

Revenue Mobilization – Increasing Resources for Credible and Sustainable Budgets

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Technical Assistance Office in Thailand (TAOLAM)**

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Outline



- **What it Revenue Mobilization, and Why is important!**
- **Success Stories**
- **Tax Policy and Revenue Administration Reform**
- **Measuring Revenue Administration Performance**
- **Linkages to PFM**

What is (Domestic) Revenue Mobilization?

- The generation of government revenue from domestic resources, from tax or non-tax sources (royalties, licenses, levies or other income).
- Increasing tax revenues – by simplifying tax laws, broadening the domestic tax base, improving tax compliance, strengthening collections, and curbing tax evasion.
- It is usually not about raising tax rates!
 - >>> may impact growth
 - >>> punishes those who are already paying taxes
 - >>> may lead to more evasion

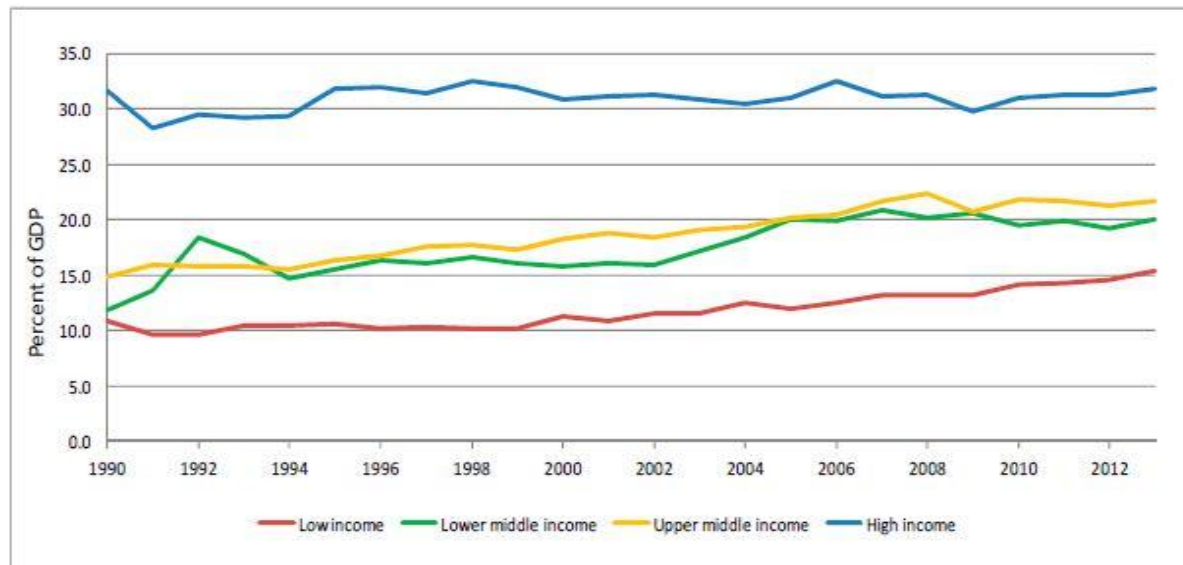
Why is it critical for development?

- **Creates fiscal space...**
 - ..to fund investment and deliver public services
 - ..in a sustainable fashion...
 - ..while reducing dependency on external assistance and government borrowing
- **Enables government's to address critical investment and social spending needs**
- **Low tax levels are good for the economy, but need to be balanced by the need for priority spending**
- **Public investment a bottleneck for economic growth in many developing and emerging market countries**
- **Revenue Mobilization been a key strategy to support the UN's Sustainable Development Goals**

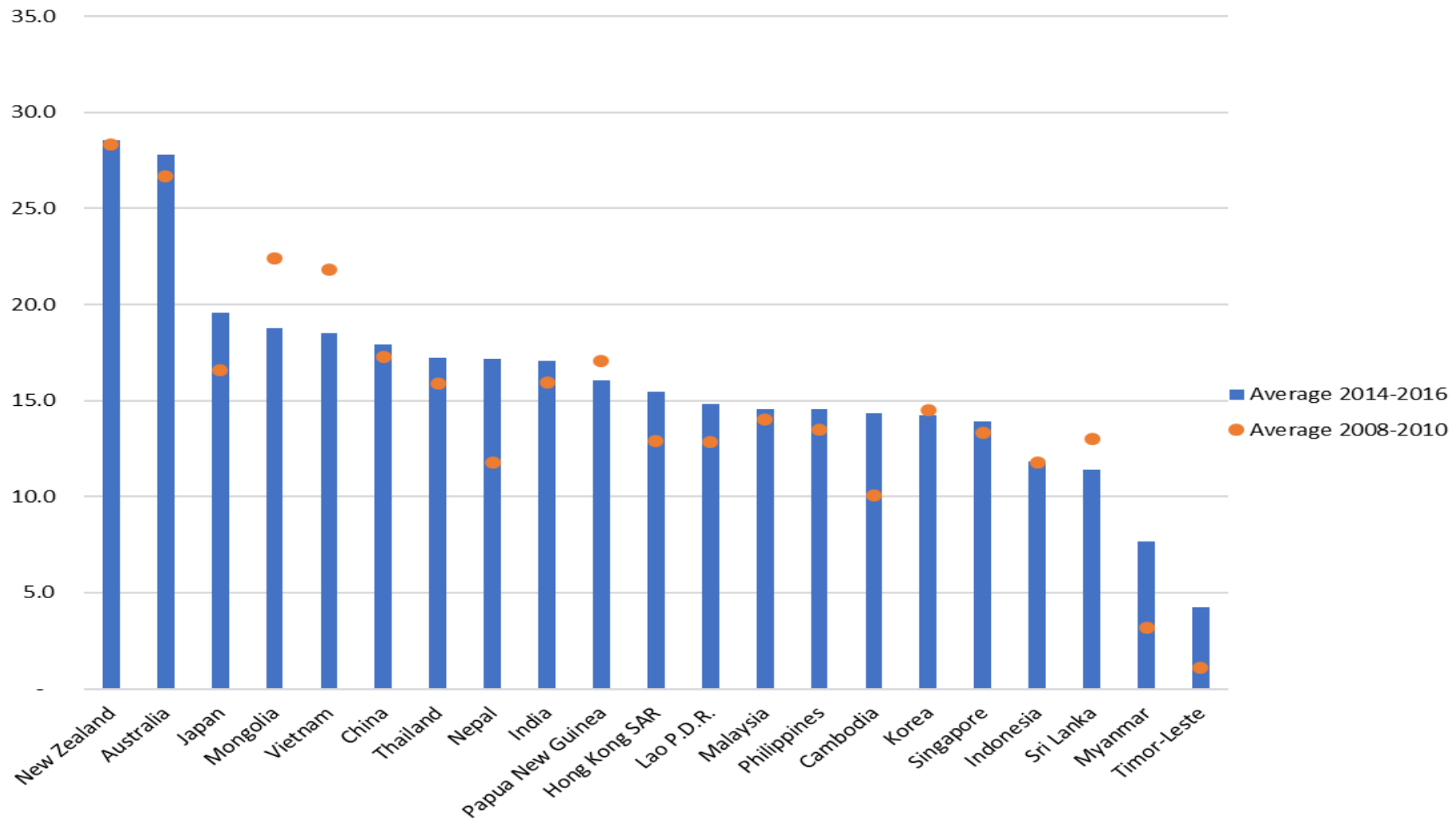
Revenues are on the rise

- Typically, developing countries raise about 15% in government revenues compared to 40% for developed countries (30% in taxes)
- In 2000, average collections of developing countries were in the 10% range. So substantial progress in the last twenty years.

The longer term perspective (median tax ratios by income group)



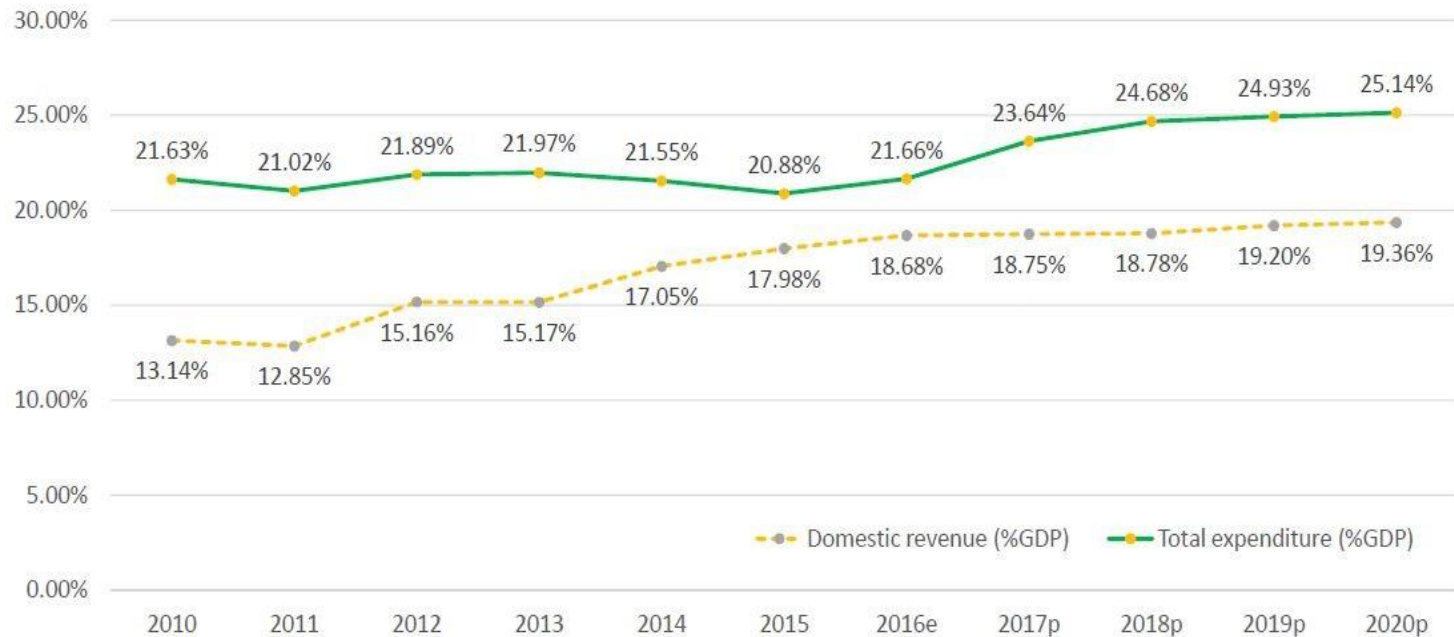
Also Asia is showing progress.....



Mongolia latest value from 2013

And which country is this!?!.....

Revenue has noticeably increased



Source: MEF 2017

Some countries have done exceptionally well in raising tax revenues



- Peru: from 6 to 13 percent of GDP in the 1990s
- El Salvador, Tanzania, Vietnam: 4-5 percent in the early 2000s
- Cambodia, Nepal, Myanmar, Timor-Leste: 4-5 percent in the early 2010s

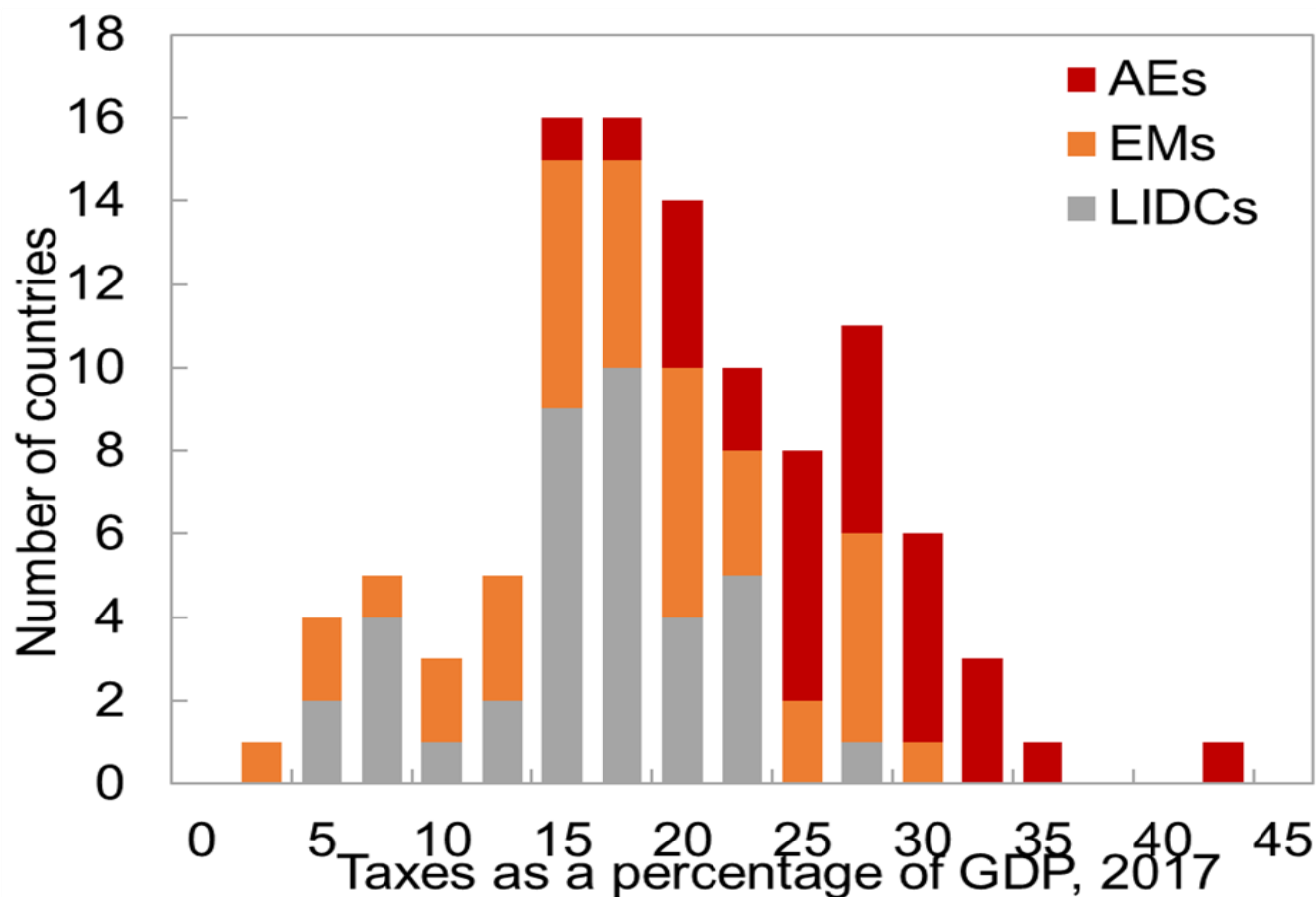
All in a relatively short time-frame.

Important to weed out impact of resource prices.

Still quite a few countries with a tax to GDP ratio below 20 percent....



World Distribution of Tax-to-GDP Ratio, 2017



Source: IMF staff estimates.

Two Pillars of Revenue Mobilization

Revenue policy reform

- Deleting relatively costly revenue measures
- Simplification of legislation
- Base broadening
 - Reduction in exemptions, holidays
- Using growth and trade-efficient taxes (VAT, competitive CIT, reducing customs revenues)

Revenue administration reform

- Strengthening core tax functions
- Compliance strategy
- Institutional strengthening – organization, strategy, HQ, HR
- IFMIS systems
- Governance reform

Typical issues in revenue administration reform



- **Hard-to-tax sectors/Informality**
- **Non-Compliance/Evasion**
- **Weak revenue administration**
- **Poor governance/corruption**
- **Multinationals/Transfer pricing**
- **State-owned enterprises**
- **Trade liberalization/Tax competition**

Typical Strategies of RA Reform

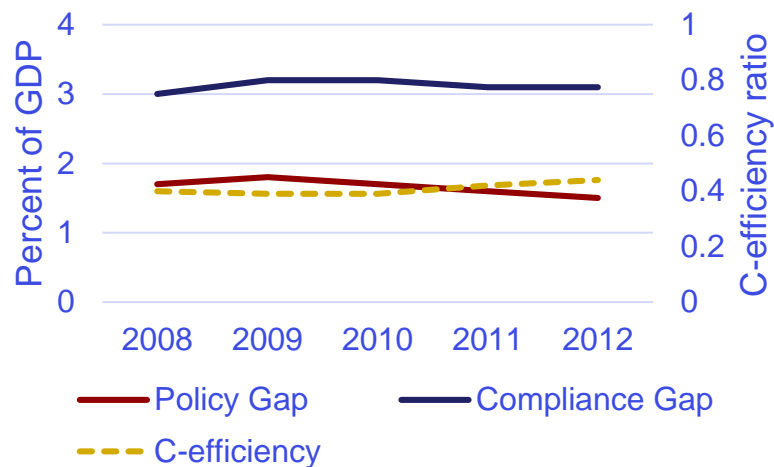
- Improving core business processes
- Self assessment and risk-based, ex-post audits
- Introducing penalty regimes and administrative complaints procedures
- Enforcing strong anti-corruption policies and procedures
- Developing customs and tax ICT systems for improved monitoring and management
- Strengthening planning, performance management
- Organization and taxpayer segmentation: large tax payer office, specialized sectoral offices
- VAT!!!

Two tools to assess revenue administration performance



RA-GAP

Policy Gap and Compliance Gap



TADAT



Why and how to measure the Tax Gap?

- **Key to measuring effectiveness of revenue administration**
 - Direct measurement of degree to which an administration is effective in maximizing revenue collection
 - Crucial component of results based management for an administration
- **Key to fully understanding all the factors affecting tax revenue performance**
 - Measuring the *compliance gap* provides indication of potential for improved revenue administration
 - Measuring the *policy gap* provides an indication of amount of revenue being foregone due to tax policy design choices



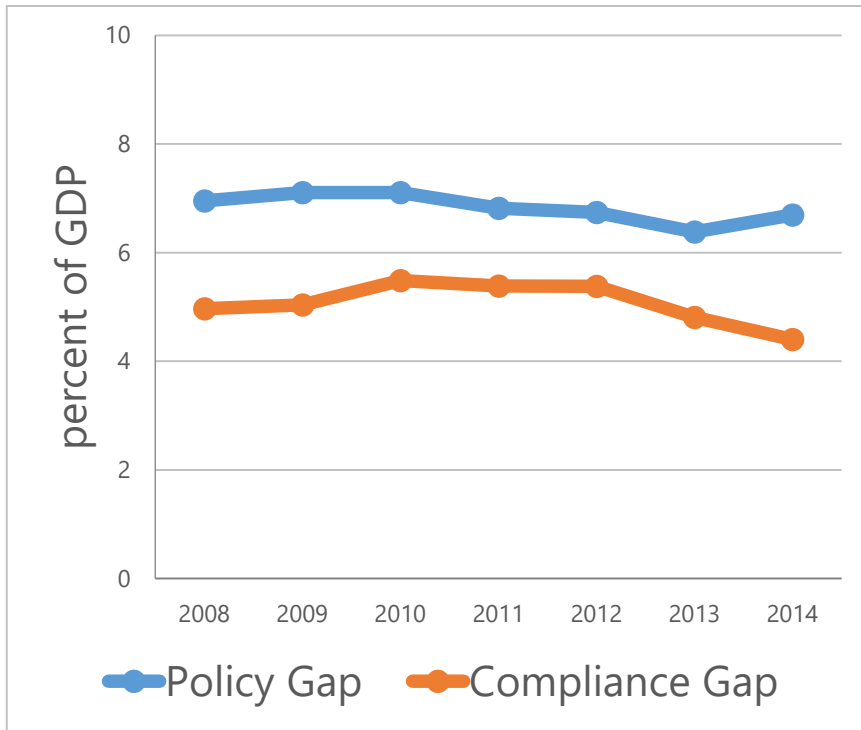


IMF's RAGAP Diagnostic

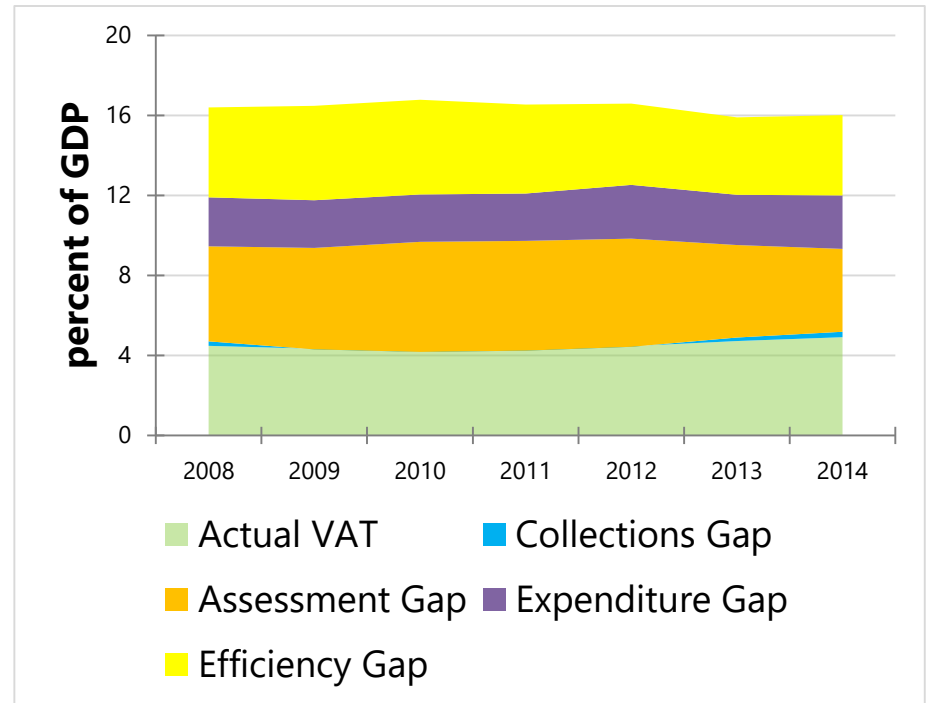
- **Revenue Administration Gap Analysis Program**
 - Systematic evaluation of revenue administration operations designed to assess their effectiveness in collecting taxes
 - Conducted by experts working closely with local team familiar with administration operations, tax design and policy, and statistical data
 - Goal is to build local capacity for execution of a similar domestic program

RAGAP results

RAGAP looks at the whole gap...



... and provides a decomposition of the gap



TADAT.....A PEFA for Revenue Administration....



- **Provides objective, standardized performance assessment of a country's system of tax administration**
- **Assesses performance outcomes for national domestic direct and indirect taxes**
- **Identifies relative strengths/weaknesses in system of tax administration**
- **Facilitates a shared view of tax administration's health**
- **Strengthens design of tax administration reform**
- **Establishes basis for monitoring and evaluating reform progress towards outcomes using repeat assessments**

TADAT – 9 Outcome Areas



TADAT – numbers and coverage

Proof of concept phase (2013 – 2014)

- **4 assessments:** Zambia, Norway, South Africa and Paraguay

Technical pilot phase (2015)

- **13 assessments:** Fiji, Mozambique, Kosovo, Malawi, Cote d'Ivoire, Madagascar, Malaysia, Rwanda, Uganda, Egypt, Montenegro, Jamaica and Philippines

Steady state phase (2016 ...)

- **20 assessments completed in 2016:** Comoros, Tanzania, Jordan, Ethiopia, Serbia, Macedonia, Namibia, Vietnam, Zambia (repeat), Georgia, Albania, Liberia, Kyrgyzstan, Sierra Leone, DR Congo, Romania, Barbados, Armenia, Kenya and Dominican Republic
- **Completed to September 2017:** Bangladesh, Cameroon, Ghana, Guyana, Mauritius and Peru
- **Indicative upcoming in 2017/18:** Alagoas, Burkina Faso, The Gambia, Guatemala, Honduras, Moldova, Niger, Nigeria, Trinidad and Tobago and Zanzibar

A mix of agencies have thus far sponsored or lead assessments:

- European Commission
- IMF-FAD
- Germany (GIZ)
- Switzerland (SECO)
- USAID
- World Bank

Example of TADAT results

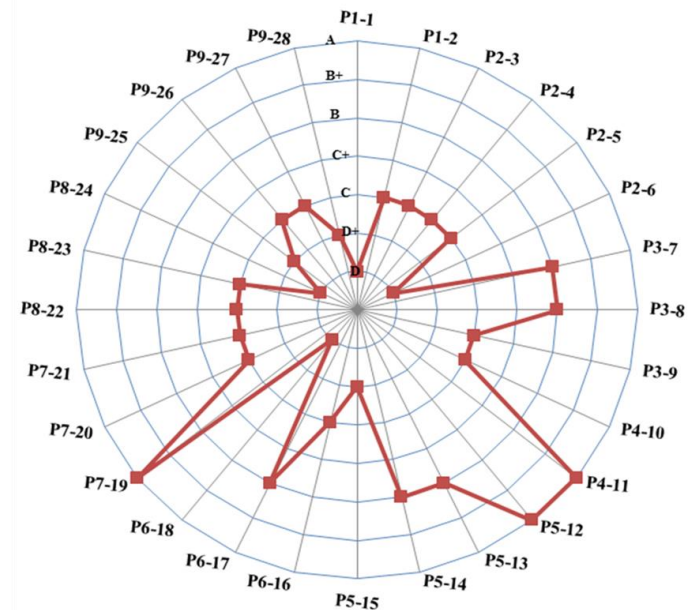
Strengths

- Registration
- Automation
- On-time filing

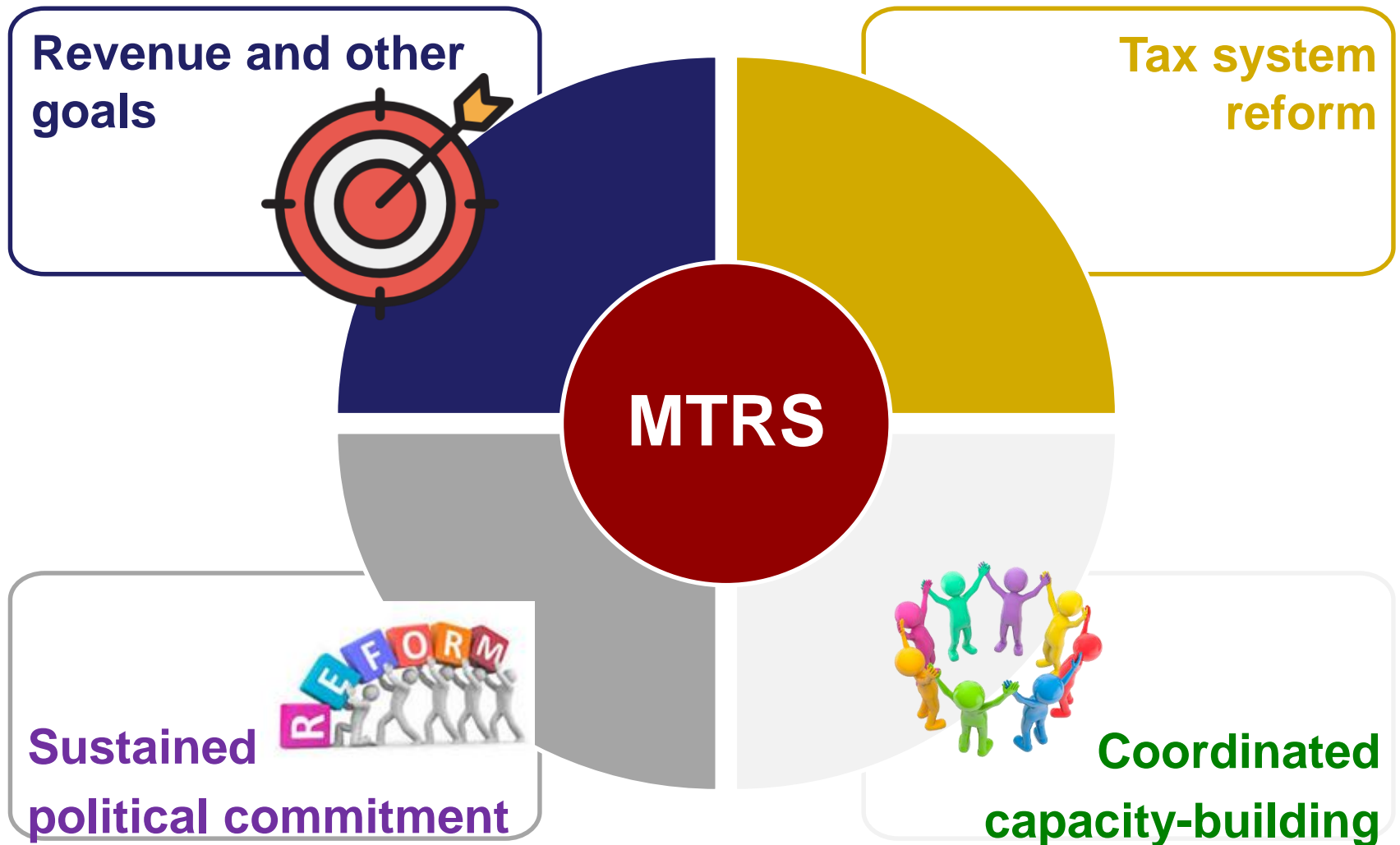
Weaknesses

- Transparency
- Debt management

Spider chart



MTRS – four inter-dependent components



Developing a reform strategy

- **RA-GAP and TADAT are diagnostic tools – they do not provide solutions**
- **Need to determine strategy and reforms to address tax gap and identified weaknesses**
 - Tax policy changes
 - Administrative improvements to address non-compliance
 - Approach, sequencing, ambition-level, automation, business process redesign, staff development, restructuring, governance, resources
- **May be time to consider a broader Medium Term Revenue Strategy (MTRS)**

What are the linkages between revenue mobilization and PFM - 1/2



- Treasury management plays a crucial role in strengthening revenue collections and monitoring
- Daily zero-balancing of collection accounts reduces holding costs and improves Treasury Single Account balance
- Bank services for collection services can be tendered in conjunction with payment services, through Treasury, leading to cost savings
- Treasury's cash forecasting helps provide a framework for monitoring, short-term forecasting and accountability for collections
- Cash management should allow (VAT) refund payments to be rule based, not discretionary
- Interfaces between tax and public expenditure ICT systems may substantially benefit fiscal monitoring and management

What are the linkages between revenue mobilization and PFM - 2/2



- More stable and certain revenue collections contribute to more accurate revenue forecasts
- More accurate revenue forecast lead to more credible budgets and medium-term fiscal frameworks
- MTRS goals should drive, but also inform medium term fiscal frameworks

Finally: Improving revenue intake is important, but does government have the instruments to spend resources well >>> performance management and budgeting systems

Questions?



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