Domestic resources can help bridge the education financing gap in Africa

Increase domestic spending on education:

The Dakar Framework for Action did not establish financing targets for education, which resulted in wide differences in government spending. In 2011 in sub-Saharan Africa, 18% of government expenditure was directed to education. Yet sixteen countries in the region reduced their education budgets between 2011 and 2012, including many that are far from the EFA goals. New global development goals after 2015 should specify that countries at least 20% of their budget to education. If the region devoted a fifth of their budgets to education, an extra $22.4 billion would be raised for the sector.

A well-functioning taxation system reduces reliance on external finance:

Many of the countries furthest from the EFA goals do not sufficiently tap their tax base. To guarantee their citizens’ right to education and benefit from education’s power to transform lives, countries must put in place strong fiscal policies, backed by budget policy reforms.

If governments in 34 sub-Saharan African countries modestly increased their tax-raising efforts and devoted a fifth of the additional revenue raised through tax to education, $4.5 billion would be raised for the sector. This is based on the assumption that the annual growth of the tax-to-GDP could increase from 0.44 percent to just 0.69 percent. But these are very modest assumptions.

Far more would be raised if harmful tax exemptions and tax evasion and avoidance especially by large multinational corporations were stamped out. In much of sub-Saharan Africa, these exemptions can amount to the equivalent of 5% of GDP. Ethiopia has one of the lowest tax/GDP ratios of all developing countries, reaching just 12% of GDP. This is largely due to generous tax exemptions, which amounted to about 4.2% of GDP in 2008/09. If Ethiopia eliminated these exemptions and devoted 10% of the resulting revenue to basic education, then this country of 1.7 million out-of-school children would have an additional US$133 million available, enough to get approximately 1.4 million more children into school.

Losses occur not only when governments grant exemptions, but also when they sell natural resource concessions for less than their true value. One analysis concluded that the Democratic Republic of the Congo incurred losses of US$1.36 billion from its deals with five mining companies between 2010 and 2012. This is the same amount as allocated to the education sector over two years between 2010 and 2011.

There is vast potential for funding education through better managed domestic resources:

In total, if governments increased their tax raising efforts and devoted a fifth of their entire budget to education, they could raise an additional US$26.9 billion for education spending in 2015, an increase of 77% in spending to the sector.

Half of that amount could be raised in Nigeria, the country with the highest number of out of school children, if it prioritized education and increased its tax-to-GDP ratio from 25.3% to 27%. Combining the two would increase the share of education in GDP from 1.5% to 5.6%.
Rwanda could increase spending per primary school child by 75% by 2015, while Uganda could increase spending by 50% over the same period.

On average, sub-Saharan African countries would spend 6% of GDP on education as a result of prioritization and domestic resource mobilization. However, 19 countries will not meet the 6% target. If these countries could increase spending on education to a minimum of 6% of GDP, then an additional US$4.4 billion could be raised on top of the above estimates based on prioritization and domestic resource mobilization.

Zambia could increase spending by US$0.6 billion by 2015 if it accelerated the collection of tax revenue and prioritized education but would still be well below the 6% target by 2015. Yet, it could raise an extra US$0.7 billion beyond what we have estimated for prioritization and modest tax-to-GDP growth if it raised expenditure on expenditure to 6% of GDP by 2015.

Other countries could make even larger progress. Sierra Leone could raise an additional US$117 million in 2015 if it increased the tax/GDP ratio from its current level of 9% to 14% and at the same time prioritized the education sector within government expenditure from the current level of 14% to 20%. This would double expenditure per primary school child, from US$60 to US$118.

Angola has succeeded in converting much of its vast natural resource wealth into government revenue, with tax representing 42% of GDP, but it only spends 9% of these funds on education, one of the lowest proportions in the world. Raising the share to 20% would increase resources to education almost two and a half times, or by US$7 billion. Assuming half of this is allocated to primary education, it could more than double resources spent per primary school age child.

The 2013/4 EFA Global Monitoring Report recommends three key steps:

**Limit tax exemptions:** While low and middle income countries as a group rely heavily on tax revenue from corporations, many of them forgo considerable revenue from businesses by granting harmful tax exemptions that do not provide a net benefit to the economy. In much of sub-Saharan Africa, these can amount to the equivalent of 5% of GDP. Losses occur not only when governments grant exemptions, but also when they sell natural resource concessions for less than their true value. Governments must review the terms and conditions of concession agreements in order to maximize funding available for social good.

**Fight tax avoidance and evasion:** For many of the world’s poorest countries, tax avoidance and evasion, especially by large multinational corporations, results in resources being used to build personal fortunes for the minority elite, rather than strong education systems for the benefit of the majority. It is estimated that African governments lost US$38 billion annually from such practices between 2008 and 2010. Governments must ensure progressive taxation and continue to close tax loopholes that lead to avoidance and pursue tax avoiders.

**Diversify the tax base:** In recent years sub-Saharan Africa has relied heavily on natural resources, which represented 46% of the region’s tax revenue in 2008. Better progress needs to be made in broadening the tax base beyond these resources.

*Expanding and diversifying the tax base and prioritizing education would go a long way towards ensuring that children are in school and learning by 2015, and would provide a solid base for funding more ambitious goals after 2015.*