Education Working Group

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1. G20 Commitments

“(…) We welcome the commencement of the automatic exchange of financial account information and acknowledge the strengthened criteria developed by the OECD to identify jurisdictions that have not satisfactorily implemented the tax transparency standards. Defensive measures will be considered against listed jurisdictions. All jurisdictions should sign and ratify the multilateral Convention on Mutual Administrative Assistance in Tax Matters. We continue to support enhanced tax certainty and tax capacity building in developing countries, including through the Platform for Collaboration on Tax”. G20 Leaders Declaration, 2018

“(…) We will continue to take steps to address debt vulnerabilities in low income countries by supporting capacity building in public debt and financial management, and strengthening domestic policy frameworks. We will work towards enhancing debt transparency and sustainability, and improving sustainable financing practices by borrowers and creditors, both official and private, including infrastructure financing”. G20 Leaders Declaration, 2018

2. Challenges

There is an international consensus regarding the importance of education in terms of rights, as well as a strategy for the development of nations and their peaceful coexistence. Despite this, “There are today 264 million children and youth not going to school - this is a failure that we must tackle together, because education is a shared responsibility and progress can only be sustainable through common efforts. This is essential to meet the ambitions of Sustainable Development Goal on education (SDG 4), part of the 2030 Agenda for Sustainable Development. (…) Moving forward requires having clear lines of responsibility, knowing when and where those lines are broken and what action is required in response”. (UNESCO Global Education Monitoring Report, 2017/8)

One of the answers and necessary measures to which the present document calls upon is the increase of educational investment. However, developing countries are caught in a vicious cycle that in this document we will call the risk of external debt and fiscal fraud for educational financing.

The global debt reached its peak in 2015 and it has a tendency to keep rising. For the purposes of the analysis should be taken into account, not only the total volume of debt of a country, but its economic capacity to meet its payment. This is because you can have a very large debt and at the same time a powerful economy that supports it (examples: many highly industrialized countries in Europe, North America and Asia). The reverse is the case with many countries in sub-Saharan Africa: they have small total debts but they drown their weak economies. The economic capacity of a country is usually measured by comparing the total amount of debt with the resources obtained from exports, since the debt is usually paid in foreign currency (dollars), obtained from exports. Therefore, as can be seen in the following table, higher is the index, worst is the situation. Another important concept is the payment of the "Debt Services". It corresponds to the value to be paid annually by each country and that determines the degree of financial "suffocation" since it is effectively what they must pay each year as "interest and / or capital maturity".

Below you can see the evolution of the increase in total debt between 2009 and 2017, as well as the impact of interest payments on GDP and the payment of debt services in relation to exports. The data are eloquent when they show the economic burden that debt represents as the largest amount of export revenues are used to pay the debt.

In addition, information on the percentage of GDP represented by educational investment shows the existing gap between the necessary budget and that which is effectively made available to children and young people, which puts the future of social development at risk.

Another of the problems of the indebtedness is the loss of sovereignty of nations over their own decisions, which impact is clearly seen in the imposition of adjustment policies and the decreasing investment in public policies, such as education, which is the issue that concerns us.
Table 1: Percentage of GDP that represents debt, payment of debt service and educational investment

<table>
<thead>
<tr>
<th>Region or Group of Countries</th>
<th>Total External Debt (as % of GDP)</th>
<th>Annual payment of the Interests of the Debt (as % of GDP)</th>
<th>Total External Debt (as % of total Exports)</th>
<th>Total payments for “Debt Services” (as % of Exports)</th>
<th>Total Education investment (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>27,8 %</td>
<td>33,5%</td>
<td>0,5 %</td>
<td>0,8 %</td>
<td>85,9 %</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>21,9%</td>
<td>35 %</td>
<td>1,1 %</td>
<td>1,6 %</td>
<td>115,4 %</td>
</tr>
<tr>
<td>East Asia and the Pacific</td>
<td>13,1 %</td>
<td>17,1 %</td>
<td>0,3%</td>
<td>0,6%</td>
<td>45,4%</td>
</tr>
</tbody>
</table>

Compliance with the SDGs implies progressive increase in investment. The main estimates suggest a general, annual requirement for additional public financing equivalent to around 27% of GDP in low-income countries and 7% in average-income countries. Education accounts for about a fifth of that requirement in low-income countries and a third in middle-income countries. The additional financial requirement is estimated at $1.4 trillion annually. Optimistic assessments of the potential of domestic revenue mobilization to contribute still leave a gap of $150 billion or more each year. In addition to the increase in global debt, acts of corruption by global corporations that operate in regions associated with political power sectors (what we call “taking over the state”) derive what we include into “fiscal

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1 High-income countries are excluded, and only those with low incomes and/or highly indebted are included
fraud”, such as tax evasion, tax avoidance, and fiscal privileges⁴. These actions offer a fertile ground for corporate and government corruption.

The political, economic, and social global crisis that started in 2008 is not over yet. Since then there have been a series of geopolitical changes that include fractures and changes in global governance, especially in the international taxation field, identified as one of the main global challenges. The need to promote changes in this area becomes more evident year after year of scandals produced by mega filtrations of financial information such as Lux Leaks (2014), Swiss Leaks (2015), Panama Papers (2016), Bahamas Leaks (2016), and Paradise Papers (2017). The successive scandals evidenced the existence of a global network of fiscal and financial lairs that, through various mechanisms of flight, evasion and concealment, erodes the collection of the states.

The impact in Latin America of aggressive tax planning is alarming. ECLAC estimated that illicit financial flows associated with the manipulation of international trade prices accumulated 765 billion dollars in the period between 2004 and 2013⁵. Overall tax evasion in the region, in turn, reaches 340 billion dollars annually.

We are in a moment of instability of the global ruling system which is often designed and works in favor of corporate interests and elites that bring political, economic, social and environmental consequences. This is reflected in different continents, particularly in Latin America, where the fight against the dominant neoliberal model and the promotion of alternative policies has been going since the last four decades and more vigorously in the last decade and a half.

The link between the tax system and development is fundamental and requires greater focus and pressure on governments to increase their general budgets in order to guarantee compliance with the goals set forth in SDG4.

The exercise proposed in the following graph compares the percentage of GDP destined for education by country during 2016 with tax evasion data of transnational corporations (source: Global Tax Justice Network). This kind of corruption affects the destiny of our future generations in terms of access to education and associated rights with this, such as: better credentials for entering the world of work, decent housing, and social security systems.

Table 2: Percentage of GDP allocated to education by country during 2016 with tax avoidance data for the same year⁶

A revealing data provided by ECLAC (2017) estimates that individuals’ wealth hidden in tax havens as US$7.6 trillion, and around US$700 billion of this is estimated to belong to individuals from Latin America (not companies), which in turn represents 22% of the total financial wealth of the region, and that most of this amount (around 80% on average) has not been reported to the respective tax administrations. In a highly unequal region such as Latin America and the Caribbean, the existence of that amount of wealth - and the income it generates - outside the scope of the treasury further weakens the already weak redistributive power of tax systems⁷.

Another of the negative aspects is the constant global growth of the so-called "illicit financial flows". These flows of money that move across borders, leaving the countries without being detected by the national treasuries,

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⁴ Tax evasion is an illicit activity in which people or companies incur when they hide properties or income from the tax authorities, or overvalue the deductible concepts, in order to pay less taxes than they are legally entitled to. Tax avoidance is a behavior of taxpayer who seeks to avoid paying taxes using maneuvers or strategies allowed by the same law or by the gaps of this.


⁶ Own elaboration on CLADE and TJN data. The table refers to the evasion of multinational companies. The 5.33% investment in education does not include the budget item corresponding to Science and Technology.

⁷ https://repositorio.cepal.org/bitstream/handle/11362/41197/S1700214_en.pdf?sequence=4&isAllowed=y
earned the region’s tax losses of US$31 billion or 0.5 points of GDP (weighted average) in 2013 as a consequence of the so-called “manipulation of foreign trade prices”\(^8\) (or manipulation of transfer prices). This mechanism, widely used by transnational corporations, is used to erode the tax base and transfer benefits to areas of low or no taxation.

![Strong evasion and fiscal elusion and exit of illicit flows](image)

These jurisdictions provide, in addition to either low or no taxation whatsoever, the possibility of proceeding within the utmost secrecy:

- Banking secrecy: not disclosing neither banking nor information of the customers.
- False beneficiaries (Strawmen)
- Escape clauses (movement of funds to other jurisdictions in case of banking secrecy being threatened)

### 3. Recommendations

The recommendations proposed here require the commitment and active participation of all sectors and progressive fiscal policies combined with control mechanisms. Fiscal policies should be implemented in a comprehensive manner, with awareness and education processes an based on the principles of social correlation.

#### Educational financing oriented to educational justice

- **Sustainability of the debt**: Countries should not acquire debts that could imply a risk to educational investment. To break the vicious cycle of the debt, it is necessary to advance the integral audits of the debt, evaluating not only the financial impacts, but also the economic, social and environmental ones, in order to determine which parts of it are legitimate and which are not.

- **Exchange of debt for education**: Take up initiatives such as the Highly Indebted Poor Countries (HIPC) created by the G8 for those countries with high public debt. The exchange is aimed at generating funds that enhance the impact of social investments based on multilateral agreements with several creditors. This measure requires prior consideration of the debt legitimacy.

- **Multilateral financing**: Increase the external cooperation of education through bilateral and multilateral organization like “Global Partnership for Education” and “Education Cannot Wait”, and the strengthening of South-South cooperation. This cooperation should not imply in any way the indebtedness of the countries, their capacity to make sovereign decisions and the privatization of education in any of its aspects. Resources from international

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\(^8\) [https://repositorio.cepal.org/bitstream/handle/11362/41197/S1700214_en.pdf?sequence=4&isAllowed=y](https://repositorio.cepal.org/bitstream/handle/11362/41197/S1700214_en.pdf?sequence=4&isAllowed=y)
cooperation should not be used in any way to support commercial or no-commercial private schools or any form of profit making in and through education. “(...) In accordance with the responsibilities that they have assumed we urge the developed countries that have not yet done so to make more, concrete efforts in order to achieve our goal to allocating 0.7% of GNP to ODA for developing countries” (Declaration of Incheon, 2015).

- **Domestic financing:** “(...) We urge adherence to the international and regional benchmarks of allocating efficiently at least 4 – 6% of Gross Domestic Product and/or at least 15 – 20% of total public expenditure to education” (Incheon Declaration, 2015). We acknowledge that compliance with all commitment related to official development assistance (ODA) is crucial, including the commitments of many developed countries to achieve the goal of allocating 0.7% of their gross national product (GNP) to ODA for developing countries. Furthermore, we emphasize the importance of ensuring financial investment in each country, in coherence with the goals built with the participation of the key actors that guarantee the fulfillment of SDG4. We emphasize the importance of the domestic budget being based on the 4Ss approach: increase the Share, Size, Sensitivity and Scrutiny of the budget9.

- **Law on Educational Financing or similar in all countries is needed**
- **Intangibility of funds allocated to education need to be addressed**
- **Access to information on the degree of progress in meeting the goals of SDG4 should be improved**

**Mechanisms to prevent tax fraud**

- **Fiscal control over large corporations, whether national or transnational, as well as great national wealth are needed**
- **Combat the global network of fiscal and financial lairs**
- **Zero tolerance to tax fraud**
- **Eradicate the current systems of tax exemptions and privileges that favor the national corporate and economic elites**
- **Promote another global governance of alternative taxation to the OECD**
- **Recover the meaning of fiscal policy: generation of equalities**
- **Review tax incentives granted to large companies**
- **Eliminate the global offshore financial services network**

### 4. Supporting Information

http://www.campaignforeducation.org/docs/resources/GCE%20Financing_Matters_EN_WEB.pdf


https://www.taxjustice.net/


unesdoc.unesco.org/images/0024/002456/245656E.pdf

Filmus, D; Serrani, E. “Educación y Financiamiento. Análisis de los canjes de deuda por inversión social como instrumento de financiamiento extra-presupuestario de la educación”. OEI - Fundación SES (2009)

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9 https://www.campaignforeducation.org/docs/resources/GCE%20Financing_Matters_EN_WEB.pdf