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Funding for Education and the Addis Tax Initiative

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Truths about Funding for Education SDGs

For Primary and Secondary Education

- Almost all of the funding (especially the pro-poor part) will come from the government *
- Almost all of the government funding will come from Domestic Resource Mobilization (DRM), not from the donors *
- Among tax resources, local property taxes can be an important resource for a few middle-income countries
- Lion's share of funding for education will come from core taxes (VAT, CIT, PIT) raised at the national level

* *Government Spending Watch Report 2015*



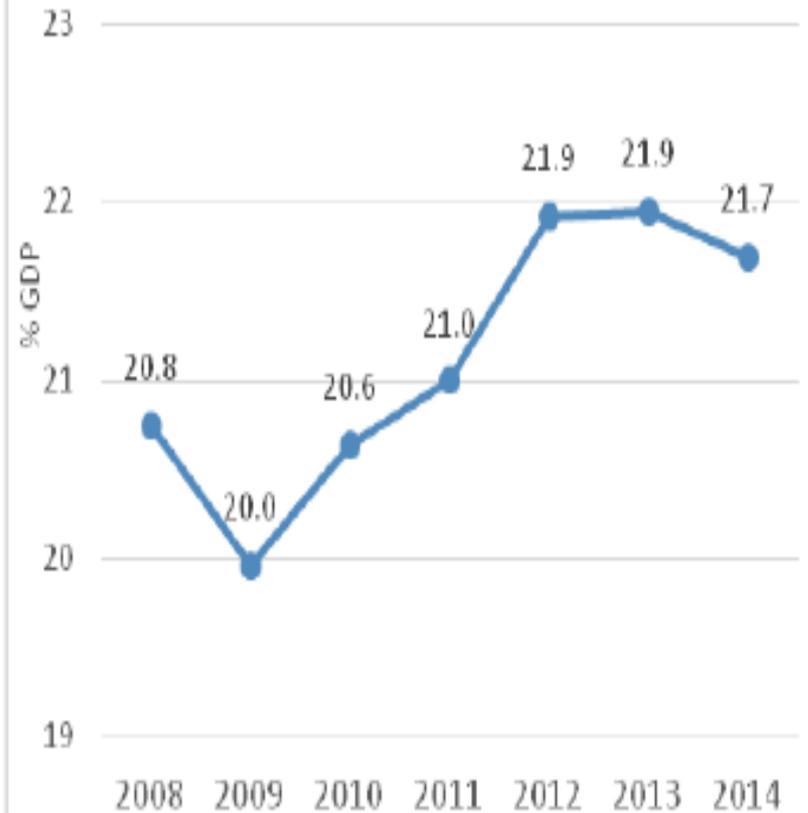
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Revenue & Spending in 66 Countries

Figure 2.1: Total Government Spending (% of GDP)



Figure 2.2: Government Revenue (% of GDP)

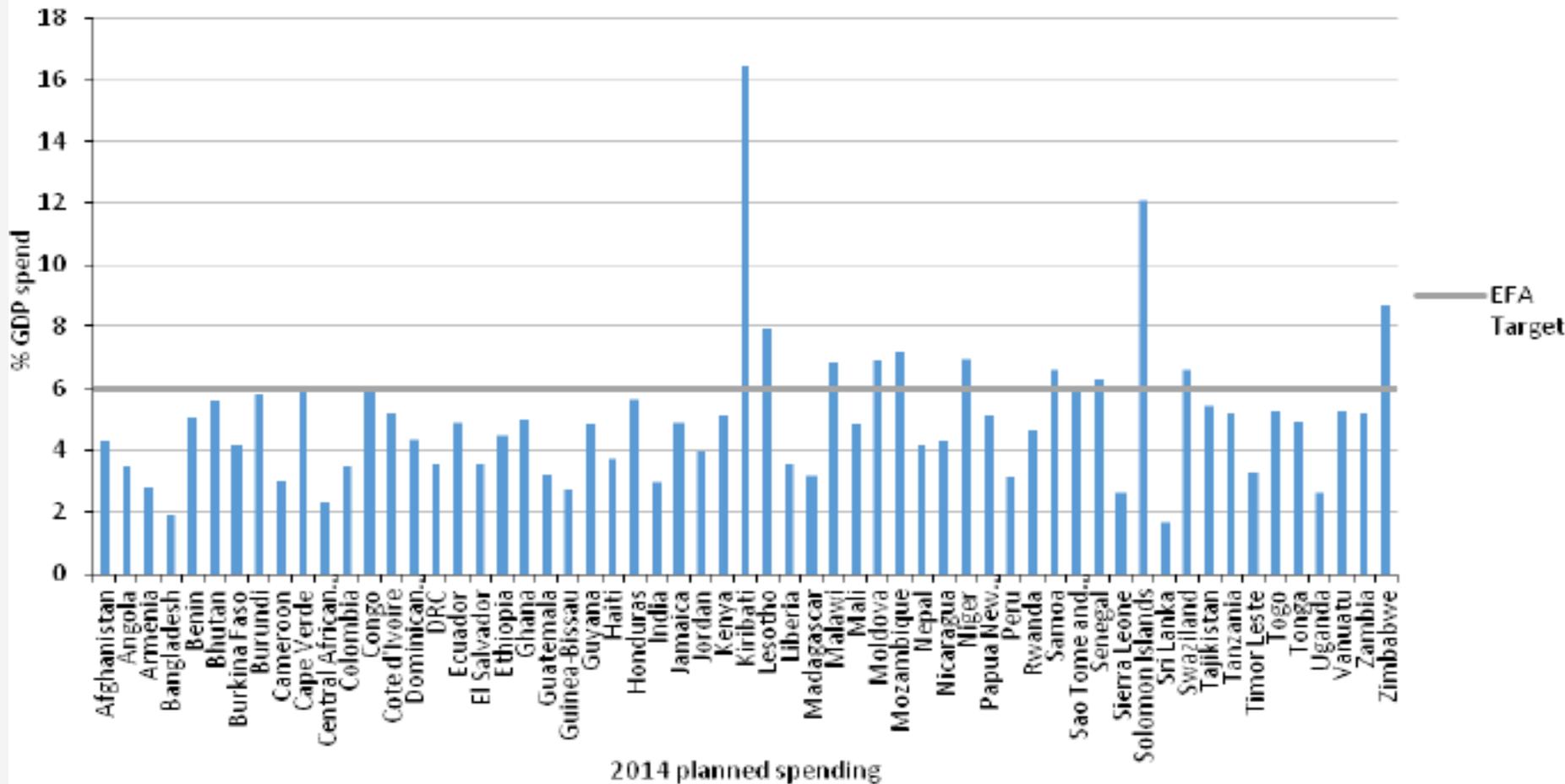




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Education Spending in 59 Countries

Figure 2.14. Spending as percentage of GDP on education





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What is the Role for Property Taxes?

Virtues of Property Tax for Education

- Best local tax to mobilize substantial revenue (in OECD)
- Local service delivery improves education outcomes (since local prop tax usually improves political accountability)

Limitations of Property Tax

- Local capacity to develop/sustain cadastre, to collect taxes, and to hold schools accountable
- Unequal tax base across localities ('horizontal equity problem')
- Narrow base if agriculture and home-owners are exempt
- Collections will be low unless law allows seizure and auction of property for delinquent taxpayers



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What is the Addis Tax Initiative?

- **A partnership to improve Domestic Revenue Mobilization**
- **17 donors agreeing collectively to double funding of DRM by 2020**
- **12+ partner countries committing**
 - **to raise domestic public revenues and**
 - **to use the funds effectively to pursue their SDGs**



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Supporting Organizations

ATAF
Bill & Melinda Gates Foundation
CATA
Global Forum on Transparency and
Exchange of Information for Tax
Purposes
CIAT
IIMF
OECD
World Bank



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Concept for the USAID DRM Initiative

- **Develop shared, high-level vision on mobilization of revenue and the scaling up of delivery of services in key sectors**
 - Are goals of the government aligned with those of USG?
- **Assess obstacles to goals in sectors subject to Mission X's Budget Controls or Directives:**
 - Is adequacy of public funding a key constraint?
- **Set realistic, medium-term targets for progress**
- **Find flexibility in the use of Directives of Mission X toward funding of DRM activities**



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Expectations on Partner Countries

- **Medium-term revenue goal**
- **Commitment toward budgetary funding of jointly-agreed sectoral goals**
- **Taking steps toward good financial governance and accountability for delivery of public services**
- **Measurement and monitoring of progress**
 - **Toward revenue goals, per ATI**
 - **Toward sectoral goals agreed between USAID and partner country**



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Typical DRM Activities w/High Payoff

Help Government and Tax Administration to:

- Policy analysis to **estimate tax expenditures** and take legislative action to eliminate low-priority exemptions and waivers for CIT, PIT, VAT, and Customs
- Strengthen systems to **improve voluntary compliance** (often by simplifying forms, taxpayer e-filing)
- Empower tax agencies w/ **statutory authority and appropriate, risk-based audit and enforcement practices**
- Develop **integrated information data-base and IT system** – to widen taxpayer registration and to quickly identify and act against non-compliant taxpayers



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