DEAR MINISTERS OF FINANCE

This is how you can Transform the Financing of Education!

1. Education is the Soundest Investment

Education is the soundest long-term investment a country can make. It contributes to stimulating economic growth, reducing inequality, ending gender injustice, combatting racism, boosting health, enhancing social cohesion and peaceful societies, building resilience to climate change and driving the fulfilment of human rights. But too often governments are caught up in short-term thinking, seeing education spending as consumption rather than recognising it as investment. This is an underlying mindset that must change if countries are to break out of the vicious cycle of under-investment in education that perpetuates a failure to deliver on all development goals.

2. A Summary of the Supporting Evidence

Investing in quality public education stimulates economic growth, with every dollar a government spends on education increasing GDP on average by $20.[1] Indeed, increases in education spending are directly responsible for a staggering 50% of global economic growth in the last three decades.[2] Educated people tend to innovate more and create new businesses and technologies, which in turn generate more employment and boost private sector development. And if every child and young person were in school and learning, it would boost global GDP by $6.5 trillion per year.[3] Data shows that one of the most effective strategies for economic growth is investing in the developmental growth of at-risk young children. Each additional year of education also increases a person's annual earnings by around 9 percent.[4] Increased levels of education directly account for 70% of income gains for the world's poorest 20% individuals, and 40% of extreme poverty reduction since 1980.[5]

Education is both a fundamental human right *and* an enabler of other human rights. It plays a pivotal role in advancing gender equality, serving as a powerful tool to break down barriers and create opportunities for women and girls. Gender-equitable education systems play a crucial role in ending harmful practices like child marriage, early pregnancy and female genital mutilation.[6] Countries that increase levels of education over time see better health and lower mortality rates. Greater public investments in education can lead to more equal, inclusive, peaceful and open societies, greater civic engagement, a more likely embrace of democratic values, and stronger social cohesion.[7] On average, countries that have higher school completion rates have higher levels of peace, and the number of years of learning in school is strongly correlated with reductions in various forms of violence.[8] Quality education can be a powerful tool to build learners' resilience to violent extremism and resist hateful narratives including those online or in the media.[9] Education is also critical in equipping people and communities with the necessary knowledge, skills and attitudes to cope with the impacts of climate change and become more active in advancing climate justice and pro-environmental behaviour changes.[10]

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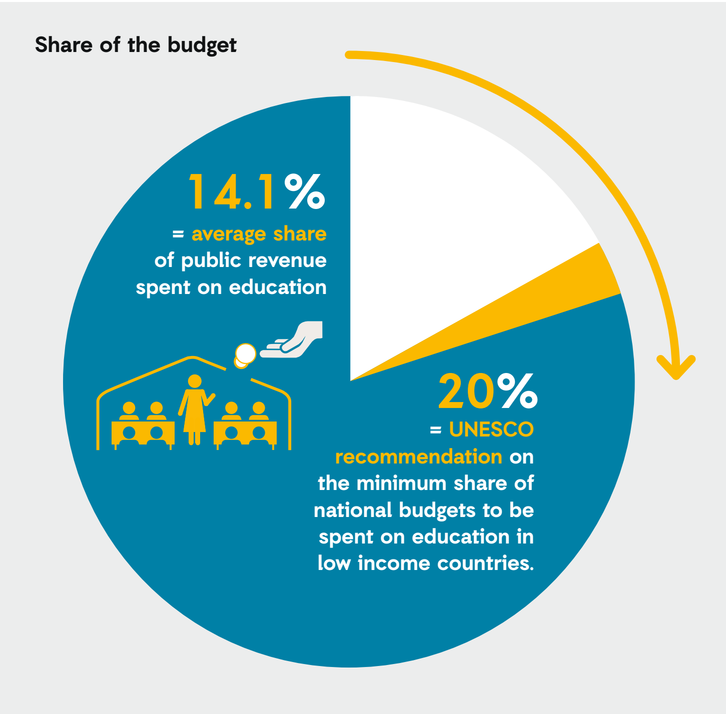
3. The 4 S framework

Globally 97% of financing for education comes from domestic financing and only 3% from aid or loans. In looking at domestic resource mobilisation for education, Ministers of Finance need to focus on increasing 4 Ss:

- Increasing the **Share** of national budgets dedicated to education (to at least 20%)[11]
- Increasing the **Size** of government budgets overall (determined by tax, debt, macro-policies, overall public spending, trade etc.);
- Increasing the **Sensitivity** of education budget allocations – driven by an evidence-based approach to equity and improving effectiveness;
- Increasing the **Scrutiny** of education spending in practice – so resources are tracked (especially in the most disadvantaged communities), data quality is improved and the capacity to use data is enhanced.

3.1. Increasing the SHARE of the budget for education

In general, when domestic financing of education is discussed the focus has been on the need for countries to spend at least 20% of national budgets on education – as articulated in the Education 2030: Incheon Declaration and Framework for Action agreed in 2015. The lowest income countries are advised that they may need to spend over 20% of the budget to deliver a quality education. Clearly, budget shares are important and many countries fall significantly short against this indicator. (GMER 2023 shows the global average is just 14.1%, with a disturbing number of countries spending less than 10%). Any country spending under 20% should urgently plan to increase the budget share allocated to education year on year between now and 2030.



However, there are two problems with focusing *only* on budget shares. First, some countries reach a 20% share of the budget but still fall short of sufficient funds for delivering quality education – because they are receiving a 20% share of a very small pie. In these cases, increasing the size of the overall pie is key (see point 3.2 below). Second, an exclusive focus on budget shares can create tensions with other sectors such as health, water, sanitation, transport, energy and agriculture. Other sectors also have ambitious goals within the overall framework of the SDGs and most of them have some significant inter-dependencies with education so it makes little sense for education to compete aggressively with them for anything over 20%. Shifting the focus to the size of the overall budget (as outlined below) creates a more positive dialogue with other sectors, all of which stand to gain from increases in overall government revenue.

3.2. Increasing the SIZE of government budgets overall

The UN Heads of State Transforming Education Summit in 2022 highlighted the importance of action to address the overall size of government budgets if a breakthrough is to be made on education financing. In particular, it flagged the need for action on tax, debt and austerity.

3.2.1 Action on Tax:

Most domestic financing of education and other public services comes from tax revenues. However, in many countries, overall tax revenues are lower than they could be. Indeed, the average tax-to-GDP ratio in low-income countries is only 16%, when in many middle-income countries it is closer to 25% or 30%, the OECD average is 33%, and in Scandinavian countries it tends to be over 40%.[12] A key IMF paper on how to finance the SDGs recommended that most low- and middle-income countries could increase their tax-to-GDP ratios by five percentage points by 2030. The most recent research shows that if the 89 partner countries of the Global Partnership for Education followed this advice, they could raise an additional US$ 455 billion every year and if a 20% share of this was spent on education, that would raise over US$ 93 billion for education *every year* - enough to transform education systems.

As Ministers of Finance will be aware, imposing regressive taxes that target the majority of the population (e.g. by raising VAT) can trigger protests – so it is important to focus on raising taxes through **progressive reforms** so the largest contributions are made by the wealthiest individuals and companies. As the TES paper observes, *'Whilst targeting the wealthiest 0.1% and 1% is vital, a fairer system will also pass some burden to the better-off 10% or 20% in order to build a more equitable system'*. The precise balance of taxes to be used in any specific country will depend on the present tax system and the shape of the economy – but there is scope for ambitious and progressive reform in every country, and this could transform the funding available for education and other public services. Where possible there is also a case for tax reforms to be **gender-responsive** and **climate-sensitive**.

As Ministers of Finance will also be well aware, there are some limits to the potential for national action on tax reforms, as present global tax rules, set for the past 60 years by the OECD club of rich nations, facilitate aggressive tax avoidance by the wealthiest companies and individuals – who are able to hide their profits and wealth in tax havens.[13] The TES finance paper acknowledged that national actions on tax *'need to be matched by international action to agree on a global asset register, reduce illicit financial flows, close tax havens and support a representative and inclusive UN process for setting global tax rules.'* Three months after TES, in December 2022, there was a major breakthrough in this regard, with the UN General Assembly unanimously voting to change the way in which global tax rules are set and enforced – starting the process to develop a UN framework convention on international tax cooperation. Ministers of Finance everywhere should champion rapid work on this new convention that could transform the capacity of countries to raise fair taxes on the income and wealth of the richest individuals and companies. The focus must be on international cooperation and building a strong case for supporting globally coordinated taxes.

3.2.2 Action on Debt

Many countries are close to or living through a **debt crisis**, with 54 countries now in debt crisis and 25 partner countries of the Global Partnership for Education spending more on debt servicing than on education. The TES Finance Paper calls for urgent action on debt, observing: *'It is clear that action on debt renegotiations and even debt write-offs for countries in debt crisis urgently needs to be accelerated. Any country that spends more on debt servicing than on education ought to be prioritised.'* The challenge, however, is that education does not have a significant voice in national or global discussions on debt. The IMF ends up as the lender of last resort and it uses debt to impose strict austerity policies on indebted countries, further squeezing spending on education. This must change.

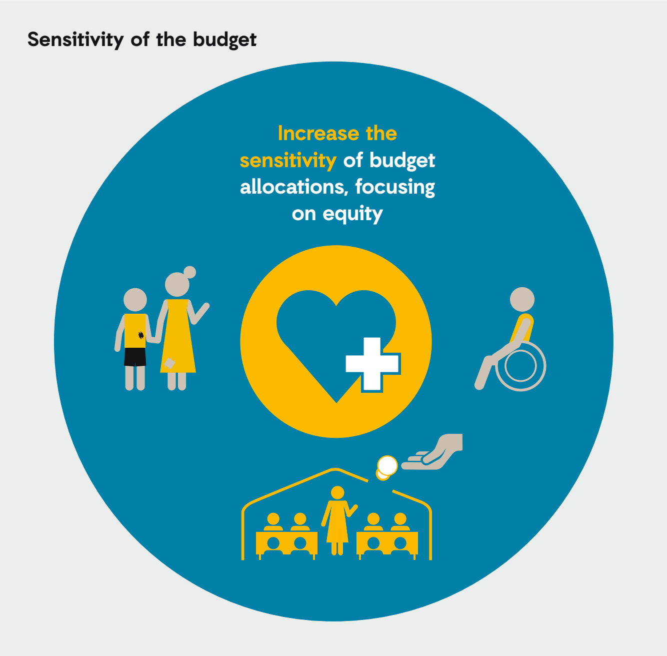
There is an urgent need for greater regional and international cooperation on debt and there is a growing move to establish a new debt workout mechanism under the United Nations, creating a transparent, binding, and multilateral framework for debt crisis resolution which Ministers of Finance affected by debt should vigorously support. This would remove the IMF from the process, address unsustainable and illegitimate debt and provide systematic, timely, and fair restructuring of sovereign debt, including debt cancellation, in a process convening all creditors. This echoes the moves outlined above regarding moving global tax policy away from the OECD to the UN. Ministers of Finance should share evidence about how debt servicing, and subsequent austerity, are undermining their ability to deliver on education and other basic human rights – as this adds moral weight and urgency to the case for global action on debt.

3.2.3 Action on Austerity and Teachers

The IMF has shifted some of its rhetoric but the practical advice it gives Ministers of Finance has changed very little over the past 40 years - since the days of Structural Adjustment Programmes. Countries are consistently advised to pursue austerity policies, cutting overall public spending in order to service debts and balance the books. As education is one of the largest spending items in any government budget, education often suffers disproportionally. But IMF advice is often even more specific, routinely suggesting cuts or freezes to public sector wage bills. As teachers are the largest group on the wage bill, education suffers once again - there is no money to pay for more teachers (even if there are shortages) and no money to pay teachers more (even if they are underpaid). Indeed, this is widely the case - the UN High-Panel on the Teaching Profession notes with alarm persistent and increasing teacher shortages around the world, and half of all countries pay teachers less than other professions requiring similar qualifications. ActionAid's research shows that there is no clear logic, rationale or evidence that the IMF can refer to in order to justify when cuts or freezes are needed to public sector wage bills – or how much is enough. For example, Zimbabwe, with a wage bill at 17.1% of GDP, was advised to cut as was Ghana at 8.7%, Senegal at 6.5%, Brazil at 4.6%, Nepal at 3.7%, and even Nigeria at just 1.9%. It seems every country is advised to cut its spending on the wage bill to below the global average (of 9%).

As a Minister of Finance, you can resist this advice. You can make sure that data on teacher shortages at different levels in your country is on the table whenever the IMF calls for discussions on austerity policies. You can make the case that it is justifiable to increase the Public Sector Wage Bill as a percentage of GDP to help address these and other shortages of frontline public sector workers. You can make the reasonable case to actively increase wage bills to meet the global average of 9%. And crucially you can argue that there are alternatives. Rather than squeezing public spending, you could focus on increasing tax revenues (in line with the key IMF recommendation outlined above). If you want to make a breakthrough on financing education, you need to stand up to the sometimes-dogmatic advice given by the IMF and show that there are always alternative sustainable paths. You have backing in challenging the IMF's ideological agenda on wage bills from the highest level. The Call to Action on Finance agreed at the Heads of State Summit in 2022 urged *'the International Monetary Fund (IMF) and other international financial institutions to remove existing obstacles such as public sector wage constraints that prevent increased spending on education; and champion policies that will allow significant new recruitment of professional teachers wherever there are shortages.'* Furthermore, the UN High-level Panel on the Teaching Profession advises that "spending should be transparent and shielded by austerity measures, including in policies promoted by the IMF" (recommendation 7). The calls instead for investing in teachers through "competitive salaries and incentives; high-quality, accessible and affordable teacher training; and continuing professional development (CPD) and quality teaching and learning materials; as well as through the provision of qualified education support personnel" (recommendation 8).

3.3 Increasing the sensitivity and effectiveness of education spending

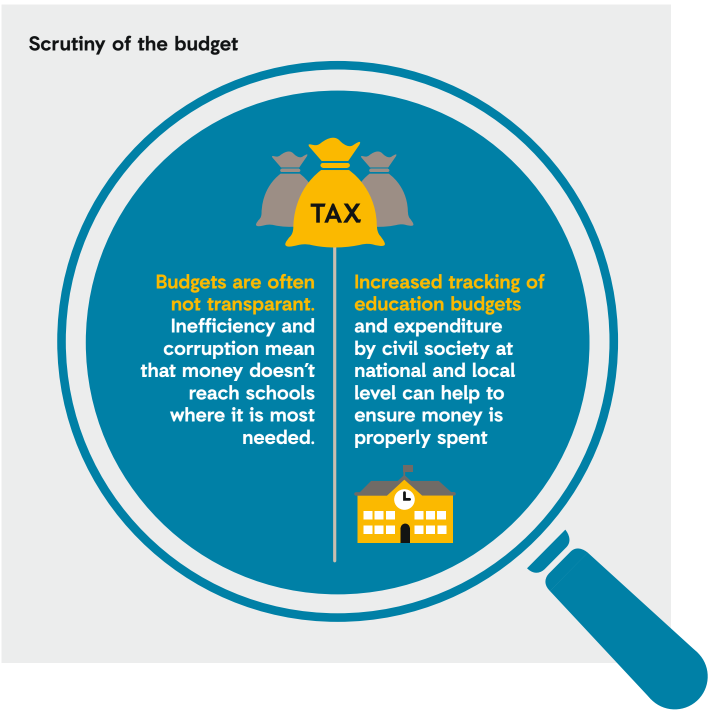


Whilst there is no doubt that education requires more investment, it is also important to ensure that existing investments are well utilised. There is compelling evidence in the work of Pasi Sahlberg which shows that countries investing sensitively to make their education systems more equitable make significant progress in improving overall learning achievement. This contrasts with education systems which target improving their position in global league tables – where some students may succeed but overall performance and equity often drop. Sahlberg's evidence suggests that focusing on equity benefits everyone – and this case is particularly compelling with regard to inclusive education for children with disabilities and improving gender equality in education. National governments should set specific goals for educational investment targeting the lowest income families, those in rural or remote areas, children with disabilities, and other vulnerable groups. A strong focus on equity should start from pre-primary and run through every level of education. High-quality free public early childhood education and care is essential to support equitable educational outcomes.

Other measures that can improve the effectiveness of education spending include investing in strong accountability frameworks (see 3.4) and teacher workforce management. Having robust data and linking data to budget planning and programming is crucial. There is also good evidence that taking *whole-of-government approaches* can help to maximise the benefits for education from investments in health, water, energy and other public services.

3.4 Increasing the scrutiny of the budget

If people are not confident that budgets allocated will be properly spent it is hard to advocate for more resources. There are many positive examples of national and local budget tracking, of community audit groups tracking school budgets and of budgets being posted on school walls to ensure full transparency. These are crucial for ensuring that government departments and public services at every level are held to account by their own citizens. This can help to reduce financial leakages across the system, especially when backed up by legal action against district officials, headteachers or others who are found to be misusing or misappropriating education budgets. Ministries of Finance should actively encourage and support all efforts to increase public scrutiny of the education budget as this will ultimately increase the confidence of the public that education spending is being effectively used.



4. What you can do to transform education as a Minister of Finance!

So, what can you do for education as a Minister of Finance?

First, you can help to make the case for long-term investment in education. Don't be locked in a negative spiral of short-termism, underinvestment and under-development. Education is the most powerful engine of growth and development, and it needs to be championed by Ministers of Finance at every opportunity!

Second, when looking at the education budget, don't look only at unpredictable and short-term aid and loans. Focus first on how you can sustainably transform education through your own domestic resources. Aid and loans can supplement but should not displace your domestic financing commitment.

Third, don't just think about the share of the national budget spent on education. Look at the big picture and consider, in particular, the impact of the overall size of the government budget as well as the share, the sensitivity of allocation, and the transformative impact of independent scrutiny.

Fourth, whilst you can do a lot at national level, you can also help to make the case for education investment internationally – including by transforming global tax rules (supporting a strong UN Framework Convention on Tax), reforming global debt mechanisms and shifting the austerity policies and practices of the IMF. Many of the biggest international constraints to education spending can be addressed through the coordinated action of Ministries of Finance at regional and international levels.

Endnotes

1. World Bank WDI Report 2022.
2. Gethin, 2023. https://amory-gethin.fr/files/pdf/Gethin2023JMP.pdf
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10. Si, W., Jiang, C., & Meng, L. (2022). The Relationship between Environmental Awareness, Habitat Quality, and Community Residents' Pro-Environmental Behavior-Mediated Effects Model Analysis Based on Social Capital. International journal of environmental research and public health, 19(20), 13253. https://doi.org/10.3390/ijerph192013253
11. In line with the Incheon SDG4 framework (UNESCO 2015) and as called for in recommendation 7 of the recent UN High-Level Panel on the Teaching Profession;
12. See Tax revenues as a share of GDP (ourworldindata.org)
13. There is a useful guide to how we could end the abuse of tax havens through delivering on the ABC of tax justice here: Tax-Justice-Network-beyond20-Strategic-Framework-May-2023.pdf (taxjustice.net)