoluments is the sum of amount from salaries, wages, payments in lieu of leave, fees, commissions, bonuses, gratuity, any subsistence travelling, entertainment or other allowance received by employee in respect of employment or service rendered.'

Since the fiscal year 2016-17 (Finance Act 2016, Part XVI), the SDL rate has been charged at 4.5% of the total emoluments paid to all employees during the month. An 'employee' is considered to be permanent employees, part-time employees, secondary employees and casual laborers, etc. The SDL has to be deducted for the purpose of ascertaining the taxable income in accordance with the Income Tax Act (section 11).

The SDL must be paid by any employer who employs four or more individuals on or before the seventh day of the month following the month of payroll. The employer must calculate the levy and pay this amount to the Commissioner's account according to the tax region in which the employer is registered.[5] The employer is also expected to prepare and remit half-year certificates which tally with the monthly returns submitted during that period.

[4] In the 1995 VET Act the SDL was named the VET Levy. The levy was renamed the SDL in Act No.14 of 2001.
[5] SDL payments should be made using form ITX 300.01.E - Employment Taxes Payment Credit Slip.

The SDL does not apply for the following institutions (see below references to exemptions introduced in the Finance Acts 2014 and 2015):[6]

(a) government departments or public institutions that are wholly financed by the government

(b) diplomatic missions

(c) the United Nations (UN) and its organisations

(d) international and other foreign institutions dealing with aid or technical assistance

(e) religious institutions whose employees are solely employed to (i) administer places of worship; or (ii) give religious instructions or generally to administer religion

(f) charitable organisations7

(g) local government authority

(h) farm employers

(i) registered educational institutions (private schools including nurseries, primary and secondary schools; VET schools; universities and higher learning institutions).

In response to significant lobbying from private companies and employers (see ATE Report, 2011), the Government of Tanzania has revised the SDL financing model. Some of these changes were also triggered by the fact that other countries such as Kenya apply SDL at only 2% (see the Kenya case study in section 5.1). The changes mainly relate to the SDL rate, while a number of provisions and exemptions are recognised in the regulatory framework.

In 2013, under the second Kikwete Presidency, the Finance Act amended sections 14 and 19 of the VET Act and reduced the SDL rate from 6% to 5%. Moreover, the SDL exemption provision guaranteed to 'any Government department and to any public institution which is non-profit making and wholly financed by the Government' was amended to include 'any Government department or public institution which is wholly finance by the Government'. This first revision of SDL exemptions was followed by two other revisions in the following two years. First, in 2014, the Finance Act extended the exemption from the SDL to diplomatic missions, the UN and other international organisations, religious institutions, charitable organisations and local government authority. Second, in 2015, the Finance Act extended the exemption from the SDL to 'farm employers whose employees are directly and solely engaged in farming' and made clear that this exemption 'shall not include employees who are engaged in the management of the farm or processing of farming products'.

Despite these reductions in the SDL rate and exemptions, between 2014 and 2015 the Ministry of Labour introduced an *Employee Compensation Fund,* with contributions of 1% from employers which effectively cancelled out the reduction in the SDL rate. Since this

[6] Zanzibar is exempt from a-d and g.

[7] Defined as 'a resident entity of a public character registered as such and performs is functions solely for: (a) the relief of poverty or distress of public; (b) provision of education or public health; and the Commissioner General is, upon due diligence making, satisfied that the business conducted by such entity is for public good.'

time, public-sector employers in Tanzania have been required to contribute 0.5% to the Fund while the private sector has been required to contribute 1%. This Employee Compensation Fund levy applies to all employers and employees in Tanzania and employees who ordinarily work outside Tanzania but who have been stationed in mainland Tanzania for more than 12 months. Contributions for the Fund are determined on a calendar monthly basis.

In 2016, the newly elected government approved a further reduction of the SDL rate from 5% to 4.5%, while the SDL base and exemptions remained unchanged (Finance Act 2016). In the following year, however, the Finance Act 2017 introduced a new SDL exemption for the registered education institutions listed in (i) above. In the 2017 Task Force for Tax Reform Meeting, the Confederation of Tanzania Industries (Cti) proposed to reduce the SDL rate further still to 4%, while ATE proposed to reduce it to 3.5%, closer to the Kenyan levy. The government response was negative, and it was reported that a reduction of 0.5% would have an impact of 30 billion TShs (personal interview with Cti and ATE).

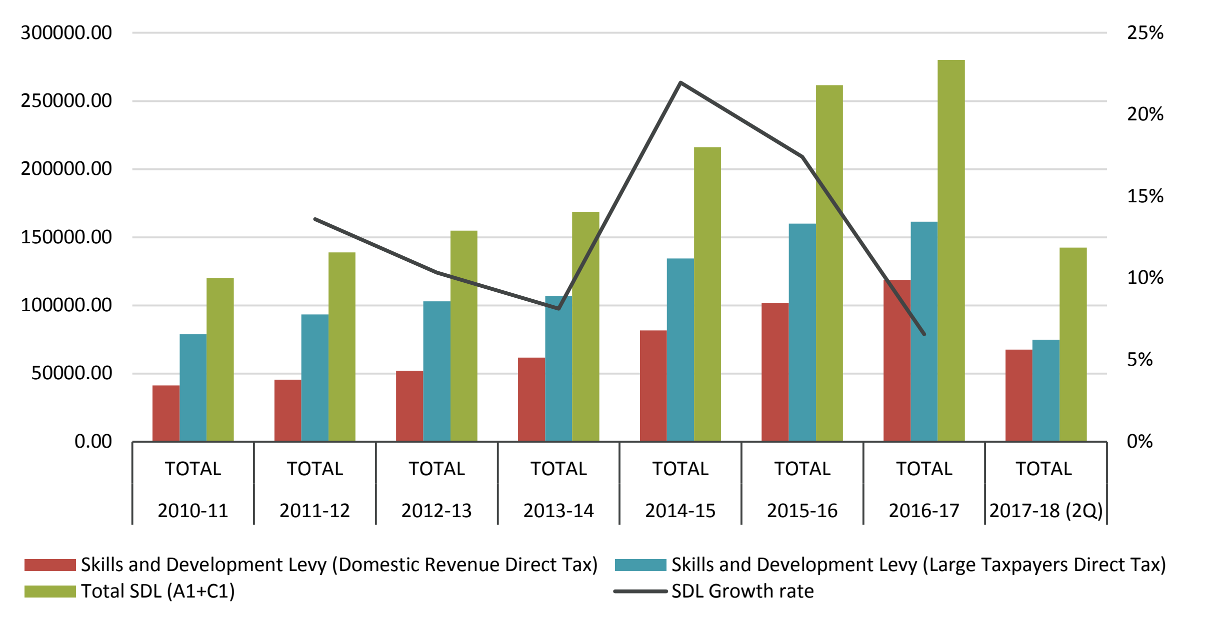
4.2. SDL revenue and allocation: a quantitative assessment

According to the tax collection statistics provided by the TRA,[8] the average total SDL collected between 2010 and 2017 amounted to 191,490 million TShs per year, while for the first two quarters (2Q) of 2017-18 it already amounted to142,418 million TShs suggesting a significant upward trend. Since 2010, the amount collected as SDL has been growing at a compound annual growth rate (CAGR) of 12.87%, registering significant peaks in 2014-15 (22% annual growth) and 2015-16 (17% annual growth). The SDL is reported under two main departments: the Domestic Revenue Department (Direct Tax) and the Large Taxpayers Department (Direct Tax). The latter was introduced in 2001 and includes around 475 companies with a threshold of 400 million TShs in revenue. [9]

Figure 5 shows the total SDL revenue between fiscal years 2010-11 and 2017-18 (2Q), as well as the annual growth registered in SDL collections. As previously discussed, the SDL went through various revisions during this period, both with respect to the levy rate (decreasing) and base (different employer exemptions). The figure also shows the SDL contributed by small and medium employers (reported under domestic revenue direct tax) and that paid by large employers (reported under large taxpayers direct tax). As discussed in section 2, given the skewed industrial structure of the Tanzanian economy, large taxpayers contributed 66% of all SDL collected in 2010.

[8] The data is available quarterly from 1997-98 to 2017-18 (2Q). The analysis in this section can be expanded for 20 years.
[9] See http://allafrica.com/stories/201801030440.html

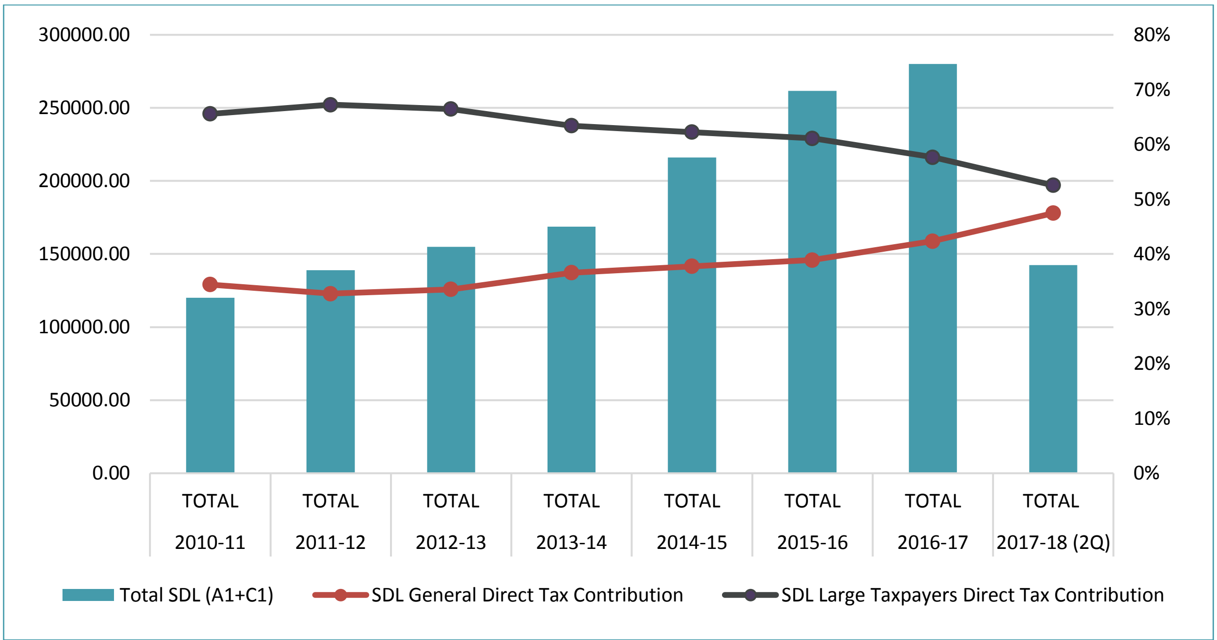
Figure 5: Total SDL revenue (2010-2017/18 (2Q), million TShs)



Source: Author's elaboration based on TRA tax collection statistics

It should be noted that the contribution of small and medium enterprises and large taxpayers has been rebalancing since 2010, however. As shown in Figure 6, the share of SDL paid by large taxpayers out of the total SDL collected has decreased from 66% in 2010-11 through to 2012-13, to 58% in 2016/17 and 53% in 2017-18 (2Q). As previously discussed, these changes in contribution shares among different types of employers might relate to multiple factors including changes in the SDL rate and base, and points to an expansion of the overall SDL tax base since 2015-16.

Figure 6: Shares of SDL contribution by employer type (2010-2017/18 (2Q), million TShs)



Source: Author's elaboration based on TRA tax collection statistics

The SDL is a significant levy across tax departments in Tanzania (Table 4). SDL accounts for 4% of the total domestic revenue from direct tax (excluding large taxpayers) and the collected amounts have remained pretty stable throughout the period under review. If we consider the total tax burden for large taxpayers, thus including excise duty local, value added tax local and direct taxes, on average since 2010 the SDL accounts for almost 3% (2.93%) of the total tax burden. Finally, the total SDL collected across small, medium and large taxpayer/employers accounts for 3.26% of total domestic revenue.

Table 4: The significance of SDL across tax departments (million TShs)

	SDL rate	6%	6%	6%	5%	5%	5%	4.5%	4.5%
	DEPARTMENT	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (2Q)
		TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL
A	**Domestic revenue (gross)**	996997	1225532	1440219	1759997	1940862	2428096	2874518	1594342
A1	SDL (domestic revenue direct tax)	41304.60	45495.68	51979	61699	81601	101821	118596	67572
B	**Customs and excise (gross)**	2336366	2616747	2971799	3626742	4138464	5351079	5647947	3139284
C	**Large taxpayers (gross)**	2131143	2826361	3619104	4491991	4585819	5441227	5679510	2980817
C1	SDL (large taxpayers direct tax)	78701	93405	102937	106946	134518	159907	161522	74846
	TOTAL A+B+C (gross)	5464507	6668641	8031122	9878731	10665146	13220404	14201975	7714443
	Total SDL (A1+C1)	120006	138901	154916	168645	216119	261729	280118	142418
	Less: Transfers to refunds A/C & VETA	171595							
	Less: Transfers to VETA		42014						
	Less: Transfer to VETA & others			52024	8243				
	Less: Transfers to VETA & vendor (MV D/licence)					64880	9219		
	SDL (A1) / domestic revenue	4.14%	3.71%	3.61%	3.51%	4.20%	4.19%	4.13%	4.24%
	SDL (C1) / large taxpayers	3.69%	3.30%	2.84%	2.38%	2.93%	2.94%	2.84%	2.51%
	Total SDL / A+C	3.84%	3.43%	3.06%	2.70%	3.31%	3.33%	3.27%	3.11%

Source: Author's elaboration based on TRA tax collection statistics
Note: Data on transfers to VETA have been nominated and reported discontinuously by TRA.

The TRA Corporate Plan 2017/18-2021/22 (TRA, 2018) projects SDL collections for mainland Tanzania and Zanzibar (Table 5). These projections suggest an expectation by the government that there will be a significant and steady increase of SDL revenue of 13% (CAGR) to reach a peak of 616.7 billion TShs, more than double the amount collected in the fiscal year 2016-17.

Table 5: SDL revenue projections for mainland Tanzania and Zanzibar (2017/18-2021/22, billion TShs)

SDL revenue projections	2017/18	2018/19	2019/20	2020/21	2021/22
Tanzania mainland	329.2	389.7	461.1	527.4	616.7
Zanzibar	10.4	12.1	13.7	15.5	17.7

Source: Author's elaboration based on TRA (2018)

According to the original 1995 VET Act, the SDL (named VET Levy until 2006) was collected directly by the TRA and allocated one third of the revenue to the VET Fund – a ringfenced fund for financing VETA activities. The 1995 VET Act was silent with respect to the remaining two thirds of the levy. The revised VET Act 2006 incorporated Act No.14 of 2001 whereby the levy was renamed the SDL and new provisions were introduced with respect to collection and allocation, as well as overall resources of the VET Fund.[10]

According to the revised Act, 'the SLD may be paid directly to the Commissioner or by such other agency as the Minister may after consultations with the Minister responsible for finance appoint'. The Commissioner is expected to submit two thirds of the amount collected to the Treasury, and one third to the VET Fund.[11] Although prior to 2013 the Act failed to specify where the remaining two thirds should be allocated, several government sources reported that this portion was allocated to the Higher Education Students Loan Board (HESLB). This legislative vacuum was later addressed in 2013.

In 2013 the Miscellaneous Laws Amendment Act No. 3 amended the Education Fund Act 2001 and linked the SDL to the Education Fund managed by the Tanzania Education Authority (TEA). The Education Fund was established in 2001 as a basket fund for 'improvement of access, equity and quality of education'. With the 2013 Laws Amendment, resources allocated to the Education Fund are (emphasis added):

(a) 'such sums not less than two per centum (2%) of the annual Government recurrent budget less than the amount payable in defraying the national debt as additional funding to educational levels'

(b) *'skills and development levy as provided for under the Vocational and Education and Training Act'*

(c) 'such sums as may be appropriated to the Fund by the Parliament'; and

(d) 'such sums as may be accrued to the Authority by way of loans repayment, interests, grants, projects or donations from any source within or outside the United Republic.'

Moreover, the following 'formula for allocation of funds' under the Education Fund was introduced: HESLB (64%); TEA (30%); NACTE (3%); Tanzania Commission for Universities (TCU) (3%). Given that the VET Act was not amended, the Laws Amendment seems to make reference to the remaining two thirds of the SDL but it does not explicitly say if it should all be allocated to the Education Fund. The resources that HESLB receives are therefore coming directly from the Education Fund, of which a certain non-specified amount is covered by the SDL.

Despite these allocative rules having not changed formally since 2013, interviews with several stakeholders – including the Prime Minister's Office for Labour, Youth, Employment and Persons with Disability and the TPSF – reported two important changes in the SDL allocations and the allocation process (and the related VETA budgeting process).

[10] The VET Fund includes the following resources: a) all assets owned by the National Vocational Training Division; b) such sums as may be paid as one third of the SDL; c) such sums as may be provided by Parliament; d) such sums as may be paid to VETA by way of grants or donations from any source within or outside Tanzania.
[11] 'The Minister for Finance may after consultation with the Minister make regulations relating to the collection and distribution of the levy under the VET Act' (revised VET Act 2006).

According to our interviews, during the Tanzania National Business Council in 2015 it was reported that total SDL revenue for the fiscal year amounted to around 120 billion TShs and that the government would have started allocating the funds according to the following formula: one third to VETA (as for the VETA Act), one third to HESLB (to support zero interest rate loans for students in specific subjects) and one third to the Prime Minister's Office for Labour, Youth, Employment and Persons with Disability (to finance a two-year pilot of a new skills development programme focusing on national apprenticeship and internships – see section 3.2). The resource allocation figures provided were of roughly 40 billion TShs for VETA and HESLB respectively, and 15 billion TShs for the pilot skills development programme (although half of this was returned to the Treasury given lack of capacity for implementation).

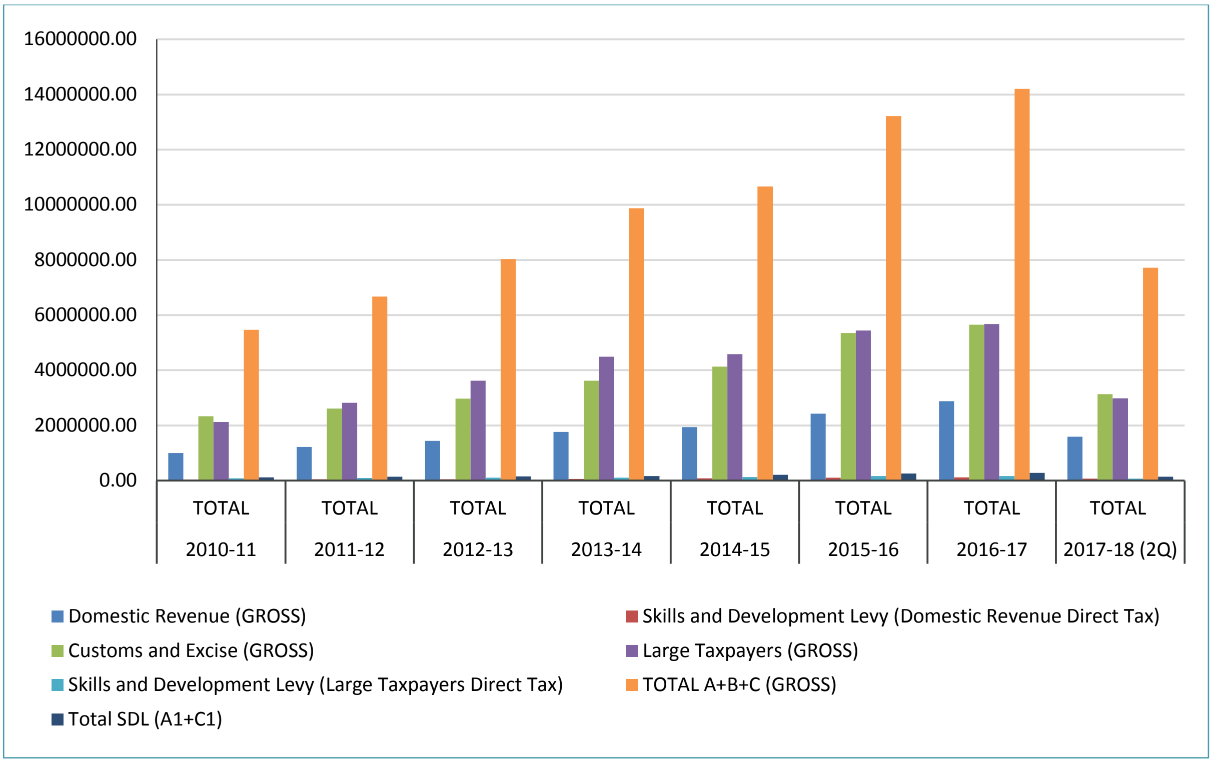
Figure 7 illustrates SDL allocation from 2010 to 2017. It should be noted that the figures reported by the different stakeholders do not always match those reported by the National Budget and Auditor General Report. This is due to the fact that the two main agencies to which the SDL is allocated do not know the exact amount collected and are provided with SDL figures indirectly through the Ministry of Finance. In the case of the HESLB, despite the fact that the total allocation is far above 350 billion TShs per year, the board was able to report that between 60-70 billion TShs were resources coming from the remaining two thirds of the SDL. The lack of clarity in SDL allocation has recently increased with changes to the allocation and budgeting process and government commitments taken in the TNBC that were not formalised.

The SDL allocation and budgeting process has changed with respect to VETA in two significant ways. First, according to the VETA Act, one third of the SDL is supposed to go straight from the TRA to the VETA Fund. Since 2013, however, when the allocation process changed, 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.[12]

Second, as for the budgeting process, the VETA budget is constructed 'bottom-up', from individual teachers to each department within a VETA centre and then VETA centres. It is then reviewed and approved under each VETA zone, and finally consolidated and approved by VETA Head Office (see more on accountability under section 4.3 that follows). While this process is still in place, since 2016 the Ministry of Finance has started applying a budget ceiling of 53 billion TShs on the VETA budgets and providing projections for the construction of the five-year VETA corporate plan.[13]

[12] Under the previous regime, VETA managed the VET Fund and was able to gain short-term interest by depositing funds with reputable banks. The interest was used to support recurrent development activities or simply for smoothing the availability of funds, especially when the monthly transfer from TRA was lower than expected.
[13] Even if VETA asks for more resources, it ends up receiving the same amount (and again it is not clear if this corresponds to the full third of SDL, partially because VETA does not know the total SDL revenue collected from TRA and also because resources are now transferred through the Ministry of Finance and Ministry of Education).

Figure 7: SDL allocation (2010-2017, million TShs)



Source: Author's elaboration based on several sources: TRA tax collection data; National Budget 2017/18; Auditor General Report 2018; own interviews with HESLB and Prime Minister's Office for Labour, Youth, Employment and Persons with Disability.

4.3. SDL governance and accountability

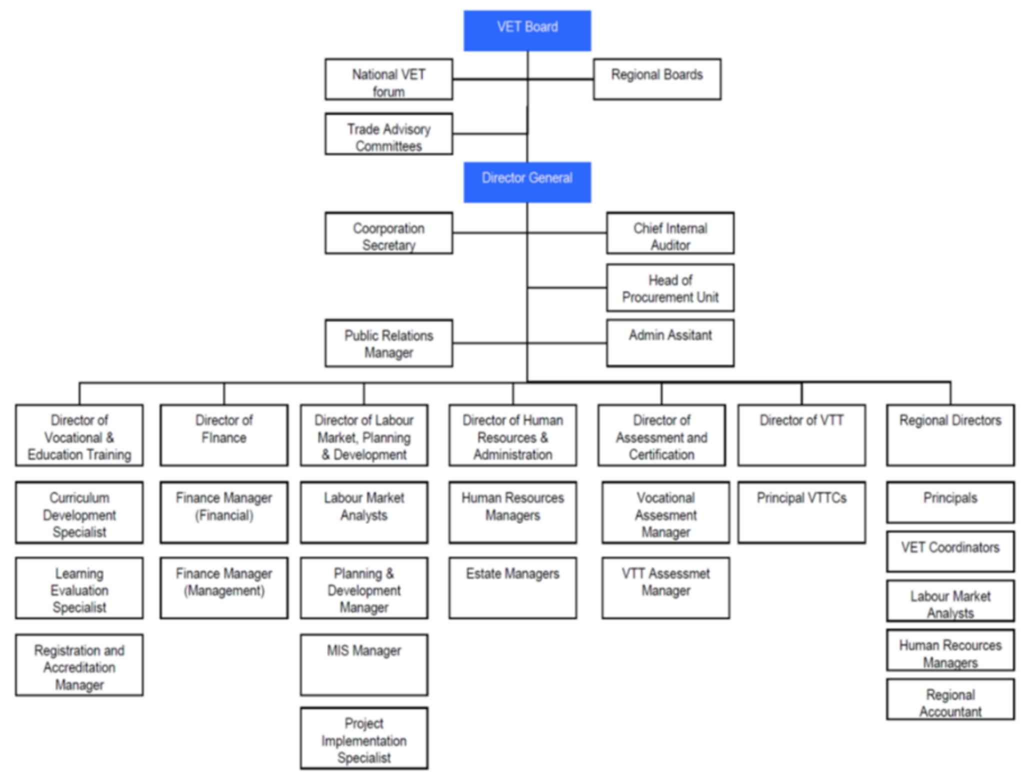
Given that one third of SDL revenue is supposed to be allocated to VETA and that private VET centres can receive indirect SDL contributions only through VETA, the SDL accountability system relies mainly on the VETA governance and accountability structure, especially with respect to internal budgeting 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 (and in particular the HESLB).[14]

VETA is an autonomous government authority under the Ministry of Education, Science and Technology since 2006 (before it was under the Ministry of Labour) and carries overall responsibility for the VET sector. VETA performs its 'double function' – as regulatory authority and VET provider – through a VETA Head Office located in Dar es Salaam and nine Regional/Zonal Boards and an office governing and managing the nine zones.[15] All VETA-owned and privately owned VET centres are clustered under one of these regions/zones and responds 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.

[14] An analysis of the accountability and governance structure of the HESLB is beyond the scope of this paper.
[15] Northern zone; Eastern zone; Central zone; Lake zone; Western zone; South East zone; South West zone; Dar es Salaam zone; and Highland zone.

According to the VETA Act, VETA is governed by the 'VET Board' which comprises eleven members with a Chairperson appointed by the President and ten other members appointed by the Minister of Education, Science and Technology as follows: a) two members to be nominated by the organisations representing employers; b) two members to be nominated by trade union movements (to represent employees); c) three members to be nominated by each of the ministries responsible for industry, labour and education; d) three members to be nominated by NGOs that manage vocational education and training institutions. The appointed board members are expected to hold office for three years, after which they may be eligible for re-appointment. The Director General is the Chief Executive of the VETA Authority and is directly responsible to the Board for the day-to-day administration of the affairs of the Authority. After consultations with the Minister, the Board appoints the Director General of the Authority on such terms and conditions as the Board may determine. Currently, VETA is managed through five main Directorates and is supported by a Chief Internal Auditor, one Head of Procurement (although procurement is only centralised for a limited number of items) and a Public Relations Manager (Figure 8).[16]

Figure 8: VETA governance structure



Source: Author based on interviews with VETA.

[16] Section 8 of the VET Act provides for the establishment of Trade Advisory Committees. Trade Advisory Committees with experts from the labour market are technical arms of the Board responsible for approving training standards and curriculum. Twelve (12) Trade Advisory Committees have been established for the following sectors: mechanical, electrical, civil and building engineering, automotive, commercial and business support, clothing and textile, transport, extractive industry, printing, cosmetology, agriculture and food processing, hospitality, and Tourism and Travel Agencies.

Regional/Zonal VET Boards undertake obligations delegated by the National VET Board and also determine priorities for their zones. Each Zonal VET Board comprises not more than seven members, including representatives from key stakeholders in VET, namely, a chairperson to be appointed by the National VET Board; three members nominated by the organisations representing employers; two members to be nominated by trade union movements representing employees; one member to be nominated by the Regional Administration; and one member to be nominated by NGOs representing training institutions. The Regional Director is Secretary to the Regional Board.

Zonal Boards are in charge of nine functions:

a) to coordinate VET activities within the region

b) to provide direct supervision and serve as the governing board for all vocational training centres within the region

c) to provide guidelines and supervision on budget preparations by VET institutions within the region

d) to evaluate budget proposals for vocational training centres managed by the authority within the region and forward the budgets to the Board

e) to determine regional priorities for VET

f) to authorise vocational training centres managed by the authority within the region to utilise any funds raised from fees or other activities of the centres

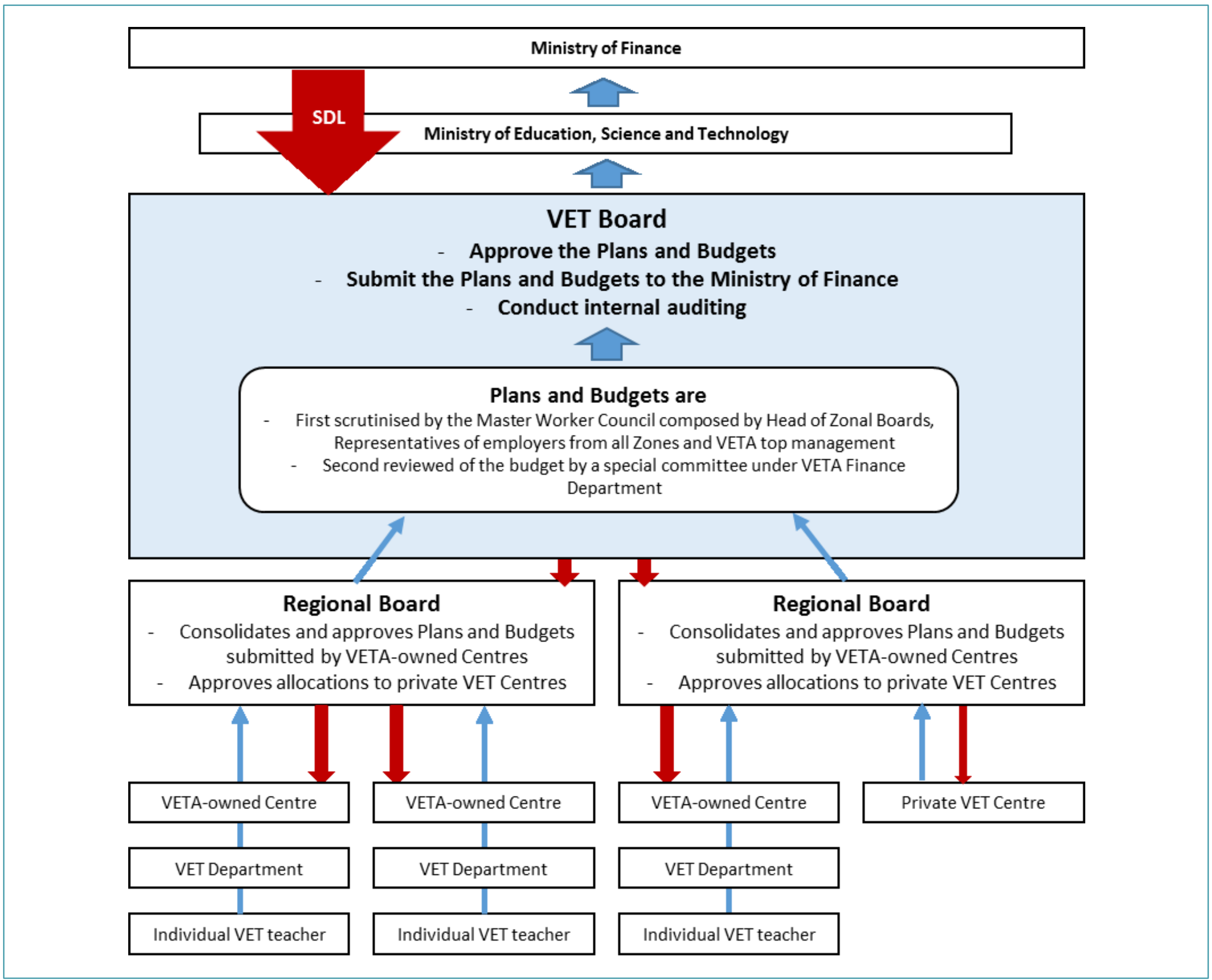
g) to inspect vocational training centres according to regulations and guidelines laid down by the Board

h) to prepare annual reports to the National Board on training and related activities in the region

i) to advise the National Board on any matter related to the improvement of VET in the region.

VETA produces a 'Corporate Plan' every five years which goes through a mid-term review process. As shown in Figure 9, the plans and budgets are constructed according to a bottom-up model which is also supposed to guarantee accountability in budgeting, allocation and review of outcomes.

Figure 9: VETA budgeting and accountability process



Source: Author based on interviews with VETA

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, from interviews with private-sector stakeholders (ATE and Cti) it seems that these Boards are rarely used for accountability purposes, even during the revision of the budgeting process or outcomes assessment, 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 – including the General Auditor – rely on the internal processes and data. Thus, there is no real external auditing, beyond the internal multi-stakeholder boards. Being located beneath the VETA Head Office, the Internal Auditor has limited capacity to monitor decisions taken at the zonal board levels. Some of these decisions – for example, the introduction of short-term courses and their rates, or the allocation of VETA resources to private VET providers – rely on cross-checks by the different stakeholders involved in these boards.

Since 2015/16 the government has applied increasing pressure on the TRA to improve domestic resource mobilisation. As shown in section 4 (Table 4), across all revenue departments, domestic revenue increased by 18% from 2015-16 to 2016-17, while the contribution from large taxpayers increased by 4%. SDL revenue increased by 16% among small and medium employers, and by 7% among large taxpayers/employers. If we compare the SDL revenue collected in 2010/11 and 2016/17, it has more than doubled.

This increasing pressure on tax collection has gone hand in hand with: a) stronger control by the central government (and the Presidency, in particular) over domestic revenues generated by all Ministries, Departments and Authorities (MDAs); and b) a process of centralisation of financial resources. As discussed in Andreoni (2017a), the centralisation of financial resources generated at all government levels is an integral part of the transformation of the Tanzanian political settlement. This centralisation process manifests in three complementary ways.

First, pressure from the Treasury for all domestic generated resources via direct and indirect taxation, duties and levies to: a) reduce potential leakages; b) increase the availability of central government funds and space for policy actions, in particular to fund major infrastructural investments; and c) reduce the amount of resources circulating in the system that could be captured and controlled by internal factions and clientelistic networks. This has been seen in many areas, for example, with respect to the reform of the agricultural sector's system of levies and subsidies, especially with respect to the fertiliser scheme.

Second, stricter control over the budgeting process of MDAs via the introduction of budget ceilings – as in the case of the VETA – and a stricter supervisory role for the Ministry of Finance to mainly reduce waste or personal resource capture. This has resulted in strict control over MDA spending for workshops, travelling, per diems, etc., and increased use of technologies to collect taxes and financial transactions (from paying taxes to fines). While this has allegedly reduced some of the leakages throughout the different allocation/budgeting processes, accountability is still weak and mainly relies on internal auditing processes, as seen in the case of VETA. These processes become increasingly less robust and vulnerable to resource capture the more the budgeting and allocation processes involve multiple layers of MDAs spanning the country. More critically, accountability of outcome and performance assessment remains pretty poor, as shown in the case of the VETA system.

Finally, and perhaps more critically, the government and the President have centralised the rents allocation process both via ad hoc deals in a number of sectors (see Andreoni, 2017a), and via the formal centralisation of key functions such as the allocation of import licences. For example, import licences for sugar went under the control of the President in 2016, and private companies which were misusing these licences were found accountable and denounced in several key fora such as the TNBC.

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 MDAs, especially at the local level. In the case of VETA, for example, the more traditional long courses have been increasingly complemented by short courses.

4.4. VETA self-financing through short courses

VET centres offer various types of courses. We can distinguish between them by three main factors:

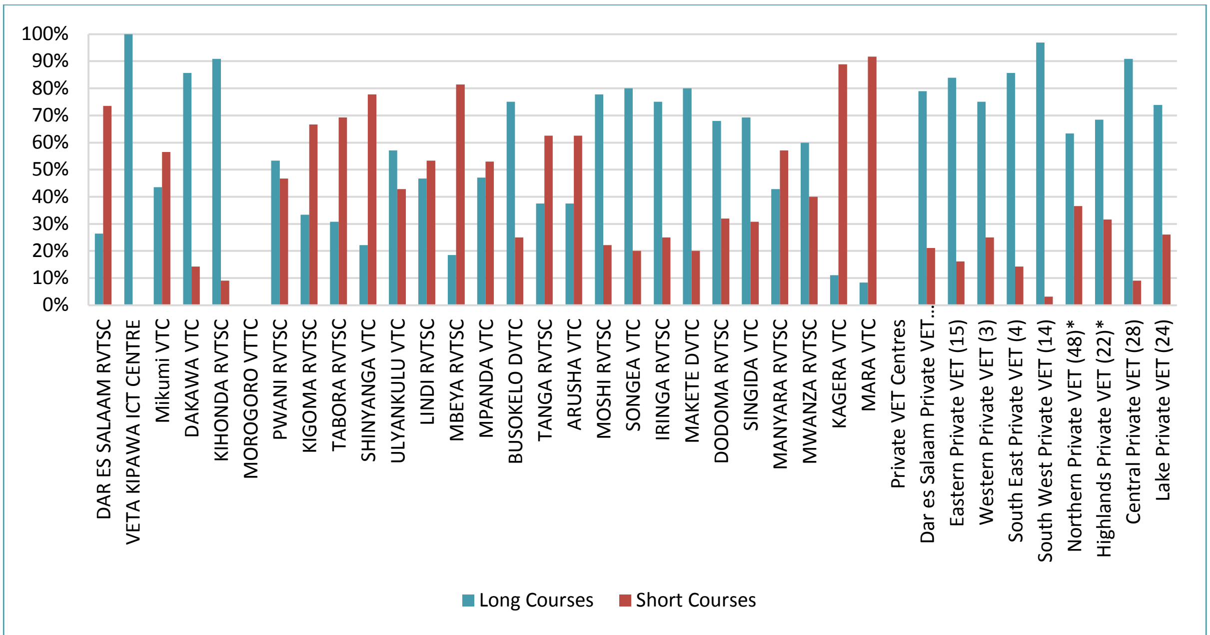
(a) the skills/tasks and professional profile targeting one or more sectors

(b) the *length of the programme*, spanning from one to three years for LCs and from three to nine months for SCs offered by both VETA-owned and private (registered) VET centres

(a) the *fee rate range*, from the highly subsidised fee rates for LCs offered by VETA-owned centres (60,000-120,000 TShs annually for full board) to the more expensive SCs offered by both VETA-owned and private VET centres (fees vary considerably but can easily reach 300,000-600,000 TShs or more).

Short courses have proliferated in Tanzania over recent years, sometimes in response to a demand from the private sector, and in some cases as a result of the existing incentive structure (Figure 10). Drawing on the VETA Application online platform, we find that the portfolio of VETA-owned centres offers an average of 47% SCs, but that in some cases this provision can be over 60% (Arusha Vocational Training Centre) and 70% (Dar es Salaam Regional Vocational Training and Services Centre). Interestingly, private providers tend to offer more LCs (an average of 80% of portfolios are LCs).

Figure 10: Utilisation of SDL funds by VETA to support SCs and LCs



Source: Author's calculation based on the VETA Application On line Platform

However, while private VET providers charge the full economic cost (plus a profit margin) for their LCs, VETA centres do not make any margin on LCs and charge full costs for their SCs. This means that the latter offer an opportunity for internal resource generation by VETA centres which can be used to increase teachers' salaries. The margin made here is partially due to the fact that teachers who run SCs are using VETA infrastructure, and that extra training materials are charged to the trainees.

Although some SCs 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 SCs (for which trainees or employers pay a relative high fee) against LCs (which employers already pay for via the SDL). The opportunities for income generation may have also incentivised some teachers to move to VETA centres (e.g. in Dar es Salaam).

In 2013 VETA introduced Guidelines for Income Generating Activities (GIGA), in an attempt to regulate these income-generating activities – for SCs in particular – and to address potential distortions in the system. Despite this important step, accountability of these income-generating activities remains opaque. In interviews, the VETA Department of Finance and Chief Internal Auditor were not able to provide information on the number of SCs offered by VETA centres. This means that at the central level there is no capacity to assess if the income share they receive from VETA centres for IGA is correct or if resources are captured at the VETA or Zonal Board levels. Given the number of SCs offered and the relatively high fees, IGA income can be relatively high – according to the VETA statement of income and expenditure for 2012/13, IGA income reported at the central level was as high as 13 billion TShs, which is almost one third of the SDL transferred to VETA (VETA, 2014).

5. Rent analysis of the SDL-based system and comparative country cases

5.1. Costs, competitiveness and employment disincentives

As shown in Table 4 (section 4), the SDL is a significant levy across tax departments accounting for 3.27% of the total domestic revenue (including all small, medium and large taxpayer/employers) when SDL is set at 4.5%. Based on the tax data and the TRA Corporate Plan's projections, we can calculate a basic estimate of the total SDL revenue for the government at different rates (Table 6) (assuming all other conditions regarding tax base and enforcement capacity etc. remain the same). This is a conservative assumption if we take into consideration the fact that since 2010 reductions in the SDL rate have not been followed by a reduction in total SDL revenue collected.

Table 6: Estimates of SDL revenue at different SDL rates for mainland Tanzania (2017/18-2021/22, billion TShs)

SDL rate	2017/18	2018/19	2019/20	2020/21	2021/22
SDL 4.5%	329.2	389.7	461.1	527.4	616.7
SDL 4%	292.6	346.4	409.9	468.8	548.2
SDL 3.5%	256.0	303.1	358.6	410.2	479.7
SDL 3%	219.5	259.8	307.4	351.6	411.1
SDL 2.5%	182.9	216.5	256.2	293.0	342.6
SDL 2%	146.3	173.2	204.9	234.4	274.1
SDL 1.5%	109.7	129.9	153.7	175.8	205.6
SDL 1%	73.2	86.6	102.5	117.2	137.0

Source: Author's estimates based on TRA (2018)

Table 7 presents estimates of the cost reduction that the private sector as a whole is likely to see as a result of different reductions in the SDL rate, again based on government estimation and assuming all other conditions remain the same. Given that the contribution to SDL is roughly equally distributed among large taxpayers and small and medium employers (Figure 6), we can assume that the levy burden is equally distributed among all employers as well. These estimations are based on very strong assumptions, as they do not allow for potential changes in employer behaviour or the overall economy. According to our interviews with ATE and Cti, the Ministry of Finance seems to have generated similar projections and has informed stakeholders that a reduction of 0.5% of the SDL would cost the government around 30 billion TShs in lost revenue. Table 7 shows that more substantial reductions in the SDL rate could release up to 250 billion TShs into the economy (with SDL at 1%).

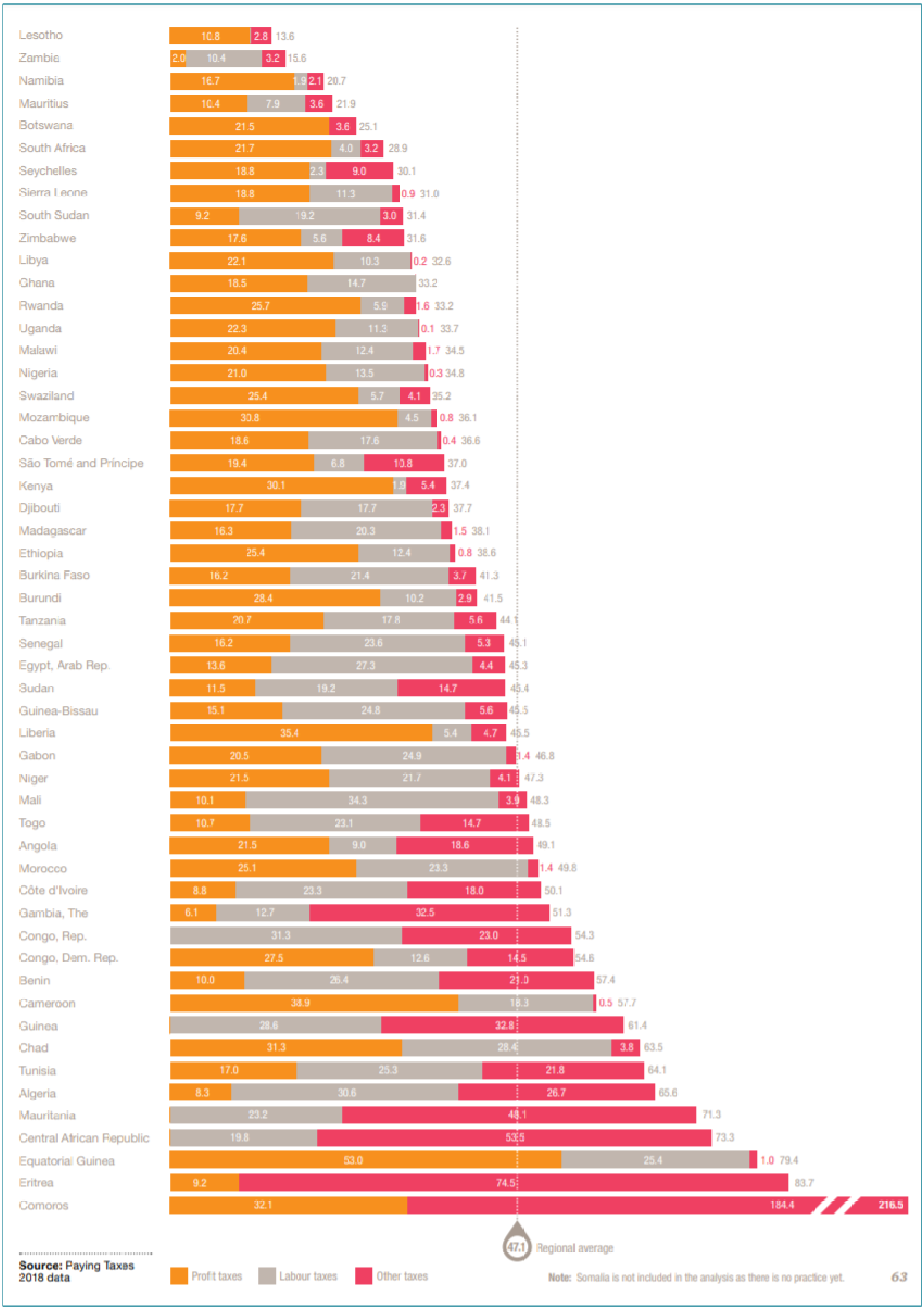
Table 7: Estimated cost reductions for employers in mainland Tanzania at different SDL rates (2017/18-2021/22, billion TShs)

SDL rate	2017/18	2018/19	2019/20	2020/21	2021/22
SDL 4.5%	0	0	0	0	0
SDL 4%	36.6	43.3	51.2	58.6	68.5
SDL 3.5%	73.2	86.6	102.5	117.2	137.0
SDL 3%	109.7	129.9	153.7	175.8	205.6
SDL 2.5%	146.3	173.2	204.9	234.4	274.1
SDL 2%	182.9	216.5	256.2	293.0	342.6
SDL 1.5%	219.5	259.8	307.4	351.6	411.1
SDL 1%	256.0	303.1	358.6	410.2	479.7

Source: Author's estimates based on TRA (2018)

If we compare Tanzania with other African countries, Figure 11 shows total tax and contribution rates (%) divided by profit taxes, labour taxes and other taxes (including levies like SDL). The total tax and contribution rate in Tanzania is 44.1%, which is below the continent average of 47.1%, but above the two main regional comparators of Kenya (37.4%) and South Africa (28.9%). Within the East African Community (EAC), Tanzania has the highest total tax and contribution rate (South Sudan, 31.4%; Rwanda, 33.2%; Uganda, 33.7; Burundi, 41.5%) and is above the world total tax and contribution rate of 40.5%.

Figure 11: Total tax and contribution rate (%) in Africa



Source: PwC and World Bank (2018)

Several countries and relevant comparators in Africa – Kenya and South Africa – rely on a form of levy to finance VET and the overall education sector. These country cases have been used by different stakeholders in Tanzania to lobby for a reduction in the SDL rates, based on the underlying argument that the SDL is affecting the competitiveness of employers in Tanzania (see Boxes 1 and 2).

Box 1: Kenya case study: The Industrial Training Levy

The National Industrial Training Authority (NITA) was established under the Industrial Training (Amendment) Act of 2011 under the Ministry of the East African Community, Labour and Social Protection. NITA was initially known as the Directorate of Industrial Training, a Department in the Ministry of Labour. NITA's mandate is to promote high standards and efficiency in industrial training and to ensure adequate supply of properly trained manpower at all levels in industry. The Act gives NITA the following mandates:

- Industrial training (regulation and provision)
- Industrial training levy administration (assess and collect)
- Industrial training curricula
- Integrating labour market information into skills development
- Development and harmonisation of industrial training curricula and assessment guidelines
- Assessing industrial training, testing occupational skills
- Awarding certificates including government trade test certificates
- Equating certificates
- Accrediting institutions engaged in industrial training.

NITA operates five Industrial Training Centres (ITCs): NITA-Nairobi, NITA-Textile Training Institute (Nairobi), NITA-Kisumu, NITA-Athi River and NITA-Mombasa. Together, the centres have the capacity to cater for over 5,000 trainees. In addition to these centres, NITA has registered/accredited more than 400 training providers and has accredited more than 600 assessment centres.

The Industrial Training Act (Cap.237) makes provision for the Industrial Training Levy, which is intended to support in full or part the cost of industrial training incurred by employers.

According to Legal Notice No. 113 of 14 June 2007, employers are required to pay a monthly levy of 50 Kenyan Shillings (KShs) (around US$0.50 or 1,100 TShs) to NITA per employee (person employed for wages/salary) including casual employees, on or before the last working day of the month. Registration as an employer is a legal requirement as per Section 5B of the Act and the Levy order. To be an employer means 'any person, public body, firm, corporation or company who or which has entered into a contract of service to employ any person, and includes an agent, foreman, or manager'. To be an employee means 'a person employed for wages or salary and includes an apprentice, indentured learner, temporary, seasonal and casual worker'.

Employers are asked to pay the levy via a direct deposit into the NITA KCB Industrial Area Branch Account. No cash payments are allowed, but several banking and online payments systems are offered (e.g. bankers cheque or mpesa bill).

Subject to approval by NITA, employers who are up to date on levy payments can be reimbursed for training costs if: a) the employer makes an application to NITA two weeks before the training i.e. for local training and one month for overseas training; b) the training provider is registered with NITA and is up to date with the annual registration renewal; c) the employer can prove that the training is relevant to the duties/work of the employee(s) (cost items accepted include course fees, airfare (overseas), books, training materials, assesssment). The reimbursement claim must be supported with receipts for payment of training costs and an approval letter from NITA, and it is capped at 200% of an employer's previous yearly contribution.

In 2014 NITA has introduced an anticorruption policy and an audit and compliance committee charter detailing procedures and responsibilities to ensure transparency and accountability. However, the total levy collected directly by NITA is not reported in any public document, therefore it is not possible to compare the total levy burden in Kenya and Tanzania. Together with the governance model, the other two major differences are: first, the fact that the levy is not calculated as a rate of the total payroll like in Tanzania – instead it is a pretty low lump sum of 600 KShs. per annum per worker; second, the fact that employers can get a reimbursement/rebate for training expenses.

Sources: https://www.nita.go.ke

Box 2: South Africa case study: Skills Development Levy

In 1994 the Government of South Africa embarked on a comprehensive reform process for skills development, involving legislation, structures and organisations. The aim was to change the cultural and institutional landscape for skills development and vocational training at all levels, including the introduction of a National Qualifications Framework (NQF). In 1998 Parliament ratified the Skills Development Act, which defined a new Sector Training and Education Authority (SETA) system. In 2000, 23 SETAs, each with its own clearly defined sector and sub-sector, were established (reduced to 21 with the new National Skills Development Strategy in 2011).

SETAs are the key implementation agencies for establishing and maintaining quality in workplace-based training and learning. They are responsible for overseeing training and skills development in a specific national economic sector (including learnerships, internships, unit-based skills programmes and apprenticeships), and for developing Sector Skills Plans (SSPs) to outline the strengths and challenges of a sector in terms of employment and skills development. SETAs are governed by the Skills Development Act and Skills Development Levies Act of 1999.

The Skills Development Levies Act (SDLA) (No. 9 of 1999) established a compulsory levy scheme for the purpose of funding education and training as envisaged in the Skills Development Act (No. 97 of 1998). The Skills Development Levy (SDL) became payable with effect from 1 April 2000. The Department of Higher Education and Training, in conjunction with the various SETAs, is responsible for administering the Act, while the South African Revenue Service (SARS) is responsible for the collection of levies. The SDL is intended to encourage learning and development in South Africa and is determined by an employer's salary bill. The SDL is 1% of the total amount paid in salaries to employees, including overtime payments, leave pay, bonuses, commissions and lump sum payments. Employers are required to pay the levy every month if they have registered their employees with SARS for tax purposes (Pay As You Earn (PAYE)), and if the employer pays over 500 000 South African Rand a year in salaries and wages to employees (even if they're not registered for PAYE with SARS).

SARS uses the funds from the SDL to develop and improve the skills of employees. The primary focus of the business is determined by analysing what approximately 60% of employees do. The levies are put in a special fund and are divided with 80% distributed to the different SETAs and 20% paid into the National Skills Fund.

In accordance with the SETA Grant Regulations, SETAs pay mandatory grants to employers that are equivalent to 20% of the levies paid by the employer. The following conditions must be met: the employer must be employing 50 or more employees and must submit an application for a mandatory grant within six months of registration, supported by a Work Skills Plan (WSP) and an Annual Training Report (ATR). Mandatory grants are then used by employers to train their employees.

The National Skills Fund supports skills development projects that do not fall under the SETAs. The fund enables the state to: drive key skills strategies; meet the training needs of the unemployed, non-levy-paying cooperatives, NGOs, community structures and vulnerable groups; promote strategic partnerships and innovation in project delivery; drive change towards partnership-based programmes; and contribute significantly to raising the low base of education and training in south Africa.

The SDL model in South Africa is distinctive in three main respects: 1) like in Tanzania, the levy is calculated as a rate over the payroll, but it is collected and retained in large part within the sector in which they are generated; 2) companies are guaranteed a mandatory grant/rebate scheme to finance training (similar to Kenya, and differently from Tanzania); 3) SDL is directly transferred to the relevant SETA and managed by the SETAs themselves.

Source: https://www.vocational.co.za

In all countries considered, the skills levy acts as a disincentive on formal employment and tends to have a negative impact on employment rates (Dar et al., 2003). This is affected by several characteristics of the levy:

- The levy is a fixed cost for the employer in the sense that it is calculated as a percentage of salaries paid to employees for Tanzania and South Africa and a fixed amount (50Ksh) in Kenya, and not as a percentage of profits or turnover.
- The calculation of the levy: if the levy is a lump-sum transfer for each employer (this is the case in Kenya), then the employer can better and more flexibly manage the allocation of funds and will not be discouraged from increasing salaries (this is potentially the case in Tanzania and South Africa where the levy is proportional to the payroll);
- The rate of the levy: high rates (the SDL rate in Tanzania is by far the highest among the three countries considered) are a disincentive for formal employment, especially in sectors prone to fluctuations amongst seasonal workers.
- The frequency of the payment: the levy has to be paid monthly (in all country cases, even in Kenya where the levy is a fixed lump sum per employee), thus it can create problems for employers in terms of frequent payments and potential interest rates on delayed payments.

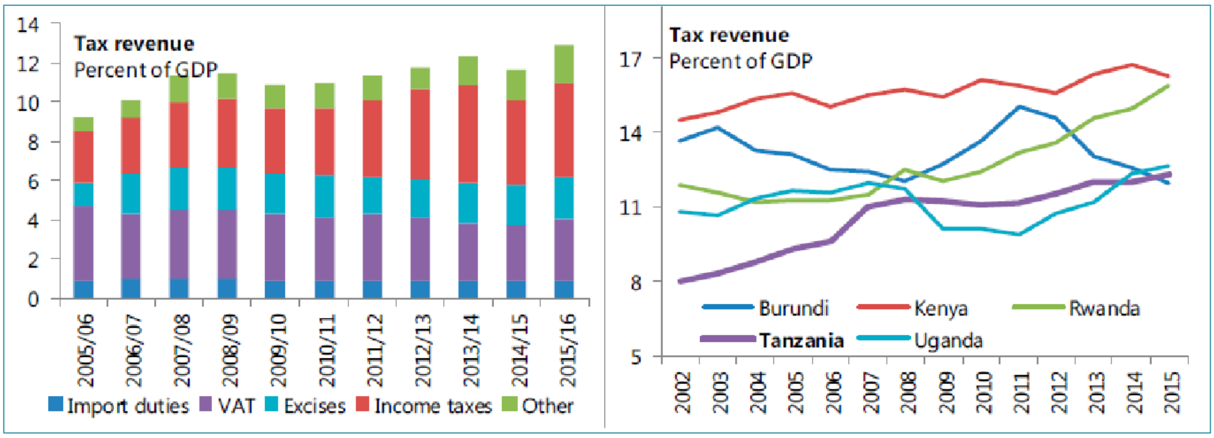
5.2. Trust, accountability and governance

Over recent decades in Tanzania the relationship between the public and private sector has been characterised by mistrust. This has happened despite the fact that the dominant political party has strengthened links with major private-sector domestic players, employers and representative organisations such as TPSF and ATE in policy-making. In the current political settlement, mistrust and unpredictability have been recognised as major impediments for private-sector investment and have manifested in major tensions (Andreoni, 2017a).

Since the introduction of the SDL, and increasingly during the last decade, the SDL has become a major source of these tensions. On several occasions the private sector has denounced the lack of transparency in the collection and allocation of the SDL, and there have been allegations of corruption or misallocation of the SDL for funding political campaigns. 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.

Figure 12 shows how Tanzania has remained far below Kenya in terms of tax revenue as a percentage of the gross domestic product (GDP) since early 2000, and is pretty much at the bottom if compared with other EAC countries. The government has thus always assumed that the private sector’s complaints around the SDL (and other taxes and levies) are largely ungrounded.

Figure 12: Tax revenue collection in Tanzania, composition and comparators



Source: Andreoni (2017a) based on Tanzanian authorities and IMF staff calculations, 2017.

Indeed, the fact that private-sector representative organisations such as ATE have been unable to a) challenge the government with hard evidence on the total amount of SDL collected from employers (despite the fact that data would be available as employers report them to the TRA directly and that TRA data are published online) and b) call the government to account for the funds allocated to VETA (despite the fact that ATE and other private-sector organisations sit on the VETA Boards and have access to financial statements) suggests that many employers are concerned that they will expose their own indiscretions in the process.

Since mid- and late 2000, companies and their representative bodies – ATE, TPSF, Cti and the CEO Roundtable – have expressed dissatisfaction with the fact that the SDL is not used for vocational training only and that employers have been – according to them – 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 (and is potentially a substitute for) other central budget allocations for education. Second, companies have to pay additional costs if they want to access more focused SCs for training, upgrading and/or retraining their existing workers. This is partially the result of the way in which the VETA system has evolved, where SCs are more readily available and rely on the same infrastructure as LCs. Finally, employers perceive that VETA graduates are often not ready to work and that the amount of on-the-job training they have to do (and fund) to compensate for this lack of readiness is another additional cost to employers. Companies' expectations seem to be slightly misplaced in this respect, as there seems to be widespread lack of awareness of the fact that in all countries companies/employers face this challenge and have to provide on-the-job training. Unfortunately, there has been no attempt so far in estimating the extra on-the-job training that companies have to provide in different sectors in Africa (this is available in more advanced countries only).

With respect to the accountability of the overall SDL financing and allocation model, the private sector has mainly raised general concerns around the absence of an efficient and effective mechanism to properly monitor utilisation of the SDL. As discussed in section 4, the VETA system presents a number of accountability issues, especially with respect to its zone-level activities and internal revenue activities. The involvement of private-sector companies and organisations in representative bodies and committees at central and zonal levels seems to mainly focus on curriculum reform than external auditing of finance and training activities. This lack of accountability is made even more severe by the fact that students enrolled in VETA training lack any voice. Differently from NACTE, the VETA system does not have a procedure to capture the opinions of students and their potential complaints with respect to the quality of training they receive and the various internship/apprenticeship arrangements.

Finally, the overall governance model around the SDL and technical and vocational education and training (TVET) system has been questioned on several occasions by both private and public players. Three main issues have been raised. First, 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. This misalignment in terms of mandate and functions has pushed several players to recommend the relocation of VETA under its original ministerial umbrella. The second issue is that VETA is both a sector regulator and a VET provider. Although this is not uncommon (see also the Kenya case), it has been suggested that this governance model might affect VETA's overall capacity to exercise both functions effectively and impartially. Finally, the TVET system in Tanzania operates as a dual system, with NACTE regulating 'technical education' and VETA regulating (and providing) 'vocational training'. The rationale behind the maintenance of this dual system is that technical education has a higher theoretical/foundational focus, while vocational training is more focused on the development of applied/narrower skills sets. In reality, given the challenges discussed above, VETA is struggling to provide applied and industry-specific skills.

6. Conclusion: re-aligning incentives and designing for differences

In the FYDP 2016/17-2020/21, the Government of Tanzania has committed significant resources (around 350 billion TShs per year, see Table 8) for skills development and has proposed a number of strategic actions to improve the sector. Despite this commitment, it is unclear how these resources will be mobilised and allocated.

Table 8: Five-Year Development Plan total costings (billion TShs)

SUBSECTOR	GOVT.	PRIVATE	DPs	Total	2016/17	2017/18	2018/19	100 19/20	2020/21
Manufacturing	2,339.12	20,991.93	554.01	24,256.26	416.439	5736.544	5854.75	5672.554	5429.824
Mining	104.04	3,912.30	-	4,016.34	808.97	980	980	980	979
Construction	94.44	50.00	50.00	194.44	22.44	70	52	50	0
Agricultural	2,989.71	3,937.58	2,909.43	9,101.86	2716.671	2314.986	2298.356	2294.446	2281.296
Environmental and Natural Resources	50.00	-	133.74	183.66	38.12	37.62	37.93	35.24	34.635
Tourism	553.82	2,953.00	52.68	3,559.50	711.659	714.589	711.86	711.2	710.02
Science Technology and Innovation	102.50	162.00	137.00	428.00	85.6	85.6	85.6	85.6	85.6
Education	4,498.92	19.66	448.61	4,967.19	992.94	992.94	994.03	993.6	993.62
Creative industry	344.86	-	-	344.86	0	80.75	80.99	81.03	81.04
Skills development	1,073.00	-	635.54	1,708.54	350.588	351.588	351.588	351.588	353.188
Healthy	6,997.36	-	1,011.00	8,008.36	1606.166	1601.81	1599.81	1599.31	1600.8153
Water sub sector	2,477.10	-	3,517.59	5994.649	1198.98	1,199.00	1199.528	1199.141	1198
Urban Planning, Housing and Human Settlement	3,621.96	-	-	3,621.96	724	724.30	725.09	724.29	724
Food and nutrition	254.54	23.31	407.80	685.65	161.88	161.88	161.98	162.88	161.68
Poverty Reduction and Social protection	493.40	-	404.69	899.09	179.802	179.802	679.802	679.802	675.802
Good Governance	2,095.93	-	70.81	2,166.74	433.232	433.232	433.232	433.808	433.232
infrastructure	24,651.69	12,503.61	361.61	37,516.92	7129.0555	9,502.85	7668.10273	5732.457	3392.257
TOTAL	**52,742.39**	**44,553.39**	**10,694.51**	**107,654.01**	**17,576.54**	**25,167.49**	**23,914.65**	**21,786.95**	**19,134.01**

Source: Government of Tanzania (2016a, FYDP Annex).

In line with the new National Skills Development Strategy 2016/17-2025/26 (NSDS) (Government of Tanzania, 2016b) promoted jointly by the Ministry of Education, Science and Technology and the Prime Minister's Office for Labour, Youth, Employment and Persons with Disabilities, the government has promoted the following general and specific initiatives in the FYDP:

a. Skills Development Fund

'Government has resolved to earmark the funds so generated to skills development in the country. The portion of the funds, which goes to support higher education, will be reviewed in tandem with reforms to making the Higher Education Student Loan Board (HESLB) run on loan recovery with some modest interest rate. Studies in other countries show that private returns to higher education are higher enough to enable graduates service the education loan on semi-commercial basis.'

b. Reforms for specific flagship projects

‘In respect to mass training for development of rare and specialized skills, particularly those that are key for the envisaged industrialisation process, the following will be critical:

(a) Increasingly allocating revenue generated from the skills development levy (SDL) to skills development, particularly for skills required in priority industries;

(b) Establishing a mechanism that will allow the private sector to participate in determining their demand for skills and quantities as well as in shaping the requisite interventions for effective and efficient provision of technical education and vocation training;

(c) Having clear strategies for availing scholarships and other support for higher education and rare skills related to priority areas and industries;

(d) Behind successful training in specialized skills is quality education at primary and secondary levels gradual review of school administrations at preprimary trough to secondary levels is envisaged in order to ensure quality management and delivery of education services. For, a piloting of public school administrations based on professional management approach, where school managers are granted power to oversee staff incentives and general behaviour is proposed.’

The NSDS is articulated around five pillars, and includes apprenticeships, entrepreneurship, vocational and technical education and training, university education, and post-employment upgrading of skills:

1 An effective national co-ordination mechanism among institutions and the private sector to drive skills development.

2 Increased equitable access to skills for all and at all levels including compulsory internship programmes.

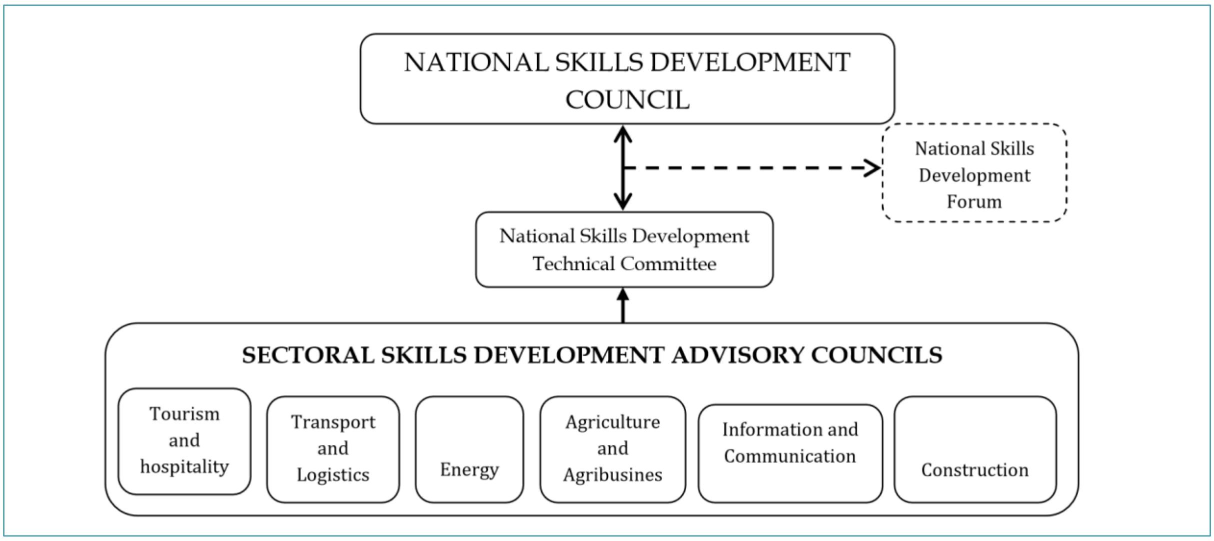
3 Increased relevance and quality of skills for employability and self-employment.

4 Inclusive and sustainable financing mechanisms incorporating PPPs.

5 A results-based implementation framework.

Implementation of this strategy will follow a sectoral approach where skills analysis and interventions will be based on the requirement of each targeted sector (see Ministry of Education and Vocational Training, 2015a-c and 2016 for skills gaps studies for the tourism, agribusiness, construction and transport industries). In order for each sector to effectively identify and address its skills shortage, each sector will be required to establish a lean and private-sector led Sectoral Skills Council. The Sectoral Skills Council will be responsible for carrying out skills analysis and to support the implementation of interventions to address skills challenges in the sector. The Councils will report to the National Skills Development Technical Committee (NSDTC) for guidance and support, under the leadership of the Chief Secretary (Figure 13).

Figure 13: Governance and coordination of the National Skills Development Council



Source: Government of Tanzania (2016b)

While some of these initiatives point in the right direction, implementation and enforcement of many of these measures is still in progress. As already documented in sections 3 and 4, in reality, the overall skills development system in Tanzania has transformed along two main axes, which reflect the overall political settlement dynamics in the country since 1995 (Andreoni, 2017a).

From a uniform national system and process originally conceived in the mid-1990s, the VETA system has evolved into multiple concurrent sub-systems and processes over the last two decades. The relative independence (and limited accountability) of Zonal Boards and VETA centres, a proliferation of income-generating activities and the expansion (and subsequent reduction and regulation) in the number of private VET providers are all manifestations of a fragmented political settlement in which resources and rents (also in the form of regulatory power) are captured by both public and private actors along different (and interconnected) clientelist networks.

Opportunities for resource and rent capture are evident at all levels of the system and are not limited to the financing model. In some cases, the process of decentralisation has also created incentives for innovation in VET training delivery – e.g. the introduction of SCs – and has opened up space for the emergence of 'pockets of excellence' as demonstrated by the IMTT experience in the mining sector (see section 3.2). Within the decentralised system – and with reference to a specific sectoral issue i.e. mining skills – the mistrust between central government and the private sector has partially dissipated and, as a result, a new space has opened up for effective PPP with full involvement of a VETA centre, business association and private companies.

In line with overall government action since 2015, recent reforms have attempted to reduce rent capture through a process of re-centralisation of the SDL and a more centralised governance model. These changes are in response to two aspects: i) the need for better coordination and reduction in rent capture at the lower levels of the system (and internal party factions controlling boards and committees that allocate resources in the system); and ii) major infrastructural investments having pushed the government into taking direct control over important domestic revenues like the SDL and potentially using them within a centralised budget system.

As a result of this (re)centralisation process, however, the relationship between the SDL and skills training has been weakened. Independently from the fact that the SDL transfer to VETA has remained basically constant over the years, the stricter control exercised by the Ministry of Finance over the collection and allocation of taxes/levies has reinforced the feeling that the SDL is not delivering in terms of skills development in the country. This lack of trust towards the government has also pushed the private sector to lobby for a reduction in the levy rather than focusing on how to optimise the value added from the existing levy.

In order to ensure more constructive engagement between the public and private sector, the transparency and accountability of the fund flows seem to be an important preliminary condition. 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 (along the lines of the South Africa model discussed previously)
- increased voice and accountability in the curriculum and determination of whether existing training models are fit for purpose.

Reform opportunities also exist in terms of restructuring incentives to take into account differences across sectors and firm types, as well as different governance levels.

Given the current governance structure and funding allocation mechanisms, the level at which the incentives are introduced might affect the outcome. For example, at the zonal level, new ways to align the interests of the VET in the region with existing employers could result in greater employability and accountability.

The SDL itself could also be reformed. The Kenyan model suggests that using a lump-sum contribution per employer could be beneficial, instead of a rate calculated on total employer’s payroll. Other options include to remain with a rate system, but to change the levy base from the payroll to total turnover to take into account differences in firm size. Finally, the threshold of four employees could be elevated to nine, which is the conventional definition of a small enterprise in Tanzania (Andreoni, 2017b). These changes might be key in reducing SDL-related disincentives to employment, especially among small and medium enterprises. Additionally, these changes might not necessarily result in dramatic reductions in the total SDL revenue.

Another important area for reform relates to the design and delivery of skills training itself. There is a significant need for greater differentiation between skills training to meet the needs of current employers, and skills training to enable trainees to establish new economic activity (i.e. self-employment). For existing employers, the establishment of a closer link between training and business needs – in line with the model adopted in the mining (and partially hotel) industry – is an encouraging option. Moreover, building on the spontaneous emergence of SCs, especially among VETA centres, incentives could be introduced to overcome remaining resistances to change in VETA. For example, a number of LCs might be shortened, and an increasing number of existing demand-driven SCs 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 result in a reduction in the overall costs faced by employers to train their workforce.

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 rebate or grant models such as those adopted in South Africa and Kenya could potentially improve the link between VETA and VET providers and private companies. Joint effort in this direction also seems an important step in reducing overall mistrust between the private and public sector, and making the involvement of representative organisations in the governance system more meaningful.

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