

SKOPE

ISSUES PAPER 19

May 2009

The Skills Training Levy in South Africa: Skilling the Workforce or Just Another Tax?

Susan James
SKOPE, University of Oxford

Summary

In 1998, the Skills Development Act was implemented in South Africa. Its purpose was to encourage employers to provide skills training for employees through the use of a levy system linked to a company's payroll. Ten years on, the system is burdened with bureaucracy. Whilst there is evidence of increased skills training, it varies greatly within and between sectors. In particular, it would seem that many small- to medium-sized enterprises do not have the human resources to comply with the criteria to receive and administer the funds, adding the one percent skills training levy to their tax burden.

Introduction

After the end of apartheid in 1994, South Africa's drive for economic growth, increased employment and productivity, and the desire to ably compete on the world stage, set in motion the need for a 'skills revolution' (South African Labour Ministry 1997). This skills revolution was implemented three years after the beginning of democratic rule, as it was felt that the market had failed to generate high levels of training within industry. Subsequently, the Labour Ministry Green Paper, *Skills Development Strategy for Economic and Employment Growth in South Africa*, set out the country's new skills development strategy consisting of six core components:

- Information for strategic planning;
- A system of learnerships;
- Employment services;

- Enhancing provision;
- Skills development intermediaries and national co-ordination; and
- The funding of skills development.

It is the last of these that will be considered in this issues paper. The data on which this paper is based stems from field research undertaken as part of a Leverhulme Early Career Development Fellowship held between 2006 and 2008. The field research and data collection consisted of desk top research and interviews with two education consultants, and directors, human resource managers (HRM) and employees from a variety of companies: one small IT company, a large retailer, and five five-star hotels.

Major legislation in skills development

The skills development challenge in South Africa in 1994 was considerable. At the end of apartheid, there was 30 to 40 percent unemployment (predominantly black), high levels of poverty within the non-white sectors of the population and a 27 percent illiteracy rate for non-white people over the age of 20 years. Consequently, equity, social justice and stability were at the top of the government development agenda and providing training for a large segment of the population was a priority for government. The South African Qualifications Act of 1995 created the National Qualifications Framework (NQF) of eight levels and three bands. The South African Qualifications Authority's (SAQAs) objective was to advise

government on training and to set the standards and guidelines for all training.

From this followed the Skills Development Act (1998).¹ It stipulated the creation of Sector Education and Training Authorities (SETAs) and the Learnership system, which were established in 2000. The economy was divided into 24 sectors and each had a SETA to oversee the development and quality of skills deemed relevant for the sector or industry. The Act was to:

- *Provide an institutional framework to devise and implement national, sector and workplace strategies to develop and improve the skills of the South African workforce;*
- *Integrate those strategies within the NQF contemplated in the SAQA, 1995;*
- *Provide for learnerships that lead to recognised occupational qualifications;*
- *Provide for the financing of skills development by means of a levy-grant scheme and a National Skills fund;*
- *Provide for and regulate employment services; and*
- *Provide for matters connected therewith.*

(South African Department of Labour 2004)

The mechanism for funding the SETAs was in the form of the Skills Development Levies Act (1999). This provided for a levy to be paid by companies to ultimately charge employers with some power and responsibility for training their employees or, at the very least, as stated by the Minister of Labour, ensure that all companies are contributing to the development of skills training across the economy through their sectors:

The levy ensures that all companies make a basic contribution towards training in their sector. If they choose not to utilise their funds to undertake their own training, they will at least have made their fair contribution to skills formation. (Mdladlana 1999)

The Skills Training Levy

The levy is compulsory for companies with an annual payroll of R250,000 (£18,279 as at 27/03/09) or more, or are required to be registered according to the Incomes Tax Act. The levy is one percent of the business's payroll. Companies pay the levy to the South African Revenue Service, the majority of which is sent

¹ At the same time as the Skills Development Act, the Employment Equity Act (1998) was developed providing regulations and definitions of equity for all workers.

to the various SETAs. Twenty percent is retained by the State for the National Skills Fund (NSF), which is used for strategic priorities identified by government for specific industry projects. Consequently, the NSF 'has become a substantial financial resource for state intervention in the labour market' (Kraak and Young 2005:8).

Of the one percent levy paid, businesses can claim back a minimum of 50 percent in grants for training. However, in order to be eligible to claim back the levy in grants, the business must appoint a Skills Development Facilitator, who must be a full- or part-time employee or contracted consultant. Some SETAs, such as the Wholesale & Retail Sector Education and Training Authority (W&RSETA), do offer businesses the services of an independent SDF if they cannot afford to pay a consultant or appoint a facilitator.

The Skills Development Facilitator is the liaison between the company and the SETA, and is responsible for developing and implementing the company's Workplace Skills Plan, which details the training and development for that year. On appointment of the Facilitator and submission of the Plan, the company is eligible for a mandatory grant of 15 percent of their levies, called the Workplace Planning Grant. Furthermore, on submission of an annual Workplace Skills Implementation Report, highlighting the progress against the Workplace Skills Plan, the company qualifies for another mandatory grant of 45 percent of the total levies paid. A further 10 percent grant is available for companies proving active participation in SETA identified priorities. These may include Adult Basic Education Training, and HIV/AIDS training for employees.

The bureaucracy involved has been a common complaint of many small medium sized enterprises as Meyer and Altman (17:2005) note:

Many employers disregard the new levy-grant system or view it as little more than an additional tax burden impacting negatively on cost structure and profit margins. Government has reacted angrily to such arguments, blaming the companies for not taking seriously the skills development of their staff. Training authorities and employers, in sharp contrast, are critical of an over-bureaucratized system.

Larger employers, where the one percent levy amounts to significant sums of money, seem to be better placed to meet the criteria and, of course, have more of an inclination to re-coup their funds. Furthermore, it would seem that it is the larger employers that are asked to sit on the boards of the SETAs influencing the direction of skills policy and training. Whilst it is imperative

employers are consulted, they are not a homogenous group and the needs and priorities of big employers can be vastly different to those of smaller employers, as one manager noted:

It is difficult for us to claim back the monies as the SETA identified priorities are developed with big business in mind. We are a small organisation, with few employees all working hard to get their job done. Apart from not having the manpower to contend with the admin of the grants, the priorities don't fit with our business focus and strategy currently.

The bureaucracy and administration required of a company to a) draw back their funds for training, and b) to find the necessary training, are disadvantages many small businesses face when thinking about training for their company. Consequently, many companies subsume the one percent for the Skills Training Levy into their tax burden, writing it off. The Director of one company stated,

I see it as another tax. I only have 20 employees so it isn't a huge amount from my payroll added to the tax burden. Plus it is very difficult to find the right kind of training for my guys. The younger ones get the best training from the older, more experienced guys. And the older guys are so experienced there is no training they say they want to do. (Director, IT Company)

Two economies

In 2003, then President Thabo Mbeki acknowledged the notion of two economies working in parallel in South Africa. While not defining an informal economy as such, in ANC literature the informal economy is subsumed into the second economy (ANC 2004). Mbeki (2003) defined it thus:

The second economy (or the marginalised economy) is characterised by under-development, contributes little to GDP, contains a big percentage of our population, incorporates the poorest of our rural and urban poor, is structurally disconnected from both the first and the global economy and is incapable of self-generated growth and development.

Those engaged in the informal economy make up 34.4 percent of the population (Stats SA 2008). A lot of the businesses in the informal economy consist of low skill work and are not registered for taxation and therefore do not meet one of the criteria to contribute to the skills training levy. One implication is that, although some

training may occur, it is not through the mechanism of the Skills Training Levy and SETAs. Certainly, it is not at a level desired by the Government, nor can it possibly lead to any recognised training qualification. Furthermore, the links between the formal and informal economy are not always clear, linear, and easy to define, with Webster (2005:57) stating they are 'asymmetrically interdependent'. As Devey et al. (2008) suggest, some workers in the informal economy have links to the formal economy and may receive some form of on-the-job training but this training is not necessarily for a qualification or from the employees view, enabling them to do their job any better.

Who benefits?

It would seem it is the bigger companies and their employees who benefit from the Skills Training Levy System as smaller companies 'struggle to complete the necessary paperwork' (Timm 2008:2). However, it is not clear that the levy is being used to develop new skills in the form of the government's vision of equity and social justice. Rather the recognition and qualification of existing skills and initial health and safety training seem to be the first priority. This is most likely due to the ease of implementation of these schemes and training as initial training is already in place, and the fact that larger companies have the human resource ability to administer such schemes. Furthermore, it is not always readily apparent how a company can meet their SETA's criteria (Timm 2008). Consequently claiming back funds for recognition of prior learning and initial training is the more straightforward option.

Conclusion

In their report on skills training levies in 13 countries, Dar et al. (2003) state,

The scattered evidence suggests that while these schemes have, in general, had a positive impact on increasing in-service training, they have been inequitable – large employers have benefited to a greater extent than small or medium-size employers. Employer reaction to these schemes has been mixed, with most (especially the smaller ones) feeling that the levy is an additional tax that has been imposed on them unjustifiably. Problems associated with administering the fund and problems of non-compliance abound, especially with such schemes in developing countries.

This conclusion could be specific to the South African skills training levy scheme. Devey et al. (2008) succinctly identify the problems occurring in the system, particularly the divide created between the formal and

informal economy. Moreover, they note that the government's training programmes need rigorous evaluation for success, SETAs need more support when implementing programmes especially pilots, and more dedicated resources need to be applied to SMEs. While the skills training levy has led to some progress in training certain groups in particular industries, for example the finance sector within the formal economy (Devey et al. 2008), if the government's ambition of up-skilling the workforce is to be met, informal economy workers are going to require particular attention. Given the nature of the South African informal economy, this will be no small feat.

SKOPE Issues Paper Series

The purpose of the Issues Paper Series is to highlight some key areas of SKOPE's research and identify key findings that can inform policy makers, academics and practitioners.

For further information on SKOPE's work, see the website: <http://www.skope.ox.ac.uk>

Published at the ESRC Centre on Skills, Knowledge and Organisational Performance, School of Social Sciences, Cardiff University, Cardiff, CF10 3WT.

References

ANC (2004) *ANC Today*, 4 (47), 26 November – 2 December.

Dar, A., Canagarajah, S., Murphy, P. (2003) *Training Levies: Rationale and Evidence from Evaluations*, <http://siteresources.worldbank.org/INTLM/Resources/TrainingLevies.pdf>

Devey, R., Lebani, L., Skinner, C., Valodia, I. (2008) 'The Informal Economy' in *Human Resources Development Review*, Cape Town: HSRC Press.

Mdladlana, M. (1999) *Minister of Labour, Membathisi Mdladlana: The Skills Development Levies Bill*, speech given to the National Assembly, 3 March 1999. Accessed 4 April 2008, www.info.gov.za/speeches/1999/99310_labour99_10257.htm

Mbeki, T. (2003) *Address of the President to the National Council of Provinces (NCOP) on 11 November 2003*. Accessed 28 November 2008, <http://www.info.gov.za/speeches/2003/03111115461004.htm>

Timm, S. (2008) *Skills levy red tape can stymie training*. Accessed 17 November 2008, www.busrep.co.za/index.php?fArticleId4438457&fSectionId=566&fSetId=662

Webster, E. (2005) 'Making a living, earning a living: work and employment in Southern Africa' *International Political Science Review*, 26, 1, 55-71.

Further Details

Susan James is a SKOPE research fellow at the Department of Education, University of Oxford. For further information on this project contact susan.james@education.ox.ac.uk