



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

PCT AND ADB VIRTUAL WORKSHOP

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Revenue imperative pre- and post COVID-19 in Bhutan, Maldives and Pacific Island Countries (PICs)

Pre-COVID

Public revenue needs ...



... incl. to address climate challenges

COVID-19

Revenue shortfalls ...



...especially where tourism is important

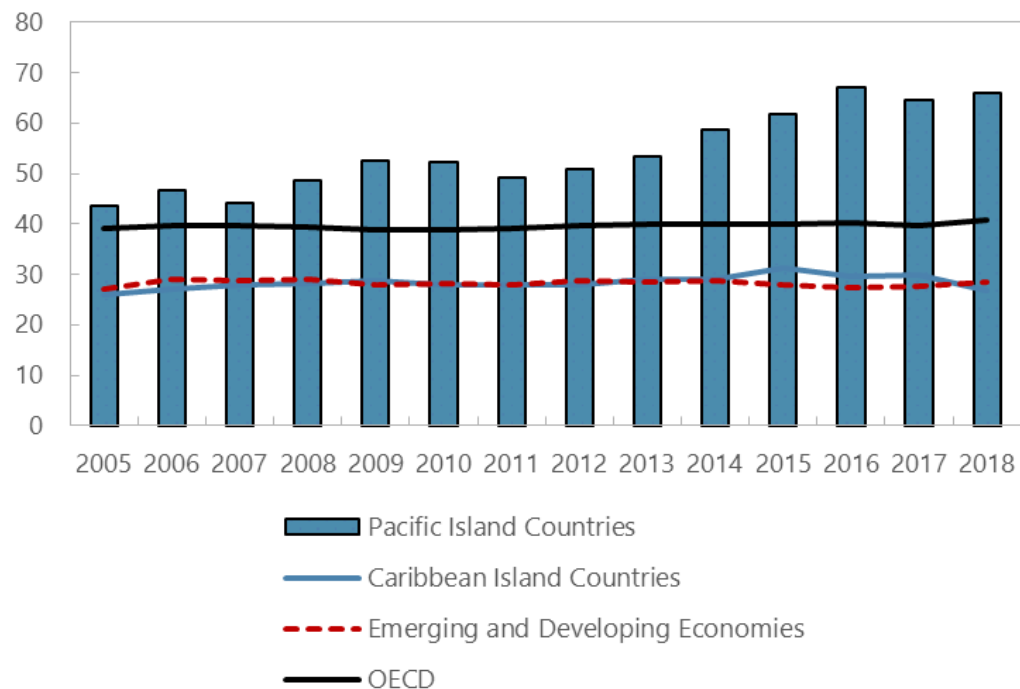
Post-COVID

Medium-Term Revenue Strategy

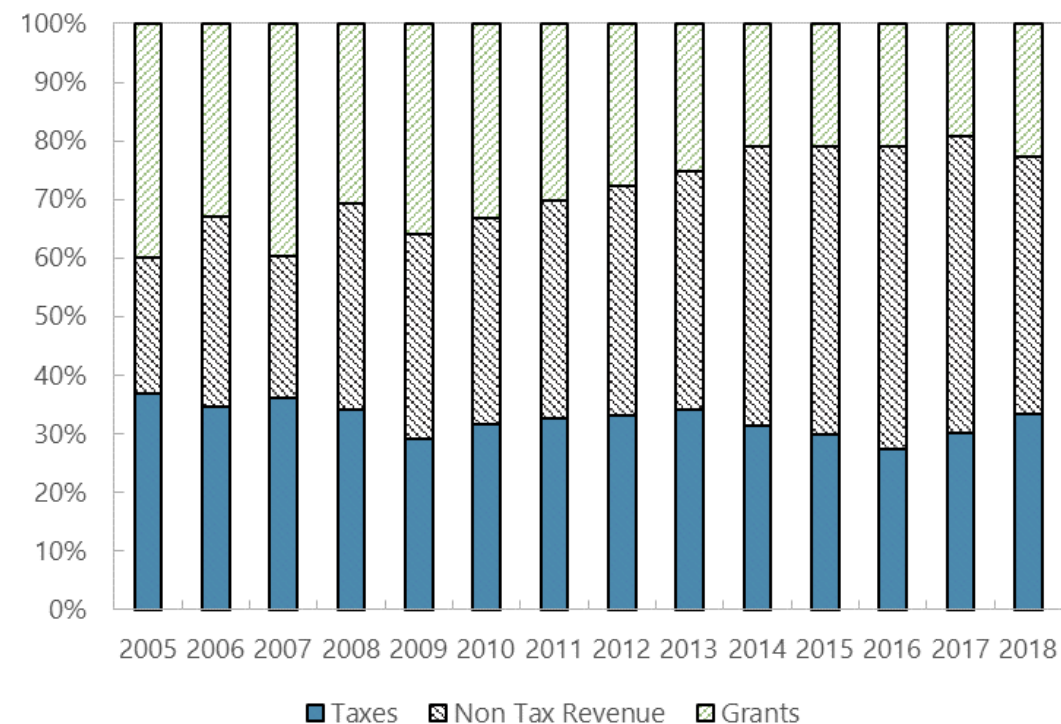


Revenue structure of PICs differs from most other countries

Total revenue as a share of GDP in PICs is relatively high and has been increasing

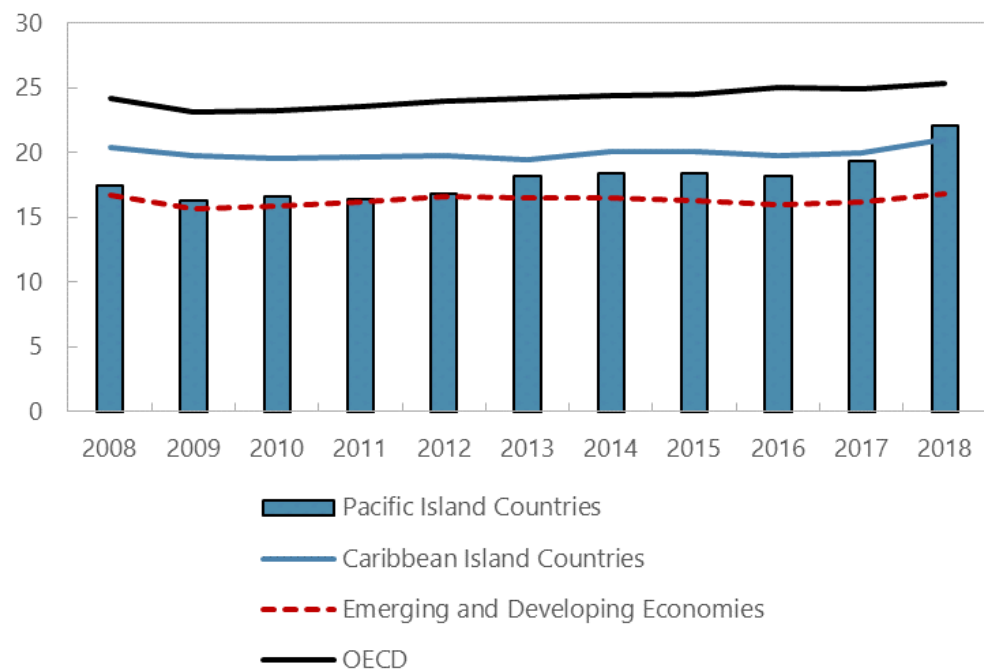


The share of (relatively volatile) non-tax revenue (fishing) and (compact) grants is relatively high in PICs and the former has been rising

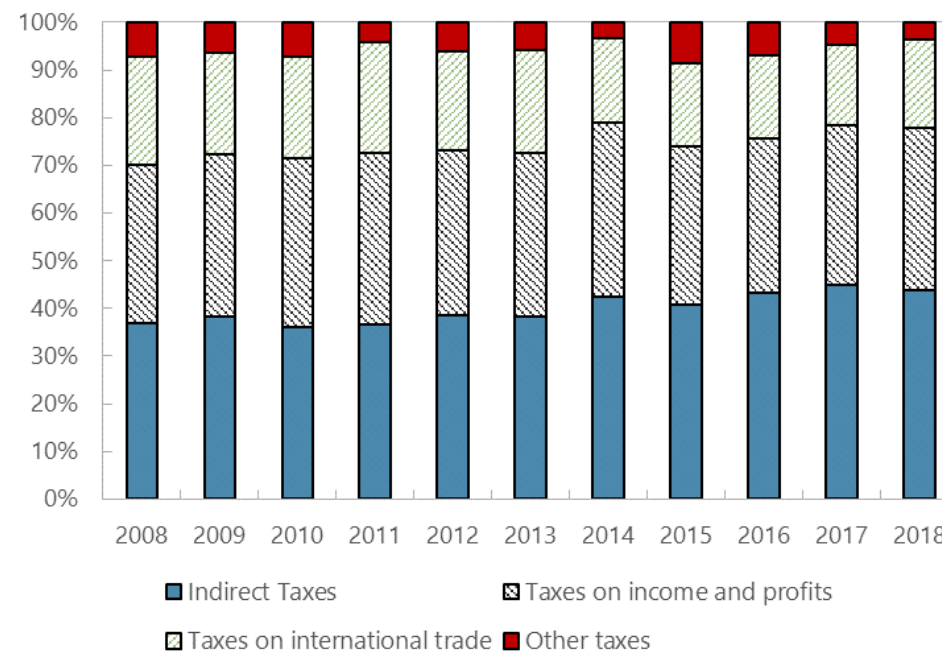


Pre-COVID trends: Tax revenues have been increasing too ...

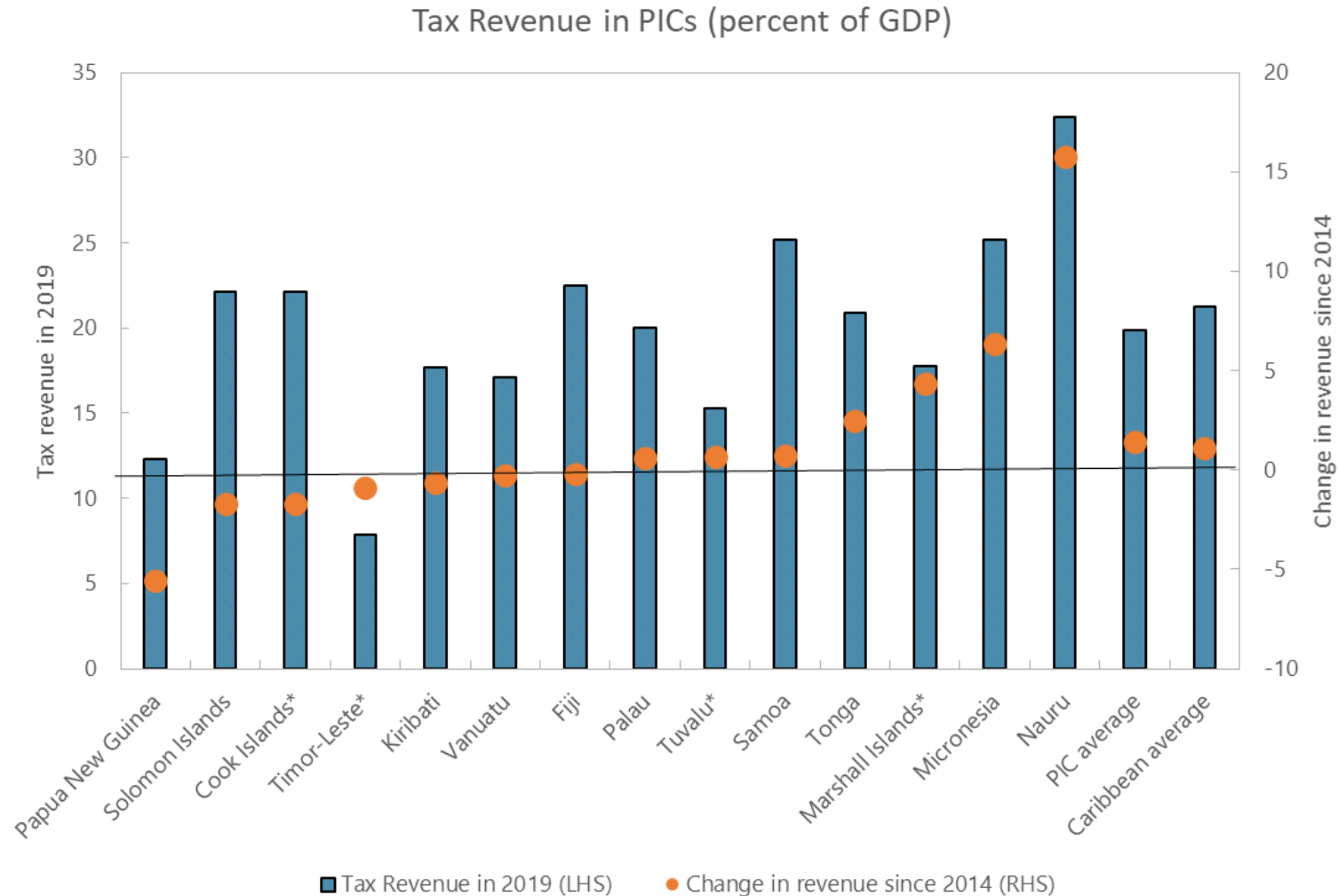
Tax revenue as a share of GDP in PICs has increased ...



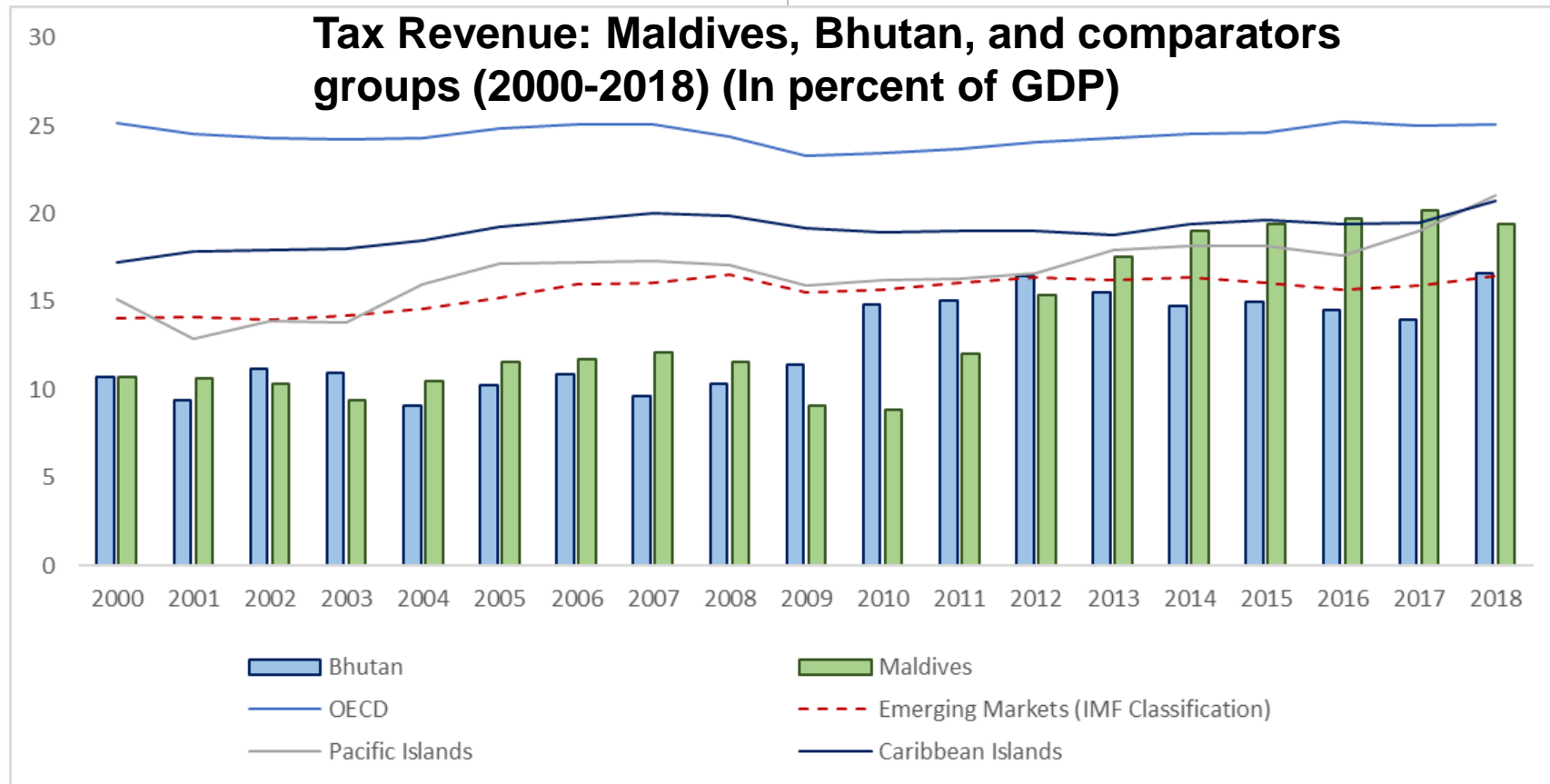
... and the mix of revenue has shifted to indirect taxes – away from trade taxes



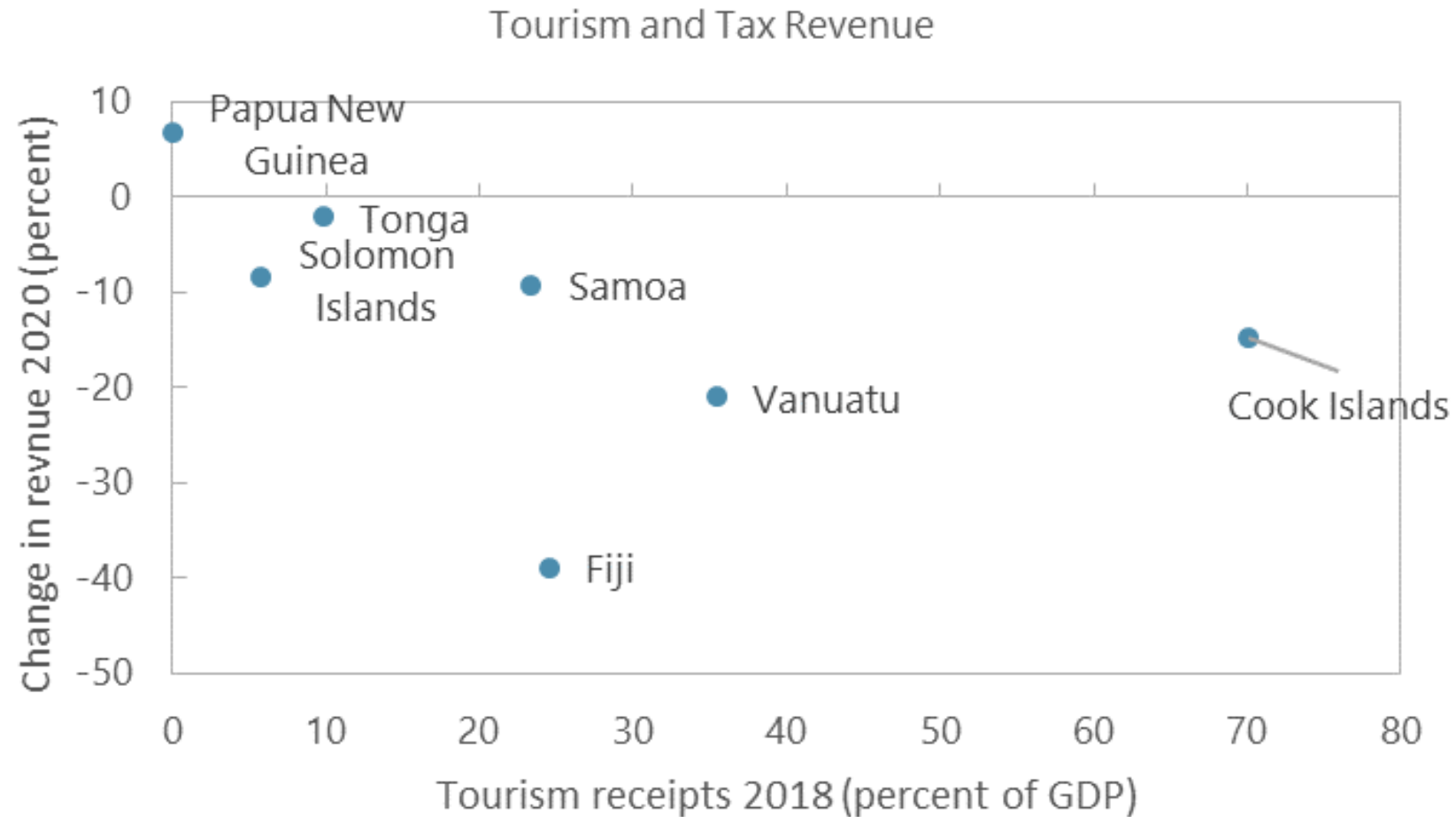
... although outcomes are uneven – and recent progress has been mixed



Remarkable progress also in Maldives and Bhutan



COVID-19: Significant revenue shortfalls, especially in countries relying on tourism

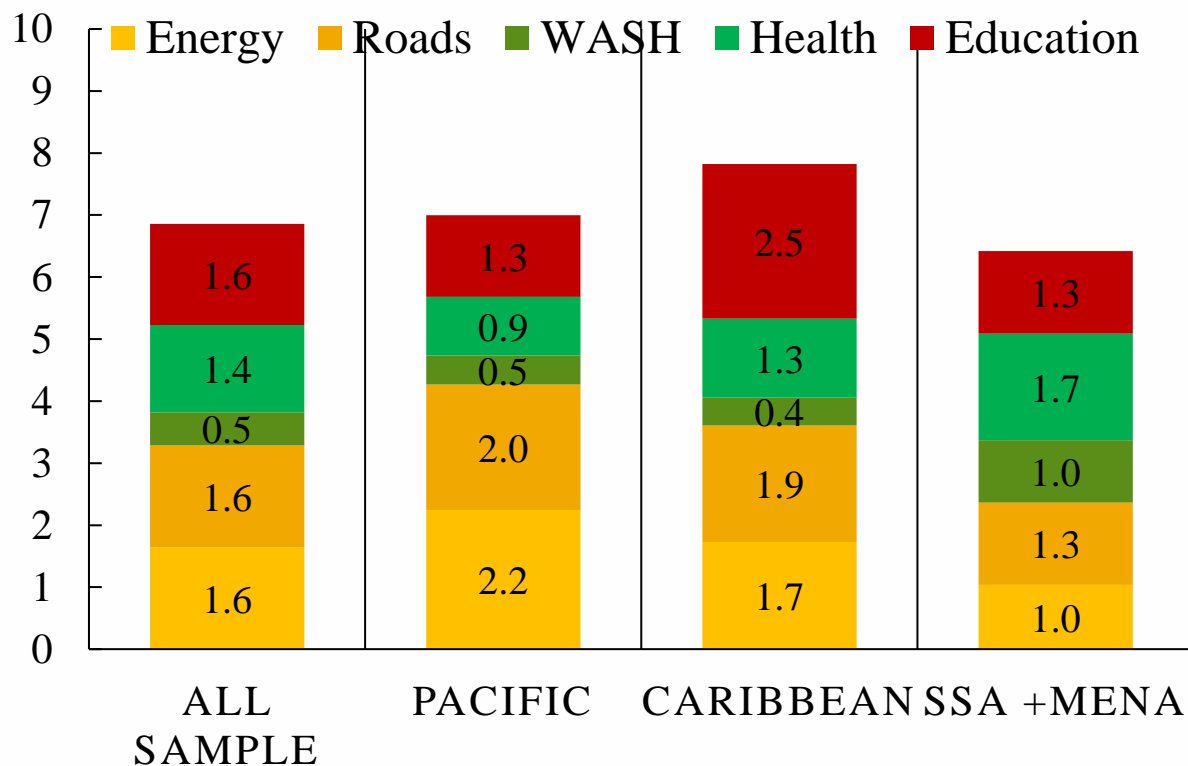


Source: Country authorities

Note: Cook Islands' revenue are estimated based on revenue performance between January 2020 to June 2020

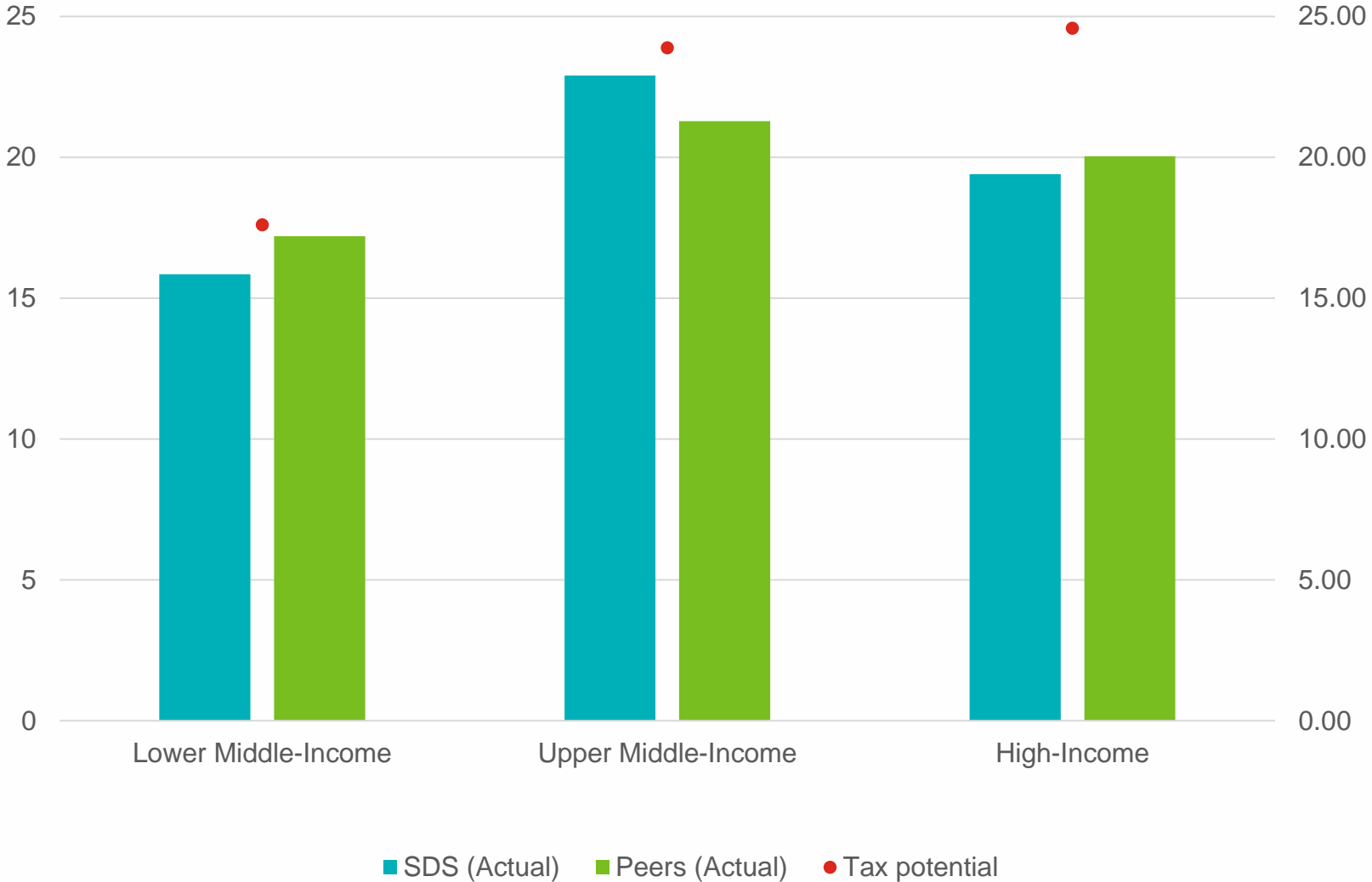
Small developing states face sizeable financing needs to achieve SDGs, including in relation to climate change

Additional cost to meet the SDGs in 2030 for
Small Developing States with climate vulnerabilities



Source: Tiedemann et al., 2021

Small developing states do have scope to increase their tax effort



Source: Tiedemann et al., 2021

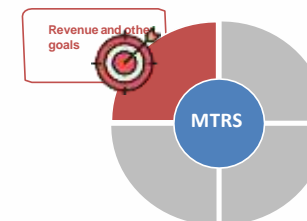
Post-COVID-19: Building tax capacity through a medium-term revenue strategy...

- 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



... and in particular in small states?

#1: Revenue and other goals



Building the narrative

- Revenue mobilization as essential part of the development agenda

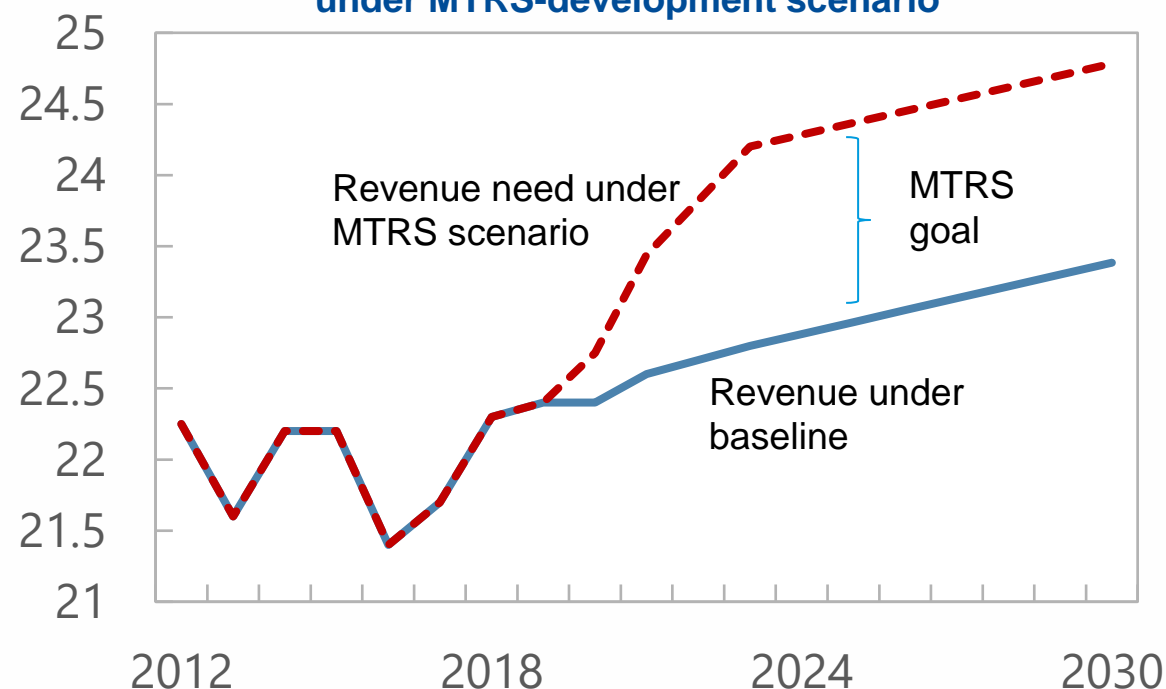
Revenue goal

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

Other goals – criteria used in MTRS

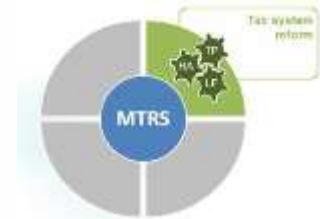
- Equity – inclusiveness
- Efficiency – (green) investment/growth
- Enforceability – administration
- Compliance
- Certainty

Baseline revenue projection and revenue needs under MTRS-development scenario



Source: IMF MTRS report

#2: Comprehensive reform of tax and non-tax system



Comprehensive

- Covering tax policy, revenue administration and legal framework

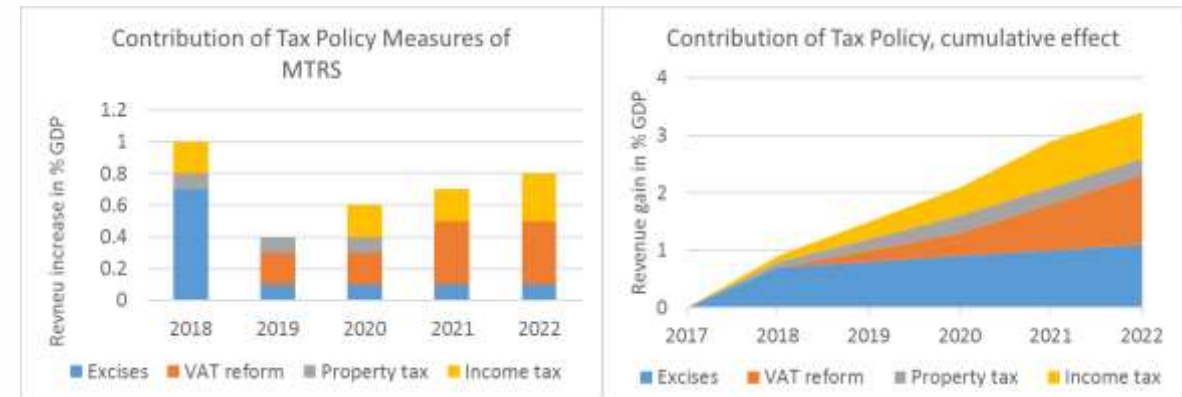
Concrete

- 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 12 countries

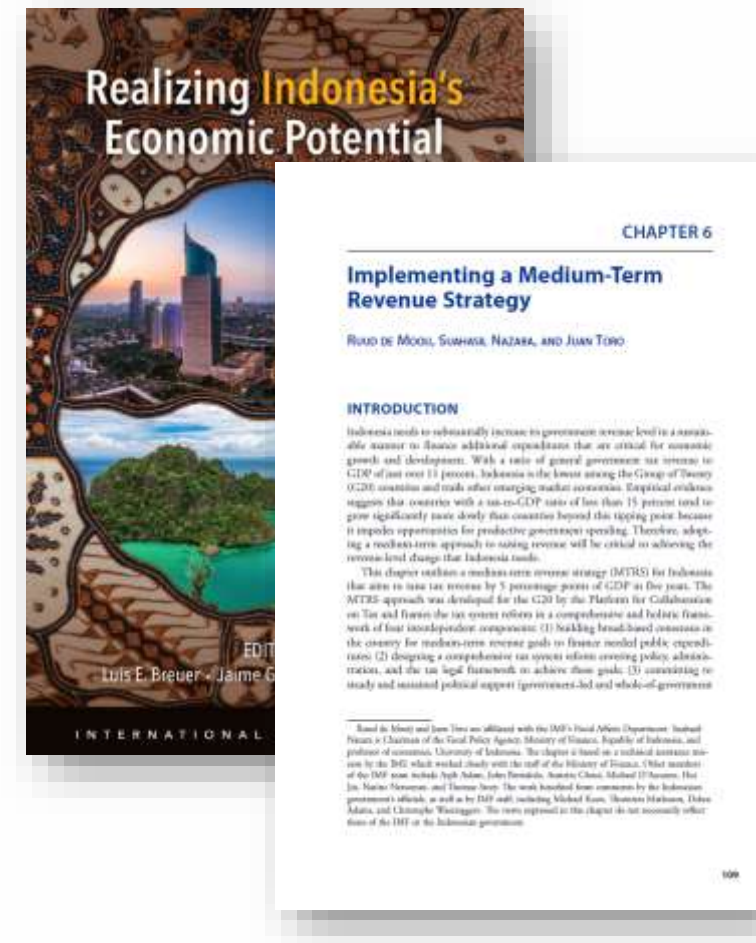
Formulation – ongoing in Albania, Benin, Ethiopia, Rwanda, Indonesia, Laos, Thailand

Consultation – ongoing in many

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

How feasible is MTRS for small states?

MTRS for Indonesia



Workshop Structure

Today August 25

Panel 1: MTRS after COVID-19

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

Panel 3: What distinguishes MTRS from other strategies?

Tomorrow August 26

Panel 4: MTRS#2 Comprehensive tax system reform

Panel 5: MTRS#3 Managing an MTRS effort

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



Thank You!