TACKLING TAX AND SAVING LIVES

Children, tax and financing for development

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Save the Children

Save the Children works in more than 120 countries.
We save children's lives. We fight for their rights.
We help them fulfil their potential.

The report was written by David McNair, Alison Holder and Liam Crosby. With thanks to Alex Cobham and Francis West.

Front cover: A child being weighed at a health centre in Tanzania.
(Photo: Caroline Trutmann/Save the Children)

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EXECUTIVE SUMMARY

In recent decades we have witnessed unprecedented progress towards what could be one of humanity's finest achievements: eradicating extreme poverty and ensuring that no child, wherever they are, dies of preventable causes.

The number of people in the world living in conditions of absolute poverty – on below $1.25 a day – was halved between 1990 and 2010. The number of children out of school has also been nearly halved since 2000.[1] At no time in history has there been a faster decline in child deaths. In 1990, 12 million died before their fifth birthday; in 2012, this number had fallen to 6.6 million.

Yet it is still unacceptable that 6.6 million children do not survive and cannot fulfil their potential. The impact on families, communities and whole economies is grave.

We are now at a critical juncture in the history of human development: an end to extreme poverty is within our reach. The process that is under way to define a new post-2015 development framework to replace the Millennium Development Goals (MDGs) presents us with a unique opportunity to grasp this vision and translate it into reality.

With a concerted effort we could put an end to preventable child mortality within a generation and ensure that every child has the resources to fulfil their potential. This effort entails going beyond 'business as usual'. It requires urgent action from governments, which they cannot achieve without support from businesses, non-governmental organisations (NGOs) and all parts of society. It requires the maintenance of aid commitments, and cracking down on corruption and mismanagement of resources so that finance is available to strengthen health systems, education and infrastructure.

The key question plaguing the current discussions on the successor to the MDGs – the post-2015 framework – is where will these considerable sums of additional finance come from? The answer is complex and fraught with political difficulties. But one certainty is that the majority of this financing will have to come from countries themselves.

Aid, alongside economic growth, has played a critical role in achieving the remarkable results we have witnessed to date. However, inadequate public finance impedes progress and restricts vital investments in health systems, education and social protection.

Tax revenues frequently provide more financing than aid, particularly in middle-income countries. In sub-Saharan Africa, for example, only eight of the 34 countries receive more in aid than they generate in tax revenues.[2]

However, tax revenues are still not sufficient to pay teachers' salaries, build schools and roads, and invest in health systems that can administer life-saving vaccines and deliver babies safely. Half of the countries in sub-Saharan Africa collect less than 17% of their gross domestic product (GDP) in tax; in rich countries the average is 35%.[3]

New Save the Children research underlines the importance of tax in 'getting to zero' (in terms of preventable child deaths) and reaching target development outcomes for children. Our findings show that if all developing countries were to mobilise 20% of GDP in tax revenue, while keeping social spending allocations constant, 287,000 child deaths could be averted each year, and an additional 72 million people could have access to clean water.

One of the areas of global action to help low- and middle-income countries increase their tax take (the amount their governments collect in tax) is to tackle illicit financial flows (IFFs) – money originating in crime and corruption that is being taken out of the country through tax evasion, money laundering, bribery and other criminal acts, as well as money from misinvoiced goods. Using conservative scenarios, as much as $946.7 billion is estimated to have left developing countries in IFFs in 2011.[4]

If IFFs were stopped, the funds mobilised could result in getting to zero preventable child deaths 20 years sooner than under a business as usual scenario, without any change in spending patterns.

Of course, improvements in efficiency of public financial management, rooting out government corruption, and improving transparency are important steps that could greatly add to the impact of ending these flows. But our analysis isolates and tests only the impact of ending IFFs and applies the theory that additional revenue collected is used according to current spending patterns.

Although some countries have laudably maintained their commitment to providing 0.7% of gross national income (GNI) in aid, in general the current trend suggests that development assistance is unlikely to increase dramatically over the long term. This trend threatens the speed of progress on human development outcomes, just at the time when our level of ambition needs to be raised. Early analysis indicates that the additional funding required for potential post-2015 goals, over and above all existing spending, is of a different order of magnitude from that required for the Millennium Development Goals.[5]

Because increased tax revenues often mean increased spending on health and education – and signify strength of governance – greater tax revenues are associated with better outcomes in key measures of child survival and well-being. In low- and middle-income countries we found that those with greater tax revenues also have lower under-five mortality and more people with access to improved water. Countries need to expand their tax bases through strong legislation, which increases capacity to collect revenues.

Improving tax revenues, minimising unnecessary exemptions, and building collection capacity involves changing policies and enhancing the trust of taxpayers that their money will be used effectively by revenue authorities. Yet the burden of national resource mobilisation cannot fall on the poorest or even those just barely out of the range of extreme poverty.

The solution to this problem lies in improving the capacity of tax authorities, ensuring they have the information they need to enforce their own laws, and supporting civil society to provide oversight over revenue mobilisation. Rich countries have a responsibility here, by ensuring that their regulations support and do not undermine this effort.[6]

Of course, doing this will not by itself entirely solve the post-2015 financing conundrum, but it is a critical part of the solution.

RECOMMENDATIONS FOR THE INTERNATIONAL COMMUNITY

- Pursue international agreement on disclosure of profits made, taxes paid and other relevant financial information by multinational firms in every country in which a firm is present – so-called country-by-country reporting.
- Provide financial and technical support to developing countries, as requested, to improve tax compliance and support the establishment of objective measures to track progress in the capacity improvement of tax administration systems, including the design of revenue contracts.
- Lead efforts to reform the international corporate tax architecture: examine national and international legal statutes to challenge complicated corporate tax avoidance schemes, and ensure that developing countries have a meaningful voice in the design of the international tax rules.
- Crack down on tax haven secrecy globally through pressuring all jurisdictions to move towards automatic exchange of tax information, and implement public registers of the true owners of companies and trusts.

- Prevent evasion by improving international tax cooperation and transparency: ensure better exchange of information between tax authorities by establishing automatic tax data-sharing systems between countries. This would be achieved through international treaties securing government-to-government exchange of information and agreements at G20 and in the post-2015 process.
- Fulfil commitments made at the G8 and G20 by supporting tax authorities (particularly in developing countries) to demand fuller disclosure of complicated company structures created to hide profits and disguise who owns what. To aid this process, EU and OECD members should follow the UK's example in establishing a public register of beneficial owners.
- Ensure that the tax policy-making considers the financing implications required to protect children's rights.

RECOMMENDATIONS FOR DEVELOPING COUNTRIES

- Strengthen tax systems, through improving the capacity of national revenue authorities to ensure tax compliance, eg, through skill and knowledge development so that officials are better equipped to administer and negotiate tax treaties.
- Prevent the shifting of profits through manipulation of the prices of cross-border transactions, by requiring that the parties conducting a sale of goods or services in a cross-border transaction sign a statement in the commercial invoice certifying that no trade mispricing (in an attempt to avoid duties or taxes) has occurred.[7]
- Facilitate the participation of independent experts and civil society in planning and budgeting processes, to encourage more accountable and transparent public financial management and to ensure that additional resources lead to development results.
- Commit to consultation and transparency regarding tax incentives.

OVERVIEW OF REPORT

In Chapter 1 of this report we evaluate the links between taxation, public spending, illicit financial flows (IFFs) and two key dimensions of child well-being: child mortality and access to clean water.

In Chapter 2 we discuss trends and estimates in financing development and why tax is critical, not only for raising adequate revenues, but for developing the kinds of institutions and systems critical to making progress. Chapter 3 focuses on IFFs – the illegal outflows of money from developing countries via tax evasion, bribery and money laundering, and manipulation of trade prices. Chapter 4 explains our research approach and how we draw the links between taxation, IFFs and child development outcomes. In Chapter 5 we present the results of our research, demonstrating how improving tax take and tackling IFFs can help us to get to zero preventable child deaths. Chapter 6 presents our proposals for improving tax collection and addressing IFFs – which include support to tax authorities in developing countries, and steps to be taken in OECD countries to improve transparency and clamp down on banking and financial secrecy – particularly in so-called tax havens. Chapter 7 concludes the report by explaining what this means for the post-2015 framework and makes recommendations to governments, businesses and multilateral institutions.

1 INTRODUCTION

At the turn of the 21st century, world leaders promised to build a more peaceful, prosperous and just world, and to do everything in their power to free the world from poverty. This promise was laid out in the Millennium Declaration and crystallised in the Millennium Development Goals (MDGs), a set of concrete poverty-reduction goals and targets to be achieved by the international community by 2015.

Since their launch in 2002, the MDGs have helped spur unprecedented rates of progress in poverty reduction and human development. The number of people in the world living in absolute poverty – on below $1.25 a day – was halved between 1990 and 2010. Child mortality has fallen by 41%, with 14,000 fewer children dying each day than in 1990. The number of children out of school has been nearly halved since 2000.[8]

We are now at a critical juncture in the history of human development. An end to extreme poverty is within our reach. The process that is under way to define a new post-2015 development framework to replace the MDGs presents us with a unique opportunity to grasp this vision and translate it into reality.

The G20, as one forum for global economic cooperation, could contribute to this vision, by creating global norms and international commitments that support countries to create sustainable growth while mobilising the revenues they need to reduce poverty and help children to survive.

It is essential that the global development framework that succeeds the MDGs is bold and ambitious – capable of driving forward the transformative and sustainable action that is needed to eradicate extreme poverty and fulfil the rights of all children.

Save the Children is proposing a new set of global development goals that strive to 'get to zero', finishing the job the MDGs started. This would mean zero people living in extreme income poverty by 2030; eradicating hunger and dramatically improving nutrition; ensuring that no mother, newborn baby, or child dies from preventable causes; and ensuring that all children have access to good-quality education and achieve good learning outcomes in primary school.[9]

Our vision would see an end to income poverty at levels of below $1.25 and $2 a day by 2030; an end to preventable maternal and child mortality, with no mother or child dying from diseases that can be easily treated, or from lack of access to good-quality health services; an end to hunger; an end to people not being able to access improved drinking water and sanitation; and an end to children being out of school, or leaving school without good learning outcomes.

The Overseas Development Institute has selected sectors and goals with the greatest consensus within post-2015 debates and has estimated the additional funding required, over and above all existing spending, to meet these targets. It suggests this is somewhere between $26 billion and $50 billion per year for each of four sectors: education, health, water and sanitation, and food security and nutrition. This excludes spending on renewable energy, which requires an additional $400bn to $900bn per year.[10]

A key question plaguing the current post-2015 debate is where will these considerable sums of additional finance come from? The present-day development finance landscape is very different from that at the time when the MDGs were agreed. Developing countries' budgets are growing, new actors are becoming involved in development finance, such as philanthropists and providers of finance to respond to climate change. Furthermore, many middle-income countries are managing to access a broader portfolio of financing options, including foreign direct investment, domestic private investment, remittances, and innovative sources of financing such as airline ticket levies, loans and other forms of financing.

TABLE 1 INDICATIVE FINANCING GAPS BY SECTOR

Sector	**Annual additional funding requirement (2010–2025 or 2030)**
Education	$38 billion
Universal health coverage	$37 billion
Water and sanitation	$26.8 billion
Sustainable energy Energy access Renewable energy	 $34 billion $400 billion–$900 billion
Food security	$50.2 billion
Total (excluding renewables) **Total (including renewables)**	**$186 billion** **$586 billion–$1,086 billion**

Source: Greenhill et al, 2013

Accompanying the changing financial landscape is a shift in the development narrative. Many developing countries (in Africa particularly) have expressed an eagerness, in the words of Ellen Johnson-Sirleaf, President of Liberia, to "reorient the development paradigm away from externally driven initiatives towards domestically inspired and funded initiatives".[11] This is an opportunity for a sea change in the donor–recipient relationship, building country ownership for development priorities. But in practice, this means many more developing countries being willing and able to mobilise domestic resources to finance their own development.

Effective taxation has the potential to save lives. New analysis presented in this report suggests that if all developing countries were to mobilise 20% of GDP in tax revenue (the minimum level considered necessary to achieve the Millennium Development Goals):[12]

- 287,000 more child deaths could be averted each year
- an additional 72 million people could have access to clean water.

Yet the potential for countries to mobilise domestic resources is mixed, and improvements will require a concerted effort across the international community. This is particularly true for many low-income countries (LICs) and conflict-affected states. The International Monetary Fund (IMF) has predicted only a very small increase in tax revenues as a share of GDP in LICs, with much of this revenue derived from natural resources.[13] Domestic resources will therefore need to be complemented by good-quality, predictable external financing in the form of aid as well as a supportive macro-economic policy environment, which advances LIC growth through global financial integration and trade.

Large sums of money flow out of developing countries through tax evasion, tax avoidance, or theft, and are draining potential resources for poverty reduction. This money is intended to disappear from any record in the country of origin, denying sovereign governments their rightful income and robbing them of their ability to improve their economies and the lives of their poorest people. Globally, illicit outflows represent as much as 4% in lost GDP.[14] Global cooperative action could change this dynamic, ensuring more money stays in the countries where it is generated.

Estimates vary considerably, but an emerging consensus suggests billions of dollars are lost each year by developing countries as a result of illicit outflows. According to one estimate – based on IMF statistics – illicit financial outflows amount to ten times annual global aid flows.[15] The Tax Justice Network has estimated that the total value of one source of IFF – untaxed assets held offshore – could lie in the range of $21 trillion to $32 trillion; on this basis, global revenue loss resulting from high net worth individuals holding their assets untaxed offshore may be as much as $190bn–$280bn annually – roughly twice the value of all development aid.[16]

If IFFs were curtailed, zero preventable child deaths could be reached 20 years sooner than in a business-as-usual scenario. Of course, this is still too long and, as highlighted in Save the Children's *Getting to Zero* report, other targeted investments may be necessary to accelerate this further.

Accessing these resources and recouping stolen assets will require concerted global cooperation. As the UN Secretary-General's High-Level Panel of Eminent Persons on the Post-2015 Development Agenda recognised, developed countries will need to 'put their own house in order', clamping down on tax haven secrecy and penalising individuals and businesses known to engage in tax evasion. They can also provide targeted funding, training and capacity-building to help developing countries strengthen their tax systems.[17]

Similarly, developing countries will need to strengthen their tax systems, particularly the capacity of their national revenue authorities to encourage greater tax compliance. They will also have to improve the efficiency and effectiveness of public spending, through increased participation, transparency and reliability, to help ensure that additional resources translate into equitable public investment that responds to the needs of citizens.

If the international community works together we can stem illicit financial outflows and recoup millions of dollars for global development. We can prove our commitment to an ambitious global development agenda, supported by a new global partnership, in which every country has a role to play in the global effort to eradicate poverty.

2 FINANCING DEVELOPMENT: WHY TAX MATTERS

Debates regarding the post-2015 framework are already pointing to the difficult question of how these ambitious goals will be financed. Estimates of the cost for the new framework are still speculative, but data on existing spending on development priorities suggests that a paradigm shift is required if our ambitions are to be realised.

Most MDG sectors show increases in real spending, but these are insufficient. No spending target is on track in all countries: only one-third of countries are meeting promised or needed levels for health, one-quarter for education, and one-fifth for agriculture and for water, sanitation and hygiene (WASH). Trends for each sector show that spending is either stagnant or falling back from promised or necessary levels; this is particularly true of agriculture, which is especially worrying, given the lack of progress on reducing global hunger.[18]

It is clear that the current sources of financing available through aid and other international mechanisms are inadequate to finance achievement of the current MDG goals, never mind realising the ambition of 'getting to zero' envisaged in the report of the High-Level Panel of Eminent Persons on the post-2015 framework.

Current commitments to official development assistance (ODA), at around $133bn in 2011, fall far short of the $500bn that would meet the long-standing UN target of donor countries spending 0.7% of GNI, and indeed they are declining.[23]

THE ROLE OF TAX IN FINANCING DEVELOPMENT

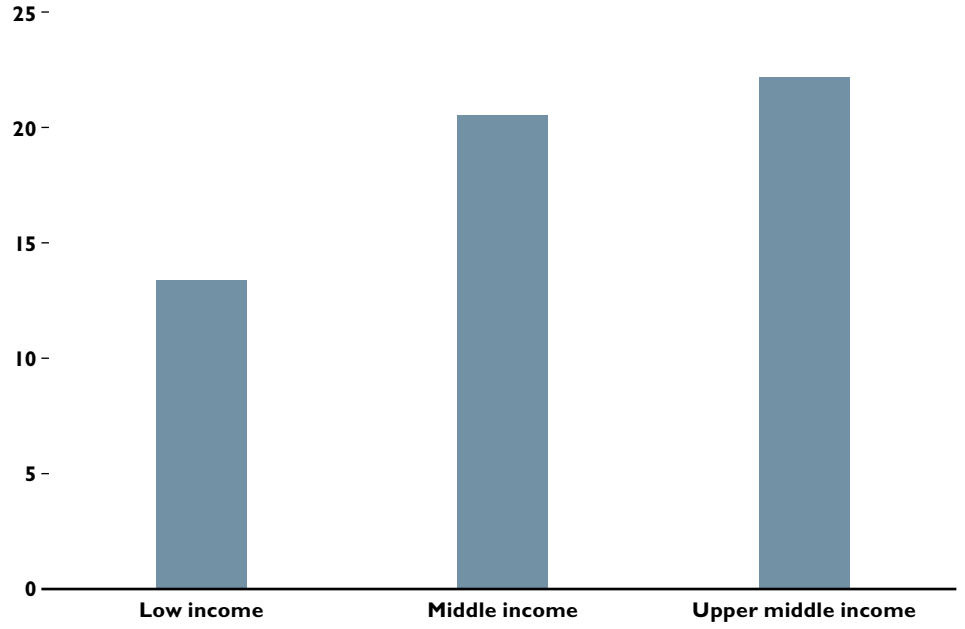
While aid can have a dramatic impact in the short term and should be maintained, it cannot replace the long-term political commitment to and resourcing of public services. In addition, aid flows can be volatile, depending on economic circumstances, donor trends, and the political will of donor governments.

It has been widely recognised that taxes are the largest, most sustainable and most predictable source of finance for developing countries.[25] Indeed, at the Lough Erne G8 Summit in 2013, leaders recognised taxation to be crucial to effective, capable states and

PUBLIC SPENDING AND CHILD WELL-BEING

The evidence for the link between public spending and development outcomes is strong. One study, which reviewed 136 countries between 1960 and 2005, indicated that for a one percentage point increase in public spending on healthcare as a share of GDP, there may be a 0.1% decrease in child deaths per 1,000 children under the age of five.[19] Another study, covering 133 low-, low-middle- and upper-middle-income countries found that doubling the share of health spending in GDP is associated with a significant reduction in infant mortality by between 13% and 32% and a reduction in child mortality by between 15% and 37%.[20] Given that most low-income countries are spending less than 5% of GDP on health, there is great potential for improving health outcomes by increasing public investments in health. A range of other studies support this finding.[21] Investing in more equitable healthcare coverage could save the lives of 1.8 million children and 100,000 mothers, and result in a 76% increase in the number of countries reaching MDG 4 (to reduce the under-fives mortality rate by two-thirds).[22]

FIGURE 1 AVERAGE TAX REVENUES AS A PROPORTION OF GDP (2010)[24]



Source: IMF (2011) *Revenue Mobilisation in Developing Countries*

"essential to fairness and prosperity for all".[26] The importance of effective taxation is well captured in the slogan of the Kenyan revenue authority: "Pay Your Taxes, and Set Your Country Free."

There is clearly a significant development financing gap. However, it would be a mistake to assume that if the financing were to be committed by donors to social sectors alone, our goals would be achieved. Maintaining and increasing commitments to aid and other sources of innovative finance will be critical in the short term, particularly in fragile states that will struggle to mobilise revenues effectively. But adequate financing is a necessary but not adequate precondition for success.

Domestic revenues are important because of the finance being available to fund essential services, and because of the incentives that domestic tax collection creates. The volume of finance has a much greater impact where governance is strong. Budget commitments garnered from domestically mobilised revenues indicate political commitment; governments are more likely to be accountable to the citizens who pay taxes. What matters is not just how much money is available to be spent, but where the money comes from and how that shapes spending priorities.

Domestic taxation can be a powerful tool in redistributing wealth in societies where the income distribution is skewed. It can also play a powerful role in influencing behaviours that may be harmful to public health or the environment; for example, taxes on tobacco, sugar or carbon.

The benefits of taxation to development can be categorised as four 'Rs':

- **Revenue**: to finance social and infrastructure spending
- **Representation**: strengthening the development of effective institutions and their responsiveness to citizens
- **Redistribution**: mobilisation and allocation of resources to address inequality
- **Re-pricing**: increasing the costs of harmful consumption and subsidising beneficial products and services.[27]

The UN estimates that if the world's least-developed countries raised at least 20% of their GDP from taxes, they could achieve the Millennium Development Goals.[28]

A study launched in 2011 examined the connection between tax revenues and MDG progress in Africa. It concluded that if the tax-to-GDP ratio is high and tax revenues add to incremental progress in identified obligations, then fewer children will be undernourished, more people will be able to read, the child mortality rate will be lower and fewer women will die in labour. Countries collecting more than 20% of their GDP in tax had an average level

of undernourishment among children of 15% during 2005–08, while those collecting less than 10% had an average rate of undernourishment of 32%.[29]

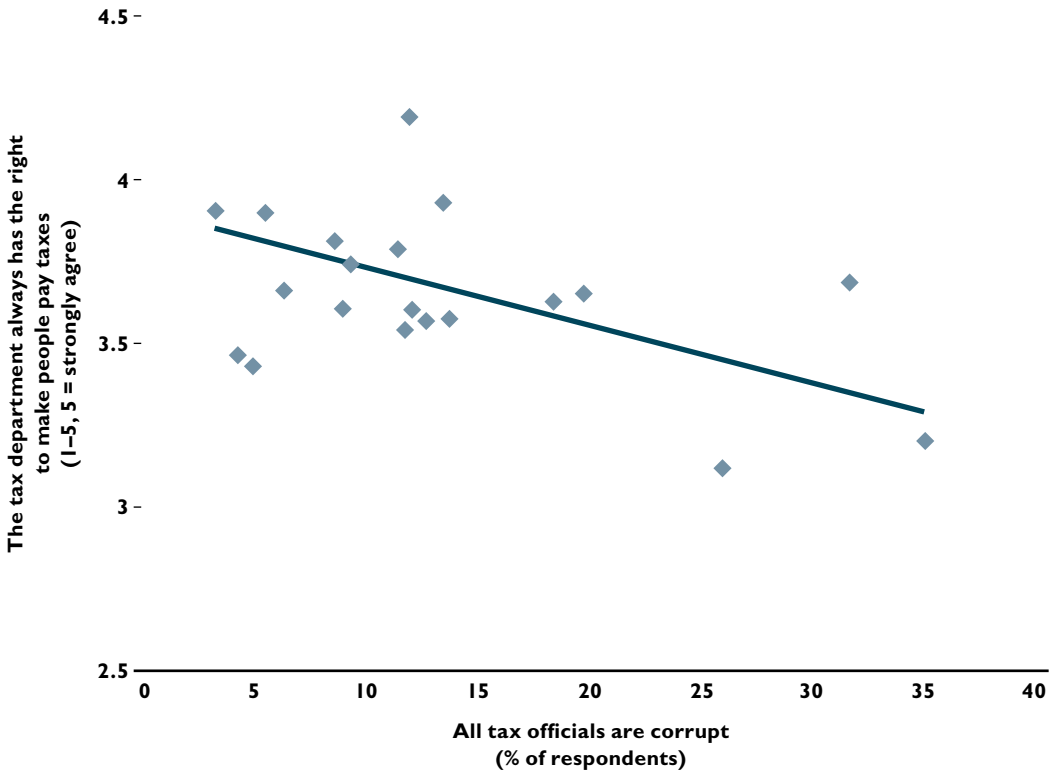
Of course, there is a relationship between capacity and outcome. Countries that are collecting 20% of their GDP in tax are likely to have the capacity to deliver services for those taxes. If LICs were to suddenly start collecting 20% of GDP in tax, that would not translate to the same outcomes for some time. But the efforts to create the capacity to collect and spend revenues is part of the process of sustainably supporting essential public services.

Save the Children's 2013 *Getting to Zero* report highlights how our proposed targets for the post-2015 framework cannot be achieved without improvements in governance and reductions in inequality. Here, the links between taxation and governance are critical, as is the role of taxation as one of the primary tools for governments to address economic inequalities and to close the inequity in the provision of essential services.

There are several examples where the act of developing tax systems has nourished dialogue and contributed to better formal accountability between the state and its citizens. In Ghana, conflict over taxation helped to fuel the movement for improved relationships between state and citizens.[30] Developing a functioning tax administration has also motivated further development of institutions in other parts of the public sector, such as health and education.[31] The fact that 'tax morale' (the willingness of citizens to pay tax) is strongly linked to perceptions of corruption (see Fig. 2) creates an incentive for governments to govern more effectively, if they want to collect more revenue.

The way countries tackle the issue of domestic revenue mobilisation significantly influences their potential for economic growth and democratic consolidation. Coercion tends to reduce the size of revenue mobilisation in poor countries, when compared with politically negotiated contracts with citizens about services in exchange for taxes. Administrative problems and political interference in the actual implementation of tax policies are often bigger obstacles to increased revenue than lack of political will to change tax policy.[32]

FIGURE 2 PERCEPTIONS OF CORRUPTION AND TAX MORALE IN AFRICA



Source: OECD, *What drives tax morale?*, 2013[33]

TAX IN BANGLADESH

In Bangladesh the issue of taxation started to surface during the 1990s. The major driving force behind this was the integration of the country into the global economy, causing a remarkable change in the landscape of taxation during this period. The revenue structure in Bangladesh has traditionally been dominated by import and excise duties. Challenges emerging from globalisation forced a reduction of import duties and levies and led the government to collect more revenue through value added tax (VAT) and other indirect taxes. A recent trend analysis of share of tax revenue in Bangladesh indicates that the bulk of revenue is collected from indirect taxes, of which VAT is the biggest single component.

The VAT burden on the poorest income group is 6.92%, which is extremely high, given the fact that the VAT burden on the highest income group is only 4.56%.[34]

Studies from the World Bank[35] and others have demonstrated that governance is better where governments have to earn their incomes by taxing a wide range of citizens and economic activities; well-managed taxation systems can play a major role in state-building.[36] Effective tax systems are thus an essential building block of successful development.

Achieving our ambitions for getting to zero on many development challenges will require a level of financing that can only be realised through taxation, while domestic financing creates much of the social 'glue' required to enable improvements in governance that are so critical to success.

TAXATION: HELPING TO REALISE CHILDREN'S RIGHTS

Ending illicit outflows is an immense opportunity and an obligation, implicit in the UN Convention on the Rights of the Child 1989 (UNCRC), of which there are 194 states parties. States that are party to the UNCRC have an obligation to allocate resources to realise economic, social and cultural rights to the "maximum extent of their available resources and, where needed, within the framework of international cooperation" (Article 4, UNCRC).

Furthermore, General Comment 16, item 55, of the Convention specifically stipulates that "ineffective taxation systems, corruption and mismanagement of government revenues from, among others, state-owned businesses and corporate taxation, can limit the resources available for the fulfilment of children's rights in accordance with article 4 of the Convention. In addition to any existing obligations under anti-bribery and anti-corruption instruments,[37] States should develop and implement effective laws and regulations to obtain and manage revenue flows from all sources, ensuring transparency, accountability and equity."[38]

Under the UNCRC it is an obligation for states to put in place effective legislation at the national level to curtail outflows and tax evasion and to ensure well-equipped tax authorities. Meanwhile, it is the whole international community's obligation to forge international agreements to support national tax collection efforts, to ensure countries know who is evading taxes and where their profits are being kept. Not doing so is not just a matter of legal non-compliance; it is about life and death. Christian Aid has estimated that illegal, trade-related tax evasion alone resulted in a loss of revenue which was responsible for some 5.6 million deaths of young children in the developing world between 2000 and 2015, as a result of lost investments in life-saving interventions.[39]

3 SPOTLIGHT ON ILLICIT FINANCIAL FLOWS

Clamping down on illicit financial flows has the potential to offer huge development returns. The scale of illicit outflows is immense; large enough to finance the health and education budgets of many low-income countries many times over, or to provide the additional resources required to eradicate poverty and hunger once and for all.

Harnessing these flows by levying taxes on them would not only fill an immediate funding gap, but would dramatically increase available tax revenue in many low-income countries, potentially strengthening governance, public financial management and the quality of public services over the long term. Of course, IFFs are concentrated in some countries, which are more likely to be rich in natural resources; aid will remain important, particularly in low income and fragile states.

ESTIMATING THE SCALE OF ILLICIT FINANCIAL FLOWS

Estimates of the scale of IFFs vary, and a conclusive assessment of the scale of flows is unlikely, given that what is being measured is, by definition, secret.

Oxfam offered one of the first estimates in 2000, at around $50bn per annum flowing from developing countries.[40] Its estimate was based on global figures for foreign direct investment and the stock of capital flight, combining these with estimated returns on investment and interest income, along with estimated tax rates. In 2005, Raymond Baker, the director of Global Financial Integrity, estimated that the scale of outflows was likely to be far larger. His estimates considered tax evasion, fraud in international trade, drug trafficking and corruption, which, when combined, resulted in more than $540bn flowing out of developing countries each year.[41]

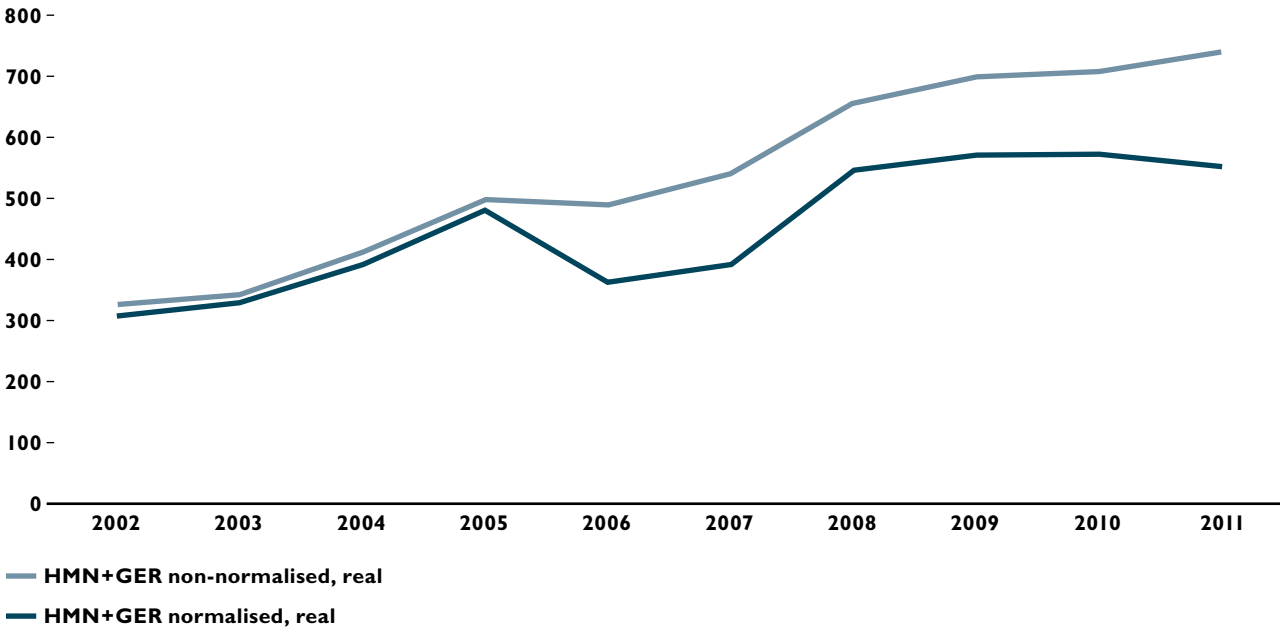
A number of academics and advocacy organisations[42] have since tried to assess the scale of the problem by looking at the size of assets held offshore and the global revenue loss resulting from this practice. This method of assessment takes into account assets accrued not only through tax evasion, corruption and illegal trade, but also from tax avoidance. The Tax Justice Network estimates that the value of assets held offshore lies in the range of $21 trillion to $32 trillion, while global revenue loss resulting from high net worth individuals holding their assets untaxed offshore may be as much as $190bn–$280bn annually – roughly twice the value of development aid.[43] The OECD estimates that the scale is likely to be as much as three times developing countries' annual aid receipts.[44]

The most recent and authoritative estimates on IFFs are published by Washington-based think-tank, Global Financial Integrity (GFI). The organisation's most recent estimates for IFFs from developing countries suggest that nominal illicit outflows from developing countries amounted to $946.7bn in 2011, up 13.7% from $832.4bn in 2010. Controlled for inflation, illicit outflows from developing countries increased in real terms by about 10.2% per annum over the past decade.

Asia accounts for 39.6% of total illicit outflows from developing countries. The Middle East and North Africa (MENA) region accounts for, on average, 11.2% of total illicit outflows annually. Africa's share increased from just 3.9% 2002, reaching a peak of 11.1% just before the global financial crisis in 2007; it had declined to 7% by 2011, roughly on a par with its average of 7.7% over the decade. Although Africa has the smallest nominal share of regional illicit outflows (7.7%) over the period studied, it has the highest average illicit outflows-to-GDP ratio (5.7%), suggesting that the loss of capital has an outsized impact on the continent.[45]

It should be noted that all of these estimates are likely to be under-estimates because of poor data quality, financial secrecy in tax havens and because these estimates often fail to capture other forms

FIGURE 3 ILLICIT FINANCIAL FLOWS 2002–11 ($ BILLION)



Source: Global Financial Integrity, 2013

of revenue accrual, such as kickbacks from large infrastructure or defence contracts. The African Union panel on Illicit Financial Flows chaired by Thabo Mbeki suggests that between $50bn and $60bn leaves Africa every year as a result of IFFs.[46]

THE EFFECTS

The impact of these losses at the national level are devastating. A recent Christian Aid report shows that, as a result of massive underpricing of copper exports from Zambia, the country lost out on significant revenues from its natural resources. If it had received the same price for its copper exports in 2010 that Switzerland obtained when the same copper was resold to other countries by Switzerland-based traders, it could have doubled its GDP.[48]

The Africa Progress Panel, chaired by Kofi Annan, also details in its 2013 report five deals between 2010 and 2012 which cost the Democratic Republic of the Congo over $1.3bn in lost revenues through the undervaluation of assets and sale to foreign investors. This sum represents twice the annual health and education budgets of a country with one of the worst child mortality rates in the world and seven million school-aged children out of school.[49]

UNICEF has compared the size of illegal capital flight with health budgets in a selection of low- and middle-income countries. While no causal connection is

TAXATION AND ACCOUNTABILITY IN GHANA

In 1995 the introduction of VAT in Ghana led to major protests, following widespread dissatisfaction with government accountability and transparency. The opposition parties, having boycotted the parliamentary elections, instead took to the streets as a political strategy, forming the Alliance for Change. The VAT protests provided an impetus for a more inclusive and open parliament after elections in 1996. A peaceful reintroduction of VAT in 1999 signalled that trust in government was strengthened. The tax was introduced at a much lower rate, and revenues were hypothecated to new public spending programmes that enjoyed broad public support.[47]

made, the comparison shows that for many countries the illegal capital flight is many times greater than what the countries spend on health. Although not comparing like with like, it is striking that estimated capital flight from Nigeria in 2009 amounted to 17% of the country's GDP, while only 2.1% of its annual budget was spent on health.[50]

We cannot simply assume that all IFFs are recoverable, and if recovered, that they would be spent on essential services. But we can estimate the extent to which IFFs are related to development outcomes – while taking into account competing spending priorities, corruption and other factors. There are two studies that do this.

The first, a study by Christian Aid, estimated the mortality impact of missing tax revenues due to commercial tax evasion. It concluded that if the estimated $160bn in tax revenues that developing countries lose every year through the mispricing of cross-border trade within transnational corporations and false invoicing between business accomplices were available for spending, according to current development priorities, the lives on 350,000 children each year could be saved.[51]

The second, a paper published in the *Journal of the Royal Society of Medicine*,[52] seeks to evaluate the relationship between IFFs and child development outcomes. To determine the relationship between child mortality and GDP, the paper uses data on the proportion of GDP lost to IFFs, and the resulting impact on the speed at which sub-Saharan African countries are likely to achieve MDG 4. The evaluation indicates two pathways through which tackling IFFs may have a positive impact on child well-being outcomes: the availability of household income, and provision of public services through increased taxation resulting from a larger economy.

The findings of this study suggest that while only six of 34 countries in sub-Saharan Africa are likely to reach MDG 4 by 2015, this would increase to 16 if IFFs were curtailed. All other sub-Saharan countries would experience significant reductions in the time required to reach the MDG 4 target of reducing child mortality by two-thirds. While the study does not determine any direct causal relationship, it clearly indicates a strong relationship between MDG 4 outcomes and ending IFFs.[53]

THE OPPORTUNITY

Although there has already been a huge human cost to these outflows, now we have an opportunity. The World Bank estimates that every $100 million recovered could fund first-line treatment for more than 600,000 people with HIV/AIDS for a full year. We could provide drugs for the treatment of malaria for between 50 and 100 million people, or provide 250,000 water connections for poor households. Alternatively, we could fully immunise 4 million children.[54] Similar arguments could be made for education and other development outcomes. However, the impact of addressing IFFs has positive impacts on state capacity, governance and accountability – it is much more than securing budgets for thematic issues.[55]

This opportunity is particularly crucial as we start to debate the post-2015 agenda. Understanding how much could potentially be recouped by clamping down on illicit capital flows will shine a light on what is actually affordable and possible.

The positive effects of this additional finance will not only be felt through its purchasing power. In accessing these resources, governments will be dramatically increasing their own tax revenues.

CASE STUDY: NIGERIA – RECOVERING STOLEN ASSETS FOR SOCIAL INVESTMENT

To prevent corruption and financial mismanagement and to encourage greater efficiency, it will be necessary for governments to pursue reforms in governance, accountability and transparency, while working with expert partners. In Nigeria, external financial oversight, provided by the World Bank and civil society, was crucial in ensuring the disbursement of money and the implementation of projects funded by resources recovered from former president General Abacha, who looted billions from the public purse between 1993 and 1998 (see Table 2).

General Sani Abacha was President of Nigeria from 1993 to 1998. Investigations carried out after his sudden death in June 1998 revealed that he looted between $3bn and $5bn of public money. His methods included theft from the public treasury through the central bank, inflation of the value of public contracts, extortion of bribes from contractors, and fraudulent transactions.[56] The proceeds were laundered through a complex web of banks and front companies in several countries, principally in Nigeria, the United Kingdom, Switzerland, Luxembourg, Liechtenstein, Jersey and the Bahamas.

Investigations ordered by his two immediate successors led to the recovery of $800m in cash and assets, which was utilised by the government for education and housing projects. In 2005/06 a further $505.5m was recovered, formerly hidden in Swiss banks.[57] The Swiss and Nigerian governments agreed that the money should be invested in pro-poor projects, overseen by The World Bank, who would also work to improve public finance management in Nigeria. Through the World Bank, the Swiss government provided a grant of about $280,000 to co-finance the Public Expenditure Management and Financial Accountability Review (PEMFAR). PEMFAR was initiated as a means of executing reforms in budget spending, with regard to Nigeria's national economic empowerment development strategy (NEEDS) priorities in education, health and basic infrastructure (power, roads and water). Priority pro-poor sectors included power ($168.5m), works ($144.5m), health ($84.1m), education ($60.1m) and water resources ($48.2m).[58]

Integrity (a Nigerian civil society organisation) was tasked with running a field monitoring survey of selected projects funded by the recovered money. Integrity, together with other local civil society organisations (CSOs), reviewed 51 project sites. A total of 168 people were interviewed, including contractors and local government officials involved in the projects, and also some potential project beneficiaries. The participation of the CSOs came as an afterthought following pressure from both the Swiss NGO coalition and CSOs under the umbrella of Nigerian Network on Stolen Assets (NNSA), an organisation of groups working on anti-corruption, social and economic rights, public policy, health and environment. The review of 51 projects across five priority sectors and in Nigeria's six geo-political zones found that the funds allocated to various projects increased budget spending in pro-poor development projects.[59]

Priority sectors were selected by the Government of Nigeria on the basis of their potential to help Nigeria move towards achieving the MDGs. An analysis of actual federal budget spending in the five sectors of health, education, water, electricity and roads in the 2003/05 fiscal years showed that the allocation to these sectors increased considerably between 2003 and 2004; that is, from 57.6 billion naira ($443,076,923.08) to 175.1 billion naira ($1,346,923,076.92). The trend was sustained in the 2005 budget and it was further noted that the overall increase in federal government spending in these five sectors was substantially greater than the amount of recovered 'Abacha Loot', suggesting that the investment had a positive knock-on effect for government prioritisation (Table 2).[60]

continued overleaf

CASE STUDY: NIGERIA – RECOVERING STOLEN ASSETS FOR SOCIAL INVESTMENT *continued*

TABLE 2 UTILISATION OF REPATRIATED ABACHA FUNDS

No.	Sector	Allocation, based on preliminary information (NGN billion)	Funds accounted for via Projects List (NGN billion)
1	Power • Rural electrification • Power generation	21.70	21.94 8.10 13.84
2	Works • Priority economic roads	18.60	17.06
3	Health • Primary health care • Vaccination programmes	10.83	10.84 2.02 8.82
4	Basic and secondary education • Primary schools • Junior secondary schools • Federal government colleges	7.74	7.79 3.16 3.40 1.23
5	Water • Potable water and rural irrigation	6.20	7.53
Total		**NGN 65.07 billion** USD 500,538,461.54	**NGN 65.16 billion** USD 501,230,769.23

Note: exchange rate – US$1 = 1 naira

Source: World Bank and Federal Ministry of Finance (Nigeria), *Utilization of Repatriated Abacha Loot: Results of the field monitoring exercise*, 2006

4 OUR RESEARCH APPROACH

The aim of this research is to use the historic relationships between child well-being and revenue mobilisation to determine the extent to which improving tax collection and addressing IFFs could reduce the amount of time required to reach the goals proposed by Save the Children for the post-2015 framework.

Our analysis considers the best available cross-country tax data and relates them to child well-being, with the focus on poor countries. Evaluating and comparing this relationship across countries and across years requires high-quality and detailed and comparable data, which is generally scarce and even more so for poorer countries.

At the moment the most suitable data on revenues in poor countries comes from the IMF's Government Finance Statistics (GFS). The best cross-country data on child well-being outcomes come from the World Bank as well as other sources identified and used in the past by Save the Children. Even with some of the best available country-level data, it is difficult to infer causality between taxation and child well-being outcomes.[61] The projections that we present in this report are of an illustrative nature only. Our analysis is not a precise forecast of the future, but paints a picture of what is possible if we tackle tax and illicit financial flows.

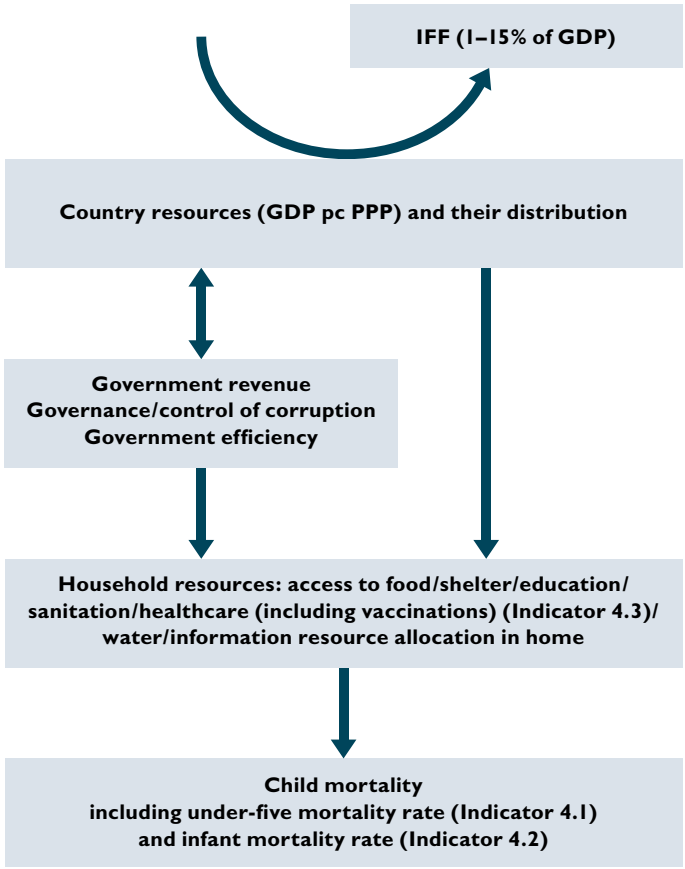
A study commissioned by Save the Children to underpin its *Getting to Zero* report evaluates whether the targets proposed for the post-2015 framework between 2015 and 2030 are reasonable.[62] This study starts by analysing determinants of various social outcomes, and it subsequently makes projections on the feasibility of achieving their improvement. Our analysis takes a similar two-stage approach: regression analysis and projections.

IFFs in particular have an impact on child well-being through two pathways: the effect of IFFs on household income (GDP per capita), and their effect on resources available to governments to invest in healthcare, education, and water and sanitation. The latter pathway is mediated through the efficiency of government spending, and particularly through action to combat corruption.

TABLE 3 GOALS AND TARGETS INCLUDED IN OUR RESEARCH

Save the Children *Ending Poverty* zero goal proposal	**Target tested through our research**	**Indicator**
End preventable child and maternal mortality and provide healthcare for all.[63]	Reduce under-five mortality to a maximum rate of 20 per 1,000 live births in each country.	Under-five mortality rate
Eradicate hunger, halve stunting, and ensure universal access to sustainable food, water and sanitation.	Halve stunting rates from 2010 levels (from 26.7% to 13.4%). Ensure universal access to improved water. Ensure universal access to improved sanitation.	Stunting rate of children under five Percentage of the population with access to improved water and sanitation (as defined by the WHO/UNICEF Joint Monitoring Programme)
Ensure that all children receive a good-quality education and have good learning outcomes.	Ensure that all children who start primary school reach the final grade.	Proportion of children enrolled in primary school who reach the final grade

FIGURE 4 IFFs AND THE PATHWAY BY WHICH THEY MAY INFLUENCE THE THREE INDICATORS OF MDG 4



Source: B O'Hare, I Makuta, N Bar-Zeev, L Chiwaula and A Cobham, 'The effect of illicit financial flows on time to reach the fourth Millennium Development Goal in sub-Saharan Africa: a quantitative analysis', *Journal of the Royal Society of Medicine*, 2014 107: 148

Initially, we focus on one measure of government intervention – taxes – and aim to update the methodology that Christian Aid used in 2008, by applying up-to-date tax data of arguably greater detail and quality – the GFS – and by applying this approach to child well-being outcomes beyond child mortality.

We compile a final dataset at the country level that has information in the form of a number of variables for a range of countries and years.[64] We use only data for poor countries as defined by the World Bank (low-income, lower-middle-income, upper-middle-income). We use the following databases and cover the following variables of interest and use the following sources for the final dataset:[65]

- Tax: IMF GFS (www.imf.org/external/data.htm)
- Child well-being outcomes: World Bank WDI (http://data.worldbank.org/data-catalog/world-development-indicators), and data used in Save the Children's *Getting To Zero* report (2013).

CHILD WELL-BEING OUTCOMES

We consider a number of child well-being outcomes and various data sources; the same variables as those used in *Getting to Zero*. Not all variables were found to be significant (as described in Appendix I: Technical Data). The two key variables of interest for our projections are:

- Child mortality. Mortality rate: the number of children who die before their fifth birthday (per 1,000 live births).[66]
- Access to basic water. Water access rate as defined by the WHO and UNICEF joint measuring project (JMP): the percentage of the population that can access at least 20 litres of water per day from an improved source within 1km. Improved sources are: household connection, public standpipe, borehole, protected well or spring, rainwater collection.[67]

  The importance of clean water for child survival and development is well established. Children in

particular pay a very high price for unsafe drinking water. Illnesses associated with unsafe water, such as diarrhoea, kill up to 2 million children in the developing world each year. Lack of nearby access to safe water also places an additional burden on children, especially girls, who are often responsible for collecting water from distant sources, which inhibits regular school attendance.

We apply these data and variables to determine the relationship between revenue mobilisation and these outcomes. We also use these relationships to estimate the progress that could be made against Save the Children's goals, if countries were able to mobilise 20% of their GDP in tax revenue – a reasonable target for all but the weakest of states, and one that is recommended by the UN as a condition under which countries could reach the MDGs.[68]

In theory we could use these relationships to investigate the extent to which estimates of tax losses relate to these goals. However, tax loss estimates are highly contested, and the most robust data on IFFs does not provide estimates on the amount of tax lost as a result of these outflows.

To investigate the impact of IFFs, we adapt the approach identified in a recent paper in the *Journal of the Royal Society of Medicine*.[69] We then use the latest estimates of IFFs to determine the reductions in the number of years required to achieve Save the Children's goal on child mortality. The approach establishes current trajectories on the reduction of child mortality, and uses the relationship between child mortality and GDP alongside the latest estimates of IFFs (as a proportion of GDP) to determine the length of time required to reach this goal, where IFFs are effectively curtailed.

As with any modelling approach, our model involves assumptions and is subject to weaknesses in data – these are outlined in Appendix 1. However, we are confident that we use the highest-quality data available, and have adopted the best approach to this problem available within the current literature.

5 HOW TACKLING IFFs CAN HELP US TO GET TO ZERO

This chapter presents the results of our analysis on the relationship between tax revenue, IFFs and Save the Children's proposed targets for getting to zero.

DEVELOPING COUNTRIES MOBILISE 20% OF GDP IN TAX REVENUE

We have described how revenue mobilisation has a critical effect on the available finances to invest in healthcare and other essential services – but also has an impact on the state infrastructure and quality of governance in a country.

Our research confirms expectations that higher taxes are associated with:

- a lower level of child mortality
- a higher level of access to improved water.

A 10% increase in the share of tax in GDP (eg, from 12% of GDP to 13.2%) is associated with:

- four fewer child deaths per 10,000 births.
- 0.2 percentage point increase in population with access to clean water.

(see Appendix 1, regressions 1B and 2B)

Assuming these relationships hold true in the future, and relying on other related variables remaining unchanged, we can project the amount of tax needed for improving child well-being outcomes.

We estimate that if all developing countries were to mobilise 20% of GDP in tax revenue (an achievable target in most countries), 287,000 child deaths could be averted each year, while an additional 72 million people could have access to clean water.[70]

CASE STUDY: ETHIOPIA

Ethiopia provides a good example of resources to the education sector being dramatically scaled up and yet effectively used, through systematic national and sectoral planning.

In order to ensure that recouped financial flows contribute to a post-2015 vision of a world free from all forms of extreme poverty, resources must be deployed efficiently and allocated to essential services, including health, education, nutrition, child protection and social protection systems.

Unfortunately, low-income country expenditure decisions are often affected by factors other than public interest. Governance (including the size and shape of government, political orientation and levels of transparency, accountability and corruption[71]), social fragmentation and inequality (particularly related to ethnicity and income[72]), national literacy levels, aid inflows and IMF programmes,[73] and the sources of tax revenue (income tax, corporate taxation, indirect taxes such as VAT and sales taxes, natural resource revenues[74]) are all major determinants of a government's allocation of revenues, as well as of public sector spending efficiency.[75]

To ensure that recouped financial flows contribute to advances in social and economic development, it may be necessary for developing country governments to undertake reforms to strengthen national and sectoral planning, public financial management, and transparency and accountability.

EFFECTIVE INCREASED INVESTMENT IN THE ETHIOPIAN EDUCATION SYSTEM

In 1971, the gross enrolment rate for primary schools in Ethiopia was 14%, with 20% of boys and 9% of girls enrolled. Primary school enrolment has risen steadily, with particularly strong growth from 2000. Over the past decade, net enrolments have increased from 40% in 2000 to 83% in 2009, with girls' enrolment rates now only 5 percentage points below those of boys.[76] Between 1999 and 2008, Ethiopia reduced the number of out-of-school children from 6.5 million to 2.7 million, largely through increasing the Grade 1 gross intake, which reached 153% in 2008.[77]

Ethiopia's educational achievements are the result of clear national prioritisation, effective planning and corresponding budgetary allocations. Achieving universal primary education has been a central part of government policy, with three successive Education Sector Development Plans (1997/98–2001/02, 2002/03–2004/05 and 2005/06–2009/10).[78]

Although there have been problems with efficiency and delivery, government spending on education rose from 19.8% of the national budget in 2004/05 to 22.8% in 2009/10. The decentralisation of education financing and increases in central government grants to local administrations often further boosted education spending. Some woredas (local authorities) allocated over 50% of their budgets to education.[79]

Aid has supported the government-led process of educational expansion.[80] Aid to education in Ethiopia increased substantially during the 2000s, as donors that had not supported the first Education Sector Development Plan slowly came on board, swayed by the effective and transparent planning and investment plan. Aid to education was affected by the temporary suspensions of aid on political and human rights grounds that occurred after the Ethiopia–Eritrea war of 2000 and following the 2005 elections. But government funding to basic services was largely protected during these periods of resource squeeze. The Protecting Basic Services (PBS) programme was set up to overcome donors' unwillingness to provide direct budget support following the 2005 elections, while not wishing to pull funding on aid for basic services. It is now the main channel for aid to education, with 50–70% of funding channelled through PBS in 2006. Although it is difficult to derive an exact figure, approximately 38% of PBS funds go to basic education.[81]

ILLICIT FINANCIAL FLOWS

Turning to the impact of IFFs, we estimate that by ending IFFs, the time it takes to reach zero preventable child deaths could be reduced by 20 years against a business-as-usual scenario adjusting only this factor, and without assuming any changes in spending patterns, governance or inequality. Other modeling exercises by Save the Children and by A Promise Renewed suggest that, should current trends continue, we will not meet MDG4 (a two-thirds reduction in preventable child deaths) by 2028, never mind get to zero.[82] The impact is greater in low-income countries and greatest in African countries, despite the role that aid plays in these countries.

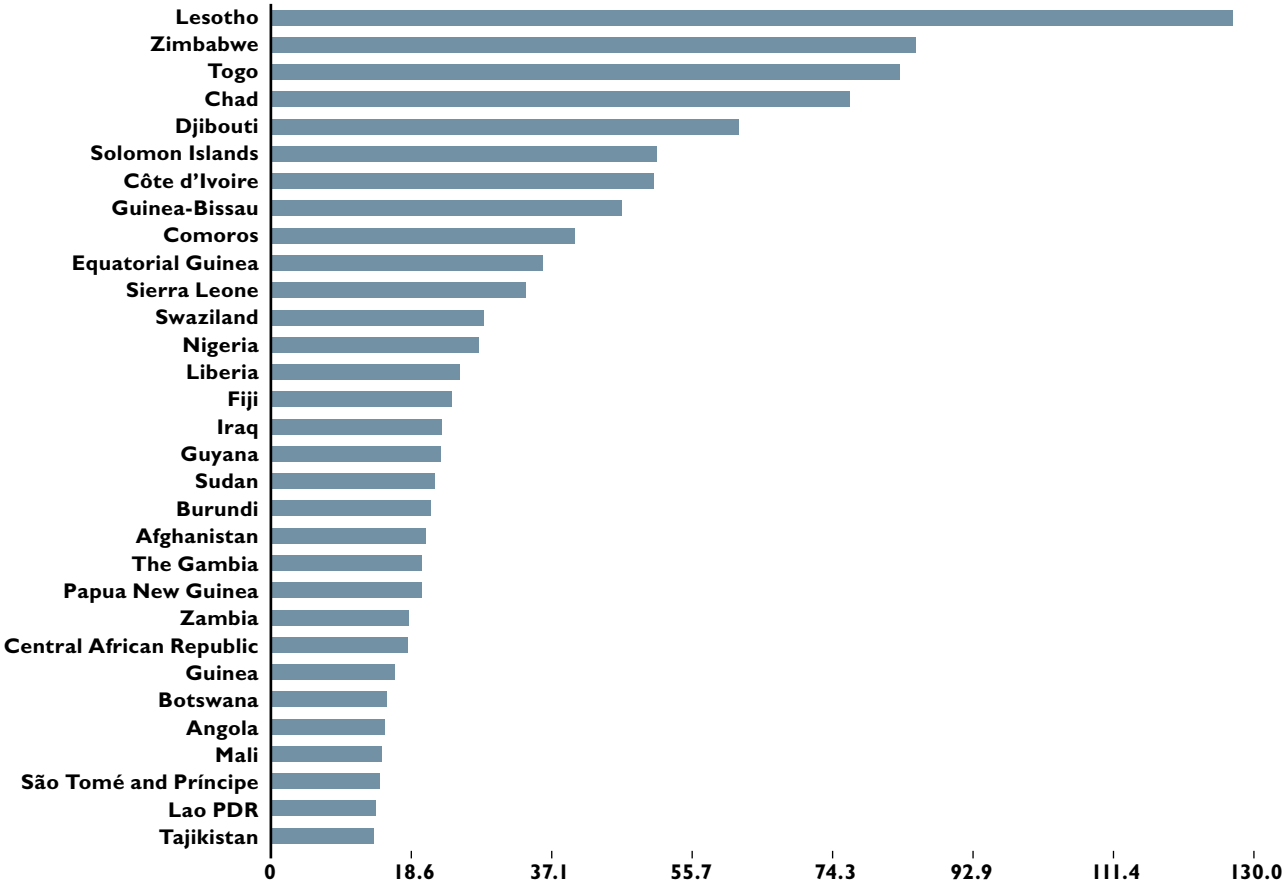
The findings, while subject to assumptions, suggest that the ambition of *Getting to Zero* will be much more difficult, if not impossible, if countries do not improve revenue mobilisation and address IFFs. This indicative study simply presents the relationships between the variables, but makes clear that external financing will not be enough to maintain the levels of progress we have witnessed to date on reducing child mortality and malnutrition, and to improve education and access to water and sanitation.

TABLE 4 REDUCTIONS IN THE YEARS NEEDED TO REACH SAVE THE CHILDREN'S GOAL OF 'GETTING TO ZERO' ON CHILD MORTALITY

	Years required to 'Get to Zero' on child mortality		**Reduction in years**	**Number of countries in sample**
	Business–as-usual scenario	**Scenario with curtailed illicit financial flows**		
Average	47.4	29.2	18.2	72
(Middle income)	42.3	25.6	16.7	40
(Low income)	54.8	34.9	19.9	30
Africa	57.7	33.8	23.9	43
Asia	37.5	26.8	10.7	18
Latin America/ Caribbean	23.5	15.1	8.4	11

Note: The overall sample size is 72 owing to data gaps and the fact that countries with child mortality rates of less than 20 per 1,000 live births (our notional 'zero') are not included.

FIGURE 5 REDUCTIONS IN NUMBER OF YEARS REQUIRED TO REACH ZERO PREVENTABLE CHILD DEATHS IF ILLICIT FINANCIAL FLOWS WERE CURTAILED



6 IMPROVING TAX COLLECTION AND TACKLING IFFs: WHAT NEEDS TO BE DONE?

Improving tax collection is an inherently complex process. It relies on legitimacy of government, and the delicate balance between raising appropriate revenues to invest in infrastructure and services while not restricting growth or investment.

However, it is possible. The IMF demonstrates that low-income countries have increased tax revenues across the board since the mid-1990s, with five countries having raised their tax ratios to above 15%.[83] However, there must be concerted effort, beyond business as usual, if the massive funding gaps are to be addressed and our ambitions for the post-2015 framework are to be fulfilled.

The political will to increase revenues and tackle illicit capital flows is linked to a combination of effective national commitment to development, and international support. There must be a commitment from government to build confidence among its citizens that services will be provided in exchange for tax collection, while a sense of equity is critical: non-taxation and widescale tax evasion by the rich in high-inequality contexts undermine the capabilities and perceived legitimacy of the state.

Countries with a higher share of agriculture in GDP tend to collect less revenue, as do landlocked countries, while countries with larger populations, faster population growth, and weak or corrupt governments are associated with lower tax ratios.[85]

It is therefore important to avoid one-size-fits-all prescriptions. However, developing countries do face common challenges in improving revenue collection.[86] Weak revenue administrations, low taxpayer morale, and poor governance, combined with the problem that the informal economy comprises 40% of GDP in many countries and up to 60% in some, means that numerous countries place a heavy reliance on receipts from multinational enterprises.[87]

This makes it all the more important that multinationals are paying their fair share in the short term, and are disclosing information that will support countries in their efforts to increase revenue mobilisation and broaden the tax base. This, however, must be done in a balanced way that does not curb economic development or weigh heavily on the poorest.

TAX REFORM IN POST-CONFLICT STATES: LIBERIA

Following a prolonged civil conflict that wrecked Liberia's tax and customs administrations, revenue recovered from 6.2% of GDP in 2003 to almost 20% by 2009. With technical assistance from the IMF, reforms were initially focused on customs and a small number of large businesses managed from a small special office. The second step involved reform of the tax authority, including forms and procedures, systems and governance arrangements, and a framework for natural resources (petroleum, mining, forestry and logging). Efforts to improve taxation from natural resources have recently been put at risk by special concessions in the mining sector, and by problems in enforcing the land rentals agreed within forestry contracts.[84] These issues need to be addressed in a way that does not result in double taxation for firms and ensures accountability for the taxes that are paid to the government, to ensure they deliver results on the ground.

Over-complex structures and ad hoc incentives create loopholes for tax avoidance and evasion, intensify the public perception of the unfairness of taxes and generate opportunity for corruption, and in turn undermine the commitment of citizens to pay tax.

It is therefore critical that countries put into practice simple, progressive and transparent tax policies, following consultations with citizens. These policies must be accompanied by administrative capacity and institutions that implement taxes fairly and efficiently.

In a global economy, however, this cannot be done in isolation. We therefore identify four priorities that governments, donors and the international community should take on board to ensure a coordinated effort to address the issue of IFFs.

CORPORATE TRANSPARENCY: COUNTRY-BY-COUNTRY REPORTING

A lack of transparency regarding tax policies and spending priorities undermines the revenue mobilisation effort. As most developing countries are overly reliant on large firms for their revenue, it is critical to ensure that the latter are paying their fair share. It is also critical that citizens are informed of this. Transparency is crucial to tax morale and to enforcement. For example, evidence from Columbia University suggests that corporate opacity is associated with lower levels of tax collection and greater tax avoidance.[88]

Country-by-country reporting is a simple proposal that suggests that companies operating in multiple jurisdictions should disclose the profits they make, the taxes they pay and other relevant financial details on a country-by-country basis. This would make it clear where companies are shifting profits to low-tax jurisdictions in order to pay less tax (through the so-called 'transfer pricing' system that governs the price of trade between related companies operating internationally).

A limited version of this proposal has already gained traction in the oil, gas and mining sectors and has been implemented by the EU under the review of the Accounting Directive, as well as applying to banks listed in the EU under the Capital Requirements Directive.

In 2013, the G8 agreed to the development of an 'International Tax Tool' that would enable tax authorities to access country-by-country reporting information. The OECD is taking this work forward. While this is an important step forward, in developing the technical mechanisms required to collect this data in a credible way, the data would not be disclosed to the public.

Save the Children believes that public disclosure, in the right format, would enable citizen engagement in holding companies to account for their tax payments, and would also help citizens to ensure governments were collecting taxes appropriately, and spending revenues in an accountable and transparent manner.

IMPROVED INTERNATIONAL COOPERATION: AUTOMATIC INFORMATION EXCHANGE (AIE)

One of the difficulties that countries face when seeking to pursue those evading tax arises from the lack of information on incomes held offshore in secretive bank accounts. The recognised solution to this problem lies in agreements between countries to automatically exchange information relevant to taxation; yet there is political resistance to this solution from a number of tax havens and vested interests that wish to maintain the status quo. This is a problem that requires collective action: if some states agree to exchange information with each other without bringing others on board, there is a risk that tax evaders simply move their assets to jurisdictions that maintain banking secrecy.

A multilateral agreement on the exchange of tax information would mean a large number of countries automatically sharing information on citizens or companies holding assets on their shores with the countries where those assets originated or where those citizens were resident. It would equip countries with timely information about where tax abuse is likely to be taking place and therefore where further investigation is needed.

Much progress has been made in this area – with the US government leading the way through its Foreign Account Tax Compliance Act (FATCA). In addition, the G8 in 2013 agreed to a pilot of multilateral AIE. This should be taken forward by the G20 in partnership with developing countries and should swiftly move to a situation where tax havens are pressurised to comply with the standard.

SHINING A LIGHT ON SECRET FIRMS: BENEFICIAL OWNERSHIP

Much of the world's corruption and money laundering, which facilitates illicit outflows, occurs through secret companies (often called shell companies) and trusts, which hide the real 'beneficial' owner of the assets. This provides a veil of secrecy that tax and anti-money-laundering authorities find impossible to penetrate. The World Bank's analysis of the largest corruption scandals found that 70% involved anonymous shell companies – with the majority of malevolent activity occurring in the British Virgin Islands and the US state of Delaware.[89] Save the Children lobbied for the G8 in 2013 to take steps to ensure that all G8 members and related tax havens implement public registers of beneficial ownership.

The G8 did not agree to compile registers of beneficial ownership of companies and trusts, let alone to make them public, though the UK agreed to take unilateral action and implement its own public register. Notably, this is not an issue that creates unnecessary burdens for ethical and law-abiding businesses – the UK's Confederation of Business and Industry (CBI) publicly supported the UK's step on beneficial ownership and called for international action on the issue.[90] The EU is currently considering a form of this proposal within the report of the Anti-Money-Laundering Directive, which offers the opportunity to make this an international standard.

Global action on these transparency measures is critical to the ability of developing countries to improve tax collection, and would have the added advantage of strengthening the rule of law and ensuring that developed countries can improve their own anti-corruption and revenue mobilisation efforts. Action needs to be taken in developed countries, and while the potential benefits are in the order of billions, the costs attached to such action for governments and scrupulous businesses is minimal.

INCREASED CAPACITY TO RECOVER REVENUES THROUGH BROAD-BASED TAX COLLECTION

Governments should seek to broaden the tax base so that more citizens pay taxes and, in turn, reap the benefits of doing so. It is critical that these reforms are transparent and free of extortion or corruption. However, caution is required to make sure that these taxes are progressive and do not weigh heavily on those that cannot pay.

Concrete steps to reduce unnecessary tax exemptions for large companies, where the benefits to the country are not clear and transparent, and a crackdown on tax evasion and avoidance must accompany this. Such a crackdown need not mean increases in tax rates – but rather a commitment to enforcing tax laws and ensuring transparency and fairness across the whole system. Neither would this mean reductions in helpful tax incentives (eg, those tied to employment goals that are measurable) but rather would seek to encourage transparency and debate regarding those tax incentives that bring benefits to the country.

Donors and development partners should support developing countries to strengthen their public financial management and the capacity of their national revenue authorities. This may involve providing more grant funding to strengthen tax-collection capacity and revenue-related activities. In 2006, only 0.073% ($88m) of official development assistance (ODA) was dedicated to tax- and revenue-related tasks,[91] in spite of the very positive catalytic effect aid can have when invested in this area (see box below). Developed countries may also consider supporting the training of tax collectors, revenue officials and legal and administrative support staff, or providing international expert assistance with complex international tax audits.

Norway's 'Tax for Development' has supported the Zambian Revenue Authority's Mining Unit to renegotiate mining contracts and put in place a new tax regime, which has resulted in a revenue increase from $313m in 2010 to $1,048m in 2011.[92]

The OECD's new 'Tax Inspectors Without Borders' initiative is a promising step in the right direction, providing international auditing expertise and advice to help developing countries better address tax base erosion, including tax evasion and avoidance. According to OECD Secretary-General Angel Gurría, "The idea is quite simple. Tax Inspectors Without Borders will match 'demand' from developing countries wanting outside help with complex international tax audits with the 'supply', of international experts, drawn mainly from cadres of tax inspectors serving in other tax administrations. Joint teams will operate under the local leadership in each country, based on a learning by doing approach."[93]

SUPPORT TO DEVELOPING COUNTRIES IN IMPROVING REVENUE MOBILISATION

At the Lough Erne summit in 2013, G8 members committed to increase support to developing countries so that these countries can collect the taxes that are owed to them.

In the UK, the Department for International Development (DFID) and HM Revenue and Customs (HMRC) have established a new Capacity Building unit, within HMRC, dedicated to helping developing countries improve the capacity of their tax revenue administrations. The unit will initially deliver programmes in southern Africa, Tanzania, Ethiopia and Pakistan.

The objective of the unit is to establish sustained multi-year partnerships with partner revenue authorities. It will deploy experienced HMRC staff to partner countries (initially in Tanzania, Ethiopia, southern Africa and Pakistan) in order to provide long- and shorter-term technical assistance in line with partner countries' needs, often as part of wider DFID programmes. The work through the unit in South Africa will, for example, build on DFID's existing work with the South African Revenue Service (SARS) to support South–South cooperation through the development of a new African regional tax reform programme. This programme will enable SARS to provide more comprehensive support across Africa.

The unit is modelled on DFID and HMRC's previous twinning programme with the Ethiopian Revenues and Customs Authority. This programme ran from 2009–11 as part of DFID's support for the wider Strategic Support to the Civil Service Reform Programme. Under the programme HMRC provided technical assistance, aligned to the strategic needs of the Ethiopian government, on both customs and tax. The programme focused on areas of strategic planning, human resource management, training and development, IT, research and development, customer service and taxpayer education. In part as a result of this, there has been improved efficiency in revenue collection in these areas and they have significantly contributed to an annual increase in tax revenue.

USING ODA TO DEVELOP CAPACITY FOR TAX ADMINISTRATION IN RWANDA

The positive catalytic effect of well-targeted ODA is effectively highlighted by the case of Rwanda. In 1998, the Rwandan government used part of a grant of £20m from the UK government to set up the Rwandan Revenue Authority (RRA). Since then the UK and other donors providing support have helped to develop the revenue authority to the point where it now collects the value of that original grant every four weeks.

Costs of collection have also been reduced. This success is the result of strengthening internal organisational structures and processes and of building accountable relationships with external partners, such as central and local government, a growing tax profession and taxpayers themselves.

The RRA now plays an important role in strengthening relationships between citizens and the state, helping to build a social contract based on trust and cooperation.[94]

7 CONCLUSION: WHAT DOES THIS MEAN FOR THE POST-2015 FRAMEWORK?

Clamping down on IFFs requires concerted global cooperation. To help developing countries recoup lost tax revenue that is rightfully theirs, developed countries must put their own houses in order, honouring commitments made at the recent G8 summit to shut down tax havens and to encourage corporations on their shores to be more transparent about their ownership and their profits and tax payments.

Developing countries must invest in a number of public financial management reforms, as well as make a commitment to greater transparency and public accountability, if they are to make the most use of a potential surge in domestic resourcing.

Save the Children believes that the dialogue on the post-2015 agenda presents a unique opportunity for the global community to identify IFFs and how they undermine tax justice as a global problem that requires concerted action. A specific target for the reduction of IFFs in the post-2015 framework is one way of highlighting the importance of this problem.

Following progress at various G20 summits, the 2013 G8 made headway in this regard, taking positive steps forward on information exchange and transparency in tax havens. However, if we are to tap these flows to fund development efforts, we need urgent action now to ensure that developing countries are included in the development of the new global standard, and that pessure is put on non-cooperative jurisdictions to agree to this standard.

The private sector should urgently lay out its support for improving transparency and make concrete policy commitments; the G20 and G8 must encourage the development of national legislation on financial transparency and tax havens; while developing countries must focus on the period between now and 2015 to identify the public financial management, governance and legal challenges that they will need to overcome, with the aid of international partners, before they can effectively manage sizeable additional resources.

RECOMMENDATIONS FOR THE INTERNATIONAL COMMUNITY

- Pursue international agreement on disclosure of profits made, taxes paid and other relevant financial information by multinational firms in every country in which a firm is present – so called country-by-country reporting.
- Provide financial and technical support to developing countries, as requested, to improve tax compliance and support the establishment of objective measures to track progress in the capacity improvement of tax administration systems, including the design of revenue contracts.
- Lead efforts to reform the international corporate tax architecture: examine national and international legal statutes to challenge complicated corporate tax avoidance schemes, and ensure that developing countries have a meaningful voice in the design of the international tax rules.
- Crack down on tax haven secrecy globally through pressuring all jurisdictions to move towards automatic exchange of tax information and implement public registers of the true owners of companies and trusts.

- Prevent evasion by improving international tax cooperation and transparency: ensure better exchange of information between tax authorities by establishing automatic tax data-sharing systems between countries. This would be achieved through international treaties securing government-to-government exchange of information and agreements at the G20 and in the post-2015 process.
- Fulfil commitments made at the G8 and G20 by supporting tax authorities (particularly in developing countries) to demand fuller disclosure of complicated company structures, created to hide profits and disguise who owns what. To aid this process, EU and OECD members should follow the UK's example in establishing a public register of beneficial owners.
- Ensure that the tax policy-making considers the financing implications required to protect children's rights.[95]

RECOMMENDATIONS FOR DEVELOPING COUNTRIES

- Strengthen tax systems, through improving the capacity of national revenue authorities to ensure tax compliance, eg, through skill and knowledge development, so that officials are better equipped to administer and negotiate tax treaties.
- Prevent the shifting of profits through manipulating the prices of cross-border transactions, by requiring that the parties conducting a sale of goods or services in a cross-border transaction sign a statement in the commercial invoice certifying that no trade mispricing (in an attempt to avoid duties or taxes) has occurred.[96]
- Facilitate the participation of independent experts and civil society in planning and budgeting processes, to encourage more accountable and transparent public financial management and to ensure that additional resources lead to development results.
- Commit to consultation and transparency regarding tax incentives.

APPENDIX 1: TECHNICAL DATA

Our approach seeks to establish the relationship between revenue mobilisation, illicit financial flows and a range of outcomes proposed by Save the Children for the post-2015 framework.

Our report contains two headline findings:

1. If developing countries were to **mobilise 20% of GDP** in tax revenue:
   a. 287,000 more child deaths could be avoided each year
   b. 72 million more people could have access to clean water.
2. If **illicit financial flows** were stopped, zero preventable child deaths could be achieved 20 years ahead of current predictions (presently 2050).

Both findings are derived via the same method of regressions to estimate the relationships followed by projections. The two headline findings are stand-alone results that are calculated separately.

1. COUNTRIES MOBILISE 20% OF GDP IN TAX REVENUE

We use the IMF's Government Finance Statistics (GFS) as the principal source of data for tax and expenditure, since it provides the best-quality data for many countries, including poor ones.[97] This is a significant improvement on Christian Aid's study, which only employed the World Bank WDI, because the GFS was not available then freely nor through a free trial. A significant amount of work was involved in extracting the tax data from the GFS in the right format for our purposes.

The GFS presents the data according to the Classification of Functions of Government (COFOG). This classification refers to main expenditure activities such as health, education, defence, economic affairs, public order and safety, recreation and culture, environment, social protection and general public services. The GFS presents the data at various levels of aggregation and we use the budgetary central government (also called GL1) level, because most poor countries only have the data available in this version. This data therefore does not include detailed information about local, state and other regional governments, social security funds and other extra-budgetary units. We focus on the above-the-line variables that include revenues and expenditures, rather than the below-the-line variables that deal with how deficits are financed or surpluses invested.

The data used to be recorded only on the cash basis, but since the mid-1990s more than half of countries have switched to accrual accounting. To deal with this issue, we merge the two types of data across years. Specifically, we prefer accrual data when available and complement them with cash data.[98] We use the following tax measure expressed as per GDP from the GFS: code – GBRT_G01; and name – Taxes, Cash (Budg. Cen. Govt.). The first tax data is from 1990 and the latest from 2012 (one country only), and the best availability is in 2006 (77 poor countries).

Table 5 shows: (i) child mortality; and (ii) access to water, regressed on total taxes per GDP (%). GDP per capita is included as a control variable to account for the level of development in a country. The independent variables are in natural logs and are included as either the current year or with a five-year lag.

TABLE 5 REGRESSION RESULTS

	Child mortality		Access to water	
	1A	**1B**	**2A**	**2B**
Tax/GDP (%)	-5.58		3.062	
	(1.787)***		(0.641)***	
GDP per capita	-21.63		5.146	
	(0.784)***		(0.311)***	
Tax/GDP (%), five year lag		-4.56		2.37
		(1.718)***		(0.564)***
GDP per capita, five year lag		-17.92		3.16
		(0.973)***		(0.282)***
Constant	231.4	193.1	37.02	56.33
	(6.296)***	(7.456)***	(2.633)***	(2.133)***
R-squared	0.404	0.272	0.455	0.336
Observations	1,426	1,135	504	462
Number of countries	103	100	87	88

Standard deviations in brackets below the parameter estimates

*** Denotes significance at the 1% level

We use the most conservative results (1B and 2B) as the basis for our projections, which involve the following steps:

- For each country, take the current percentage of tax/GDP and calculate what it would take (in percentages) to bring tax/GDP to 20%.
- Calculate the improvement in child mortality and access to water resulting from the increase in tax/GDP to 20% on the basis of the relationships estimated in regressions 1B and 2B.

A total of 64 developing countries, for which we had reasonable data, are included in our projection.

We also investigated the relationship between taxes and the following child well-being outcomes:

- **Child malnutrition** as measured by the stunting rate – percentage of all children under five who have a height-for-age more than two standard deviations below the median of the WHO reference population.[99]
- **Access to sanitation** as measured by the improved sanitation rate as defined by WHO and UNICEF Joint Measuring Project – percentage of population with access to correctly constructed and well maintained excreta disposal facilities, including pit latrines and flush toilets.[100]
- Achievement of **basic education** as measured by the survival rate to last year of primary school – percentage of a cohort of students enrolled in the first grade of primary school who are expected to reach the last grade, regardless of repetition.[101]

Further discussion of the suitability of these indicators is contained in Save the Children's report *Getting to Zero* (2013). We found only a weak relationship between taxes and these child well-being outcomes. However, there is a significant paucity of data across these indicators making estimation difficult. Improvement in the quality and coverage of these data will be critical for evaluating progress going forward.

2. ILLICIT FINANCIAL FLOWS ARE CURTAILED

For this projection, we rely on a prior estimate of the relationship between child mortality and GDP contained O'Hare et al.[102] O'Hare et al find a 1% increase in income per capita is associated with a 0.45% decrease in the child mortality rate in developing countries.

We assume, as do O'Hare et al, that illicitly removed GDP has the same relationship with child mortality as official GDP. Two main channels are envisaged as underpinning this relationship:

- Higher GDP flows through to higher (household) incomes, which in turn are associated with lower child mortality.
- Higher GDP flows through to tax revenue raised and increased social spending (portions unchanged), assuming a constant level of government efficiency and control of corruption.

Our projection involves the following steps:

(i) Calculate the observed average annual rate of reduction in child mortality, using the exponential formula

$$r = 1 - e^{\frac{\ln \frac{C2012}{C2000}}{12}}$$

or with the simpler formula

$$r = 1 - \left(\frac{C2012}{C2000}\right)^{1/n}$$

where r is the rate of change, c_{2012} is the child mortality rate in 2012 and c_{2000} is the child mortality rate in 2000.

(ii) Calculate the years it would take from the base year of 2000 to reach 'zero' preventable child deaths (see text box below) by applying r the average annual rate of reduction in child mortality between 2000 and 2012 (*Business as Usual Scenario*).

(iii) Calculate the potential rate of reduction in child mortality if IFFs were captured, using the formula:

$$r_1 = r + IFF * K$$

where r_1 is the potential rate of change, r is the observed rate of change, IFF is the percentage of GDP lost to IFFs, and K is the income elasticity of child mortality with respect to GDP (constant coefficient of 0.45 from paper by O'Hare et al).

(iv) Calculate the years it would take from the base year of 2000 to reach 'zero' preventable child deaths applying r_1 the potential annual rate of reduction in child mortality (*Curtailed Financial Flows Scenario*).

(v) Calculate the reduction in years as a result of capturing illicit financial flows.

'GETTING TO ZERO' ON CHILD MORTALITY

For child mortality, it is impossible to set a 'zero' target in literal terms. A small number of children in any country will always die before their fifth birthday, owing to intractable health problems or tragic circumstances. Even high-income countries with the best available technology do not have a child mortality rate that is at absolute zero. As part of Save the Children's proposal in *Ending Poverty*, we recommended a universal upper threshold for each country of **20 child deaths per 1,000 live births**. Our definition of 'preventable child deaths' is consistent with the benchmark set by the Child Survival Call to Action.

APPENDIX 2: A SUMMARY OF THE LITERATURE OF ILLICIT FINANCIAL FLOWS

Author and year of the published estimates	Country focus	Relevant year or period covered	What is being estimated?	Estimated outflow
Oxfam, *Tax Havens: Releasing the hidden billions for poverty eradication*, 2000	Poor countries	Annually		
Transparency International, 2004, *Global Corruption Report 2004*, Pluto Press	10 of the most notoriously corrupt heads of states in poor countries	During their respective tenures in office	Outflows	$60 billion
R Baker, *Capitalism's Achilles Heel: Dirty money and how to renew the free-market system*, 2005	Poor countries	Annually	Outflows due to a combination of tax evasion, fraud in international trade, drug trafficking, and corruption	$540 billion
Tax Justice Network, *The Price of Offshore*, 2005	Global	Annually	(i) The value of assets held offshore; (ii) the global revenue loss resulting from wealthy individuals holding their assets untaxed offshore	(i) In the range of $11 trillion to $12 trillion; (ii) may be as much as $255 billion
A Cobham, *Tax evasion, tax avoidance and development finance*. Queen Elizabeth House, Série documents de travail, 2005	Poor countries	Annually	The revenue loss resulting from wealthy individuals holding their assets untaxed offshore	Around $51 billion
Oxfam, Tax haven crackdown could deliver $120bn a year to fight poverty, Press release, 13 March 2009	Poor countries	Annually	(i) wealth held offshore by individuals; (ii) deprived governments' annual tax receipts	(i) $6 trillion; (ii) between $64 billion and $124 billion

continued overleaf

Author and year of the published estimates	Country focus	Relevant year or period covered	What is being estimated?	Estimated outflow
J S Henry, *The Price of Offshore Revisited*, Tax Justice Network, 2012; and Christian Aid, *Death and Taxes: The true toll of tax dodging*, 2008	(i) Global; (ii) poor countries	(i) By the end of 2010; (ii) annually	(i) a global super-rich elite had hidden in tax havens; (ii) associated tax revenue lost	(i) at least $21 trillion; (ii) could be $189 billion
P Reuter, *Draining Development? Controlling flows of illicit funds from developing countries*, World Bank, 2012	China	Over a recent period of roughly ten years	Transfers by escaped 16,000–18,000 officials	Around $100 billion
Action Aid, *Sweet Nothings: The human cost of a British sugar giant avoiding taxes in southern Africa*, 2013	Developing countries	Annually	The revenue forgone by governments in developing countries through corporate tax incentives	$138 billion
D Kar and B LeBlanc, *Illicit Financial Flows from Developing Countries: 2002–2011*, Global Financial Integrity, 2012	Developing countries	Annually	IFFs as measured through estimates of mis-invoicing of external trade and from leakages from the balance of payments	$946.7 billion

APPENDIX 3: DATA SOURCES FOR SOCIAL OUTCOMES ANALYSIS

We use the following variable definitions and data sources:

- Child mortality – mortality rate: the number of children who die before their fifth birthday (per 1,000 live births).[103]
- Child malnutrition – stunting rate: the percentage of all children under five that have a height-for-age of more than two standard deviations below the median of the WHO reference population.[104]
- Access to basic water – improved water rate as defined by WHO and UNICEF joint measuring project (JMP); that is, the percentage of the population who can access at least 20 litres of water per day from an improved source within 1km. Improved sources are: household connection, public standpipe, borehole, protected well or spring, and rainwater collection.[105]
- Access to adequate sanitation – improved sanitation rate as defined by WHO and UNICEF joint measuring project (JMP); that is, the percentage of the population with access to correctly constructed and well-maintained excreta disposal facilities that can prevent human, animal and insect contact with excreta. Improved facilities include protected pit latrines and flush toilets.[106]
- Achievement of basic education – survival rate to last year of primary school, the percentage of a cohort of pupils or students enrolled in the first grade of primary school who are expected to reach the last grade, regardless of repetition.[107]

ENDNOTES

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[58] The World Bank and Federal Ministry of Finance (Nigeria), *Utilization of Repatriated Abacha Loot: Results of the Field Monitoring Exercise*, Report prepared by the World Bank with cooperation from the Federal Ministry of Finance, December 2006, http://siteresources.worldbank.org/INTNIGERIA/Resources/Abacha_Funds_Monitoring_1221.pdf; N. Okonjo-Iweala and P. Osafo-Kwaako, *The Role of Civil Society Organizations in Supporting Fiscal Transparency in African Countries*, Center for the Study of the Economies of Africa, CSEA Policy Brief PB/08/001, 2008, http://tap.resultsfordevelopment.org/sites/tap.resultsfordevelopment.org/files/resources/Ngozi-CSO_Paper_Revised_Version.pdf

[59] The World Bank, 2007 (see note 56); Okonjo-Iweala and Osafo-Kwaako, 2008 (see note 58)

[60] The World Bank and Federal Ministry of Finance (Nigeria), 2006 (see note 58).

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[61] It is possible to carry out within-country analysis, for example, at individual or household level (for example, M Bucheli, N Lustig, M Rossi and F Amábile, 'Social spending, taxes and income redistribution in Uruguay', http://stonecenter.tulane.edu/uploads/Bucheli_et_al_URU_SocialSpending_Taxes_Redist_Aug_31_2012_FINAL-1347378266.pdf). This type of analysis often allows a more adequate investigation of the links between tax, expenditures and outcomes. However, the research with that kind of disaggregated data does not provide the opportunity to compare situations in as many poor countries as when country-level data is used. Therefore, we use the country-level data in this analysis.

[62] G. Kite, *Getting to Zero technical report – Getting to zero under the post-2015 framework*, 2013, www.savethechildren.org.uk/sites/default/files/docs/Getting_to_Zero_technical_report.pdf

[63] See www.apromiserenewed.org/ for commitments to this goal. Save the Children, *Ending Poverty in Our Generation*, 2013, https://www.savethechildren.org.uk/sites/default/files/images/Ending_Poverty_in_Our_Generation_Africa.pdf

[64] Countries included in the analysis are: Afghanistan, Albania, Algeria, American Samoa, Angola, Argentina, Armenia, Azerbaijan, Bangladesh, Belarus, Belize, Benin, Bhutan, Bolivia, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, Burkina Faso, Burundi, Cambodia, Cameroon, Cape Verde, Central African Republic, Chad, China, Colombia, Comoros, Democratic Republic of Congo, Republic of the Congo, Costa Rica, Côte d'Ivoire, Cuba, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Eritrea, Ethiopia, Fiji, Gabon, The Gambia, Georgia, Ghana, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Hungary, India, Indonesia, Iran, Iraq, Jamaica, Jordan, Kazakhstan, Kenya, Kiribati, Democratic Republic of Korea, Kosovo, Kyrgyzstan, Lao PDR, Lebanon, Lesotho, Liberia, Libya, Former Yugoslav Republic of Macedonia, Madagascar, Malawi, Malaysia, Maldives, Mali, Marshall Islands, Mauritania, Mauritius, Mexico, Federal States of Micronesia, Moldova, Mongolia, Montenegro, Morocco, Mozambique, Myanmar, Namibia, Nepal, Nicaragua, Niger, Nigeria, Pakistan, Palau, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Romania, Rwanda, Samoa, São Tomé and Príncipe, Senegal, Serbia, Seychelles, Sierra Leone, Solomon Islands, Somalia, South Africa, South Sudan, Sri Lanka, St. Lucia, St Vincent and the Grenadines, Sudan, Suriname, Swaziland, Syrian Arab Republic, Tajikistan, Tanzania, Thailand, Timor-Leste, Togo, Tonga, Tunisia, Turkey, Turkmenistan, Tuvalu, Uganda, Ukraine, Uzbekistan, Vanuatu, Venezuela, Vietnam, West Bank and Gaza, Yemen, Zambia, Zimbabwe.

[65] The following sources could be used either as substitutes for or complements to the cited sources:

Tax: Africa Economic Outlook (http://www.africaneconomicoutlook.org/en/data-statistics/) has data for 51 African countries from 1996 to 2010 on direct, indirect and trade taxes as well as resource rents, non-tax revenues and grants (and some total revenue and total expenditure figures for 53 African countries from 2008 to 2011).

Expenditure: Government Spending Watch (http://www.governmentspendingwatch.org). This seems a very useful source of data. However, the data seems partial and without clearly identified sources for each individual item. Probably more importantly, the data is in very badly formatted tables (assuming they are not available in a better format) and it would take longer than normally required to prepare them for inclusion in the dataset.

[66] World Bank, *World Development Indicators 2013*, http://databank.worldbank.org/data/download/WDI-2013-ebook.pdf

[67] World Bank, *World Development Indicators 2013*, http://databank.worldbank.org/data/download/WDI-2013-ebook.pdf

[68] UNDP, *Supporting the Development of More Effective Tax Systems*: A report to the G-20 Development Working Group by the IMF, OECD, UN and World Bank, http://www.imf.org/external/np/g20/pdf/110311.pdf

[69] O'Hare et al (2014) – see note 52.

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[70] Owing to weak relationships between tax revenue and the education and stunting outcomes, these variables were not tested.

[71] For example, Keefer P and Khemani S, Democracy, *Public Expenditures and the Poor*, Development Research Group, The World Bank, 2004; Adam A, Delis M D and Kammas P, Fiscal Decentralization and Public Sector Efficency: Evidence from OCED Countries, CESifo 2007; Gregorini F and Longoni E, 'Inequality, Political Systems and Public Spending' 2010

[72] Keefer and Khemani (2004) (see note 79); Easterly W and Levine R, 'Africa's growth tragedy: policies and ethnic divisions', *The Quarterly Journal of Economics*, vol 112, no 4, Nov 1997

[73] For example, Oxfam and DFI, 2013 (see note 18)

[74] For a good overview of fiscal architecture and expenditure patterns, see S. Wallace, *Fiscal Architecture and the Analysis of Public Expenditure Needs and Revenue Capacity*, International Studies Program, Working Paper 01-11, Georgia State University, 2001; Andres Mejia Acosta and Paolo de Renzio, *Aids, Rents and the Politics of the Budget Process*, IDS Working Paper 311, Institute of Development Studies, 2008

[75] For example, Sok-Gee Chan & Mohd Zaini Abd Karim, 'Public spending efficiency and political and economic factors: Evidence from selected East Asian countries', http://ea.ekof.bg.ac.rs/pdf/193/195.pdf

[76] World Development Indicator Database, accessed 2012; see Save the Children, *Progress in Child Wellbeing*, Save the Children, 2012, p 55.

[77] UNESCO, *The Hidden Crisis: Armed conflict and education*, EFA Global Monitoring Report, UNESCO, 2011

[78] C. Dom, *Mid-term Evaluation of the EFA Fast Track Initiative: Country desk study: Ethiopia*, Cambridge Education, Mokoro and Oxford Policy Management, 2010.

[79] Ibid.

[80] Overseas Development Institute, *Ethiopia's progress in education: a rapid and equitable expansion of access*, Development Progress Story, ODI, 2010

[81] Ibid.

[82] A Promise Renewed (2013) Lancet Comment http://www.apromiserenewed.org/css/Lancet_Comment_Renewing_the_Promise_of_Suvival_for_Children_13_Sep_2013.pdf

6 IMPROVING TAX COLLECTION AND TACKLING IFFs: WHAT NEEDS TO BE DONE?

[83] International Monetary Fund, *Revenue Mobilization in Developing Countries*, IMF Board paper, 8 March 2011, www.imf.org/external/np/pp/eng/2011/030811.pdf, accessed 12 January 2014

[84] Ibid

[85] Ibid

[86] Ibid

[87] Ibid

[88] Jon Nathan Kerr, *The Real Effects of Opacity: Evidence from Tax Avoidance*, 2014, http://academiccommons.columbia.edu/download/fedora_content/download/ac:165157/CONTENT/Kerr_columbia_0054D_11569.pdf, accessed January 2014

[89] World Bank, *The Puppet Masters*, 2011

[90] CBI Website, *CBI comments on new company beneficial ownership rules*, April 2014, http://www.cbi.org.uk/media-centre/press-releases/2014/04/cbi-comments-on-new-company-beneficial-ownership-rules/

[91] NB: excludes IMF, from OECD, *Taxation, State Building and Aid*, Fact Sheet, OECD, 2008, www.oecd.org/dac/governance-development/40456396.pdf

[92] Norad, *Tax for Development*, October 2012, http://www.norad.no/en/tools-and-publications/publications/norad-reports/publication/_attachment/396279?_download=true&_ts=13a8cde94d1

[93] OECD Website, *Tax: OECD launches Tax Inspectors Without Borders*, May 2012, www.oecd.org/newsroom/taxoecdlaunchestaxinspectorswithoutborders.htm

[94] A. Land, *Developing capacity for tax administration: The Rwanda Revenue Authority*, ECDPM Discussion Paper 57D, ECDPM, 2004, http://ecdpm.org/wp-content/uploads/2013/11/DP-57D-Developing-Capacity-Tax-Administration-Rwanda-Revenue-Authority.pdf

7 CONCLUSION: WHAT DOES THIS MEAN FOR THE POST-2015 FRAMEWORK?

[95] Committee on the Rights of the Child, *General comment No. 16 (2013) on State obligations regarding the impact of the business sector on children's rights*.

[96] This is one of the recommendations of the Financial Transparency Coalition.

APPENDIX 1: TECHNICAL DATA

[97] Unfortunately, the ICTD database was not going to be available until early 2014 and so we used the IMF GFS as the basis of the final database.

[98] As Seiferling put it: "Although there does not exist a technically sophisticated method for converting cash data to accrual (or vice versa), for practical purposes, it is acceptable to merge these data for most series and include a dummy variable in parametric analysis to control for any systematic differences that may exist. In the context, cash data could be seen as a proxy for accrual which would allow researchers to econometrically evaluate all of the available data over long time periods (dark and light blue portions of the bar charts)." (M Seiferling, *Recent Improvements to the Government Finance Statistics Yearbook Database in Response to Analytical Needs*, 2013, http://www.imf.org/external/pubs/ft/wp/2013/wp1315.pdf) Problems arise with the creation of monetary unions, but this has in recent years applied mostly to rich countries (Euro) that are not the focus of this paper and the necessary changes have been mostly incorporated in the GFS data. Another issue also discussed by Seiferling is the missing data and whether (and how) to try to fill in data gaps.

[99] ICF International, (2012) Demographic and Health Surveys, Aids Indicator Surveys, Malaria Indicator Surveys

[100] World Development Indicators (2013) World Health Organization and United Nations Children's Fund, Joint Measurement Programme

[101] UNESCO, (2013) UNESCO Institute for Statistics database

[102] See note 52.

[103] World Bank, *World Development Indicators 2013*, http://databank.worldbank.org/data/download/WDI-2013-ebook.pdf

[104] ICF International, 2012

[105] World Bank, *World Development Indicators 2013*, http://databank.worldbank.org/data/download/WDI-2013-ebook.pdf

[106] World Bank, *World Development Indicators 2013*, http://databank.worldbank.org/data/download/WDI-2013-ebook.pdf

[107] Unesco Institute for Statistics, http://data.uis.unesco.org/

TACKLING TAX AND SAVING LIVES

Children, tax and financing for development

We are at a critical juncture in the history of human development: an end to extreme poverty is within our reach. The process of defining the post-2015 development framework presents us with a unique opportunity to grasp this vision and translate it into reality.

But the key question is where will the money come from? Considerable sums of additional finance are needed. One certainty is that the majority of it will have to come from developing countries themselves.

Tackling Tax and Saving Lives presents new research on illicit financial flows (IFFs) – the illegal flows of money out of developing countries via tax evasion, bribery, money laundering and manipulation of trade prices.

In particular, it reveals the links between IFFs, taxation, public spending and children's well-being (in terms of child mortality and access to clean water). Improving tax-take and tackling IFFs, this report demonstrates, can help us to get to zero preventable child deaths.

Save the Children's proposals for improving tax collection and addressing IFFs include support to tax authorities in developing countries, and action in richer countries to improve transparency and to clamp down on financial secrecy – particularly in so-called tax havens. This report puts forward a set of concrete recommendations to governments, businesses and multilateral institutions.

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