

# Scaling-up Domestic Resources for Financing SDG 4: **A Taxing Business?**

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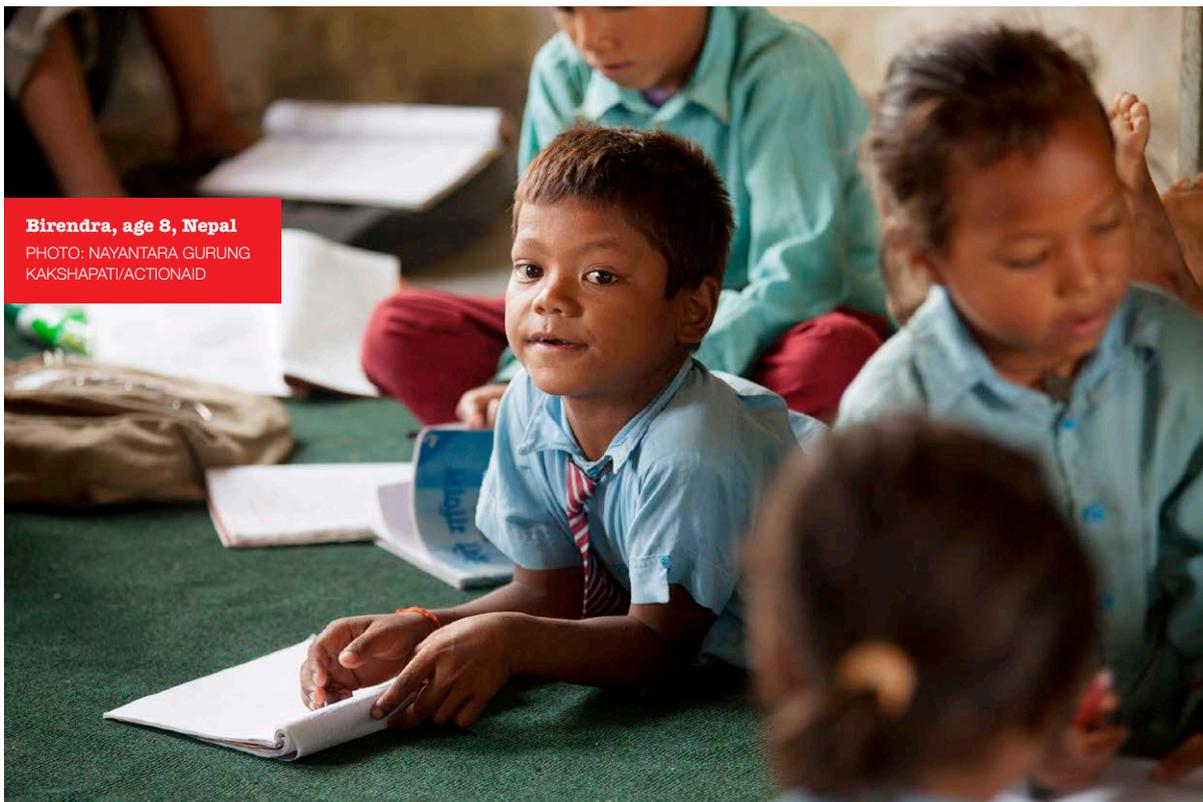


# 1. Achieving SDG 4: The need for a financing breakthrough

In 2015, world leaders committed to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all by 2030 through the Sustainable Development Goal 4 (SD4). The Education 2030 Incheon Declaration and Framework for Action further elaborated the framework for operationalising SDG 4.<sup>1</sup>

Two years into implementation of the SDG framework, the world is far from making the kind of rapid and ambitious headway required to meet these goals. There are 264 million children and youth out of school.<sup>2</sup> Rather than making progress, the out-of-school rate is at a virtual stand-still.<sup>3</sup> On current trends, the world will be half a century late in meeting the 2030 SDG deadline for all children to be in school.<sup>4</sup> This is not only a crisis in access; there is also a crisis in learning. 617 million children and adolescents - 6 out of 10 - are failing to achieve even the most basic competencies in reading and mathematics. Two-thirds of these children are in school: a devastating indictment of the quality of many education systems.<sup>5</sup> On current trends, less than 10% of young people in low-income countries will have learnt basic secondary level skills in 2030.<sup>6</sup>

These twin crises disproportionately impact low-income families, children with disabilities, minority ethnic groups, those affected by conflict, refugees, migrants, girls and women - all too often, those already facing discrimination and disadvantage, further exacerbating their marginalisation, and leading to rising levels of inequality.



1. UNESCO et al. (2015) 'Education 2030. Incheon Declaration and Framework for Action'.
2. UNESCO and GEM (June 2017). 'Reducing global poverty through universal primary and secondary education'. Policy Paper 32 / Fact Sheet 44
3. UNESCO and GEM (June 2017). 'Reducing global poverty through universal primary and secondary education'. Policy Paper 32 / Fact Sheet 44
4. Primary and secondary school. Ibid.
5. UNESCO et al. September 2017. "More Than One-Half of Children and Adolescents Are Not Learning Worldwide results". Fact Sheet 46.
6. Education Commission (2016), 'The Learning Generation: Investing in education for a changing world'.

### **Box 1: Investment in today's young citizens is an investment in a better future**

The crisis in education cannot be allowed to continue: education is the answer to many of the world's problems today. Education is a human right, and a crucial means for development. Investment in education is a proven enabler of the whole sustainable development agenda: it can lead to improvements in long-term health benefits, help ensure greater gender equality, promote democratic governance and peace, foster more sustainable livelihoods, and tackle environmental degradation.<sup>7</sup>

Education is also crucial to prosperity and greater equality. Education is critical for long-term economic growth and rising incomes. Investment in more equitable education can contribute to halting (and reducing) growing economic inequality,<sup>8</sup> while lifting the poorest out of extreme poverty. For instance, it is estimated that world poverty could be halved if all adults completed secondary education.<sup>9</sup> Education also provides the skills that boost employment opportunities - increasingly vital in a world where jobs are rapidly changing due to technological advances.<sup>10</sup>

### **▶ A failure of funding**

The case for investing in education is unquestionable. Yet, financing remains significantly lower than it needs to be, due to insufficient domestic resources allocated to education in developing countries, combined with a lack of support from donors and the international community. The Global Education Monitoring Report has estimated that unless we see a radical shift in financing for education, the SDG 4 targets for primary and secondary education will remain off track by 50 years.<sup>11</sup>

Achieving universal pre-primary, primary and secondary education – of good quality – in low- and lower-middle-income countries will require a total of US\$340 billion per year. The Education Commission estimates that financing for education worldwide needs to steadily increase from \$1.2 trillion USD to \$3 trillion USD by 2030.<sup>12</sup> None of these calculations, however, include the full spectrum of commitments made in SDG 4 (e.g. to adult literacy).

### **▶ Securing the 97% of domestic resources required to fund SDG 4**

Urgent attention must be given to securing a financing breakthrough for SDG 4. Increasing sustainable long-term domestic resources will be key: it is estimated that 97% of the funding required to achieve SDG 4 must come from domestic budgets.<sup>13</sup>

The Education 2030 Framework for Action recognises that the goals cannot be met without scaling-up domestic finance. It recommends minimum spending both as a share of the overall government budget (between 15-20%), and as a percentage of national wealth (between 4-6% of GDP). These benchmarks are applicable to developed and developing countries alike. For many developing countries, especially those with the furthest to go in delivering a scale-up towards SDG 4, the Incheon framework is clear that upper spending levels need to be reached or exceeded. Currently, the vast majority of low- and lower-middle income countries are spending far too little; an analysis of 70 countries' budgets in 2016 shows only 9 countries were meeting the 20% budget share, only 11 were meeting the 6% GDP share – and only 4 countries were meeting both.<sup>14</sup>

7. For a summary of evidence, see GPE's 'Case for Investment': <https://replenishment.globalpartnership.org/en/case-for-investment/>

8. For a discussion on (progressive) investment in education and its impact on inequality, see, Oxfam, 2017, Commitment to Reducing Inequality Index, research paper.

9. UNESCO and GEM (June 2017). Op Cit

10. Half of the world's jobs (2 billion) are expected to disappear due to automation by 2030. Education Commission (2016).

11. UNESCO GEMR (2016) 'Global Education Monitoring Report 2016. Education for people and planet: Creating sustainable futures for all'.

12. Education Commission (2016). IBID

13. Education Commission. IBID

14. These figures are drawn from the GCE database, which was compiled by Government Spending Watch, based on official Government budget documents. See link

## 2. A taxing business: **Financing SDG 4**

It is increasingly recognised that for developing countries, greater tax collection is key to unlocking the financing required to meet development goals and deliver on citizens' rights. What's more, there is convincing evidence that a country's ability to achieve its social and economic objectives is directly related to its ability to collect sufficient tax revenues.<sup>15</sup> The UN recommends that a minimum tax-to-GDP threshold of 20% is required to deliver on basic citizens' rights and government commitments.<sup>16</sup> Crucially, the 20% tax-GDP ratio must be seen as a floor and not a ceiling, especially as most countries have much more untapped tax potential than this, and they also need to meet multiple development goals.<sup>17</sup> The failure to maximize their tax revenues is compounded by the fact that many poor countries are now slipping into dangerous levels of debt, which will require payments that governments struggling to meet the SDGs can ill afford.

With the financing needs for scaling-up SDG 4 so great, education activists are increasingly waking up to the need to focus, not only on education spending (funding), but also on the crucial importance of the overall amount of revenue (financing). Ultimately, many countries that are spending large proportions of their budget on education cannot bring an end to the education crisis if the overall government budget is very low to start with. For this reason, UNESCO has called on countries that are already spending a reasonable share of their budget on education to work to expand their overall budget revenue, and to prioritise spending (at least 20%) of the total resources on education.<sup>18</sup>

The example of Ethiopia is instructive here: Ethiopia has committed over 20% of its budget to public education for many years,<sup>19</sup> yet continues to struggle with very high dropout rates and poor quality. How is it possible for Ethiopia to improve its public education, when it is already allocating the internationally recommended share of its budget to education? The answer lies in taking action to address the small size of its total annual government budget, which is constrained by very weak tax collection rates.<sup>20</sup> If Ethiopia were to raise its tax levels to 20% tax-GDP floor, and keep its budget share exactly as it currently stands, the potential new revenues generated could pay for access to education for all children currently left out of primary and secondary education.<sup>21</sup>

Similarly, in the Dominican Republic and Nicaragua, where education spending is above 20%<sup>22</sup> but current tax-to-GDP ratios are very low,<sup>23</sup> if the governments kept current budget shares at the same level, but increased tax-GDP to 20%, they also could generate enough to fund every out-of-school primary and secondary child.<sup>24</sup> In Malawi, even with relatively higher tax-to-GDP ratios (at 18.6%<sup>25</sup>) moving to the recommended minimum floor of 20% tax-to-GDP could fund an additional 41,000 children to go to primary school, or cover over half of the Primary School Improvement Program (PSIP) grants, which have been noted to have a strong impact on improving the quality of education. Given that in Malawi the overall primary school completion rate stands at only 31%, while the qualified teacher to primary pupil ratio is 111:1, this would be a welcome boost.<sup>26</sup>

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15. See N. Brooks and T. Hwong, *The Social Benefits and Economic Costs of Taxation: A Comparison of High- and Low-Tax Countries* (Ottawa: Canadian Centre for Policy Alternatives, 2006). Or Piketty 2014. *Capital in the twenty-first century*. Cambridge Massachusetts
  16. See OECD 2011, *Supporting the Development of More Effective Tax Systems A Report To The G-20 Development Working Group*, for a reference to previous UNDP estimates of the minimum required for reaching the MDGs. Given the more ambitious goals of the SDGs this almost certainly is an underestimate of current needs.
  17. Different countries have a varied 'potential' to collect taxes. See indexes produced by the Centre d'Etudes et de Recherches sur le Développement International (CERDI) and the IMF (used in individual IMF country document analysis). A country has a higher tax potential if it has a higher GDP per capita, but the potential is further adjusted by other variables which have a significant impact on countries' potential to collect tax, i.e: trade/GDP: share of the agriculture in GDP (which reduces revenue because much of it is small-scale or informal); or natural resource revenues.
  18. UNESCO EFA GMR. 2014. Policy Paper 12. Increasing tax revenues to bridge the education financing gap.
  19. See UNESCO Institute of Statistics data here: <http://data.uis.unesco.org/#>
  20. See the IMF 2016 Country Report. Ethiopia had a tax-to-GDP ratio of just 13.5% (rising from only 11% a few years earlier).
  21. This calculation is based on taking IMF data from WEO for GDP levels (national currency), calculating what 20% of this would be (extra tax) and what 24% of this would be (estimated education budget), then using UIS data on OOS numbers and current per pupil funding to identify what the extra tax revenue 'could' pay for. It should be noted that figures on GDP were 2016, while figures for spending from UIS were 2015 (latest year available). In order to calculate the 'extra' budget to education costs a conversion from national currency to USD\$. To do this the annual average exchange rate for 2016 on <http://fxtop.com>.
  22. In 2016 Nicaragua was spending 23.8% of their budget on education and 4.6% of GDP. In 2016, Dominican Republic was spending 24% of their budget on education, and 4.1% of GDP on education. These figures are drawn from the GCE database, which was compiled by Government Spending Watch, based on official Government budget documents. OP Cit.
  23. The tax to GDP ratio in Dominican Republic was 13.5% in 2016 and in Nicaragua was 14.3% - both figure based on the latest IMF country reports.
  24. This is based on the same formula as above in footnote 21; all data is from 2015-2016 fiscal years
  25. This is revenue and tax revenue as IMF did not disaggregate, see IMF country report 2016
  26. Country case study for the Oslo Summit on Education for Development. 2015. Financing education in Malawi: Opportunities for action.

## ► Some countries still have very far to go

Low tax-to-GDP ratios hit children much harder when the levels of education spending are very low – in most cases the new resources could eclipse what is currently being spent on education. For example, Pakistan, which spends just 13% of its national budget and just over 2% of GDP on education also has a low rate of tax-to-GDP (11%). If Pakistan raised their tax-GDP ratio to 20% and spent 20% of the new resources on education, this could raise new tax revenues of over US\$5 billion and increase the education budget by more than 70% from the current levels.<sup>27</sup> Annually, this could pay for a classroom place for every child out of primary or secondary school and cover the estimated cost of eradicating illiteracy in Pakistan, leaving US\$1 billion in ‘change’. With 25% of all primary and lower secondary school-age children out-of-school, 15% of poor rural girls completing primary school and 36 million Pakistanis<sup>28</sup> unable to read or write, this could make all the difference.

## ► Sustaining commitments through tax efforts

A number of governments have made significant commitments to education whilst also increasing tax revenues. Mozambique, for example, has made considerable progress in a relatively short space of time, with tax-to-GDP increasing from 14% in 2009 to 21.5% in 2015.<sup>29</sup> These new revenues have enabled Mozambique to spend over 20% of its national budget, as well as meet the target of 6% of GDP on education. Even with these new commitments in place, Mozambique continues to face challenges with out-of-school children, children dropping out of education, and poor quality of education. It is also struggling with rising debt levels, putting it front and centre of a burgeoning debt crisis in Africa.<sup>30</sup> This is because, even in contexts where financing and funding are at minimum levels, achieving quality education for all requires this to be sustained over the long-term. Even then, it is often insufficient. Rising youth populations in many developing countries, compounded by weak pre-existing education systems, means countries need to frontload investments in the short-term. In such cases, either *much larger* allocations - often above 30% of budgets, and far higher than the international benchmarks - to education are required, which seems unfeasible without crowding-out other development needs (or pushing countries into debt), or greater domestic revenues must be raised. In reality, many countries need to aim for higher tax-GDP ratios than 20%. The financing dilemma facing developing countries can be put simply. Europe and North American countries raise 43% of GDP in domestic revenue, on average. This finances all of their government services, including education. In low-income countries, domestic revenue only averages 14% of GDP, and in lower-middle income countries about 18%. About 16% of public spending is spent on education. An allocation of 16% of the public budget coupled with domestic revenue between 14% and 18% translates into less than 3% of GDP (excluding aid). Financial modelling shows that more than 6% of GDP would need to be allocated to education to achieve the goals set by the SDGs.<sup>31</sup> UNESCO has also estimated that the financing required, at least in the short-term, to scale-up spending for quality and equitable education in lower-income countries needs to exceed 6% of GDP spent on education.<sup>32</sup> To achieve this, lower income countries would have to increase domestic revenue substantially to between 20% and 30% of GDP.<sup>33</sup>

Tax revenues are key to financing education sustainability, not only because they can help to raise more funds for public education, but because they provide long-term predictable funding that can be used to fund precious recurrent or operating costs, which cover teachers’ salaries (the major item in education budgets). Donor aid, by comparison, is often too short-term, unpredictable and is unable to fund these vital recurrent costs, especially to cover teacher salaries – except in the case of general or sector budget support. Ultimately, tax revenues are at the heart of financial stability and scaling-up spending in the education sector.

27. This is based on the same formula as above in footnote 21; all data is from 2015-2016 fiscal years

28. [http://unesco.org.pk/education/documents/situationanalysis/National\\_Final\\_Report\\_Education\\_Policy\\_Analysis.pdf](http://unesco.org.pk/education/documents/situationanalysis/National_Final_Report_Education_Policy_Analysis.pdf)

29. IMF, Worldwide Government Revenue Database, International Monetary Fund, Washington D.C.

30. <https://www.ft.com/content/805d2b58-59a2-11e7-b553-e2df1b0c3220>

31. See page 50 for a full discussion and overviews of the calculations, of: Lewin, K. The educational challenges of transition: Key issues for 2030”. GPE working paper, 2017.

32. The prediction was 6.56%. This was estimated to be due to rising youth levels and to provide quality education (i.e. to lower student/teacher ratios, new classroom construction etc). See UNESCO EFA GMR. (2015, July). Policy Paper 18. Pricing the right to education: The cost of reaching new targets by 2030.

33. 2017 Aid to Education is Stagnating and Not Going to Countries Most in Need, published by UNESCO’s Global Education Monitoring (GEM) Report

# 3. Lost revenues and the education price tag.

Governments must find ways to raise tax collection and boost revenues overall to ensure the realisation of the right to education for all. Priority must be given to ensuring that taxes fall on those most able to pay – large multinational companies and wealthy individuals – and that any widening of the taxation system is done fairly and progressively. This is not a task that will happen overnight, nor will it happen without resistance, but, in spite of the challenges, low- and middle-income countries can increase their revenues, often in a relatively short space of time, with dedicated and determined political will. In countries with high degrees of poverty and large informal sectors, addressing the money lost to large multinational companies is by far the biggest and easiest way to build more progressive systems. Companies making money in a country – whether by locating manufacturing there or selling goods – must give back through a fair contribution in taxation.

## ► Taxing big business: paying their fair share and halting a race to the bottom

Currently, the tax dodging practices of multinationals are leading to a haemorrhaging of resources from developing countries.<sup>34</sup> This deprives their citizens of wealth that could be invested in education, which would help to create long-term national prosperity. The impact of companies evading or avoiding tax (whether through legal or illegal means), excessively restrictive tax treaties, and the giving away of harmful tax incentives, severely limit the amount of tax money that governments collect.

Corporate tax avoidance, where companies legally (without clearly breaking any laws) avoid paying tax by exploiting loopholes in the system to artificially lower their tax bills, lose developing countries \$200bn annually.<sup>35</sup> This is more than the international aid sent by all rich countries to developing countries annually. It could also cover almost all of the estimated annual total costs of meeting the SDG 2030 targets of universal primary and lower-secondary education in low- and lower-middle income countries.<sup>36</sup> There is a further need to address (illegal) tax evasion. The bulk of the money lost is due to trade mis-invoicing, where multi-national corporations deliberately misreport the value of a commercial transaction to avoid paying tax. One study showed that in 37 low and lower middle-income countries, illicit flows represented a larger share of GDP than the amount the government spent on education. In Nicaragua, for example, an amount equivalent to 45% of GDP was being lost. If these flows were stopped and 20% allocated towards education, the annual education budget could rise from 4% to 13% of GDP.<sup>37</sup>

ActionAid has estimated that losses from what the IMF deem to be ‘harmful’ or ‘unnecessary’ tax incentives offered to large businesses could see developing countries losing \$138bn a year.<sup>38</sup> ActionAid’s research suggested that governments in sub-Saharan Africa alone may be losing an estimated US\$38.6 billion a year, or 2.4% of their GDP, to harmful tax incentives. This is equivalent to nearly half (47%) of their current education spending. Estimates for individual countries highlight the negative impact on domestic revenue raising. For instance, in Ghana, 20% of the estimated US\$2.1 billion lost to tax incentives would amount to \$420 million. This money could pay for: a place in a primary school for the 319,000 out-of-school children, an extra 10,000 qualified teachers, and free school meals for 1 year for 557,892 children. In Senegal, the amount given away in tax incentives is equivalent to the entire annual education budget (101%), in Ethiopia and Niger it was the equivalent of around two thirds of the annual budget (66% and 67%, respectively) and the amount was close to half the annual education budget in Burkina Faso (59%), Mozambique (51%) and Tanzania (43%).

34. See Cobham, Alex with Steven Klees. 2016. “Global Taxation: Financing Education and the Other SDGs,” Background Paper for the Education Commission.

35. International Monetary Fund 2015. IMF Working Paper [www.imf.org/external/pubs/ft/wp/2015/wp15118.pdf](http://www.imf.org/external/pubs/ft/wp/2015/wp15118.pdf).

36. This is based on the raises required from 2015 to 2030 annually and then averaging the amount across all years. See <http://unesdoc.unesco.org/images/0023/002321/232197E.pdf>. The actual amount is US 2010 bn.

37. Raising Domestic Resources for Equitable Education, Background Paper, the Education Commission, Asma Zubairi and Pauline Rose REAL Centre, University of Cambridge.

38. ActionAid, Give Us a Break: How Big Companies Are Getting Tax-Free Deals, June 2013.

Tax incentives are a reduction in tax bills offered by a government to a company, usually with the objective of attracting foreign investment or supporting a particular section of the economy. Some pro-poor reductions, such as VAT exemptions on staple foods like flour, can be vital for people living in poverty, however, corporate tax incentives offered to large multinational companies, such as reduced corporate tax rates, tax holidays, special economic zones, and reduced tax on goods brought into country, can often be harmful, and unnecessary.<sup>39</sup> Tax incentives are offered to attract investment, yet research shows they come far down on the list of important factors for foreign companies in choosing where to invest. ActionAid has warned that, coupled with ever decreasing corporate tax rates due to ‘tax competition’ between countries, this is leading to a dangerous ‘race to the bottom’ in which countries’ continual undercutting of each other leads to a zero-sum game, with very low taxes being paid by large corporations in developing countries (especially when further exacerbated by corporate tax dodging).<sup>40</sup> This means large potential tax revenues are being given away, often with little or no benefit.

## ► Domestic action must be supported by coordinated global and multi-country action

Tax treaties – agreements between countries that carve up tax rights – often excessively limit developing countries’ ability to tax certain types of income and can play a facilitating role in many tax avoidance schemes. Global corporations use tax treaties to limit their tax contributions in the countries where they generate profits. ActionAid analysed the content of more than 500 binding treaties signed by low and lower-middle income countries in Asia and sub-Saharan Africa to highlight the role that tax treaties play in depriving a country of much needed revenue. In Bangladesh, the country with the highest number of “very restrictive treaties” analysed, US\$85 million was lost in 2013 alone, due to a single rule in the country’s tax treaties.<sup>41</sup> This amounted to nearly 20% of the lower secondary education budget in 2014.<sup>42</sup>

Another way that vast sums of income and wealth are allowed to flow offshore (also often facilitated by tax treaties), and taxes avoided, is through the clever use of tax havens by many companies. There the income can be taxed at an extremely low rate or not taxed at all, often out of reach from other countries’ tax authorities and regulators. Tackling these practices and closing loopholes will take coordinated global action on international tax reforms.

As global tax standards are presently mainly developed by the OECD which favour richer nations’ interests, there is a growing call for a more democratic inter-governmental body under the auspices of the UN that is fully resourced and empowered to set and enforce global tax rules.

## ► Earmarked taxes: the potential in education

One final area which may open up specific new funds for education is ‘earmarked’ taxes (essentially reserving revenues for a specific use, i.e. education). Evidence from existing earmarking programmes for education suggest that they have potential to contribute to increased education spending, and therefore should be seriously considered by governments. However, it should be noted they are not without controversy.<sup>43</sup> In any scenario where earmarked taxes are introduced for education it’s important to ensure that existing allocations are benchmarked and guaranteed so that the new taxes are generating genuinely additional revenue that would not otherwise be raised. There may be particular scope for earmarked taxes on natural resource extraction, as these might be seen to be part of the ‘natural capital’ of a country and it makes sense to exchange this form of capital for investment in education - which brings long-term gains for the nation.<sup>44</sup>

39. For a discussion on the type of incentives which are harmful, see Archer, D, Curtis, M. and Pereira, J. (2016), Domestic Tax and Education, Background paper prepared for The International Commission on Financing Global Education, ActionAid

40. See, ActionAid and TJN-Africa, 2016. Still racing toward the bottom? Corporate tax incentives in East Africa

41. ActionAid, 2016. mistreated: the tax treaties that are depriving the world’s poorest countries of vital revenue. the tax database was produced for ActionAid. Hearson, m. 2016. ‘the ActionAid tax treaties dataset’. Brighton: institute of development studies. <http://ictd.ac/datasets/action-aid-tax-treaties-datasets>

42. IBID.

43. See Archer, et al, J. (2016), Domestic Tax and Education, Background paper prepared for The International Commission on Financing Global Education, ActionAid

44. See Archer et al, IBID, for a discussion of earmarked taxes in education

**Table 1: Some countries need to focus their efforts on raising more domestic financing to boost education spending<sup>i</sup>**

Country	Share of budget to education <sup>ii</sup>	Tax-GDP Ratios <sup>iii</sup>	Extra revenues generated if tax-GDP levels meet 20% & spending stays the same	Tax loss estimates
Malawi	18% <sup>#</sup>	16.8%	A 20% tax-to-GDP ratio could fund an additional 41,000 children to go to primary school, or cover over half of the Primary School Improvement Program grants.	<p><b>Losses due to illicit financial flows.</b> 17% of GDP, around three times the education budget in the same year, was being lost in 2013 due to Illicit financial flows (IFF).</p> <p><b>Losses due to tax treaties.</b> US\$27 million in taxes were lost when the Australian mining company Paladin shifted significant sums back to Australia via the Netherlands. The amount lost is equivalent to 20% of the secondary school budget.</p> <p><b>Losses due to tax incentives.</b> \$100 million (MK47 billion) a year is lost in tax incentives -equivalent to around a half of the education budget in 2013/14 and a third in 2015/16.</p>
Kenya	20% <sup>#</sup>	17%	A 20% tax-to-GDP ratio could raise more than US\$200 million annually, which could pay for one and a half million places in primary school.	<p><b>Losses due to tax incentives.</b> The IMF estimated in 2016 that tax incentives could be equivalent of around 2.2% GDP in 2016. ActionAid estimated in 2013 (using a lower figure from 2008) that US\$1.1 billion could be lost to tax incentives. 20% of this sum would amount to \$220 million, which could pay for:</p> <ol style="list-style-type: none"> <li>1. A place in a primary school for the 956,000 out-of-school children</li> <li>2. An extra 10,000 qualified teachers</li> <li>3. Free school meals for 1 year for 300,999 children</li> </ol>
Ethiopia	24% <sup>*</sup>	13.5%	A 20% tax-GDP ratio could pay for one full-year of schooling for all children currently left out of primary and secondary education.	<p><b>Losses due to tax incentives.</b> tax incentives are estimated to cost 4.2% of GDP in 2008/09, around the same as the whole education budget in the same year. If Ethiopia eliminated these, and devoted 10% of the resulting revenue to basic education, then the country would have an additional US\$133 million available, enough to get 1.4 million more children into school.</p>
Nicaragua	23.8% <sup>*</sup>	14.3%	This could generate enough to fund every out-of-school primary and secondary child.	<p><b>Losses due to tax incentives.</b> US\$415.6 million in tax incentives were given in 2008. This could fund 2.5 times the amount spent on primary education in the same year.</p> <p><b>Losses due to illicit financial flows.</b> Of 37 low and lower middle-income countries, Nicaragua had the highest losses to through Illicit Financial Flows (IFF) equivalent amount of to 45% of GDP. If IFFs were stopped and 20% allocated to education spending could rise from 4% GDP to 13%.</p>
Dominican Republic	24% <sup>*</sup>	13.5%	This could generate enough to fund every out-of-school primary and secondary child	<p><b>Tax incentives losses.</b> 101 incentives analysed in 2013 equated to over a third of the education budget for the same year.</p>

**Table 2: Some countries need to boost education spending & raise more revenues<sup>i</sup>**

Country	Share of budget to education <sup>ii</sup>	Tax-GDP Ratios <sup>iii</sup>	Additional resources raised if 20% is spent on education, and Tax-GDP levels meet the 20% minimum floor	Tax loss estimates
<b>Uganda</b>	11.7% <sup>#</sup>	13%	If taxes were raised to 20% of GDP and 20% of these new resources were spent on education, an additional half a billion (US\$) dollars minimum could be raised. Enough to pay for every child of primary school age (both currently in and out of school) to go to school, and still have enough money to fund nearly one and a half million children to go to lower secondary school.	<b>Losses due to tax incentives.</b> In 2010, an estimated 2% of its GDP was lost to tax incentives, the equivalent to about US\$272 million. If 20% was used for education, the extra \$54.4 million generated could pay for: 1. 477,000 extra school places for all children out of school 2. 20,000 additional qualified teachers 3. 412,047 children would enjoy free school meals
<b>Tanzania</b>	17.2% <sup>#</sup>	12%	If taxes were raised to 20% of GDP and 20% of these new resources were spent on education, more than half a billion US\$ would be raised, enough to finance nearly 6 million children to go to school annually.	<b>Losses due to tax incentives.</b> In 2015 1.5% of GDP (\$790 million), equivalent to 43% of the education budget.
<b>DRC</b>	15% <sup>#</sup>	10.8%	If taxes were raised to 20% of GDP and 20% of these new resources were spent on education, it could add an additional 60% to the total education budget. The amount raised is more than 8 times the budget for the same year – and could fund over 23 million children to go to primary school.	<b>Losses due to tax incentives.</b> A 2015 IMF report estimates the DRC's tax expenditure at 1% of GDP. This would amount to around \$359 million (CDF 332 billion) – nearly half of the country's education budget.
<b>Pakistan</b>	13% <sup>~</sup>	11%	If taxes were raised to 20% of GDP and 20%, this could raise new revenues of over US\$5 billion & increase the education budget by more than 70% from the current levels. This could pay for a classroom place for every child out of primary or secondary school and cover the estimated cost of eradicating illiteracy in Pakistan (leaving US\$1 billion in 'change').	<b>Losses due to tax incentives.</b> Estimated annual revenue foregone from tax incentives is \$4 billion. 20% of this sum would amount to \$800 million, which could pay for: 1. A place in a primary school for the 5,612,000 out-of-school children 2. An extra 100,000 qualified teachers 3. Free school meals for 1 year for 1,796,632 children

i ActionAid has calculated the extra revenues which could be raised if government who are not raising enough in tax or spending enough on education met the 20% benchmarks.

ii This is based on 2016 budget allocations – where possible, actuals have been used – either from Government Spending Watch (marked by \*) database or Uis database (marked by ~) , or analysis of government budget documents (marked by #).

iii All based on IMF country reports, 2016.

## 4. Conclusions and recommendations

Education advocates have for many years been focused on increasing the share of national budgets spent on education – towards a benchmark of 20% - and the Global Partnership for Education has even made this a requirement for countries wishing to receive grants. But a fair share of a small pie is a small amount. In most countries, improving quality and achieving the right to education for all requires action to increase the size of the pie, boosting overall revenues by tackling poor levels of tax collection. Only by increasing the overall budget will education get the resources it requires, while also giving governments space to deliver on other basic rights for all citizens. The process of building long-term progressive tax systems is vital to this; but large gains can be made in a relatively short time by ensuring that large corporations are paying their fair share, by halting their tax dodging and stopping unnecessary tax giveaways.

Increasing revenues is only one part of the domestic financing and funding puzzle for education. Education activists, through years of engagement in the processes of budget setting, monitoring and accountability work, know that considerable work remains to ensure that budget allocations are spent effectively, efficiently and equitably. Too often, money that is allocated to education does not get spent on the poorest, nor does it arrive where it is needed on time, particularly in disadvantaged areas. As such, the Global Campaign for Education calls for action on '4Ss' to improve domestic financing for education, that is: increasing the share of the education budget, increasing the size of the revenue collection, increasing the sensitivity of the budget to equity issues, and increasing the scrutiny of the budget to ensure money arrives where it's needed.<sup>45</sup> Action to ensure budgets are transparent – particularly where there is a serious lack of publicly available information, such as many Middle Eastern countries - and funds are tracked independently can help to ensure that new resources are converted into delivery on the ground. Civil society has a crucial role to play in this.

Aid is also another crucial part of the overall financing puzzle, especially in lower-income countries, at least over the shorter-term. It is estimated that there is a US\$39 billion funding gap in the short term for meeting the SDGs. Yet, worryingly, recent analysis shows that aid to education has been stagnant since 2010, and the aid that is given often does not go to the countries most in need.<sup>46</sup> Supporting the Global Partnership for Education is particularly crucial for reversing the decline in aid to education where the need is often the greatest, because the Partnership supports consultative processes and systemic reforms in the countries that are home to approximately 870 million children and youth, and 78% of the world's out-of-school children.<sup>47</sup>

Aid also needs to support governments own efforts to scale up domestic revenues. Tax revenue authorities and Ministries of Finance in many developing countries lack the technical and human resources to enforce existing regulations or develop new ones. External support to developing countries' tax authorities is essential to make substantial advances in the fight against tax avoidance, in particular – and yet only 0.1% of aid is presently spent in this way.



**Campaigning to stop tax dodging in Malawi**  
PHOTO: ACTIONAID

45. Walker, J. and Mowé, K. (2016) Financing Matters A Toolkit On Domestic Financing For Education. Global Campaign for Education, Education International, ActionAid.

46. 2017 Aid to Education is Stagnating and Not Going to Countries Most in Need, published by UNESCO's Global Education Monitoring (GEM) Report

47. See GPE's Case for Investment: <https://replenishment.globalpartnership.org/en/case-for-investment/>

# Recommendations

## **Developing country governments should:**

- Increase the size of domestic revenue, and hence government budgets overall. For countries which already spend 20% of the budget on education, increased commitments to education could be made by expanding domestic revenues through action to widen the tax base in progressive ways (targeting the minimum tax-to-GDP floor of at least 20% for countries who are currently way below this, and above for those struggling to meet SDG targets who are already close to the tax-GDP floor).
- Adopt measures to protect corporate tax collection, for example, by disallowing excessive tax deductions for corporations and requiring them to use simpler methods of transfer pricing.
- Promote reforms to build more progressive tax systems.
- Increase efforts in increased tax compliance and collection.
- Stop offering harmful tax incentives, and only use other tax incentives selectively to facilitate truly strategic national development.
- Cancel or renegotiate disadvantageous tax treaties.
- Consider the case for new earmarked taxes to raise revenue for strategic new investments in education, if this is a more feasible route to increase revenue for the social sectors than unearmarked increases in general revenue.
- Co-ordinate with other countries in their region to harmonise corporate tax rates and policies so as to avoid a race to the bottom.

## **Multi-national corporations should:**

- Pay fair taxes in the countries where they generate revenue .
- Commit to full transparency in tax affairs by voluntarily adopting country-by-country reporting. Companies linked to the Global Business Coalition for Education should set a positive example by committing to and adopting these measures.

## **Donors**

- Provide more aid to strengthen tax systems, including national revenue authorities
- Harmonise efforts behind national education sector plans , especially through the Global Partnership for Education

## **GPE**

- Start tracking the tax to GDP ratios in all its partner countries and support strategic dialogue with Ministries of Finance over how to expand the tax base in progressive ways to support progressive spending on education.

## **All governments**

- Create a fully empowered, globally-inclusive and well-resourced inter-governmental body on tax that is able to set and enforce fair global rules on tax avoidance, and consider new ways of doing corporate taxation such as unitary taxation system.

**ActionAid** is a global movement of people working together to achieve greater human rights for all and defeat poverty. We believe people in poverty have the power within them to create change for themselves, their families and communities. ActionAid is a catalyst for that change.

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