Medium-Term Revenue Strategies: Are They Realistic for Developing Countries?

Peter Mullins

Abstract

Domestic revenue mobilization (DRM) is critical for developing countries to finance the spending necessary to enable sustainable development. The importance of DRM now takes on greater urgency given the fiscal implications of the COVID-19 crisis. The international community has committed to assisting developing countries to address DRM. The concept of a Medium-Term Revenue Strategy (MTRS) was launched in 2016 as a key initiative for enhancing countries' revenue mobilization efforts. This paper reviews the experience so far with the MTRS, including the lessons learned, and whether those lessons can guide operationalizing the concept in the future. The original aim was for three to five MTRS by July 2017, and by 2019 almost 20 countries were working with partners discussing, designing or implementing an MTRS. However, published MTRS are available for only three countries: Papua New Guinea, Indonesia, and Uganda. The number of countries showing interest in an MTRS is encouraging, but progress has been disappointing, indicating that developing and implementing an MTRS is challenging. The experience so far provides guidance on what can be done to overcome some of the existing constraints on developing an MTRS, and to speed up the process. The paper concludes that it is worth pursuing the concept for now.

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Medium-Term Revenue Strategies: Are They Realistic for Developing Countries?

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Foreword

The need for enhanced domestic resource mobilization (DRM) has now assumed urgency given the adverse implications of the COVID-19 pandemic on developing country budgets. To assist these countries in their DRM efforts, the Platform for Collaboration on Tax (PCT)—a joint initiative between the IMF, OECD, the UN, and the World Bank Group—proposed the concept of a Medium-Term Revenue Strategy (MTRS). The MTRS was launched in 2016 with the intention of providing a comprehensive strategy for increasing tax revenues over the medium term, aligning tax policy, revenue administration, and legal reforms around a coherent plan embraced by initiating governments, and supported by other stakeholders.

While a number of countries have shown an interest in pursuing an MTRS, progress in this area has been disappointing. So far, published MTRS are available for only three countries: Papua New Guinea, Indonesia, and Uganda.

In this paper, Peter Mullins reviews the experience with the MTRS and finds that, while country take-up of the MTRS has been disappointing, it is worth pursuing for now as a strategy for DRM. The paper also identifies actions that developing countries and capacity-development partners can take to advance the development and implementation of an MTRS. However, a fundamental revisit of the concept may be necessary if the take-up rate and implementation of revenue strategies in developing countries remains low.

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1. Introduction

Domestic revenue mobilization (DRM) is critical for developing countries to finance the spending necessary to enable sustainable development. Many developing countries have tax-to-GDP ratios of below 13 percent, which is estimated to be the minimum tax-to-GDP ratio necessary to achieve a significant acceleration in growth and development.[1] The IMF has also estimated that the average additional spending to achieve the sustainable development goals[2] in Low-Income Developing Countries (LIDC) in 2030 is 15.4 percent of GDP, and 4 percent of GDP for emerging market countries.[3] Therefore, raising the tax-to-GDP ratio is critical to finance higher essential spending, while maintaining debt sustainability and reducing monetary financing.

The importance of DRM now takes on greater urgency given the fiscal implications of the COVID-19 crisis. In addressing the crisis, countries have adopted various fiscal policies including increasing spending on health and related services, and providing fiscal stimulus to businesses and the economy through direct transfers and/or tax relief. The significant reduction in economic activity will also have a severe impact on revenue collections. The recent decline in commodity prices has also had an impact, especially for oil producers. The exact impact on public finances is uncertain at this time, and will depend on the duration of the crisis and how quickly economies can recover. The IMF estimates that for LIDCs the average general government revenue will fall from 14.7 percent of GDP in 2019 to 13.6 percent in 2020 (a reduction of 7.5 percent). The average fiscal deficit for LIDCs is projected to expand from 4.1 percent of GDP in 2019 to 5.7 percent of GDP in 2020.[4]

The international community has committed to assisting developing countries to address DRM. In 2015, all United Nations (UN) Member States adopted the 2030 Agenda for Sustainable Development. In July 2015, the Third UN Conference on Financing for Development in Ethiopia concluded with agreement on the *Addis Ababa Action Agenda* (AAAA),[5] aimed at addressing the challenges of financing and creating an enabling environment for sustainable development. This agreement included measures to assist developing countries in setting nationally defined revenue targets and timelines for enhancing revenues, and supporting countries in reaching these targets.

The concept of a Medium Term Revenue Strategy (MTRS) was launched in 2016 as a key initiative for enhancing countries' revenue mobilization efforts. The MTRS was a recommendation of the Platform for Collaboration on Tax[6] (PCT) to the G20 Finance Ministers.[7] An MTRS is intended to provide a comprehensive strategy for increasing tax revenues over the medium term, aligning tax policy, revenue administration, and legal reforms around a coherent plan embraced by all of government, as well as other stakeholders. A key requirement for the MTRS is high-level political support over an extended period, with the revenue goals being aligned with

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[1] See Gaspar, V., L. Jaramillo, and P. Wingender, 2016, "Tax Capacity and Growth: Is There a Tipping Point?" IMF Working Paper 16/234 (Washington: International Monetary Fund).

[2] The sustainable development goals are 17 global goals set by the United Nations to be met by 2030. The goals aim to address poverty, protect the environment, and advance peace and prosperity.

[3] See Gaspar, V., 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).

[4] International Monetary Fund. 2020. *Fiscal Monitor*. Washington, April.

[5] See Addis Abba Action Agenda, 2015, (United Nations: New York).

[6] The Platform for Collaboration on Tax is a joint initiative, launched in 2016, between the IMF, OECD, UN and World Bank Group.

[7] International Monetary Fund, Organisation for Economic Cooperation and Development, United Nations and World Bank, July 2016, *Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries*, prepared for Submission to G20 Finance Ministers and available at https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Enhancing-the-Effectiveness-of-External-Support-in-Building-Tax-Capacity-in-Developing-PP5059 .

spending and development needs. The MTRS also provides a mechanism to align the efforts of multiple capacity development (CD) partners active in the country.

This paper reviews the experience so far with the MTRS, including the lessons learned, and whether those lessons can guide operationalizing the concept in the future. It is well established that it is beneficial for a country to have a long-term revenue strategy, but it is useful to consider if the MTRS is an effective tool in assisting countries in achieving that goal. While it is recognized that the MTRS has only been operational for four years, it is still useful to consider whether the MTRS has met it objectives, and what have been the successes and challenges. The paper is organized as follows: the next section explains the objectives and design of the MTRS and country experiences with the MTRS so far; section 3 discusses why progress with the MTRS has been slow and also positive lessons, including the implications of COVID-19; section 4 identifies what actions developing countries and CD partners can take to overcome the existing constraints and to speed up the process; and section 5 concludes.

2. MTRS: Progress So Far

MTRS Objectives and Design

The objective of the MTRS is to provide a clear vision for a country's future tax system so as to attain lasting and meaningful tax system reforms to meet the country's fiscal needs. Most countries want more revenues, but tax reform efforts to increase revenues can often be ad hoc, short-sighted and not sustained. This is often due to a lack of a clear and coherent vision for tax reform, and an absence of support from political leaders and key stakeholders. Development partners also want to assist in progressing reforms, but often this assistance is uncoordinated, creating problems for both donors and the recipient country.

The MTRS seeks to meet this objective by providing a medium-term comprehensive approach to reform of the tax system to increase revenues. The MTRS 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. The plan should have high-level political support as well as cross-government and other stakeholder support, and also provide a means to align the work of multiple CD partners operating in the country.

The MTRS has four independent components: (1) setting a revenue target, over the next 4 to 6 years, necessary to fund the spending required to support economic and social development; (2) formulating a high-level road map of tax system reform over the medium term covering tax policy, revenue administration, and the legal framework (the road map is usually in the form of an MTRS Document); (3) obtaining sustained medium-term government commitment to reform; and (4) securing adequate resourcing and coordinated support (both domestic and external) for effective implementation. Each of these components is discussed in more detail in Appendix 1.

The original aim was for 3–5 MTRS by July 2017, and by 2019 almost 20 countries were working with CD partners discussing, designing or implementing an MTRS. An MTRS may not be appropriate in all circumstances, such as for fragile states or countries in post-conflict situations, where stabilizing the fiscal situation may be initially more important. According to the PCT, the list of countries engaged with CD partners was as follows:[8]

[8] See Platform for Collaboration on Tax, *PCT Progress Report, 2018–19* available at https://www.tax-platform.org/sites/pct-ms8.extcc.com/files/publications/Platform-for-Collaboration-on-Tax-PCT-Progress-Report-2018-2019.pdf.

- *Early implementation:* Papua New Guinea (PNG).
- *Formulation support:* Egypt, Indonesia, Lao PDR, Pakistan, Thailand, Uganda.
- *Dialogue pre-formulation:* Albania, Bangladesh, Benin, Ethiopia, Georgia, Honduras, Jordan, Mongolia, Myanmar, Senegal, Uzbekistan, Vietnam.

Published MTRS are available for three countries: PNG; Indonesia and Uganda. The experiences of these three countries are discussed below, including the approach they have taken in addressing the four components of an MTRS.

Papua New Guinea

PNG began formulating an MTRS in 2017. PNG had experienced a significant decline in the tax-to-GDP ratio from around 19 percent in 2012-14 to around 13 percent in 2017. The decline was due to a number of factors including an economic slowdown, declining commodity prices, and lower tax compliance. The MTRS was developed with assistance from the IMF, with the government releasing the *Medium Term Revenue Strategy 2018–2022* (MTRS 2018–2022) in November 2017 as part of the 2018 Budget process.

Revenue Target

The MTRS revenue target is to halt the declining revenue to GDP trend and increase revenues (excluding grants) to at least 14.0 per cent of GDP by 2022. Without reform, revenues were expected to continue to decline over the next few years. The revenue target aligns with PNG's long-term development aspirations, including the Medium Term Fiscal Strategy 2018–22.

High-Level Road Map

The government approved MTRS 2018–2022 through the 2018 budget process. The MTRS included specific policy measures that were introduced and passed in the 2018 year. A significant number of other policy reforms, some specific and some identifying further review, were set out for the following years of the MTRS (i.e., 2019–22). There were also proposals to modernize and simplify the tax laws. Significant reform of the revenue collection agencies (Internal Revenue Commission (IRC) and PNG Customs Service) was also proposed, so as to substantially improve compliance. In developing MTRS 2018–2022, the PNG authorities were able to draw from the recommendations of the PNG Taxation Review in 2015,[9] which undertook a comprehensive review of the tax system. The PNG MTRS road map is included as Appendix 2.

Some progress was made on implementing the first phase of the MTRS in 2018, but since then implementation has slowed. Initially, most of the programmed measures were on track including the establishment of the MTRS Steering Committee, the establishment of a Revenue Policy Division in Treasury, the launching of the Large Taxpayers Office (LTO), and the introduction of the *Tax Administration Act*. Most of the tax revenue targets were met, with the tax-to-GDP ratio increasing from 12.6 percent to 13.2 percent in 2018, due to a significant increase in mining and petroleum taxes (possibly partly due to higher commodity prices), and non-tax revenues also increasing—this included a new law, the *Public Money Management Regularisation* (*PMMR) Act*, to ensure 90 percent of fees and charges were paid into consolidated revenue. However, since then implementation has slowed with projected tax-to-GDP declining to 12.3 percent in 2019, due partly to a subdued economy and lower

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[9] The tax review was conducted by an independent Tax Review Committee from 2013 to 2015, which released a report to the government in October 2015—*Papua New Guinea Taxation Review: Tax Review Committee Report to the Treasurer* available at: http://taxreview.gov.pg/.

commodity prices. The IMF has recommended that more oversight by Treasury is necessary to ensure vigorous implementation of the MTRS.[10]

Government Commitment to Reform

Strong government support was a key reason for the successful development and initial implementation of the MTRS 2018–2022 in PNG. The Deputy Prime Minister and Minister for the Treasury initiated the development of the MTRS and supported its progress through to its introduction as part of the 2018 budget. The MTRS 2018–2022 describes the program of work as the Revenue Reform Program and sets out a management and governance structure, which includes the Deputy Prime Minister as the program sponsor and an MTRS Implementation Steering Committee to oversee the management of the program.[11] In May 2019 a new government came to power in PNG, with this new government appearing to be committed to continuing implementing the MTRS 2018–2022. However, as mentioned previously, implementation has slowed, with the government losing the momentum for reform and senior officials paying less attention, so that more oversight is needed to ensure progress.

Coordinated CD Support for Implementation

A framework for coordinating CD partners was established. The IMF was asked to take the lead advisory role, and has continued to coordinate assistance, with additional support being provided by: the World Bank, in targeted tax policy and administration reforms; the US Treasury Office of Technical Assistance with the LTO at the IRC; the Australian Tax Office and the Australian Department of Foreign Affairs and Trade at the IRC; and the OECD/UNDP's Tax Inspectors Without Borders.

Uganda

The development of a DRM strategy began in Uganda in 2016. The authorities were aware that Uganda's tax-to-GDP ratio, at around 13 percent, was too low and needed to be increased if the government was to meet its spending needs. The first step was to establish a DRM Committee, at the initiative of the Permanent Secretary/Secretary to the Treasury. The DRM Committee was made up of representatives from key government agencies, including the Uganda Revenue Authority (URA), civil society and CD partners. The Committee reviewed previous technical assistance reports, research and diagnostic work, and reforms, and then identified reform priorities. The outcome of this process was the public release by the government in February 2020 of *Domestic Revenue Mobilisation Strategy 2019/20–2023/24* (DRMS),[12] which is a medium-term strategy for government revenues in Uganda.

Revenue Target

The DRMS revenue objective is to increase tax-to-GDP by at least 0.5 percentage points per year over the next 5 years so as to reach a tax-to-GDP ratio of between 16–18 percent. This is a very ambitious target given that the tax-to-GDP ratio in 2018/19 was 12.9 percent, which was recently reduced due to a rebasing of GDP. The

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[10] See International Monetary Fund, 2020, *Papua New Guinea: Staff Report for the 2019 Article IV Consultation and Request for a Staff-Monitored Program* (Washington) available at: https://www.imf.org/en/Publications/CR/Issues/2020/04/06/Papua-New-Guinea-2019-Article-IV-Consultation-and-Request-for-Staff-Monitored-Program-Press-49307.

[11] The MTRS Implementation Steering Committee includes the Secretary to the Treasury, the Commissioner General of the IRC, and the Chief Commissioner of Customs.

[12] The DRMS is available at: https://www.finance.go.ug/sites/default/files/Publications/NEW%20DOMESTIC%20REVENUE%20MOBILISATION%20STRATEGY_FEB%202020_0.pdf.

authorities argue that it is achievable, given that over the past decade, tax revenue has been growing at an average of 16.6 percent per year. The revenue target also aligns with the revenue objectives in the government's broader medium-term development strategies as set out in Uganda's *Second National Development Plan 2015/16–2019/20* (NPDII).

High-Level Road Map

The MTRS in Uganda is detailed in its DRMS document. The DRMS is clear that it is a strategy developed by Ugandans, for Ugandans and consistent with the Ugandan way (i.e., not sudden changes, reflecting the society, the way they live and do business). The DRMS includes a comprehensive review of the tax system, including its strengths and weaknesses, and identifies 33 tax policy interventions and 47 tax administration interventions. The DRMS also allocates a priority and potential timing for each measure, as well as an indicative revenue impact (high, medium or low). The interventions cover all taxes, and also include reforms to the policy development processes. Some of the measures are very specific about reforms, while others identify the need for further review.

Government Commitment to Reform

The government has supported the development of the DRMS, but the challenge will be in ensuring the proposed reforms are implemented. The formulation of the DRMS was at the initiative of the Permanent Secretary/Secretary to the Treasury, and the DRMS includes a statement of support from the Minister of Finance, Planning and Economic Development (MOFPED). The Permanent Secretary has also recognized the contribution of CD partners, civil society and business in the development of the DRMS. Implementation of the interventions outlined in the DRMS will require commitment from various parties: the President and government to progress the tax policy reforms; Parliament to pass the reforms; the URA to implement the tax administration reforms; and other government agencies to provide necessary resources and support to the URA and other implementing agencies. While initial indications are that there is support for the reforms, it is too early to know how effectively the reforms will be implemented.

Coordinated CD Support for Implementation

CD partners have worked closely in contributing to the design of the DRMS, and it is intended that the coordination continue in the implementation phase. The DRM Committee provided an opportunity for CD partners to assist in the design of the DRMS and to coordinate CD partner interventions into the development process (e.g., the IMF provided assistance to the MOFPED and the URA in determining tax gaps and preparing the DRMS; the World Bank provided research papers on specific aspects of the tax system; UK-DFID provided support to the MOFPED in drafting the DRMS). It is planned that the coordination continue during the implementation phase through existing frameworks, such as the DRM Committee.

Indonesia

The MTRS process began in Indonesia in 2017. Indonesia's tax-to-GDP ratio was around 11 percent in 2016; the lowest among G20 countries and lower than many emerging market economies. The authorities had recognized for some time the need to increase revenue to meet future spending needs, and so sought IMF assistance to develop an MTRS. While a draft MTRS was developed, the government has not formally adopted the MTRS or implemented it.

Revenue Target

The revenue target set out in the draft MTRS was to increase tax-to-GDP by 5 percentage points over 5 years. Proposed tax policy reforms were to contribute revenue equal to 3.5 percent of GDP and tax administration reforms 1.5 percent of GDP. This is a recommended target but has not yet been agreed by the government.

High-Level Road Map

A draft MTRS was developed with the assistance of the IMF, but this has not been approved by the government and no formal MTRS document has been produced. The draft MTRS was published in an IMF book, *Realizing Indonesia's Economic Potential*.[13] The draft MTRS recommends: expanding the tax bases of the VAT, corporate income tax and personal income tax; introducing new excises; increasing property tax rates; and improving tax administration.

Government Commitment to Reform

The government has expressed a commitment to tax reform, but they have not formally adopted an MTRS. The authorities recognize the need to increase revenues and concur with the importance of implementing an MTRS, and some of the recommended tax administration reforms are progressing, but not part of an overall MTRS.[14] It is not clear why the authorities have been reluctant to progress with MTRS, given their expressed commitment.

Coordinated CD Support for Implementation

There has been dialogue between CD partners about the development of the draft MTRS. In addition to the IMF, Australia, Japan, the OECD and the World Bank are providing assistance to Indonesia on tax issues.

Other Countries

Some other countries have been actively formulating an MTRS, but the MTRS have not yet been finalized and/or published. These countries include: Egypt—the authorities are continuing to develop the MTRS and have indicated that it will be published; Lao PDR—the MTRS has been developed and is awaiting approval and implementation; Thailand—has drafted an MTRS and is implementing some of the tax administration reforms; and Pakistan—is developing an MTRS in close support with the World Bank. The development of these MTRS is likely to be delayed as governments and ministries responsible for fiscal policies focus on responding to the COVID-19 crisis.

A number of other countries are in discussion with CD partners about developing an MTRS. These countries, which were mentioned earlier, have often organized a workshop with CD partners to explain the MTRS process. While there is often a recognition by governments of the need for DRM, it can take some time before there is commitment to an MTRS.

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[13] De Mooij, Ruud, Suahasil Nazara, and Juan Toro, 'Implementing a Medium-Term Revenue Strategy,' in Breuer, Luis E., Jaime Guajardo, and Tidiane Kinda, eds. 2018. *Realizing Indonesia's Economic Potential.* Washington, DC: International Monetary Fund.

[14] See International Monetary Fund, 2019, *Indonesia: Staff Report for the 2019 Article IV Consultation* (Washington) available at: https://www.imf.org/en/Publications/CR/Issues/2019/07/30/Indonesia-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-48535.

3. MTRS: Why Has Progress Been Slow?

The number of countries showing interest in an MTRS is encouraging, but progress has been disappointing, indicating that developing and implementing an MTRS is challenging. The concept has only been in place for 4 years, so it is still early days. It is encouraging that around 20 countries have expressed interest in formulating an MTRS. However, it is disappointing that to date only 7 countries have commenced to develop an MTRS and only two have formally adopted one.

There are a number of reasons why progress has been slow. These are discussed below.

Progressing beyond interest in an MTRS, to actually developing one, is a big step, with a reluctance by governments to commit to take that step. It is evident that many countries are interested in the concept of an MTRS, and like the idea of having a clear, medium term strategy to increase revenues. However, governments are reluctant to go beyond expressing interest and commit to developing an MTRS. There are a number of reasons for this: (1) while DRM is a priority for a Minister or ministry, it is not seen as a priority by the broader government, and hence lacks support—it is often politically easier to focus on expenditures rather than on how to raise the revenue to fund the spending, especially as it involves increases in tax collections; (2) governments are often reluctant to engage in the political challenges that can come with initiating, or even discussing, serious tax reforms; and (3) governments may be concerned about the effort required to develop an MTRS and want to put resources elsewhere.

A lack of strong leadership may be hindering the progress of MTRS. Any major tax reform will usually only succeed with strong political will and leadership. Tax reforms are often unpopular, or at least face resistance from some sections of society. Therefore, significant political leadership, especially having a reform champion, is required to undertake a major tax policy reform. If the political will is weak, then the reforms are unlikely to proceed or may be watered down with concessions, which complicate the tax system and reduce the revenue potential. One reason for the MTRS in PNG being adopted was the championing of the MTRS by the Deputy Prime Minister and Minister for the Treasury, with strong support from his government colleagues. With a change in government in 2019, it is not clear if the new government has the same enthusiasm for the MTRS, although they have indicated support.

If the government fails to take the lead role, and leaves it to CD partners, then an MTRS is unlikely to progress. While CD partners may encourage a country to pursue DRM, it is essential that the government initiates the development of an MTRS. There is a danger that if the government only develops an MTRS because of partner pressure, it will not be committed to the MTRS and its implementation. A good example of the government leading the process is in Uganda, which took a draft MTRS developed with the assistance of the IMF, and then converted it into its own DRMS—a strategy developed by Ugandans, for Ugandans and consistent with the Ugandan way. In PNG the government initiated the request for technical assistance and then used the advice to develop its own MTRS. However, in the case of the Indonesia, the government sought and received technical assistance, but has not continued with the process.

Once the MTRS process has begun, the process can stall without support from, and coordination between, key revenue ministries and agencies, especially the tax and customs administrations. It is essential for the development of an MTRS that initial support is obtained from the key government ministries and agencies responsible for revenue—that is, the Ministry of Finance (or whatever ministry is responsible for tax policy) and the revenue agencies (tax and customs). It is usually the Ministry of Finance that initiates the MTRS process, but it requires committed revenue agency support for successful development and implementation. Obtaining this support can be difficult as there can be tension between the Ministry and the revenue agencies. Gaining revenue administration support can also be challenging for a number of other reasons including: (1) a lack of understanding or an unwillingness to embrace the MTRS concept by the revenue agencies; (2) focusing all energies of the revenue agency on reaching an annual target, rather than considering more comprehensive longer term reforms; and (3) a reluctance to consider further reforms, either due to a satisfaction with the existing situation or not wanting to undertake reforms beyond what is already taking place. For example, in Uganda in developing the DRMS there was much discussion and negotiation between the Ministry of Finance and the URA about the design of the reforms included in the DRMS.

Obtaining broader across government ownership can also be difficult. To sustain tax reform, it needs support from Parliament and a range of other government agencies. For example, revenue agency reform may require more skilled staffing which will necessitate support from those responsible for budget expenditures and the civil service recruitment agency. It is also important that the government ministers and government agencies send out consistent messages, so as not to undermine the MTRS. For example, the MTRS objectives can be undermined if at the same time as developing an MTRS, government ministers or agencies are initiating measures that erode revenue, such as through new tax exemptions. This again points to the need for political leadership to overcome these potential hindrances to reform.

An absence of strong government led governance arrangements can limit the development and sustained implementation of an MTRS. Putting in place clear, cross ministry/agency governance arrangements can ensure the best possible chance for successful development and implementation of an MTRS. Without these governance arrangements it is difficult to drive the reform, and ensure it continues to progress, despite obstacles. The governance arrangements could be organized as a reform implementation steering committee that oversees the design of the MTRS and its implementation. The committee should be headed by either a minister or very senior government official, to ensure the governance arrangements have sufficient authority. Other participants would include senior officials from the Ministry of Finance, the revenue authority and other government ministries and agencies that will need to support the reform if it is to succeed. For example, PNG established an MTRS Implementation Steering Committee including the Secretary to the Treasury, the Commissioner General of the IRC, and the Chief Commissioner of Customs.

The involvement of business and civil society in the development of an MTRS is desirable but has been mixed. In the case of PNG, there was no direct involvement of businesses and civil society in the development of the MTRS, but many of the reforms in the MTRS were drawn from the PNG Taxation Review, which involved substantial public consultation. In the launch of the DRMS in Uganda there was reference to the contribution of business and civil society to the DRMS, but it does not appear that this involved formal consultations. In Indonesia, it was not clear if there has yet been any consultation with business and civil society. Involving business and civil society is important to gather information on issues of concern to these stakeholders, and to garner public support for reform. While, it is likely that business and civil society will not support all the reforms, their involvement will at least assist in giving them an understanding of the reforms and their purposes.

A concern with the policy reforms in an MTRS is that they can be broad and not specific, so that making the actual detailed changes may be challenging. For example, both the Indonesian and Ugandan MTRS refer to reducing tax exemptions, but do not state which specific exemptions are to be removed. It is recognized that there are often a range of exemptions, and removing only a small number may provide good revenue gains. Therefore, governments have the choice of which exemptions to remove. However, countries find it difficult to remove exemptions, and if they are removed, it can be difficult not to replace them with new exemptions. There is a danger in designing an MTRS, that the designers recognize the need to reduce exemptions, but the government are unwilling to make the difficult political choices about which exemptions to remove. The more specific an MTRS is about the tax changes to be made, the clearer it will be for the government, and the easier to monitor progress of the reforms.

Those countries that have developed a draft MTRS, appear to find it difficult to progress to a final MTRS Document. To a certain extent, it does not necessarily matter if an MTRS Document is produced, as long as the government has set a revenue target and committed itself to significant coordinated revenue raising reforms (in this case, the end is more important than the means for getting there). However, the fact that only 2 out of 7 countries have progressed from development of an MTRS to formally adopting an MTRS suggests that there is a challenge in progressing an MTRS. In theory it should not be too difficult, given that many developing countries have other medium term fiscal plans (e.g., medium term fiscal frameworks and medium term expenditure budgets). The reasons for not progressing may be that governments are unwilling to commit to an MTRS, as it is politically risky or not high enough priority, given the effort required.

The lack of data in many developing countries makes it difficult to evaluate the performance of the existing tax system and to estimate the future impact of reforms. In order to set a revenue target, and to determine what reforms can achieve such a target, it is necessary to have reliable data on the current tax system and the broader economy. These data include: how current taxes contribute to the tax system; what are the tax gaps (i.e., caused by policy measures, such as tax exemptions, or by weaknesses in compliance); how do the revenue agencies perform against international benchmarks; and general economic data to determine the revenue impact of specific reforms. While a lack of data should not prohibit the development of an MTRS, it is beneficial if a country has used some of the tax system assessment and diagnostic tools mentioned previously (e.g., the TADAT and RA-GAP analysis).

If CD partners do not effectively coordinate and supervise the assistance being provided, some advisors may promote agendas inconsistent with the MTRS. While CD partners have a desire to coordinate, the effectiveness of that coordination is often inconsistent. This can be in part due to advisors on the ground being unaware of the co-ordination or not being closely supervised. CD partners provide different levels of supervision of the advisors providing assistance in a developing country. Those advisors can be short term experts or resident advisors. These advisors may not be aware of the coordination efforts between CD partners. Without adequate supervision, and coordination, an advisor can push the authorities towards reforms that may not necessarily be a priority for the government, or can undermine MTRS reforms being recommended by other CD partners.

Countries and CD partners also need to be realistic about how successfully an MTRS will be implemented. Even advanced economies that set out tax reform agendas, usually fail to fully implement all of the reforms. Therefore, countries and CD partners need to be realistic about reform expectations. At this stage, only PNG has begun implementation of an MTRS. They have had some successes, such as the implementation of an LTO, but some reforms have not yet eventuated. Hopefully, the reforms that are implemented will be significant enough to make a substantial impact on revenues.

Despite the concerns outlined above, there are positive lessons that have been learned from the MTRS process so far. These are discussed below.

Those countries that have developed an MTRS, showed that the MTRS can be adapted to suit their country circumstances. There is no standard way of undertaking an MTRS, so the development and design of an MTRS will vary for each country. Countries can undertake an MTRS in a manner that suits their individual circumstances and political realities, as long as they meet the four components of an MTRS discussed earlier. PNG developed its MTRS with assistance from the IMF, and then proposed reforms as part of its budget process. Uganda took a draft MTRS developed with the assistance of the IMF and used that as a basis for developing its own-style DRMS.

The targets set by countries with an MTRS are likely over-ambitious, but they suggest that there is potential for developing countries to increase revenues in the medium term. In Indonesia the target was an increase of 5 percentage points of GDP over 5 years (around 45 percent increase in revenues over that period); in Uganda it was 0.5 percentage points of GDP per year for 5 years (19 percent increase in revenues over that period); and in PNG it was to halt the declining revenue to GDP trend, which averaged 1 percentage point of GDP per year from 2014–17, and to achieve a small increase in the tax-to-GDP ratio. These revenue targets may be too ambitious, but even if not fully achieved they indicate that the government's belief that there is potential for tax reform to significantly increase revenue, as long as the reforms are implemented and sustained. These revenue targets suggest that other developing countries can also increase revenues if sustained tax reforms are pursued.

A factor that may enhance the prospect of progressing an MTRS is if a government has already been seriously discussing major tax reform, or some reforms have already begun. These reforms can be policy, administration or legal reforms. As an example, before PNG began its MTRS it had already undertaken a comprehensive independent tax review, which created a public expectation that serious tax reform was likely. The PNG Taxation Review provided a basis and analysis for the reforms set out in MTRS 2018–2022, so that the government announcement of the reforms was not a surprise to the public. Many developing countries are undertaking revenue administration reforms. The MTRS can provide an opportunity to consolidate the reforms, assess the progress on those reforms, and potentially reinvigorate those reforms and/or ensure a more coordinated direction for the reforms.

CD partners are eager and willing to work together to assist the development and implementation of the MTRS, preferably through government led coordination. CD partners have been active in the development and implementation of the MTRS in each of the three countries that have completed an MTRS document. CD partners want to make a positive contribution to the development and implementation of an MTRS and are very conscious of the need to make the best use of each partner's particular assistance capabilities. They are also aware of the need for coordination and avoiding overlap. Uganda engaged CD partners at all stages of the process through their participation in the government led DRM Committee. In PNG, the government asked the IMF to take the lead role in coordinating CD partner assistance.

What are the Implications of COVID-19 for MTRS?

The need for sustained revenue reforms are likely to be more necessary due to the fiscal impact of COVID-19, but the timing of such reforms may need to be deferred. As mentioned previously, it is estimated that COVID-19 will cause the average general government revenue in LIDCs to fall from 14.7 percent of GDP in 2019 to 13.6 percent in 2020, with their average fiscal deficits projected to expand from 4.1 percent of GDP in 2019 to 5.7 percent of GDP in 2020. This means that the revenue target may have to be higher (both in terms of nominal revenue and as a share of GDP), given the increases in expenditures, yet countries are likely to be starting from a lower tax-to-GDP ratio given the expected fall in revenues. Any significant reforms may have to be deferred until economies stabilize. Some countries may also have to first reverse any tax concessions they have made as part of fiscal stimulus during the crisis (for example, Kenya has cut its VAT rate from 16 to 14 percent; other countries, such as Kosovo, Mali, Mozambique, Paraguay and Tanzania, have either exempted or reduced the VAT rate on medical supplies and/or certain basic foods). Despite these revenue setbacks, the need for reforms after the crisis may provide a good opportunity for countries to develop an MTRS as a mechanism to establish a reform strategy to recover lost revenues.

4. Possible Way Forward

The experience so far provides guidance on what can be done to overcome some of the existing constraints on developing an MTRS, and to speed up the process. There are actions that developing countries and CD partners can take to advance the development and implementation of an MTRS. These are discussed below.

Developing Country Actions

- In pursuing an MTRS, developing countries should ensure leadership of the process at the highest levels, at the political and civil service levels. While government commitment is a component of an MTRS, obtaining strong government support can be difficult. Therefore, it is essential to identify a strong senior leader or leaders to champion the reform, preferably the Minister of Finance and/or the Secretary of Finance.

- This leadership should be supported with strong political will from the government to progress the reforms. That political will should include senior government officials consulting and communicating with business, civil society, and the broader public, explaining the benefits of the reforms.

- The government should take the lead in initiating and developing an MTRS, including adapting the MTRS Document to its own style if necessary.

- At the commencement of the MTRS process, the government should establish a timeframe for developing an MTRS, finalizing the MTRS document, and making it public. This should be done in consultation with CD partners. This will provide incentive for the process to progress. A reasonable timeframe would be around one year. A separate timeframe should be established for implementation of the reforms identified in the MTRS.

- Those governments that are undertaking, or have recently undertaken, tax reform efforts (both policy and administration), including tax reviews, should use the MTRS as an opportunity to consolidate these efforts. The tax reform efforts can be a starting point for formulating an MTRS.

- At the commencement of the MTRS process, the authorities should establish oversight by a high level steering committee, led by a senior government official for both development and implementation (consulting closely with civil society and the private sector). CD partners could be members of that committee.

- It is critical to secure the support of key government agencies and involve them fully in the MTRS development process, especially the revenue agencies (tax and customs). It is important to recognize that there is often tension between ministries and the revenue agencies, and this needs to be addressed to progress an MTRS. Strong political and civil service leadership is important to encourage cooperation. The high level steering committee can play an important role in ensuring cooperation of the key government agencies, and provide a forum for resolving any disputes or tensions between agencies, and addressing any bottlenecks in the process.

- Governments should engage CD partners early in the process of developing an MTRS, and provide a clear mechanism for coordination of CD partners, through a government led process.

- In designing an MTRS, the revenue targets in the MTRS should be realistic, as should be the expectations of the reforms. While there may be potential for significant revenue increases, governments should be realistic about what can be achieved, given the significant challenges that face any major tax reform. The authorities should focus on meeting the four components of an MTRS, rather any specific design, which may provide greater sense of ownership of the MTRS document.

- The tax policy reforms identified in the MTRS document should be as specific as possible, so as to ensure that the proposed reforms are clear to both government and the public, and to enable accountability for implementing the reforms.

- Countries should plan ahead for an MTRS by enhancing their revenue data gathering capability, and by using the tax system assessment and diagnostic tools (e.g., the TADAT and RA-GAP analysis).

- As the COVID-19 crisis subsides and economies stabilize, governments should consider undertaking an MTRS to develop a revenue strategy, given the fiscal issues they face as a result of the crisis.

CD Partner Actions

- In identifying countries that may benefit from an MTRS, CD partners should consider those that have some recent experience in tax reforms efforts. They should also encourage countries to improve their revenue data gathering and analysis, and use the tax system assessment and diagnostic tools as a preparation for developing an MTRS.

- Once a country has indicated an interest in developing an MTRS, CD partners should assist the government in identifying an influential leader or leaders, at the political and civil service levels, to drive the development of the MTRS and the reform process.

- CD partners may have to actively encourage the government to take the lead in initiating and developing an MTRS, and sustaining that initiative and leadership through development and implementation.

- As part of the preparation for an MTRS, CD partners should assist the government in developing a realistic timeframe for formulating an MTRS.

- CD partners should also ensure that adequate oversight is provided through a high level steering committee. CD partners could be members of that committee. This may also provide a forum for coordination between CD partners.

- In the development and implementation of an MTRS, CD partners should also ensure they have adequate supervision of advisors, and the advisors are aware of the CD partners' coordination efforts.

- CD partners should use their expertise to assist governments in being realistic about the revenue targets and what can be achieved, given the significant challenges that face any major tax reform.

- CD partners should not be too demanding about the design of an MTRS, as long as it meets the four components of an MTRS.

5. Conclusion

The experience so far with MTRS is limited, and so it is too early to determine if the MTRS is a good long-term tool for planning tax reform, but it is worth pursing for now. The revenue targets proposed in PNG, Indonesia and Uganda show that with well thought-out reforms, there is potential in developing countries for significant increases in revenues. An MTRS can provide a structured, sequencing of tax policy, revenue administration and tax legislation reforms. This will enable developing countries to increase their DRM to finance the spending necessary to achieve sustainable development. However, to be successful, governments and CD partners should address the constraints mentioned in this paper. In particular, it is important that the authorities own and lead the reform, with support from CD partners.

Appendix 1. Overview of the Design of an MTRS

The MTRS has four independent components: (1) setting a revenue target necessary to fund the spending required to support economic and social development; (2) formulating a high-level road map of tax system reform covering tax policy, revenue administration, and the legal framework; (3) obtaining sustained medium-term government commitment to reform; and (4) securing adequate resourcing and coordinated support (both domestic and external) for effective implementation. Each of these components is discussed below.

(1) Setting a revenue target: The main objective of the MTRS is to ensure the government raises sufficient revenue to fund the spending required to support economic and social development. Therefore, it is necessary to first determine what are the authorities' expenditure goals, assess the current revenue performance and then determine what is a realistic medium-term revenue goal over the next 4 to 6 years. The revenue target, usually expressed as a percentage of GDP, should include both a medium or longer term goal, and annual goals over the next several years to reach that medium or longer term goal. Ideally the determination of the revenue target will involve consultation within government and with parliament, the public and private sector, and civil society organizations so as to build a broad-based consensus for the medium term revenue goal.

(2) Formulating a high-level road map of tax system reform: The MTRS should set out a road map of tax system reform, extending over 4 to 6 years, covering tax policy, revenue administration, and the legal framework. The reforms should aim to raise sufficient additional revenue to meet the medium-term revenue target. The additional revenue is likely to be met partly by tax policy reforms and partly by revenue administration reforms. The road map will require revenue estimates of the reforms, and specify the extent to which the revenue is to be met by policy reforms and administration reforms. The reforms should also seek to meet the usual principles of a good tax system: efficiency; equity; and ease of compliance and administration. Box 1 provides more detail on the contents of the high-level road map of the tax system.

(3) Obtaining sustained medium-term government commitment to reform: Due to the difficulties in progressing significant tax reform, it is essential that the MTRS has the commitment of the whole of government. This requires a good understanding of the reforms within government, parliament, civil society organizations, and the taxpaying community to help navigate the political economy difficulties of tax system reform. The objective should be to build a broad consensus and commitment to the tax system reforms. It is especially important to have the commitment of the revenue agencies.

(4) Securing adequate resources and coordinated support for implementation: The MTRS should provide guidance on the resources needed for implementing the reforms. This could include both government support and external support from CD partners. For the latter support, the MTRS should establish a framework to ensure coordination of external support consistent with the government's reform objectives.

In practice, the MTRS will be described in an MTRS Document that is country specific, taking account of the country's current capacity and the design of its existing tax system. The MTRS Document should cover the four independent components outlined above, in a coherent plan for the future. The development of the MTRS Document will involve four broad steps: (1) understanding the MTRS approach to tax system reform; (2) taking stock of ongoing policy, administration and legislative reform initiatives; (3) undertaking MTRS gap analysis—that is, comparing the ongoing reform efforts with the four components of an MTRS; and (4) addressing the MTRS gaps by formulating an MTRS. For an example of a high-level road map summarising an MTRS see Appendix 2.

Box 1. Contents of High-Level Road Map of Tax System Reform

Redesign of the revenue policy setting to meet the revenue target. The MTRS should set out a sequencing of intended policy changes, usually over 5 years, necessary to meet the government's revenue target, while improving the tax system design. This should be based on a diagnostic of the current policy framework (major taxes) against the principles of a good tax system, international trends, and its capacity to meet the projected revenue needs. The policy reforms may also include institutional and procedural reforms to improve the policy development process (e.g., establishing a tax policy unit or improving procedures for progressing tax policy amendments through government and parliament).

Reform of the revenue agencies to administer the policy settings and to ensure a high level of taxpayers' compliance to meet the revenue goal. The MTRS should provide a sequencing of intended revenue administration reforms, over a period consistent with the policy reforms, to meet the government's revenue target. The reforms should be based on a diagnostic of the revenue agencies' administration of the tax system to achieve high taxpayer compliance, including administering the proposed policy reforms. This diagnostic includes: assessing the levels/rates of taxpayers' compliance with main taxes; measuring the institutional management and governance arrangements against good international practices and trends (e.g., using TADAT and other tools discussed below); and assessing the management and performance of core revenue administration functions against international benchmarks and trends. The proposed revenue administration reforms should progress the revenue agencies towards modernization and adoption of good international practice and trends (e.g.: full adoption of self-assessment, greater autonomy and accountability of agencies, a shift to digital revenue administration, full automation of processes, securing professionalization and integrity). The MTRS should also include an investment plan to support reform implementation (i.e., resource needs), and a governance structure for the reform process.

Reform of the legal framework to implement the policy and administration reforms. The policy and administration reforms will likely require substantial changes to the tax legal framework. The MTRS should identify these changes and their sequencing.

In formulating tax system reforms, countries can use various tax system assessment and other diagnostic tools developed by CD partners. The diagnostics from these tools can be used as a basis for developing an MTRS. The tools include:

- *Tax Administration Diagnostic Assessment Tool (TADAT)*—provides an objective health assessment of a tax administration by assessing key functions, processes and institutions of tax administration systems across nine performance areas.
- *Revenue Administration Gap Analysis Program (RA-GAP)*—provides a quantitative analysis of the gap between potential revenues and actual collections for the value-added tax (VAT) and corporate income tax (CIT), and identifies the extent the gap relates to policy and compliance.
- *Revenue Administration Fiscal Information Tool (RA-FIT/ISORA)*—is a survey-based dataset on revenue administration practices, with the most recent survey conducted in 2018, covering tax administrations in 159 countries.
- *Fiscal Analysis of Resource Industries (FARI)*—provides a framework for extractive sector fiscal regime policy advice, and has been used in technical assistance as a fiscal analysis tool to provide policy advice.

Appendix 2. Example of an MTRS Road Map

Example of MTRS Road Map (from PNG MTRS 2018–2022)

PNG's Medium-Term Revenue Strategy 2018–2022		
Strategic Objectives	• Halt the declining revenue to GDP trend and increase revenues (excluding grants) in terms of GDP to reach 14 per cent by 2022 • Clear policies that support national development goals and encourage investment • Broad based taxes that ensure everyone makes a fair contribution to the nation • Clear laws that define the rights and obligations of taxpayers and administrators • Fair and efficient administration that provides high quality services to taxpayers	
Policy Reform	**Legal Reform**	**Administration Reform IRC and Customs**
Income Tax • Rebalance the tax composition from income to consumption by relieving the tax burden on labor income **Goods and Services Tax** • Broaden the GST tax base by limiting the extensive use of zero rating; • Review an increase in the GST rate depending on the revenue need and implementation of alternative taxes **Excise** • Review rates for alcohol, tobacco and gaming; • Review excisable products; and • Review introduction of excise on Cellular airtime. **Export Duty** • Examine unprocessed products, e.g., fish, sawlogs, oil palm **Review of the import duty** • Suspend the last phase of Tariff Reduction Program (TRP) to allow a review into TRP • Increase tariff rates to assist domestic manufacturers. **Tax Exemptions and Incentives** • Review existing incentives and exemptions and prepare tax expenditure budgets • Adjust arrangements based on economic value **Corporate Income Tax** • Reducing corporate income tax with scaled back tax incentives	**Update and consolidate existing Acts** • Simplify legislation and separate taxing measures from administration measures • Locate all administration laws/regulations within a tax Administration/Procedures Act • Customs legislation modernization • Simplify Income Tax Act and other legislation **International agreements/treaties** • Review to ensure economic value • Ensure technological capability to comply exists before committing to new arrangements **Asset Registers** • Establish definitive registers with respect to real property, shares, government entitlements such as licenses **Bank Secrecy** • Ensure ready access to bank information by tax administration	**IRC will achieve high levels of voluntary compliance** • IRC's core delivery functions are effective and efficient to administer taxes and collect revenue • Modernise IRC's policy and legislation to reflect IRC's risk based strategy and business processes • Improve Compliance and Broaden Tax Base **IRC's organisation structure is aligned to its strategy** • A Large Taxpayer Office is established and fully functional as a Division • Case Selection and Intelligence Division is fully functional • A strong headquarters function is developed and implemented • Regional and provincial Tax Centres are established across the country to decentralise tax administration services • A Taxpayer Services capability is established and fully functional • A Compliance Audit capability is established and fully functional as a Division **IRC's processes, systems and structure are aligned to effectively manage compliance risk** • IRC's operating system meets its current and future needs • Self-assessment is fully operational • IRC has sstreamlined collection systems and procedures **IRC is adequately resourced and effectively leads, manages and governs those resources** • IRC has in place a robust management and governance processes

and accelerated depreciation provisions for resource sectors.

- Simplify administration of corporate income tax
- Review of superannuation taxation regime

Resource Contracts Fiscal Stabilization Act

- Limit the scope of taxes for stabilization to major tax heads

Small business regime

- Design a simplified system for tax calculation and payment

Fill the tax gaps and Expand the tax base

- Review the introduction of a bank levy;
- Introduce CGT on real property including mining and petroleum licenses;
- Develop a broad policy and procedures for fees and charges and review non-tax fees and charges; and
- Review resource revenue regime.

Non-Tax Revenue

- Transfer 90% of all public moneys to Consolidated Revenue Fund and 10% to support operations of collecting agencies
- Continue the review of all Public bodies Trust Accounts consistent with the revised Public Finance Management Act
- Review all public funds utilized by SOEs
- Review all existing non-tax fees and charges

- IRC's Budget, Assets and Facilities are efficiently, effectively and accountably managed and administered
- A Taxpayer Charter is developed
- Effective relationships are established with IRC's key stakeholders

IRC's management and staff have the needed knowledge, skills, attitude and integrity

- Develop management and leadership training for managers and supervisors at all levels
- Provide specialist training in areas as needed e.g., LTO, Audit
- Managers and staff meet the standards of integrity and behavior expected of an employee of the IRC
- IRC's Productivity is enhanced through Internal Audit and Anti-Corruption Activities

Strengthening Customs Clearance Processes

- Customs Declarations: Manifest control and verification of customs valuation
- Post clearance Audit (PCA)

Strengthening Cross boarder Mechanisms to address illicit trade

Strengthening supporting mechanisms such as the ASYCUDA, increased resources and capacity in the Audit and cargo clearance section and extend Container Examination facility to other port such as the Lae Port

Strengthen governance, accountability, transparency and use of public funds through Finance and Treasury

Political Support	External Resources
• Provide strong reform governance and management • Ensure Government-led effort including all agencies • Consult widely to generate community support	• Identify capacity needs for reform development and implementation • Identify available external support from donor partners to provide extra capacity • Formalize agreement with donors on MTRS support