

# Revenue Mobilization – Increasing Resources for Credible and Sustainable Budgets

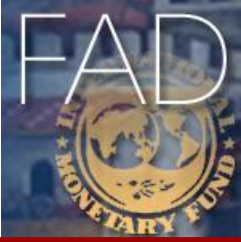
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# Outline



- **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

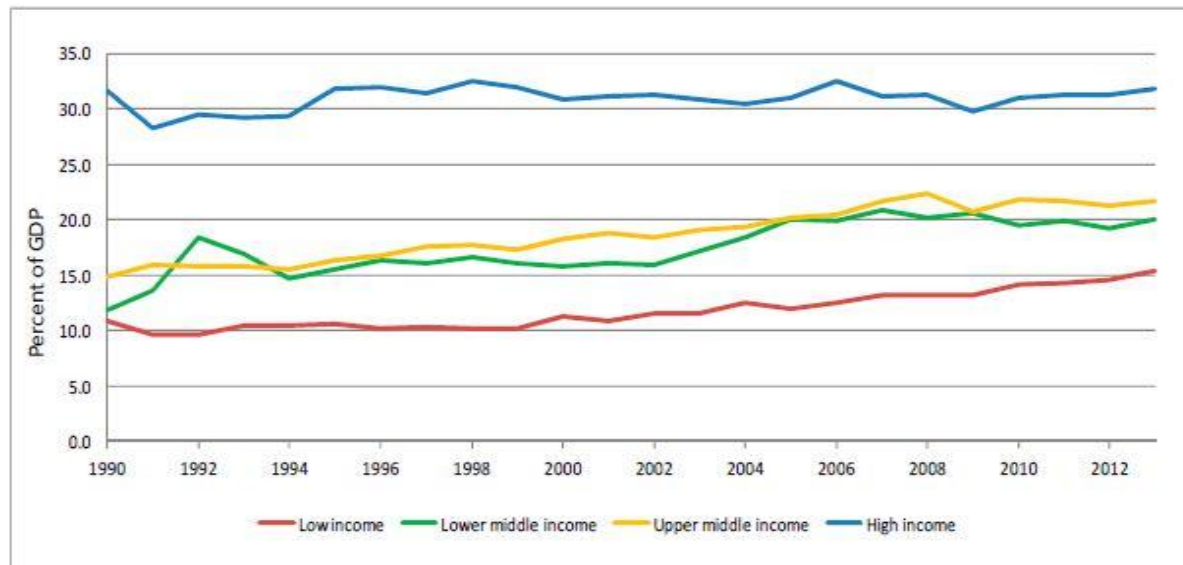
# Why is it critical for development?

- **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**

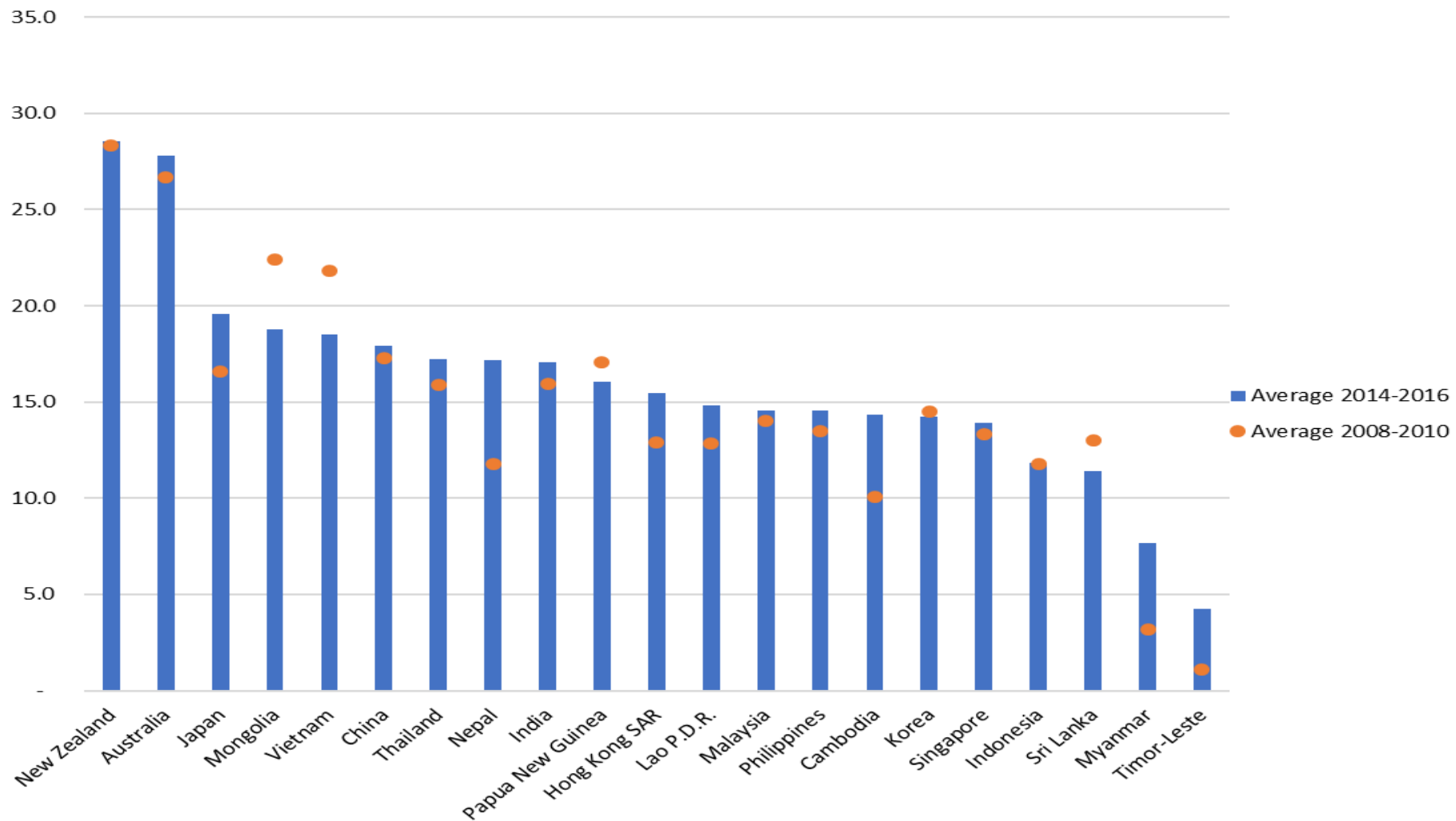
# Revenues are on the rise

- 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)*



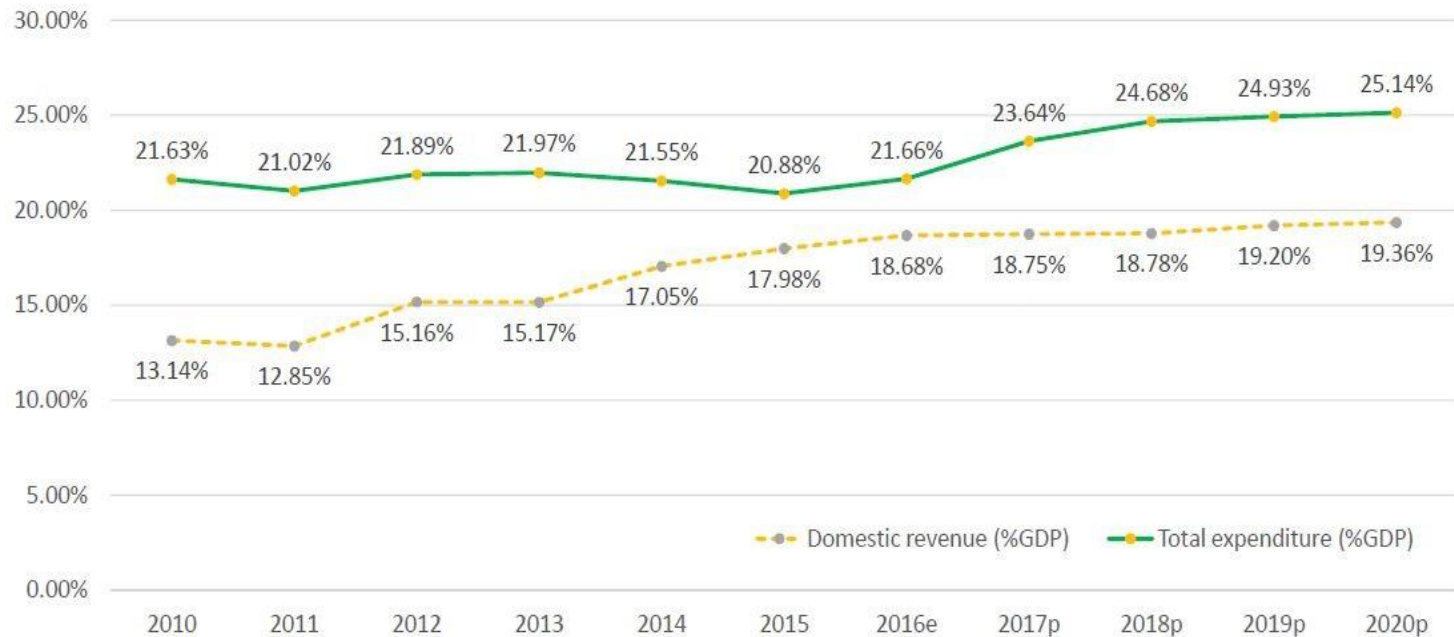
# Also Asia is showing progress.....



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.

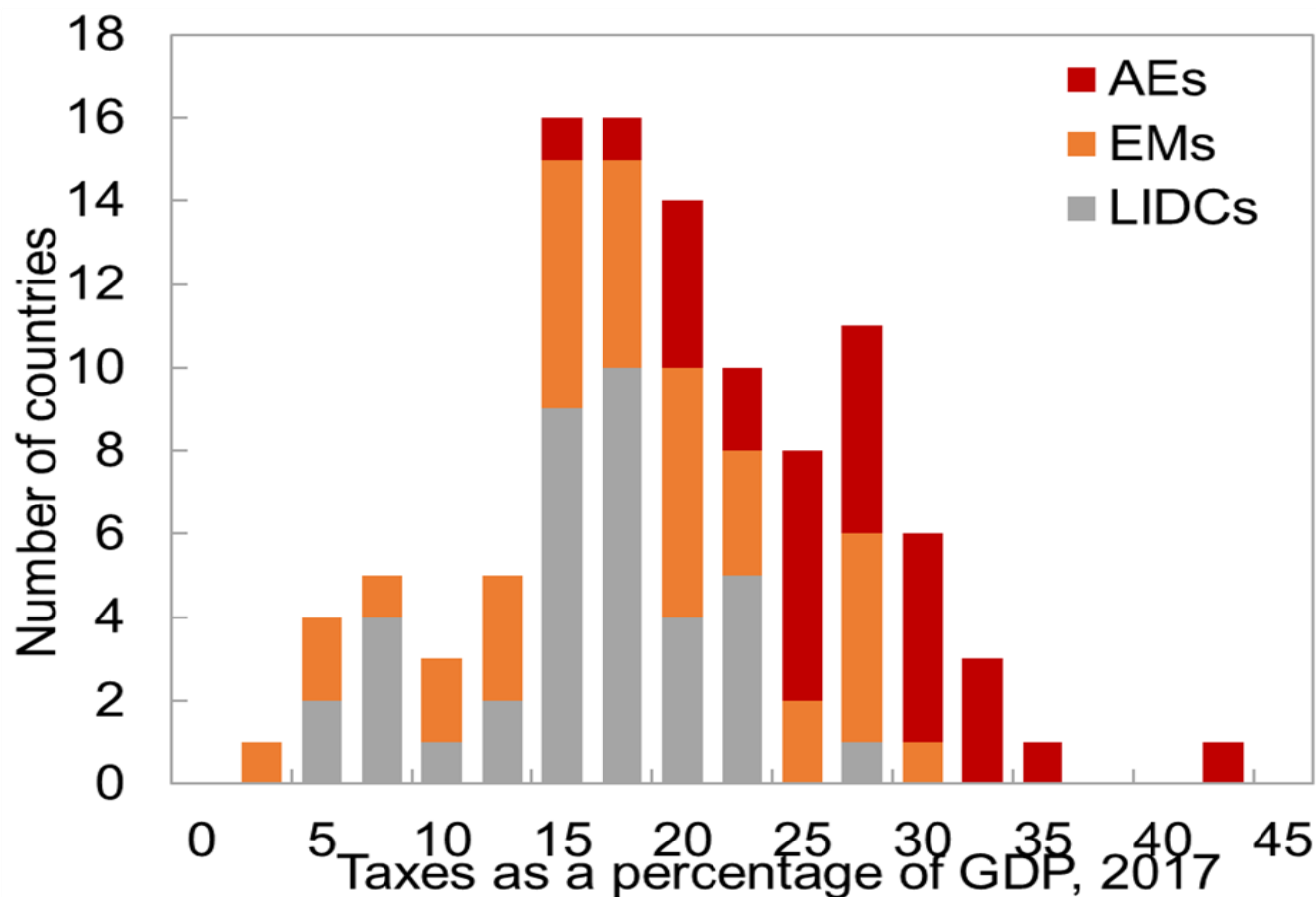
Important to weed out impact of resource prices.



# 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

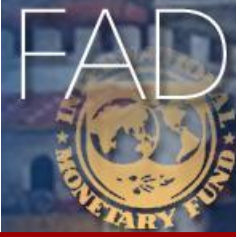
## Revenue policy reform

- 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

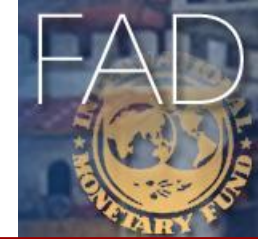


- **Hard-to-tax sectors/Informality**
- **Non-Compliance/Evasion**
- **Weak revenue administration**
- **Poor governance/corruption**
- **Multinationals/Transfer pricing**
- **State-owned enterprises**
- **Trade liberalization/Tax competition**

# Typical Strategies of RA Reform

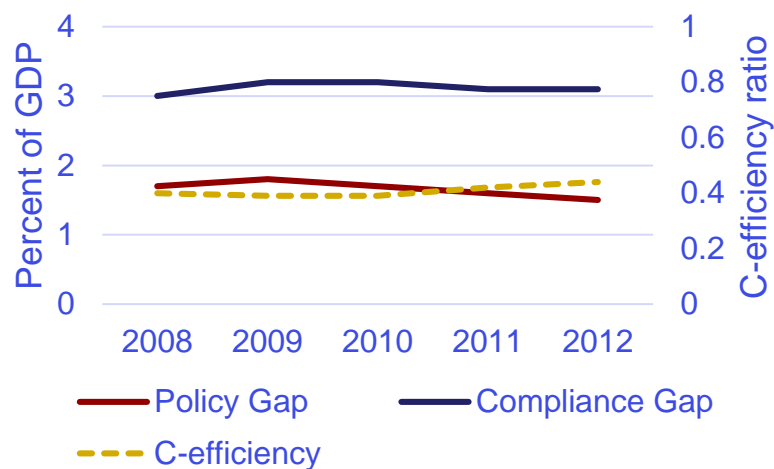
- Improving core business processes
- Self assessment and risk-based, ex-post audits
- Introducing penalty regimes and administrative complaints procedures
- Enforcing strong anti-corruption policies and procedures
- Developing customs and tax ICT systems for improved monitoring and management
- Strengthening 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



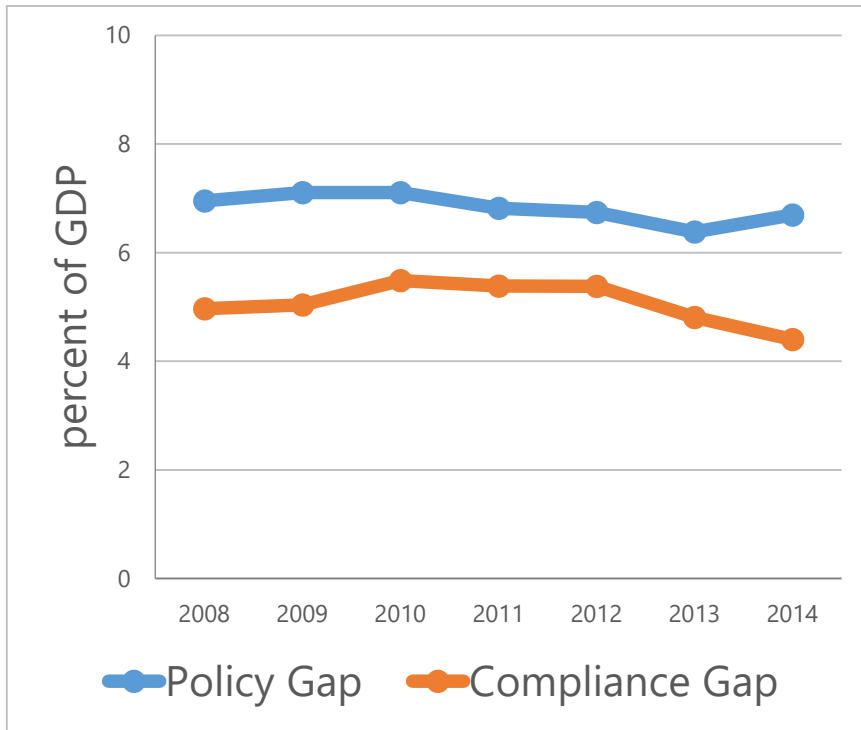


## IMF's RAGAP Diagnostic

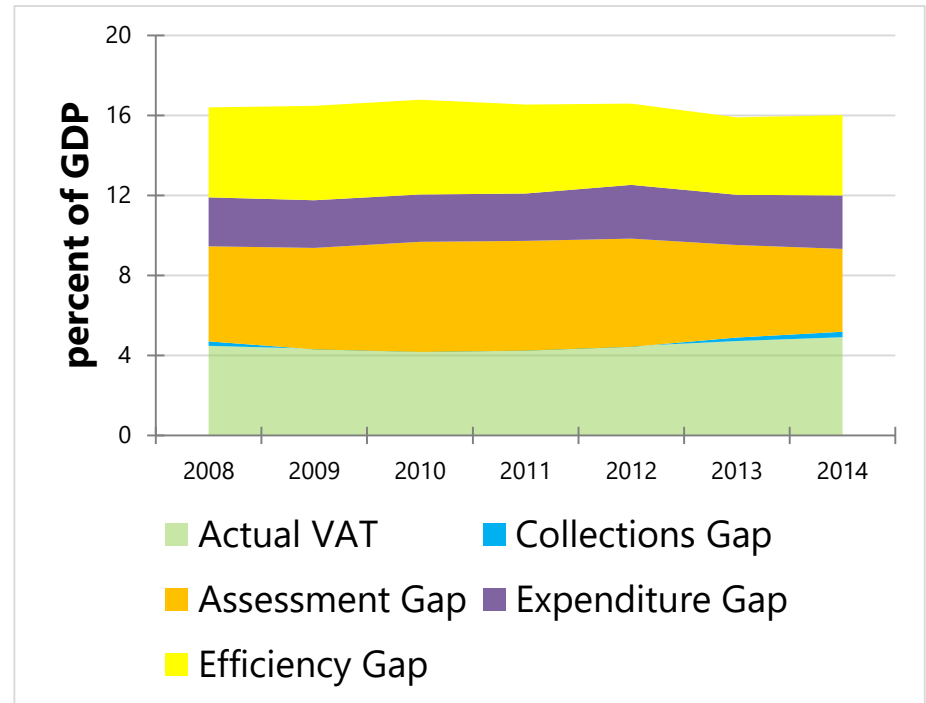
- **Revenue Administration Gap Analysis Program**
  - Systematic evaluation of revenue administration operations designed to assess their effectiveness in collecting taxes
  - Conducted by experts working closely with local team familiar with administration operations, tax design and policy, and statistical 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

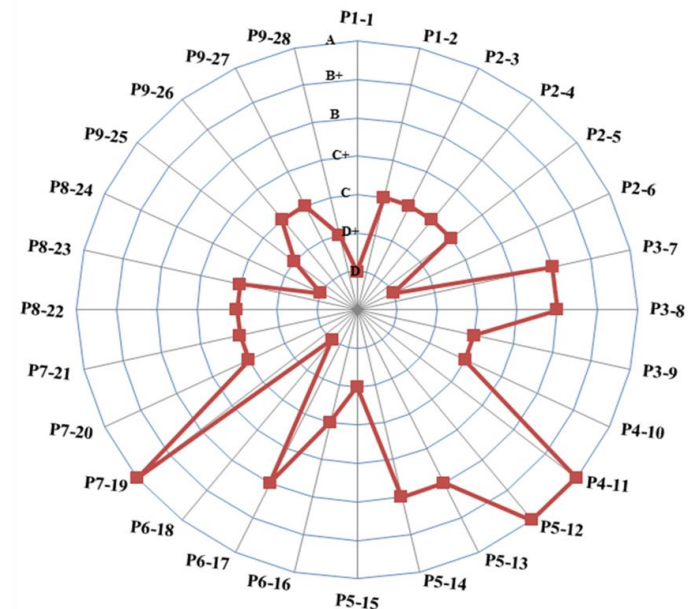
## Strengths

- Registration
- Automation
- On-time filing

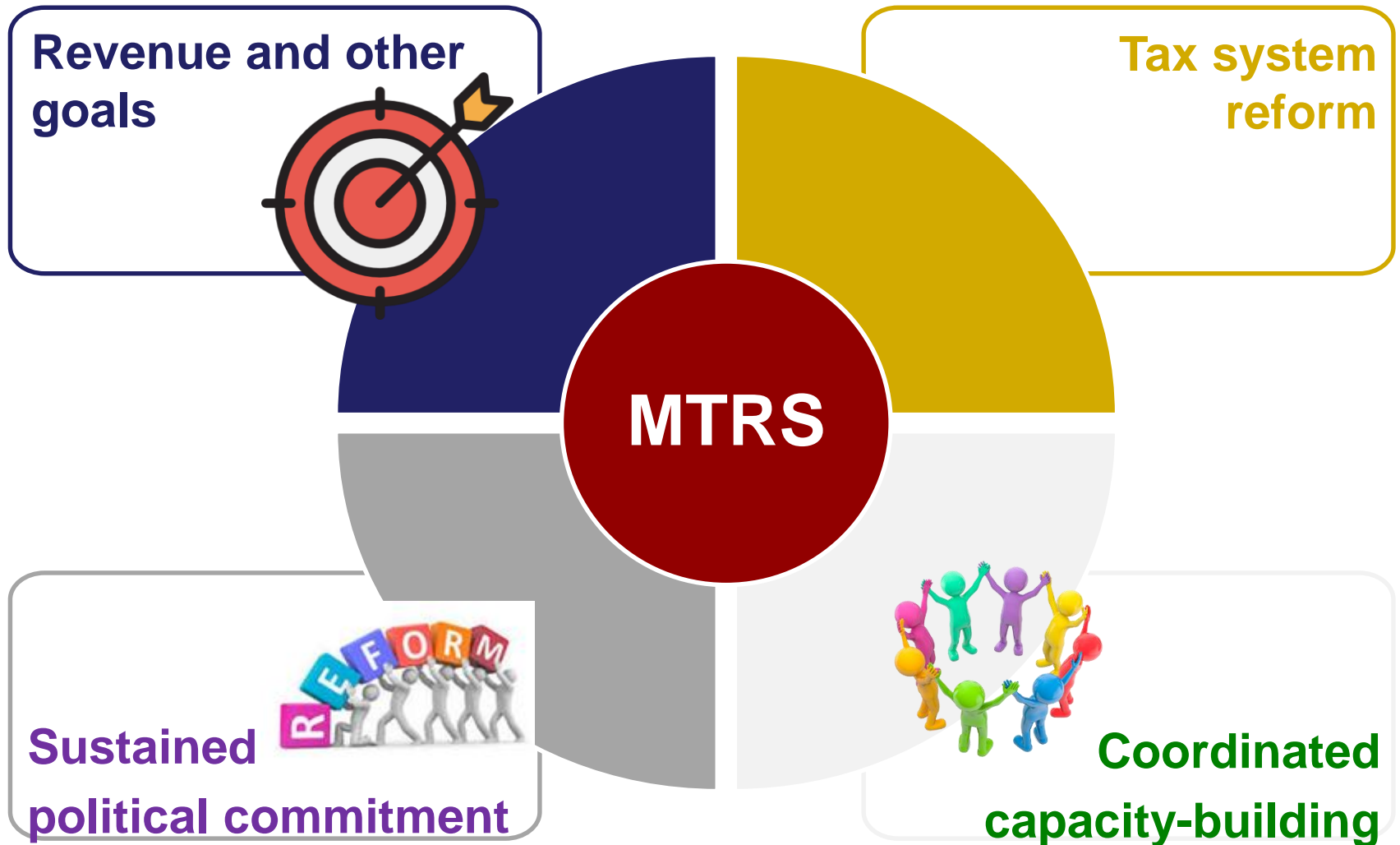
## Weaknesses

- 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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