

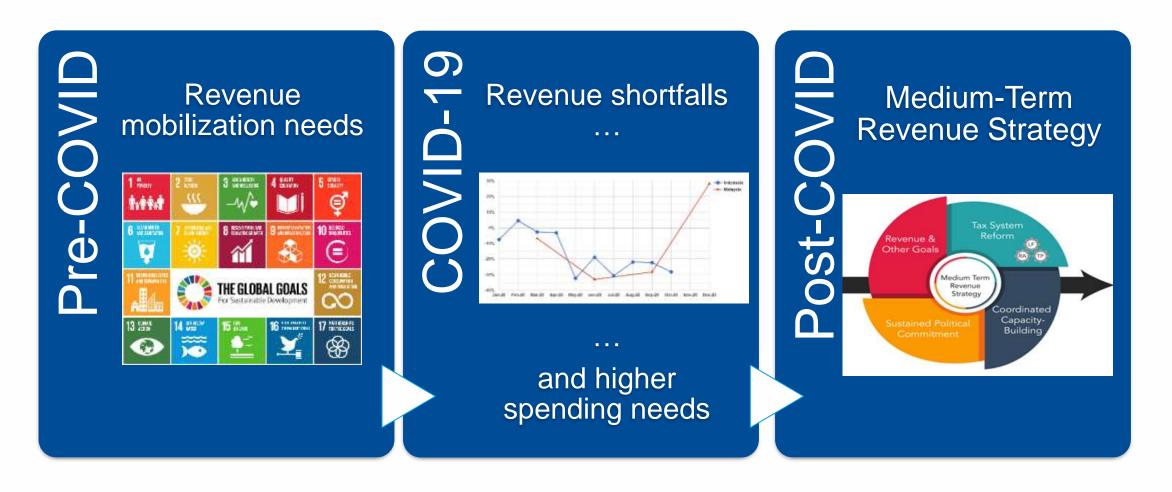
Medium-Term Revenue Strategies to Support Recovery and Development in Asia

PCT AND ADB VIRTUAL WORKSHOP

MAY 26, 2021

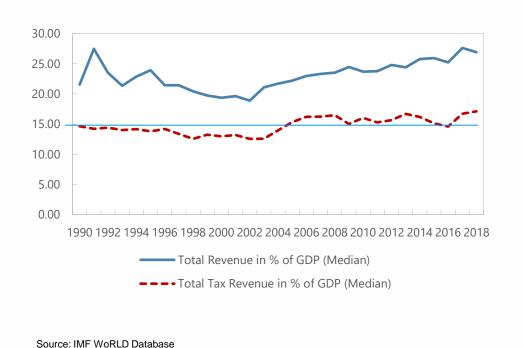
Ruud de Mooij IMF Fiscal Affairs Department

Revenue imperative pre- and post COVID-19 in Asia



Pre-COVID-19: progress underway but uneven outcomes

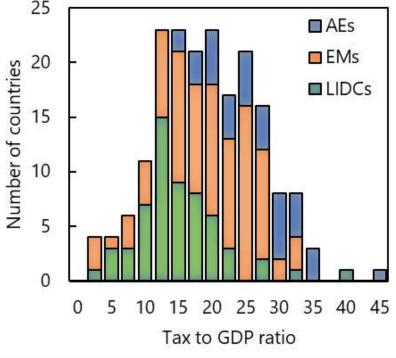
Tax-to-GDP ratios in Emerging and Developing Asia had been rising since the early 2000s



25

Tax-to-GDP ratios are still very low

in several LIDCs and EMs



Source: IMF WoRLD Database

COVID-19: Revenue shortfalls

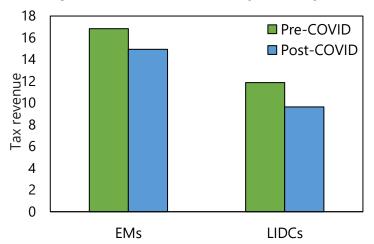
- GDP in emerging and developing Asia dropped
 - ▶ 1 percent in 2020 (WEO)
- But tax revenue dropped more
 - ► Tax-to-GDP ratio projected to fall from 16 to 14.1 percent in LIDCs in Asia
- Mostly endogenous response
 - ▶ Commodity price slump
 - ▶ But also measures to support health, firms and individuals
- WEO projections suggest revenue pick up
 - ▶ But convergence to a lower 14.8 percent in 2026 in LIDCs in Asia

Tax revenue collections in Indonesia and Malaysia, change y-o-y 2020



Source: Sebastian James, 2021, Revenue Effects of COVID-19". Global Fiscal Policy Series, World Bank.

Tax revenue projection pre- and post COVID for 2020 (% GDP)

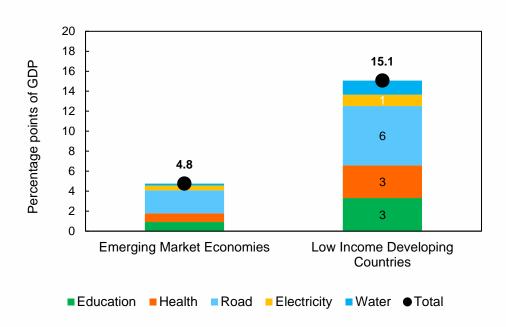


IMF Fiscal Monitor

Database

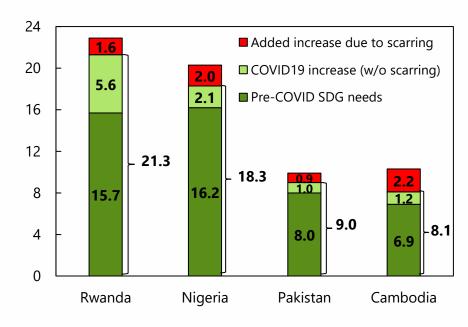
COVID-19: increased already sizeable financing needs to achieve SDGs

Pre-COVID assessment of additional spending needed in 2030 to achieve high outcomes in selected sectors of SDGs (Percentage points of GDP)



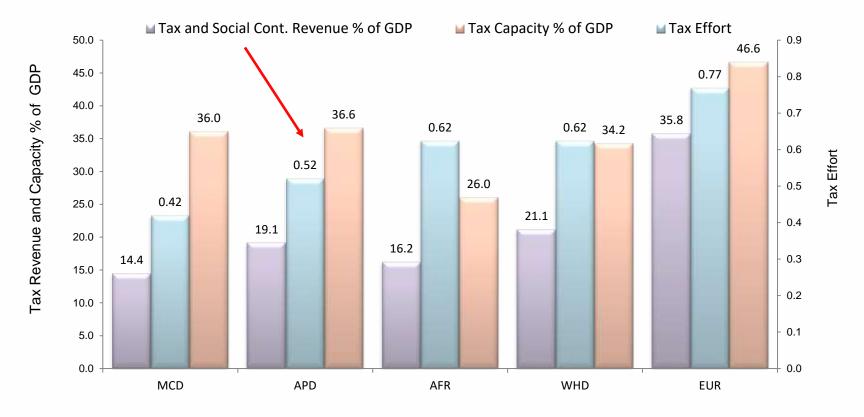
Source: IMF staff calculations

Additional spending needs pre- and post COVID-19 (% GDP)



IMF Staff Discussion Note: A Post-Pandemic Assessment of the Sustainable Development Goals, April 2021

Tax effort in most Asian countries is considerably below tax capacity



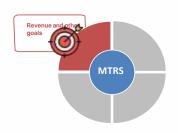
IMF Staff Discussion Note: A Post-Pandemic Assessment of the Sustainable Development Goals, April 2021 (background note)

Post-COVID-19: Building tax capacity through a medium-term revenue strategy

- Embedded in wider government's strategy for economic and social development – such as SDGs
- High-level road map of tax system reform over 4-6 years—policy, administration, legal components
- Country-led government-owned
- Aligned CD support



#1: Revenue and other goals



Building the narrative

Revenue mobilization as essential part of the development agenda

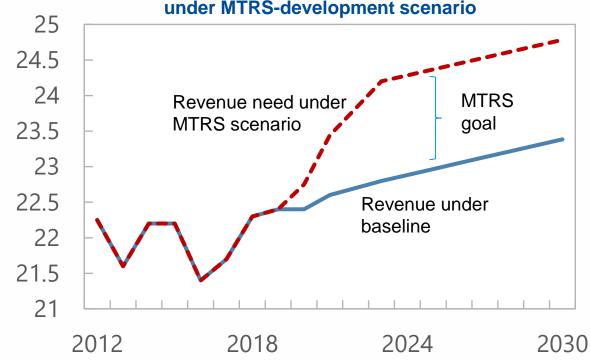
Revenue goal

- 1. Baseline projections
- 2. Medium-term expenditure ambition
- 3. Quantitative revenue goal for MTRS

Other goals – criteria used in MTRS

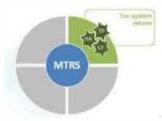
- Equity inclusiveness
- Efficiency (green) investment/growth
- Enforceability administration
- Compliance
- Certainty

Baseline revenue projection and revenue needs under MTRS-development scenario



Source: IMF MTRS report

#2: Comprehensive tax system reform



Comprehensive

 Covering tax policy, revenue administration and legal framework

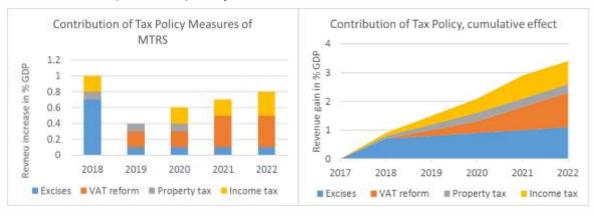
Concrete

- Specific measures with timeline
- Concrete plan for improving tax compliance, building institutional capacity

Evidence-based – revenue, distribution, economic impact

- Ensure credibility
- Structured debate
- Enables monitoring

Example: Tax policy measures in Indonesia's MTRS 2018



Example: Tax administration measures in Indonesia's MTRS 2018



Source: Ruud de Mooij, Suahasil Nazara and Juan Toro, A MTRS for Indonesia, 2018

#3: Political commitment



Government leadership

- Commitment from the highest level
- Whole-of-government

Public support

- Consultation with stakeholders
- Support from local governments

Communication

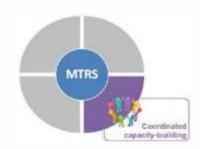
- Emphasize link to expenditures
- Exploit quantitative results

Timing

- Use good times; use bad times
- Sequencing big bang vs incremental



#4: Capacity development



Identify needs

- Support reform design, quantification
- Build institutions, e.g. tax policy unit
- Support implementation, e.g. capacity/training in revenue agencies, IT implementation

Align/coordinate support

- Fit into the country's own strategy
- Sequencing in line with priorities
- Avoid overlap/gaps or competition

Country leadership

- MTRS not led by partners of PCT
- PCT partners facilitate and support formulation and implementation of MTRS



MTRS: a valued process more than words

Dialogue – started in Bangladesh, Cameroon, Georgia, Honduras, Jordan, Kenya, Malaysia, Mongolia, Morocco, Togo, Vietnam, Uzbekistan

Formulation – ongoing in Albania, Benin, Ethiopia, Rwanda, Indonesia, Laos, Thailand

Consultation – ongoing in many

Publication/implementation – Egypt, Papua New Guinea (PNG), Senegal, Uganda

MTRS for Indonesia



CHAPTER 6

Implementing a Medium-Term Revenue Strategy

RUUD DE MOOIJ, SUAHASIL NAZARA, AND JUAN TORO

INTRODUCTION

Indonesia needs to substantially increase its government revenue level in a sustainable manner to finance additional expenditures that are critical for economic growth and development. With a ratio of general government tax revenue to (G20) countries and trails other emerging market economies. Empirical evidence suggests that countries with a tax-to-GDP ratio of less than 15 percent tend to grow significantly more slowly than countries beyond this tipping point because t impedes opportunities for productive government spending. Therefore, adopting a medium-term approach to raising revenue will be critical to achieving the evenue-level change that Indonesia needs.

This chapter outlines a medium-term revenue stratesy (MTRS) for Indonesia that aims to raise tax revenue by 5 percentage points of GDP in five years. The MTRS approach was developed for the G20 by the Platform for Collaboration on Tax and frames the tax system reform in a comprehensive and holistic framework of four interdependent components: (1) building broad-based consensus in the country for medium-term revenue goals to finance needed public expenditures; (2) designing a comprehensive tax system reform covering policy, adminisration, and the tax legal framework to achieve these goals; (3) committing to steady and sustained political support (government-led and whole-of-governmen

Bund de Mosij and Juan Toro are affiliated with the IMFs Fiscal Affairs Department. Sushaell Natara is Chairman of the Fiscal Policy Agency, Ministry of Finance, Republic of Indonesia, and profesor of comunities, University of Indonesia. The chapter is based on a technical assistance mis-sion by the IME, which worked closely with the surf of the Ministry of Finance. Other members of the IMF num include Agib Asiam, John Brondolo, America Cheek, Michael D'Asemzo, Hui-Jin, Natine Nemeyan, and Thomas Story. The work benefited from comments by the Indonesian community officials, as well as by IMF staff, including Michael Korn, Thornton Matheson, Debri lams, and Christoph: Waerzeggers. The views expressed in this chapter do not necessarily reflect. those of the IMF or the Indonesian government

Workshop Structure

Today May 26

Panel 1: MTRS after COVID-19

Panel 2: MTRS#1 and development agenda (SDGs)

Panel 3: What distinguishes MTRS from other strategies?

Tomorrow May 27

Panel 4: MTRS#2 Comprehensive tax system reform

Panel 5: MTRS#3 Managing an MTRS effort (SDGs)

Panel 6: MTRS#4 Support from IOs and development partners



Thank You!