

Financing SDG 4: Context, Challenges, and Solutions

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1 Introduction

The new Sustainable Development Goal (SDG) on education establishes more ambitious targets than the past Millennium Development Goals (MDGs), moving beyond universal access to primary school and gender parity to include universalising primary and secondary education of good quality, ensuring access to early childhood care and education, advancing technical and vocational education, promoting youth and adult literacy within a framework of lifelong learning, as well as focusing on well-trained qualified teachers, improving equity, and ensuring safe learning environments. This is more ambitious even than the Education for All (EFA) framework. However, the commitment to resourcing has gone down from the MDG era (from the recommendation of 6% of gross domestic product [GDP] to a looser range of 4–6% and from 20% of national budget to 15–20%). This apparent mismatch between expanded targets and diminishing financing commitment is troubling education stakeholders. Current resources for education in developing countries are stretched. The effects of this include a decline in people's confidence in public education, an increasing fragmentation of provision and the spread of for-profit fee-charging schools, with worrying impacts on equity and quality. This presents serious challenges for those who believe in the fundamental equalising power of education. Parents living in poverty around the world see education as the ticket to social mobility for their children. This is often in tension with elites who are willing to invest large sums to give their own children an educational advantage in life. Seen in broader terms, it becomes clear that if more equal and fair societies are to be created, building more equal education systems is a fundamental bedrock. Today a radical shift is needed, requiring a renewed commitment from the international community and a rebuilding of confidence in the capacity of governments to finance public education that is of good quality for all, and that can only come from a substantial scaling up of taxation and investment.

Education is a global public good¹ and a fundamental human right ingrained in the social compact between the state and its citizens. It is a long-term investment that requires predictable financing. That financing should not only be contingent upon economic growth leading to more spending in the social sector, rather it should come from the political priority attached to education by the state as the duty-bearer for delivering on the right to education. In a world that is overly driven by a focus on economic returns, this is a challenge because investing in education does not bring short-term, one-off, quick wins. The major returns to investment in education accrue over 10 or more years (when children complete their education and enter adulthood). This is in tension with the pressures on governments to make short- and medium-term investment decisions, driven by Medium-Term Expenditure Plans, supported by the International Monetary Fund (IMF) and the World Bank, and the political demands of electoral cycles. For some ministries of finance, education seems like a bottomless pit of spending that yields no returns, as there is no mechanism in conventional finance projections to factor in longer-term returns on investment. Making the case for increased investment in education relative to other subsectors is thus closely linked to making the case for longer-term and more strategic thinking about sustainable development as a whole.

2 From EFA/MDGs to SDGs: The Financing Landscape

After failing to reach the EFA goals set out in the 1990 Jomtien Declaration, the international education community met again, in 2000, and agreed on the Dakar Framework for Action, to which 164 governments signed on with a lot of optimism. The Framework detailed an ambitious agenda around six EFA goals and outlined how those goals could be realised. Assurances were made that countries with credible education sector plans would not be allowed to fail for lack of resources (World Education Forum, 2000). Sadly, despite some tentative efforts, this bold commitment of external aid was not delivered in practice. The most concerted effort to support credible planning and harmonise education aid was the Fast Track Initiative (EFA-FTI), which later evolved into Global Partnership for Education (GPE). Whilst many developing country governments did develop credible plans, EFA-FTI/GPE failed to mobilise more than a small percentage of the estimated external resource gap, struggling to reach US\$1 billion a year when the estimated annual gap is now at least US\$39 billion (GPE, 2018). In comparison, the health sector mobilised significantly more in external aid, though not without some challenges, such as narrow targeting and reduced focus on system support.

The EFA agenda received its first setback when only an abbreviated version was incorporated within the MDGs, highlighting universal primary education (UPE) and gender parity, ignoring the need for action on quality, technical skills, early childhood education, and adult literacy. It ensured a disproportionate focus on UPE, narrowing the agenda of EFA, and diminishing financing beyond UPE. The rift between EFA and MDGs also became increasingly visible, with the education community becoming progressively isolated in their demand for the financing required for achieving the *full* EFA agenda from the wider development community. The World Bank, as host of the EFA-FTI, with support from key donors such as the UK Department for International Development (DFID) and the US Agency for International Development (USAID), played a particularly assertive role in reducing the EFA agenda to a focus on delivering the much narrower education MDG. The argument was made that more aid could be mobilised if targets were precise and achievable (like the MDGs) rather than more diffuse (like EFA).

As the Education Commission report points out, in fact, education's share of sector-allocable official development assistance (ODA) fell from 13% to 10% between 2002 and 2015. Similarly, nonconcessional loans for education decreased from a peak of US\$2.7 billion in 2010 to US\$1.6 billion in 2014; and much of this went to support higher rather than basic education. Even worse, the targeting of aid has been far from optimal: only 24% of education ODA was disbursed to low-income countries in 2014 and just 68% of that aid actually reached recipient countries (International Commission on Financing Global Education Opportunity [Education Commission], 2016). That occurred mainly because some bilateral donors, notably France, spend a large portion of their education aid to pay for scholarships to students studying in donor countries, thereby describing as 'aid' monies going to prop up their domestic higher education systems. Sadly, the new SDG 4 target on scholarships can be seen to reinforce such practices.

The failure to mobilise sufficient financing for education from ODA has had disturbing results. In the early years of the new millennium, inspired by the new goals and promises, developing countries made massive progress in terms of enrolment in primary schools, mostly following significant campaigns for the abolition of user fees (so parents could afford to send their children to school for the first time). However, few countries invested more domestic resources to match their rising enrolments, in part because ministries of finance were constrained by restrictive macroeconomic policies linked to IMF loans, which prevented any increases in the public-sector wage bill (Marphatia & Archer, 2005; Marphatia et al., 2007). This prevented the recruitment of more teachers and contributed to a situation in which overall government spending on

education did not rise as a proportion of overall spending in the years since 2002 (Education Commission, 2016, p. 109). Aid was insufficient to fill the gaps and would have been inappropriate anyway for covering recurrent costs such as teacher salaries. So, in the absence of an expanded workforce of trained teachers, class sizes rose to impossible levels, particularly in rural schools and schools in marginal urban areas. Low-cost solutions were sought in many parts of Africa, notably through the hiring of paraprofessional or untrained teachers, a practice encouraged by the World Bank and some other donors. When the effect overall of this failure to invest in expanding systems was to damage the quality and reputation of public education, these same donors spearheaded a new narrative: Public systems are failing, and the only solution is to turn to non-state actors and privatisation. However, the narrative lacked any convincing evidence base and after two decades still fails to provide system-level examples of successful privatisation in low-income countries.

3 Shifting Terrain: Rise of the Private Sector in Public Education

While the narrative of public education in crisis continued to develop, policymakers and thought leaders started looking for alternatives in the SDG era. In a desperate bid to increase financing for education, especially after the disillusionment about diminishing external aid, much attention was given to the private sector. One of the first inklings of expectation was visible in the UN Secretary General's report prior to SDG declarations, where the private sector was positioned firmly as an expected financier of development goals. The fundamental question – why the private sector, driven by the profit motive, would step into the arena of the public (not-for-profit) sector – was rarely asked, and never answered satisfactorily. A rise in Public-Private Partnerships (PPPs) started to become prominent in public service reforms of education and health, moving beyond more traditional PPPs in the area of infrastructure to include a fuller role in service delivery. The development banks in particular paved the way for the introduction of private players long before their prominence in the SDGs. A review of the Asian Development Bank's (ADB's) education portfolio revealed a striking note: between 2000 and 2009, 100 ADB-approved loans and grants in the education sector, covering 32 projects worth US\$3 billion, had PPP components worth US\$1.6 billion (ASPBAE, 2015). There is little evidence to suggest that private finance made any significant financial contribution to these PPPs.

There is a fundamental tension between the way the development sector has viewed the role of the private sector in education and the way the private

sector has viewed itself playing a role. While development players expected the private sector to step into supporting public services with additional finances and investments (Lebada, 2017), many in the private sector identified education as a US\$4.4 trillion industry (Kopljenovic & Robertson, 2017) where big profits could be made by capturing public funds.

The emergence of commercially oriented, for-profit providers of basic education in developing countries occurred around the same time as negotiations were underway to define the future SDG framework (Srivastava, 2013; Walker et al., 2016). As a result, some actors focussed discussions in the buildup to the SDGs around the 'affordability' of education, in direct contradiction with the focus on 'free, quality basic education', as promised by the human rights laws enshrined in international covenants. The dramatic success of school fee abolition over just a decade was rapidly forgotten by those who wanted to reframe the debate, particularly the World Bank (Nielsen, 2006). The previously relatively uncontested notion of education as a right started to be gradually undermined by the notion of education as an affordable service. Private sector provision began to be seen as a 'solution' to the 'crises' of public education. Instead of bringing in new resources, the private sector counted on becoming education service providers, extracting profits both from charging fees and drawing down on public resources, and thus not generally making additional contributions to either the financing pot or to the strengthening of public provisions. At the same time, private sector actors in both developing and developed countries found new ways to avoid paying taxes and to spirit profits out of countries and into tax havens (ICIJ, 2018), thus further undermining public financing.

Alarmingly, some of the new resources coming in for education started to focus on financing multinational, for-profit, private education providers. This remains a small proportion of overall provisions, but it is growing aggressively and has powerful financial supporters. For example, the World Bank, through its private sector investment wing, the International Finance Corporation, invested US\$10 million in Bridge International Academies, a low-fee, private school chain, whose practices are already being challenged by governments in Uganda and Kenya (Smith & Baker, 2017). Bilateral aid agencies and multilateral development banks are also investing in this sector and promoting this practice, along with philanthropic billionaires. These approaches have already been called into question by international human rights bodies, making renewed debate around the right to education timely, topical, and engaging (GI-ESCR, 2017). These phenomena have also seen education advocates and human rights organisations come together to challenge the privatisation and commercialisation of education with a strong consensus that public resources

should not be channelled into subsidising private provision. Increasingly, links are being made between resisting privatisation and promoting tax justice (Ron Balsera, 2017).

One of the challenges in education financing has always been emergency and conflict situations, where the public system can be weakened. Humanitarian aid rarely addresses education in such times. Less than 3% of emergency aid is typically used for education (ECHO, 2018). True to the theory of 'disaster capitalism' (Klein, 2007), according to which the private sector steps in during times of disaster to make profits, the tendency toward privatisation has become more prominent in the education sector of humanitarian operations (Fontdevila, Verger, & Zancajo, 2017). For example, after many years of civil war followed by the Ebola crisis, Liberia initiated a pilot programme to hand over its public schools to private providers through the controversial Partnership Schools for Liberia programme. It was only through concerted challenges from teacher unions and civil society that a comprehensive plan was reduced to a smaller scale (Klees, 2017).

This increasingly prominent role of the private sector in education is a marked difference from the MDG and EFA era in terms of provision and financing. Whilst private provision remains for now a relatively small part of most systems, it is often larger in developing countries than developed ones. The tide toward privatisation in these contexts will only be reversed when there is adequate public financing for good quality public schools that can deliver fully on the promises of SDG 4.

4 Aid Architecture for Education Financing

One of the lessons from the MDG and EFA era was that there were not enough well-informed discussions around financing. The aid harmonisation agenda as originally articulated in Paris and later reinforced in Accra and Busan (OECD, 2005/2008) provided some momentum for education sector planning and donor coordination through in-country donor mechanisms. This informed the creation of the EFA-FTI (and its evolution into GPE) but relatively little changed in terms of broader development financing for education. The Financing for Development (FfD) discussions, which were held alongside SDG conversations, could have made a breakthrough in terms of influencing global financial reform. However, the outcomes in the Addis Ababa FfD Conference² in 2015 were disappointing, and the fact that the education constituency was not as strongly engaged as some others (e.g., health) was also a problem. Ultimately the FfD process did not deliver significant progress for education (see

Chapter 2 by Antonia Wulff for more details on this). Two follow-up meetings about FfD in the subsequent years also fizzled out, failing to follow through with substantial decisions. For example, the specific call, made by many civil society actors, for a new UN Tax Body that would be adequately resourced and empowered to set and enforce global tax rules was not taken up.³

In terms of the specific architecture for external aid to education, as noted above, the Education for All Fast Track Initiative (EFA-FTI) was set up after Dakar, evolving later into Global Partnership for Education (GPE), with the ambition of being the only multilateral partnership and fund dedicated exclusively to education in the world's poorest countries. In practice, EFA-FTI was initially limited only to primary education, but as GPE, it has now expanded its mandate in line with the SDG 4 agenda. It still focuses the majority of its resources on primary and secondary education, with early childhood education recently moving up on the agenda; but adult literacy, for example, is still largely ignored. An overall environment of diminishing education aid has affected GPE. The 2015–2018 replenishment of US\$2.1 billion was 40% up on the first replenishment in 2011, but 40% short of its US\$3.5 billion goal. GPE's ambition for a bold replenishment in February 2018 in Senegal also fell short, with just US\$2.3 billion raised (short of its aspiration to mobilise US\$2 billion per year by 2020). There have also been significant developments in mobilising more harmonised resources for education in fragile and emergency settings. Education Cannot Wait (ECW) was set up in 2016 and launched at the World Humanitarian Summit.⁴ It is planning to raise a total of US\$3.85 billion by 2020, but present commitments fall far short, and it is unlikely to achieve the levels of funding it seeks.

Realising the importance of education financing in the SDG era, the International Commission on Financing Global Education Opportunity, in short, the Education Commission, was set up in 2015 (with leadership from the Government of Norway and the UN Special Envoy for Global Education, Gordon Brown) to reinvigorate the case for investing in education and to chart a pathway for increased investment in education. It has published an impressive report 'The Learning Generation', making a compelling case for investment and providing some new research and ambitious targets. It has also, more controversially, recommended an 'International Financing Facility for Education' (IFFEd) that will mobilise loan-based resources for education in lower-middle-income countries from the multilateral development banks. There are concerns that this may lead to a proliferation of harmonised funds and new conditionalities as full alignment with GPE and ECW is not yet clear. There are also concerns about loan-based financing for education in the context of rising debt burdens (where debt servicing takes money out of national budgets that

could otherwise be spent on education). There are particular concerns about whether IFFEd should lend to countries in moderate debt distress and whether empowering the multilateral development banks to lend more to education makes sense given their track record (including of supporting PPPs). There are also some uncertainties about whether IFFEd will be able to raise sufficient capital on the scale that it originally sought.

However much is mobilised in external resources for education, it will never be a substitute for governments in developing countries increasing their own domestic financing of education as a response to pressure from their own citizens. Even the Education Commission estimates that only 3% of required resources for SDG 4 are likely to come from external mechanisms, and the remaining 97% will need to be mobilised by the countries themselves. In this context, 97% of the Commission's attention – and everyone else's efforts – ought to be focussed on increasing domestic resource mobilisation for education. Sadly, this is not the case, and almost all international attention is focussed on finding external resources rather than the more strategic and significant challenge of supporting initiatives that will facilitate countries to better mobilise sustainable and predictable resources for themselves. In the next section, we look at what could be done to enhance domestic financing by increasing the size of budgets using progressive taxation and increasing the shares allocated to education.

5 Meeting the Financing Deficit: Domestic Resource Mobilisation

In addressing domestic financing of education, there has been a focus for many years on the share of national budgets being spent on education. Presently low-income countries spend an average of just 17% of their national budgets on education, and some countries with the biggest education challenges (such as Nigeria and Pakistan) fall dramatically short of that average. An indicative benchmark of good practice was set at 20% by EFA-FTI in 2002 and is now the measure of good practice used by the GPE. It is also referenced in the Incheon Framework, which (with clumsy grammar) calls for 'at least 15–20% of total public expenditure' (World Education Forum, 2015, p. 9) with an indication that the least developed countries (LDCs) are likely to need to exceed this. However, looking at the share of budgets spent on education in isolation of other factors, notably the overall size of governments budgets, is problematic.

Thankfully the discourse is shifting. Compared to the Jomtien (1990) and Dakar (2000) agreements, the Incheon Declaration and Framework for Action

in 2015 was more explicit about the role of domestic financing and the particular role of action on tax, observing that to achieve the goals,

countries will need to: Increase public funding for education: This requires widening the tax base (in particular, by ending harmful tax incentives), preventing tax evasion and increasing the share of the national budget allocated to education. (WEF, 2015, p. 67)

It is no coincidence that this focus on the overall size of government budgets and the need to address the tax base coincides with a renewed focus on quality and the need for teachers who are well-trained, qualified, and motivated. The biggest single costs for education are recurrent costs, especially for teacher salaries. To achieve the first target of the SDG – universalising access to primary and secondary education – will require the employment of millions more trained teachers, which requires a long-term, predictable source of financing. UNESCO estimates indicate that presently around half of teachers in Africa, for example, have had little or no training (UNESCO, 2015a), while other studies show that teacher salaries have approximately halved in real terms over recent decades (Lambert, 2004). Data show that in one-third of all countries, fewer than 75% of teachers have been trained according to national standards. In part this arises from the fact that untrained teachers can be paid lower salaries, so there is a disincentive to train. Yet multiple studies have demonstrated that teachers – and their level of knowledge about their subject – are the most important determinant of education quality (UNESCO, 2017b).

Not all potential sources of finance are suitable for addressing the challenge of training and deploying more teachers; for example, aid budgets rarely cover teacher salaries, except in the case of general or sector budget support, which has declined in recent years, following a peak in the post-Paris aid effectiveness era. In large part, this is because aid is both too short-term and too unpredictable. Governments are reluctant to employ a teacher with such funding as they are aware of the need to continue paying the salary long after the end of a particular aid project. This is also a problem with many other innovative financing mechanisms that may offer short-term funding but struggle to guarantee sustainable financing over decades. There are of course additional challenges that arise with any funding based on loans (given the renewed debt-repayment challenges faced by many developing countries) or funding that depends on charging fees (given the known impact these have on inequity and exclusion in education). The big education challenges need systemic solutions and sustainable financing – features that are most closely identified with taxation.

As it is, tax is already the major source of financing government's education plans, even in highly aid-dependent, low-income countries. Education campaigners have spent many years focussing on getting a rising share of the budget for education without paying much attention to the broader issues of the overall tax base. But a 20% slice of a small pie is small, and the biggest gains will come from increasing the size of the pie rather than adding an extra 1% share. Moreover, many countries are coming close to achieving the benchmark of 15–20% of public expenditure being devoted to education, and some exceed this but still lack sufficient revenue. It is thus time to pay more attention to the size of government budgets overall.

Tax-to-GDP ratios are a widely used measure of tax collection. A state that can credibly provide universal education is likely to require at least a ratio of 20%, which many low-income countries do not reach. Thomas Piketty describes states that raise less than 20% tax to GDP as 'regalian' states, having some superficial and ceremonial characteristics of a state, but not the means to become true 'social' states able to provide universal basic services (Piketty, 2014, pp. 473–481). UNCTAD agrees that 20% tax to GDP is a key benchmark for a state that is committed to development (UNCTAD, 2015).

Shifting focus from aid and budget shares and focussing more strongly on taxation as a source of revenue has other benefits: As well as raising predictable revenue, it is a key means of redistribution of resources and reducing inequality. There are also major benefits in terms of building accountability – strengthening relations between citizens and state – and encouraging better governance. When people are aware that they are taxpayers, as even the poorest landless labourers are, due to value-added tax (VAT), they are much more likely to feel confident to demand things from local government, rather than seeing services as arising from charitable benevolence.

There are many different types of taxation. Some are direct, such as corporate taxes and taxes on individuals' labour, investment income, or wealth. Some are indirect on transactions or sales, such as VAT, which are borne by the final consumer, or customs and excise linked to imports or exports. Another way of looking at this is that there are seven 'universal' types of taxation: on income, employment, consumption, profits, property, inheritance, and industrial processes. There are also important nontax revenues available to governments in some cases, particularly in natural resource-exporting countries, for example, royalties from mining.

Some forms of tax are progressive (put simply, where those with more pay more as a proportion of their income or wealth) and some regressive (where those with more pay less as a proportion of their income or wealth). An income tax that is set in different marginal bands (such that, for example,

high earners pay 60%, mid-level 40%, and low earners pay 20%) is progressive. However, VAT, if there are no exemptions made for basic goods, tends to be regressive.⁵ One might argue that any increase in tax, whether through progressive or regressive means, is acceptable, if the revenue is spent progressively on basic education that reaches people living in poverty. Indeed, expanding revenue through VAT might be considered acceptable if the increased revenue is then spent on basic education, as overall that would be powerfully redistributive. Indirect taxes such as VAT raise revenue much more quickly than direct ones. Not all spending on education can be seen as progressive in this way. Investment in higher education might benefit a privileged elite and thus be regressive, unless targeted to provide access to the poorest students. Ideally, progressive spending on education should be financed through progressive tax so there is a double dose of reducing inequality. This is particularly urgent given the growing concerns about the negative impact of inequality, expressed by a range of actors and institutions from the IMF to the Pope of the Roman Catholic Church to Oxfam. Economic inequality 'represents a major threat to the achievement of the SDGs, imposing costs across a whole range of outcomes: from poorer physical and mental health ... to worse prospects for sustained economic growth ... and worse outcomes for women and girls' (Cobham & Klees, 2016, p. 18).

The 'tax consensus' in developing countries for the last two to three decades has been dominated by advice provided by the IMF and the World Bank. These agencies have paid little regard to what is progressive or regressive. The policy trend since the 1990s has been to liberalise trade, and therefore reduce trade taxes. The economies of many low-income countries have been built on commodity exports, with a high ratio of exports to GDP, so trade taxes were previously an important source of revenue – sometimes yielding up to 30% of total government revenue. When customs and excise tariffs were removed, the IMF particularly recommended replacing the lost revenue by introducing indirect taxation, usually VAT, which is relatively easy to collect, partly because it depends on self-enforcement by traders and partly because it is less visible to those paying it. So, over the last few decades, VAT has been introduced rapidly in a large number of low-income countries as the quickest way to replace lost revenue, but one consequence of this has been to add to the regressive nature of many tax systems. Another unfortunate side effect arises from the relative invisibility of VAT. Many people paying VAT are not conscious of paying taxes, and this potentially affects people's relationship with the state and their confidence (as taxpayers) in holding public services to account. The IMF has not shown the same enthusiasm for expanding corporate tax or promoting progressive forms of income, property, or wealth taxes, although they have

recently started to explore these areas more actively (IMF, 2014). The IMF and the World Bank do not pay corporate taxes, and their staff do not pay direct income taxes, which may affect their commitment to promoting these forms of taxation.

Perhaps the biggest single area where a breakthrough can be made to secure progressive tax for progressive spending on education concerns corporate taxation. This has become the focus of a lot of international attention in recent years as illustrated by the OECD's Base Erosion and Profit Shifting process and the G20 political impetus behind it, by the Africa Union's High Level Panel on Illicit Financial Flows, and by the growing popular movement calling for companies to pay a fair share of tax. This is also an area of taxation where there is a huge impact from tax avoidance strategies in developing countries, and which therefore represents a potentially significant means for scaling up financing of education. The US\$39 billion annual resource gap for education could be more than filled by coordinated action in this one area!

Within corporate taxation, there are three main reasons to focus specifically on multinational corporations (MNCs) and large national companies. First, small- and medium-sized domestic businesses are not usually offered the same tax incentives or holidays, which are mostly used to attract foreign investment, as MNCs. Second, MNCs have particular opportunities to avoid taxation due to their international nature. Third, the amounts at stake are very large. A progressive intervention for greater tax justice should rightly start where the inequality is greatest, particularly for supporting education, given its powerful equalising potential.

Below we examine just four areas where action on taxation could make a massive difference to the financing of education in the coming years. The first is tax incentives – as vast revenue is foregone by governments under the illusion that they need to give tax breaks in order to attract investment. Second, looking at aggressive tax avoidance is crucial – as huge sums are lost to education and other public services by increasingly common but unethical practices.⁶ Third, it is important to look at tax treaties – as many treaties are profoundly imbalanced, depriving developing countries of desperately needed resources. Fourth, there are opportunities to raise earmarked taxes linked to corporate practices. There are clearly many other areas of tax reform where additional work needs to be done, but we use these examples to illustrate the importance of taxation for transforming the financing of education.

5.1 *Tax Incentives*

Strategically targeted tax incentives can play a crucial role in supporting national development, but in developing countries many tax incentives cause

far more harm than good. First, and most importantly, they can massively reduce government revenues by removing the requirement for companies to pay fair levels of tax. Second, they can encourage corruption and secrecy when negotiated in highly discretionary 'special deals' with individual companies. Third, they do not encourage stable long-term investments because they mainly attract 'footloose' firms that can move their investments from one country to another. Fourth, where they favour foreign investors, they can disadvantage domestic investors and deter them from entering markets or expanding. Finally, they often require large resources to administer and are rarely transparently implemented. The ostensible reason for governments providing tax incentives to business is to attract foreign direct investment (FDI), yet the evidence, including the academic literature, suggests that tax incentives are not needed to attract FDI (IMF, 2015). There are four types of incentives that are particularly problematic: discretionary incentives, tax holidays, tax incentives in free trade zones, and stability agreements.

There are no official estimates of global revenue losses from tax incentives but, in 2013, ActionAid estimated that developing countries lose US\$139 billion a year just from corporate income tax exemptions, or nearly US\$3 billion each week. In just over two months, if channelled to where it is most needed, this could fill the annual global finance gap for basic education. Reports published by the IMF, the African Development Bank, and other agencies have estimated revenue losses from tax incentives as exceedingly high as a proportion of GDP, for example in Ghana (6% – enough to double the education budget), Kenya (3.1% – enough to increase education budget by half), Uganda (2% – enough to double education spending), and Rwanda (4.7% – enough to double education spending). In Ethiopia, tax incentives amounted to around US\$1.3 billion (4.2 per cent of GDP) in 2008–2009. If Ethiopia devoted just 10% of these revenues to basic education, then the country would have an additional US\$133 million available, enough to get approximately 1.4 million more children into school (Archer, Curtis, and Pereira, 2016). There is a compelling case for governments to be much more targeted in the use of tax incentives to support specific strategic sectors where FDI might make a difference, to make specific pledges to end harmful incentives, and to invest the revenue that is gained in financing education and other national development priorities.

Some governments might fear that taking action on tax incentives would undermine FDI and give the impression they are 'not open for business', but the IMF argues there is little evidence to support this (IMF, 2015). Some education activists might argue there is no guarantee that increased revenue will be spent on education, but this will be true for all action on increasing the tax base (Walker et al., 2016). It will of course continue to be important to sustain

pressure on governments to maintain (or increase) the share of spending on education. If this is achieved, then an expanded overall tax intake will lead to significant increases in spending on education.

5.2 *Tax Avoidance and Evasion*

Tax evasion occurs when individuals or companies break the tax law of any of the countries in which they operate. It relies fundamentally on concealing the existence of taxable income from the authorities, whether by nondisclosure or by active steps such as placing the proceeds in a secrecy jurisdiction. Tax avoidance is a term that is used to capture practices that, while not clearly violating the letter of the law, violate the spirit or intentions of the law. There is a strong case for placing less emphasis on the technical and often obscure distinction between tax evasion and tax avoidance, and to develop instead an ethical notion of tax compliance where individuals and companies actively work to ensure that they pay taxation in accordance with the spirit and intention of the law. There are various examples of approaches used to avoid tax compliance (Archer et al., 2016). They include the following:

- *Transfer pricing manipulation*: goods or services traded among different companies within the same group can be manipulated in order to shift money from one jurisdiction to another with lower tax rates.
- *Transfer mispricing*: deliberate and illegal steps are taken to artificially shift income and/or profits.
- *Excessive interest deductions and thin capitalisation*: guarantees are used to create excessive debt, or excessive interest rates are charged on intra-company loans.
- *Trade mis-invoicing*: deliberately misreporting the value of a commercial transaction on an invoice submitted to customs authorities.
- *Artificially channelling funds through tax havens*: attracted by low tax rates and high secrecy.
- *Hybrid mismatches*: these depend on differences in the tax treatment of an entity or instrument in two or more jurisdictions that, working together, result in double nontaxation.

It is generally agreed that tax evasion and avoidance have a significant impact in developing countries, but it is very difficult to provide a precise estimate. Lack of data and the opacity surrounding most of these mechanisms make it necessary to use approximations and indirect approaches to measure the problem. The very lowest estimated figure for tax losses is US\$100 billion annually (UNCTAD, 2015), and if 20% of this were spent on education, it would be enough to cover half of the global resource gap to get all children into primary and lower secondary school, estimated at US\$39 billion. Other estimates

suggest as much as US\$600 billion a year may be lost to avoidance and evasion globally (Kar & Spanjers, 2015). If a fair share of this amount went to education, this could have a transformative effect.

To achieve progress on addressing tax evasion and avoidance there is an urgent need to strengthen tax rules and systems in developing countries, change rules in developed countries where they affect developing countries, increase transparency and information exchange, and revamp corporate taxation at an international level. There is a strong case for using more aid money to strengthen national revenue authorities, so they can better enforce tax rules, but action is also needed at an international level to create fairer global tax rules (see later section on global reforms).

5.3 *Tax Treaties*

Tax treaties are bilateral or, less often, multilateral agreements that are ostensibly designed to prevent the double taxation of income that originates in one territory and is paid to residents, both individuals and companies, of another. Tax treaties are thus seen as an important piece in ensuring fair taxation of multinational companies and have become increasingly important with the surge of cross-border investments over the last few decades. The evidence that they attract investment into developing countries is unconvincing (ActionAid, 2016). While tax treaties are not explicitly designed to facilitate tax avoidance, that is nevertheless sometimes the effect they can have. Most often avoidance arises as a result of weaknesses in the agreement, outdated clauses, or biased negotiation processes. For example, some treaties are very old, which means they were not designed to deal with the increasingly globalised and digital economy and, in some cases, reflect a different balance of power at the time of negotiation (e.g., from colonial times). There are challenges that arise owing to the allocation of taxing rights, especially where 'resident-based taxation' (taxing a company where it is based) is preferred over 'source-based taxation' (tax paid where the economic activity occurs). Those challenges are due to reductions of withholding taxes and to the differences between treaties, for example, around definitions about what constitutes a taxable permanent establishment, which can be exploited for tax avoidance purposes. The lack of or inadequate anti-abuse clauses also create problems for developing countries.

The IMF has estimated that non-OECD countries lose around US\$1.6 billion a year as a consequence of US treaty provisions in relation to dividend and interest payments alone. Similar research conducted in the Netherlands estimates losses of 770 million euros for developing countries in 2011 as a result of Dutch tax treaties. More recently, ActionAid has estimated that restrictions on Bangladesh's ability to levy withholding taxes on dividend payments alone

results in an annual revenue loss of US\$85 million. These estimates do not take into account the potential increase of tax avoidance and other indirect effects resulting from lower withholding taxes. The aggregated impact on developing countries could amount to much more than the IMF estimate of US\$1.6 billion (ActionAid, 2016). However, any measure aimed at reducing the negative impacts of tax treaties on developing countries requires a cancellation or renegotiation of an existing treaty, which is not straightforward. Public pressure mobilised in both countries that highlights the egregious consequences of a treaty can help to create an environment in which this becomes possible.

5.4 *Earmarked Taxes*

Earmarking is the process of assigning revenue from specific taxes to particular objectives, in this case education. Under a full earmark, the earmarked revenue is the only source of finance for the programme, while a partial earmark means that other financing also contributes. Earmarking may also be broad, covering a whole spending programme, or narrow, for a specific project within the programme. A distinction can also be made between ‘soft’ earmarking, whereby government policy (but not legislation) determines allocation of certain taxes to education, and ‘hard’ earmarking, whereby such allocations are enshrined in law.

There are some examples of taxes earmarked for education, such as the Ghana Education Trust Fund (funded by 2.5% of VAT collections and mostly spent on higher education); the Nigeria Tertiary Education Trust Fund (to which national companies pay 2% of assessable profit, again spent on higher education); the Brazilian Fund for Maintenance and Development of Basic Education (partly financed by earmarking 15% of VAT revenues); China’s Educational Surcharge levied on VAT taxpayers at 3% of Consumption and Business Taxes; and India’s flagship education programme that is funded partly by an ‘education cess’ (a ‘tax-on-tax’ introduced on all Union taxes at a rate of 2 per cent). In any scenario in which earmarked taxes are used for education, there is a need to ensure that they are only one source of funding and that they are supplementary to existing allocations, generating genuinely additional revenue that would not otherwise be raised. One option here is setting a benchmark on existing tax allocations or spending on education, before introducing a new earmarked tax, so that it can be clearly seen (and tracked) that the earmarked tax is providing additional revenues.

The global agreement of an ambitious education SDG offers a particular moment when earmarked taxes for education may make sense. For example, many countries will need to ratchet up spending on education over the coming years to scale up public provision for early childhood education or to

universalise access to secondary education. In such a case, even if there are concerns about permanent earmarking, a case could be made to introduce an earmarked tax initially with a limited (say 10-year) timeframe, on the understanding that the economic returns that emerge from such investment in education will, by the end of the period, have enabled the government to raise more revenue through normal forms of taxation. There will of course be challenges in making the case for any well-benchmarked earmarked tax, as other sectors such as health or roads might make equally powerful cases.

6 Global Reforms to Support Domestic Resource Mobilisation

6.1 *Global Taxes and Global Action on Tax*

There is a limit to what domestic tax reforms can achieve in the absence of global reforms to tax rules and regulations, as a report for the Education Commission points out (Cobham & Klees, 2016). The report notes that tax revenues in most lower-income countries have not seen convergence toward OECD country averages. In addition to domestic political issues, such as lack of elite willingness to support progressive tax policies, two main reasons for this international pattern can be identified. One, as noted previously, is the relatively consistent advice from international organisations (notably the IMF) following a 'tax consensus' that has overemphasised taxes on the sale of goods and services, while neglecting direct taxes on income, profits, assets, and capital gains. The other is the global failure to challenge tax havens' financial secrecy, which has grown as a cause and facilitating factor of international tax avoidance and evasion, and the driver of a wider regulatory and tax 'race to the bottom'.

Two main types of response can be considered: global reforms to support domestic tax reform and globally levied taxes. Of the former, reforms can help to address the major losses due to international evasion and avoidance. Revenue losses due to multinational corporate tax manipulation just by US-registered companies are estimated (including by IMF researchers) at or above US\$650 billion, annually (Cobham & Jansky, 2015). Revenue losses on income taxes due to undeclared offshore wealth, meanwhile, are estimated to approach US\$200 billion. Progress in these two areas, which will depend in large part on global countermeasures, can make a vital contribution to closing the domestic revenue gap.

Of globally levied taxes, a financial wealth tax, as suggested by Thomas Piketty, has major revenue potential. Levied at 0.01%, annually, revenues could cover the estimated requirement for additional public financing of the SDGs. Levied instead at 1%, revenues might plug the entire incremental financing

gap for sustainable development. Finally, a global financial transactions tax could potentially contribute revenues in a range of US\$60 billion to US\$360 billion. In each case, international measures to ensure greater transparency could alternatively support the levying of such taxes at the national level (Piketty, 2014).

Crucial to global action on tax justice is the creation of a representative global body to set and enforce tax rules. At present the dominant actor is the OECD, which inevitably promotes reforms that are mostly in the interests of rich nations, giving little voice to the Global South. A more empowered international body, set up on democratic/representative principles inclusive of all nations, is needed to challenge the dominant corporate culture and the behaviour of the top 1% of earners, who by default tend to use tax havens to hide their money from revenue authorities. This can and must change, and public education around the world stands to be one of the greatest beneficiaries when it does.

6.2 *Linking Action on Aid and Action on Tax*

At present, few links are made between the call for more aid to education (and other sectors) and the call for reforms to global tax rules. Yet they should be intimately connected. Both are effectively calls for action by the rich countries in the OECD to shoulder a responsibility to support developing countries. Sometimes the case for aid is presented as a case for reparations – to redress historic injustices arising from colonialism and slavery. But in practice, most of the time, aid is presented as an act of generosity by rich countries to help those who are poorer. In making the case for tax reform, the argument is for action to stop injustices that are perpetuated every day, here and now, by the continuing plunder of resources from developing countries. The Mbeki Panel on illicit financial flows in Africa reported that at least US\$50 billion is lost every year to illicit financial flows (over US\$1 trillion in the past half-century) and probably much more, far exceeding the funds received in aid (High-Level Panel on Illicit Financial Flows from Africa, 2015, p. 13). The fear is that the apparently generous action of giving aid helps to cover up the calamitous inaction that allows tax avoidance and evasion to continue unchecked.

We need to see more action in both regards: to improve the flow of aid resources and to improve the global tax rules that effectively undermine or contradict that flow. Bilateral donors in OECD countries should be increasing the size of their aid budgets to hit the target of 0.7% of Gross National Product (GNP) and should be earmarking more toward basic education (a 20% share would make sense). They ought to be targeting aid to the countries where it is most needed, and they should provide that aid in a harmonised way in line

with aid effectiveness principles, for which GPE has laid a reasonable foundation, supporting education sector plans in 65 countries. The very same OECD countries need to take action to reverse the outflows of resources from developing countries, recognising that global rules and regulations that have been put in place by OECD are not up to the job. These rules need an overhaul and that can only be properly done by a more democratic and representative body; so the OECD countries should be in the forefront of making the case for an empowered and resourced UN body that will take action to address the contradictions in the international system.

6.3 *The 4S Framework: Sensitivity and Scrutiny as Well as Size and Share*

This chapter has focused at length on how to increase the mobilisation of funding for education, but we are regularly told that the real issue is not about getting more money but making sure existing money is better spent (World Bank, 2018e). In fact, it is a case of both. Clearly there is a need for more money and for that money to be better spent! The 4S framework (Walker & Mowé, 2016) offers a useful structure for this analysis. In respect to domestic financing, we need to address:

- The *size* of the government revenue overall.
- The *share* of the national budget spent on education.
- The *sensitivity* of allocations within the education budget.
- The *scrutiny* of spending in practice to make sure money arrives.

This chapter has discussed the share of budgets but focussed mostly on the overall size. In practice, equal attention needs to be placed on the sensitivity of allocations within education, with a strong focus on ensuring that budgets seek to address educational inequalities. Girls and children from other marginalised groups, including children with disabilities and children affected by armed conflict and disasters, are more likely to be out of school. Their specific needs are rarely taken into account in education budgets. Increased sensitivity of the education budget will help to improve access to quality education for girls and children from other marginalised groups; and this tends to lead more reliably to overall systems improvements (Sahlberg, 2014).

Even with a combination of a good share, size, and sensitivity of spending, there can be serious problems if the money does not arrive in practice in the places where it is most needed. For this reason, there needs to be scrutiny of spending, particularly in the most disadvantaged areas, where funds are least likely to arrive. In many countries, budgets are not transparent, and inefficiency and corruption mean that money often doesn't reach the poorest schools. Increased analysis of education budgets and expenditure by

civil society as well as greater transparency and accountability on the part of governments will help to ensure that money is properly spent where it is needed most.

This 4S framework was developed to provide a balanced overview of what kind of domestic financing is needed to deliver on the education SDG. It is in fact equally valid when considering international aid:

- The *size* of aid budgets overall should reach 0.7% of GNP. Currently, most countries fall short of this UN-endorsed target.
- The *share* of aid spent on basic education should reach 20% to match recommendations for developing country government spending. At present, only about 4% of global aid goes to basic education.
- The *sensitivity* of aid allocations should be focused on low-income countries and should provide harmonised support to system-wide reforms, rather than isolated projects, in line with aid effectiveness principles. Too much is currently spent on politically favoured countries, not those most in need.
- The *scrutiny* of aid budgets should seek to reinforce the accountability of governments to their own people, especially in the field of education, as donors cannot be present in every village. Too often aid money is linked with corruption or leads to governments feeling more accountable on education to external donors than to their own citizens.

7 Conclusions and Recommendations

7.1 *Mobilising Resources*

New ways must be pursued to raise both significant and sustainable financing to help countries achieve full implementation of all the targets in the education SDG. Short-term, one-off solutions will not represent a breakthrough. An extra billion or two will not make a lasting difference. Placing a strong focus on how to expand the tax base for the financing of education offers the best prospect for delivering what is urgently needed – tens of billions of dollars in sustainable funding, year after year. Crucially, this also offers a way to provide sustainable financing that deepens rather than undermines the accountability of national governments to deliver on the right to education. The sustainable financing that could potentially be raised includes startling sums:

- US\$139 billion a year from persuading ministries of finance and revenue authorities to end harmful tax incentives.
- US\$100 to US\$600 billion a year from promoting effective action to end aggressive tax avoidance.

If education receives 20% of these sums (the present, widely accepted benchmark), then this will represent a dramatic breakthrough for financing the Education 2030 agenda.

How does this look at country level? Recent research published by ActionAid provides some striking figures. Pakistan, a country with one of the largest numbers of out-of-school children in the world, loses US\$4 billion from harmful tax incentives. Even 20% of this amount would ensure a place in primary school for its 5.61 million out-of-school children, an extra 100,000 trained teachers, and free school meals for 1.8 million children (Ron Balsera, 2017). Of course, this will only happen if there is sustained pressure, particularly from Pakistani citizens and civil society. So, action to deepen mobilisation and accountability has to go hand in hand with this action on financing (see also Chapter 17 by Allyson Krupar and Anjela Taneja). There is also scope to raise many more billions through taxes earmarked for education linked, for example, to natural resource extraction or the profits of certain categories of companies.

This is an issue whose time has come. The outrage around the world following the Panama Papers and the Paradise Papers showed the widespread public and political support for reform, and showed that these issues are not going away. Education policymakers should champion action on taxation as the most effective single means to mobilise the tens of billions of dollars that are urgently needed. It is time for the negative cycle of lost revenue and low investment in education to be replaced by a positive cycle of expanding domestic tax revenue to invest sustainably in education that will yield long-term economic growth, which in turn will expand revenues further.

Building movements that link education and tax justice campaigners could help to make breakthroughs in this area, persuading national governments to stop offering harmful tax incentives, to strengthen their tax systems and capacities (including legal and regulatory frameworks), to renegotiate unsound tax treaties, and to raise new earmarked taxes for education. Such movements also need to sustain pressure for international reforms, for example, the formation of a new representative UN Tax body to take the setting and enforcing of tax rules away from the OECD club of rich nations. Pressure needs to be sustained on multinational companies themselves to commit to full transparency and pay taxes in the countries where they are invested. Any companies that want to play their role as private sector champions for education (such as those involved in the Global Business Coalition for Education) should first set an example in their own tax affairs, committing to high standards of tax transparency and country-by-country reporting of their profits. An active discussion is now taking place in the Global Partnership for Education about making progressive action on tax a requirement for private sector organisations working

with the partnership, though it is anticipated that this will be a contentious discussion.

Donors also have a role to play in using aid to strengthen tax systems, including national revenue authorities. At present less than 0.1% of aid is spent in this way. Donors need to continue to coordinate and harmonise their efforts behind sector support to national education sector plans (e.g., through the GPE). The UN system also has a crucial role. A critical first step might be to end the archaic practice that makes UN, World Bank, and IMF salaries tax exempt. If international organisations are to become champions of tax justice, they cannot be compromised in their own practices.

6.3 *Allocating Resources*

Putting tax on the table does not mean other crucial dimensions of financing SDG 4 can be ignored, but it is an essential foundation. Pressure needs to be sustained for a fair share of national budgets to be spent on education, so every country reaches or exceeds the 20% benchmark of good practice. Moreover, budgets need to be sensitively and effectively spent, prioritising equity so as to ensure no one is left behind. Equitable allocation and spending must be a core principle in terms of education financing and costing equity should be a priority (Myers, 2016). Equal spending per child is not tantamount to equitable allocation. To be inclusive of the children still out of school and to reach this goal, variable allocation and spending that will factor in multiple aspects of marginalisation (e.g., gender, rural-urban divide, disability, ethnicity, remoteness, incidence of conflict, and disaster) and include relevant premiums necessary for achieving inclusion will be essential.

There is increasing interest in National Education Accounts that track household spending alongside government budgets spent on education. However, considered in the light of the arguments advanced in this chapter, high household expenditure for access to basic education should be treated as a regressive form of tax. Not only does it contradict the principle of free education, it also means the poor tend to be forced to spend more on education as a proportion of their income than the rich. It is indeed important to track this data, but it is problematic if high household spending, as occurs in some Asian countries, is celebrated as a sign of a population committed to education. In fact, such data should be used as evidence of the need for a more effective and progressive tax system.

6.4 *Systemic Issues*

Making progress toward achieving SDG 4 requires a systemic approach both to education reform and education financing. The level of change needed will

not come about from pilots or short-term projects; rather efforts need to be harmonised behind the strengthening of systems over the medium and long term that can deliver inclusive and equitable education. National governments should play a pivotal role in developing nationally relevant education sector plans, though to be effective they need to ensure ongoing and systematic consultation with teachers, parents, civil society organisations, and parliaments to build the consensus necessary for sustaining reform.

Global actors can and must play a role but are most effective when they are reinforcing national-level processes and systems rather than imposing their own ideologies or solutions. The GPE, with its commitment to country leadership and consultative processes over education sector planning, sets a positive example, harmonising the efforts of most bilateral and multilateral agencies. There is still a worrying disconnect between the theory of GPE and the practice at country level, where the World Bank is responsible for managing GPE grants in the role of a grant agent in most cases. However, a relatively representative board and decision-making process helps to sustain pressure for it to continue to improve.⁷ There is a great danger that other global financing mechanisms, such as Education Cannot Wait or IFFEd, might lead to fragmentation or parallel efforts that undermine the focus on country-led reforms to education systems. This danger is becoming more alarming with the launch of even more new financing mechanisms (Education Outcomes Fund, Inclusive Education Initiative) without clear harmonisation in place (Edwards, S., 2018). Unfortunately, the global efforts to set up education financing mechanisms are not matched by efforts to promote fundamental reforms of tax rules and regulations or indeed to support countries to expand their own domestic resource mobilisation for education.

If SDG 4 is to be achieved, a comprehensive framework to transform the financing of education needs to be pursued. This means looking at the 4Ss – the size, share, sensitivity, and scrutiny of education budgets. A larger tax base is needed, along with a better share for education, sensitive allocations driven by equity, and effective scrutiny. The 2017–2018 Global Education Monitoring report highlights the crucial importance of accountability in successful education systems (UNESCO, 2017b). A key part of this is for citizens to know what money should be arriving in their local school and for them to be able to track this in practice and expose misuse or abuse. Civil society has a crucial role, sharing information, building capacity, and documenting practices in the most remote and disadvantaged communities, which are often the last to receive funds. As citizens become involved in tracking spending, they also build their confidence to engage in budget formulation processes, asking ever more strategic questions about the share, size, and sensitivity of education budgets.

The achievement of SDG 4 now hangs in the balance. If serious progress is to be made, some big breakthroughs in mobilising sustainable financing will be needed. The size of budgets, the share of budgets, the sensitivity of allocations, and the scrutiny of spending will need to be increased. The alternative scenario is frightening – one of continued underfunding of public education, increased dependency and conditionality of aid (e.g., through payment by results and ideologically driven PPPs), increased privatisation, and increasingly unequal education systems that exacerbate the inequality in the societies they serve.

The world in 2030 should not be lamenting once again the failure to mobilise the financing necessary to deliver on collectively agreed goals. A situation needs to be avoided where public education systems are further undermined, fragmented, and privatised for profit. The financing for delivering on the right to education can be ensured, thus making education a powerful force for delivering on all the other SDGs.

Notes

- 1 Of course, many see education also as a private good, yielding significant returns to the individual. It is the tension between these narratives of education that underlies many of the biggest disputes in education today.
- 2 See <http://www.un.org/esa/ffd/ffd3/index.html>
- 3 The UN and the World Bank are undermined as legitimate actors on tax justice by the fact that their own employees are tax exempt.
- 4 See <http://www.educationcannotwait.org>
- 5 Some exemptions can make VAT progressive. Education advocates might make a case for VAT exemptions to go beyond traditional items like food and fuel to include school equipment, sanitary pads, etc.
- 6 Such practices were highlighted in the vast troves of leaked documents known as the Panama Papers and the Paradise Papers. See the website of the International Consortium of Investigative Journalists: <https://www.icij.org/tags/panama-papers/> and <https://www.icij.org/tags/paradise-papers/>
- 7 The authors acknowledge that they have relationships with GPE, one as a previous board member, the other as a current staff member and may be perceived to have their own biases.