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

Briefing Paper 014

Breaking the impasse: aligning incentives to address corruption in Tanzania's skills sector

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Key messages

- The Tanzanian skills sector is shaped by conflicting objectives among key stakeholders, while allegations of resource misallocation and rule-breaking are common.
- High-capability productive organisations are willing to contribute to a skills levy in exchange for improved skills outcomes. But low-capability organisations, which dominate the industrial sector, are unable to benefit from improved outcomes and would prefer reduced costs for skills provision instead.
- By accounting for differences in objectives and capabilities across firms, it is possible to realign incentives between public- and private-sector stakeholders and thus design an anti-corruption strategy that satisfies high-capability firms while offering low-capability firms a pathway to becoming more capable.

What is ACE?

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

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Introduction

Tanzania's skills sector is characterised by significant mistrust between public and private stakeholders. Despite a strong joint interest in developing skills, outcomes are undermined by conflicting objectives, as well as by allegations of resource misallocation in the public sector and tax avoidance in the private sector. This impasse results in skills deficiency and a low-productivity trap.

This briefing paper summarises research by the Anti-Corruption Evidence (ACE) consortium regarding corruption and rule-breaking in the sector, which arises as stakeholders pursue conflicting objectives (Andreoni, 2018; Andreoni et al., 2020). The research identifies clusters of capabilities among Tanzanian firms that correlate with distinct interests and preferences over skills provision. By designing for these differences, we put forward a feasible anti-corruption strategy that realigns incentives between public stakeholders and different clusters of capabilities among firms.

The structure of Tanzania's skills sector

Vocational education and training (VET) activities in Tanzania are run by around 520 providers and are promoted under more than 30 programmes and public–private partnership schemes. VET providers include private centres as well as public centres that are owned either by the VET Authority (VETA) (the regulatory body for the skills sector) or by central and local governments. These centres offer 'short courses' that last between three and nine months, and 'long courses' that range between one and three years. However, the quality of trainings and capacity varies considerably between the many VET centres in the country.

Long courses offered by VETA-owned centres are heavily subsidised through a skills development levy (SDL), which is charged at 4.5% of payroll for any employer with four or more employees. This rate is significantly higher in Tanzania when compared against equivalent levies in other countries such as in Kenya and South Africa. The SDL is not ring-fenced and is used to fund VETA activities beyond vocational training as well as to complement – or potentially substitute – other central budget lines for education. But the allocation process remains opaque (Andreoni et al., 2020).

Private-sector stakeholders in Tanzania worry that the SDL can create a competitive disadvantage against other countries and can discourage formal employment. Some are dissatisfied with the levy, claiming that resources are misallocated and that consequently employers face a 'double tax' through the 4.5% SDL plus additional outlays for higher quality, focused training or the upgrading of existing staff. Other employers complain that VETA graduates are not ready for work and require further on-the-job training at the cost of the firm (ibid.). Meanwhile, anecdotal evidence suggests that some firms underestimate their total payroll and engage in other strategies to avoid paying the full SDL (ibid.).

Conflicting objectives between the public and private sector

Within VET provision, the Tanzanian government pursues social objectives alongside economic ones. Although these objectives are not mutually exclusive, they result in trade-offs in the allocation of scarce resources.

Heavily subsidised long courses offered by VETA-owned skills providers are primarily designed to tackle high youth unemployment and to address the challenges arising from poor quality primary education. Long courses keep young people in education for an additional two to three years and provide them with skills for both formal- and informal-sector employment.

However, VETA-owned centres make no margin on subsidised long courses and therefore make increasing use of short courses to generate income. This trend is driven partly by private-sector demand for short courses and partly by tighter budget allocations to VETA centres since 2013 (Andreoni, 2018). It is problematic because short courses compete with subsidised long courses in terms of teaching staff, rooms and equipment that are paid for by the SDL. Despite attempts to regulate these activities and ensure transparent allocation of resources, it remains unclear how much income VETA-owned centres generate through these short courses.

The objectives of private-sector stakeholders vary too when it comes to skills development and provision. Indeed, the private sector is characterised by heterogeneities in productive capabilities and skills needs, which poses a challenge for VET providers. Over 97% of the Tanzanian industrial sector comprises small firms with fewer than 10 employees. Large and medium-sized firms operate in only a handful of industries (mainly mining and manufacturing of food products and beverages), and are geographically concentrated in Dar es Salam and Morogoro (Andreoni, 2017).

Larger firms tend to be more capable in organising and deploying skills – they can provide experience-based technical skills for their workforce and thus contribute to skills training in the country. Although it is imperative to provide these large firms with a skilled workforce, the majority of (smaller) employers have very different skills needs and limited capability for deploying skills effectively.

A one-size-fits-all approach will not work in the Tanzanian skills sector

The heterogeneous objectives and capabilities of private-sector stakeholders suggests that a single approach to improve VET provision will not work in Tanzania. We put forward two hypotheses:

1. Only those firms that are technically and organisationally capable are willing to contribute to the SDL in exchange for tangible improvements in the quality of training provision.

2. Less capable organisations are not concerned about the quality of skills training as they benefit to a lesser degree. Instead, these firms prefer a reduction in the SDL.

We tested these hypotheses using discrete choice experiments (DCEs); a statistical technique to uncover latent preferences. These were complemented by a comprehensive survey of more than 200 Tanzanian firms.

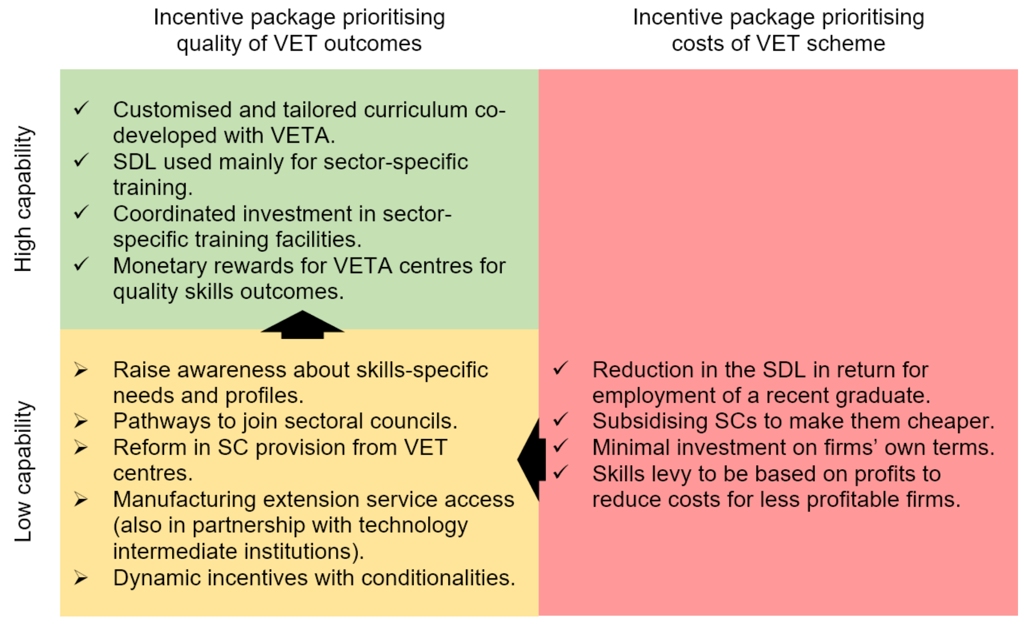
We find substantial heterogeneity in preferences and observed characteristics among firms, with the main differences relating to productive capabilities and the presence of in-house training. High-capability firms that engage in in-house training are willing to contribute to the SDL in exchange for sector-specific training and greater involvement in the design of the curriculum to ensure high-quality outcomes. In contrast, lower-capability organisations would prefer a reduction in the SDL alongside subsidised short courses, which are often used to upskill employees instead of providing in-house training.

Designing for differences to address corruption in the skills sector

An effective anti-corruption strategy must take into account the different objectives and preferences of firms and public sector stakeholders. Therefore, we suggest an incentive package with two components:

First, the package should cater for the preferences of high-capability organisations (green in Figure 1), including customised and sector-specific training and incentives to raise the quality of VETA-run courses and therefore skills outcomes. This package of measures will allow the emergence of coalitions across the private and public sector to support high-quality VET outcomes. While low-capability organisations would prefer an incentive package that prioritises the costs of the VET scheme (red in Figure 1), such measures would neither lead to better skills development outcomes nor to a reduction in rents capture. Consequently, we suggest a second, complementary incentive package for smaller firms to raise awareness of skills needs, empower them within sectoral councils, and provide access to manufacturing extension services (yellow in Figure 1). Such measures will act to crowd-in low-capability firms and offer them a pathway to become more capable and productive.

Figure 1. A feasible anti-corruption strategy for Tanzania's skills sector



Source: The authors.

Such a strategy, as illustrated in Figure 1, has the merit of horizontal enforcement mechanisms, realigned incentives for key stakeholders and options for those firms that are willing to follow the rules. The overall outcomes will involve incremental improvement in the skills sector, which is key to Tanzania's economy.

Conclusion

The Tanzanian skills sector is hampered by conflicting objectives between public and private stakeholders, as well as between firms with different capabilities and preferences. This results in a skills deficiency and a low-productivity trap, while corruption and rent-seeking continue unabated. From an economic perspective it is imperative that large firms have access to a skilled workforce to promote productivity-enhancing structural transformation for the country. However, the vast majority of employers are small and have very different skills needs.

We suggest breaking this impasse by realigning incentives in the skills sector and designing for differences so that both high- and low-capability firms can benefit from skills provision. Our evidence suggests that any incentive package must prioritise the quality of VET outcomes (e.g., through tailored trainings and strategic allocation of SDL funds) alongside complementary measures to enable low-capability firms to graduate to high-capability status.

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

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

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

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

- BRAC Institute of Governance and Development (BIGD)
- BRAC James P. Grant School of Public Health (JPGSPH)
- Centre for Democracy and Development (CDD)
- Danish Institute for International Studies (DIIS)
- Economic and Social Research Foundation (ESRF)
- Health Policy Research Group (HPRG), University of Nigeria Nsukka (UNN)
- Ifakara Health Institute (IHI)
- London School of Hygiene and Tropical Medicine (LSHTM)
- Palladium
- REPOA
- Transparency International Bangladesh (TIB)
- University of Birmingham

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

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