

Making tax work for girls' education:

How and why governments can reduce tax incentives to invest more in girls' education.

Research findings from four countries





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Foreword

This short report summarises the insights from ActionAid's work linking tax justice and financing for girls' education in Malawi, Mozambique, Tanzania and Nepal. We are launching this at the Global Partnership for Education replenishment meeting in Senegal in February 2018. The Global Partnership for Education has set an important example in requiring developing countries to maintain or increase the share of national budgets allocated to education (towards the benchmark of 20%) but this report shows the urgent need to move beyond the narrow focus of arguing for a greater share of the budget for education. We need to focus also on the size of the domestic tax base. Action to address both the size of government revenues overall and the share spent on education, offers the best means to secure predictable and sustainable funding for education systems.

The evidence that we have collected in these four countries could undoubtedly be found in many other developing countries: governments are giving away vast sums in what the IMF terms as harmful tax incentives and even just a portion of these sums, if allocated to education, could ensure all girls and boys have access to quality public education. Investing in girls' education, in particular, yields dramatic economic returns over the long term - so investing in girls' education today is not just a means to ensure one of their fundamental rights are fulfilled - it also makes very good economic sense.

David Archer

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Investing in girls' education yields long-term returns. PHOTO: FABIO ERDOS/ACTIONAID

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Most children currently out of school are girls.
PHOTO: KARIN SCHERMBRUCKER/ACTIONAID

Introduction

In 2015 there were 264 million primary and secondary age children and youth out of school around the world. Of these, 61 million children were of primary school age. Most children not currently in primary school are girls: 5 million more girls than boys are currently receiving no primary education. Globally, 9.7% of all girls of primary age are out of primary school.¹ Unless things change, millions of girls will never receive an education. But even many of those who are receiving a poor quality education. Many schools around the world, especially in the world's poorest countries, lack electricity, trained teachers, adequate teaching and learning materials, sufficient sanitary conditions and basic infrastructure to ensure a good quality education for all.

To ensure that all girls have a good quality education, governments in developing countries need to increase their spending on education and improve its quality. One key way to raise extra resources is by increasing tax revenues, and one major way to do that is to reduce or eliminate the tax incentives that many governments now offer, especially to corporations. This 'tax expenditure' causes a massive loss of potential revenues that could be spent on improving education and other public services. Recent research by ActionAid shows that governments in sub-Saharan Africa may be losing around US\$38.6 billion a year, or 2.4% of their GDP, to tax incentives. This is equivalent to nearly half (47%) of their current education spending.²

1. Unesco, *Global Monitoring Report 2017*, pp, 118, 125, <http://unesdoc.unesco.org/images/0025/002593/259338e.pdf>
2. ActionAid, *Missed Opportunity: how could funds lost to tax incentives in Africa be used to fill the education finance gap?*, 2017, <http://www.actionaid.org/publications/missed-opportunity-how-could-funds-lost-tax-incentives-africa-be-used-fill-education-fi?width=970&height=290&inline=true>

This report presents new research in four developing countries – Malawi, Mozambique, Nepal and Tanzania – and shows:

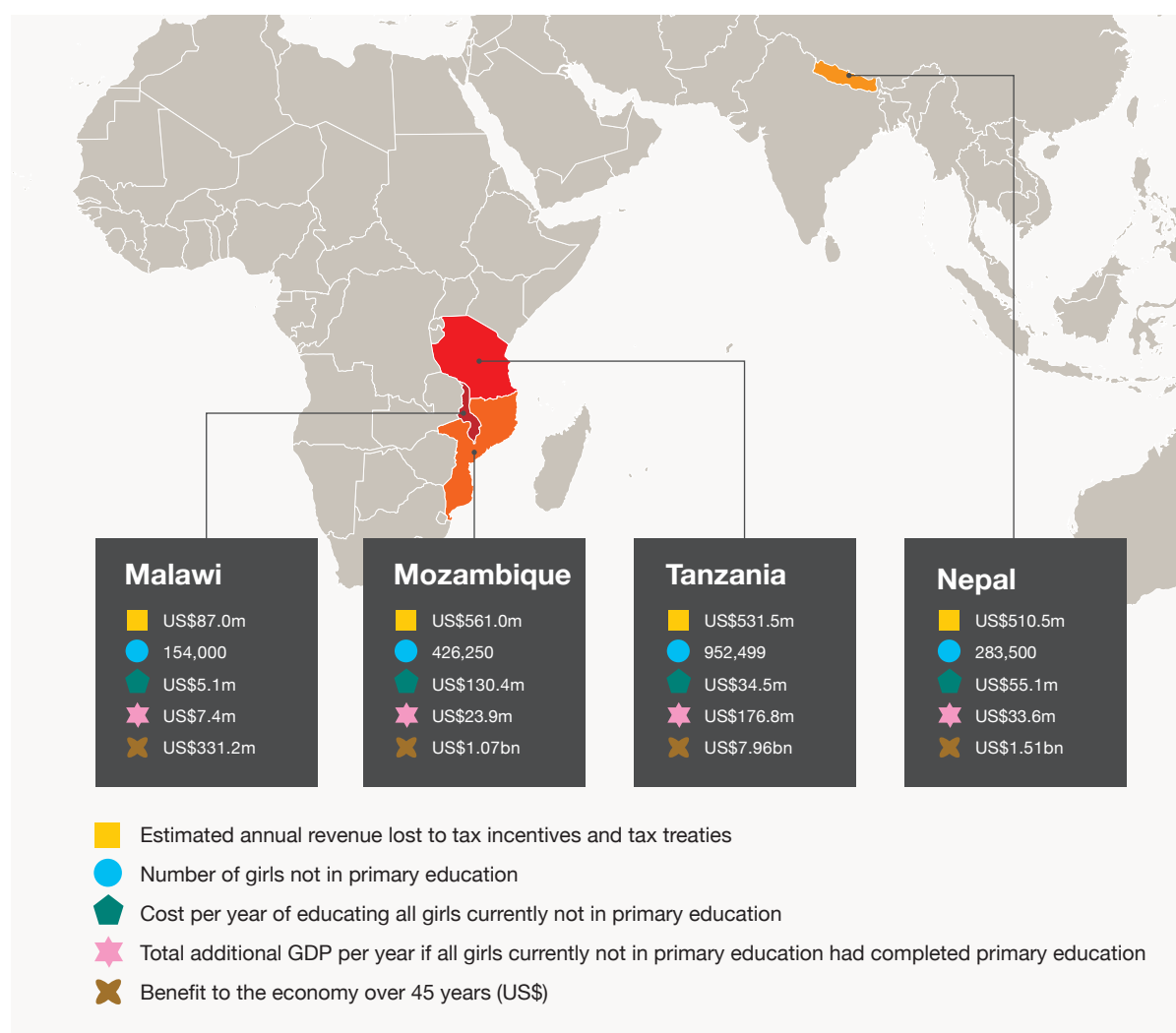
- How much revenue these governments are losing to tax incentives, including from the tax treaties they have signed with other countries.
- What it would cost these countries to provide all girls with full access to primary education.
- How much this investment in girls' education would benefit not only the girls themselves but the economy as a whole.

Summary findings

Our summary findings are presented in the infographic below. Some of the figures are stark:

- Three of the four countries are losing more than half a billion dollars a year to tax incentives.
- The costs of educating all girls currently out of primary school is miniscule by comparison. Tanzania, for example, loses 15 times more in tax incentives each year than it would cost to educate all girls currently out of primary school.
- Two countries, Mozambique and Nepal, would gain more than \$1 billion by educating all girls currently out of primary school over their 45 year working lives.

Figure 1: Key figures



Background on the four countries

Malawi's annual GDP per capita is estimated at US\$322.³ The government raises around 15% of GDP in tax revenues⁴ – a relatively low amount.⁵ Meanwhile, an estimated 154,000 girls of primary school age are not in school, and the illiteracy rate among women over 15 years of age is 45%.⁶ Malawi spends the equivalent of 5.6% of its GDP on education,⁷ which is within the 4-6% range recommended by UNESCO.⁸

Mozambique is also one of the world's poorest countries in terms of per capita GDP. Government revenue is around 24-25% of GDP,⁹ which is above the average for sub-Saharan countries,¹⁰ but significantly lower than most advanced economies, which raise the equivalent of 35-36% of GDP in revenues.¹¹ Meanwhile, an estimated 426,250 girls of primary school age are not in school, and 64% of adult women are illiterate.¹² Mozambique spends around 19% of government revenue on education, the equivalent of 6.5% of GDP;¹³ this is slightly above the 4-6% range recommended by UNESCO.¹⁴

Nepal raises 23-24% of its GDP in revenues,¹⁵ which is comparable to other similar economies in Asia¹⁶ but significantly lower than most advanced economies. An estimated 283,500 Nepali girls of primary school age are not in education, and the adult illiteracy rate among women is 51%.¹⁷ Nepal spends 9.91% of its budget on education, equivalent to 3.7% of GDP.¹⁸ This is below the 4-6% range recommended by UNESCO.¹⁹

Tanzania, also one of the world's poorest countries in terms of GDP per capita,²⁰ raises only around 14-15% of GDP in revenues,²¹ which the World Bank has described as are among the lowest in the world.²² Meanwhile, 952,499 girls of primary school age are not in education²³ and 27% of women over 15 years of age are illiterate.²⁴ Education spending amounted to 17.3% of government expenditure in 2014²⁵ but only 3.5% of GDP;²⁶ this is below the 4-6% range recommended by UNESCO.

3. IMF data, <https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=73&pr1.y=16&c=676&s=NGDPDPC&grp=0&a=>
4. World Bank data, <https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?locations=MW>
5. IMF data, https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=51&pr1.y=15&c=676&s=GGXCNL_NGDP&grp=0&a=
6. World Bank data, <http://datatopics.worldbank.org/education/country/malawi>
7. World Bank data, <http://datatopics.worldbank.org/education/country/malawi>
8. UNESCO, 'Key milestones reached for new education goals', <https://en.unesco.org/news/key-milestones-reached-new-education-goals-0>
9. IMF data, https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=63&pr1.y=0&c=688&s=GGR_NGDP&grp=0&a=
10. IMF data, https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=72&pr1.y=5&c=603&s=GGR_NGDP&grp=1&a=1
11. See IMF data, https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=51&pr1.y=17&c=505&s=GGR_NGDP&grp=1&a=1
12. UNESCO, <http://www.unicef.org/mz/en/our-work/what-we-do/education/>
13. World Bank data, <http://datatopics.worldbank.org/education/country/mozambique>
14. UNESCO, 'Key milestones reached for new education goals', <https://en.unesco.org/news/key-milestones-reached-new-education-goals-0>
15. IMF data, https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=55&pr1.y=10&c=558&s=NGDP_RPCH%2CGGR_NGDP&grp=0&a=
16. IMF data, https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=51&pr1.y=17&c=505&s=GGR_NGDP&grp=1&a=1
17. World Bank data, see <http://datatopics.worldbank.org/education/country/nepal>
18. World Bank data, <http://datatopics.worldbank.org/education/country/nepal>
19. UNESCO, 'Key milestones reached for new education goals', <https://en.unesco.org/news/key-milestones-reached-new-education-goals-0>
20. It ranks as the 191st country in terms of GDP per capita, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html#tz>
21. IMF data, https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=48&pr1.y=11&c=738&s=PCIPCH%2CTM_RPCH%2CTXG_RPCH%2CLP%2CGGR_NGDP%2CGXCNL_NGDP%2CGGXWDG_NGDP&grp=0&a=#cs2
22. ActionAid, *Still Racing Towards the Bottom?: Corporate Tax Incentives in East Africa*, 2016, p.10 <http://www.taxjusticeafrica.net/wp-content/uploads/2017/08/Corporate-tax-incentives-in-east-africa-report.pdf>
23. World Bank data, <http://datatopics.worldbank.org/education/country/tanzania>
24. World Bank data, <http://datatopics.worldbank.org/education/country/tanzania>
25. World Bank data, <http://datatopics.worldbank.org/education/country/tanzania>
26. World Bank data, <http://datatopics.worldbank.org/education/country/tanzania>



Revenue losses from tax incentives

Tax incentives (also known as tax breaks) are exemptions from paying taxes, such as corporate income tax, withholding tax, VAT or import duties which are often provided to corporations to encourage them to invest in a country. When given to corporations, they broadly fall into two categories:

- statutory²⁷ tax incentives are open to all companies that meet certain criteria, which are often offered to certain sectors (such as mining or agriculture)
- discretionary²⁸ tax incentives are special deals for an individual company.

There is no official estimate for the amount of revenues that governments globally lose from tax incentives but as the figure for Sub-Saharan Africa given above suggests, these losses are likely to be very high. In the following section, we give a flavour of the kinds of tax incentives being offered in the four countries under analysis, together with best estimates on the revenue losses they entail.

Malawi

Malawi offers a 10-year tax holiday on corporate income tax in the agro-processing and electricity sectors.²⁹ Companies operating in Malawi's Export Processing Zones (EPZs) pay no corporate income tax, no withholding tax on dividends, no duty on capital equipment, machinery and raw materials and no value added tax.³⁰ Malawi

27. Statutory tax incentives apply to companies that meet certain criteria, generally because they are operating in a sector that the government wants to encourage, are producing for export, or are located in a particular area, particularly special economic zones. In addition to reductions or exemptions from corporation tax, companies are sometimes exempt from withholding taxes on payments abroad; trade taxes on imports and exports; VAT on imports etc.

28. Discretionary tax incentives are specific to a particular investor, and are negotiated between the company and the government, and generally only available to large multinational investors, putting domestic businesses at a distinct disadvantage. Many of the most unfair examples are found in the contracts negotiated between governments and investors in the extractive industries (oil, gas and mining).

29. PWC, *A Comprehensive Analysis and Review of Investment, Production and Export Incentives in Malawi*, 2016, p. 75 https://info.undp.org/docs/pdc/Documents/MWI/Final_report_%20Fiscal%20Incentives%2019-12-2016.pdf

30. See the Malawi Investment and Trade Centre: <http://mitc.mw/index.php?Itemid=572>. The EPZs in Malawi are not geographical locations but rather a tax regime that can be accessed by investors that meet certain criteria. The World Bank reports that 14 companies were registered and operating under the EPZ in 2012. (*Diagnostic Trade Integration Study (DTIS) Update*, 2014, <http://documents.worldbank.org/curated/en/685751468302481348/pdf/ACS75340P1336010Box385206B00PUBLIC00.pdf>) Due to a lack of data on the profits and economic activity of the companies operating in the EPZs, it has not been possible to establish how much tax Malawi loses through this tax regime.

also offers a number of tax incentives to individual companies. The most controversial deal has been with Paladin, a subsidiary of the Australian mining company Paladin Energy Ltd which secured generous tax incentives for its Kayelekera uranium mine: these included a reduction in its royalty rate (from the statutory 5% to between 1.5 and 3%), exemptions on a 10% resource rent tax and a cut in its corporate income tax rate (from the normal 30% to 27.5%). These terms were secured by a stability clause in the contract, which prevented them from being renegotiated for ten years.³¹ ActionAid estimated that the costs to Malawi in foregone royalties alone could have been US\$15.6 million over five years. The mine is not currently in operation.

The Malawian government also awarded, in secret, production-sharing agreements for three of the oil blocks in Lake Malawi in 2014. These offer favourable terms to the companies and include clauses requiring the government to reduce corporate income taxes for the oil companies by an unspecified percentage within two years of the contract being signed.³² ActionAid has been told by a person familiar with the issue that the government is seeking to renegotiate the fiscal terms of these agreements.³³ However, it is not clear whether this will cover all contracts or which of the terms might be renegotiated.

In 2012, Malawi's government signed a concession agreement with the Brazilian mining conglomerate Vale, allowing the latter to build a railway linking its Moatize coal mine to an existing railway connecting to the Mozambican port of Nacala.³⁴ Vale's tax breaks include a 30% reduction in corporate income tax, exemptions on minimum tax, VAT and customs duties and withholding taxes and extensive deductions from taxable profits on management fees paid to related parties.³⁵ It is not possible to determine how much revenue Malawi might lose from these tax breaks as not all the financial data necessary is in the public domain.

Revenue losses in Malawi

A study by the accountancy firm, PWC for the United Nations Development Programme has estimated Malawi's revenue losses from tax incentives in 2015/16 at 1.6% of GDP, which amounts to **US\$87.04m**.³⁶ This estimate does not, however, include some tax incentives for which data was not made available to the authors of the report, including tax holidays, capital allowances and export tax exemptions. Neither does it include tax losses from any discretionary tax incentives, including those noted above. The total tax loss to incentives is therefore likely to be higher.

Mozambique

Mozambique also provides a number of tax incentives for investors. For example, 110% of expenditure on the construction and rehabilitation of roads, railways, airports, telecommunications, water supply and electrical energy is deductible from taxable income for investments in the capital, Maputo.³⁷ Investment in some infrastructure projects is exempt from VAT and excise duties and enjoy corporate income tax rebates of 80% in the first five tax years.³⁸ Mozambique also provides incentives for certain sectors: investments in the manufacturing sector, for example, are exempt from excise duties on imported raw materials while investments in agriculture are exempt

31. ActionAid, *An Extractive Affair*, 2015, http://actionaid.org/sites/files/actionaid/malawi_tax_report_updated_table_16_june.pdf

32. Oxfam, *Malawi's troubled oil sector: licenses, contracts and their implications*, 2017, <https://mininginmalawi.files.wordpress.com/2017/02/oxfam-2017-malawis-troubled-oil-sector-licenses-contracts-and-their-implications.pdf>

33. Interview in Malawi, August 2017.

34. 'Malawi, Vale ink \$1bn rail line deal', 11 January 2012, <http://www.miningmx.com/news/markets/26076-malawi-vale-ink-1bn-rail-line-deal/>

35. ActionAid analysis of the concession agreement.

36. PWC, *A Comprehensive Analysis and Review of Investment, Production and Export Incentives in Malawi*, 2016, p. 75 https://info.undp.org/docs/pdc/Documents/MWI/Final_report_%20Fiscal%20Incentives%202019-12-2016.pdf; Malawi's GDP in 2016 was US\$5.44bn. World Bank data, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=MW>

37. See UNCTAD Investment Policy Hub, <http://investmentpolicyhub.unctad.org/InvestmentLaws/laws/110>

38. See UNCTAD Investment Policy Hub, <http://investmentpolicyhub.unctad.org/InvestmentLaws/laws/110>

from excise duties and pay a heavily reduced rate of corporate income tax.³⁹ Mozambique also offer significant tax incentives to investors in its Rapid Development Zones, Industrial Free Zones and Special Economic Zones. In the latter, companies are exempt from corporate income tax for the first 5 years of operation, then pay 50% from years 6 to 10, and finally get a 25% rebate on the rate between years 11 and 15 of operation.⁴⁰ Investors also exempt from excise duties and VAT on imports.

Mozambique provides a number of potentially overlapping tax incentives to investors, to the extent that the OECD has commented that Mozambique's tax incentives seem uncoordinated and that no proper evaluation of their effectiveness seems to have been carried out.⁴¹

Furthermore, Mozambique has provided discretionary tax incentives to a number of companies, particularly in the mining and oil sector, some of which are highlighted below.⁴²

Table 1: Key figures

Company	Incentives
Sasol Petroleum Temane This contract runs until 2034.	Import duties and VAT exempt for 5 years Income taxes halved for the first 6 years of production
ENI East Africa S.p.A	Import duties are exempt from tax Income tax reduced by 25% for the first 8 years of production.
Anadarko Mozambique (liquified natural gas)	Import duties are exempt from tax Income tax is reduced by 25% during the first 8 years of production.
Vale Mozambique	Dividend tax for the first 5 years that dividends are paid is reduced by 25% Income tax reduced by 25% for the first 10 years that the company reports profits
Kenmare	VAT and excise duties exempt for the first 5 years of operation Income tax reduced by 15% for the first 10 years of operations

Revenue losses in Mozambique

Estimating tax revenue losses is difficult in Mozambique due to lack of adequate data, especially on the discretionary incentives. Neither does the government undertake regular assessments of its tax expenditure. However, the IMF estimates that Mozambique lost the equivalent of 3.3% of GDP in potential tax revenue to tax incentives in 2014;⁴³ this means revenue losses of \$561 million.⁴⁴ The IMF recommended in 2017 that Mozambique address its tax incentives regime, particularly with regards to VAT exemptions.⁴⁵

39. See UNCTAD Investment Policy Hub, <http://investmentpolicyhub.unctad.org/InvestmentLaws/laws/110>

40. Deloitte, *Mozambique's Economic Outlook*, 2016, https://www2.deloitte.com/content/dam/Deloitte/za/Documents/africa/za_Mozambique_country_report.pdf

41. OECD, *OECD Policy Investment Review: Mozambique*, 2013, pp.95-102 <https://books.google.co.uk/books?id=pdYSAgAAQBAJ&pg=PA97&lpg=PA97&dq=mazambique+tax+break&source=bl&ots=T-o2XtJxv8&sig=BQF01fgy-SIWnol2JgxF88VwVY0&hl=en&sa=X&ved=0ahUKEw-jR0K-clcPXAhlVLCaKHboDBQs4ChDoAQg1MAM#v=onepage&q=mazambique%20tax%20break&f=false>

42. These are detailed in individual concession agreements, many of which (but not all) are published on the Mozambique government website. See the Ministry of Mineral and Energy's website at: http://www.mireme.gov.mz/index.php?option=com_phocadownload&view=category&id=2&Itemid=118

43. IMF, *Republic of Mozambique: Selected Issues*, 2016, <http://www.imf.org/external/pubs/ft/scr/2016/cr1610.pdf>

44. A 2016 IMF report states that Mozambique's tax expenditure was 4% of GDP in 2013 and 3.3% in 2014. (IMF, *Republic of Mozambique: Selected Issues*, 8 January 2016, p.19, <http://www.imf.org/external/pubs/ft/scr/2016/cr1610.pdf>). The report does not give amounts in meticals or dollars but using another IMF report these revenue losses would amount to around MT 19.3 billion / \$640 million in 2013 and MT 17.6 billion / \$561 million in 2014. Based on nominal GDP of MT 482 billion / \$16.0 billion in 2013 and MT 532 billion / \$17.0 billion in 2014. (IMF, *Republic of Mozambique: Staff Report for the 2015 Article IV Consultation*, January 2016, in two tables – both called Table 1 (because from different documents) on pages 30 and 11, <http://www.imf.org/external/pubs/ft/scr/2016/cr1609.pdf>)

45. See IMF statement: <https://www.imf.org/en/News/Articles/2017/07/19/pr17290-imf-staff-concludes-visit-to-mozambique>

Nepal

Nepal offers reductions to some investors in the statutory rate of corporate income tax (which is 25% in most sectors). Oil and gas investors, for example, pay no corporate income tax for the first 7 years while certain sectors (such as manufacturing industries except tobacco and liquor related industries) pay a 20% rate. Companies which establish operations in 'underdeveloped areas' pay 10-30% of the normal corporate income tax rate for the first 10 years of operation.⁴⁶

Nepal's Special Economic Zones (SEZs) also provide a number of incentives. Companies are exempt from corporate income tax for the first 5 years and pay 50% of the rate for the next 5 years. If the company is operating from an SEZ in a mountainous or hilly area, the initial tax holiday is for 10 years, and then for the next 10 years the rate is halved. Companies in the SEZs are also given a complete exemption from VAT, among other incentives.⁴⁷

Nepal also provides discretionary tax incentives to some individual companies but the secretive nature of these means that it is not possible to estimate what revenue losses they entail.

Revenue losses in Nepal

Overall, the Nepalese Auditor General records losses from tax incentives at **US\$510.5m** in 2016/2017.⁴⁸ This is the equivalent of 10.3% of total tax revenues for that year. This figure does not include discretionary tax incentives given to individual companies, and does not include tax losses from the SEZs as this data is not publicly available. The true figure is therefore likely to be even higher.

Tanzania

Tanzania offers a range of statutory and discretionary incentives to corporations. A company listed on the Dar es Salaam stock exchange, for example, is entitled to a reduction in corporate income tax from 30% to 25% during the first three years, provided at least 35% of its shares are issued to the public.⁴⁹ Oil and gas investors enjoy some VAT incentives⁵⁰ while those in agriculture enjoy a 100% capital allowance on expenditure incurred on plant and machinery.⁵¹ In Tanzania's Export Processing Zones (EPZ) and Special Economic Zones (SEZ) companies are exempt from income tax during the first ten years and also benefit from reductions in withholding taxes.⁵² Discretionary tax incentives can be given to companies wholly owned by foreign investors whose investment capital is more than \$300,000 USD and to companies which are locally owned with more than \$100,000.⁵³

Estimating the amount of revenue lost to tax incentives is difficult since no figure is made public on discretionary incentives and the government does not provide a comprehensive overall figure. Government agencies declined to give ActionAid information on discretionary incentives, citing provisions in Tanzanian law which makes it illegal for the government to disclose the tax affairs of individual companies.

46. T.R.Upadhyaya & Co, *Nepal Taxation*, 2016, p.15, <http://www.trunco.com.np/publications/Nepaltaxreport2016.pdf>

47. See article 27(2) Special Economic Zone Act 2016: <http://www.seznepal.gov.np/downloads.php?id=7>

48. See 54th report of the Auditor General http://www.oagnep.gov.np/downloadfile/annual%20audit%20report_english%20version_1503298234.pdf. The figure uses November 2017 exchange rates

49. 'What tax incentives are granted under the Income Tax Act, 2004?', <http://www.tra.go.tz/index.php/tax-incentives/169-what-tax-incentives-are-granted-under-the-income-tax-act-2004>

50. Tanzania Episcopal Conference (TEC), National Muslim Council of Tanzania (BAKWATA) and Christian Council of Tanzania (CCT), *The One Billion Dollar Question Revisited 5 years later: How Much is Tanzania Now Losing in Potential Tax Revenues?*, 2017, <http://curtisresearch.org/publications/the-one-billion-dollar-question-revisited/>

51. 'What tax incentives are granted under the Income Tax Act, 2004?', <http://www.tra.go.tz/index.php/tax-incentives/169-what-tax-incentives-are-granted-under-the-income-tax-act-2004>

52. 'What tax incentives are granted under the Income Tax Act, 2004?', <http://www.tra.go.tz/index.php/tax-incentives/169-what-tax-incentives-are-granted-under-the-income-tax-act-2004>

53. Tanzania Investment Act, 1997, at http://www.tccia.com/tccia/wp-content/uploads/legal/acts/Investment%20Act_1997.pdf

Revenue losses in Tanzania

The government publishes a figure on revenue losses from statutory VAT tax exemptions (only), which in 2015/16 stood at Tsh 927bn (US\$413m).⁵⁴ This figure does not include discretionary tax exemptions given to individual companies nor foregone revenue resulting from the EPZs and SEZs. However, ActionAid estimates, based on the limited figures that are available, that foregone tax revenues from the EPZs and SEZs could be around US\$118.5m per year.⁵⁵ Thus in total, ActionAid calculates that tax revenues foregone may currently be around US\$531.5m per year. This figure, however, does not include any revenue foregone due to discretionary tax incentives and thus is very conservative.

Table 2: Key figures

Company	Incentives
Sasol Petroleum Temane This contract runs until 2034.	Import duties and VAT exempt for 5 years Income taxes halved for the first 6 years of production
ENI East Africa S.p.A	Import duties are exempt from tax Income tax reduced by 25% for the first 8 years of production.
Anadarko Mozambique (liquified natural gas)	Import duties are exempt from tax Income tax is reduced by 25% during the first 8 years of production.
Vale Mozambique	Dividend tax for the first 5 years that dividends are paid is reduced by 25% Income tax reduced by 25% for the first 10 years that the company reports profits
Kenmare	VAT and excise duties exempt for the first 5 years of operation Income tax reduced by 15% for the first 10 years of operations



In Tanzania, 952 499 girls of primary school age are not in education.
PHOTO: EMANUELA COLOMBO/ACTIONAID

54. Note that these tax exemptions apply to domestic as well as international taxpayers. The figure uses October 2017 exchange rates. See http://www.mof.go.tz/mofdocs/exemptions/Exemptions%20and%20Relief_From_JULY-2015_TO_JUNE-2016.pdf

55. The government gives an example of a Chinese company benefitting from an annual tax exemption of around Tsh1.5bn (US\$668,000 at October 2017 exchange rates). (See http://www.epza.go.tz/p_events.php?c=162) During the same period the company had export revenues of on average Tsh3.8bn (US\$1.69m) per year, meaning that the ratio of tax revenue foregone to export revenues was 0.395/1. According to the government, total export revenue from the EPZ is roughly US\$300m a year. (See <http://www.thecitizen.co.tz/magazine/businessweek/EPZ-exports-expected-to-hit--300m-this-year/1843772-2781098-format-xhtml-fyy3o/index.html>) If the Chinese company were representative, then tax foregone would be the equivalent of 39.5% of export revenue. If applied to total export revenues, this would leave us with foregone tax revenues of US\$118.5m per year. This calculation is obviously made based on a very small sample, but given the lack of official statistics on revenue foregone in EPZs, it is the best estimate that can be produced.

Many schools in developing countries lack trained teachers.
PHOTO: ERNANIO MANDLATE/KISAI/ACTIONAID



Revenue losses from tax treaties

Tax treaties, which governments sign with other governments, decide how much, and even if, countries can tax multinational companies and other cross-border activity. They provide certainty to international business by indicating which taxes will be limited when making money overseas, but this certainty is often provided by restricting the rights of the government signatory. In the overwhelming majority of cases, these tax treaties override any national law. Thus if a tax rate in a treaty is lower than the rate set in national law, companies that are able to use the tax treaty route will often pay less tax than similar local companies. Tax treaties often specifically restrict countries' ability to charge withholding taxes when money is being transferred out of a country as, for example, dividends, interest payments or royalty payments.

Unfortunately, the revenue loss attributable to the provisions in tax treaties is usually difficult to quantify. However, as ActionAid detailed in its recent report, *Mistreated*, just two rules in tax treaties – dividend and interest payment rules – cost developing countries billions of dollars each year. Tax treaties also cause many other losses – such as lost profit tax contributions and lost tax on capital gains, royalties and services fees – but the size of these losses is still unknown.⁵⁶

In this section, we briefly analyse each of the four countries tax treaty network and try to estimate revenue losses where possible.

56. ActionAid, *Mistreated: The tax treaties that are depriving the world's poorest countries of vital revenue*, 2016, <http://www.actionaid.org/publications/mistreated-tax-treaties-are-depriving-worlds-poorest-countries-vital-revenue>

Malawi

Malawi has a relatively limited tax treaty network of six treaties. It has also signed but not yet ratified tax treaties with Botswana and Zambia, and is renegotiating its tax treaty with the Netherlands and the UK. The table below shows the withholding tax rates applicable in the Malawi's tax treaties, highlighting that these are often lower than the statutory rate for non-residents. It is not possible to estimate the tax loss from these reductions but there can be no doubt that the reduced rates do incur a tax loss for Malawi.

Table 3: Statutory and tax treaty rates for withholding tax in Malawi

	Dividends	Interest	Royalties	Management fees
Statutory rate for non-residents	15	15	15	15
France	0	0	0	0
Norway	5	10	5	0
South Africa	10	15	0	15
Sweden	0	0	0	0
Switzerland	0	0	0	0
United Kingdom	0	0	0	15

Source: 'Malawi', <http://taxsummaries.pwc.com/ID/Malawi-Corporate-Withholding-taxes>

Mozambique

The following table compares the statutory withholding tax rates prevailing in Mozambique with the rates given in Mozambique's tax treaties, which are substantially lower.

Table 4: Statutory and tax treaty rates for withholding tax in Mozambique

	Dividends	Interest	Royalties
Statutory rate	20%	20%	20%
Botswana	0%	10%	10%
India	7.5%	10%	10%
Italy	15%	10%	10%
Macau	10%	10%	10%
Mauritius	8%	8%	5%
Portugal	10%	10%	10%
South Africa	8%	8%	5%
United Arab Emirates	0%	0%	5%
Vietnam (not in force)	10%	10%	10%

Source: 'Mozambique', <http://taxsummaries.pwc.com/ID/Mozambique-Corporate-Withholding-taxes>

By looking at the levels of foreign direct investment stock in Mozambique and its balance of payment statistics (both obtainable from the IMF⁵⁷), we can estimate how much potential tax revenue Mozambique forfeits through its reduced withholding tax rates. Considering only the reduced dividend rates, ActionAid estimates that in 2016, Mozambique's tax treaty network cost the country US\$5.31m in lost tax revenues.⁵⁸ The low levels of reported interest payments abroad mean that losses due to the reduced withholding tax rates on interest payments are likely to be negligible.

Nepal

ActionAid analysis in 2016 showed that Nepal's tax treaty network often limits its ability to tax capital gains and the profits made by foreign entities.⁵⁹ The withholding tax rates in Nepal's tax treaties are fairly low, especially those on dividends payments. However, as the statutory withholding tax on dividend payments is only 5%, this does not give rise to any tax treaty related tax losses. Similarly, none of the rates in Nepal's tax treaties for interest and royalty payments are lower than the statutory rate, which largely reflects the low statutory tax rates. Overall, this means that the withholding tax rates in Nepal's tax treaties do not on their own lead to any tax losses for Nepal.

Table 5: Statutory and tax treaty rates for withholding tax in Mozambique

	Dividends	Interest	Royalties
Statutory rate	5%	10%	15%
Austria	5%	15%	15%
China	10%	10%	15%
India	5%	10%	15%
Korea (South)	5%	10%	15%
Mauritius	5%	15%	15%
Norway	5%	15%	15%
Pakistan	10%	15%	15%
Qatar	10%	10%	15%
Sri Lanka	15%	15%	15%
Thailand	10%	15%	15%

Source: <https://ird.gov.np/Content/ContentAttachment/1/दो हो रो करमु कृतियावतितयिद्धलनरिो ध8122016105226AM.pdf>

57. For FDI stock data, see <http://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5&sld=1482331048410> For BOP data, see <http://www.imf.org/external/datamapper/datasets/BOP>

58. For detailed methodology and calculations, please contact ActionAid directly.

59. See ActionAid's 'Mistreated' dataset, <http://www.actionaid.org/publications/mistreated-tax-treaties-are-depriving-worlds-poorest-countries-vital-revenue>

Tanzania

Tanzania has a relatively limited tax treaty network of nine treaties. Since the statutory withholding tax rates are lower than the treaty rates in many cases, the statutory rates apply rather than the treaty rates. This means that it is effectively only the lower rates in the treaty with Zambia that potentially incur tax losses in Tanzania, although these are likely to be negligible.⁶⁰ However, Tanzania may well be losing substantial tax revenue from provisions such as capital gains and permanent establishment provisions in the tax treaties.

Table 6: Statutory and tax treaty rates for withholding tax in Tanzania

	Interest payments	Dividends	Royalties	Management /service fees
Statutory rate	10	10	15	15
Sweden	15	25	20	20
Denmark	12.5	15	20	20
Norway	15	20	20	20
Finland	15	20	20	20
Italy	12.5	15	20	N/A
Canada	15	25	20	20
India	12.5	15	20	20
South Africa	10	20	10	N/A
Zambia	0	0	0	0

Source: Tanzania Tax Justice Coalition, Double Taxation Agreements: Gain or Loss to Tanzania?, 2016, http://www.policyforum-tz.org/sites/default/files/DTAStudy_0.pdf



In Mozambique 426 250 girls of primary school age are not in education.

PHOTO: FABIO ERDOS/ACTIONAID

60. Looking specifically at losses due to the dividend provision in the Tanzania-Zambia treaty, FDI stock from Zambia to Tanzania was in 2013 (latest available data): US\$12 million. Meanwhile, the overall FDI stock was US\$14,872 million, meaning Zambian investment represented 0.08% of total FDI stock. Total dividend payments abroad from Tanzania in 2013 were US\$43.2m. Provided the Zambia share of that was indeed 0.08%, the dividends paid from Tanzania to Zambia would have been US\$345,600 in 2013. If normal withholding tax (10%) had applied to those transactions, Tanzania would have raised US\$34,560 in tax revenue. As the treaty rate in the Tanzania-Zambia treaty is 0%, we can estimate that Tanzania may be losing around US\$34,560 a year due to this treaty provision.

Investing in girls' education
makes economic sense.
PHOTO: KATE HOLT/ACTIONAID



The economic benefits of investing in education

Everyone has a right to education. This is a right enshrined in international human rights treaties from the Universal Declaration of Human Rights to the International Covenant on Economic Social and Cultural Rights to the Convention on the Rights of the Child, and many others.⁶¹ Furthermore, numerous international covenants also stipulate that primary education, at least, should be free. Yet while fee-free public primary schooling is enshrined in law in 135 countries, 110 still continue to charge some sort of fee.⁶² The abolition of user fees has not guaranteed free education since there are many other fees and costs beyond formal user fees. No child should ever be excluded from schooling by the inability to pay – whether this is school costs, other compulsory costs or ‘voluntary’ costs for which parents are often pressured to pay. The removal of all these costs means that governments themselves need to foot these bills and more adequately fund public education.

Countries should invest in girls’ education because girls have a right to education. In addition, however, there is a strong economic argument for investing in girls’ education. A highly educated population is likely to be more productive and to produce higher economic growth.⁶³

61. Universal Declaration of Human Rights, <http://www.un.org/en/universal-declaration-human-rights/>; International Covenant on Social, Economic and Cultural Rights, <http://www.ohchr.org/Documents/ProfessionalInterest/cescr.pdf>; Convention on the Rights of the Child, <http://www.ohchr.org/Documents/ProfessionalInterest/crc.pdf>
62. Unesco, *Education for All Global Monitoring Report 2015*, p.260, <http://unesdoc.unesco.org/images/0023/002322/232205e.pdf>
63. Note however that increasing women’s labour force participation must be accompanied by policy change to address the structural causes of women’s economic inequality. As a result of the disproportionate amount of unpaid care and domestic work that women do globally, they already work longer days than men in most countries. Fiscal policy needs contribute to redressing this injustice. For more information, see e.g. ActionAid ‘Women as ‘underutilized assets’’, 2017, <http://www.actionaid.org/2017/10/women-underutilized-assets>

In this section, ActionAid:

- provides new figures for how much families are currently spending on education in the four countries.
- calculates what the 'growth dividend' of investing some of the money lost to tax incentives and tax treaties in girls' education would be.

The real cost of education

In **Malawi**, research carried out for ActionAid finds that parents spend on average **US\$9.52** per primary school child in order for them to attend school.⁶⁴ This covers items such as examination fees, school reports and other fees. Meanwhile, the government spends on average US\$23.64 per primary school child.⁶⁵ That means that total current spending between parents and the government on primary education is US\$33.16 per child.

ActionAid estimates that around 154,000 girls in Malawi are not in primary school.⁶⁶ The cost of putting these girls through primary school would be **US\$5.11m** per year. However, in order to provide quality education for all girls in Malawi much more spending is needed. Research commissioned by ActionAid shows that Malawi would need to spend an additional **US\$102m** by 2018 on areas such as employing an extra 12,953 teachers to meet the teacher-pupil target ratio; on 3.7 million text books and on 5,200 classrooms that need building.⁶⁷

In **Mozambique**, UNICEF data shows that the government spends approximately **US\$91**⁶⁸ per primary school student per year.⁶⁹ Meanwhile, research commissioned by ActionAid shows that parents spend **US\$215** per child annually on various items that allows them to complete their education. That means the total cost per child is **US\$306**.

According to World Bank data, there are more than 426,250 girls in Mozambique of primary school age who are not in education.⁷⁰ That means the total cost of education all girls of primary school age currently not in education would be **US\$130.43m**.

In **Nepal**, research commissioned by ActionAid finds that Nepalese families spend **US\$103.36** per year per student in school.⁷¹ The majority of the money is spent on admission, notebooks, school dresses and exam fees. UNESCO data for 2015 is that the government spends on average **US\$91.11** per pupil and that families in Nepal spend more on a pupil's education than the state does.⁷² The combined expenditure per student is therefore **US\$194.47**.

A best estimate is that 283,500 Nepali girls of primary school age are not in education.⁷³ Thus the total cost of educating these girls would be **US\$55.13m**, around a tenth of Nepal's revenue losses from tax incentives.

64. See Peter Ndilowe and Justin Dzonzi, 'National Tax Loss and Girls' Education Study', Report for ActionAid, 2017

65. See Education Budget statistics - approved 2000 – 2015

66. It is hard to establish exactly how many girls are not in education in Malawi. According to official government sources, less than 25% of girls actually finish primary school. (Education Management Statistics System: Education statistics, 2013 bulletin). Meanwhile, UNESCO figures state that 10% of girls of primary school age are not in education. (See Education Policy and Data Centre country profile, https://www.epdc.org/sites/default/files/documents/EPDC%20NEP_Malawi.pdf) UNESCO figures are that the number of students in primary education is 3.08 million (UNESCO Institute for Statistics <http://uis.unesco.org/country/MW>). Assuming half of those are girls, 1.54 million girls are of primary school age, meaning that is 10% are not actually in education. This leaves 154,000 girls not in primary school who should be.

67. See Peter Ndilowe and Justin Dzonzi, 'National Tax Loss and Girls' Education Study', Report for ActionAid, 2017. Figures based on October 2017 exchange rates.

68. UNICEF, *2015 Education Budget Brief*, p.25 http://budget.unicef.org.mz/briefs/2015UNICEF_BB2015_Education.pdf. With the national currency the Metical fluctuating quite heavily against the US dollar, the exact figure in dollar terms will fluctuate as well. For its calculation in 2015, UNICEF used 35 metical = US\$1. At the time of writing, US\$1 was worth around 60 meticals.

69. UNICEF, *Education budget brief*, p.25, http://budget.unicef.org.mz/briefs/2015UNICEF_BB2015_Education.pdf

70. UNICEF data, <http://www.unicef.org.mz/en/our-work/what-we-do/education/>

71. See 'Tax Loss and Education', study commissioned by ActionAid and carried out by NEAT (2017). Estimate not disaggregated for primary vs. secondary school students. The figure uses November 2017 exchange rates. Note that UNESCO gives a slightly lower figure for public schools but a much figure for private schools: http://uis.unesco.org/sites/default/files/documents/who-pays-for-what-in-education-national-revealed-through-accounts-2016-en_0.pdf

72. UNESCO data: p. 4 http://uis.unesco.org/sites/default/files/documents/who-pays-for-what-in-education-national-revealed-through-accounts-2016-en_0.pdf

73. According to UNICEF data, an estimated 577,000 children of primary school age in Nepal are not in education. The figure assumes that half of these are girls. See UNICEF's 'All Children in School – Nepal Case Study' (2016) <http://unicef.org.np/uploads/files/927615134285223000-all-children-in-school-report-2016.pdf>

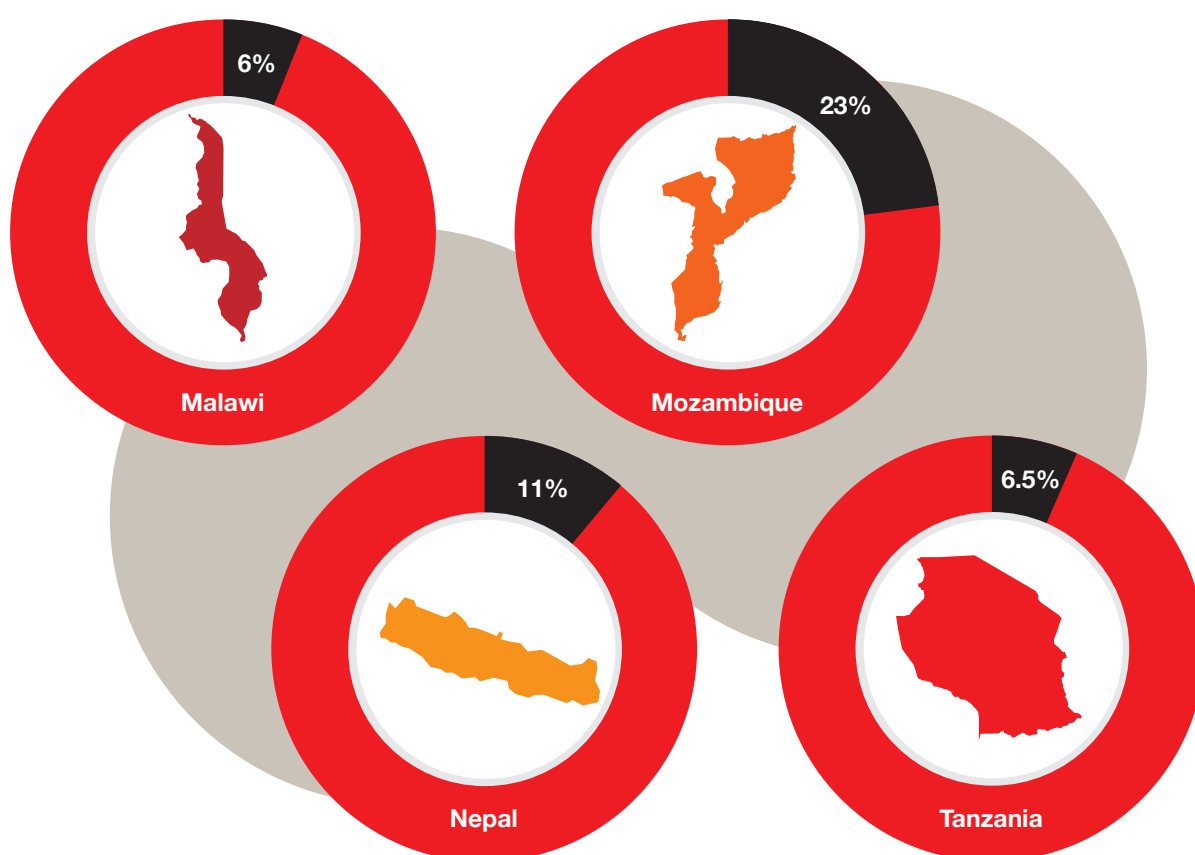
In **Tanzania**, the government spends Tsh 10,000 (**US\$4.45**) per year per child in primary education.⁷⁴ Research commissioned by ActionAid shows that parents contribute much more than this to their children's education - approximately Tsh 71,835 (**US\$31.78**). The costs are primarily school uniforms, daytime food, books, pens and other items necessary to be part of the educational system. Government and parental spending combined amounts to **US\$36.23** per child.

According to World Bank data, there are more than 952,000 girls in Tanzania of primary school age who are not in education.⁷⁵ The costs of educating these girls would be **US\$34.5m** a year or **US\$207.05m** for the six years of primary school in Tanzania.

Governments can easily afford to educate all girls

Comparing revenue losses from tax incentives to the spending needed to educate all girls not currently in primary school shows that all four governments can easily raise sufficient revenues. Malawi need only spend 6% of its revenue losses from tax incentives to educate all girls, while the figures for the other countries are Mozambique 23%, Nepal 11% and Tanzania 6.5%.

Figure 2: Percentage of revenue lost to tax incentives that would be needed to educate all out of school girls in Malawi, Mozambique, Nepal and Tanzania



74. 'KiuFunza: Sending Money Directly to School Accounts in Tanzania: Using Experience to Inform Policy', 14 March 2017, <http://www.twaweza.org/go/kiufunza-ipa-post>

75. See <http://datatopics.worldbank.org/education/country/tanzania>. A 2016 report from the Tanzanian President's Office gives a different figure. See table 2.8 <http://www.tamisemi.go.tz/noticeboard/tangazo-1062-20170113-BEST-Regional-and-Pocket-Data-2016/BEST-2016-Pocket-Size-Final.pdf>

The growth dividend of investing in girls' education

Investing in girls' education boosts the economy. A working paper for the World Bank has developed a method for estimating the growth dividend of investing in girls' education. The paper analyses the productivity of girls with primary school education compared to those without and concludes that the average increase in productivity across a sample of seven sub-Saharan African countries is 14.85%. We use this figure as a proxy for the productivity gain in the four countries with the exception of Tanzania where research has showed that figure to be as high as 18%.⁷⁶

To take Nepal as an example, GDP per capita is US\$798.61,⁷⁷ meaning that a 14.85% increase in productivity would mean that each girl who completes primary education adds an additional **US\$118.59** to the Nepalese economy annually. Collectively, the 283,500 girls currently not in primary education would add **US\$33.62m** to the economy annually. With annual GDP estimated at **US\$23.31bn**,⁷⁸ getting all girls currently not in education through primary school would add **0.14%** annually to the economy. Over a working life of 45 years, in current prices (not taking inflation into account), the added value to the economy of these girls being educated would be **US\$1.51bn**. Meanwhile, the compound effect of the annual increase in GDP from investing in the education of girls currently not in the education system over a working life would be **6.5%**.

The figures for all four countries are shown in the infographic on page 21, which shows especially large gains for Mozambique and Tanzania, where over US\$1bn and over US\$6bn, respectively, would be added to the economy over the working lives of these girls. This is just the added value for girls not currently in education; by continuously investing in new generations of girls' education, the overall gains would be higher.



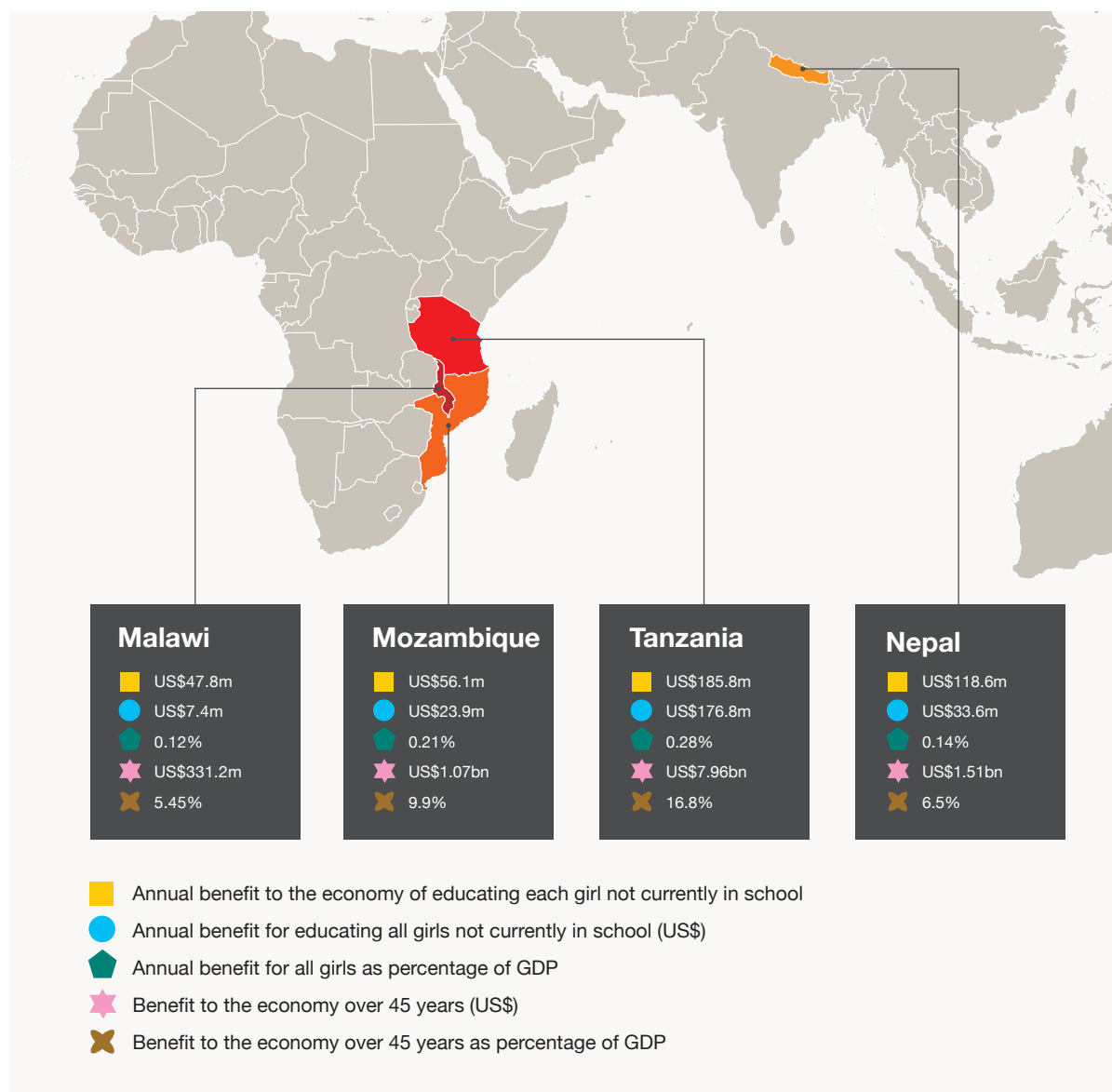
Investing in girls' education
boosts the economy
PHOTO: SAMANTHA REINDERS/
ACTIONAID

76. Jad Chaaban and Wendy Cunningham, 'Measuring the Economic Gain of Investing in Girls: The Girl Effect Dividend', *Policy Research Working Paper 5753*, 2011, <http://documents.worldbank.org/curated/en/730721468326167343/Measuring-the-economic-gain-of-investing-in-girls-the-girl-effect-dividend>. The authors factor in a number of variables such as the effect of productivity if there was an increase in labour supply; and also for the fact that girls currently not completing primary education may have other factors than education stopping them from reaching the same level of productivity as those girls who currently do complete primary school. The sample countries are Ethiopia, Nigeria, Kenya, Tanzania, Burundi, Senegal and Uganda.

77. IMF data, <https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=82&pr1.y=12&c=558&s=NGDPDPC&grp=0&a=>

78. IMF data, <https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?sy=2015&ey=2022&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=24&pr1.y=11&c=558&s=NGDPD&grp=0&a=>

Figure 3: The growth dividend in the four countries



Recommendations

ActionAid urges governments to act swiftly to reduce the amount of tax revenue lost to tax incentives and invest a proportion of this in girls' education. Specifically, they should:

- Stop offering harmful tax incentives and only offer other incentives selectively to facilitate development. All current tax incentives – including discretionary tax incentives and those applicable to special economic zones – should be reviewed to assess whether they are fit for purpose, including undertaking a cost-benefit analysis.
- Subject all tax incentives – both statutory and discretionary – to public scrutiny, including by parliament, media, civil society and citizens. This should include publishing an annual overview of the costs of tax incentives as part of the annual budget, so the public can see the impact of corporate tax incentives.
- Review their tax treaty networks to ensure that they do not result in tax losses and renegotiate those that do. Cancel or renegotiate disadvantageous tax treaties.
- Announce a timetable to reach, within three years, a tax to GDP ratio of 20% (e.g. through ending harmful tax incentives and promoting other progressive tax reforms) and an allocation of at least 20% of government spending to education (publishing a clear breakdown of budget allocations by sub-sector online).
- Invest 20% of the tax revenue raised by reducing tax incentives and tax treaty regimes in education, especially girls' education.
- Ensure that education budgets are gender-sensitive to ensure adequate financing for measures proven to tackle persistent barriers to girls' education.
- Ensure that public education is free, compulsory and of good quality and that there are no economic barriers that might prevent families sending their girls to school.

Good quality education is a
fundamental right of all girls.
PHOTO: SAMANTHA REINDERS/
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 Kakaran 79yct ବିକ୍ଷା DZIDZO MmATA
 UBUREZI Kogale शिक्षा ELIMU शिक्षा
 SIKOLO విద్య تعليم ونربية Opron
EDUCATION
A RIGHT IN EVERY LANGUAGE
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 to achieve greater human rights for all and defeat poverty.
 We believe people in poverty have the power within them
 to create change for themselves, their families and communities.
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