The Platform for Collaboration on Tax

PCT Regional Workshops on Medium-Term Revenue Strategies (MTRS)

Summary Report

International Monetary Fund (IMF)
Organisation for Economic Co-operation and Development (OECD)
United Nations (UN)
World Bank Group (WBG)

This document has been prepared in the framework of the Platform for Collaboration on Tax (PCT) under the responsibility of the PCT Secretariat and staff of the four organizations.

The work of the PCT Secretariat is generously supported by the Governments of France, Japan, Luxembourg, the Netherlands, Norway, Switzerland, and the United Kingdom. This report should not be regarded as the officially endorsed views of those organizations, their member countries, or the donors of the PCT Secretariat.

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INTRODUCTION

This report discusses the development of the Medium-Term Revenue Strategy (MTRS) since its inception in 2016 based on presentations and discussions that took place at recent regional workshops. These workshops were organized by the Platform for Collaboration on Tax[1] (PCT), its member organizations, and regional partners. Separate workshops were provided for the regions of Africa, Asia, Eastern Europe and Central Asia, and small states in Asia and the Pacific.[2] This report is a summary of the proceedings of the workshops, covering key issues and questions raised in the workshop discussions. The lessons learned from the workshops cover common issues based on experiences of both countries and capacity development (CD) partners to date. These lessons can guide the development of ongoing and new MTRSs. The structure of this report is to initially consider the current revenue context and the role an MTRS can play, and then discuss each of the four interdependent components of an MTRS. Summaries of each of the regional workshops can be found in the Appendices, highlighting specific regional variances.

Box 1. What is a Medium-Term Revenue Strategy?

The objective of the MTRS is to provide a clear vision for a country's future tax system to attain lasting and meaningful tax system reforms to meet the country's fiscal needs, including spending needs to achieve the Sustainable Development Goals (SDGs). The MTRS seeks to reach this objective by providing a medium-term comprehensive/holistic approach to the tax system reform to improve revenues to accomplish developmental and other goals. The MTRS is an evidence-based strategy that seeks to align the revenue goals with the country's spending and development needs, and then design tax policy, revenue administration, and legal reforms around a coherent plan that accounts for poverty and distributional implications. The plan should have high-level political backing along with the whole-of-government and other stakeholder support and provide a means to align the work of multiple CD partners operating in the country.

An MTRS has four interdependent components: (1) setting a revenue goal, over the next four to six years, necessary to fund the spending required to support economic and social development, and setting other goals for tax reform such as equity, efficiency,

[1] The Platform for Collaboration on Tax is a joint initiative, launched in 2016, between the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), United Nations (UN) and World Bank Group (WBG).

[2] The following workshops were held: Eastern Europe and Central Asia—October 29-30, 2019, organized by the Austrian Federal Ministry of Finance (BMF), IMF, WBG, and the Joint Vienna Institute (JVI); Africa—May 18-19, 2021, organized by the PCT and the ATAF; Asia—May 26-27, 2021, organized by the PCT and the Asian Development Bank (ADB); small states in Asia and the Pacific—August 25-26, 2021, organized by the PCT and the ADB. Further details on the regional workshops can be found in the Appendices.

enforceability, compliance and certainty; (2) formulating a comprehensive tax system reform over the medium term covering tax policy, revenue administration, and the legal framework—the road map for reform is usually in the form of an MTRS document that includes specific measures with a timeline for implementation, and concrete plans for improving tax compliance and building institutional capacity; (3) building sustainable whole-of-government political commitment to reform; and (4) securing adequate resourcing and coordinated capacity development support for effective implementation. A detailed explanation of the MTRS is included in the Concept Note on the Medium-Term Revenue Strategy.

Revenue Performance and Impact of COVID-19

The revenue performance and the impact of COVID-19 on revenue in Africa, Asia, and the Small States in Asia and the Pacific as well as the SDG financing needs and tax effort were discussed in the workshop presentations—on "Medium-Term Revenue Strategies to Support Recovery and Development in Africa"; "Medium-Term Revenue Strategies to Support Recovery and Development in Asia"; and "Medium-Term Revenue Strategies to Support Recovery and Development in the Small States."

Before the COVID-19 outbreak, developing countries in the regions covered by the workshops had been making progress on revenue mobilization. Since the early 2000s, tax-to-GDP ratios were rising (although in Africa the tax-to-GDP ratios had been leveling in recent years). However, tax-to-GDP ratios were still very low in many low-income countries and emerging market economies. Additionally, for small states, while tax-to-GDP ratios were increasing, many of the changes were due to increases in non-tax revenues (e.g., revenue from fishing licenses), which are often volatile sources of revenue that are not guaranteed in the future.

The COVID-19 outbreak has had a significant impact on countries. This impact is both in the form of the human toll and the economic cost, while also presenting serious challenges to governments by reducing revenues at a time when they face additional health-related and economic demands, including support for businesses and employment. For example, in Sub-Saharan Africa, GDP fell by 1.9 percent in 2020 and tax-to-GDP ratios are projected to fall from 13.2 to 12.3 percent. In developing Asia, GDP dropped by 1 percent in 2020 and tax-to-GDP ratios are projected to fall from 16.0 to 14.1 percent. In many small states, their economies and revenue are reliant on the tourism sector, which has been severely impacted by the COVID-19 outbreak.

For developing countries, COVID-19 comes at a time when many of these countries have low tax-to-GDP ratios and were already facing major challenges in meeting the

Sustainable Development Goals (SDGs).[3] The revenue shortfalls from the impact of COVID-19 mean that countries are faced with increased financing needs to achieve the SDGs. This makes the need for domestic revenue mobilization (DRM) even more urgent. However, there is potential for countries to increase revenue collections as the tax effort in most countries is considerably below tax capacity.

Role of an MTRS

In the context of the revenue challenges, governments are seeking to renew efforts to strengthen tax systems to promote growth, encourage equity and raise additional revenue efficiently. The MTRS can play a significant role in achieving major tax reform. The MTRS was developed to support effective and sustainable tax system reform by building a country-specific vision. Before COVID-19, it was intended to address revenue mobilization needs but its potential is now greater given the need to also address revenue shortfalls and higher spending needs as a result of the pandemic.

The MTRS has evolved since it was first proposed in 2016, with 25 countries having started engagement with the PCT Partners (see Table 1).[4] The stages of engagement identified by the PCT are (1) dialogue prior to the formulation of an MTRS; (2) formulation of an MTRS; (3) early implementation; and (4) implementation. Information on MTRS progress in each of the participating countries can be found in the PCT Progress Annual Report 2020 and on the MTRS Country Listing page on the PCT website. The ability of the MTRS to provide a clear vision for tax reform is illustrated in two MTRSs that have been published: Papua New Guinea (PNG)'s Medium-Term Revenue Strategy 2018-2022; and Uganda's Domestic Revenue Mobilization Strategy 2019/20-2023/24. At this stage, it is too early to determine the impact on revenue for those countries which have finalized an MTRS, and COVID-19 has also complicated the impact assessment.

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[3] The SDGs are 17 global goals set by the UN to be met by 2030. The goals aim to address poverty, protect the environment, and advance peace and prosperity. The role of tax in SDGs is discussed in the PCT report on Taxation and the Sustainable Development Goals.

[4] At the time of the Africa and Asia workshops, several countries had formulated or commenced formulation of an MTRS, so there was some experience with an MTRS, which is reflected in the number of examples from those regions. At the time of the other two workshops, there were no countries from those regions that had commenced formulating an MTRS (except PNG).

Table 1: MTRS Countries (August 2021)

Pre-Formulation	Formulation	Early Implementation	Implementation
• Cameroon • Georgia • Honduras • Jordan • Kenya • Malaysia • Mongolia • Morocco • Togo • Uzbekistan	• Albania • Bangladesh • Benin • Ethiopia • Indonesia • Lao People's Democratic Republic • Pakistan • Rwanda • Thailand • Vietnam	• Senegal	• The Arab Republic of Egypt • Liberia • Papua New Guinea • Uganda

MTRS and Previous/Existing Revenue Strategies

An MTRS builds on existing tax reform strategies and strives to close gaps in those and past reform strategies. An MTRS is different from the revenue strategies that have been developed in the past and/or may currently exist. The experience of countries and CD partners is that these revenue strategies are often incomplete. An MTRS seeks to address the deficiencies in these strategies by mapping differences between the current approach and an MTRS. This includes setting out a concrete reform package, identifying political drivers, having consistent narratives on revenue needs, quantifying the strategy (thereby enhancing credibility and making a structured debate easier and simplifying the communication strategy), addressing legal aspects in reform plans, ensuring reform efforts are not fragmented and piecemeal, preventing splitting and lack of coordination between tax administrations and finance ministries, encouraging ownership and interest in sustained reforms and avoiding shortfalls in the amount and coordination of CD support.

It is also important to emphasize that an MTRS is a process rather than a document. The MTRS can be seen as a fixed concept when, in fact, it is a flexible approach with features that depend on country circumstances. The process for developing a tax reform strategy consistent with an MTRS should ensure that the four interdependent components are addressed, which should result in a comprehensive medium-term tax reform strategy.

The aim of an MTRS is more than revenue-raising. It can drive a range of goals including equity (and gender issues), efficiency and certainty in the tax system, tax morale, and health and environmental goals. The key is being clear on concrete and quantified goals.

In deciding whether an MTRS is suitable as a guiding framework for a country's reform plans, there should be a dialogue between the authorities and one or more of the PCT

Partners. Some countries may pursue a tax reform strategy that is not a formal MTRS; however, in any case, the four components of an MTRS should be present in the reform strategy. An example of a country that has a reform process similar to an MTRS is Vietnam, which is discussed in Box 2.

Box 2. Tax Reform Strategy in Vietnam

Vietnam does not yet have an MTRS. However, it does have a tax reform strategy with a ten-year cycle, and a five-year fiscal plan. The next ten-year tax reform strategy is similar to an MTRS as it has revenue collection targets and components for both tax policy and tax administration reforms. It is expected to be submitted to the Prime Minister for approval in the latter half of 2021. Under this strategy, the target is to reduce the budget deficit to three percent of GDP to increase the fiscal space needed for government interventions in bad times. During the fiscal consolidation program from 2015 to 2019, public debt was reduced from 63 to 55 percent of GDP. In the short term, the policy is to remain supportive of the economy to promote resilient recovery. The ten-year plan has components (1) and (2) of an MTRS, and implicitly component (3). The plan does not appear to include component (4)—that is, how CD partners can support the plan—but this is a decision that can be aptly made by a country.

COMPONENT 1 – Setting Revenue and Other Objectives

The revenue goal to be set for an MTRS depends on the country and its circumstances. The revenue-raising goals are devised to match the country's specific expenditure needs and the country context. For example, in the Small States in the Pacific, in addition to financing to meet the SDGs, they have to consider the potential expenditures relating to natural disasters that are common in the region, and the potential revenue loss from reductions in border taxes under regional trade agreements (e.g., PACER Plus[5]). A tax-to-GDP ratio of 15 percent is often mentioned as a global minimum for securing resources for implementing state functions. However, this is a global benchmark, and policy goals and revenue needs differ by country, so the 15 percent target should not be a starting point for a country's MTRS.

The impact of COVID-19 must also be taken into account in determining the revenue goal. As mentioned previously, a result of COVID-19 is that DRM is of even greater priority given that revenues have dropped as a result of the economic slowdown. In deciding on a revenue goal, countries need to undertake revenue foregone estimates and then develop strategies to build fiscal space for governments to be able to spend in times of crises. For those countries that have already set a revenue goal in an MTRS, the goal may need to be adjusted to reflect falls in revenue. For example, Senegal has revisited its revenue targets in light of the impact of COVID-19 on revenues and will seek to identify additional revenue sources to fund the recovery.

The steps in setting a revenue goal include determining the baseline revenue projections, setting the medium-term expenditure ambitions, and quantifying the revenue goals for the MTRS (see the workshop presentations mentioned above on Medium-Term Revenue Strategies to Support Recovery and Development). Countries should identify the gap between the aspirational expenditure needs and the revenue projections. For example, Uganda's revenue target is to raise tax-to-GDP from a baseline of 14.6 percent of GDP in 2018/19 to between 18 to 20 percent of GDP within 5 years. Another example is Bangladesh, which set a revenue goal of tax-to-GDP of 15 percent in 2026 from a baseline of 9 percent of GDP. For a discussion of experiences of MTRS so far, please see the workshop presentations on MTRS as a Way Forward for Africa and MTRS as a Way Forward for Asia and MTRS as a Way Forward for the Small States.

As mentioned previously, having sufficient revenues to meet the expenditures necessary for a country to achieve the SDGs should be a key consideration. The IMF in 2019 estimated that the average additional spending to achieve the SDGs in five key areas (education, health, roads, electricity and water) in low-income countries by 2030 is 15.4

[5] Pacific Agreement on Closer Economic Relations (PACER Plus) is an economic cooperation agreement between Pacific Island Countries, Australia and New Zealand.

percent of GDP and 4 percent of GDP for emerging market countries.[6] The IMF in 2021 also developed a framework for assessing development strategies to achieve the SDGs in the aftermath of the COVID-19 pandemic.[7] These expenditure estimates can be a starting point for determining the revenue goal for an MTRS.

Many countries have also linked SDGs to national development plans so that national development objectives could also be a starting point for tax reform. Linking an MTRS to a national development plan could also enhance the political ownership of the reform strategy. Integrated national financing framework (INFFs),[8] which support national development plans, also complements MTRS as both of them attempt to understand the financing gaps and define a revenue mobilization target. However, an INFF includes sources of revenue other than public revenues, including private financing. INFFs have four building blocks that complement the four interdependent components of an MTRS: (1) assessment and diagnostics, (2) financing strategies, (3) monitoring and review, and (4) governance coordination.

MTRS Timeframe

The usual timeframe for an MTRS is four to six years, but this can be adjustable as circumstances change. For example, in PNG and Egypt, the timeframe for the MTRS is five years. In the case of Rwanda, the initial MTRS timeframe was seven years; however, this was changed to three years to align with the timeframe of the country's National Strategy for Transformation. In determining the timeframe, it is also important to recognize that reforms may take a long time to complete. For example, in Bulgaria, the tax reform efforts took seven years.

Non-Revenue MTRS Objectives

While setting a revenue goal is essential for an MTRS, it is also important to consider other objectives so as to prioritize the options for tax reform. As mentioned previously, these other objectives include equity, efficiency, enforceability, and tax certainty. The tax mix is another important consideration, including the contribution of revenue sources beyond the usual taxes (i.e., income taxes and VAT), including property taxes and social contributions, and non-tax revenues (especially in small states). Environmental objectives are relevant as well given the current focus on addressing the impacts of climate change. Countries can develop a list of the importance of each of these objectives to provide criteria for prioritizing tax reform options.

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[6] See V. Gaspar, D. Amaglobeli, M. Garcia-Escribano, D. Prady and M. Soto, 2019, Fiscal Policy and Development Human, Social, and Physical Investment for the SDGs, IMF Staff Discussion Note No. 19/03 (Washington: International Monetary Fund).

[7] See D. Benedek, E. Gemayel, A. Senhadji, and A. Tieman, A Post-Pandemic Assessment of the Sustainable Development Goals, IMF Staff Discussion Note No. 2021/003 (Washington: International Monetary Fund).

[8] The INFF is a UN program of support to help countries strengthen planning processes and overcome existing impediments to financing sustainable development and the SDGs by setting out the full range of financing sources—domestic, international, public and private financing.

COMPONENT 2 – Tax System Reform Priorities

The design of tax reform priorities begins with a situational analysis to assess the current context and environment and identify the key issues, challenges, and opportunities. Several indicators, such as tax-to-GDP ratio, tax gap (i.e., the difference between the potential tax revenue and the actual tax collected), core tax trends and evolutions, are crucial for benchmarking and reform strategy setting. Assessing the current context can include previous work on potential tax reforms. For example, Uganda in developing its MTRS formed a team that scanned all available technical assistance (TA) reports, listed all recommendations, which had not yet been implemented, and identified knowledge gaps in both technical and non-technical drivers of tax reform.

The tax reform priorities must be country specific. Box 3 includes an example of country-specific tax reform priorities in formulating an MTRS in Malaysia.

Box 3. MTRS Tax Reform Priorities in Malaysia

Malaysia is planning a comprehensive tax policy and tax administration reform from 2022 to 2026. Their aim is to work with the IMF to prepare an MTRS. The tax policy priorities are focused on direct taxes to stabilize the economy and enhance the tax framework by broadening the tax base, reviewing incentive packages and developing proposals to tax the digital economy. The tax administration goals are to enhance voluntary tax compliance and increase the efficiency and effectiveness of the tax administration. Specific tax administration measures include introducing a tax identification number (TIN) for persons aged 18 and above to facilitate data collection, more effective data management and integration with relevant agencies, including leveraging big data and smart taxation, developing an ICT strategic plan and automation program and strengthening audit and exchange of information (EOI) with other tax jurisdictions. Legal reforms include reviewing the tax laws on specialized industries and mitigating tax disparities.

The MTRS offers the opportunity to build on current reforms and properly embed existing short-term measures into a medium-term reform road map. Many countries have existing short-term plans, some of which may have commenced implementation, both for tax policy and tax administration reforms, which are sometimes separate and unrelated. Consequently, MTRS presents an opportunity to consolidate these plans into a single comprehensive plan.

An MTRS should prioritize reforms that can be done first, especially high-value ones. For example, simplifying procedures to remove obstacles to compliance will generally be easier to put in place than more complex tax policy reforms. Alternatively, rate increases on an existing tax base can quickly boost revenue, while broadening the base through enhanced compliance will take time.

The MTRS needs to be flexible so that the tax reform plans can be periodically adjusted in case of unforeseen circumstances (e.g., COVID-19). For example, Egypt emphasized that the work done on its MTRS provided a wide range of well-researched options that helped them to quickly design policy options for the pandemic. The flexibility of an MTRS includes changing the order and sequencing of reforms when necessary. In the case of Uganda, COVID-19 led to changes in the sequencing of the reforms, with some reforms having to be implemented earlier than planned. MTRS also needs to be flexible to address emerging issues such as digitalization or the implications for some countries in addressing EU and OECD concerns about non-cooperative jurisdictions for tax purposes and preferential tax regimes.

Having a medium-term fiscal framework and debt strategy is useful in shaping tax reform priorities. An MTRS fits easily within this broader fiscal conceptual framework. For example, PNG has had a medium-term fiscal framework and debt strategy in place for over 15 years, so the MTRS fit well with the framework and strategy. The MTRS can also articulate the link between revenue collection and service delivery.

In developing tax reform priorities, the timing of tax reform is critical. It is important to exploit opportunities of good and bad times as appropriate and feasible. For instance, it may be better to introduce big reforms when the economy is booming, rather than when the economy is in downturn, but reforms have also been successfully imposed in times of crisis. Portugal made VAT reforms, including rationalizing exemptions, and reduced VAT rates during the global financial crisis. The COVID-19 crisis has provided Palau with an opportunity to proceed with tax reforms that had been proposed for several years. Patience is needed in progressing tax reforms, as it is difficult to implement key reforms quickly. Some reforms may also require a gradual approach with transitional rules (e.g., phasing out mortgage interest relief to avoid shocks in asset prices).

The timing of reforms also needs to take account of the current capacity of the revenue administration and how to bridge the capacity gaps to implement the reforms. The sequencing of reforms should reflect the revenue administration's capacity to implement the reforms consistent with the sequencing. Determining the capacity needs in small states should consider the limited human resources, both in number and skills, that are often available to implement tax reforms. CD partners may have a role in supplementing the local resources to achieve the reforms. The Tax Administration Diagnostic Assessment Tool (TADAT) is useful in assisting countries in assessing the tax administration's strengths and weaknesses, but it is not a necessary requirement for an MTRS.

In designing revenue administration reforms, it is essential to have robust information technology systems (IT) in both tax and customs to support compliance. The requirements for the IT systems need to be anticipated if the benefits of the reforms are to be realized. IT changes usually take a long time, so early coordination of CD support can assist in ensuring simultaneous development of tax policy reforms and the IT procurement necessary to implement those reforms.

Tax administration reforms should also consider the different types of taxpayers. For example, focusing on managing compliance among large value businesses and then building partnerships with small business taxpayers keep their compliance burden reasonable.

The tax system priorities should address legal reforms. This will include legislation to enact tax policy reforms as well as efforts to consolidate, streamline and simplify existing laws.

Data Collection and Analysis

Tax reform requires informed decision-making, which is enabled by coordinated efforts in data collection and analysis. The revenue administration usually gathers a lot of data, but the challenge is to ensure data sharing between revenue administrations and the ministry responsible for tax policy development (e.g., a tax policy unit of a ministry of finance) and with different government agencies. Advances in digitalization can help improve data availability and quality. Since much of the data is obtained from tax forms, these forms may need to be redesigned to better capture the data required for analysis. In dealing with data, safeguarding the data secrecy is important.

A further challenge is that in-house analytics capacity is low in many developing countries. Therefore, more investment should be made in data analytics skills so that data can be used to answer important strategic questions. The key analysis involves revenue forecasting and revenue impact analysis of reform measures, with the next level of analysis being tax expenditure reporting, and more advanced analysis being distributional and economic impact analysis.

COMPONENT 3 – Building Sustainable Whole-of-Government Political Commitment

A successful MTRS requires: (1) an institutional structure that supports the leadership from the top of government, (2) a proper diagnostic, and (3) the inclusion of all stakeholders. Political support is key, as effective tax reform means working against entrenched interests. An MTRS, like any tax reform, is subject to political interference with risks of patronage, corruption, and bureaucratic hassle.

The leadership by the ministry of finance (MoF) is important along with the revenue authority in co-leadership and CD partners working under the government leadership. The leadership by the MoF (also known as the 'Treasury' in some countries) reflects their role of overseeing the entire budget function. There needs to be a strong relationship between the revenue authority and the MoF. Sometimes there are differences between tax policy approaches and the revenue administration's view, including the presumed capacity of the revenue administration to implement the tax policy reforms. This illustrates the need for a concerted effort for a participatory process between the two agencies. The reform process must recognize the resource and institutional constraints and ensure that the right technology and skills are available. Countries considering an MTRS should ensure that strong governance and accountability arrangements are in place between the MoF and the implementing agencies along with effective communication strategies. Box 4 provides three country examples of MTRS governance arrangements.

The development of an MTRS should also establish effective consultation and communication with key non-government stakeholders. These include large businesses, small and medium enterprises, civil society organizations and households, especially vulnerable households, to gain commitment and buy-in. In particular, the private sector should be engaged in tax reform efforts. Tax reform development can give rise to conflicts with the private sector including: (1) difficulties in agreeing on a shared vision on how taxation should better support growth—the private sector favoring incentives and the government supporting an active role of the revenue administration to cover the social needs and help build infrastructure (a similar conflict might arise between different ministries), (2) environmental issues can generate conflicts—for example, the government has to balance NGO requests for aggressive use of taxation to limit greenhouse gas effects with the private sector's concerns about growth, and (3) agreeing on a reasonable tax burden (e.g., tax weight, distribution and use of revenue). The key for governments is to clearly communicate the objectives for tax system reforms (including educating the media)—an explanation of what is happening, the benefits, and what is required of stakeholders—and ensure cooperation in the implementation of the reforms and their evaluation/assessment while highlighting the trade-offs that need to be resolved.

The political economy of tax reform is especially complex in large countries with strong sub-national governments. The tax reform needs to consider the fiscal needs of sub-national governments, as reforms may require compensation to subnational governments (e.g., As part of major tax reform in India, compensation was paid to some states where a central VAT—known as the Goods and Services Tax—replaced state sales taxes).

Box 4. Examples of MTRS Governance Arrangements

PNG: The government provided strong political support for the MTRS from the outset, with the MTRS being endorsed by the then Prime Minister and Treasurer when it was developed in 2017, and this support has been maintained since. The MTRS implementation has been challenging in PNG because of the reform landscape, with the relationship between some of the leading government agencies not being strong with respect to reporting and accountability. This illustrates the need for good governance and accountability arrangements between the key government agencies. PNG has developed a program governance and management structure with defined responsibilities for each level of responsibility: strategic program direction, project oversight and control, project management, and project implementation and delivery. A diagram of the structure can be seen in section 7.2 of PNG's Medium Term Revenue Strategy 2018-2022.

Egypt: The MTRS in Egypt, which is finalized and approved by the Cabinet, had a three-step journey: (1) understanding the needs, (2) starting implementation and continuing to adapt, and (3) communicating the accomplishments. The development process started with meetings at the government level to determine the needs and programs for the upcoming five years. This allowed for critical support by all the ministries engaged in the process during its entire duration. When the implementation phase of the proposed reforms started to generate revenues, all the stakeholders were aligned. Several meetings were held with relevant ministries—Ministry of Trade and Manufacturing, and Ministry of Planning and Economic Development—to agree and coordinate the planned reforms to support the success of the MTRS. The final stage consisted of elaborating a digest document summarizing the entire process to highlight the major changes and reforms implemented. The document has been approved by the whole government and it provides good support for communication. Some of the reforms had to be formulated in law and it took many meetings between the MoF and other affected ministries to agree on the final version of the law.

Uganda: An MTRS Steering Committee was established in Uganda for strategic decision making and overall oversight. The committee was chaired by the Permanent Secretary of Finance. There was also an MTRS Technical Committee for analysis and design, chaired by the head of tax policy in the MoF and Commissioner General of the Uganda Revenue Authority. The committee also included academia and CD partners.

COMPONENT 4 – Securing and Aligning External Support

A country government should take the lead in formulating and implementing an MTRS, usually with the support of CD partners. The external CD provided by both TA providers and donors is essential for most countries in supporting the formulation and implementation of an MTRS, particularly in low-capacity countries. An MTRS may encourage CD partners to provide assistance since an MTRS is evidence of a country's commitment to long-term tax reform.

The level of CD support should be based on country demand, although it may be possible for a country to proceed with an MTRS with their own resources. An MTRS road map helps identify the resources needed throughout the reform process—both the resources that the government can provide and the additional assistance that is required from the CD partners. Forming government-led working groups that include donors to guide donor interventions in TA can be effective. Ensuring the government-level executive leadership is also important at the time of signing-off of the donor support.

There should be one lead MTRS CD partner (usually the IMF or the World Bank) that is the key supporter, who can assist in developing the MTRS road map and assist with the CD coordination. Other international organizations, such as the UN and OECD, can also contribute based on their unique mandates. The lead CD partner should take responsibility in coordinating with other CD providers under the guidance of the country authorities. Each CD partner should be aware of what support is being provided by others. The MTRS approach recognizes that the CD support needs to be coordinated and aligned with the recipient country's reform priorities, strategy and timing. To this date, in the development of MTRS, CD partners have been actively working to improve collaboration and cooperation so that CD partners can align support to a country's tax system reform program. Demonstrating better CD support and coordination with an MTRS can lead the way for improved CD participation in other non-tax areas of CD support.

Countries should engage with the CD partners early to identify their support needs and the focus and likely scale of the support. This allows CD partners to agree on the best CD partner to support the various aspects of the reform, the resources necessary for the CD partners to deploy and the timing of the support. This forward planning overcomes previous situations where CD partners provided support on a fragmented basis, not based on effective sequencing, and sometimes with duplicated or competing support. It also allows CD support to be flexible in a way that support can be scaled up or down depending on the circumstances. Regional tax forums, such as the African Tax Administration Forum (ATAF) and the Pacific Islands Tax Administrators Association (PITAA), can also provide support, especially in helping build capacity.

Governments should also avoid requesting different TA providers for the same type of support. The latter raises the risk of differentiated modalities to framing a revenue reform strategy. Regional TA providers can also assist governments in avoiding duplication. For example, the IMF's East Africa Regional Technical Assistance Center (AFRITAC East) seeks to promote transparency and coordination among donors by conducting briefing sessions for donors working in their member countries. AFRITAC East has designed a TA form for the recipient countries to complete every year to assess the TA space and prevent duplication.

Where appropriate, there should be a memorandum of understanding (MOU) between the government and the CD partners supporting the reform program. The MOU should record each CD partner's role and the alignment of their support with the MTRS implementation plan. Sometimes there may be only one CD provider, but where there is two or more providing support, the MOU can be a helpful guide in complex cases. The MOU should be supported by a governance program to hold implementing agencies and the CD Partners accountable for the timely delivery of support. It may take time for government officials to have the mechanisms in place to direct the coordination, so, until that time, countries could select a lead strategic advisor who can help with the donor coordination and collaboration role, and if necessary, convene regular CD partner coordination meetings. Box 5 provides two examples of country and CD partner coordination for completed MTRSs.

Box 5. Examples of Country and CD Partner Coordination for an MTRS

PNG: The PNG government reached out to the IMF to support the MTRS program, and from the government's perspective, the relationship has been instructive in policy terms. For example, the focus of tax reform has moved from "collecting more from the bottom of the pyramid to growing the pyramid" – that is, on growing the economy rather than collecting more tax from small businesses and the informal sector. PNG has also signed up to a Staff Monitored Program (SMP) with the IMF along with the accountability issues for the implementing agencies woven into the SMP structural benchmarks.

Uganda: In the design phase, there was an intensive collaboration between the CD partners (the IMF, World Bank, FCDO and USAID). The MTRS effort led to the establishment of a DRM Working Group, headed by the MoF and included the participation of the Uganda Revenue Authority. The DRM Working Group also included representatives of all the CD partners. This was in addition to the MTRS Steering Committee mentioned in Box 4.

APPENDIX 1: Supplement on the MTRS Workshop for Countries in Africa

Key Features of the Regional Environment

- Tax revenues have increased in most African countries since 2000, but they remain low. The median tax revenue in Sub-Saharan Africa (SSA) was about 13 percent of GDP in 2018. The COVID-19 pandemic is having a lasting impact in the region, with tax-to-GDP ratios expected to fall by about ½ percentage point over the medium term.
- The pandemic has added to the need for public spending and revenue mobilization to meet the development goals. Before COVID-19, Nigeria, and Rwanda required about 16 percent of GDP in additional spending to meet the SDGs by 2030. Offsetting the cost of the pandemic is estimated to add about additional spending of about 2-4 percent of GDP for Nigeria and 5-7 percent for Rwanda.
- The drivers of low revenue performance are multi-faceted and are rooted in policy and administration challenges, including widespread and ineffective tax incentives, under-utilization of key tax handles such as property and environmental taxes, large informal sectors, and corruption. Due to low tax effort, countries in the region miss out on over one-third of the potential tax revenue.
- Tax system reform has often fallen short. The MTRS concept was designed to close gaps in traditional reform approaches and include key factors for success. Often there are persistent knowledge and reform gaps related to political economy as well as a lack of a consistent narrative on why (more) revenues are needed.
- A successful MTRS requires an institutional structure that supports leadership from the top of government, a proper diagnostic of challenges and solutions and bringing on board all internal and external stakeholders.
- The MTRS can lead the way for better behavior by development partners that fully recognizes government leadership, provides support according to timelines set by the government and avoids contradictory advice and overlapping diagnostics.
- Countries in Africa have made impressive progress with the MTRS. Cameroon, Kenya, Morocco, and Togo have started dialogues on the MTRS. Benin, Ethiopia, and Rwanda have advanced to the next stage of formulating an MTRS. On other hand, Egypt, Senegal, and Uganda have finalized their MTRSs and advanced to implementation.
- COVID-19 has resulted in a recalibration of ongoing MTRS processes. For example, Uganda delayed the implementation of its Domestic Revenue Mobilization Strategy (DRMS) by one year to allow for re-costing and re-sequencing of measures. Rwanda has also postponed the finalization of its MTRS to address delays in consultation processes and assess the impact of COVID-19.
- PCT partners, bilateral donors, and regional tax organizations such as ATAF provide substantial support for capacity development to countries in Africa.

Key Issues of General Concern

During the workshop, the following were the main issues of general concern, mostly raised in questions from participants:

- *How has COVID-19 affected tax systems and MTRS processes in Africa?*

COVID-19 had a direct impact on the capacity of tax administrations as work processes and contact with taxpayers were interrupted. Tax administrations in Africa were able to mitigate these effects through greater use of technology, including online service delivery and communication through social media.

The effect of pandemic restrictions on sectors of the economy, however, was more important and lasting longer. In Rwanda, for example, the closing of bars and nightclubs affected revenue from alcohol excises. Travel restrictions deeply affected the tourism sector, which was a major driver of economic and revenue growth in the years before the pandemic. In Uganda, the pandemic has led to a revision of the target for tax revenue over the medium term and delay by one year of the recruitment of new staff and the acquisition of technology.

COVID-19 also offers opportunities. Emerging sectors like e-commerce are coming under increasing scrutiny by tax administrations. Furthermore, new forms of continuous engagement with stakeholders through social media and other means have become entrenched.

- *How can taxpayer compliance be promoted?*

South Africa (not an MTRS country) has embarked on a strategy for improving quasi-voluntary compliance by lowering the cost of tax compliance and raising the credible threat of enforcement in case of non-compliance. Compliance efforts focus on taxpayers that have been least affected by the pandemic as well as abuse of relief measures and the informal sector.

- *How can external support for CD be made more effective?*

The external CD support is essential to the formulation and implementation of an MTRS, particularly in low-capacity countries. However, the lack of coordination among providers of support and with the government can lead to fragmentation and duplication of efforts, and the lack of transparency. Providers of CD support should coordinate and consult each other on recent, ongoing, and planned CD support. For effective support of an MTRS, providers of CD support should identify a lead coordinator, with the government in the overall lead for coordination, including prioritizing and sequencing of CD support.

- *What are the key challenges for sustained political support for reforms and how can they be overcome?*

Tax policy and administration are politically important, and there is always a risk that political factors dominate tax reform processes, including MTRSs. In countries' recent experiences, this was complicated by the COVID-19 pandemic, which required a change in the priority and sequencing of reform measures. Securing a broad agreement with all stakeholders has been challenging. Inevitable changes in circumstances call for a flexible MTRS process around a 'living' strategy document. MTRSs also need to bridge cultural differences between key institutions, particularly MoFs and tax administrations.

APPENDIX 2: Supplement on MTRS Workshop for the Large States in Asia

Key Features of the Regional Environment

- Many Asian countries are reeling under the second or third wave of COVID-19, with revenues dropping as a result of the economic slowdown and governments implementing sizeable tax relief packages.
- In developing Asia, GDP fell by one percent in 2020 and tax-to-GDP ratios are projected to fall from 16.0 to 14.1 percent.
- Even before COVID-19, many countries were facing revenue challenges due to policy and compliance gaps, including tax base erosion as a result of aggressive tax planning.
- Because of these trying times, governments in the region need to consider how to approach revenue collection, as DRM is an urgent priority.
- The formulation of an MTRS can help address these needs by linking spending needs, including the SDGs, with revenue goals.
- Tax reform in the region also needs to address emerging issues such as the taxation of e-commerce and dealing with environmental issues, such as encouraging renewable energy sources.
- One country in the Asian region has finalized and is implementing an MTRS—PNG; three countries are in the formulation stage—Indonesia, Laos, and Thailand; and several countries are in the pre-formulation stage—Bangladesh, Malaysia, Mongolia and Vietnam.
- The MTRS processes in the region are progressing—for example:
    - PNG released its MTRS in November 2017 as part of its 2018 budget process and has begun to implement the reforms.
    - Vietnam is considering an MTRS, but they do already have a ten-year National Development Strategy that sets out a high-level road map for tax reform and a comprehensive tax reform strategy with specific revenue targets.
    - Indonesia has designed an MTRS, but it is yet to be approved by the government although some tax reforms have been made to broaden the tax base and streamline the taxation of small and medium enterprises.
    - Bangladesh has begun a DRM reform mapping process working with the World Bank and has identified a revenue goal to increase tax-to-GDP from 15 to 9 percent, with the intent to produce an MTRS.
    - Malaysia is planning a comprehensive tax policy and tax administration reform from 2022 to 2026 and aims to work with the IMF to prepare an MTRS.
- There are many CD partners supporting tax reform in the region (the IMF, the World Bank, UN, OECD, ADB, Japan International Cooperation Agency-JICA), with the MTRS seen as having an important role in ensuring coordination of external support for a coherent and orderly implementation of tax system reform.

Key Issues of General Concern

During the workshop, the following were the main issues of general concern, mostly raised in questions from participants:

- *When considering reform plans and whether to adopt the MTRS framework, how can countries assess if the chosen reform approach fits the MTRS framework? Are there specific tools they can use?*

This issue of whether an MTRS is appropriate is discussed at the dialogue stage. The four components need to be present, and this requires an understanding of the current situation and reform approach and a whole-of-government view.

What is required for the effective formulation of an MTRS?

The effective formulation of an MTRS requires (1) prioritizing the things that can be done first; (2) undertaking thorough analysis, and (3) communicating clearly with relevant stakeholders.

- *Is higher progressivity in the personal tax system a way to raise needed revenue, especially in the post-COVID-19 era?*

Progressivity is popular ("rich should pay"); thus, there lay opportunities. Nevertheless, the MTRS is a comprehensive approach, and the answer to the question will depend on the context, including looking at the overall progressivity of the fiscal system instead of focusing on a specific revenue type.

- *How can countries continue reform momentum during the pandemic slowdown? Was the MTRS adjusted for the pandemic?*

In the case of India (not an MTRS country), the tax reforms had a slight detour, but then they continued. Therefore, it is important not to give up on the medium-term goals, as that provides clarity on direction. In Malaysia, which hopes to develop an MTRS to cover the post-pandemic period of 2022-2026, the intention is to build the MTRS from ongoing reform efforts, including those introduced during COVID-19.

- *How can the tax base be broadened while keeping compliance costs for small businesses reasonable?*

First, focus on managing the compliance by large value businesses, and then build partnerships with small business taxpayers that support managing the compliance burden by understanding their needs.

➢ *What are political economy obstacles to reform?*

The main obstacle is communication—ensuring that the affected stakeholders are given an explanation of what is happening and what is required of them and explaining the benefits of reform in terms of taxpayer interests and concerns.

➢ *Is it possible for a jurisdiction without any resources from international organizations to achieve the goal of an MTRS?*

If a country can proceed with an MTRS with their own resources, it should do so. However, if external support is needed, then coordination between the CD partners is needed.

➢ *How can bilateral partners enhance MTRS support?*

Communication is key. It may involve TA (e.g., from the IMF or the World Bank) or specialists on the ground. Countries need to identify who in the government is the key point for discussions with the CD partners.

APPENDIX 3: Supplement on MTRS Workshop for Countries in East Europe and Central Asia

Key Features of the Regional Environment

- Tax revenues in Eastern Europe and Central Asia countries at the workshop[9] averaged around 20 percent of GDP in 2018, below the EU average of 25 percent. With social security contributions included, government revenues are 25-45 percent and comparable to the EU range.
- While the workshop was held in 2019 before the COVID-19 pandemic struck, many attending countries identified increasing revenues to meet expenditure needs over the medium term, including achieving SDGs, as a key fiscal priority.
- Tax reform is driven also by the need to address inefficiencies and other shortcomings in tax systems, raising efficiency, lowering the compliance and administrative cost, improving equity and fairness, and strengthening tax morale and trust in government.
- MTRSs do not start from scratch—tax reform is already ongoing when MTRSs are discussed and designed. Gap analysis is a key tool for identifying which MTRS components are incomplete in ongoing tax reform programs.
- Experience within the region (Albania) and elsewhere (Egypt also shared its perspective at the workshop) shows the strength of the MTRS process to enable consistency of reforms, including with medium-term expenditure needs and plans, promote a strategic and forward-looking approach to tax reform, plan for reform sequencing and capacity development, facilitate engagement and achieve consensus with relevant internal and external stakeholders.
- Tax administrations in the region have made substantial progress with digitalization. Automation of data processes, including wider use of third-party data, and moving engagement with taxpayers online have resulted in substantial improvements in tax administration. Nevertheless, challenges and opportunities for improvement remain.
- At the time of the workshop, Albania was at an advanced stage of formulating its MTRS. Due to the pandemic, the finalization of the MTRS document and initiation of implementation was postponed. Georgia has started discussions on transitioning to an MTRS from ongoing tax system reform, drawing on extensive support from the PCT Partners for tax administration reform.
- Aside from the PCT Partners, extensive support for tax reform in the region is provided by the EU and bilateral donors such as UK's FCDO. In addition, the Intra-European Organisation of Tax Administrations (IOTA) supports reform implementation by identifying best practices and facilitating knowledge exchange between members.

[9] JVI-eligible countries in the region were invited to the workshop.

Key Issues of General Concern

Panel discussions and questions from the audience drew attention to a number of issues relevant for countries in the region and beyond:

- *What is the relationship between macro-fiscal plans for the medium term (such as MTEFs) and the MTRS?*

An MTRS needs to be consistent with the macro-fiscal plan for the medium term. Such consistency is not only required for the coherence of budget plans and expectations, but they also help to secure sustainability and political commitment. A cohesive and comprehensive outlook also facilitates an effective response to changes in circumstances.

- *How can the MTRS help in cases where tax reform aims for structural tax improvements?*

In cases where increasing revenue is not a key goal of tax reform, the MTRS can help to develop a cohesive and comprehensive plan for reform as well as facilitate sustainable reform implementation that is government-led and effectively supported by the providers of support for capacity development. Countries in the region and beyond face a wide range of challenges arising from, for instance, tax competition and the drive to lower effective tax rates, digitalization of the economy, and weaknesses in the tax system, including underutilized revenue sources such as property and environmental taxes. Because of its fact and evidence-based character, the MTRS is a powerful tool for ministries of finance to explain such challenges and show the benefits of reform. The MTRS can also provide a benchmark for discussions on the pros and cons of structural changes in taxation that emerge during MTRS implementation.

- *How important are good governance and trust in government for the MTRS?*

Taxpayers' attitudes and trust in government are often undermined in the face of waste in government spending, corruption, and unfairness in the application of tax laws. In response, anti-corruption and justice reforms in Moldova have been aimed at strengthening the link between government spending and results in infrastructure and service delivery. As citizen trust in the government's capability to deliver increases, tax compliance and public support for improvements in taxation will also rise.

- *How can countries achieve inclusive engagement with domestic stakeholders?*

In the region, discussions on spending needs often center on civil society organizations (CSOs) while tax is debated with organizations representing businesses. Inclusive discussions on fiscal priorities, including in the context of the MTRS, can be initiated around the macro-fiscal framework for the medium term.

APPENDIX 4: Supplement on MTRS Workshop for the Small states in Asia and the Pacific

Key Features of the Regional Environment

- Non-tax revenue as a percentage of GDP in the Pacific Islands is high compared with other regions and has been rising steadily.
- Pre-COVID-19 tax revenues were also rising as a percentage of GDP, and within this, the share of indirect taxes was rising while the share of international trade taxes is falling.
- Bhutan and the Maldives started from a lower tax-to-GDP ratio than the Pacific Islands but have made significant progress over the last ten years.
- COVID-19 has had a significant impact on small states' economies—both in terms of GDP reduction and revenue performance—particularly in countries with large tourism industries.
- Revenue mobilization was already high on the agenda of most small states before the pandemic, with a need to fill financing gaps to meet the SDGs and the challenge of climate change.
- Despite revenue mobilization needs, exemptions have continued to be significant in many Pacific Island countries.
- In the Pacific region, it is recognized that PACER Plus will have a significant impact in reducing customs revenues, but progress in making changes to offset this impact has been slow, due in part to the long lead time for many of the reductions.
- In many small states, pre-pandemic reforms focused on improvements in organization and management but performance improvements in core processes and progress with automation and digitalization were more limited. This raised significant challenges when the pandemic led to lockdowns, office closures and the need for remote working arrangements.
    - The Maldives was an exception to this. Their increased progress with automation pre-pandemic enabled them to introduce new, remote working practices in a short timescale.
- Political economy issues have been less problematic, and consensus-building appears less of a challenge or concern than in many larger, more diverse and fragmented countries.
- Despite the small size and associated capacity constraints, awareness of critical issues and challenges is high, and there is a good reason to believe that the MTRS approach could be introduced successfully.

Key Issues of General Concern

During the workshop, the following were the main issues of general concern, mostly raised in questions from participants:

- *Where does the MTRS fit in with other reform initiatives and frameworks such as the Integrated National Fiscal Framework?*

Several strategic tools and planning approaches have been developed by international and national institutions. These are best seen as complementary rather than competing – and the INFF approach provides an overall framework within which MTRS and Medium-Term Expenditure Framework and other fiscal management tools can be streamlined.

- *How does the MTRS relate to analytical tools such as gap analysis and TADAT?*

The MTRS provides a high-level strategic framework for revenue reform. Tools like gap analysis and TADAT provide a more detailed granular assessment of specific issues and measures that need to be put in place in pursuit of MTRS objectives.

- *How will the MTRS be coordinated with other capacity-building programs already in place?*

One of the things the MTRS does is to provide a framework for identifying and prioritizing capacity development needs. The MTRS will provide the focus that links capacity development activities to strategic priorities.

- *In most small states, there is a need for progress in capturing, managing and analyzing data. How will this be supported while maintaining 'traditional' capacity development support in the organization, management and business process improvement?*

Development partners build their support capability to meet the needs of the countries they serve. IT and data analytics skills are already available and will be increased over time, but the driver for this will be the capacity development requirements and the priorities of recipient countries. Traditional CD support capability will be maintained as long as it is required.

- *How will MTRS help to address reform challenges in the context of the COVID-19 pandemic?*

MTRS provides a reform framework with objectives and milestones. Pandemic responses may require targeted short-term measures that require milestones to be rescheduled; however, the framework of MTRS objectives will give focus and stability to reform programs as countries move into the recovery phase.

- *What scope is there for improvement in revenue mobilization in relatively undiversified economies?*

The World Bank estimates that the regional output will not return to pre-pandemic levels until at least 2022 and in some cases 2023. There is no 'one-size-fits-all' program to achieve sustainable recovery, and in the same way, there is no 'one-size-fits-all' solution to achieve sustainable revenue mobilization. The balance between policy reforms and administrative improvements will depend on economic fundamentals on a country-by-country basis.

- *Are there any lessons to be learned from the experience of countries already implementing an MTRS?*

Most countries have been positive about their experience. In particular, some have said it helped them to respond to the pandemic by providing strategic focus which they would have previously lacked.