

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying, recording and storage in a retrieval system, without the written permission of the copyright holder except in accordance with the copyright legislation in force in the Republic of Namibia.

© Copyright 2010 by the Namibian Economic Policy Research Unit

The Establishment of a Vocational Training Levy in Namibia

REPORT

April, 2009

First published in 2010 by the Namibian Economic Policy Research Unit,
P.O. Box 40710, Ausspannplatz, Windhoek, Namibia



THE NAMIBIAN ECONOMIC POLICY RESEARCH UNIT

Postal: P. O. Box 40710, Ausspannplatz, Windhoek, Namibia

Street: Cnr Louis Raymond & Grand Webster, Windhoek, Namibia

Tel.: +264 - 61 - 277500

Fax: +264 - 61 - 277501

Email: nepru@nepru.org.na

Web site: www.nepru.org.na

Acknowledgements

The Namibian Economic Policy Research Unit would like to thank the Namibia Training Authority, Social Security Commission, Department of Internal Revenue at the Ministry of Finance and various stakeholders that made their valuable time and assistance available when consulted in preparing this report. The report updates a previous one that analysed the findings and implications of the Ziderman report on a vocational training levy for Namibia.

Disclaimer

Although this paper aims to be an authoritative source of information on the subject matter, the Namibian Economic Policy Research Unit and the Namibia Training Authority disclaim any liability that may arise from the use or improper use of any of its contents. Furthermore, the views and opinions expressed in this report are those of the Namibian Economic Policy Research Unit and do not, in any way, represent the views of Namibia Training Authority.

Table of contents

Acknowledgements	i
Disclaimer	i
List of tables	vi
List of Figures.....	vi
List of abbreviations	vii
1. INTRODUCTION	1
2. VOCATIONAL EDUCATION AND TRAINING IN NAMIBIA.....	6
3. FINANCING VOCATIONAL EDUCATION.....	12
3.1. Microeconomic Approach.....	12
3.2. Macroeconomic Approach	12
3.3. The Training Levy Scheme	14
3.4. Financing Vocational Education and Training	16
3.4.1. Country Experiences.....	17
3.4.2. Other Ministries.....	21
4. RESULTS AND DISCUSSION.....	23
4.1. Government Exemption	23
4.2. Levy Base.....	25
4.2.1. Exemption Criteria	26
4.3. Collection Partner	30
4.3.1. Directorate of Inland Revenue	30
4.3.2. Social Security Commission.....	33
4.3.3. Namibia Training Authority.....	36
4.3.4. Private Collection Agency	36
4.3.5. Banks.....	36
4.4. Disbursement of Funds.....	37
4.4.1. Administration Costs	38
4.4.2. Core funding for training providers	38
4.4.3. Training courses for SMMEs and the informal sector	39
4.4.4. Training courses for disadvantaged groups	39
5. RECOMMENDATIONS.....	41
6. CONCLUSIONS.....	42

List of tables

Table 1: Levy Schemes in Selected SADC Countries	18
Table 2: Frequency distribution of employers by number of employees	27
Table 3: Levy revenue scenarios if exemption is based on no. of employees	28
Table 4: Levy revenue scenarios if exemption is based on payroll	29
Table 5: Number of employers in Namibia by region in 2007	31

List of Figures

Figure 1: Strict unemployment in Namibia by educational attainment & age	6
Figure 2: Gross school enrolment ratios in SADC in 2008	8
Figure 3: VTCs enrolment by trade specialization and year of training	9
Figure 4: Trends in VTC enrolments	10
Figure 5: Government contribution to the VTF	23
Figure 6: Government contribution to VET	24
Figure 7: National training framework for activity	40

List of abbreviations

COSDEC	Community Skills Development Centre
DIR	Directorate of Inland Revenue
MFMR	Ministry of Fisheries and Marine Resources
MSD	Maternity leave, Sick leave and Death benefits
NDP	National Development Plan
NQA	Namibia Qualification Authority
NQF	Namibia Qualifications Framework
NTA	Namibia Training Authority
NTB	Namibia Tourism Board
NVQ	National Vocational Qualification
NVTA	Namibia Vocational Training Act
PAYE	Pay As You Earn
SADC	Southern African Development Community
SMME	Small, Micro and Medium-scale Enterprises
SSC	Social Security Commission
VET	Vocational Education and Training
VTC	Vocational Training Centre
VTF	Vocational Training Fund

1. INTRODUCTION

In economics, vocational training can be viewed from the microeconomic or the macroeconomic perspectives. The microeconomic perspective explores issues of private benefits and opportunity costs through the evaluation of incidences of and returns to financing options. The macroeconomic perspective focuses on the link between labour force training and economic growth through the role of the former in increasing productivity and efficiency. In addition, it also examines the impact of skilled labour on trade patterns and comparative advantage in the global economy. Countries with highly qualified workers are able to produce products with higher added value while paying higher wages.

Regardless of the perspective one uses, the ability of the labour pool to rapidly adapt to market demands and to keep up with technological change relies on the availability of opportunities to continuously update skills. Such opportunities are provided by vocational education and training (VET). Namibia is characterised by a shortage of labour that is unable to meet the demands of the private sector. In addition, there is a scarcity of opportunities for school leaving youth from poor backgrounds to continue with further education and training. In this environment, VET is important.

The importance of VET is recognized in Namibia's Vision 2030, which aims to "ensure that institutional and capacity building enhances the productivity [and efficiency] of labour through an effective and sustainable system of skill formation..."¹ VET was articulated in Namibia's second National Development Plan (NDP), which covered the period 2002 to 2007 as a system of skills formation aimed at designated occupations. The third NDP also articulates the importance of VET and aims at expanding access to it².

VET can be informal or formal. Informal VET encompasses un-regulated forms of training. It includes on-the-job training and short-term courses in the commercial trades and career development schemes typically provided by large enterprises. Formal VET is acknowledged and regulated by the government. It consists of full and part-time training; and training for disadvantaged groups in apprenticable trades.³ In Namibia, formal VET is defined as post-primary, formal education and training that provides people with occupational or work related knowledge, skills and behaviours; from level one up to and including level four as defined in the Namibia

¹ National Planning Commission, "Vision 2030,"

² Republic of Namibia, 2008, Third national development plan (NDP3), 2007/2008 – 2011/12, Volume 1, P. 139.

³ Franz, J. (1995) "Financing the Namibian vocational training system," Namibia: NEPRU

Qualifications Framework (NQF). In addition, it incorporates a HIV/AIDS awareness curriculum component.⁴

Developing countries are characterised by relatively low household incomes compared to their developed country counterparts. The difficulty in meeting even basic necessities makes many of these households, particularly in rural areas, unable to contribute significantly towards the financing of formal VET through charging of commercial fees. When applied, these fees tend to create inequity in access to quality VET. VET also creates various externalities that are not easily priced. The resulting effects create limitations in private financing options and market failure that leads to under-investment in VET initiatives. This justifies government involvement.

In Namibia, formal VET falls under the Directorate of Vocational Education and Training in the Ministry of Education. In addition, the Government has set up three autonomous bodies to assist in its management. These are the Namibia Training Authority (NTA), the National Council for Higher Education and the Namibia Qualifications Authority (NQA).

The government is currently the main financier of formal VET in Namibia. It allocates a portion of its recurrent budget to the vocational training fund (VTF), which is currently managed by the VET directorate. This fund is established under the provisions of the National Vocational Training Act (NVTA) 18:45 of 1994. It also finances various aspects of VET including funding for setting up the NTA, accreditation standards, capacity building and the administration of vocational training centres (VTCs). In addition, it provides funding and subsidies directly to various VTCs.

The private sector, the community and foreign donors give in-kind contributions to VET institutions. These include donations of equipment and technical assistance for various activities such as curriculum development, assessment and examinations. In addition, families pay user fees to the NQA. This is used for the evaluation, accreditation, assessment and certification of qualifications.⁵ Furthermore, VET is part of the Education and Training Sector Improvement Programme that is co-financed by some cooperation partners, such as the World Bank.

An effective, formal VET system requires coordinating the activities among various stakeholders to ensure effective linkages between future employees and employers, efficient use of resources and equity in education opportunities. To provide this close alignment of objectives, a partnership between the government, private sector

⁴ NTA (2004) "Namibia vocational education and training policy," Draft paper, Version 2, Namibia: Namibia Training Authority

⁵ Durango, L. & Sithole, A. (2002) "Operationalisation of the national training levy system," Final Report, Namibia: MHETEC

and civil society is necessary. As part of this process, the management of formal VET, including the VTF, shifted to the NTA. This conforms to a market-oriented perspective, which advocates a changing role for government. Formal VET managed outside direct government control allows employers; who are the beneficiaries; to be represented in VET activities. However the funds to the VTF still flows through the Ministry of Education, which oversees the NTA.⁶

VET generates conflicting perspectives between the public and private sector. The private sector tends to lobby for employer driven training of their employees through short-term specific training (informal VET). However, the government's training focus extends beyond this to include general skills training for the unemployed to prepare them for employment or productive participation in the economy.⁷

Due to the potential mismatch between what government and donors want and what employers and the economy may require to boost productivity and efficiency there is a need to create a more optimal financing structure. The preferred option is a joint financing scheme between public and private stakeholders. This should include employers and their employees contributing to the VTF through a levy, which is defined as a non-taxable amount to be paid to an institution according to legislation empowering it to do so.⁸ NVTA 18:44 makes provisions for the imposition of a levy based on the initiative of the Minister of Education. To be able to make productive use of the revenue that the levy will generate to ensure quality control of training providers and monitoring of certification standards for trainees; a definition of the NTA's framework of activity and disbursement policy is necessary.⁹

There are two major VET payroll-based, levy models based on the disparate views of the private and public sector. The revenue generating levy scheme (termed levy scheme henceforth), is used to finance training provided by the public sector i.e. formal VET. The alternative levy-grant scheme relies on employer and worker driven training i.e. informal VET, encouraged by incentives provided through rebates and grants.

The recommendation to implement a training levy to raise financing for formal VET in Namibia was advocated in a study conducted for the NTA by Adrian Ziderman.¹⁰

⁶ Resolve Skills Work (2001) "Report on streamlining the vocational education and training system in Namibia: November, Namibia: Ministry of Higher Education, Training and Employment Creation

⁷ Durango, L. (2002) "The financing of technical and vocational education and training: Options and challenges for sub-Saharan Africa", November, Norway: Skills development and entrepreneurship education in international development cooperation

⁸NTB (2004) "Namibia tourism standards Part 4: The tourism levy" Namibia: Namibia Tourism Board

⁹ Greenhalgh, C. (2001) "Does an employer training levy work?-The incidence and returns to adult vocational training in France and Britain," SKOPE Research Paper 14, London: University of Oxford

¹⁰ Ziderman, A. (2004) "The establishment of a vocational training levy in Namibia," Final Report Windhoek: Namibia Training Authority

In 2005 a report by the Namibian Economic Policy Research Unit (NEPRU) evaluated a levy scheme as a tool to finance the VET initiative in Namibia based on the study conducted by Ziderman. It included a rough, quantitative analysis that allowed an evaluation of the implications of Ziderman's study, which were a key factor in the soon to be adopted vocational training policy. The objective of this report is to update the data of this 2005 report to inform its findings and ensure the relevance of its recommendations.

Firstly, the paper will establish the financial contribution that the Government currently makes to the formal VET sector in Namibia. This will be used to determine the implications of Government exemption from the levy versus being subjected to it.

Secondly, the study will explore potential amounts of revenue that the levy will generate under various scenarios based on the exemption criteria to be applied to non-government entities to ensure efficiency of collection at reasonable administrative costs.

Third, this study will evaluate which collection agency is best suited to collect the levy.

The final objective of this study will be to provide guidance on the future role of; and financial implications for; the NTA with respect to the type and scope of activities that the NTA will undertake with respect to disbursement of VTF revenue.

Based on the objectives above the null hypotheses (H_0) in this study are:

- H_0 :Government should continue contributing to formal VET directly and should not be subjected to a training levy like any other employer.
- H_0 :An exemption criterion of less than 20 employees and/or less than N\$ 200,000 should be applied to ensure efficiency of collection.
- H_0 :The Directorate of Inland Revenue (DIR) is the most suitable levy collection agency.

Due to the absence of a vocational training levy in Namibia we cannot econometrically evaluate it using human capital models.¹¹ Therefore, the study will be a descriptive analysis.

Primary data was collected by interviewing relevant stakeholders from the NTA's Technical Working Group, DIR and Social Security Commission (SSC).

Secondary data was collected by reviewing the relevant reports from the DIR, Ministry of Education, Namibia Tourism Board (NTB), the Ministry of Fisheries and

¹¹ Becker, G. (1964) "Human capital," New York: Columbia University Press,

Marine Resources (MFMR) and the NTA. In addition, the DIR and SSC databases were also used.

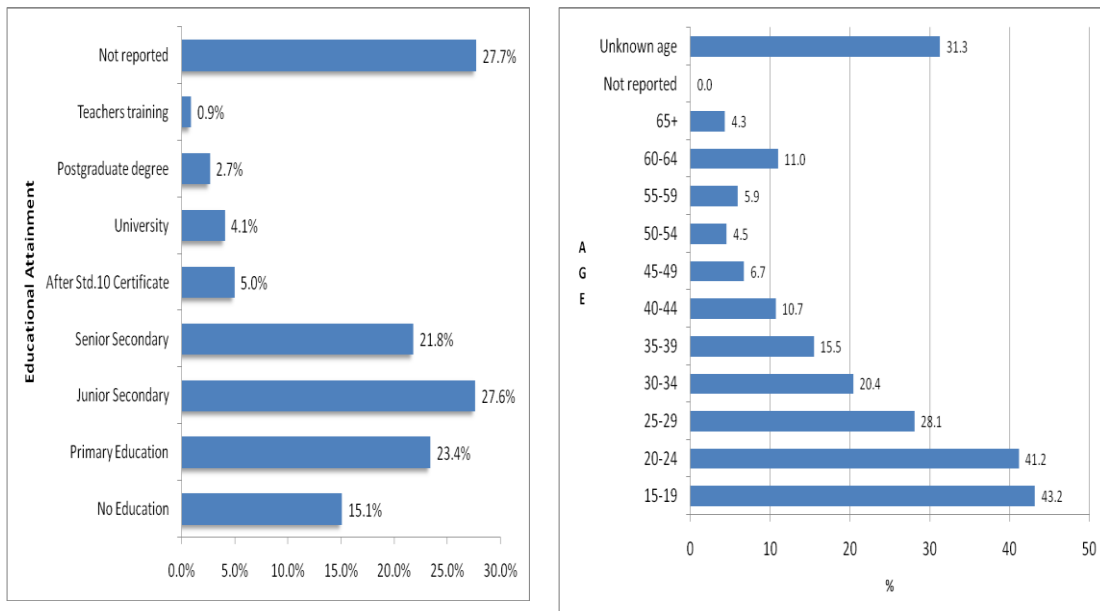
This report is organised as follows. Section 2 examines VET in Namibia. Section 3 provides a brief review of theoretical issues regarding training levies, as well as a review of the practice of VET in other countries in the region. Section 4 presents the results of the data collected with an analysis and discussion based on our objectives. Section 5 provides NEPRU's recommendations based on the updated findings. Finally, Section 6 presents the report's conclusion.

2. VOCATIONAL EDUCATION AND TRAINING IN NAMIBIA

Namibia's education policy aims to develop a diversified, competent and highly productive human resource base, which contributes to knowledge intensive, natural resource-based industries that can compete in a rapidly changing, global environment.¹²

Currently the national average of the narrow (or strict) unemployment rate, which measures people who are actively seeking jobs, is 21.9 per cent.¹³ The incidence of strict unemployment, which is illustrated in Figure 1 below is highest among the unskilled (15.1%), those with a primary (23.4%), junior secondary (27.6%) and senior secondary education (21.8%), and those between 15-19 years old (43.2%) and 20-24 years old (41.2%). In addition, although 82 per cent of adults (15-49 years) are literate, functional literacy levels are very low.¹⁴

Figure 1: Strict unemployment in Namibia by educational attainment & age



Source: Republic of Namibia, 2006, Namibia Labour Force Survey 2004 – Report of Analysis, p. 66 & 68

¹² Vision 2030

¹³ Broad unemployment includes people of eligible age who are unemployed, irrespective of whether or not they are looking for jobs, while the strict measure includes only those who are actively looking for jobs.

¹⁴ UNDP (2000) "Namibia human development report", Namibia: United Nations Development Program in Marope, M. (2004) "Human capital and knowledge development for economic growth with equity," Washington, D.C.: World Bank

Since its independence in 1990, Namibia has made great progress in terms of the educational level of its citizens. Primary and secondary school gross enrolment ratios are 106 per cent and 58 per cent respectively. However, Figure 2 below shows that almost half of the Namibian student population do not continue on to secondary education. Furthermore, Namibia's enrolment ratios are not that competitive in the Southern African Development Community (SADC).

To achieve the objectives of the education policy; an economically relevant, integrated, flexible and high quality education and training system that focuses particularly on the youth and unskilled is a vital component.

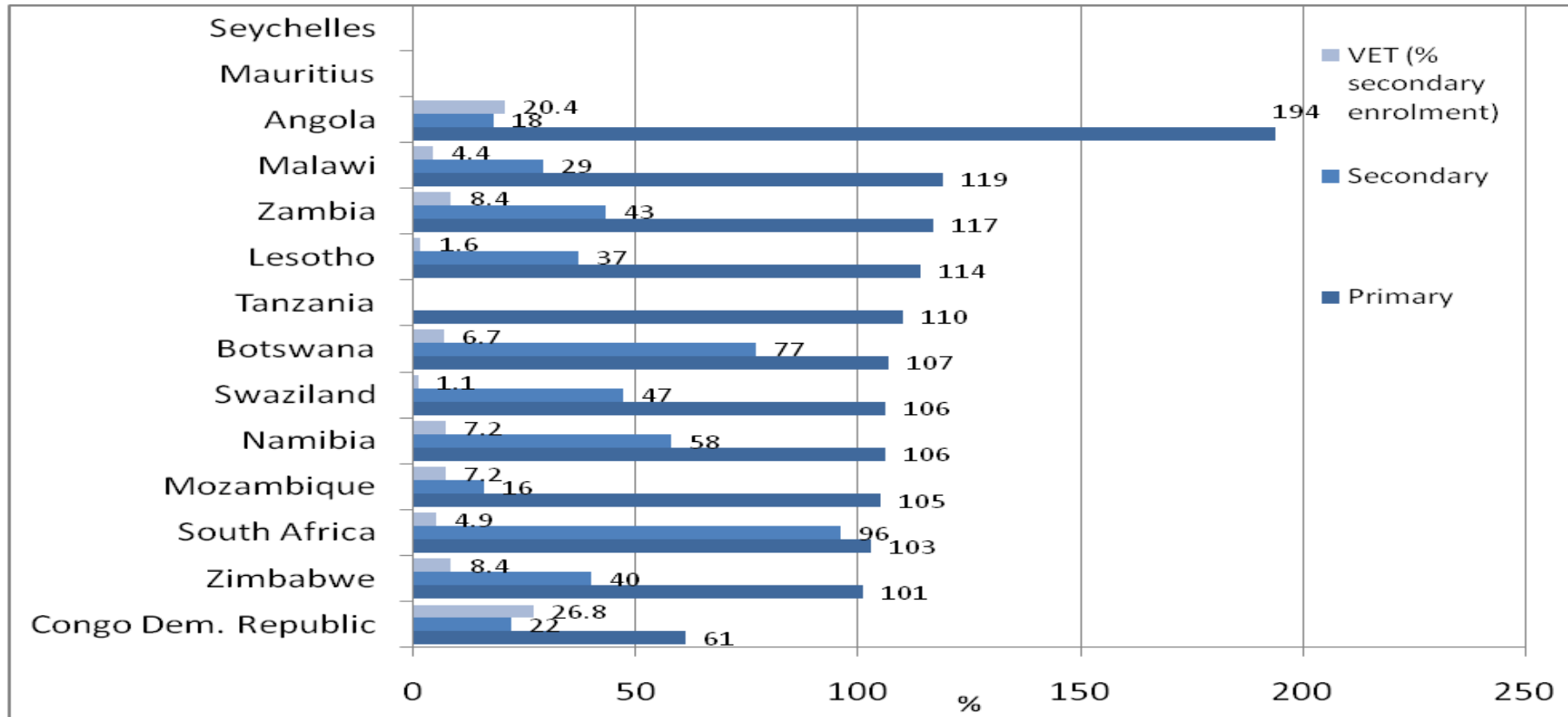
Formal VET is an alternative option for those who do not make it into secondary school. As mentioned earlier it focuses on developing employment-focused competencies up to and including level eight of the NQF. These are ranked from lowest to highest as follows:¹⁵

- NVQ levels 1 to 3 reflect senior secondary education and trade training, levels. They should lead to supervised operative, independent operative and artisan certifications.
- NVQ levels 4-6 are equivalent to advanced trades, technical and business qualifications. They should lead to technician, technologist and professional certifications.
- NVQ levels 7 and 8 equate with advanced qualifications of graduate and postgraduate standard. They should lead to specialist professional and executive professional certifications.

VTCs offer apprentice training in 19 trade specializations, lasting two to three years (previously four years). Eight trades account for over 70 per cent of the enrolments. In 2002 the most popular trades were carpentry, joinery and cabinet making; auto mechanic; bricklaying and plastering; business practice and secretarial; and plumbing, pipefitting and sheet metal. By 2008 electrician and general electrical training was the most popular trade and office administration had replaced business practice and secretarial studies as shown in Figure 3 below.

¹⁵ NTA, (2005) "Namibia vocational education and training policy 2005," Draft Paper Version 6, Namibia: Namibia Training Authority

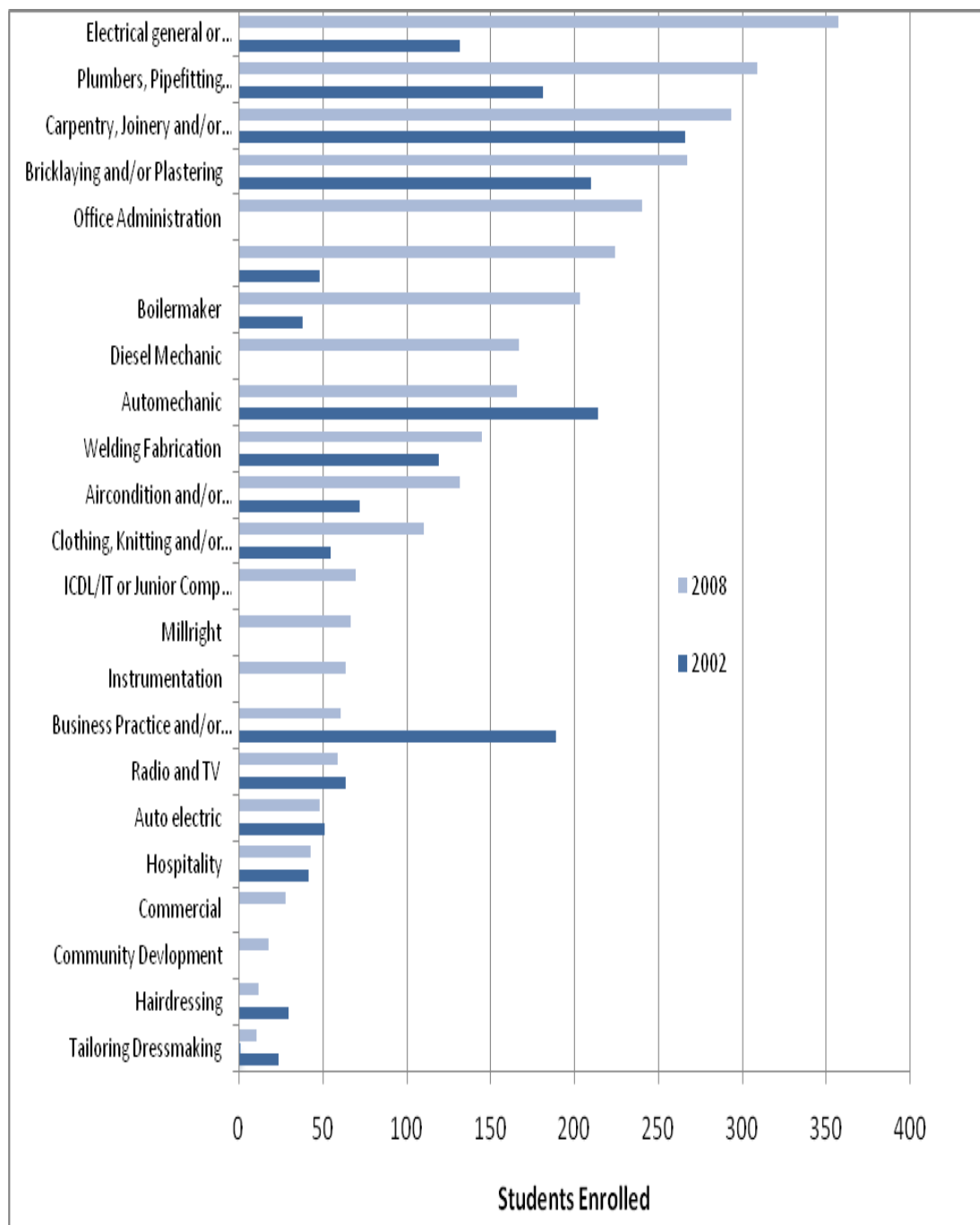
Figure 2: Gross school enrolment ratios in SADC in 2008



Note: No data was available for Seychelles and Mauritius

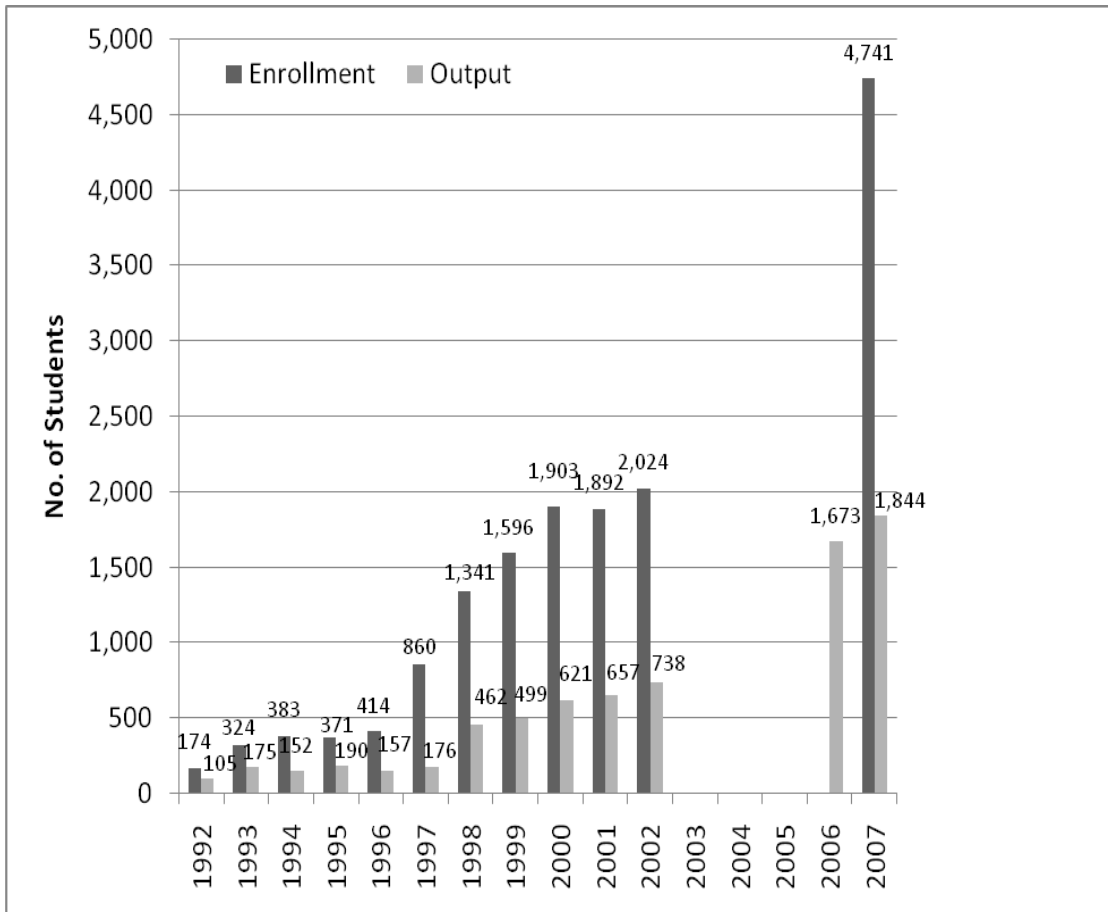
Source: World Bank Edstats Database (2008)

Figure 3: VTCs enrolment by trade specialization and year of training



Source: Marope (2004) & Namibia Training Authority (provided February 2009)

VET has become increasingly popular. The total students enrolled at VTCs has increased by approximately 134 per cent from 2024 students in 2002 to 4,741 students in 2007 as shown in Figure 4 below. This is a large increase from the 174 students enrolled in VTCs in 1992.

Figure 4: Trends in VTC enrolments

Source: Marope (2004) & Namibia Training Authority (provided February 2009)

Currently, formal VET is offered by various training providers in Namibia. These include six VTCs i.e. Okarara, Rundu, Zambezi, Valombola, Windhoek and NIMT in Arandis and seven Community Skills Development Centres (COSDECs). The COSDECs are located in Ondangwa, Tsumeb, Otjiwarongo, Gobabis, Mahetago, Tukurenu and Opuwo. In addition there is a TSMESC COSDEC. These operate from January to June and from June to December. The last two VTCs and the COSDECs are government-aided. Funds provided by the government cover staff salaries, equipment, materials and other operating expenses with very little coming from tuition and fees paid by families.¹⁶ VET is also offered by KAYEC, DAPP, NamPower and NamWater. KAYEC has branches in Ondangwa and Khomas. Additionally, there is a Grade 10 program and the Namibia Federation for the Visually Impaired that are also considered VET institutions.

In Namibia's case, a dropout phenomenon among students enrolled at VTCs exists. A study of the Windhoek VTC found that between 1993 and 1999, 36 per cent of the

¹⁶ Marope, (2004)

trainees dropped out before finishing their training.¹⁷ This may be a result of the relatively longer study period for VET in Namibia, which is two to three years. VET in developed countries lasts one to one and a half weeks.¹⁸ Due to the shortage of skills in the labour market, most of the dropouts still find employment. This suggests that the VET system assists student in acquiring marketable skills.

In 2003 the government appropriated N\$41,374,000 to the VET directorate.¹⁹ From this N\$11,234,000 was allocated directly to the VTCs (N\$3,500,000 to the COSDECs and N\$7,734,000 to the Windhoek VTC). This translates to a cost of N\$5,550 per student (N\$11,234,000 / 2,024). Although, 738 student graduated in 2002, 1,286 students did not (2,024 -- 738). Therefore non-qualifying students cost the VET Directorate in government N\$7,138,000 (5,550 x 1,286) in 2002.

In 2007, the Government allocated N\$23,866,000 to VTCs. This translates to a cost of N\$5,033.96 per student (N\$23,866,000 / 4,741). In 2007, 79 students did not qualify. This suggests that the cost of non-qualifying students was N\$397,682.77 (5,033.96 x 79). In 2008, the number of non-qualifying students increased substantially to 631. If we assume that the cost per student in 2008 was the same as in 2007, then non-qualifying students cost the VET directorate N\$3,176,428.20 in 2008 (N\$5,033.96 x 631).

In January 2004, as part of an ongoing reform process; the Namibian government decided to establish the NTA under the NVTA, as an autonomous body that aimed to take over the management of VET in Namibia. Its responsibility covers all VET activities ran by the VET directorate. This includes policy implementation; allocation of VTF revenue to training providers; and ensuring that these finances are applied toward the attainment of key policy priorities. However, policy definition still remains the purview of the Ministry of Education.

The NTA is responsible for ensuring that VET plays a role in achieving the objectives outlined in Vision 2030 by implementing courses that are competency based, respond to priority demands of private sector employers and are integrated with other components of the education and training system. It also works with the HIV and AIDS management Unit in the Ministry of Education to develop a competency based approach to HIV/AIDS for all VET courses as part of a special focus on the disease.²⁰

¹⁷ Lund, S. in Johannson and Kukler (2003).

¹⁸ Aventur, F. & Mobbis, M, (1996) "Continuing training in the companies: France's position in Europe," in Training and Employment, Winter No. 26 in Greenhalgh, C. (2001)

¹⁹ State Revenue Fund (2004) "Estimate of revenue and expenditure for the financial year 1 April 2004 – 31 March 2005: Presented to parliament," Namibia: Ministry of Finance.

²⁰ Namibia Training Authority, Draft Paper version 2

3. FINANCING VOCATIONAL EDUCATION

3.1. Microeconomic Approach²¹

Microeconomic applications to the provision of VET focus on private benefits and opportunity costs. This views training as a private investment decision motivated by higher wage expectations and argues that public resources used in training can be put to better use in production.

Market failure arises if the rewards and relative costs to workers and employers are not aligned. Where this exists private initiatives cannot be fully efficient in ensuring that a socially optimal amount of training takes place.

A private solution will only work if individuals have the necessary funds to finance their training, employers provide firm-specific training, workers have no opportunity or incentive to move to other firms after receiving training and there are no positive externalities to the economy from the existence of more skilled workers in the labour force. These are very stringent assumptions.

Information asymmetry imposes information costs on employers. By allowing for it; some studies show that where workers face financial constraints, firms can share in the costs of training to reach socially optimal levels.²² They argue that making the value of training more transparent, like VET does, reduces the incentive for firms to share in financing training leading to market failure.

Where workers seek skills updates to perform new tasks brought about by rapid technological change; government should predict future skill needs, subsidise learning and ensure quality through accreditation of training providers. Accreditation is important for workers because some unscrupulous training providers may offer inadequate training at high prices. With the assessment of training quality, often only possible some time after its purchase; a market with a collapsing price and the disappearance of high quality provision could occur. A role for government is necessary in alleviating such negative effects of market failure.

3.2. Macroeconomic Approach

Macroeconomic theory views VET as a public good. Externalities arising from VET have implications for growth, trade and employment.

²¹ This section relies on Greenhalgh, C. (2001)

²² Katz, E. & Ziderman, A. (1990) Investment in general training" The role of information and labour mobility, "Economic Journal," Vol. 100, No. 403

The contribution of VET to economic growth has been given increasing recognition in growth literature.²³ Training provides skilled labour flows and is directly responsible for improvements in productivity and real incomes. These skilled workers generate knowledge capital, which determines the rates of product and process innovation and affects economic growth rates.

VET is also important to trade.²⁴ Countries with highly skilled labour are able to produce products with higher value added, while paying higher wages per worker. Additionally, skilled workers positively influence research and development, which contributes to external trade competitiveness through its impact on technological advancement. Also, evidence exists in various studies that confirm the role played by labour in explaining trade patterns.²⁵

The quality of labour is one factor that determines the rate of imitation and adoption of technology from other countries. This is important in determining the ability of a country to leapfrog stages of development.²⁶ The skills we hold upon entering the labour market are unlikely to remain appropriate to future production methods. As capital intensive techniques have been adopted in manufacturing, there has been a continuous shift of employment to services.²⁷ It is important for workers whose skills have lost value in this dynamic process and those who remain in manufacturing to update their skills. VET provides an avenue for them to participate in a continuous learning process.

The economic theories summarized above can be consolidated by viewing VET as creating private capital embodied in a person, but which engenders widespread and enduring beneficial externalities. This should lead to a more qualified and responsive, labour pool. Such workers will increase the level of profits, wages, innovation, productivity, efficiency, output and economic growth, which translates into benefits for shareholders, workers, employers and the society.²⁸

The challenge for VET stakeholders is to identify the flows of costs and benefits together with the directions of flow of the externalities and adopt an optimal joint financing structure involving employers, workers and the government, as the beneficiaries of the VET initiative; to avoid under-investment.

²³ Romer (1990) & Lucas (1988)

²⁴ Finegold & Soskice (1988); Ashton & Green (1996); Redding(1996); Green & Sakamoto(2000)

²⁵ Stern & Maskus (1981); Deardorff (1984)

²⁶ Barro & Salai-Martin (1995)

²⁷ Rowthorn & Wells (1987)

²⁸ Ballot & Taymaz (1996)

3.3. The Training Levy Scheme

The role of the private sector as an employer and its importance in the effort to achieve the objectives of Vision 2030 is increasingly recognised. Government funded VTCs, have done poorly in catering to their needs. Joint financing schemes between public and private stakeholders are viewed as the solution to overcome this obstacle.

Various studies show that private sector involvement is important in creating training institutions that are more efficient in utilizing resources, while providing relevant and demand-sensitive training.²⁹ This is because they are the major beneficiaries of this initiative and therefore have a high level of vested interest.

Based on this belief the Minister of Education under the provisions in the NVTA 18:44 is to implement a payroll-based, training levy to supplement funding for formal VET in Namibia. The key principle behind these schemes is “who benefits pays.”³⁰ The cost of VET should fall on the workers and employers who are the beneficiaries. It is envisioned that workers and employers will increase training levels if they contribute financially.

There are two alternative ways to finance VET. Under levy-grant schemes, money collected by the government is transferred back to firms in the form of grants and rebates as incentives for employers to conduct firm-specific training. This is advocated in informal VET initiatives. Under levy schemes collected funds are used by the public sector to provide pre-employment and in-service training courses to disadvantaged groups and small employers as part of a national training effort.³¹ This is advocated in formal VET initiatives. Combinations of the two exist as mixed models.

3.3.1.1. Advantages of a Levy Scheme

The levy scheme has better overall results than a levy-grant scheme if the objective of VET is to develop additional sources of better qualified workers for the benefit of the nation. This is due to several reasons.

Firstly, in countries which face difficulties in mobilizing training funds required for VET, levy schemes provide a stable and protected revenue source that may otherwise be unavailable to the public sector. This is important in Namibia, where the recurrent budget goes towards several other equally important development priorities.

²⁹ World Bank (1996)

³⁰ Becker, G. (1964)

³¹ Middleton, J., Ziderman, A. & Van Adams, A (1993) “Skills for productivity: Vocational education and training in developing countries,” Vol. 1, June & Ziderman, A. (1989)

Secondly, a levy scheme provides a solution where individuals lack the funds to cover the cost of training. This is important in Namibia where the main reason that trainees dropout from VTCs is because of lack of funds required as user fees.³²

Third, levy schemes lead to a much larger proportion of students obtaining recognised qualifications than under levy-grant schemes.³³ This leads to an increase in the overall level of quality in the labour force which has positive implications for foreign direct investment inflows and productivity in smaller, non-training firms that indirectly benefit from a more qualified pool of potential new hires.

3.3.1.2. *Disadvantages of Levy Schemes*

Despite the advantages of a levy scheme in promoting formal VET efforts, it has several shortcomings.

Firstly, the levy scheme transforms VET into a public good. This has social features, which may not be the most optimal. The public good characteristics of VET result in a free-rider problem, which leads to inequity. While all may be contributing to the scheme, not all benefit.³⁴

One level at which free-riding may occur is between contributing and non-contributing firms (typically micro and small-scale enterprises that represent approximately 81% of employers in Namibia).³⁵ Theoretically, to solve the free-rider problem between contributing and non-contributing firms created by levy schemes no employer should be exempt. Proponents of non-exemption for all employers argue that this reduces potential non-compliance that arises due to the difficulties arising from blurred definitions of the informal sector and the difficulties of small-firm identification, registration and levy collection. To alleviate administration costs it is considered easier to introduce the levy to large employers initially and then to gradually incorporate smaller-scale enterprises.

Another level that free-riding may occur is between workers, where exempt firms benefit from VET without contributing. Due to worker mobility, micro and small-scale enterprises may still benefit from VET as they would be able to choose from a better trained pool of potential employees without contributing to its creation.

³² World Bank, (2004)

³³ Rigg, M. (1989) "Training in Britain: Individual's perspectives," London, HMSO; Prais, S. (1995) "Productivity, education and training: An international perspective, Cambridge: National Institute for Economic and Social Research and Greenhalgh, C. & Mavrotas, G. (1994) 'The role of career aspirations and financial constraints in individual access to vocational training', "Oxford Economic Papers," 46 (4) in Greenhalgh, C. (2001)

³⁴ Stevens, M. (1999) "Should firms be required to pay for vocational training?" Centre for Economic Policy Research Discussion Paper No 2099 in Greenhalgh, C. (2001)

³⁵ Social Security Commission

If trained workers get higher wages then all employers are paying towards the gains of the few trained workers. To reduce this problem a progressive taxation system would allow those who are upwardly mobile due to VET to pay funds back into the state revenue fund. Some of this will find its way back into the funding for VET initiatives.

Secondly, the public sector is the main driver of VET initiatives under the levy scheme. Due to its wider social mandate the levy funds may not be used to cater to the needs of firms that pay it.³⁶ The levy will fund all labour market segments except the higher qualified segments of the employed. This creates problems if employers don't see a quick and dramatic improvement in the quality of graduates from training providers that are funded by the levy.³⁷

Thirdly, levy schemes promote national VET initiatives, which focus on the needs of identified priority sectors. It is quite common to find a lack of adequate strategic planning to facilitate the transparent definition and prioritisation of areas for funding. Government institutions may not have the capacity to adequately determine the priorities of industry.³⁸ In addition, priority setting may create high wages in one sector relative to others. Since the NTA will be driven by the private sector this potential source of risk should be mitigated.

Fourth, many employers regard their contributions as a tax that increases their costs and reduces overall competitiveness. This generates a feeling among the private sector that levy schemes are interventionist and distortionary.

Fifth, levy schemes are costly to put in place as they require the creation of centralised, administrative bodies that may succumb to bureaucratic tendencies.

Finally, for the VET system to be sustainable, a well functioning tax collection apparatus needs to exist. Also, the number of firms should be sufficiently large in order to generate revenues. This is usually a significant problem in many developing countries, including Namibia, where capacity inadequacies plague the revenue collection agencies and the private sector is relatively small.

3.4. Financing Vocational Education and Training

There are many countries in the world where revenue for VET initiatives is generated by a levy scheme. To get an idea of what percentage of payroll should be subjected to the training levy, which employer category should be exempt from it and which institution should collect it; we will review the experience of other

³⁶Colombia's case is presented in Gasskov (1994)

³⁷ Resolve Skills Works (2001)

³⁸ Durango, L. (2002)

countries that have active VET levy systems in SADC e.g. Botswana, Malawi, Mauritius, South Africa, Tanzania and Zimbabwe. We will also examine the experience of public institutions in Namibia that are currently applying levies to fund their training activities.

3.4.1. Country Experiences

Payroll levies are used to generate funds for VET in many SADC countries as shown in Table 1 overleaf.

In Botswana, the national VET initiative falls under a National Apprenticeship Scheme. This scheme provides technician and artisan training through six VTCs that fall under the Ministry of Education and one company VTC. In addition, community-based Brigade Centres offer a trade testing system. Financing of VET in Botswana is done by the government, the private sector and the community. The government and private sector directly finance training through double tax-deduction schemes, training grants and training with production. The only training levy imposed is at a sectoral level, in the construction industry. The revenue generated is used to finance a training centre providing tailor-made courses for construction companies. This is financed by the Botswana Construction Training Trust Fund, which relies on a training levy based on the value of tendered contracts and government subventions.³⁹

In Malawi, VET has a long history. The Industrial Vocational Training Board was established in 1973. This scheme collected revenue using head tax on workers in the government and private sector differentiated by skill category. This is currently being replaced by a one per cent payroll levy.⁴⁰ The revenue collected is used to finance a national apprenticeship scheme, reimburse apprenticeship wages and provide grants to technical colleges providing formal courses.

³⁹ Republic of Botswana (1997) " National policy on vocational education and training," December, Botswana: Ministry of Labour and Home Affairs

⁴⁰ Malawi Economic Justice Network, " Response to Malawi national draft budget 2003/2004,"

Table 1: Levy Schemes in Selected SADC Countries

COUNTRY	SCHEME	% OF PAYROLL	EXEMPTION	COLLECTION AGENCY	PURPOSE
Botswana	Sector-specific	Based on the value of tendered construction contracts	Non-construction companies	--	To provide courses for construction companies
Malawi	Mixed model	1% payroll levy	--	--	Financing national apprenticeship scheme, reimbursement of apprenticeship wage and grants to technical colleges providing formal courses
Mauritius	Mixed model	1% payroll levy	Public sector	National Pension Board	Financing government VTCs that focus on pre-employment training and in-service training
South Africa	Mixed model	1% payroll levy.	Central and provincial government	South African Revenue Service	To reduce long-term national unemployment and other targeted sectoral needs
Tanzania	Levy scheme	2% payroll levy	Public sector and employers with less than four additional workers	National Social Security Fund (to be replaced by the Tax Authority)	Financing formal VTCs

Zimbabwe	Levy-Grant Scheme	1% payroll levy	Excludes central and provincial government; and firms with annual wage bills of less than 20,000 Zimbabwe dollars	Self collection by Zimbabwe Manpower Development Fund	Financing of apprenticeship and approved professional, formal sector training
Ministry of Tourism	Levy Scheme	Differentiated according to type of tourism establishment	Establishments that have not received tourists	Self Collection by the Namibia Tourism Board	Financing the operational costs and functions of NTB including promotional marketing materials for tourism
Ministry of Fisheries and Marine Resources	Levy Scheme	Lump sum amount per metric ton of species of fish	Licensed fishing vessels with no landed catch	Self Collection by the Ministry of Fisheries and Marine Resources	Financing of short industry courses and degree courses for staff; and research initiatives

Source: Ziderman (2001)⁴¹

⁴¹ Ziderman, A. (2001) "Financing vocational training to meet policy objectives: Sub-Saharan Africa," November, Israel: World Bank

In Mauritius, VET is also managed by an Industrial Vocational Training Board. This body is under the jurisdiction of the Human Resource Development Council in the Ministry of Training, Skills Development, Employment and Productivity.⁴² Mauritius has adopted a mixed model, which imposes a one per cent payroll levy on the non-public sector. The revenue is collected by the National Pensions Board at a four per cent administration fee. The revenue collected goes to funding government VTCs that focus on pre-employment training and in-service employer driven training programs.

In South Africa, VET falls under the National Skills Fund. It has adopted a levy-grant scheme where the levy was initially 0.5 per cent of payroll but was later increased to a uniform one per cent as part of a gradual process of implementation. Although the central and provincial government is exempted from the levy due to tax legislation, government departments are required to budget one per cent of personnel costs for skills development.

In the 1980s, Industrial Training Boards were formed in South Africa. These, currently numbering 27, provide industry-specific training. Membership is voluntary and their functions vary. However, most impose a training levy on their members in order to encourage them to train and organize training courses for firms in their sectors.

South Africa's levy is collected by the South Africa Revenue Service at a two per cent administration fee. It allocates the funds through the Ministry of Labour. 20 per cent goes to the National Skills Fund for VET and 80 per cent goes to the Sectoral Training Authorities that are responsible for the industrial training boards.

Tanzania established a VET Authority in 1995.⁴³ A levy scheme was implemented and funds are collected on 2 per cent of payroll.⁴⁴ The collection was done by the National Social Security Fund at an administration fee of 7.5 per cent increased from five per cent previously. However, this collection agency is to be replaced by the Tax Authority. The collected revenue is mainly used to fund VTCs.

Due to the financial constraints facing the public sector, Tanzania introduced cost-sharing schemes where VTCs charge user fees with approximately 35 per cent of total VTC expenditure to be borne by parents. However, cost recovery in these institutions is only about 10 per cent due to a lack of clarity in how to deal with non-compliance.

⁴² Fowdar, S. (2003) " The human resource development bill-explanatory memorandum," 24, July, Mauritius: Government Gazette

⁴³ ILO, Vocational education and training-Tanzania: Revision of the human resources development recommendation, Geneva: International Labour Office

⁴⁴ Durango, L. (2002)

In Zimbabwe, VET is the responsibility of the Zimbabwe Manpower Development Fund and the VTF. A payroll levy of one per cent is imposed on all employers except central and provincial government and employers with an annual wage bill of less than Z\$ 20,000. Levy revenue is collected by Zimbabwe Manpower Development fund. It is used to finance apprenticeships and approved professional, formal sector training.⁴⁵

3.4.2. Other Ministries

In Namibia, levies have been imposed by the Ministry of Environment and Tourism and the MFMR.

3.4.2.1. Ministry of Tourism

Namibia Tourism Board (NTB) plays an important role in advancing tourism in Namibia. Its functions include the promotion of Namibia as a tourist destination both locally and internationally, to regulate and monitor the tourist industry to ensure quality standards are maintained and to act as an advisory body on tourism related policy issues.⁴⁶ In 2004, a tourism levy was introduced to cover the operational cost of the NTB in fulfilling its functions. The first levy was collected at the end of January 2005.

The tourism levy is differentiated depending on the type of establishment. A two per cent levy is imposed for bed and breakfast or bed only establishments. A one per cent levy is imposed on establishments that charge an all inclusive tariff covering accommodation, food, beverages and recreational activities.

Due to resistance from the DIR, the NTB collects the levy every two months through its finance department. Tourism establishments that have received clients during the levy period use a form to indicate payment of the levy, which is sent to the NTB. Those who have not received clients still send in the form indicating this. An electronic database is used to identify those who have not complied.

3.4.2.2. Ministry of Fisheries and Marine Resources

Fishing and marine activities in Namibia are managed by the MFMR. Its functions include policy making and regulation of the fishing industry.⁴⁷ The MFMR imposes separate levies for different purposes.

⁴⁵ Bennell, P. "Vocational education and training in Zimbabwe: The role of private sector provision in the context of economic reform," WP 74 Sussex: Institute of Development Studies

⁴⁶ Namibia Tourism Board (2000) Act 21, November, Namibia: Government Gazette

⁴⁷ Namibia Tourism Board (2000)

The quota fee levy is based on the Marine Resources Act 27:44. It is used to regulate the licensing of fishing vessels and is calculated as a lump sum fee per metric ton of fish species landed. It is paid in four equal installments to the State Revenue Fund.⁴⁸

The levy most suited to this paper's purpose is the sea fisheries levy. This is also based on the Marine Resources Act 27:44. It is collected by the finance department in the Marine Resources division of the MFMR and diverted to a separate account from the State Revenue Fund. The amount collected is also a lump sum fee per metric ton of fish species landed but includes a pro rata portion of the prescribed amount. The formula used to calculate the sea fisheries levy differs from that of the quota fees levy above.⁴⁹

80 per cent of the revenue generated from this levy is allocated to research initiatives within the MFMR. The residual 20 per cent goes towards training in short-industry courses at the Namibia Fishing Institute and for MFMR staff pursuing degree courses at the Polytechnic and University of Namibia.

⁴⁸ Iyambo, A. (2004) " Ministry of fisheries and marine resources government notice," 134, June, Namibia: Republic of Namibia

⁴⁹ Iyambo, A. (2002)

4. RESULTS AND DISCUSSION

4.1. Government Exemption⁵⁰

The role of the government in Namibia's VET initiative is very important. Currently, it is the main financier. In this section, a comparative analysis of the Government's exemption versus its non-exemption from the levy is conducted to assess the amount of revenues that would be available for the NTA's activities.

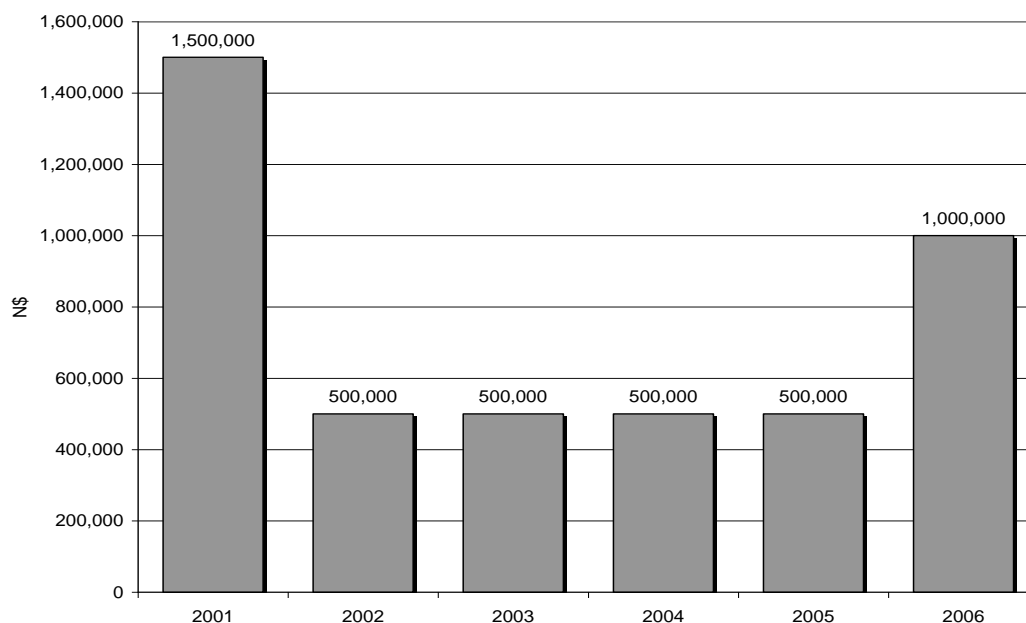
Our null and alternative hypotheses are:

H_0 : Government should continue contributing to the VET initiative directly and should not be subjected to a training levy like any other employer.

H_1 : Government should not continue contributing to the VET initiative directly but should be subjected to a training levy like any other employer.

The government contribution to the Vocational Training Fund (VTF) decreased from N\$1,500,000 in 2001, to a constant level of N\$500,000 until 2006. However, in 2006 the government's contribution increased to N\$1,000,000; as shown Figure 5 below. In 2005, the VTF had accumulated reserves of N\$7 million.

Figure 5: Government contribution to the VTF

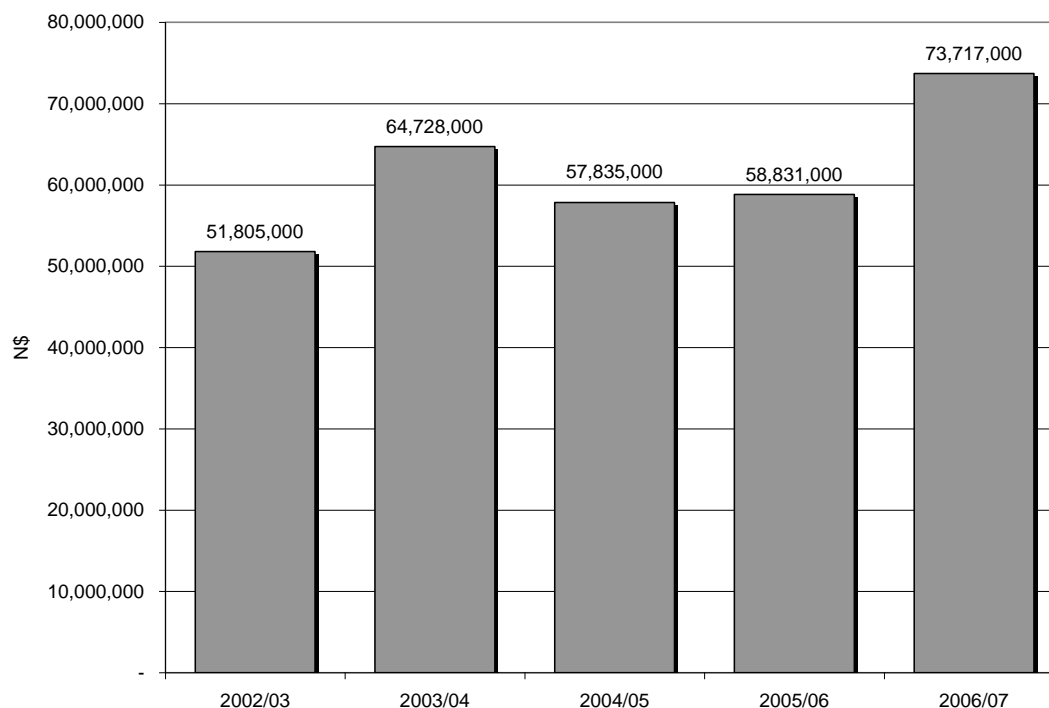


Source: State Revenue Fund (2004, 2007)

⁵⁰ All figures are rounded to the nearest 1000 for easier interpretation

The government's contribution to the overall VET initiative in Namibia has been increasing steadily over recent years, following a drop in 2004 and 2005, as shown in Figure 6 below. In 2006 the government allocated N\$73,717,000 to the VET.

Figure 6: Government contribution to VET



Note: 2001 and 2003 represent actual expenditure; 2002 and 2004 represent appropriations

Source: State Revenue Fund (2004, 2007)

One of the issues that the NTA is concerned with is whether to subject government to the levy or exempt it. The total annual wage bill for government in 2008 is estimated at N\$6,725,010,000 which increased from N\$6,129,685,000 in 2007.⁵¹ If this was subjected to a one per cent training levy, the NTA will potentially raise N\$67,250,100 (N\$6,725,010,000 x 0.01) for its VET initiative. This is less than the current direct contribution to the VET.

By 2008, the amount appropriated to VET was N\$134,027,000. N\$64,655,000 was contributed by co-operation partners. When this is deducted, the total amount allocated to VET solely by Government is N\$ 69,372,000. This amount is still more than what would be collected if the government was subjected to a one per cent training levy.

⁵¹ State Revenue Fund, (2008) "Estimate of revenue and expenditure for the financial year 1 April 2008-31 March 2011," Windhoek

It can be argued that a two percent levy would generate substantially more revenue from the government. However, the remuneration figure in the government budget represents expenditure on salaries, allowances, wages, bonuses and other related payments. Since the levy only applies to wages the amount that will flow to the NTA may be much less.

In addition, the central and provincial government in Namibia remains outside the scope of levy legislation.⁵² If the option to subject government to the levy is pursued by the NTA a legislative change may also need to be pursued, which may face strong resistance.

Furthermore, if government were to be subjected to the levy they would have a say in how the levy funds would be utilised. This scenario may include a shift in control of VET strategy from the private sector to government, which would compromise efforts to create a private sector driven VET initiative in Namibia.

Based on the findings above, the null hypothesis that Government should continue contributing to the VET initiative directly, rather than being subjected to a training levy like any other employer is not rejected.

4.2. Levy Base

Through the levy scheme, employers would contribute to a national VET effort aimed at improving the overall quality of skills in Namibia. A key factor in achieving this objective is an adequate amount of funds. Using the data from the SSC⁵³ we are able to conduct a scenario-based analysis of the various amounts of revenue that the levy will generate when we apply different exemption criteria. The analysis was hampered by the limitations of this database, which are correctly identified in Ziderman's report.⁵⁴

The total monthly wage bill for all employers in Namibia on December 1, 2004 was N\$1,982,115,000. If we assume this remains constant in 2008 then the annual total wage bill for all employers in Namibia is N\$23,785,380,000 (N\$1,982,115,000 x 12). If all employers were subjected to a levy at one per cent on annual payroll, with no exemptions, the NTA would raise N\$237,853,830 (N\$23,785,383,000 x 0.01).

⁵² Ziderman, A. (2004) The establishment of a vocational training levy in Namibia," February, Namibia: Namibia Training Authority

⁵³ DIR does not capture payroll information in their database

⁵⁴ Ziderman, A. (2004) p. 12

4.2.1. Exemption Criteria

A significant majority of employment is concentrated in SMMEs. Currently, governments are reluctant to dampen their growth by imposing levies on them.⁵⁵ Also, as stated earlier, many revenue collection agencies in developing countries are faced with capacity shortfalls. Under this scenario, tradeoffs between potential revenue and efficiency and administrative costs of collection become increasingly important. These two factors justify the application of exemptions that outweighs the concern over free riding, which non-exemption addresses.

This section examines how much revenue can be collected if exemption is based on either the number of employees or on amount of payroll to decide which criterion needs to be applied for exemption by presenting various alternative scenarios.

The null and alternative hypotheses are:

H_0 : An exemption criterion of less than 20 employees and/or less than N\$200,000 should be applied to ensure efficiency of collection.

H_1 : An exemption criterion of less than 20 employees and/or less than N\$200,000 should not be applied to ensure efficiency of collection.

4.2.1.1. Number of Employees

We use the number of employees as a basis for exemption. A key assumption here is that every employer has an equal monthly wage bill.⁵⁶

The SSC data provided in Table 2 below does not provide information on employers with more than 250 employees. However, since only 1.76 per cent of employers have more than 100 employees we can assume that the percentage with more than 250 employees is even less than this. Based on this assumption, if we exempt all employers with less than 250 employees the levy will generate very little revenue for VET.

⁵⁵ Dar, A., Canagarajah, S. & Murphy, P. (2001) "Training levies: Rationale and evidence from evaluations," (June)

⁵⁶ This is necessary due to the limitations in the SSC database

Table 2: Frequency distribution of employers by number of employees

No. of Employees	% of Employers	Estimated No. of Active Employers
1-9	88.47%	27,196
10 -19	6.29%	1,935
20 – 29	1.83%	564
30 – 39	0.84%	259
40 – 49	0.56%	171
50 – 59	0.31%	96
60 – 69	0.29%	90
70 – 79	0.15%	47
80 – 89	0.10%	31
90 – 99	0.09%	29
At least 100	1.05%	323
Total	100%	30,741

Source: SSC

Table 2 above indicates that employers with at least 100 employees account for 1.05 per cent of total employers. The total annual wage bill for this percentage of employers in Namibia is N\$249,746,521.50 (N\$23,785,383,000 x 0.0105). If employers with less than 100 employees were exempted from the one per cent levy the NTA would raise N\$2,497,465.22.

Cumulatively, about 98 per cent of employers in Namibia have less than 50 employees. If the NTA exempts employers with less than 50 employees then Table 2 above shows that only 2 per cent of all employers will be eligible for the levy. The total annual wage bill for this percentage of employers in Namibia is N\$473,329,121 (N\$23,785,383,000 x 0.02). If employers with less than 50 employees were exempted from the levy the NTA would raise N\$4,733,291.21.

A rough estimate of the NTA's 2005/06 operational budget was N\$7 million. The levy generated at this threshold would not have been enough to cover this estimated operational cost. The NTA's ability to achieve its operational objectives will be adversely affected. Therefore, a lower threshold needs to be applied if the NTA is to be successful in its envisioned role.

Cumulatively, about 94.76 per cent of employers in Namibia are employers with less than 20 employees. If the NTA exempts employers with less than 20 employees

then Table 2 above shows that only 5.24 per cent of all employers will be eligible for the levy. The total annual wage bill for this percentage of employers in Namibia is N\$1,246,354,069 (N\$23,785,383,000 x 0.0524). If employers with less than 20 employees were exempted from the levy, a one per cent levy will generate N\$12,463,540.69. This would have covered the administrative costs of the NTA in 2005.

88.47 per cent of employers in Namibia are employers with less than 10 employees. If the NTA exempts employers with less than 10 employees then Table 2 above shows that only 11.53 per cent of all employers will be eligible for the levy. The total annual wage bill for this percentage of employers in Namibia is N\$2,742,454,660 (N\$23,785,383,000 x 0.1153). If employers with less than 10 employees were exempted from the levy, a one per cent levy will generate N\$27,424,546, which is substantially more than if only employers with less than 20 employees were exempted.

The estimated annual levy revenues generated if exemption is based on the number of employees is summarised in Table 3 below

Table 3: Levy revenue scenarios if exemption is based on no. of employees

EXEMPTION CRITERION	LEVY REVENUE (N\$)
Less than 100 Employees	2,497,465.22
Less than 50 Employees	4,733,291.21
Less than 20 Employees	12,463,540.69
Less than 10 Employees	27,424,546
None	237,853,830

Source: Author

4.2.1.2. Annual Payroll

The SSC provided payroll information categorised by the number of active employers in each category. To conduct the payroll analysis the restrictive assumption that employers in each industrial sector (as defined by the SSC database) have equal annual payroll costs, was applied.⁵⁷

Annual Payroll (N\$) a	Mean of Annual Payroll (N\$) b	No. of Active Employers c	Total Annual Payroll (N\$) b x c
1 to 200,000	100,000.50	30,331	3,033,115,166
201,000 to 2,000,000	1,100,001	3,409	3,749,901,705

⁵⁷ Due to data confidentiality agreements we cannot present the data payroll information for individual employers

2,000,001 to 2,500,000	2,250,001	106	238,500,053
2,500,001 to 5,000,000	3,750,001	205	768,750,103
5,000,001 and more	5,000,001	183	915,000,183

Source: SSC and author

The residual payroll after exempting employers in the SSC database with an annual wage bill of less than N\$5,000,000 was N\$915,000,183 for all active employers. Active employers are defined as those who make monthly SSC contributions. If a levy of one per cent is applied to the annual payroll of the active employers, the NTA would raise N\$9,150,002 for the VTF.

The residual payroll after exempting employers in the SSC database with an annual wage bill of less than N\$2,500,000 was N\$ 1,683,750,285.50 (N\$ 915,000,183 + N\$768,750,103) for all active employers. If a levy of one per cent is applied to the annual payroll of the active employers, the NTA would raise N\$16,837,502.86 for the VTF.

The residual payroll after exempting employers in the SSC database with an annual wage bill of less than N\$2,000, 000 was N\$1,922,250,338.50 (N\$ 915,000,183 + N\$768,750,103 + N\$238,500,053) for all active employers. If a levy of one per cent is applied to the annual payroll of the active employers, the NTA would raise N\$ 19,222,503.39 for the VTF.

The consideration of professional trades with few employees raises concerns of a potential loophole in the applied exemption criteria. Dentists, lawyers, auditors and consulting engineers typically practice with a lean workforce but their wage bills are quite high. To examine the impact of including this group we analyse the implications of exempting employers with an annual wage bill of less than N\$200,000.

The residual payroll after exempting employers in the SSC database with an annual wage bill of less than N\$200, 000 was N\$5,673,854,838.50 (N\$ 915,000,183 + N\$ 768,750,103 + N\$ 238,500,053 + N\$ 3,749,901,705) for all active employers. If a levy of one per cent is applied to the annual payroll of these active employers, the NTA would raise N\$56,738,548 for the VET fund.

The estimated annual levy revenues generated if exemption is based on the number of employees is summarised in Table 4 below

Table 4: Levy revenue scenarios if exemption is based on payroll

EXEMPTION CRITERION	LEVY REVENUE (N\$)
Less than 5,000,000	9,150,002
Less than 2,500,000	16,837,503
Less than 2,000,000	19,222,503
Less than 200,000	56,738,548

The results of the scenario based analysis above show that exemption based on the number of employees generates less revenue than based on payroll even when we consider high-wage, low employee professional firms. Furthermore, a payroll based levy is easier to administer and has a legal basis as opposed to an employee based levy.

Based on the findings above, the null hypothesis that an exemption criterion of less than 20 employees and/or less than N\$200,000 should be applied to ensure efficiency of collection is rejected. Rather this report advocates the modified position that an exemption criterion of less than N\$200,000 should be applied to ensure efficiency of collection and adequate revenue generation for VET initiatives in Namibia. The substantial amount of revenue generated will be able to meet the needs of expanded VET initiatives in Namibia even if co-operation partners reduce their contribution to VET in Namibia in the medium to long-term.

Furthermore, by exempting firms below N\$ 200,000, loopholes that professional firms may use to avoid paying the levy by claiming that they have less than 20 employees are closed because the number of employees will no longer be used as in determining exemption. In addition, it does not penalise micro and small-scale enterprises that are in their early stages of development.

4.3. Collection Partner

One issue which remains crucial to the success of the VET in Namibia is the agency that will be responsible for the collection of the training levy. Ziderman reviewed the DIR, SSC, NTA, banks and a private collection agency as possible options. This section will assess these agencies so as to recommend the most suitable partner for collection.

The null and alternative hypotheses are:

H_0 : The DIR is the most suitable levy collection agency.

H_1 : The DIR is not the most suitable levy collection agency.

4.3.1. Directorate of Inland Revenue

The core function of the DIR is to maximize state revenue within the boundaries of Namibia. Currently, it is the most preferred choice for a collection partner among VET stakeholders in Namibia, especially those in the private sector. This is because of its extensive experience in collecting revenue.

Levies are defined as non-taxable income and are perceived by the DIR as undercutting the flow of income into the State Revenue Fund. Due to this the Ministry of Finance, which the DIR falls under; has lodged a complaint with Cabinet questioning the ad hoc way in which line ministries and parastatals resort to levy

collection without the legislative approval of Parliament. Also, the DIR has successfully resisted collecting levies imposed by other line ministries, including the Ministry of Tourism and MFMR.

4.3.1.1. Capacity

Revenue collection is a labour intensive exercise requiring highly qualified personnel. As mentioned earlier, capacity shortfalls plague revenue collection agencies in developing countries. Namibia is no exception.

Currently, the DIR has 307 personnel at its disposal dispersed across four central offices (Windhoek, Walvis, Oshakati and Rundu) and two satellite offices (Otjiwarongo and Keetmanshoop). They are responsible for collecting taxes from companies that are regionally distributed. Table 5 below indicates that about 40 per cent of employers are located in Khomas. The coastal regions and Oshana account for about 13 per cent and 10 per cent respectively. The remaining regions accounts for less than 9 per cent each.

Table 5: Number of employers in Namibia by region in 2007

REGION	% of Total Employers	Estimated No of Active Employers
Khomas	39.65	13,196
Erongo	13.41	4,464
Oshana	9.25	3,080
Otjozondjupa	9.17	3,052
Karas	8.81	2,933
Hardap	6.03	2,008
Omaheke	3.28	1,090
Oshikoto	2.33	777
Kunene	2.09	697
Okavango	2	667
Omusati	1.78	592
Ohangwena	1.01	337
Caprivi	0.75	248
Employers Outside Namibia	0.42	141

Total	100	33,282
-------	-----	--------

Source: SSC

In 2005, the DIR personnel dealt with 264,000 individual tax payers, 28,109 closed corporations, 6,823 employers registered under the Pay-As-You-Earn (PAYE) scheme, and 16,180 individuals and businesses registered as Value Added Tax payers. In addition, they deal with transfer and stamp duties; taxes on royalties, and non-resident stakeholder tax.

As stated by Ziderman, this report finds that the DIR is currently overstretched in terms of personnel capacity and funding. This situation is likely to be exacerbated with the introduction of a land tax, which is to be administered by the DIR.

In 2005, there was a shortage of staff; with only 20 revenue inspectors in Windhoek. Donors have been approached to provide technical assistance to alleviate this situation.

Although the Ministry of Finance has enjoyed larger allocations as a percentage of the national budget during the past five years, budget allocations to DIR have remained roughly constant. This limits the number of new revenue inspectors that they can hire.

4.3.1.2. Data

One criterion Ziderman cited as a prerequisite for efficiency in collection is "access to a database containing information on employers by payroll size". In 2005, the DIR software was still under development.

Annual gross payroll information is available on PAYE 5 forms submitted to the DIR by employers in March. The monthly payroll structure of the firm with information on the number of workers employed or the remuneration each receives is not available.

Although adding a new type of tax to the DIR system is not complex, the information required for payroll levy collection is not captured in the database because it is not currently needed for the DIR to achieve its objectives. Payroll information only becomes relevant when an audit is performed. Capturing this information in the database will be a long and costly affair.

In addition, income information in the database is not complete as deductions are only made from the income of employees who earn more than N\$24,000 per annum. However, since the lowest threshold under consideration for the training levy is N\$200,000, this does not present a significant problem

Ziderman also stated that the Namibian Tax Consortium Report to the Ministry of Finance proposed fundamental reforms to the PAYE system. If these recommendations are implemented, approximately 190,000 individuals will be removed from the register resulting in a residual of 40,000 individuals. This will alleviate the pressure on DIR staff from the present levels, however they will be

allocated to other areas where current capacity shortfalls exist and will also be responsible for the collection of the yet to be implemented land tax.

4.3.1.3. Directorate of Inland Revenue as the Collector

The DIR may consider allowing the collection of the levy at its pay sites without being responsible for the administration of collection. This means that it will simply transfer levy revenue to the NTA with another entity being responsible for the administration.

Currently, there is an agreement between the Ministry of Finance and the Ministry of Justice that a magistrate's office can act as a pay site, if there is no local office of the DIR. This implies an increase in the workload of the magistrate offices, which may result in additional resistance to levy collection from the Ministry of Justice.

If the DIR was to undertake revenue collection and administration for the NTA, it is estimated that a minimum of 30 new personnel members will be required. The unit created will have to be headed by a Director or Deputy-director. The minimum qualification for junior personnel will have to be Grade 12. The wage bill would be approximately N\$2.6 million per annum with operational expenses amounting to another N\$2 million.⁵⁸

To further alleviate capacity constraints at the DIR, Table 5 above suggests that it might not be cost effective to collect the levy from all regions especially those with less than 5 per cent of total employers such as Omaheke, Oshikoto, Kunene, Okavango, Omusati, Ohangwena and Caprivi. However, this would still be necessary to ensure equity and to prevent employers from moving to these regions to escape the levy.

The issue of an administrative fee that the DIR can retain as compensation for collecting the payroll-based levy has not been explored but could be something that may provide an incentive for this agency to collect that VET levy.

4.3.2. Social Security Commission

The International Labour Organisation defines social security as “the protection which society provides to its members, through a series of public measures against economic and social distress that would otherwise be caused by the stoppage or substantial reduction in earnings resulting from sickness, maternity, employment injury, unemployment, disability, old-age, death, provision of medical care and

⁵⁸ Based on interviews with the Commissioner of Inland Revenue

subsidies for families with children.”⁵⁹ Therefore, the SSC provides income security to members of the society.

The SSC is based on the Social Security Act 34 of 1994. Its powers, duties and functions are outlined in Section 9:1(a) as administering the funds established by the Act or by or under any other law, the administration of which are assigned to the Commission. These include the maternity leave, sick leave and death (MSD) benefits fund, accident fund and accident pension fund, national pension fund, national medical benefit fund and social security development fund. Currently only the MSD fund is operational.

The Social Security Act makes provision for the establishment of a number of schemes aimed at providing for the material needs of individuals and their families and providing security for the aged and disabled against illness that might otherwise use up their savings. These include the maternity leave, sick leave and death benefits; retirement benefits and permanent disability benefits.

It is important to note that Section 10:1 of the Act makes provision for the SSC to enter into agreement with any financial institution or other institution approved by the Minister of Labour for the purpose of administering any fund or scheme. This allows the SSC to collect funds on behalf of the NTA provided that correct legal procedures are followed in giving the SSC that mandate.

4.3.2.1. Development Fund

Provisions are made in the Social Security Commission Act for the establishment of a Development Fund, which aims to finance training and job creation for historically disadvantaged citizens, retrenched workers and unemployed youth. This bill was tabled in Cabinet through the Ministry of Labour in 2004 but is not yet gazetted. However, if passed, it will represent a source of conflict with the NTA’s training levy as their training focus is on the same target group that could lead to a duplication of effort. If the SSC can be convinced to let this scheme be administered by the NTA then this would be an ideal symbiotic relationship.

Revenue for the Development Fund will come from other SSC funds. Each will be legally required to contribute a percentage to the development fund. The Ministry of Labour will also be required by law to make provision in its budgetary allocation for the fund.

Trainees who benefit from the training will have to reimburse the funds obtained once they start working. Also, training service providers will have to pay five per cent, depending on their profitability to the SSC to sustain the training scheme. The providers will also be required to contribute ten per cent of the cost of training to indicate commitment to the provision of training.

⁵⁹ Ramadhani (2003: 1)

To monitor the scheme, every beneficiary will be required to submit reports and the SSC will make quarterly field visits to project sites. Funding for the employment scheme will be done in phases, with additional phases financed based on the evaluation of preceding phases.

The Development Fund department has an approved structure of seven employees including a Manager requiring a degree or postgraduate degree and five years experience at managerial level; Heads of the Employment Scheme and Training, Monitoring and Evaluation divisions requiring a degree with three to five years working experience and two Administrators where one administrator is required to have a financial background. Currently, only one staff member remains for the Development Fund from the three that were employed by the SSC. The total cost for this department is estimated to be about N\$1.6 million annually.

4.3.2.2. Capacity

The SSC currently has the infrastructure and personnel required to collect the training levy. Its compliance officers are responsible for ensuring that every employer contributes to the various funds.

The SSC collecting mechanisms and processes are already in place and are used to collect payments from employers on a monthly basis. The registration division registers all employers and employees in Namibia. The contribution and assessment division collects monthly contributions from employers. The legal division, where the compliance officers are based, is entrusted with the sole responsibility of ensuring compliance to the law.

4.3.2.3. Data

The SSC currently has an existing database that captures information on the number of employers in the country because all employers in Namibia are required to register themselves and all their employees working more than 2 days per week with them.

This database also contains up-dated payroll information. This information is captured from monthly invoicing of MSD, annual invoicing for employees compensation and reconciliation of debtors accounts.

However, the database has various shortcomings. In addition to those identified by Ziderman, this study found that payroll information was not categorised by individual employers (probably due to confidentiality clauses) and only contains payroll information up to a specific amount for each employee.

4.3.2.4. Social Security Commission as the Collector

The SSC is able to collect the training levy pending an enforcement of the provision in the Social Security Act that will allow the SSC to collect the training levy for the NTA

The administrative cost of levy collection is estimated to depend on the location and number of employers. Based on the regional distribution of employers in Table 5 above, this report estimates that five SSC personnel will be required in Khomas with one person in each of the other regions. It is also estimated that at least two compliance officers and a manager will be required to effectively carry out the collection of the training levy.⁶⁰

An estimated recurrent personnel cost of about N\$805,872.00 per year, based on Jobs Unlimited salary categories and the qualification and experience of required staff is what the SSC will require to collect the levy, if an exemption criteria of less than N\$200,000 in annual payroll is applied. This does not include overheads, transport and other operational expenses that the department would need. The costs incurred could be covered by the SSC if it were to charge an administrative fee for its levy collection services.

4.3.3. Namibia Training Authority

Ziderman also considered the NTA as a collection agency. However, a conflict of interest may result if the collection agency of the levy is also the administering agency. This may lead to a breakdown in the system of checks and balances resulting in an opportunity for VTF mismanagement.

4.3.4. Private Collection Agency

A private collection agency was also considered in the Ziderman report. However, due to concerns about the cost of duplicating already existing collection infrastructure and issues of confidentiality of information this option is not recommended.

4.3.5. Banks

Banks were also considered by Ziderman as a potential collecting agency. However, this function is not in any way related to the role banks play in an economic system and may generate negative externalities.

Banks role in the VET initiative is as a part of the system of checks and balances. The collected revenue generated by the levy will be deposited in a bank account,

⁶⁰ Based on interviews with the Social Security Commission

which will be the location of the VTF. For audit purposes, bank statements of the VTF account will be used for reconciliation with disbursement figures of the NTA. If it were the collecting agency this check and balance mechanism would be compromised.

Based on the findings above the null hypothesis that the DIR is the most suitable levy collection agency is rejected. This report argues that the SSC is the best candidate for a levy collection partner. It already has the legal basis, infrastructure, processes and data to carry out this task. In addition, the existence of the Development Fund shows that the SSC staff will not experience a steep learning curve in levy collection issues. If the NTA and SSC can agree that the former administers the Development Fund this would create a symbiotic relationship between the two agencies. The SSC can cover the costs of levy collection by charging an administrative fee for its services.

However, while payroll information is not captured at the DIR it is not easily available in the appropriate format at the SSC. This needs to be addressed.

4.4. Disbursement of Funds

The NTA's mission is to increase effectiveness and efficiency of VET in Namibia. Once the levy has been collected the funds need to be disbursed based on the role the NTA envisions for itself in Namibia's VET initiative. This disbursement should be based on outputs, results and performance of beneficiaries. The VTF will not cover institutional training undertaken by employers or government institutions i.e. informal VET.

A National Training Framework is to be established under the NTA to fulfil this function. This framework, depicted in Figure 7 at the end of this section, is modelled with the consideration of mechanisms and procedures that will allow internal and external auditing as part of a system of checks and balances. Under this framework the NTA will be required to develop a formula-based policy to disburse funds to four main destination categories, which Ziderman terms funding windows.⁶¹ These funding windows are:

- NTA Administration costs
- Core funding for institutions
- Training courses for disadvantaged groups
- Training courses for SMMEs and the informal sector

⁶¹ Ziderman, A. (2001) "Financing vocational training to meet policy objectives: Sub-Saharan Africa," November, Washington: World Bank

4.4.1. Administration Costs

The NTA is the overall body that will oversee VET initiatives in Namibia. To operate effectively it will need funding to cover the operating expenses incurred as it conducts management and administration of VET activities.⁶²

These activities include assisting training providers to maintain quality standards in teaching, management and financial stability; supporting learners on priority training courses by developing curricula and learning materials and conducting research and development activities to identify priority areas and develop new courses and qualifications to meet these identified needs.

Also, the NTA will be required to present an annual report to the Ministry of Education on whether it has met its performance targets and the use of funds from government, the training levy and other sources.

Furthermore, provision should be made for a consolidated information system on VET and employment that will ensure the efficient and effective management of financing of VET.

4.4.2. Core funding for training providers

Costs of VET are high. Possible reasons for this are low capacity utilization, low student-to-faculty ratios and large student boarding and welfare costs. Currently in Namibia, less than five per cent of total training costs is covered by tuition and other fees paid by trainees. Therefore, core funding is very important for the sustainability of training providers. Core funding of training providers in infrastructure, equipment and staff will support their expansion and improve their quality, which will boost their effectiveness in provision of VET.

It is difficult to determine costs of training as these vary depending on the type of provider, trade, quality of training and existence and quality of supporting facilities, trainees, compensation, etc.

Provision of core funding to training providers should be performance and output based so that it is linked to objective criteria. Only providers of good quality and relevant training should be assisted.

Also, it should not crowd out donor funding, which can be used to supplement core funding by providing technical assistance and in-kind contributions.

Furthermore, VTCs should be granted semi-autonomous status with greater control over income and expenditure. This will promote flexibility, decentralization; and more

⁶² Durango, L. (2002)

active partnership and dialogue between the NTA and the training providers (Resolve Skills Works, 2001).

Finally, all training providers should be required to account for funds provided by the NTA as a condition for receiving ongoing funding. This will allow the NTA to monitor the effectiveness of training providers in terms of teaching quality and learning outcomes.

4.4.3. Training courses for SMMEs and the informal sector

The VET should also allocate a portion of the VTF to fund skills upgrading in SMMEs and the informal sector. This will be important to meet the changing needs of a growing, more technological-based sector.

4.4.4. Training courses for disadvantaged groups

The main focus of VET in Namibia is to develop pre-employment skills among disadvantaged groups such as the youth and the unemployed for formal sector employment. This is identified by the NTA as its core objective.

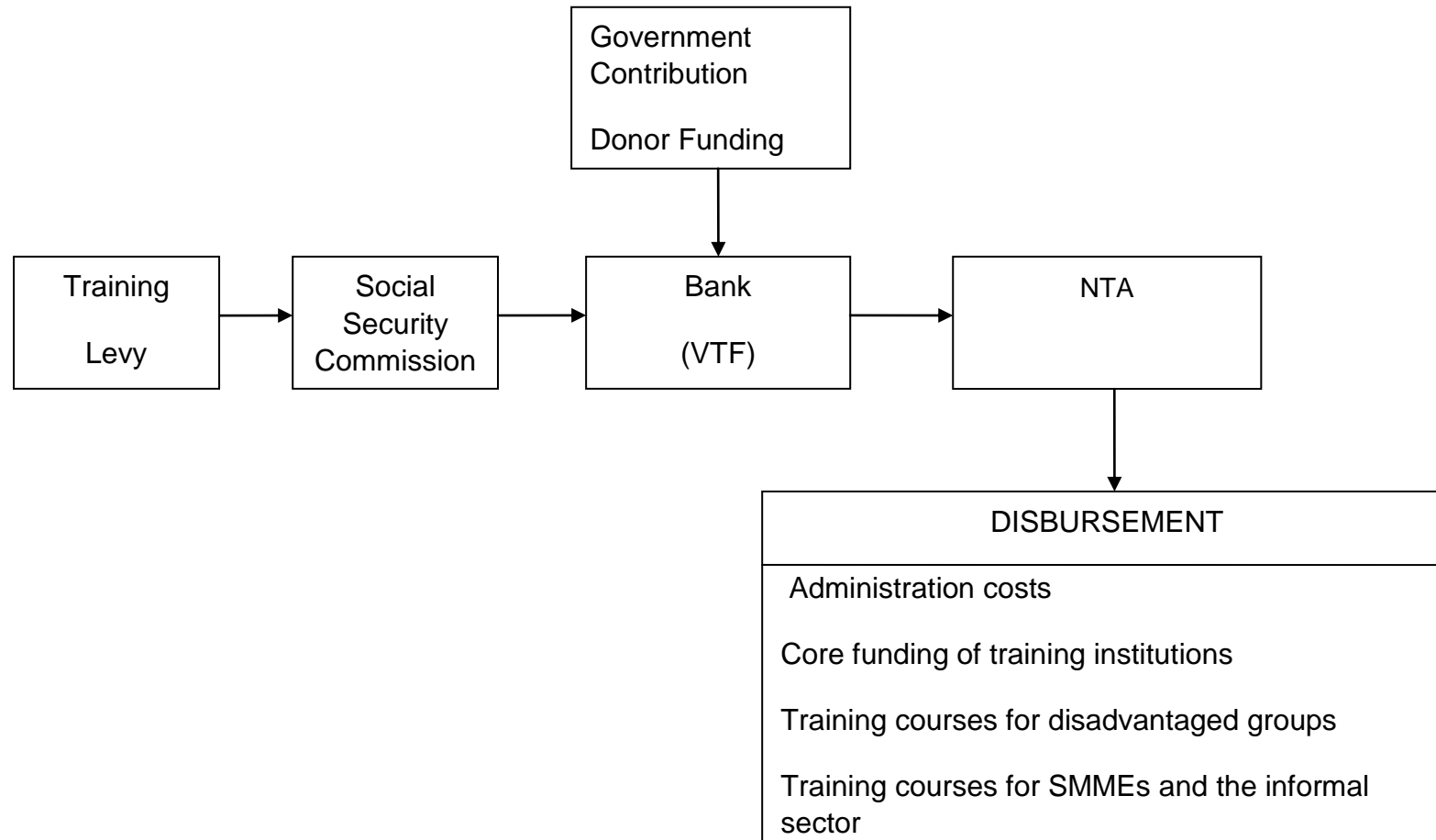
The VTF should support cadetships and apprenticeships at public VTCs or contract for the provision of training, following public tender that is open to both public and private VTCs.

A key factor in knowing which courses to support is the ability to predict the future areas where skills will be needed in line with the identified priority sectors that will achieve the goals of Vision 2030. However, predicting the value of skills in future periods, when the future structure and content of jobs is not known at the present time is not easy.

The priority training areas should be determined through an elaborate and consultative strategic planning process that includes the private sector. This will ensure that relevant courses are offered at training centres through funding arrangements that support enrolment in those priority courses across a range of locations. The use of the Ministry of Labour's Integrated Communication System will be of great value in this process.

The total VTF fund currently consists of the N\$7 million in accumulated reserves. If the NTA policy is adopted this amount will increase by the government's current contribution to the overall VET initiative and the amount annually generated by the levy revenue as estimated in the earlier sections of this chapter. The overall amount that the NTA will have to finance the VET initiative in Namibia will be N\$190,765,548 (N\$134,027,000 + N\$56,738,548). This is in addition, to the N\$7 million reserves that were accumulated in the VTF in 2005.

Figure 7: National training framework for activity



Source: Ziderman (2001)

5. RECOMMENDATIONS

Based on the findings presented in the results and discussion section, this section will present the recommendations that NTA should adopt in implementing a training levy for Namibia.

Firstly, the model adopted for the training levy should be a mixed model. This involves directing the revenue generated by the levy towards a national VET effort focusing on the youth, the unemployed, the informal sector and SMMEs. At the same time it should enable some portion of the levy collected to be directed towards a levy-grant scheme, which encourages the upgrade of existing skills. This in addition, to allowing new skills to be developed alongside existing skills, will have a lot of private sector buy-in as opposed to a pure levy scheme.

Secondly, in accordance with the practice in other countries in the region the levy should be one per cent of payroll. This should be collected monthly along with other payroll contributions such as PAYE schemes.

Thirdly, the one per cent levy should be imposed in its entirety from the beginning as opposed to a gradual increase. This will result in more certainty and will avoid the need to push for another policy change to increase the levy, which may be resisted by employers who are used to paying the lower percentage.

This report also recommends that employers with an annual payroll of less than N\$ 200,000 should be exempted from the levy. This will ensure efficiency of collection and adequate revenue generation for VET initiatives in Namibia. By exempting firms below N\$ 200,000, loopholes that professional firms may use to avoid paying the levy by claiming that they have less than 20 employees are closed because the number of employees will no longer be used as in determining exemption. In addition, it does not penalise micro and small-scale enterprises that are in their early stages of development.

Also, all industries should pay the same rate as opposed to differentiated rates across industries, which would increase administrative costs of collection and might cause confusion among contributors, who have inter-industry business lines.

In addition, it is recommended that government should continue its current contribution to VET through budgetary appropriation. It should not be treated like any other employer because this would result in less funds flowing to VET. Its appropriation should be channelled to VTCs through the NTA so that quality control is the responsibility of one entity in the VET financing framework.

Furthermore, this report recommends that the SSC should be chosen as the collection agency. It has the infrastructure, processes and already collects all the information necessary to collect the levy. Also, its Act already makes provisions that would allow it to act as a collection partner to the NTA. In addition, the Development

Fund, which is a similar initiative to the NTA, creates a shorter learning curve for its staff if it were to collect the levy. The SSC can explore charging an administrative fee for its collection services.

Finally, this report recommends that the revenue collected should be directed towards core funding of training institutions, training courses for disadvantaged groups, training courses for SMMEs and the informal sector and administration costs for the NTA. This will allow the NTA to effectively contribute towards the achievement of the objectives of VET in Namibia through financially sustainable training providers.

6. CONCLUSIONS

This report evaluated a payroll-based, levy scheme as a tool to finance the VET initiative in Namibia based on the study conducted by Ziderman (2004). Such a scheme is associated with a rise in overall skills as opposed to the alternative levy-grant scheme, which results in an upgrade of existing skills with no associated rise in new sources of qualified labour.

Its main findings, which formed the basis for its recommendations are that the financial contribution that the Government currently makes to the VET initiative through its fiscal allocation exceeds what would be raised if it was subjected to a training levy like any other employer.

Secondly, the report finds that the highest amount of revenue would be collected if employers with less than N\$ 200,000 in annual payroll were exempted from the levy taking into account issues of collection efficiency, administrative costs, high wage, low employee professional firms and growth of the SMME sector.

Third, the report finds that the SSC would be the most appropriate agency to collect the levy on behalf of the NTA.

Finally, the report finds that VTF revenue should be disbursed to administration costs for the NTA, training courses for disadvantaged groups, core funding of training institutions and training courses for SMMEs and the informal sector respectively.