Alternatives to Financing Education Using Taxation in Sub-Saharan Africa

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Outline

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1. The Education Gap
2. Aid trends
3. Taxation for Quality Education

The Education & Fin. Gap

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- With 1 year left to 2015, most countries will miss the target for achieving EFA goals, and may continue to miss their education goals unless they scale up interventions in Education.
- In Africa,160 million adults illiterate and 30 million children out of school- **UNESCO, 2012**.
- Funding gap to achieve EFA in SSA of about $11billion and $16bn in low income countries **(UNESCO, 2010)**

WHY?

- African countries not allocating enough budgets: 6% GDP; 20% annual budget
- 16 SSA countries planned reduce spending on education between 2011 and 2012.
- Aid to education has been stagnating since 2010
  - Support to basic education is falling deeper and faster than other areas of education aid
  - Aid to basic education fell by 7% from 2010 to 2011.
  - Funding to education decreased in 19 low-income countries (mostly African Countries).

Education financing Gap

- In Sierra Leone Total cost to achieve EFA in SL is $951mn over 5 years
- $190mn/year
- Limited capacity of SSA governments to provide the requisite financing
- Aid trend and priorities are shifting away from education.
- **Yet Education is key to meeting all dev. goals**

What is the way forward?

- Donor countries must step up their support to basic education in the poorest countries, such as Sierra Leone.
- SSA to look internally for other ways of financing education!
- The only sustainable long term way to finance education and other social services is from **domestic financing through taxation.**

Oil & Mining in Africa

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- 1980-2009: Lost 1.4 trillion USD in illicit capital flight (1.400.000.000.000)
  Mainly through tax dodging.
- Oil & Mining exports are 8 times larger than aid to Africa
- Estimate that ¾ of foreign investments are in Oil & Mining

Africa – rich in resources – poor in development

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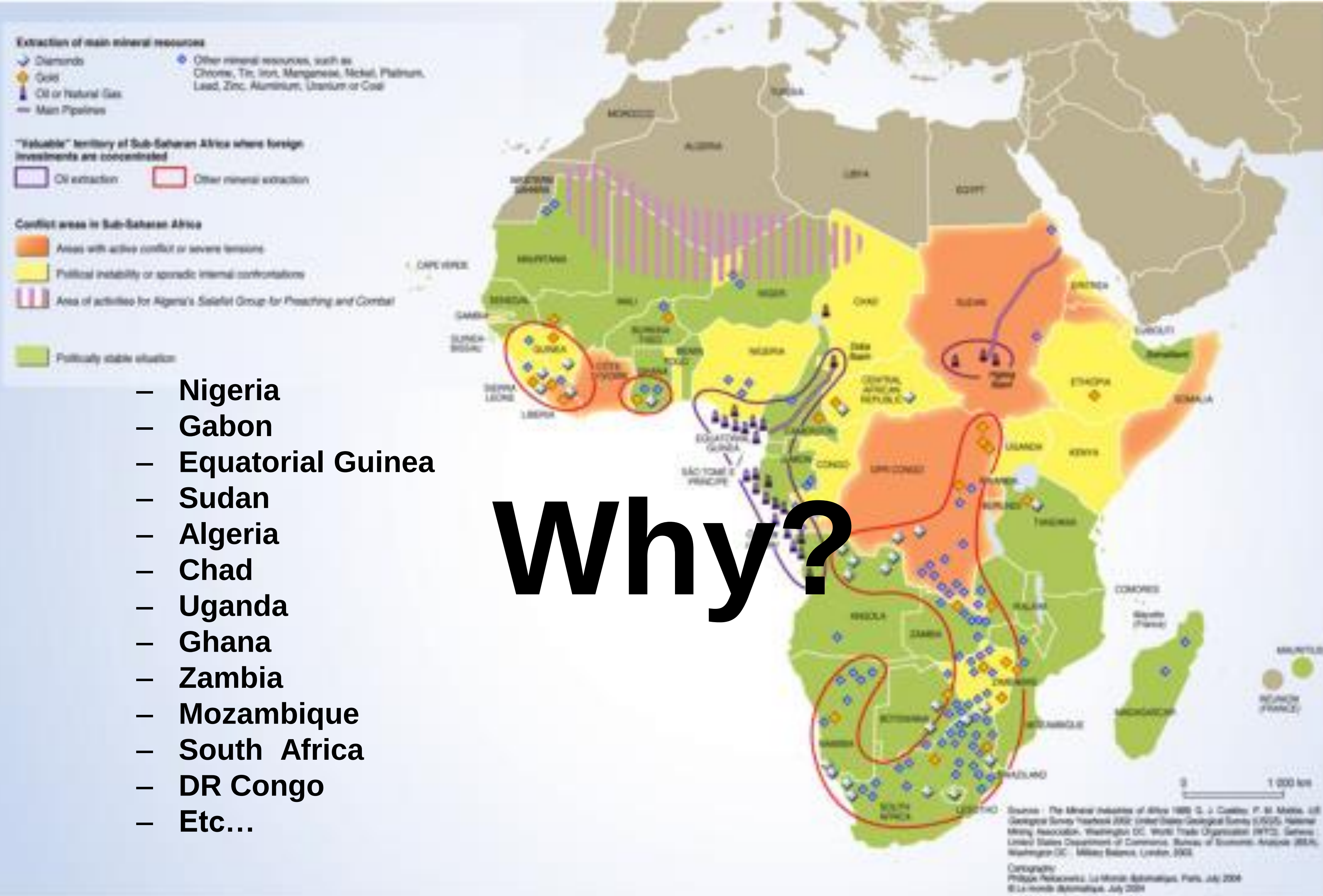

- Nigeria
- Gabon
- Equatorial Guinea
- Sudan
- Algeria
- Chad
- Uganda
- Ghana
- Zambia
- Mozambique
- South Africa
- DR Congo
- Etc…

Why?

Capital flight – Main reason for poverty

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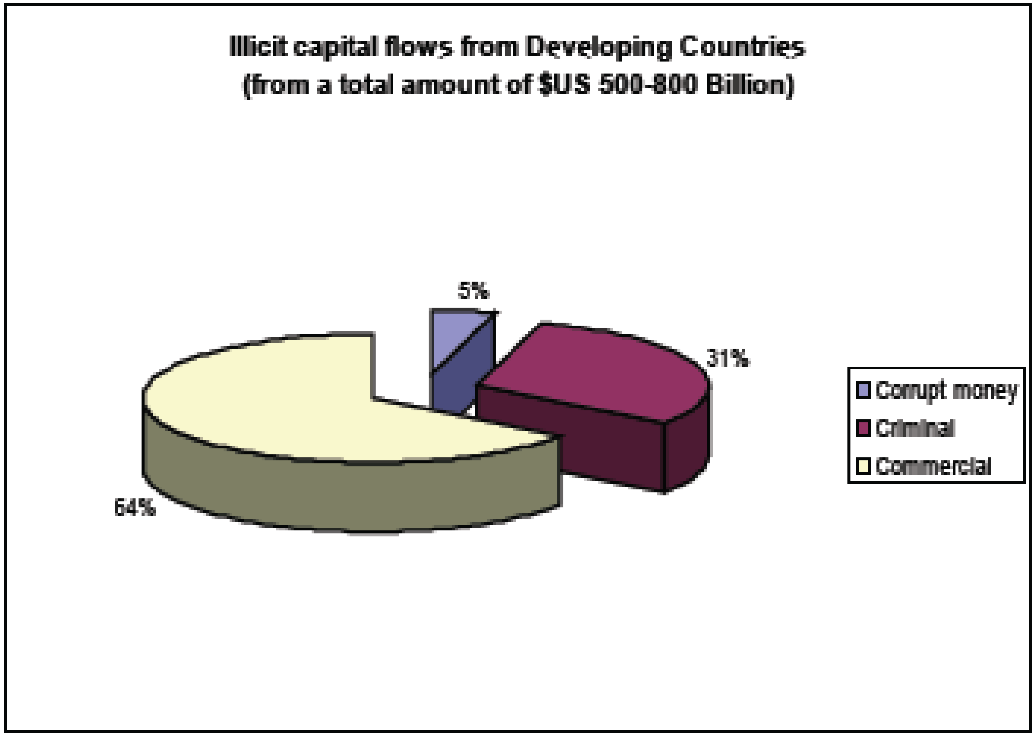
- 1.000 billion dollars illicitly escapes developing countries each year.
- App. 700 (64 %)billion is lost through multinational companies
- 31 % criminal activities; 5% corruption
- If commercial capital flight were taxed developing countries would mobilise app. 160 billion dollars annually.
- Estimate of Africa Capital flight is $70 Billion USD/year



Source: Global Financial Integrity, 2007.

Capital flight and Aid

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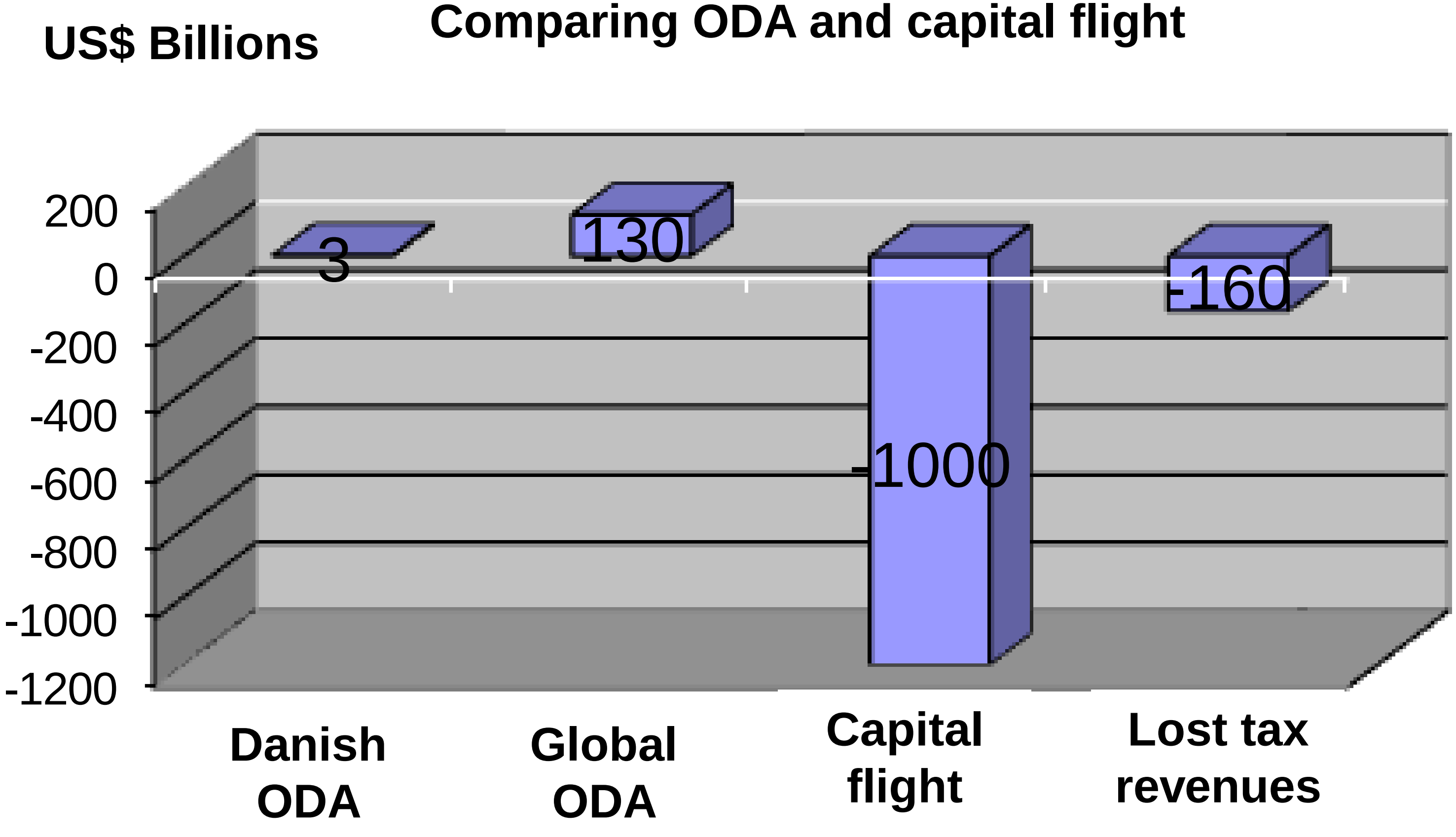
1 US$ ODA = 8 US$ capital flight



The Example of Sierra Leone

Capital flight: illicit/international

- $53 million USD annual in illicit capital flight by MNCs, using "tax havens" *(jurisdictions with low or no tax rates, high secrecy and non transparent, companies with several subsidiaries without clear ownership)*
- That is $16 million lost tax revenues.

Tax expenditures 2012 (national, holidays, exemptions)

Deductions in tax rates in order to attract investments

- $224 million tax incentives to 5 major mines
- Custom duties lost to 6 major investors: = $137 million
- VAT (GST) exemptions for mines: = $150 million
- Low corporate tax rates for five investors: = $44 million annually (mainly iron mines)

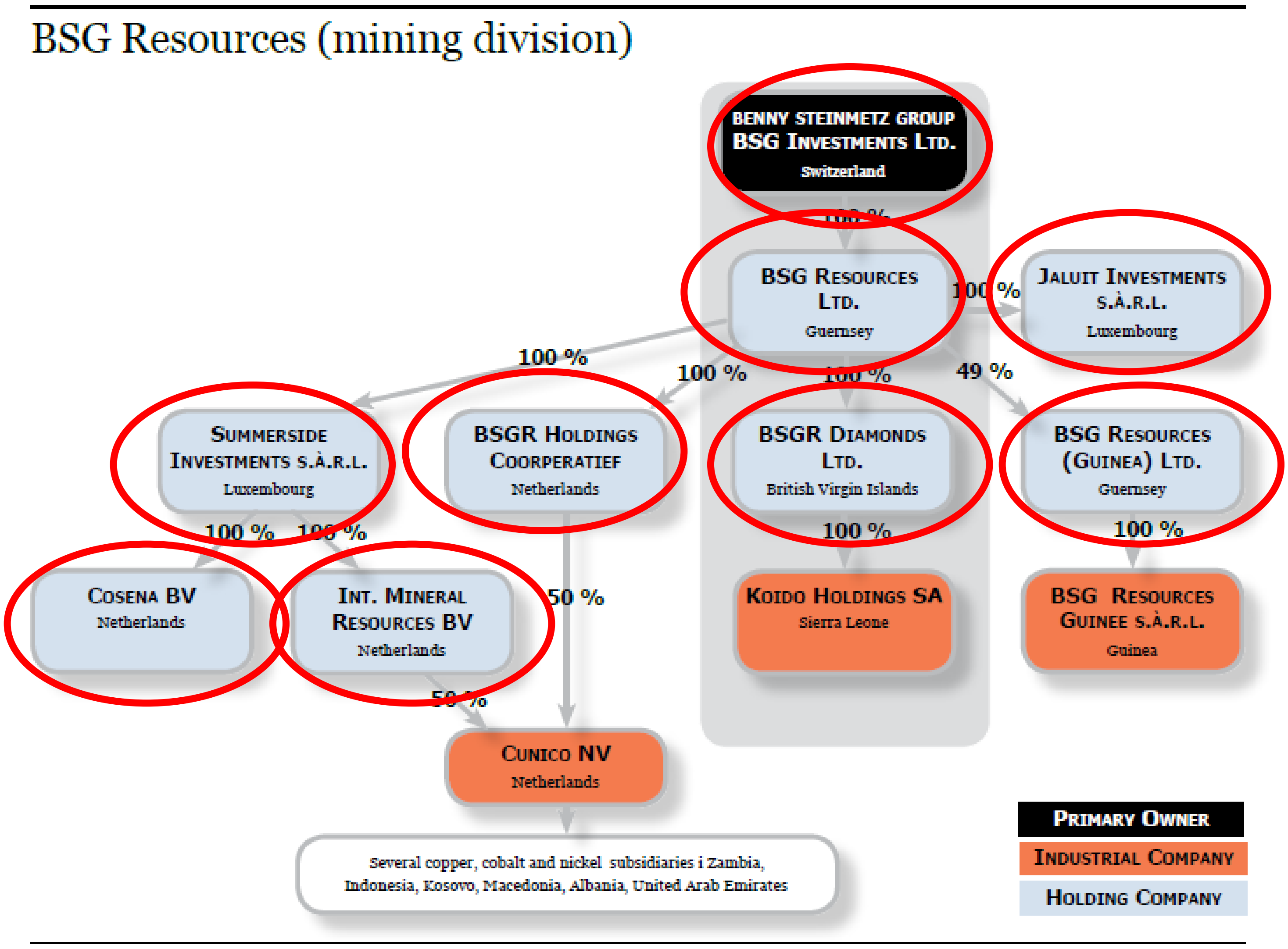
skaber udvikling

Kenya

- $1.1 billion lost annually in tax incentives exemptions.
- More than double the budget for basic education.
- This amount could:

- enroll the over 1 million children missing out on primary sch. 10 times over.
- Train and pay salaries for the 50,000 additional teachers needed.
- Build 100,000 new classrooms.
- Provide 2 new text books for every child of primary school and lower secondary.

Koido Holding – Example of artificial Tax havens



Sierra Leone…

- All major mining companies ***(including African Minerals, London mining, Sierra Rutile and Sierra Mineral Holdings)*** have complicated tax haven ownership, which indicates tax dodging through tax havens and denies the country of corporate tax.
- Diamond were important – now increasingly Iron and Bauxite will be important – oil is upcoming
- Royalties should be raised

Can African Countries Finance Education?

- Yes, we can.
- Turning the resource curse into Quality Education for Citizens.
- Zambia, Uganda, South Africa and Ghana reviewing mining tax legislation and contracts to increase revenue from mining.
- In Brazil: All royalties from newly discovered oil fields to education.

Tax for Education & Development

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Internationally

1. End capital flight

1. **Transparency** in MNC accounts through Country by Country reporting
2. End **Tax havens**

National policy

2. Increase government revenues

1. **Higher** taxes and less tax **incentives**
2. Better **policies** and **contracts**

National accountability and distribution

3. Spend taxes on education

1. Funding for **Education**
2. **Follow the money** down to poor communities
3. Fight **corruption,** demand **transparency**

Transparency

We can finance education!

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1: Implement a fair tax system to increase education budgets:

- We must stop multinational companies taking capital out of Africa. Stop tax dodging – they have to Pay!
- Stop elite looting countries and hiding wealth in tax havens
- African countries must stop giving too big tax incentives.
- Must implement fair tax reforms

We can Finance Education

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2. Turn Natural resources into lasting source of national wealth

- Maximize revenues from extractive industries in countries that are resource rich.

3. Spend resources more equitably

- Equitable and Well-directed education spending, based on the greatest gaps in meeting EFA, focused on combating exclusion and targeted at the disadvantaged and marginalised.

4 . Make ordinary citizens part of the budgeting and monitoring process.

- Employ open, transparent and participatory systems for budgeting and spending.
- Involve citizens: and make budget-setting responsive; and budget execution transparent.

Key messages

1. Transparency at all levels!
2. Oil and mining industry holds a great potential for financing education and social development.
3. There is a need for global regulation in order to strengthen transparency and end capital flight
4. Push for fair tax systems and capacity to enforce systems
5. Strengthen civil society to demand accountability, monitor agreements and track funds

End

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THANK YOU