Mobilizing Public Resources for Digital Infrastructure

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DIGITALIZATION FOR INCLUSIVE RECOVERY AND SUSTAINABLE GROWTH

Ruud de Mooij
IMF Fiscal Affairs Department

Revenue imperative in Africa

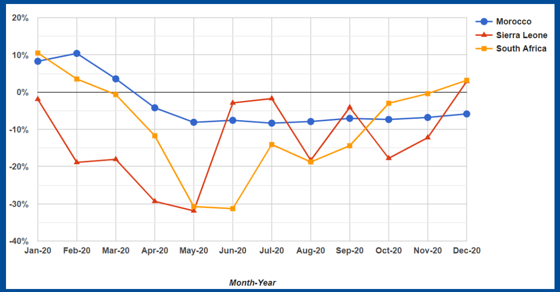
Pre-COVID

Large revenue needs …

... incl. for digital infrastructure

COVID-19

Further revenue shortfalls …



… and higher spending needs

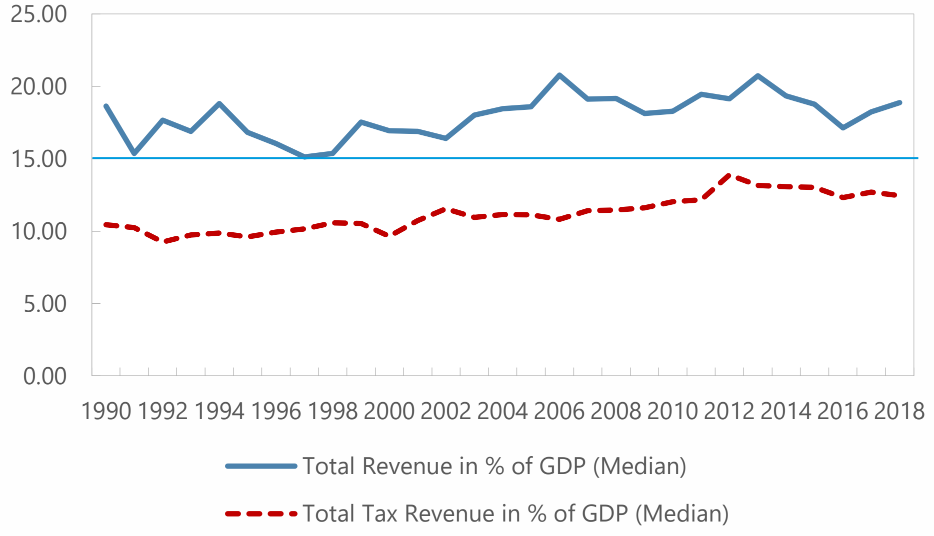
Post-COVID

Boosting tax capacity…

…and the role of digitalization

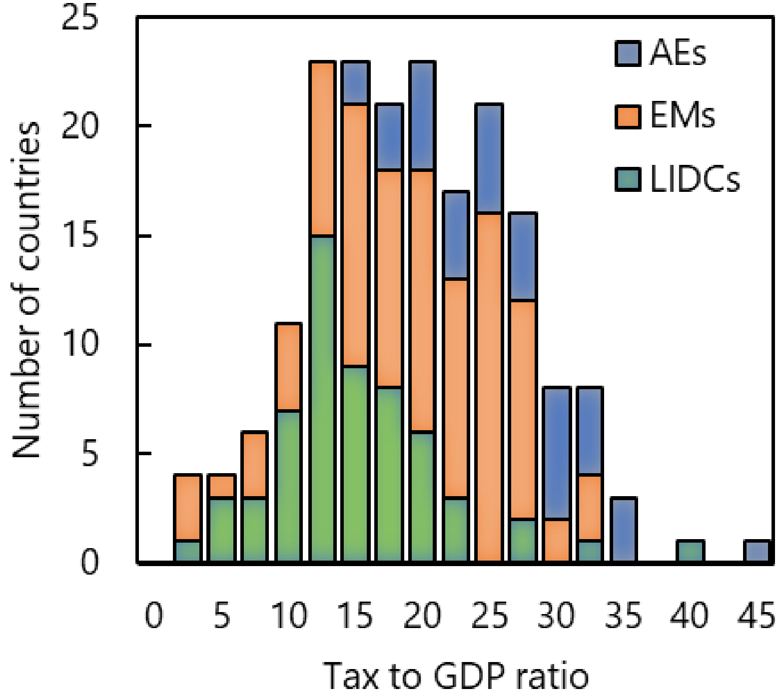
Pre-COVID-19: progress underway – but uneven outcomes

Tax-to-GDP ratios in Africa had been rising since the early 2000s – although leveled off in recent years



Source: IMF WoRLD Database

Tax-to-GDP ratios are still very low in several LIDCs and EMs



Source: IMF WoRLD Database

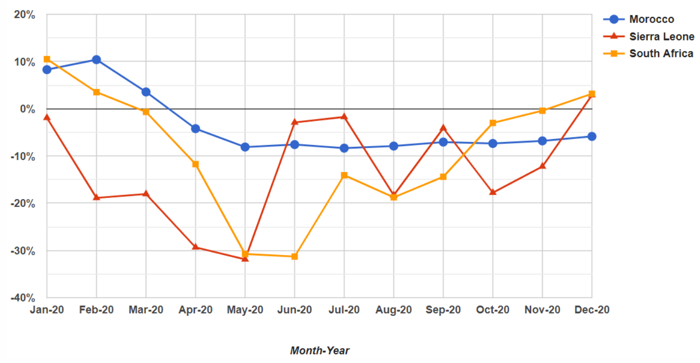
COVID-19: Revenue shortfalls

- GDP in Sub-Saharan Africa dropped by 1.8 percent in 2020 (WEO)

- Tax revenue dropped even more
  - Tax-to-GDP ratio projected to fall from 13.2 to 12.3 percent in SSA

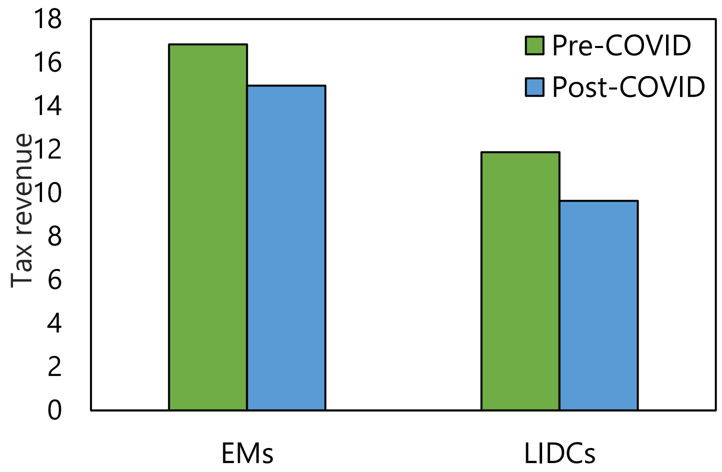
- Some recovery expected, but:
  - Level projected to remain lower than pre-pandemic (WEO projects 12.8 percent in 2026 in SSA)

Tax revenue collections in Morocco, Sierra Leone and South Africa, change y-o-y 2020



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

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



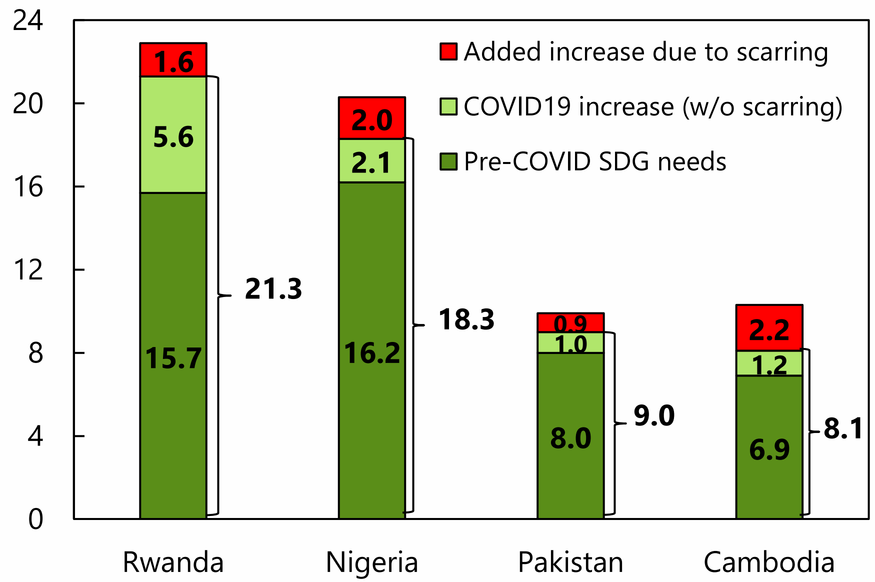
IMF Fiscal Monitor Database

COVID-19: increased financing needs

- IMF scenarios in May 2021 on financing needs in AFR, 2021-2025
  - Scenario A. Recover from COVID: $285 bln
  - Scenario B. Invest to reach convergence: double that amount

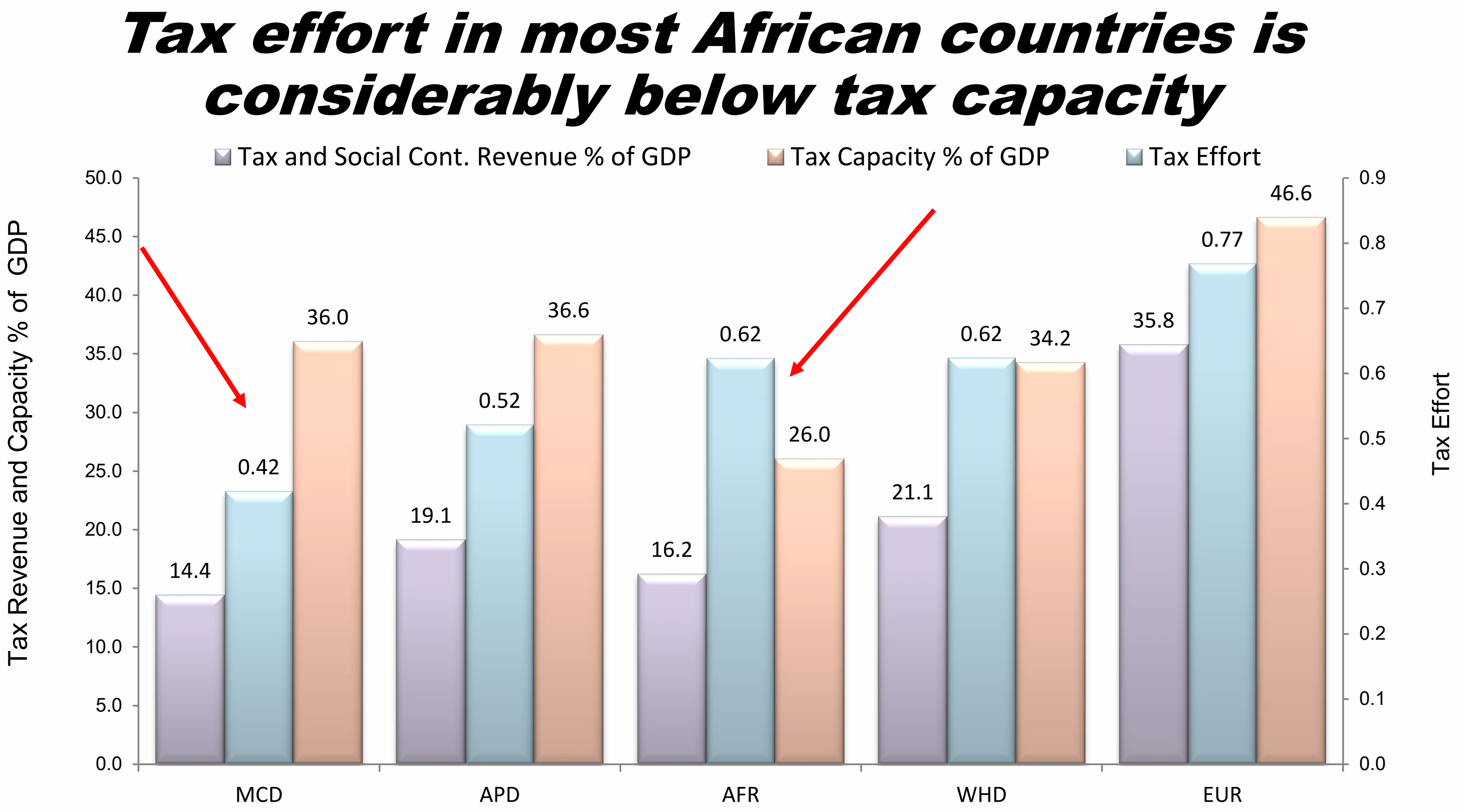
- IMF study April 2021 on meeting SDGs by 2030
  - Pre-COVID estimates suggest financing need of 18 percent GDP
  - COVID-19 increased these by multiple percent of GDP

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



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

How much can revenue be raised?



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

(How) can countries achieve that? Medium Term Revenue Strategy

Derived from wider development strategy (e.g. SDGs) – quantified spending needs

High-level road map of tax system reform over 4-6 years—policy/law, administration – concrete & quantified

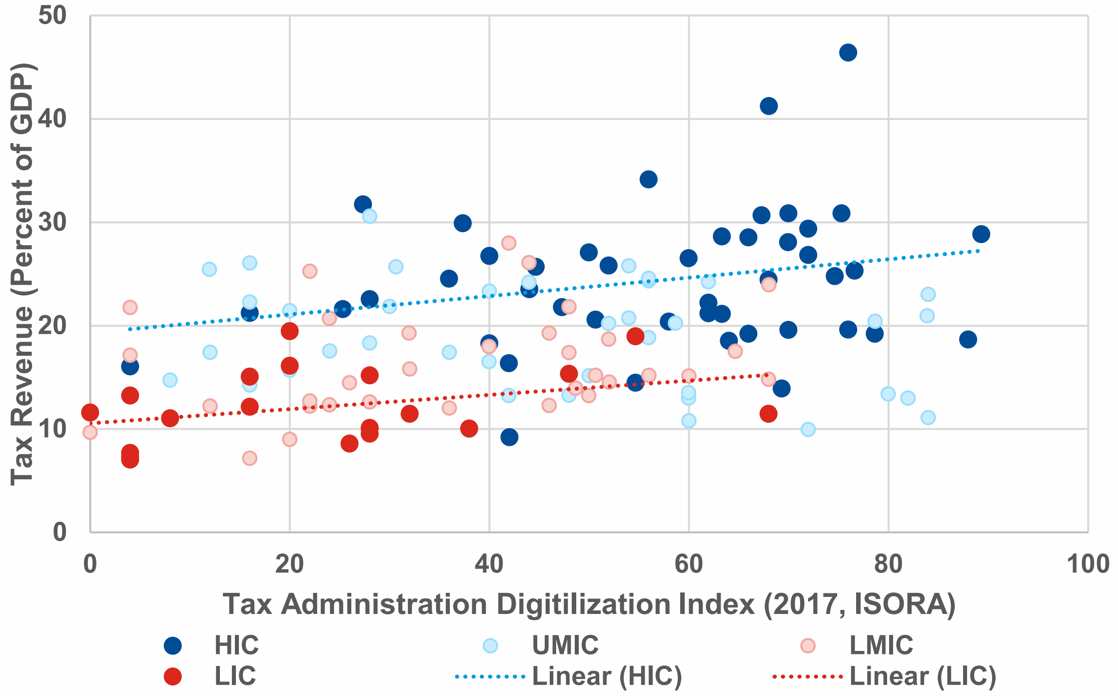
Managing tax system reform – country-led & government-owned

Select areas for African countries' Medium Term Revenue Strategy

Digitalization as a two-edged sword

Pandemic a spur to wider use of digital methods in revenue administration

- Signs are that those using them more have fared better



And opens opportunities for new policies

- Using digital platforms as withholding agents or third-party information
- Using digital money to provide cash transfers (e.g. as opposed to untargeted VAT exemptions)
- Using data analytics to exploit third-party information from digital transactions to address tax evasion

Illicit and Tax Avoiding Financial Flows

Estimates vastly differ – but generally suggest large flows

- But: how much tax could be recovered by policy and implementation measures?

Addressing (illegal) tax evasion – important but gradual

- Automatic exchange of information
- Beneficial ownership information

Curbing (legal) tax avoidance – calls for tailored approach

- Country-by-country reports – still inaccessible for most LICs
- Global agreement on two-pillars – expected to raise < 0.1% GDP in LICs
- Simplified approaches – e.g. alternative minimum tax, modify tax treaties

Other domestic reforms critical

- Investment tax incentive regimes sometimes cost > 1% GDP

Critical need for a wider agenda to (re)build tax capacity

VAT remains key source of revenue, including for developing countries…

- With scope for better policy
- And achieving the significant untapped potential by improving administration
- E.g. moving gaps in SSA to global average could raise 2 percent GDP

… and so are customs duties

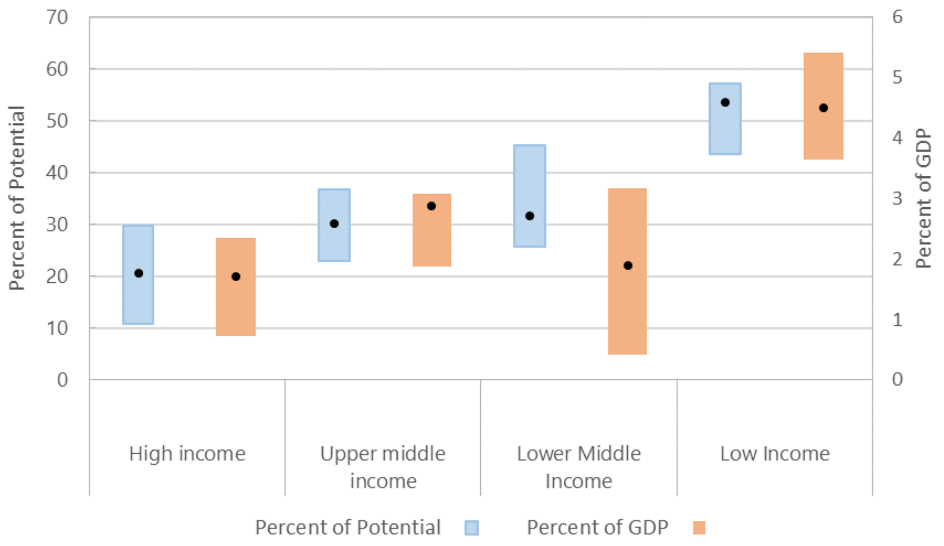
- With scope for compliance improvements from digitalization

Reshaping of the income tax

- Strengthen progressivity of PIT – incl. by reconsidering exemptions

Exploiting property tax more

VAT compliance gaps by income level (median and inter-quartile range)



Source: IMF staff calculations using results of VAT gap studies conducted in 32 countries. Regions based on IMF internal administrative regions.

Thank You!