Background Paper
The Learning Generation

Forming the Optimal Skills Pledge and Levy
A Global Perspective and Policy Recommendations

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Forming the optimal Skills Pledge and Levy

A GLOBAL PERSPECTIVE AND POLICY RECOMMENDATIONS

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Executive Summary

There is a huge funding shortfall in global education and skills. The UNESCO Education For All Global Monitoring Report reports that 58m primary school-age children are out of school, and a further 63m adolescents are not attending secondary school, making lack of education a serious global problem.¹

The evidence has made it clear that unless the global community significantly scales up its investments in education, the world faces the risk of not meeting many of the Sustainable Development Goals (SDGs).

A number of reasons have held back action. Three stand out. The first reason is the lack of a consensus about policies and actions that can deliver education goals. The second reason is a limited understanding of financing needs and trade-offs. And the third reason is a lack of high-level political leadership.

This report focuses on the first two of these, analysing how government and business can work together to create a sustainable framework for skills levies and an impactful structure for sector-wide skills pledges.

This report reviews skills levies by governments and pledges by businesses around the world, with a particular focus on the UK, India and South Africa. Its actionable recommendations are:

- to encourage the use of well-designed skills levies;
- highlight key new ways of corporate engagement such as through Corporate Social Responsibility (CSR) initiatives and show how these can be replicated globally; and
- to issue a "call to arms" on how to design skills pledges that work and on how to monitor them and encourage corporates to stick to them.

In doing so, this report outlines key principles of what a well-designed skills levy and pledge may look like. We hope this will assist in building effective skills-related levies around the world that can earmark and boost funding for skills development and education, based on learnings from existing schemes.

Around 60 countries in the world have introduced skills levies in some form, with mixed results. This report is not an exhaustive survey of them all, but focuses on UK, India and South Africa because each country is at a crossroads in its policy journey. The UK is about to reintroduce a significant and comprehensive Apprenticeship Levy in 2017 after a number of previous stop-start attempts. India aspires to skill 500m Indians by 2022 and is using corporate CSR funds as a key driver for meeting this target. Although similar initiatives have been in place in South Africa for much longer, recent policy changes proposed by the Indian and South African governments to increase their effectiveness have some close parallels.

This report is produced for the International Commission on Financing Global Education Opportunity, a major new global initiative engaging world leaders, policy makers and researchers. It aims to develop a renewed and compelling investment

case and financing pathway for achieving equal educational opportunity for children and young people. The last equivalent initiative for education dates back to 1996, when the International Commission on Education for the Twenty-First Century, headed by Jacques Delors, was established.

Through its high-level status, the Commission is raising global awareness of the education goals and promote action-oriented partnerships between governments, business leaders and civil society.

**Key findings**

Skills levies are a tax like any other, but with restricted funding for skills and education. Such levies must not be introduced in isolation by government, but through consultation with businesses. Before levies are determined, policymakers should have a detailed understanding of the skills gaps in the economy and what could define a successful outcome.

While the corpus collected is undoubtedly helpful for investment into skills and education, it is the ongoing engagement with the business community that drives cultural and behavioural change. If this is done successfully over time, the need for a levy disappears, as businesses would operate wider training schemes as a matter of course. We include the results of a first-of-a-kind survey of Indian companies looking at how the recently introduced Indian CSR tax has had an impact on corporate behaviour particularly pertaining to skills and education investment.

Skills pledges are easy to introduce, but difficult to ensure successful outcomes for without buy-in and engagement both from government and businesses. A suitable enforcement mechanism needs to be in place, and businesses need to be incentivised to take part in the pledge, with policymakers showcasing how productivity and output for the business would improve as a result of the pledge.

In Section 1 of this report, we present an overview of the global skills landscape and in particular the skills spending in relation to CSR funds from corporates. In Chapters 2-4, we outline detailed case studies from the UK, India and South Africa, which all have parallels and similar challenges in introducing levies and pledges. Our main conclusions and recommendations to design the ideal skills levy and pledge are then outlined in Chapter 5.

**Acknowledgements**

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We also thank a wide range of interviewees, the full list of which is in Appendix 5.

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2 We use FICCI instead of FICCI-SEDF throughout the report. The survey referenced in Section 3 was conducted by FICCI-SEDF, but convention is to refer to just FICCI.
1 The global skills landscape

Skills and education have traditionally been underfunded by CSR initiatives. For example, evidence suggests that current global corporate donations to healthcare are 16 times greater than to education, despite the acknowledgement that an educated and skilled workforce is critical to our commercial success, and to the development of a peaceful and stable global society.

Globally, initiatives that promote skills development are introduced to address challenges relating to skills shortages and mismatches. In order to address these challenges, a number of governments have legislated for firms to pay towards some skills development activities so as to improve the skills base within the country. Around 60 countries in the world have introduced skills levies in some form, with mixed results. Mostly, this contribution by firms takes the form of a tax on payroll. The following table summarises some of these levies, which are expanded upon in Appendix 1.

Figure 1.1 Examples of skills levies around the world

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>France</th>
<th>India</th>
<th>Italy</th>
<th>Singapore</th>
<th>South Africa</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax structure</td>
<td>Payroll</td>
<td>Number of employees</td>
<td>Payroll</td>
<td>One of: Turnover &gt; US$149m</td>
<td>Net worth &gt; US$74m</td>
<td>Net profit &gt; US$7.4m</td>
<td>Payroll &gt; Payroll &gt; Payroll &gt; US$16,000</td>
</tr>
<tr>
<td>%</td>
<td>1%</td>
<td>1.60% if 20 employees</td>
<td>2% net profit</td>
<td>0.30%</td>
<td>0.25%</td>
<td>1% of payroll (min US$160)</td>
<td>1% of net profits</td>
</tr>
<tr>
<td></td>
<td>1.50% if 500+ employees</td>
<td>1.05% if 10-19 employees</td>
<td>0.55% if 10-19 employees</td>
<td>0.55%</td>
<td>0.55%</td>
<td>0.55%</td>
<td>0.55%</td>
</tr>
</tbody>
</table>


In other countries, rather than mandated levies, the approach governments and companies have taken is to promote investment into skills through CSR contributions.

Business Backs Education: Creating a baseline for CSR spend on global education and skills

BBE is a global advocacy campaign that seeks to rally the private sector to support education causes. A recent study by the Business Backs Education campaign\(^3\) showed the Fortune Global 500 companies spent US$19.9bn on CSR activities on average for the years 2011–13 inclusive. Including an additional 1,970 companies from the UK, Japan, India and elsewhere, this figure increased to US$26.5bn a year. Of this, companies spent just around 13% (US$2.6bn) of their CSR budgets on education.\(^4\)

\(^3\) EPG (2015).
\(^4\) Including the additional 1,970 companies, this increases by US$1.1bn to US$3.7bn a year.
Of this, the report found that US$1bn was skills and education CSR spending in priority areas, defined as mainly primary, secondary and vocational education in developing countries. In other words, just two in five dollars spent by the largest companies in the world on education was spent on countries and groups who needed it the most.

**Figure 1.2  Summary results for CSR spend for Fortune Global 500 and other surveyed companies**

<table>
<thead>
<tr>
<th>Average 2011-13</th>
<th>Amount (US$m)</th>
<th>As a % of Total CSR spend</th>
<th>Amount (US$m)</th>
<th>As a % of Total CSR spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of companies</td>
<td>500</td>
<td>500</td>
<td>2,470</td>
<td>2,470</td>
</tr>
<tr>
<td>Total CSR spend</td>
<td>19,929</td>
<td>-</td>
<td>26,517</td>
<td>-</td>
</tr>
<tr>
<td>Total education CSR spend if 20% of CSR spend was on education</td>
<td>3,986</td>
<td>20%</td>
<td>5,303</td>
<td>20%</td>
</tr>
<tr>
<td>Total education CSR spend</td>
<td>2,624</td>
<td>13.2%</td>
<td>3,694</td>
<td>13.9%</td>
</tr>
<tr>
<td>Total education CSR spend in priority areas</td>
<td>1,046</td>
<td>5.2%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*Source: EPG (2015).*

Companies seemed to spend on education and skills activities in their supply chain or aligned with their business goals, rather than addressing key needs in their local communities. Only 5.2% of all CSR spend was in education and skills for areas where it was really needed. To increase spending away from non-priority areas towards priority areas, policy-makers could use skills levies and pledges are potentially effective policy levers.

Some countries were better at priority spending than others. The following table shows that developing countries were, on average, much better at spending on priority areas. One important distinction to make is, priority spending was defined as being mainly in developing countries whereas skills levies would be directed domestically.

Where companies spent internationally, they tended to do so where their business imperative aligned with corporate responsibilities. Much of the spending was through in-kind donations of free software to universities and schools, higher education scholarships and financial literacy programs. These may not be priority areas from a global standpoint.

The report found UK companies spend more on CSR on average than other countries, including the US. The eight Indian companies in the Fortune Global 500 spent more on CSR than counterparts in China and Japan. The promotion of education and employment-enhancing vocational skills were two key focus areas for Indian companies. The introduction of the new CSR law is expected to focus attention here even further. The report did not provide data on South Africa as there was only one company in the Fortune Global 500 list from South Africa, for which data was not readily available.

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Priority areas are countries and sectors identified by BBE as most in need, including: (1) all spending excluding tertiary in Asia Pacific, Africa and Latin America and the Caribbean, but excluding Korea, Japan, Australia and New Zealand. (2) all spending on Primary and Secondary education, plus some vocational educational spending, in all other countries.
Figure 1.3  Breakdown of Fortune Global 500 CSR spending by country

<table>
<thead>
<tr>
<th>Average 2011-13</th>
<th>Number of companies</th>
<th>CSR spend (US$m)</th>
<th>Education CSR spend (US$m)</th>
<th>Average CSR spend per company (US$m)</th>
<th>% of education CSR spend in priority areas</th>
<th>Has skills levy?</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>132</td>
<td>10,254</td>
<td>1,065</td>
<td>78</td>
<td>40%</td>
<td>No</td>
</tr>
<tr>
<td>China</td>
<td>95</td>
<td>253</td>
<td>52</td>
<td>5</td>
<td>97%</td>
<td>Yes</td>
</tr>
<tr>
<td>Japan</td>
<td>62</td>
<td>493</td>
<td>136</td>
<td>8</td>
<td>1%</td>
<td>No</td>
</tr>
<tr>
<td>France</td>
<td>31</td>
<td>873</td>
<td>63</td>
<td>28</td>
<td>4%</td>
<td>Yes</td>
</tr>
<tr>
<td>Germany</td>
<td>29</td>
<td>516</td>
<td>113</td>
<td>18</td>
<td>60%</td>
<td>No</td>
</tr>
<tr>
<td>UK</td>
<td>26</td>
<td>2,647</td>
<td>331</td>
<td>102</td>
<td>24%</td>
<td>Yes</td>
</tr>
<tr>
<td>Korea</td>
<td>14</td>
<td>634</td>
<td>86</td>
<td>45</td>
<td>28%</td>
<td>Yes</td>
</tr>
<tr>
<td>Switzerland</td>
<td>14</td>
<td>539</td>
<td>82</td>
<td>38</td>
<td>2%</td>
<td>No</td>
</tr>
<tr>
<td>Netherlands</td>
<td>12</td>
<td>206</td>
<td>32</td>
<td>17</td>
<td>1%</td>
<td>Yes</td>
</tr>
<tr>
<td>Australia</td>
<td>8</td>
<td>980</td>
<td>151</td>
<td>123</td>
<td>62%</td>
<td>No</td>
</tr>
<tr>
<td>Brazil</td>
<td>8</td>
<td>437</td>
<td>53</td>
<td>55</td>
<td>97%</td>
<td>Yes</td>
</tr>
<tr>
<td>India</td>
<td>8</td>
<td>81</td>
<td>15</td>
<td>10</td>
<td>87%</td>
<td>Yes</td>
</tr>
<tr>
<td>Russia</td>
<td>7</td>
<td>252</td>
<td>16</td>
<td>36</td>
<td>0%</td>
<td>No</td>
</tr>
<tr>
<td>Other</td>
<td>54</td>
<td>1,545</td>
<td>429</td>
<td>76</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
<td>19,929</td>
<td>2,624</td>
<td>39.9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: EPG analysis.
2 Case study – United Kingdom

Traditional university education is seen in the UK as more desirable than vocational education. As a result, relatively little attention is paid to vocational learning and training.

However, a study by the Institute of Public Policy Research (IPPRI) showed that in the coming decade, only a third of all jobs created in the country will be in high-skilled occupations which require a degree, while the rest will be in low-skilled ones relying on appropriate vocational skilling provision. IPPRI (2014) says 39% of vacancies in skilled trades are caused by skills shortages, and in the future these will continue to suffer greater shortages.6

Skills levies and pledges have had a long history in the UK, albeit not always successfully. A previous levy system, introduced in 1964, led to amendments in 1973 and was subsequently wound up in 1982. In the 2015 Budget, the government announced plans for an Apprenticeship Levy to be introduced from April 2017.

Whether mandatory or voluntary, execution is key

The following table shows a summary of the levies and pledges that have existed, or do exist, in the UK. It shows that where are poorly defined or schemes are voluntary, such schemes in the UK have traditionally failed. Some of the schemes have for example aimed at a rather ambitious “100% reduction in skills shortages.”

Businesses have historically benefitted from extensive, discretionary exemptions. There has been a lack of enforcement, a lack of engagement from the private sector and sometimes a lack of clarity from government as to what it wants to achieve. One of our interviewees, a large London-based global diversified metals and mining company, said that their own pledges are usually aligned with global best practice and to pre-existing multilateral priorities, which are clearer and more reliable.

Figure 2.1 Summary of skills levy and pledge schemes in the UK

<table>
<thead>
<tr>
<th></th>
<th>Apprenticeship Levy</th>
<th>CITB levy</th>
<th>ECITB levy</th>
<th>Skills Pledge</th>
<th>Basic Skills Employer’s Pledge</th>
<th>Humber Skills Pledge</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Status</strong></td>
<td>Mandatory</td>
<td>Mandatory</td>
<td>Mandatory</td>
<td>Voluntary</td>
<td>Voluntary</td>
<td>Voluntary</td>
</tr>
<tr>
<td><strong>Why introduced</strong></td>
<td>Tackle high youth unemployment</td>
<td>Maintained after Apprenticeship Levy end, due to lobbying</td>
<td>Maintained after Apprenticeship Levy end, due to lobbying</td>
<td>Recommended by Leitch Report</td>
<td>Recommended by Moser Report</td>
<td>Intangible reason of awareness raising of importance of skills investment</td>
</tr>
<tr>
<td><strong>Target successful outcomes</strong></td>
<td>–</td>
<td>100% reduction in skills shortage in sector</td>
<td>100% reduction in skills shortage in sector</td>
<td>Over 90% adults trained to Level 2 by 2020</td>
<td>Reach 50% of Welsh employees by 2010</td>
<td>Awareness raised</td>
</tr>
<tr>
<td><strong>Actual outcomes</strong></td>
<td>Initial increase in number of apprenticeship, but decline from early 1970s</td>
<td>Skill shortage in construction remained</td>
<td>Skills shortage in sector remained</td>
<td>Large number of signatories (33,059 companies)</td>
<td>8% of Welsh employees at the most reached (79 employers) (Dec 2004)</td>
<td>700 companies took the pledge</td>
</tr>
</tbody>
</table>

### Skills Levies and Pledges

<table>
<thead>
<tr>
<th>Apprenticeship Levy</th>
<th>CITB levy</th>
<th>ECITB levy</th>
<th>Skills Pledge</th>
<th>Basic Skills Employer's Pledge</th>
<th>Humber Skills Pledge</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£243.2m (US$340.5m)</td>
<td>£27.5m (US$38.5m)</td>
<td>£0.9m (excl. Train to Gain costs) (US$1.2m)</td>
<td>£0.2m (US$0.3m)</td>
<td>£32,000 (US$48,000)</td>
</tr>
<tr>
<td><strong>Key shortfalls</strong></td>
<td>High exemptions</td>
<td>High bureaucracy</td>
<td>Overly complicated</td>
<td>Expensive</td>
<td>Focused on level 1 skills only</td>
</tr>
<tr>
<td></td>
<td>Lack of government involvement</td>
<td>Needs more SME support</td>
<td></td>
<td>Expensive</td>
<td>Uneven registrations</td>
</tr>
<tr>
<td><strong>Additionality/impact</strong></td>
<td>Low</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>Insufficient data</td>
<td>Low</td>
</tr>
</tbody>
</table>

*These companies represented 100,000 employees, but employment in Wales was 1.3m (see Statistics Wales (2015)). 1 GBP = US$1.4 here and throughout this report. CITB is Construction Industry Training Board, ECITB is Engineering Construction Industry Training Board.

### A new payroll tax is to be introduced in 2017

Based on the lessons of the earlier schemes, the government is launching a new Apprenticeship Levy from 2017, which will support all post-16 apprenticeships in England. It will provide funding that each employer can use to meet their individual internal training needs. The funding will be directly controlled by employers via a digital apprenticeships voucher. The levy will be 0.5% of payroll. Each employer will receive an allowance of £15,000 (US$21,000) to offset against their levy payment. This means that the levy will only be payable in the event of payroll costs above £3m (US$4.3m). Less than 2% of UK employers will pay it. The government forecasts spending on apprenticeships will be £2.5bn (US$3.6bn) in 2017, rising to £3bn (US$4.2bn) within four years. The government aim is to reach 3m apprenticeships by 2020.

The aim of the Levy is to reverse the long-term trend of employer underinvestment in training, which has seen the number of employees who attend a training course away from the workplace fall from 141,000 in 1995 to 18,000 in 2014. Firms that are committed to training could get back more than they put in, by applying for ‘top-up’ payments.

The UK lags considerably behind its European counterparts on skills training and as such, much research has urged the government to increase their focus on apprenticeships. However, leading industry body the Confederation of British Industry doubts its effectiveness. It thinks the scheme will cost £500m a year (US$700m), and despite the pressing need to improve on the skills and number of apprenticeships in the UK, the levy should not be perceived as a tax, but a “ring-fenced” pot of

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8. BIS (2016).
funding. In order to work for all businesses and allow companies control, the implementation must be carried out through a single body, which goes against government suggestions that bodies such as the CITB will continue operating.

**Skills pledges**

A series of policy programs from the election of the Labour government in 1997 has cumulated in the 2003 and 2005 Skills White Papers, which resulted in a greater focus on apprenticeships and policymakers more actively encouraging companies to plan ahead for their skills requirements. The Skills Pledge was a voluntary, public commitment by the leadership of a company or organisation to support all its employees to develop their basic skills, including literacy and numeracy, and work towards relevant, valuable qualifications to at least Level 2 (equivalent to five A*-C GCSE grades).

The Leitch (2006) report emphasises the necessity of shared responsibility: employers and individuals, as well as the government, should increase their investment in training provision. Employers and individuals should contribute most to training which gives them “private” benefits, while government investment should promote basic skills for everyone.

The table below shows the number of employers making pledges during the course of the scheme operation.

**Figure 2.2  Cumulative performance of the Skills Pledge (June 2007 – December 2010)**

<table>
<thead>
<tr>
<th>Number of pledges</th>
<th>Employees covered by pledges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Large employers (5,000+ employees)</strong></td>
<td>209</td>
</tr>
<tr>
<td><strong>Medium employers (251 – 4,999)</strong></td>
<td>1,469</td>
</tr>
<tr>
<td><strong>SME (50-250)</strong></td>
<td>3,953</td>
</tr>
<tr>
<td><strong>Small or Uncategorised (Below 50)</strong></td>
<td>27,428</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>33,059</td>
</tr>
</tbody>
</table>

*Source: Skills Funding Agency (2011).*

There are more than 31m people employment in the UK, so these figures imply more than a quarter of all employees are covered by the Pledge. This seems unlikely – it is difficult to imagine one in four of all employees knew they were covered by the Pledge, especially as Google Trends shows below that public interest in the Pledge was fading quickly from 2009.

After the first year, 19,000 businesses had made pledges. According to the evaluation report however, “the Skills Pledge does not seem to be acting to date as a significant new point of access to skills support” after the first year. Most of the existing skills support and provision from government was already available and well known to employers before the introduction of the Skills Pledge, so additionality was difficult to quantify. As one of our Indian interviewees, from the National Skills Development Corporation (NSDC) said, pledges are often just marketing tools. A further review of the Skills Pledge was due to be carried out in 2010, but the scheme was closed before this was possible.
The figure below shows Google Trends output for both the Pledge and forthcoming Levy. Google Trends shows the level of interest, via Google searches, in both these schemes, relative to other searches. The blue line shows that there was high initial interest in the Skills Pledge, but this fell consistently, until the scheme was discontinued.

Figure 2.3  Google Trends show interest for search terms “skills pledge” and “apprenticeship levy” in the UK

Source: Google Trends (2016).

The training aspect of the Skills Pledge was mainly carried out by a government service, Train to Gain. The service was introduced in April 2006 to support employers in improving the skills of their employees by providing a skills brokerage service, flexible training and public funding for training for specified courses. It had cost £1.5bn (US$2.1bn) by March 2009 and had a budget of £925m (US$1.3bn) for 2009-10.11

Demand was lower than expected in the first two years, partly reflecting limited employer demand for the (free) training eligible for public funding. A National Audit Office (2009) report suggested that the Train to Gain program was mostly a success, with increasing numbers of trainees and companies on board, positive reviews from companies and success rates mostly over 70%.12 However, in 2010 the government scrapped the program, due to high costs, which it argued should be covered by the private sector, who benefit from the training services. The full audit concluded that over its full lifetime the programme had not provided good value for money because of unrealistically ambitious initial targets and ineffective implementation.

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**Welsh Skills Pledge**

In the late 1990s, The Moser Report recommended that an Employers’ Pledge Scheme for Basic Skills would be an effective way to encourage employers in the private and public sector to become actively involved in helping their employees improve their basic skills.

Initially the Employer Pledge was intended to be introduced in England and Wales. It was never introduced in England due to funding challenges. The Basic Skills Agency implemented it in Wales from 2000, to reduce the substantial number of adults in Wales with poor literacy and numeracy skills. By 2004, the target milestone was to ensure 90% of Welsh adults had basic literacy. This target was not hit, as it was reported that 25% of the adult population still lacked these skills at this date.\(^{13}\)

A national survey in 2010 reported improvements in illiteracy rates, which were down to 12% for adults. However, numeracy levels remained low. The annual budget for the National Support Project to support the Employer Pledge in Wales was just £200,000 (US$283,000). By December 2004, only 79 employers had signed up, representing around 100,000 working people in Wales. By focusing just on basic skills, this pledge targeted just Level 1 training (equivalent to one GCSE at grade C-G), which is less than the Level 2 target of the wider UK Skills Pledge (equivalent to 4 or 5 GCSE’s at A*-C) and insufficient for most jobs. Despite this, the pledge was not able to reach a critical mass of employers.

**Humber Skills Pledge**

The Humber Skills Pledge is an interesting model that contrasts with other pledges – light-touch, opt-in, voluntary and no large sunk cost in marketing. It was introduced in 2013 and by January 2016, there were 341 sign ups, where companies could choose to announce their intentions to increase their focus on skills training. Of these 341, 148 actively offered apprenticeships, however it was unclear whether causality could be established. The role of the LEP is only to facilitate introductions between training seekers and providers and while impact is not specifically measured, the full costs of the programme are only amount to £32,000/year (US$45,000).

In practice, employers sign up to the pledge online, where companies are asked if they would like to know more about skilling opportunities, mentoring a budding entrepreneur, and offering a placement, apprenticeship or employment. The one staff member who coordinates responses then gets in touch with each employer with potential options. Because the goals are specific, achievable and small, anecdotal evidence suggests engagement with employers is high.

On average, a step-up from Level 2 to Level 3 qualifications increases average net pay by up to 40%, depending on the sector.\(^{14}\) Therefore, just 15 apprentices or low-skilled workers being trained in a year out of 148 employers would cover the programme costs, so additionality is likely to be satisfactory. Nevertheless, it is a difficult model to scale, as the strength of it relies on being responsive to local needs and sufficient light-touch. Moreover, results are difficult to measure, due to the possibility of signing the skills pledge without agreeing to increase skills efforts, and lack of monitoring.

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\(^{13}\) Poverty.org.uk (2016).

3 Case study – India

India is now an important global economic power. However, the largest impediment to India’s economic ambitions is infrastructure. Although the country has world-class talent in some areas such as information technology, it still faces daunting challenges in its human capital infrastructure and education system.

India is one of the youngest countries in the world, with more than 54% of its total population below 25 years of age and more than 62% of working age population (15-59 years). On average, 69,000 people turn 25 every day in India, or 2.1 million people every month. By 2020, the average Indian will be just 29 years old, compared to 40 years in the US, 46 years in Europe and 47 years in Japan.15 This demographic trend could confer a significant competitive advantage upon India. About a quarter of the global increase in the working age population between 2010 and 2040 is projected to occur in India.16

According to FICCI, only 4.7% of India’s workforce has received the formal vocational training necessary to be competitive in the labour market. A mere 10% of the total workforce of India receives skill training, and 80% of the entrants into the workforce simply do not have the opportunity for skill training.

The government aims to skill/upskill a staggering 500 million people by 2022. The National Skill Development Corporation (NSDC), which is responsible for skilling 30% (150m) of these, has to date worked with 6.5m in five years.17 The National Skill Development Mission was announced in July 2015 to not only consolidate and coordinate skilling efforts between the NSDC and other parts of government, but also expedite decision making across sectors to achieve skilling at scale.

The introduction of a CSR tax is new to India

There has been broad historical industry participation in corporate responsibility, and societal values are ingrained into core business structures of many of the largest businesses in India. There is a tradition of charitable engagement by private companies and individual philanthropy, for three main reasons: faith-based contributions, addressing government failure in providing public goods, or directly supporting the supply chain of a business particularly in skills and primary healthcare.

In order to streamline philanthropic activities and ensure greater accountability and transparency, the government made it mandatory for large companies to undertake CSR activities under Section 135 of the Companies Act, 2013. Spending on skills has formed a significant component of this.

The new Companies Act 2013 has made far-reaching changes, including incorporating a new Section 135 on the execution, fund allotment and reporting of CSR activities. Indian companies and foreign companies listed in India now have a mandatory financial obligation to contribute to remediating social problems. Section 135 came into effect from April 2014.18 It is applicable to companies which have either an annual turnover of Rs 1,000 crore (US$149m19) or more; net worth of Rs 500 crore

17 NSDC (2016).
18 See Error! Reference source not found..
19 US$1 = INR 67 here and throughout the report.
Skills Levies and Pledges

(US$74m) or more; or net profit of Rs 5 crore (US$7.4m) or more. The law has elevated CSR into a more important activity than was previously ever considered, because it is now mandatory for companies to disclose their CSR spend and activities in their annual board of directors’ report. This view was echoed by several of our interviewees.

Companies are required to spend a minimum of 2% of average net profit for the preceding three financial years on CSR activities and report on these activities. Schedule VII of Section 135 outlined an initial list of 11 sectors where CSR funds could be spent, including Education and Vocational Skills. Successive governments have made it clear it is not an exhaustive list and could be expanded, as has indeed been the case subsequently through the inclusion of a number of government social development campaigns. If companies do not spend this amount, they must prepare a formal response as to why not. Over the past year, Indian government has evolved a more robust framework to solicit funds for skills development projects in line with these guidelines.

Some of our survey respondents, notably the UK-India Business Council (UKIBC), said that 2% is not particularly onerous and that there are many examples of companies spending well in excess of this figure. While many private and public sector enterprises have supported vocational training programs in the past anyway, the Act provides an opportunity to tap into these funds in a structured – and therefore more effective – way.

Over the longer term, the law may not be necessary (and out interviewees thought it was highly unlikely the government would enforce the penalty provisions in the law at least in the short term) if there is a natural behavioural change among companies towards spending on nation-building. This legislation is undoubtedly changing mind-sets, but the underlying reasons for underinvestment in skills are due to persistent government failure in the provision of quality education and skills as a public good. It is relatively straightforward to show additionality for an Indian company’s investment into skills, because the counterfactual is often ‘no skilling opportunities available.’

Engagement from Indian companies

According to FICCI, the CSR agenda in India has historically been characterised by philanthropic and community development activities. Education, skill development and healthcare have all been consistent priority areas.

However, some practical challenges in generating industry and public involvement, and enthusiasm, in skills development programmes are restricting the effectiveness of government policy. One of the major challenges is the public perception of vocational training – in a country where formal education carries prestige, opting for the vocational route is seen as the last option. Most skilling programmes are perceived to be not aligned to the requirements of industry; and where they are in sync, there is a lack of focus on train-the-trainer programmes and career progression pathways for trainers.

One of our interviewees characterised this as an issue of collaboration and trust between government and industry – historically, Indian industry has not actively engaged in an Indian government’s country-wide vision, and there is often a lack of institutional trust between both parties. The interviewee said that the major success of the NSDC was to bring about a cultural shift where industry and government subscribed to the larger vision and value system.
**FICCI CSR survey**

*Data on CSR spending before the introduction of the Companies Act 2013*

According to the CRISIL Foundation, the non-profit associated with the Indian rating agency, there has been considerable scepticism about changing behaviours amongst India’s corporates. The Ministry of Corporate Affairs had estimated that about 16,000 companies will fall under the purview of Section 135, including private unlisted companies. However, most analyses such as FICCI (2014b) of CSR spending tend to focus on the top 100 corporates, where there may already be an awareness of wider societal responsibilities, but where data collection is easier.

For example, Deloitte (2013) used data from the top 50 National Stock Exchange (NSE) listed companies, the top 28 multinationals operating in India and 13 state-owned enterprises. The education and skills development sector was the most popular category of CSR spending, with 79.1% of companies engaged in this sector even before the Act was introduced. Interpolating the patchy data available, we found that around 14.3% of overall CSR spending was on education and skills.

FICCI (2014a) conducted a small study of 43 companies and found that 37 reported CSR as being an integral part of their organisation. The greatest number of initiatives were in education (35%), followed by health (34%). FICCI’s (2014b) survey of top 100 companies listed on NSE found similar results, with education receiving the most funds.

The Foundation conducted a survey of 3,855 listed companies following the first complete year of corporate reporting after the Act was introduced. Around 40% of these companies met the stipulated criteria requiring them to formally spend and report on their CSR activities.

**Scope of our study**

We conducted a major study to analyse trends in CSR by companies following one year of financial reporting following the introduction of the Companies Act 2013. FICCI was an active member of the formulation committee for Section 135 and therefore was an ideal source and partner for the CSR survey of Indian companies. The scope of the study was limited to FICCI members coming under the purview of Section 135 and was conducted over by email and phone over the period January-March 2016. Survey questions are outlined in Appendix 3.

**Key findings**

There were 80 respondents, of which 93% were from the private sector. A quarter was foreign multinationals operating in India and the rest were Indian companies. The responses reflected feedback from business with an annual turnover of up to US$130bn (2014) and a net profit of US$12bn. From the companies which reported both profits and CSR spending, the total CSR spend was US$125m (1.9% of profits).

One output of this survey is clear: companies which reported their turnover, net profit and CSR spending spent less than the required 2% in each of the three previous years, but that this figure had increased year-on-year. If we pro-rata the data to adjust for the missing data points, the CSR spending appears much higher.

In 75% of instances, the CEO was a member of the CSR Committee, showing a high-level buy-in from the company board. On average, the companies convened 4.6 meetings a year (i.e. just about quarterly). 68 of the 80 companies said they carried out education and skills development projects. Four companies said that they only focused on skills and education. 95% of
the 57 respondents who responded to the question said their spending priorities were aligned with the government’s development priorities. A quarter of these were skills and education-related priority areas, such as those outlined above.

**Figure 3.1  Summary statistics from FICCI CSR survey**

<table>
<thead>
<tr>
<th></th>
<th>Turnover (US$bn)</th>
<th>Net profit (US$bn)</th>
<th>CSR spending (US$m)</th>
<th>CSR / Net profit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reported</td>
<td>Pro-rata</td>
<td>Reported</td>
<td>Pro-rata</td>
</tr>
<tr>
<td>Present</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>83.1</td>
<td>130.0</td>
<td>7.6</td>
<td>11.7</td>
</tr>
<tr>
<td>2013</td>
<td>72.2</td>
<td>115.5</td>
<td>8.1</td>
<td>12.8</td>
</tr>
<tr>
<td>2012</td>
<td>70.6</td>
<td>112.9</td>
<td>5.7</td>
<td>9.4</td>
</tr>
</tbody>
</table>

Source: FICCI, EPG.

It is unsurprising that education and healthcare are at the top for both historic actual CSR spend and future anticipated spend. These are not only some of the most pressing needs in India today, but these are sectors where most of the NGO capacity in India has historically been created.

In our interview with Dr Y Suresh Reddy, Director of the SRF Foundation, he stated that the Act is unlikely to have much impact for the largest companies, which already carry out established programmes of CSR activities and have a culture of philanthropy, but that it would bring a whole new range of companies into the fold. CRISIL’s data in the figure below supports this, showing smaller companies were relatively better at spending on CSR than the largest companies. This may be at least partly because larger spending mandates require considerable time and effort to conceptualise programmes.

**Figure 3.2  CRISIL results on level of CSR spending by size of company**

Source: CRISIL (2016).
**An innovative and long-term approach that depends on changing mind-sets**

India is a large country and, as such, new and far-reaching rules cannot be implemented overnight. The Indian government’s approach (for both the previous government which introduced the Act as well as the current administration) has been to wait and see. There are no penalties being enforced currently and it is unlikely the government will be prescriptive in its future approach. Policymakers understand that more than compliance, the changing of business culture to a shared vision of shared value, where companies are more orientated towards activities for public benefit, may take time.

Rather than just Indian legal entities contributing to the NSDF, the government has also allowed foreign contributions. These have been made exempt from the Foreign Contribution Regulation Act, April 2015 (FCRA), to help boost funding for the vocational training in India. This would ensure smoother foreign contribution into the NSDF, as government approval may not be required for any foreign direct investment into the skilling sector in India.

One of the Schedule VII activities eligible for CSR funds is the Prime Minister’s Disaster Relief Fund. Corporates who are not keen to engage in high-impact CSR (this route seems to be more preferred by state-owned enterprises) can simply donate to this fund, and receive the income tax exemption fiscal incentive that donating to it provides. In our survey, 58% of the companies that prioritised donating to the PM’s Disaster Relief Fund, said the typical duration of their CSR projects was three years or less, compared to just 30% for those focusing on skills and 41% overall.

Although it is easy to donate in this manner, it is likely a relatively inefficient way of dealing with India’s supply-side challenges. In other words, the additionality for CSR funds used by the private sector is likely to be higher than the additionality generated by simply handing that money over to government. Corporates would be more engaged, and would demand more focused delivery of key outcomes.

Legislation mandates companies may not use CSR funds for their own employees, but can use in their supply chain. By making this distinction, the Indian CSR tax is different in character from the other skills levies, which are based on payroll and designed for employees’ benefit. Therefore, additionality for most skills spending is clear – companies spend more on their supply chains because CSR laws encourage them to, and there is a direct cash benefit of doing so.

**FICCI and UKIBC Skills Pledges**

In early 2016, Indian subsidiaries of 11 UK companies signed the first UK-India Skills Pledge. By 2020, they were forecast to train 670,000 people and invest around INR 2.5bn (US$37.2m) in skills training. However, the Pledge was in fact a restatement of existing plans the companies already had in place, rather than a commitment for additional nation-building.

This Pledge followed on from a similar FICCI initiative in 2012. For three successive years from 2012, at FICCI’s flagship Skills Summit, successive government ministers and several hundred FICCI members signed a Skills Pledge. According to the Minister signing the Pledge in 2013, it was a “symbolic expression” of support at a time when skills development was a priority for government, but not yet for companies.

The pledge was not an onerous one, encouraging signees to give a preference for hiring skilled workers in the workplace, acquire a new skill for themselves, and to support at least one unskilled person to acquire a new skill. At the time, the pledge received support from a wide range of stakeholders, but its main purpose was as a marketing tool to boost the awareness of the importance of skills training. There was however no real practical follow-up.
4 Case study – South Africa

South Africa is Africa’s most advanced economy. The country represents the interests of the African continent on several inter-continental and global engagement platforms. Despite its status as a leading advocate for Africa, South Africa remains highly challenged in the area of developing a broad-based, productive workforce.

South Africa has a population of 55m of which 30.2% are younger than 15 years of age, while only 8% are 60 years or older. Some of the challenges faced in India are even more pronounced in South Africa due to its unique history, and so strategies for skills development are initiated to address the triple challenge of unemployment, poverty and inequality.

In the pre-apartheid era, the system of governance favoured a select race and this resulted in the disenfranchisement of black people. The liberalisation of governance structures in South Africa in 1994 presented a huge challenge for South African—a large population of unskilled citizens were charged with the task of growing the country’s economy and competing internationally. The table below shows that although there have been efforts to train unskilled black citizens, South Africa still suffers from the negative impacts of the apartheid era.

**Figure 4.1 Percentage of skilled workers by race in South Africa**

<table>
<thead>
<tr>
<th>Race</th>
<th>1994</th>
<th>2014</th>
<th>Increase (percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black African</td>
<td>14%</td>
<td>17%</td>
<td>3</td>
</tr>
<tr>
<td>Coloured</td>
<td>11%</td>
<td>22%</td>
<td>11</td>
</tr>
<tr>
<td>Indian/Asian</td>
<td>25%</td>
<td>51%</td>
<td>26</td>
</tr>
<tr>
<td>White</td>
<td>42%</td>
<td>61%</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: Stats SA (2014).

South Africa’s skills levy has been in existence for significantly longer than India’s. Despite 18 years of a levy, and progress made amongst other racial groups, there is a continued skills challenge amongst the black population. The levy suffers from issues around implementation and, more recently, political challenges.

**Black empowerment in skills and the CSR levy**

To address the specific problem of lack of investment in skills development for black Africans, the government established a set of policies including Black Economic Empowerment (BEE) and Affirmative Action. The BEE policy is at the centre of the government’s strategy for economic transformation, which among other factors, focuses on skills development for previously disadvantaged citizens. Companies are not only encouraged to hire more black Africans, they must provide proof of the implementation of such affirmative action programmes and report it in their annual Broad Based Black Economic Empowerment (BBBEE) dashboard reports, marked out of 100 and published every year.

BBBEE has no direct financial penalty for non-compliance, but there are penalties in public procurement. The higher the BBBEE score, the more favourably procurement managers from government and related institutions will look at the company when awarding tenders. BEE supports CSR by using it as a mechanism for behavioural change and competitive advantage.

This is similar to the principles of the Social Value Act 2013 in the UK, which requires public bodies to consider wider social, community and sustainability issues when commissioning certain work. But a government review in 2015 said that benefits
are vague in their nature and impact. By contrast, because reporting is public for South African companies, benefits of compliance are more clearly evident. The UK review identified issues primarily in the implementation of the policy, which it finds inconsistent. Combined with a lack of fully developed measurement mechanisms and poor public familiarity with the Act, adoption has remained lacklustre.

A 15% weight is given on the dashboard to a company’s contribution towards skilling their employees. Of this, 9% is allocated to skills development through learning program investments, specifically skills spending on black employees as a percentage of the total skills levy paid. The remaining 6% measures the number of black employees participating in learnerships (apprenticeships) as a percentage of total employees.

As a result, CSR in South Africa is to a large extent regulated by the government. In the years after apartheid, the King Committee on Corporate Governance has led on South Africa’s efforts to integrate reporting disclosure through a triple bottom line approach. Following the Johannesburg Stock Exchange’s recommendation that all listed companies comply with the King Codes, they became the de facto standard for social responsibility for companies in the country. The King Codes have contributed to stimulating greater corporate engagement in local communities in South Africa by compelling companies to invest 1% of their annual profit after tax on CSR initiatives.

There are also no penalties for non-compliance with the King Codes. However, non-compliance could result in negative reputational impact for firms, particularly multinationals operating in South Africa. In this way, the King Codes have the same impact as pledges we have discussed elsewhere in this report, in that compliance is voluntary but a spotlight from external stakeholders drives the right behaviour.

**A well-established and understood levy**

The Skills Development Levies Act was introduced in 1999 to provide guidelines for payment of the Skills Development Levy, which comprises 1% of an employer’s annual payroll. The levy was established to ensure that employers made greater contributions to skilling their workforce. Employers with annual payrolls of more than ZAR 250,000 (US$16,000) are required to pay the levy, which is disbursed in part to the 21 Sector Education and Training Agencies (SETAs) and in part to the National Skills Fund. SETAs are the key delivery vehicle in South Africa for skills development activities. They are responsible for delivering work-based education and training mainly to young people who are not employed, educated or trained. If employers train workers, they can claim for reimbursement in the form of grant of up to the amount paid into the levy, and if they do not, the levy acts as a tax.

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20 Kloppers (2014). Companies may be scored on the skills development scorecard only if they have complied with the requirements of the Skills Development Act and the Skills Development Levies Act, have been registered with the appropriate SETA, have a Workplace Skills Plan in place, and have implemented programmes targeting the development of priority skills, especially for black employees.

21 PwC (2009); KPMG (2009).

22 Ndhlovu (2009), p.75.

23 US$1 = ZAR 15.4 here and throughout the report.
In introducing the skills levy, the South African government decided to do so in a phased manner. From April 2000 employers were required to pay 0.5% of payroll for the first year, and thereafter 1% the following year.24

While some of our interviewees (such as the UKIBC) stated that pledges and levies help foster a culture to focus on CSR and sustainable skills development projects, helping companies “good corporate citizens”, in South Africa, the aim is to compel company behavioural change more directly. It obliges companies to plan the training activities for their staff, similar to the approach to introducing levies that is in place in many countries around the world.

The following two figures show the role SETAs play in South Africa. As recipients of the skill levy mandatory payments through company payrolls, SETAs are crucial for value-creation in terms of skills development. The first figure shows number the number of South Africans gaining skills certifications has increased significantly over the last few years. The budgets for each of the SETAs in the second figure are a good reflection of the government’s skills gaps priorities in its wider industrial and human resource development policies.

**Figure 4.2  Contribution of SETAs to skills development in South Africa**

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>2010-2011</th>
<th>2011-2012</th>
<th>2012-2013</th>
<th>2013-2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total workers entered: learnerships, bursaries and skills programs</td>
<td>80,514</td>
<td>91,029</td>
<td>84,783</td>
<td>103,721</td>
</tr>
<tr>
<td>Total workers certificated: learnerships, bursaries and skills programs</td>
<td>81,592</td>
<td>82,114</td>
<td>82,572</td>
<td>105,617</td>
</tr>
<tr>
<td>Total unemployed entered: learnerships, bursaries and skills programs</td>
<td>41,950</td>
<td>53,092</td>
<td>46,186</td>
<td>72,116</td>
</tr>
<tr>
<td>Total unemployed certificated: Artisan, university graduate placements, TVET colleges and university partnerships</td>
<td>39,108</td>
<td>38,044</td>
<td>43,272</td>
<td>45,120</td>
</tr>
</tbody>
</table>


South Africa now has 21 SETAs to cater for skills development through learnerships, internships and other learning programs in their respective economic sectors. The SETA model of delivery has been severely criticised based on the performance of a number of SETAs. There have been calls for the rationalisation of SETAs perhaps into one larger body to ensure optimal operational efficiency. Between 2013 and 2015, three SETAs fell into public administration as a result of poor performance and challenges identified in reports by the Auditor-General of South Africa. These were in the Culture, Arts, Tourism, Hospitality and Sports; Local Government; and Safety and Security sectors, making up 10.6% of average spend in 2011-15 in the figure below.

Experts agree that there is a challenge with regards to the general performance of SETAs delivering on their respective mandates for skills development. Measuring performance against these mandates is a contentious and bureaucratic process, particularly in relation to the commitment of funds in priority areas identified in the Sector Skills Plan (SSPs), which are considered an important instrument for developing linkages between sector-based skills and sector-specific employment opportunities. The government has recently introduced proposals to address the recognised problem of SETA performance and delivery.

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Figure 4.3  Average annual spend of SETAs (2011-2015)

Source: EPG analysis. See Appendix 5 for list of SETAs.

The current political context

2016 is an important year for the future of SETAs and skills policy in South Africa. To address ongoing performance and delivery issues with SETAs, the government has proposed some radical changes in their funding landscape. In their new proposed role as Sector Education and Training Advisory Boards (SETABs), SETAs would be downgraded to play just an advisory role and therefore receive significantly less funding.25

Currently, the monies collected from the skills levy are disbursed in two ways. SETAs receive 80% and the NSF 20% of the total amount collected from the skills levy. The NSF spending is focused on financing strategic skills development projects as identified by the government. The NSF invested ZAR 3.2bn (US$208m) in skills development in 2015, an increase of around 10% from the previous year. 70% of this funding was spent in training activities, with the remaining in strengthening the public sector skilling system and key research projects.

The proposed policy would cut SETAs' budgets by half, and reallocate those funds to the NSF as shown in the figure below.

Figure 4.4  Skills levy current and proposed disbursement for NSF and SETAs

<table>
<thead>
<tr>
<th></th>
<th>Current Distribution</th>
<th>Proposed Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSF SARS</td>
<td>2%</td>
<td>NSF SARS</td>
</tr>
<tr>
<td>NSF National Skills Priorities</td>
<td>18%</td>
<td>NSF National Skills Priorities 18%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>NSF QCTO</td>
</tr>
<tr>
<td></td>
<td></td>
<td>NSF PIVOTAL 39.6%</td>
</tr>
<tr>
<td>NSF Current Total</td>
<td>20%</td>
<td>NSF Proposed Total</td>
</tr>
<tr>
<td>SETA Administration (includes 0.5% for QTCO)</td>
<td>10%</td>
<td>SETAB Administration (includes payment to DHET for shared service and cluster management) 10%</td>
</tr>
<tr>
<td>SETA Mandatory Grant</td>
<td>20%</td>
<td>SETAB Mandatory (WSP) Grant 20%</td>
</tr>
<tr>
<td>SETA Discretionary Grant</td>
<td>50%</td>
<td>SETAB Discretionary (Sector Specific Grant) 9.9%</td>
</tr>
<tr>
<td>SETA Current Total</td>
<td>80%</td>
<td>SETAB Proposed Total</td>
</tr>
</tbody>
</table>

Source: de Klerk, J. (2015). PIVOTAL is Professional, Vocational, Technical and Academic Learning; QCTO is Quality Council for Trades and Occupations, SARS is South African Revenue Services, WSP is Workplace Skills Plan.

Instead, that cut 39.6% of discretionary SEAT grant funding, will go towards workplace learning schemes managed on a discretionary basis by the government.

The proposed changes position the DHET as the final authority and implementing agent on skills development in South Africa, since it would receive payment for its role as coordinator of the transformation process. This proposed centralisation of participants in the skills arena could increase efficiency and reinforce an emphasis on skills-based occupations. The Indian government has similar plans to consolidate ineffective Sector Skills Councils (India’s equivalent of SETAs) and bring skill development coordinated into a more centralised role.

Other campaigners say SETAs would lose autonomy and independence, and reduce the accessibility of learning for workers across different sectors. As a result, the proposed changes could exacerbate SETA performance and delivery challenges. Boards used to consist of six members from industry and six from labour unions. The proposed changes will add three ministerial appointees (including the Chair). In our interview with former COO of AGRISETA Johann Engelbrecht, he argued that boards should instead comprise of experienced individuals who understand the specific challenges facing their sectors.

Jacomien de Klerk, an expert in SETA operations and a leading campaigner against the proposed changes, told us that losing autonomy in this manner could result in the establishment of the wrong set of priorities which may not contribute to addressing the skills development challenge at the level of industrial sectors. Skills gaps may therefore widen.

Centralisation of operational activities could also result in increased bureaucracy and a reduced ability to be as flexible in responding to changing skills needs. de Klerk said that rather than dealing with SETAs, which are highly accessible organisations, citizens may have to deal with the DHET which may have a number of other pressing priorities at any given time. Engelbrecht said that because of this, the proposals were not implementable. According to Engelbrecht, the government does not have the capacity to manage the skills development sector efficiently.

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Interview with Jacomien de Klerk conducted 22 February 2016.

5 Summary and conclusions

Commercial organisations, operating in a competitive market, are usually good at responding to business requirements, which includes skilling of their employees. However, such attention is usually focused only on today’s requirements.

Pledges create public awareness and a business imperative to get involved because of customer preference. Their rewards could be strategic and go beyond feel-good. Pledges often remain unfulfilled, but if an appropriate incentive is created for fulfilment, that may change. For example, a transnational business could be given priority in terms of contract awards, or could receive a tax exemption if they fulfil the pledge (a carrot) or the non-fulfilment could be made public (a stick).

Where companies spend voluntarily, they do so on education and skills activities in their supply chain or aligned with their business goals, rather than addressing key needs in their local communities. Only 5.2% of global CSR spend is in education and skills priority areas. Where companies spend CSR funds outside their own country, they often do so where their business interests align with corporate responsibilities. Policy tools such as skills pledges and levies can help companies focus on tomorrow’s requirements.

However, raising the money through corporate contributions such as levies is only part of the goal. This could perhaps be achieved by other, simpler means, such as raising tax rates. But this could be self-defeating for multiple reasons.

First, there is a limit to how much taxes can be raised without impacting incentives. Second, the perception of CSR as a tax disengages businesses from the social imperative of building a productive workforce. Third, ‘skills’ is a dynamic landscape, constantly changing with technical progress, business innovation and global market imperatives. Strategic and purposeful engagement of companies, more than their financial contribution, is needed to create forward-looking skills building programmes, a message often lost in the focus on financial aspect of such policy tools.

It is important to reassess the role that businesses play in building a skilled society. They are a source of funds for skill-building activities, however they also have important roles as providers of relevant skills training and incentives for up-skilling. Historically, businesses and trade unions have done a better job in getting their employees or members skilled than third-party, often all-purpose, training providers. Also, employing organisations, driven by business interests, supply the main incentive why a person should need to acquire a certifiable skill. It is important to design a skills pledge or levy keeping this multi-faceted role of businesses in skill building.
Key principles for a good skills pledge

This section presents five principles for global and national leaders to consider, in order to construct an optimal skills pledge as they gather under the aegis of the Education Commission.

**Principle 1: The pledge must be part of a wider vision set by government, and must be voluntary**

Pledges cannot be a standalone policy. Pledges are one part of an ecosystem policy makers must help create to improve productivity and to encourage more wholesome participation from employers. Employers, trade unions and business groups must be part of this shared vision and feel jointly responsible for delivering success in order to voluntarily sign up.

That shared vision should focus on government priority areas in the wider economy, but employer assistance should not be driven into these areas to make up for government underinvestment.

**Principle 2: The pledge should be about creating credible behavioural change, not a one-off feel-good factor**

The government, employers, training providers and individual consumers/employees are all important stakeholders. Behaviour change is important from each, to gauge whether training providers have the capacity to deliver the training to a high standard and if employees really want to be trained.

The pledge should remain credible even after the initial press launch and feel-good factor, to ensure both government and employers do not lose interest. Both should make voluntary commitments, whether over the medium- or long-term.

To make it credible, a monitoring and evaluation roadmap should be identified and resources put into place to deliver this at the outset.

**Principle 3: Desired outcomes should be thought through and success defined**

It should be clear from the outset what success will mean in terms of KPIs for numbers trained and skills gaps addressed. Highly skilled people are generally good at investing in professional development themselves, but people at mid to lower level of skills spectrum are less likely to so the pledge should focus on these. The skills pledge should not be focused on outputs, which are about what activities the company will do and who they will aim to reach, but instead on outcomes, which outline what the impact will be in the short, medium and long term. Outcomes should be linked to impact on the wider community, not just business imperatives.

**Principle 4: A clear set of incentives should be in place for the employers**

Companies should be excited about taking part. Outcomes should also be linked to business imperatives. If a company meets desired outcomes, then they could be given priority in terms of project clearance or contract awards if they fulfil the pledge. Public bodies could be compelled to consider wider social, community and sustainability issues such as this when commissioning work. This would help develop an ecosystem where a pledge is a contributing to an overall vision.

Signatories to the pledge should be encouraged to report progress. Where companies have not met the desired outcomes but are broadly engaged, they should be empowered by government to boost performance. Signatories should be encouraged to onboard a "friend", which would be another company that they work closely with or is in their sector.

**Principle 5: Make it time-bound**

Skills gaps will constant change with technical progress, business innovation and global market imperatives. Make a pledge for today’s skills gaps time-bound with a sunset clause, to ensure there is a timeline over which goals for achieving the desired outcomes are set.
Key principles for a good skills levy

This section presents four principles for global and national leaders to consider, in order to construct an optimal skills levy as they gather under the aegis of the Education Commission. These characteristics would apply whether the levy is mandatory and payroll-based, or if it is through encouraging CSR spending on this area.

**Principle 1: The levy must be part of a wider vision set by government**

The levy cannot be a standalone policy. Raising money through corporate contributions should only be one part of an ecosystem which policy makers must help create to improve productivity and to encourage more wholesome participation from employers. There should be strategic and purposeful engagement of employers, trade unions and business groups as part of this shared vision. In other words, companies should feel motivated and excited in contributing to the wider vision.

That shared vision should focus on government priority areas in the wider economy, but employer assistance should not be driven into these areas to make up for government underinvestment. If it is a levy on payroll, it should not be perceived as increasing the cost of employment.

**Principle 2: Develop a component for employees and the wider community**

One portion of the levy should be focused on upskilling existing employees (which should be aimed only at the largest businesses). The second portion should be about wider community development by skilling the unskilled. When engaging with the wider community, companies must be encouraged to work together, collaborate with existing initiatives where appropriate and focus only on strategic, sustainable and transformative initiatives. Discourage spending on schemes which are not scalable and expensive, such as higher education scholarships.

But keep this simple. Different levies for different sectors and businesses will increase complexity and may reduce engagement.

**Principle 3: Future-proof it, by developing a deep understanding of the skills gaps it will address**

When upskilling existing employees, companies will know best. When skilling in a wider community context, the government or appropriate industry experts should have a detailed understanding of where the skills gaps are currently, but more importantly how technical progress, business innovation and global market imperatives will change those skills gaps in coming years. By looking ahead, future-proof the levy and encourage companies to be innovative and risk-taking in their approach to addressing societal challenges.

**Principle 4: There should be a phasing-in period with regular feedback from key stakeholders**

If a levy is enforced top-down from government, it may be seen as just another tax. There should be a period of bedding in and gradual implementation, so the cost of doing business does not increase overnight. There should be regular feedback gathered from stakeholders and industry should drive this agenda, which could minimise leakage and maximise additionality. Penalties should therefore not be enforced immediately and policy makers should explore whether public reporting is sufficient as a suitable enforcement mechanism.

To make it credible, this should all be underlined by a monitoring and evaluation roadmap, which should be identified and appropriate resources put into place at the outset. KPIs should focus on impact, rather than quantum of money generated.

**Principle 5: A clear set of incentives should be in place for the employers**

Outcomes should also be linked to business imperatives. If a company meets desired outcomes for external skilling, then they could be given priority in terms of project clearance, contract awards or other fiscal incentives. Public bodies could be compelled to consider
wider social, community and sustainability issues such as this when commissioning work. This would help develop an ecosystem where a levy is a contributing to an overall vision.

**Principle 5: Make it time-bound**

Most countries with payroll skills levies still see persistent skills gaps. Government and industry should work together to set a bold ambition to address societal skills gaps in a time-bound manner, led by industry champions, so that success or failure is clearly defined from the outset.

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| In an ideal scenario, there would is that there is no need for skills pledges or levies, because sufficient behavioural change and alignment of government and industry imperatives means skills gaps have been considerably reduced.  

Nevertheless, we are not there yet and there is global underinvestment in education and skills. There is the lack of a consensus about policies and actions that can deliver education goals, and limited understanding of financing needs and trade-offs. However, funding education today will bring higher tax revenues, significant positive externalities, reduced inequality and a happier society in the future.  

A simple payroll tax is easy to introduce but does not represent a bold strategic vision that building global consensus on such issues needs. As a result, countries with skills levies still see skills gaps persisting. Skills pledges are often voluntary, weak and do not have the wider buy-in to make a lasting impact.  

Levies and pledges can both be part of a coherent development, industrial and human resource policy to create a step change in a country or industry’s approach to skilling. Consensus in creating such a plan, even if it starts small and grows over time, as long as it is decidedly outcomes-based, will go a long way to delivering education and skilling goals. |
Appendix 1  Global examples of skills levies

Around 60 countries in the world have introduced skills levies in some form, with mixed results. This section picks a few of the many payroll-based skills levies from around the world to give an illustration of how the global skills levy landscape stands currently. It expands on the countries listed in Figure 1.1.

France has a long history of companies contributing to training, with its taxes for training purposes dating back to the 1920s. The current levy system has existed since the Delors Act (1971), which dictates that companies should contribute a certain amount of their payroll to finance further training, and are exempt if they pay the same sum for training directly (levy-exempt scheme). The compulsory contribution depends on the firm’s employee counts: currently, firms with 10+ employees were required to contribute 1% of gross annual wages and micro enterprises (fewer than 10 employees) have to pay 0.55%. In some sectors, social partners have agreed on higher mandatory contributions. 27 Fixed amounts of the levy collected are used to finance individual training rights, individual training leave and leave to validate informal learning and skills audits.

The results appear to produce mixed opinions, with researchers arguing for and against the successes of this French levy. SMEs appear to be disadvantaged, as they prefer to pay the levy rather than provide the training directly. In 2012, France was providing less training than its neighbours UK and Germany, despite its levy system. One of the main shortfalls of the levy was complexity and bureaucracy, recognised as an issue by the government in its 2014 reforms, which reduced the number of different bodies which deal with the tax, and the variations based on company size. 28

Brazil also introduced revenue-generating training funds early; in 1942 it imposed a 1% payroll levy on all industrial enterprises under 500 employees, and 1.50% for larger firms. These funds contribute, alongside government subsidies, to SENAI (the National Industrial Apprenticeship Service), a decentralised, regionally structured sectoral training agency overseen by the Brazilian National Confederation of Industry and the Federations of Industries which offers training services to companies, as well as pre-employment training in more than 800 units. 29 Companies can qualify for an exemption if they provide their own training. Few comprehensive assessments have been carried out. Many companies have complained about public training centres being unresponsive to their needs; moreover the main benefits are to the largest firms. 30

The Dutch training levy systems differs from the previous cases, as it is not a nationwide levy, but rather a series of sectoral funds. The respective levies differ from sector to sector, with the average in 2005 being 0.67% of gross wages. This is paid back to employers through a lump sum tax-credit. 31 These levies range from voluntary to mandatory and studies have found no significant difference in the levels of regular and apprenticeship training in Dutch firms in sectors where a fund is present than in those without a fund. 32

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28 Federation de la Formation Professionelle (2014).
31 ICF GHK (2013).
32 Kamphuis (2010).
Italy also operates through divided funds, of which there were 14 in 2008. Their levy amount is collected through compulsory contributions of 0.30% of payroll. However, support is low, as firm may choose between using a training fund, or the 0.30% levy being used more widely for training purposes by the government.

In Tanzania, the Skills Development Levy is a 6% payroll tax for employers with more than four employees. In 2013, the levy was reduced to 5%. Two-fifths of an employer’s contribution goes to the Vocational Education and Training Authority, which was established in 1994 for the purpose of funding skills development initiatives. The Tanzanian government exempts employers in the agriculture sector from paying the levy.

In Singapore, the Skills Development Fund (SDF) is the vehicle through which financial incentives for training both individuals in the workforce and those re-entering the workforce. The funds for this training are collected from the Skills Development Levy which is a mandatory contribution of 0.25% paid by all employers in Singapore on the remuneration of all employees. A minimum contribution of US$2 is required for employees earning less than US$800 per month and a maximum contribution of US$11.5 is required for employees earning more than US$4,500 per month. The Skills Development Levy generates approximately US$80-90m per year. All companies registered in Singapore are eligible for support from the SDF. The Skills Levy Act in Singapore was established in 1979.

In China, entities and individuals pay a national-level Educational Surcharge of 3% on their indirect tax (VAT, business tax and consumption tax) and a provincial 2% Local Educational Surcharge. The revenue is earmarked for local school educational needs.

India does not directly have a specific skills levy, but it does have a basket of around 27 different levies, earmarked for specific purposes. The latest of these was a 0.5 percentage point levy on service tax (not on goods) to increase it from 14% to 14.50% to fund one of the government’s flagship social campaigns, Clean India.33 The government is considering a specific 2% levy on individual and corporate income tax to fund skills development, largely because many of the government’s skills development ambitions are not funded.34

Appendix 2  Detailed Case Study – United Kingdom

Despite successive governments’ focus on skills, traditional university education is still seen in the UK as more desirable than vocational education. IPPR (2015) report shows that 6% of all employers had at least one skill shortage vacancy, up from 4% in 2013. The top five sectors hit by shortages are: Electricity, Gas & Water; Construction; Transport and Communications; Manufacturing and Business Services. When comparing these sectors to the supply of skills, through the top five degrees offered by universities, Business Services are the only overlapping sector.

Many of the qualifications granted in the UK are either generalist Bachelors degrees or lower level vocational qualifications, with very few people gaining higher level technician qualifications. With technological advancement and globalisation, this is causing a labour market imbalance that may worsen over time. Besides, while the highly skilled people are generally good at keeping themselves up to date and investing in professional development, people at mid to lower level of skills spectrum do not do so. This makes re-training of older workers a significant challenge, which the current policies, mainly geared towards creating youth employment, do not address.

Prima facae, apprenticeships in the UK, which are geared towards youth unemployment, have increased significantly, particularly during the economic downturn from 2007 to 2011. These have been funded through either levies or various other government schemes to reduce skills gaps.

But there have been methodological, budgetary and legislative changes that mean an “apprentice” in 1995 is not the same as an “apprentice” in 2014. The number of apprenticeships soared in 2009 as government spending during an economic downturn turned to the further education sector and then dropped in 2013 as a result of funding and legislative changes. The Apprenticeships, Skills, Children and Learning Act (2009) for example created an apprenticeship agreement to be signed between employer and apprentice, with implementation from 2012.

The following figure shows a timeline of the key dates in the UK’s journey of skills pledges and levies since 1964. The rest of this section looks at some of these schemes in greater detail.

Apprenticeship Levy 2017

The aim of this levy will be to “improve the quality and quantity of apprenticeships in England to 3 million starts this Parliament”, reversing the current declining trend in employees attending training outside the workplace, which fell from 141,000 in 1995 to 18,000 in 2014.

A proposed draft of the legislation shows positive signs in terms of implementation and enforcement of the levy. Retrospective taxing allows the government to avoid companies slipping through without contributing and enforcement will be carried out with penalties in line with that of avoiding any UK tax to HRMC, set out in the Financial Act 2007. The Department for

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35 UKCES (2016).
38 ONS (2015).
Business and Innovation Skills has also agreed on a 10% top-up for employers by the government, as the budgets for Apprenticeships increase. Figure 2.3 in the main section of the report showed that there has been considerable interest in the levy. However, when we reached out to the relevant Minister’s office and submitted a Freedom Of Information request, we did not find a formal Cost-Benefit Analysis or impact study performed by the government to show that this scheme would be effective. Although the government has announced the policy, the details and active industry engagement is yet to commence. A policy such as this should form part of an overarching shared vision on skill-building in the country.

Figure 5.1  Key dates in history of skills levies and pledges in UK

The original skills levies from the 1960s onwards: CITB and ECITB

Training concerns were brought into the limelight in post-war Britain in the 1950s and 1960s, due to higher youth employment, and the pressing need to cater for the baby boom. To tackle the issue, the Industrial Training Act 1964 gave the Minister of Labour statutory powers to set up industrial training boards (ITBs), which would each take charge of the training in their sector, advising and setting the standards to companies. These ITBs were made up of representatives from companies, the unions and the government.

Each ITB imposed a levy on the firms it dealt with, and redistributed the money through a grant system, paying allowances to trainees, in order to tackle the lack of skilled workers due to labour market failure.

The subsequent 1973 Employment and Training Act provided that: levies set at more than 1% of payroll were subject to an affirmative resolution by Parliament – the so-called Levy Order. Since the requirements for exemption were not strictly drawn, many firms applied for, and were given, exemptions. In engineering, for example, 58% of the workforce had become exempt by as early as 1974-75 and this had risen to 85% by 1976-77 in the case of larger firms.

Source: EPG.

Large firms were more likely to claim exemptions from paying in, but often still claimed funds out. In these circumstances there were severe pressures on the system. As a result, the government announced that it was prepared itself to contribute to the financing of boards and the support of training. Under the 1974 and 1979 governments, plans for collective funding by employers and government of initial training were developed but never reached Cabinet level.

The 1982 Industrial Training Act laid down new requirements for the establishment, operation, and termination of ITBs. Over the next few years, boards were wound up and in 1988 the government announced that all the ITBs were to be abolished. The exceptions were construction and engineering construction where employers had successfully lobbied for the continuation of a levy-grant system. Almost no independent evaluation of the impact of the existing system has been carried out.40

The construction and engineering construction industry argued that because of the strong prevalence of a market failure in the provision of training in their industries, statutory arrangements should continue to apply to them. The then Secretary of State for Employment accepted these arguments, and remarked in Parliament that “there are particular problems in those areas concerned with a highly mobile labour force. In those industries there is much labour only sub-contracting, a high level of self-employment and a high use of short-term contract labour.”41

ECITB was formed in 1991 on the closure of the Engineering Industry Training Board. ECITB is a statutory body regulated by the Industrial Training Act 1982. Its primary role is to set standards for training in the industry, and to ensure the adequate provision of training to meet the future needs of the industry. The ECITB is a registered charity and an executive non-departmental public body. The ECITB is funded primarily by a training levy of 1.5% from companies whose main business is in the engineering construction sector.

A 2008 Ofsted evaluation report showed that the trade body’s results were improving in recent years and is now considered satisfactory, despite the low amount of skills training in previous decades. However, growth is not the focus: the ECITB has not recruited any new learners since 2006 and has no plans to do so. All of the 297 learners are employed in engineering companies across the country. At the previous inspection, training in engineering and manufacturing technologies was satisfactory. Overall effectiveness (including leadership and management) quality improvement and equality of opportunity were also satisfactory.

Although ECITB and CITB appear similar, they offer very different training products to a different company base with different purposes in mind. One principally supports general construction skills, whilst the other supports the engineering industry and very specific tasks around machine processing in large plants such as oil and gas extraction, power generation, offshore construction and pharmaceuticals. A recent governmental triennial review (2015) showed that the market failures justifying

40 Gospel et al. (2012).
the existence of these two bodies are still present, therefore their tasks of regulating the training in their industries is necessary.\textsuperscript{42}

The two bodies are very different in size: income generated by the levies in 2012 was £144m (US$202m) for the CITB and £25m (US$35m) for the ECITB. The CITB has 73,200 employers on its levy and grant register, of which 25,200 pay the levy and 14,300 claim a grant.\textsuperscript{43} The CITB receives £243.2m (US$341m) in levy and non-levy income. Given it operates as a charity, spending is at a similar level, after adjusting for costs. The ECITB has 372 firms on its register, 243 paying the levy and estimated 335 of employers claiming a grant. Income from levies and other activities is £27.5m (US$39m; 2012).\textsuperscript{44}

**Skills pledges**

The Skills Pledge started life in 2007. Given the limited spend on marketing of the Skills Pledge, the rate of registration varied between regions and sectors, depending on referrals or registrations where the SSCs, the Train to Gain programme and other business support services were actively encouraging commitment. SSCs are employer-led organisations in the UK, licensed by the UK Commission for Employment and Skills. Based on specific sectors, their aim is to reduce skills shortages through training (they also serve a similar purpose in India, and are similar to SETAs in South Africa). They found however significant value attached to the Skills Pledge by employers, not in terms of tangible outcomes, but mostly in raising the organisation’s public profile as a good employer.

The evaluation report said employers making the Skills Pledge could be encouraged (but not required) as part of their commitment to describe how they will provide feedback on the progress they have made, for example in their annual report, accounts or through staff conferences. If this was done under the umbrella of Skills Pledge, it could further help to encourage employer engagement in skills.

This approach of corralling different initiatives under one umbrella is the approach used by the UKIBC UK-India Skills Pledge as well, in that it is not a new pledge, but a coordinated restatement of existing initiatives by UK companies in India, with the aim of recognising British companies’ achievements for, and commitment to, the Indian market.

**Skills pledges and Apprenticeship Levy text**

**UK Skills Pledge**

There is no specific wording, however suggestions have been made by All Merseyside\textsuperscript{45} for example:

*On behalf of ... are making a commitment that we shall:*

- Actively encourage and support our employees to gain the skills and qualifications that will meet the needs of our business and will support their future employability.

\textsuperscript{42} Trinennial review (2015).
\textsuperscript{43} CITB (2013).
\textsuperscript{44} ECITB (2013).
\textsuperscript{45} National Archives (2016).
Further support our employees to acquire basic literacy and numeracy skills and work towards their first full Level 2 qualification.

Demonstrably raise our employees' skills and competences to improve our organisational performance through investing in economically valuable training and development.”

**Welsh Skills Pledge**

“The Basic Skills Employer Pledge means that an employer pledges to help employees with poor basic skills to improve basic literacy and numeracy skills.”

To get a Pledge Award, an organisation has to produce an Action Plan, which has to:

- be in writing and available to everyone that works for the company;
- say specifically that helping employees improve their basic skills is a commitment of the whole company or organisation;
- include an assessment of need;
- have clear and specific aims and objectives;
- include the measures to be taken to help employees improve their basic skills;
- set a realistic, but challenging timescale for achieving the objectives of the Action Plan;
- detail the resources to be devoted to the Action Plan, including staff time and finance;
- say who in the company or organisation is responsible for producing and implementing the Action Plan;
- describe how the Action Plan is to be monitored and evaluated.”

**Humber Skills Pledge**

In an online form, companies may choose to between “We already do this”, “We’d like to know more” and “Not at this time” for:

- Invest in increasing the skills of your workforce
- Mentor a budding entrepreneur
- Offer a work placement to a young adult
- Offer an apprenticeship/traineeship
- Employ a graduate
- Support the development of employability skills

According to the Humber LEP, “The Humber Skills Pledge …this campaign will ensure up-to-date information on skills and training is widely communicated. Creating one point of call for businesses to access training and skills information, the Humber Skills Pledge removes any stress and complexity for companies, providing much needed guidance, advice, resources and related initiatives which could see their business grow.”

**Apprenticeship Levy 2017 draft text of legislation**

1 Apprenticeship levy

(1) A tax called apprenticeship levy is to be charged in accordance with this Part.
(2) The Commissioners are responsible for the collection and management of apprenticeship levy.

2 Charge to apprenticeship levy

(1) Apprenticeship levy is charged if— (a) a person has a pay bill for a tax year, and (b) the relevant percentage of that pay bill exceeds the amount of the person’s levy allowance (if any) for that tax year.

(2) The amount charged for the tax year is equal to—

where— N is the relevant percentage of the pay bill for the tax year, and A is the amount of the levy allowance (if any) to which the person is entitled for the tax year.

(3) The person mentioned in subsection (1) is liable to pay the amount charged.

(4) Except so far as any of sections 4 to 6 provides otherwise, a person who has a pay bill for a tax year is entitled to a levy allowance of £15,000 for the tax year.

(5) For the purposes of this section the “relevant percentage” is 0.5%.

3 A person’s pay bill for a tax year

(1) A person has a pay bill for a tax year if, in the tax year— (a) the person is the secondary contributor in relation to payments of earnings to, or for the benefit of, one or more employed earners, and (b) in consequence, the person incurs liabilities to pay secondary Class 1 contributions.

(2) The amount of the person’s pay bill for the tax year is equal to the total amount of the earnings in respect of which the liabilities mentioned in subsection (1) (b) are incurred.

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(3) For the purposes of this section a person is treated as incurring, in respect of any earnings, any liabilities which the person would incur but for the condition in section 6(1) (b) of the Contributions and Benefits Act.

(4) The Treasury may by regulations provide for persons specified in certificates in force under section 120(4) of the Social Security Contributions and Benefits Act 1992 to be treated for the purposes of this section as the secondary contributor in relation to payments of earnings to which the certificate relates and as liable to pay secondary Class 1 contributions to which the certificate relates.

(5) For the purposes of this section— (a) references to “payments of earnings” are to be interpreted as they would be interpreted for the purposes of determining liability to pay secondary Class 1 contributions under the Contributions and Benefits Act; (b) the amount of any earnings is to be calculated in the same manner and on the same basis as for the purpose of calculating the liabilities mentioned in subsection (1) (b).

(6) In this section references to liability to pay secondary Class 1 contributions are to liability to pay secondary Class 1 contributions under Part 1 of the Contributions and Benefits Act (and are therefore to be interpreted in accordance with sections 9A(6) and 9B(3) of that Act).

4 Connected companies
(1) This section applies if— (a) at the beginning of a tax year two or more companies which are not charities are connected with one another, and (b) apart from this section, two or more of the companies (the “qualified companies”) would be entitled to a levy allowance for the tax year.

(2) Only one of the qualified companies can be entitled to a levy allowance for the tax year.

(3) It is up to the qualified companies to decide which of them that is to be.

(4) Part 1 of Schedule 1 to the National Insurance Contributions Act 2014 (rules for determining whether companies are “connected” with one another) applies for the purposes of subsection (1) as it applies for the purposes of section 3(1) of that Act.

(5) In this section “company” has the meaning given by section 1121(1) of CTA 2010 and includes a limited liability partnership.

(6) See section 5 for the meaning of “charity”.

5 Connected charities

(1) This section applies if— (a) at the beginning of a tax year two or more charities are connected with one another, and (b) apart from this section, two or more of the charities (the “qualified charities”) would be entitled to a levy allowance for the tax year.

(2) Only one of the qualified charities can be entitled to a levy allowance for the tax year.

(3) It is up to the qualified charities to decide which of them that is to be.

(4) In this Part “charity” means— (a) a charity within the meaning of Part 1 of Schedule 6 to FA 2010; (b) the Trustees of the National Heritage Memorial Fund; (c) the Historic Buildings and Monuments Commission for England; (d) a registered club within the meaning of Chapter 9 of Part 13 of CTA 2010 (community amateur sports clubs).

(5) Subsection (4) is subject to section 20(5).

(6) See sections 20 and 21 for provision about the meaning of “connected” in subsection (1).
Appendix 3  Detailed Case Study – India

During the next 20 years, as the labour force in the industrialised world declines by 4%, India's will increase by 32%. According to the Indian government, to reap this demographic dividend, India needs to address the challenge that many of its conventionally education young people have few or no employability skills. Over 109m incremental human resources will be required in India, across 24 key sectors, by the year 2022. 93% of India's workers work in the unorganised sector and acquire skills through informal channels and lack formal certification. Provided India can act quickly on its labour market and education challenges; its demographic dividend has the potential to inject new dynamism into its economy.

The evolution of CSR considerations in the boardroom

Much like in neighbouring China, the evolution of CSR considerations from the margins to the boardroom has occurred through several defined steps. The Prime Minister’s Ten Points Social Charter in 2007 emphasised new Partnerships for Inclusive Growth were the first steps towards the realisation of industry’s responsibility towards society. This was followed by release of the Voluntary Guidelines on CSR in 2009 by the Ministry of Corporate Affairs. These were revised with a more comprehensive set of guidelines that encompassed social, environmental and economic responsibilities of business as part of the National Voluntary Guidelines (NVGs) in 2011.

In 2010, the Department of Public Enterprises released the DPE Guidelines for the Public Sector Enterprises, then in 2012, the Securities and Exchange Board of India (SEBI) mandate on disclosure in the form of Business Responsibility Reports (BRRs) on NVGs for top 100 listed companies.

This follows a similar trend of increased CSR reporting elsewhere in Asia too. For example, from 2006, Chinese Company Law (Article 6 of the Companies Law) has required firms to “undertake social responsibility” while conducting business. More and more companies are producing CSR reports and disclosing environmental and community-related information due to environmental protection and banking regulation laws. Similarly in Malaysia, all registered companies have had to publish CSR information since 2007. The government’s 10th Malaysia Plan makes explicit reference to CSR and outlines the government priorities in where these funds should be directed – education, environment conservation and children. Nevertheless, take-up of a shared value, multidimensional approach to CSR has been limited.

In South Africa, the the King Committee on Corporate Governance reports in 1994 onwards fulfilled a similar role.

In India, state-owned enterprises, or Public Sector Undertakings (PSUs), have been in a position to refine their CSR strategy over a much longer period of time than the private sector. The Department of Public Enterprises had issued guidelines for Central PSUs effective from 2010-11. However, in our interviews with private sector companies and other stakeholders, it was almost uniformly felt that private sector companies are in fact far better and more efficient at conducting corporate responsibility. PSUs often prefer parking CSR funds with an intermediary or transferring it into established government

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schemes such as the PM Disaster Relief Fund. Public sector companies lagged behind private sector counterparts in meeting CSR obligations. FICCI (2014b) found that PSUs spent 67% of their prescribed CSR expenditure, compared to 86% for the private sector.


Companies meeting the financial criteria outlined in Section 3 are required to constitute a CSR Committee of three directors (including one independent). An unlisted public company or a private company covered under Section 135(1) of the Act, which is not required to appoint an independent director, must still formulate a CSR Committee with its other directors; and if a private company has only two directors on its Board, it must constitute its CSR Committee with only two directors. The Committee must formulate a policy, recommend a budget, and create a transparent monitoring mechanism for implementation.

So the CSR tax is not quite the payroll-based skills levy that is in place for the UK, South Africa and in many other countries, but there is a substantial focus on skills development.

Schedule VII of Section 135 outlined an initial list of 11 sectors where CSR funds could be spent, which is outlined in the figure below. As companies have warmed to the CSR rules, the FICCI survey highlighted that particularly with rural and slum related categories in Schedule VII conflicts between local stakeholders as obstacles in successfully implementing CSR projects. In rural areas, the local community often fails to understand the development perspective underlying a potential project from a company and has inhibitions in supporting it.49

**Figure 5.2 Schedule VII, Suggested Areas of Activities**

<table>
<thead>
<tr>
<th>Eradicating hunger, poverty, malnutrition</th>
<th>Prime Minister’s National Relief Fund, any other fund set up to assist Scheduled Castes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and vocational skills*</td>
<td>Sports promotion</td>
</tr>
<tr>
<td>Gender equality, female empowerment</td>
<td>Technology incubators within government universities</td>
</tr>
<tr>
<td>Environmental sustainability, Clean Ganga Fund</td>
<td>Rural development</td>
</tr>
<tr>
<td>Heritage</td>
<td>Slum development</td>
</tr>
<tr>
<td>Armed forces veterans</td>
<td></td>
</tr>
</tbody>
</table>

Source: Schedule VII, Section 135, Companies Act 2013, Government of India. *Specifically, this is education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects.

**Range of schemes to support skills development**

The Ministry of Skill Development and Entrepreneurship (MSDE) is responsible for co-ordination of all skills development efforts across the country, removal of disconnect between demand and supply of skilled manpower, building the vocational
and technical training framework, skill upgradation, building of new skills, and innovative thinking not only for existing jobs but also jobs that are to be created.

It is aided in these initiatives by its functional arms – National Skill Development Agency (NSDA), NSDC, National Skill Development Fund (NSDF) and 33 SSCs as well as 187 training partners registered with the NSDC. The MSDE also intends to work with the existing network of skills development centres, universities and other alliances in the field. Further, collaborations with relevant central ministries, state governments, international organisations, industry and NGOs have been initiated for multi-level engagement and more impactful implementation of skills development efforts.

In July 2015, the Indian Prime Minister launched the Skill India campaign, incorporating four initiatives of the MSDE:

- National Skill Development Mission;
- National Policy for Skill Development and Entrepreneurship 2015 (NPSDE);
- Pradhan Mantri Kaushal Vikas Yojana (PMKVY) scheme; and
- Skill Loan scheme.

Existing models of corporate engagement in investing in skills and education have traditionally been through Industrial Training Institutes (ITIs), SSCs and apprenticeships. ITIs now operate as a tripartite arrangement between state governments (owners of the ITI, shall continue the recurring expenditure and appoint new instructors), central government (funding partner) and industry (providing management expertise to run the ITI).

**Key policy changes expected in 2016**

The current government views the previous administration’s attempts to develop skills development in India to have largely been unsuccessful. The NPSDE is an update to the National Skill Development Policy 2009 to address some of these concerns. As a result, the skills development landscape in India is expected to change significantly in 2016, with greater centralisation of decision-making (rather than through the public private partnership NSDC, which is 49% owned by the government and 51% by private sector actors), greater standardisation in implementation across the country, centralised quality assurance, a reduced number of SSCs, and with skills development linked more explicitly to job creation.

These changes are in the pipeline for 2016, and are similar to the challenges and proposed changes outlined by the South African government with its skills levy. In India, there has been a period of both formal and informal consultation before some of these changes are implemented. Organisations such as FICCI are involved in several state-level programmes to align parallel national and state level schemes, for example.
In effect, the changes represent a natural evolution in skills policy, given the scale of ambition and the natural challenges India faced in 2010 when the initial targets were announced. If the establishment of the NSDC was the government's Skilling 1.0 strategy, the set-up of the NSDM is the Skilling 2.0 version.

By contrast in South Africa, the proposed changes are less of a natural evolution, and more radical. Opponents of the changes are arguing that the government has not consulted SETAs enough and that its implementation plans will introduce greater leakage and inefficiency.

The PMKVY, the flagship, demand-driven, outcome-based skill training scheme aims to incentivise skill training by providing financial rewards to trainees who are successfully trained, assessed and certified in skill courses run by affiliated training providers. While with British skills initiatives, the financial gain for the employee was the hope of increased pay and career progression, in India there is a specific, immediate financial reward in addition to the anticipated career progression.

Over the next year, PMKVY will skill 2.4m youth, across India. For the first time, the skills of young people who lack formal certification, such as workers in India’s vast unorganised sector, will be recognised. Through the ‘Recognition of Prior Learning’, 1m young people will be assessed and certified for the skills that they already possess.

Under the Skill Loan scheme, loans ranging from Rs 5,000 – 0.2m (US$75 to US$2,200) will be made available to 3.4m young people seeking to attend skills development programmes over the next five years.

In the British skills pledges, public awareness was an issue. Given the scale of India’s skills challenge, this is even more so an issue. According to FICCI, special PMKVY mobilisation camps are being organised across the country, alongside a nationwide SMS campaign to reach 400m subscribers.

There are currently 33 SSCs in India. SSCs drive occupational standards, accrediting systems and industry certification. The government is seeking to develop SSCs to become job creators in conjunction with corporate and industry associations such as FICCI and Confederation of Indian Industry, such that the ability for CSR skills spending from businesses can have a more significant impact. As part of this evolution, the government is seeking to streamline the number of SSCs.

Although SSCs serve a similar function to SETAs in South Africa, there are some important differences. Jacomien de Klerk said in our interview with her that SETAs were highly accessible organisations which are close to skill realities and needs on the ground. By contrast in India, the number of SSCs has expanded, contracted, and been renamed so many times, that the Ministry of Skill Development, the NSDC (National Skills Council equivalent) and leading industry organisations all provide different figures in the public domain for the number of SSCs in existence. SSC accounts and budgets are also not available in the public domain.

In our discussions with key officials involved in skills development, there was a keenness to centralise more of the skills-based spending. It was felt that government agencies may be better placed to link skills development with job creation and conduct training where there are jobs, than a corporate that would not have visibility of country-wide skills gaps. This approach to centralisation is one currently being debated in policy circles in India, although industry has increasingly supportive of the general approach taken by successive governments to focus on skills development through the use of CSR funds.
**Detailed results of the CSR survey**

Our results were supplemented with interviews with CSR practitioners from companies, especially ones which promoted education and skills outcomes listed in Figure 5.2 above.

Out of respondents that answered about how their CSR spending changed in the last year and the current year, 87% said it had increased either in one year or both. Out of the remaining respondents, only 4% said spending had fallen in both years. The main beneficiaries impacted by skills projects were similar to what respondents said about other projects – around 73% focused on women, children, disabled and senior citizens, while much of the rest focused on the environment and sports.

**Figure 5.3  Response to question: “What is the main motivational factor in doing CSR activities?” (73 responses)**

![Pie chart showing motivational factors for CSR activities.]

- 49% Social good compliance
- 36% Shared value
- 7% Employee satisfaction
- 5% Risk mitigation
- 1% Brand image
- 1% Other

*Source: FICCI, EPG.*

The figure below shows a comparison of the length of CSR commitment made by companies from India, the UK, US and South Korea based on the Business Backs Education research in EPG (2015).
Figure 5.4  Typical duration of CSR projects (73 responses; dark green bar)

Source: Figure 4.9: Length of CSR commitment for Republic of Korea, US and UK companies, Business Backs Education report (2015); Brookings (2011); FICCI; EPG.

Brookings (2011) found that companies made contributions which were less than or equal to three years, 70% of the time. It asked companies what their typical length of commitment was, but the Korean data relates to the length of time 130 company respondents perceived as the most appropriate length for their CSR activities, which is not quite the same. The FICCI survey did not have a category of “Under 1 year”, and the highest category was “Over 5 years” – for this we assumed that all spending was made for 6-9 years only. Standardising the results in this manner means we have made some assumptions to ensure length of commitment figures are comparable. The figures for other countries are based on voluntary commitments, where for India the figures are driven by compliance to Schedule 135.

Nevertheless, one aspect of the Indian results is striking: there is no set pattern for the duration of CSR projects. As the figure below shows, the average reported duration of a CSR project is 3.8 years, whereas for skills projects it is 4 years. There are 11 companies that say they would be engaging in skills projects for the first time, whose average anticipated duration is 2.5 years. Removing these from the skills figure, the average duration for a skills project is 4.4 years.

This is driven by two main factors: companies wishing to align their spending with government priorities, which could change over time; and companies who are allocating budgets for CSR the first time and therefore may pursue safer, shorter duration
projects first. Public sector CSR projects tended to be shorter in duration, with a preference there for donating to existing government funds rather than carrying out their own transformative initiatives.

Figure 5.5  Response to question: “What is the typical duration of a CSR project initiated by your company?” (73 responses)

![Graph showing project duration](image)

Source: FICCI, EPG.

In other words, the CSR rules are driving private sector company behaviour towards skills and in particular longer-term, sustainable skills projects. These are being assisted by the government laying out its developmental priorities, which is bringing skills development into focus.

Some states are supplementing central government priorities with their own. In India’s largest state by area, Rajasthan, the chief minister has clearly outlined the sectors in which she would prefer for companies operating in the state to focus. Some of our interviews highlighted that this has given some companies in the state greater clarity, focus and purpose in their spending. Particularly companies without a history of deep CSR engagement can be part of a larger vision, knowing that there is support available from the state government.

For example, Vedanta Resources is investing US$120m into one of India’s most ambitious education and skills projects to build 4,000 *anganwadis* (courtyard shelters in villages that provide integrated child development services with education, clean water and basic healthcare) across 11 states over the next three years. This aligns very clearly with central government priorities, but also of those of the government in its pilot state of Rajasthan.

In 2012, HSBC identified skills building as an important focus area in India before the introduction of the CSR laws and made a commitment of INR 55m (US$0.8m) over three years to support skills building of disadvantaged youth through partnerships with reputed NGOs across the country. In November 2015, HSBC launched the HSBC Skills for Life programme with a
commitment of INR 10bn (US$149m) towards skilling 75,000 disadvantaged people over five years. The foundation arm of one of India’s largest hair care franchises Javed Habib Hair & Beauty has several state-level memorandums of understanding to train several hundred thousand unemployed young people in beauty, hair and nail courses over five years.

More than two-thirds of companies saw their CSR budgets increase in the last financial year, and 84% expected it to increase in the coming financial year.

Figure 5.6  Response to question: “Please specify the change in CSR budget from FY 13-14 to FY 14-15” (69 responses)

Source: FICCI, EPG.
Indian companies’ future CSR priorities are unchanged compared to the FICCI and Deloitte survey results from before the introduction of the Companies Act 2013. Education and skills development, as well as healthcare, remain the two main areas of interest.

**Figure 5.7** Response to question “What are the priorities for the next fiscal year?” (multiple choices allowed) compared to CRISIL results of actual spending in 2014/15 for listed companies

![Bar chart showing responses to CSR priorities for the next fiscal year]

Source: FICCI, EPG. In the FICCI survey, livelihood generation is listed as a separate category, although in Schedule VII of Section 135 of the Companies Act 2013, this is grouped under education and skills. As livelihood generation is linked to employability and skills, it is likely most of this category belongs under education and skills development on the chart.

30 of 46 respondents said they would use the outcome of the CSR audits by third parties as the basis of project implementation, indicating that companies were looking to external assessors to judge the efficacy of ongoing or proposed programmes. Two-thirds of respondents said they partnered with government or other corporates on their CSR projects.

In our interviews with NSDC, it was clear that some companies chose not to spend on CSR in a coordinated and sustained manner (even to build goodwill with local communities) before the introduction of the Act. They are much more likely to do so now via an agent such as the NSDC because of three reasons:

- NSDC to manage such projects so there is a reduced administrative burden; and
- Companies can cover the whole country with similar initiatives by engaging NSDC, rather than having to employ fragmented, local teams.
Skills pledges and CSR law text

**UK-India Business Council Skills Pledge**

In early 2016, eleven UK companies actively supporting the government of India’s Skill India initiative, committed to skills development in India by signing the first UK-India Skills Pledge. The Indian subsidiaries of UK companies committed to the development of a skilled workforce in India and to continue to contribute towards the training objectives of the Indian government.

The companies that signed up were: HSBC, Barclays, BG Group, Rolls Royce, OCS, Mott Macdonald, G4S, BP, Aviva, M&S and GSK. These UK companies currently train around 3.5m people in India and invest around INR 1.3bn (US$18.9m) in training both to meet internal training requirements and as part of their wide-ranging CSR programmes. By 2020, these UK companies are forecast to train 670,000 people and invest around INR 2.5bn (US$37.2m) in skills training.

In our interview with Jesh Rajasingham, Sector Head for Education, at the UKIBC, he outlined the reason for making the Skills Pledge announcement as a way of showcasing the capacity of British companies to provide quality training provision in India. He said that British companies were at the vanguard of this sector, and that the commitment from British companies in India would be expected to grow in the future (with or without the Skills Pledge).

Rajasingham said that a skills pledge of this kind drives behaviour in the sense that it identifies where quality training is being delivered and helps us to understand the factors which have brought this about. Much of the activity which makes up the figures in the Pledge has occurred to secure the imperatives of growth and to compensate for a lack of capacity in the public sector (therefore additionality is easy to assess).

Equally, CSR is also a significant driver to the success of such as a pledge, as more companies in India are required to spend 2% of their average net profits of the last three years on CSR activities. The UK companies’ pledges also highlight different partnership models, for example, when the voluntary sector work together with private companies to augment CSR programmes (for example in skills development). Such models of engagement are common across all the UK companies making the UKIBC pledge. By contrast, the British Skills Pledge which concluded in 2010 was more about employers applying for specific government support.

The UKIBC pledge in itself, however, seems to lack a commitment mechanism from companies. It reflects an aggregation of existing provision, rather than a specific new commitment. Therefore, it does not obviously drive deeper engagement in the skills sector. One way in which it is apparent it would drive engagement is if the Pledge was much more public – a greater announcement or media focus would motivate companies to outperform.
However, UK companies are both better at reporting against the CSR rules in India, and more generous in spending, compared to Indian companies. The CSR spend of British companies is 4.4% of profits against the government-mandated figure of 2%. They also spend an average 7% of their total revenue on training and re-skilling their employees in India.\textsuperscript{51}

**FICCI Skills Pledge**

“I pledge my commitment to skills by…”

Working voluntarily, in individual or organisational capacity, to advocate and encourage the importance of skills within my circle of influence and will:

- give preference to engaging skilled and certified people in my organisation,
- acquire and practice a new skill for self, and
- support at least ONE unskilled individual per year to acquire a new skill for their progression.

*I will pursue the above in true spirit of upholding dignity of skills to support the National Skills Development Mission."

**Section 135, Corporate Social Responsibility (of the Companies Act, 2013)**

Section 135, Corporate Social Responsibility (of the Companies Act, 2013) mandates

(1) Every company having net worth of rupees five hundred crore\textsuperscript{52} or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

(2) The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

(3) The Corporate Social Responsibility Committee shall:

(a) Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;

(b) Recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and

(c) Monitor the Corporate Social Responsibility Policy of the company from time to time.

(4) The Board of every company referred to in sub-section (1) shall:

(a) after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and

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\textsuperscript{51} These figures are commonly used to highlight the deep UK industry engagement in India, but we were unable to identify or replicate those figures. CBI (2015a), p.4.

\textsuperscript{52} Crore = 10,000,000.
(b) Ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

(5) The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy:

Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities:

Provided further that if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

For the purposes of this section “average net profit” shall be calculated in accordance with the provisions of section 198.

As per Schedule VII, Suggested Areas of Activities for companies to implement their CSR in PROJECT MODE are:

1) Eradicating hunger, poverty and malnutrition promoting healthcare including preventive health care and sanitation including contribution to the Swach Bharat Kosh setup by the Central Government for the promotion of sanitation and making available safe drinking water;

2) Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects;

3) Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; Setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;

4) Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund setup by the Central Government for rejuvenation of river Ganga;

5) Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; Setting up public libraries; Promotion and development of traditional arts and handicrafts;

6) Measures for the benefit of armed forces veterans, war widows and their dependents;

7) Training to promote rural sports, nationally recognized sports, Paralympic sports and Olympic sports;

8) Contribution to the Prime Minister’s National Relief Fund or any other fund set up by the Central Government for socioeconomic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;

9) Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;

10) Rural development projects;

11) Slum area development
**Important Notes to the Section 135 of the Companies Act 2013**

The Ministry of Corporate Affairs is primarily concerned with administration of the Companies Act 2013, the Companies Act 1956, the Limited Liability Partnership Act, 2008 & other allied Acts and rules & regulations framed there-under mainly for regulating the functioning of the corporate sector in accordance with law.

List of Important Notifications \ Amendments - (Post issue of Companies Act 2013, Clause 135):

- 29 Aug 2013: The Companies Act, 2013 enacted; Section 135 of which specifically addresses CSR-related mandatory requirements.
- 27 Feb 2014: Notification of the 'CSR Rules', 2014, under The Companies Act, 2013 and Revision of Schedule VII, pertaining to 'CSR Activities'.
- 18 Jun 2014: The Ministry of Corporate Affairs issues a detailed circular, clarifying the CSR-related requirements, under Section 135, of The Companies Act, 2013. This includes answers to specific queries submitted by various organizations, regarding admissibility of their current/proposed CSR activities, under Schedule VII.
- 21 Oct 2014: DPE issues the revised 'CSR & Sustainability Guidelines, for CPSEs', in line with The Companies Act, 2013. This replaces the April, 2013 DPE Guidelines on the subject.
- 3 Feb 2015: Constitution of a High Level Committee to suggest measures for improved monitoring of the implementation of CSR policies by the companies under Section 135 of the Companies Act, 2013.
- 28 Feb 2015: Eligible Donations to Swachh Bharat Kosh and Clean Ganga Fund to be 100% Deductible.
- 12 Jan 2016: Frequently Asked Questions (FAQs) with regard to Corporate Social Responsibility under section 135 of the Companies Act, 2013.

**FICCI-SEDF survey questions in India**

The survey questions sent to appropriate FICCI members sought to further understand the following areas:

1. Motivational Factors for CSR Project implementation

2. Areas of work:
   a. Issue/s adopted by the company as CSR post the enactment of the Companies Act 2013
   b. Duration of CSR projects
   c. Methods used for identifying CSR issue/s

3. Management and Implementation of CSR Projects:
   a. Presence of Independent directors and women directors in the CSR Committee
   b. Implement CSR project/s by the Company
   c. Partnership with Government and other Stakeholders– Implementation of CSR Projects
d. Involvement of community members in project implementation

4. Monitoring and Evaluation of CSR Projects:
   a. Beneficiaries of the CSR project/s
   b. Monitoring of CSR Projects
   c. Challenges and Learning

5. Audit of CSR Projects
Appendix 4  Detailed Case Study – South Africa

This section covers in more detail some of the policies mentioned in Section 4, specifically CSR and black empowerment rules, as well as the background to introducing the skills levy.

The South African Revenue Service (SARS) collects the levy (in the same way as HMRC in the UK or similar agencies in most of the 60 or so countries where skills levies are in place, do). Payment terms are within seven days after the end of the month, after which SARS pays into the National Revenue Fund from which funding allocations for SETAs and the NSF are forwarded.

ZAR 11bn (US$0.7bn) was collected from the skills levy in 2015.

Policies to reverse the apartheid era trends have been established to promote employment and skilling of the black population, such as Black Economic Empowerment (BEE) and Affirmative Action. The employment of low-skilled black Africans in skill intensive positions has created a large mismatch between labour supply and demand. The figure below shows the unemployment rates for the different racial groups in South Africa. The rate and number of unemployed black Africans considerably supersedes all other racial groups.

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South Africa’s labour force grew from 11.4m (1994) to 20.1m (2014). The figure shows black employment has almost doubled in these 20 years. However, the unemployment rate is largely unchanged at 40%. Across the country, 25% of South African workers were in skilled occupations, 46% were in semi-skilled occupations and 29% were in low-skilled occupations. The unemployment rate stands at 27% for women on average and 23% for men on average since 2009.

**BBBEE scorecard case studies**

For an emerging market, sustainability reporting in South Africa is highly advanced as a result of compliance with the BBE dashboards. It is more comprehensive than many of the reporting structures we analysed in EPG (2015). It is worth therefore to highlight two case studies, both of which appear on the Top 100 Most Empowered Companies List.

The first is South African Pulp and Paper Industries Limited (Sappi), one of the world’s largest paper and pulp production companies established, and ranked 40 in the List. Sappi distinguishes between its CSR spend on education and human resources led skills development. The company spent on average 1.25% of its net profits on CSR globally over the last four years. In South Africa it spent ZAR 6m (US$400,000) in 2012, rising to ZAR 28m (US$1.8m) in 2015. Excluding its HR-
related skills spending (i.e. that which is directly determined by business imperatives), Sappi spent 30% of its CSR spend on education and skills.56

Sappi has one of the most successful implementation records for South African companies and importantly maintained and increased its spending on skills development in a period where revenues fell by 15%. More than 51% of its South African business is owned by black people, according to its sustainability reports.

The second case study is Anglo American, which features at 77 on the List. Anglo American is the world’s largest natural resource company and one of the largest private sector employers in South Africa. The CSR commitment to education and training has been implemented through strategic spending, usually through five-year plans. Its global CSR spending has fallen, proportionate to changes in its group revenues over the period 2012-15. However, its commitment to education and skills has been around 20% each year of the global CSR spend, and around 11% in South Africa. The South Africa contributions have been intro projects highlighted by the DHET as priority areas for government in skills development.

EPG (2015) found that where companies spent on CSR in education, much of it was through in-kind donations of free software to universities and schools, higher education scholarships and financial literacy programs. In South Africa, both these companies have undergone sizeable transactions with the specific aim of meeting its BBBEE requirements.

Background to the CSR and corporate governance rules
CSR in South Africa is to a large extent regulated by the government. Shortly after the apartheid era which ended in 1994, the King Committee on Corporate Governance issued the first report, commonly referred to as King I. It aimed to promote a new way of thinking regarding corporate governance so as to establish adequate operational standards for boards of directors of listed companies and some public enterprises. The report sought to encourage companies to adopt greater corporate citizenship within the communities they operate.

King II in 2002 outlined seven good corporate governance elements that any company adopting recommendations of the report should adhere to. These elements were discipline, transparency, fairness, social responsibility, independence, accountability and responsibility. The Johannesburg Stock Exchange requested all listed companies comply with the King II report and its recommendations or provide adequate justification for why they are not yet compliant. Following the Exchange’s recommendation, the King codes became the de facto standard for social responsibility among companies in the country.57

King III was published in 2009 and highlighted the Code of and Report on Governance Principles. In line with international best practice and building on its earlier reports, it also focused on issues of sustainability and risk in operational procedures for firms, as well as integrated reporting disclosure through a triple bottom line approach.58

King III is regarded by the government as being the most important external imperative for good governance and CSR in South Africa, particularly after the launch of the Exchange’s Social Responsible Investment index in 2004. The King Codes

57 Ndhlovu (2009), p.75.
58 PwC (2009); KPMG (2009).
have contributed to stimulating greater corporate engagement in local communities in South Africa by compelling companies to invest 1% of their annual profit after tax on CSR initiatives.

There are no penalties for non-compliance with the King Codes. However, non-compliance could result in negative reputational impact for firms, particularly multinationals operating in South Africa. In this way, the King Codes act as pledges we have discussed elsewhere in the report that compliance is voluntary but oversight from external stakeholders acts as a driver for compliance.

**Background to introducing a skills levy**

From the 1970s, there was widespread evidence of market failure in the national system for skills development in South Africa. Skills shortages were recognised as a critical constraint to global competitiveness, prompting the apartheid government’s attempts during the 1980s to create new systems of manpower training to match the changing skills needs of the economy, but to maintain the racialised system of provision.  

The Skills Development Act of 1998 was successful in establishing a single national regulatory framework consisting of a National Skills Authority (NSA) and Appendix 5 Sector Education and Training Agencies (SETAs). The NSA was a replacement of the National Training Board and SETAs were a replacement of the Industry Training Boards (ITBs). SETAs were an improvement over ITBs, whose legacy, according to Kraak included:

- a decline in enterprises undertaking training initiative;
- only certain enterprises falling within a select few sectors volunteering to provide training;
- enterprise training not being available at all qualification and occupational levels;
- a lack of private-public partnerships;
- the exclusion of the informal sector, pre-employed youth and the employed from the existing framework; and
- companies adopting a short-term approach to skills development.

23 SETAs were established in 2000, replacing 33 ITBs. SETAs are responsible for delivering work-based education and training mainly to young people who are not employed, educated or trained (so-called NEETS). The core responsibility of SETAs is to develop Sector Skills Plans (SSPs) in line with the NSDS. SSPs are considered an important instrument for developing linkages between sector-based skills and sector-specific employment opportunities.

The Skills Development Act 1998 has been manifested in the National Skills Development Strategy (NSDS) of 2001 under the Department of Labour and now in its third iteration under the Department of Higher Education and Training.

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As outlined in Section 4 of the Skills Development Act of 1998, the National Skills Authority (NSA) was established to coordinate skills development activities. The primary functions of the NSA include advising government on policy, implementation of the NSDS and the allocation of subsidies from the National Skills Fund (NSF). In carrying out its obligations, the NSA liaises with the SETAs on national skills development policy, and is the body charged with reporting progress made in the implementation of the NSDS. The current NSDS highlights pressing challenges facing the economy as follows:

- inadequate skills levels and poor work readiness of new entrants into the labour market;
- unemployed youth without basic skills and experience;
- continued skills shortages of technical skills; insufficient progression to more intermediate and higher skills;
- failure to retrain employees to adapt new technology;
- lack of synergy between various post-school sub-systems;
- absence of coherent skills development strategies within the economic and industrial sectors; and
- neglect of skills for rural development.

The Skills Development Levies Act 1999 (SDL Act No. 9) provided for the imposition of the skills development levy. The Department of Labour originally administered the SDL Act and the Skills Development Act, but most of these provisions (excluding for productivity and employment services) were transferred to the Department of Higher Education and Training from November 2009.

As a part of the national skills framework, the NSDS five-year plans (so-called NSDS I, II and III) outline the strategy for skills development, in a format conceptually similar to India's Planning Commission issuing Five Year Plans with a focus on each sector. Each plan is the overarching strategic guide for skills development in South Africa, but is guided by an ecosystem of government industrial and human resource development priorities.

The first five-year plan from 2001 emphasised the need equality and cultivating lifelong learning in the workplace with support for demand-driven learning based on the needs of employers. NSDS II focused on the quality of training and skills development in the workplace with an emphasis on improving the provision of learning skills to increase employability. NSDS III prioritises institutional learning through the growth of Further Education Training (FET) colleges. Worker education, skills system institution capacity building, trainee lay-off scheme, and academic profession research and development have all become priority areas. Funding for this five-year plan has been significantly higher than previously budgeted by the government. Compared to an allocation of ZAR 7.56bn (US$ 491m) over the last four years, the actual spend has been 35% higher, with the first two years of the five-year plan in particular seeing more than double the expenditure relative to plan.62

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South Africa now has 21 SETAs to cater for skills development through learnerships (apprenticeships), internships, learning programs and unit-based skills programs in the respective economic sectors of the country. The SETA model of delivery has been severely criticised based on the performance of a number of SETAs. There have been calls for rationalisation of the SETAs perhaps into one body, to ensure optimal operational efficiency.

In terms of collecting the levy, the South African Revenue Service (SARS) collects it (in the same way as HMRC in the UK or similar agencies in most of the 60 or so countries where skills levies are in place, do). Payment terms are within seven days after the end of the month, after which SARS pays into the National Revenue Fund from which funding allocations for SETAs and the NSF are forwarded. ZAR 11bn (US$0.7bn) was collected from the skills levy in 2015.

**List of Sector Education and Training Agencies**

The following table shows the list of the 21 SETAs in South Africa

**Figure A4.1 Name and sector of SETAs**

<table>
<thead>
<tr>
<th>SETA Acronym</th>
<th>SETA Name</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGRISETA</td>
<td>Agricultural Sector Education Training</td>
<td>Agriculture</td>
</tr>
<tr>
<td>BANKSETA</td>
<td>Banking Sector Education and Training</td>
<td>Banking</td>
</tr>
<tr>
<td>CETA</td>
<td>Construction Education and Training</td>
<td>Construction</td>
</tr>
<tr>
<td>CHIETA</td>
<td>Chemical Industries</td>
<td>Chemical</td>
</tr>
<tr>
<td>EWSETA</td>
<td>Energy and Water Services</td>
<td>Energy</td>
</tr>
<tr>
<td>ETD</td>
<td>Education Training and Development Practices</td>
<td>Education</td>
</tr>
<tr>
<td>FP&amp;MSE</td>
<td>Fibre Processing and Manufacturing</td>
<td>Manufacturing services</td>
</tr>
<tr>
<td>FASSET</td>
<td>Financial and Accounting Services</td>
<td>Financial accounting</td>
</tr>
<tr>
<td>FOODBEV</td>
<td>Food and Beverage Manufacturing Industry</td>
<td>Food and beverage</td>
</tr>
<tr>
<td>HWSETA</td>
<td>Health and Welfare</td>
<td>Health and welfare</td>
</tr>
<tr>
<td>INSETA</td>
<td>Insurance</td>
<td>Insurance</td>
</tr>
<tr>
<td>LGSE</td>
<td>Local Government</td>
<td>Local government</td>
</tr>
<tr>
<td>MICT</td>
<td>Media, Information and Communication Technologies</td>
<td>Media and advertising</td>
</tr>
<tr>
<td>MERSETA</td>
<td>Manufacturing, Engineering and Related Services</td>
<td>Manufacturing services</td>
</tr>
<tr>
<td>MQA</td>
<td>Mining and Minerals Sector</td>
<td>Mining and minerals</td>
</tr>
<tr>
<td>PSE</td>
<td>Public Service Sector</td>
<td>Public service</td>
</tr>
<tr>
<td>SASSETA</td>
<td>Safety and Security</td>
<td>Safety and security</td>
</tr>
<tr>
<td>Services SETA</td>
<td>Services Sector Education Training</td>
<td>Services</td>
</tr>
<tr>
<td>TETA</td>
<td>Transport</td>
<td>Transport</td>
</tr>
<tr>
<td>CATHSSE</td>
<td>Culture Art Tourism Hospitality and Sports Sector Education and Training</td>
<td>Tourism and hospitality</td>
</tr>
<tr>
<td>W&amp;RSE</td>
<td>Wholesale and Retail</td>
<td>Wholesale and Retail</td>
</tr>
</tbody>
</table>
Appendix 5  Sources of information

The following table lists the sources of information used in this report.


CRISIL Foundation (2016). *The CRISIL CSR Yearbook*.


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Kraak, A. et al. (2013) *Review of the current skills development system and recommendations towards the best model for delivering skills in the country*


**Interviews**

1. Roma Balwani, Group President, Vedanta Resources, India.
2. Atul Bhatnagar, former COO, National Skill Development Corporation, India.
3. Sankalp Chaturvedi, Associate Professor and Gandhi Centre Head, Imperial College Business School, UK.
4. Supriyo Chaudhuri, Director, Asia Engagement, Knöd Global Learning Network, UK.
5. Johann Engelbrecht, former COO, AGRISETA.
6. Jacomien de Klerk, General Manager, Citrus Academy, South Africa.
7. Roy Newey, Non-Executive Director, Pitman Training Group Ltd, UK.
9. Sapna Poti, Principal - MIS & Monitoring and North-East Lead, National Skill Development Corporation, India.
10. Anita Rajan, COO, Tata STRIVE; VP, Tata Sustainability Group, India.
12. Dr. Y. Suresh Reddy, Director, SRF Foundation, India.
13. Tarang Singhal, Associate Manager, Vedanta Resources, India.
15. We spoke to several other persons who provided informal feedback or that did not wish to be identified.
Appendix 6   Disclaimer

Important notice

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