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IMF Working Paper

Case Studies in Tax Revenue Mobilization in Low-Income Countries

by Bernardin Akitoby, Jiro Honda, Hiroaki Miyamoto, Keyra Primus, and Mouhamadou Sy

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Authorized for distribution by Michael Keen

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Abstract

How can Low-Income Countries (LICs) enhance tax revenue collection to finance their vast development needs? We address this question by analyzing seven tax reform experiences in LICs (Burkina Faso, The Gambia, Maldives, Mauritania, Rwanda, Senegal, and Uganda). Three lessons stand out, although reforms must be tailored to individual circumstances: (i) Tax reforms require first and foremost political commitment and buy-in from key stakeholders; (ii) Countries that pursue both revenue administration and tax policy reforms tend to see much larger and persistent gains; and (iii) A successful strategy often starts with fiscal reform measures with immediate effect to build momentum. These can include: simplifying the tax system; curbing exemptions; reforming indirect taxes on goods and services (e.g., excises); and better managing compliance risks through strengthening taxpayer segmentation (often beginning with strengthening the Large Taxpayers Office). A comprehensive reform strategy (e.g., a medium-term revenue strategy) can help to properly sequence reform measures and facilitate their implementation.

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[1] For the case studies, we have read through IMF country reports, while undertaking interviews with IMF staff who engaged with the country authorities on tax reforms. We greatly appreciate the information received during interviews with Debra Adams, Katherine Baer, Ana Lucia Coronel, Margaret Cotton, Yves De Santis, Ricardo Fenochietto, Eric Hutton, Herve Joly, Tetsuya Konuki, Boileau Loko, Mario Mansour, Amine Mati, Andrew Okello, Rene Ossa, Geremia Palomba, Patrick Petit, Laure Redifer, Stephane Schlotterbeck, and Olaf Unteroberdoerster. We are also grateful for helpful comments and suggestions from Hua Chai, Mark De Broeck, Nikolay Gueorguiev, Suhaib Kebhaj, Michael Keen, Vinette Keene, Roland Kpodar, Michel Lazare, Mario Mansour, Giovanni Melina, Muyangwa Muyangwa, Chris Papageorgiou, Saad Quayyum, Alex Segura-Ubiergo, Wei Shi, and Mousse Sow.

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I. INTRODUCTION

The ability to collect taxes is central to a country's capacity to finance social services such as health and education, critical infrastructure such as electricity and roads, and other public goods. Low-income countries (LICs), however, collect about 16 percent of GDP in taxes on average, compared with 18 percent in emerging markets (EMs) and 26 percent in advanced economies (AEs).[2] And many LICs collect substantially less than that. Such low levels of tax collection put aspirations for economic development, including not least attainment of the Sustainable Development Goals (SDGs) at risk.[3] The imperative to mobilize additional domestic revenue is heightened by the uncertain prospects for foreign aid and the recent rising trend of public debt in some LICs.

How can LICs enhance tax revenue collection to finance their vast development needs? Building from Akitoby et al. (2018), we address this question by analyzing seven episodes of large tax revenue mobilization in LICs (Burkina Faso, The Gambia, Maldives, Mauritania, Rwanda, Senegal, and Uganda). The experiences of this diverse set of countries illustrate that, regardless of the constraints they face, countries can strengthen their capacity to collect tax revenue by pursuing reform strategies with certain distinct features. It is, however, important to note that, while these countries enhanced tax collection through tax policy and revenue administration reforms, this does not imply that there remains no scope to further increase tax collection. In fact, some of these countries are making further efforts to increase tax collection.

Table 1. Recent Tax Increase Episodes in LICs

	Reform period*	Tax collection (% of GDP)		Tax increase
		Before reform	After reform	
Burkina Faso	2009-2013	11.9	16.8	5.0
The Gambia	2011-2015	13.2	17.6	4.4
Maldives	2011-2017	8.8	20.9	12.1
Mauritania	2010-2014	11.1	17.2	6.1
Rwanda	2010-2015	11.9	15.6	3.7
Senegal	2010-2017	18.0	20.9	2.9
Uganda	2013-2017	10.5	14.0	3.5

*The paper focuses on the period through 2015. In some cases, tax revenues continued to improve beyond 2015; and therefore these cases were recorded.
Sources: Country authorities and IMF staff estimates.

[2] In 2016, non-tax revenues and grants were estimated at 2 percent of GDP and 3.7 percent of GDP, respectively in LICs.

[3] SDGs target 17.1; strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection. In LICs, an average tax-to-GDP ratio of 16 percent is not sufficient to support the additional spending required to deliver on the SDG agenda (IMF, 2019). Many countries, including LICs, would need to increase tax revenue by 5 percentage points of GDP in the next decade to fund the SDGs (see IMF, 2015c; IMF, 2019).

By analyzing what worked in these countries, we draw broad lessons for what strategies other LICs could consider. Obviously, there is no one-size-fits-all solution, but one can hope to find in these experiences broad and potentially generalizable features that appear to have contributed to substantial revenue increases. The goal of the paper is thus to motivate policymakers to consider substantial tax reforms and support them in doing so, by sharing country experiences in achieving large tax revenue increases. The design and implementation of such reforms evidently require comprehensive, country-specific circumstances (including for instance on distributional impacts). This paper does not attempt to enter the level of granularity this requires in, for example, strengthening taxpayer compliance.[4] For such purposes, policymakers of LICs may benefit from technical assistance (TA) from their international partners, such as the IMF. Indeed, in most of the country cases discussed, IMF TA has been instrumental in helping them to design and implement tax reforms. The paper draws heavily on that experience in understanding and drawing lessons from the cases analyzed here.

The rest of the paper is organized as follows. Section II provides the analysis of the seven case studies, outlining tax reforms and the outcomes, for each case. Section III discusses the key lessons learned from the episodes of large tax revenue mobilization.

II. CASE STUDIES

The case studies for tax revenue mobilization—identified based on Akitoby et al. (2018)—are examined using information from IMF country reports and IMF staff. The case studies focus on the experiences of noncommodity-related tax revenues during the post global financial crisis period. All of these episodes have been identified as episodes of substantial tax revenue mobilization episodes by Akitoby et al. (2018).[5,6] Based on their dataset of tax reforms in LICs, this paper selects the episodes with two criteria. First, the episodes in fragile states are excluded. Given their rather unique social and economic environments, the lessons learned from those cases may not be applicable for nonfragile states. Second, the paper focuses on the recent episodes for the last ten years in order to collect information through interviews with IMF staff involved with these countries. These episodes are further examined by studying IMF country reports (including staff reports and TA reports), as well as conducting interviews with mission chiefs, country desk economists, and TA experts who engaged with the authorities on tax reforms.

[4] For a flavor of the considerations that arise at the next level of detail, see for instance IMF (2012) and IMF (2015d) a series of 'how to' notes produced by the IMF, available at https://www.imf.org/en/Publications/SPROLLs/How-To-Notes.

[5] In identifying the episodes of large tax revenue mobilization, Akitoby et al. (2018) focused on countries with more tangible tax revenue mobilization results; (i) countries that have increased their tax-to-GDP ratios by a minimum of 0.5 percent each year for at least three consecutive years (or 1.5 percent within three years); (ii) countries with beyond average increases in their tax-to-GDP ratios; and/or (iii) countries with better tax performance compared with peers in the same income group (utilizing the approach used in von Haldenwang and Ivanyna (2012)).

[6] The paper also uses updated data and includes developments up to 2017 for some countries.

The analysis in the paper is mostly based on FAD Tax Policy Revenue Analysis Tool (RAT)[7] database, including the developments after 2015, as needed.

The case studies are structured to provide information on tax policy and revenue administration reforms. First, a short background section gives the political and economic context. Second, the tax reform strategy—with key tax policy and revenue administration measures—is described. Third, the outcomes of the measures implemented are highlighted.

A. Burkina Faso (2009–2013)— Simplifying the Tax System and Broadening the Tax Base

Burkina Faso achieved a substantial increase in tax revenue by 5 percentage points of GDP between 2008–2013. Supported by IMF TA, the authorities undertook tax policy reforms (including the simplification of the tax system and the broadening of the tax base).

Figure 1. Burkina Faso: Total Tax Revenues
(Percent of GDP)

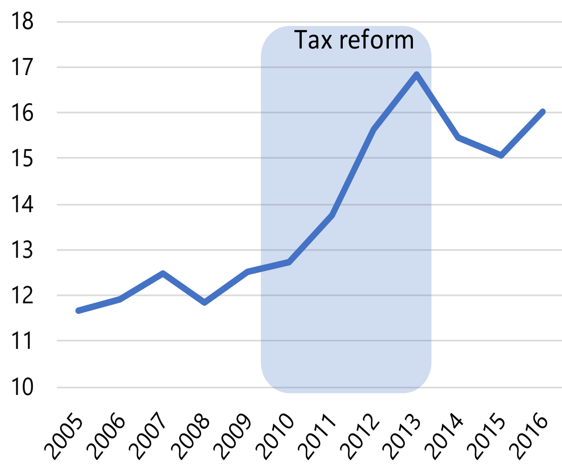
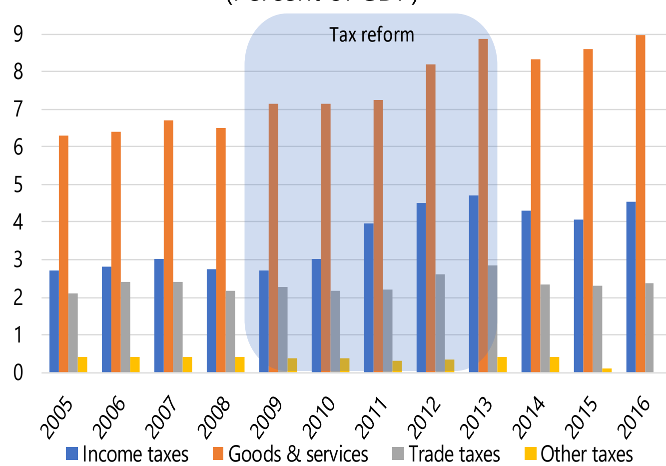


Figure 2. Burkina Faso: Tax Revenues by Item
(Percent of GDP)



Sources: Country authorities and IMF staff estimates.

Background

Burkina Faso managed to achieve robust growth without accumulating excessive debt. Overall economic (5.3 percent between 2007 and 2012) growth stayed above the regional average, largely driven by the private sector (e.g., mining). The debt burden was substantially reduced by relief from the enhanced Highly Indebted Poor Country Initiative (2002) and Multilateral Debt Relief Initiative (2006). Public debt stood at 22 percent of GDP in 2007.

The authorities demonstrated strong ownership for economic reforms under IMF-supported programs. Under two consecutive three-year programs (2007–2010, 2010–2013), the

[7] See Mylonas, Victor, 2019. "Revenue Analysis Tool (RAT)" IMF Technical Notes and Manuals (Forthcoming), International Monetary Fund.

authorities demonstrated strong program ownership and implemented a number of structural reforms.[8] A new tax reform strategy was prepared with TA from the IMF and financial support from Switzerland.

Burkina Faso had suffered from low tax collection, under a complex tax system with many exemptions. Its tax-to-GDP ratio stood at 12.5 percent of GDP in 2007, among the lowest in the West African Economic and Monetary Union (WAEMU). The 2007 IMF TA missions assessed the tax system as one with a low tax base, lack of a coherent structure, too many exemptions and incentives designated to offset the heavy tax burden, too many withholding and prepayment deductions (that made it difficult for enterprises to manage their cash flows), and a complex tax system that was vulnerable to noncompliance.

Reform Strategy

Increasing domestic revenues was essential to create fiscal space while keeping debt sustainable. Throughout the tax reform period, the authorities continued efforts to enhance revenue collection and build fiscal space for critical infrastructure investment and social spending.

The reform strategy focused mostly on tax policy. A comprehensive tax reform strategy was adopted in early 2010 to streamline tax incentives, simplify income tax legislation and improve indirect tax management.

The tax policy reforms aimed at broadening the tax base and making the tax system simple and transparent. Simplification and transparency measures included: setting up a tax policy unit in the ministry of finance to guide the process of reforms and conducting cost-benefit analysis of tax reforms; creating a single tax code to consolidate the tax legislation (implemented in 2011); and introducing a corporate income tax (CIT) with a rate of 25 percent—the lowest that can be charged in the WAEMU area— to replace the former different schedular taxes applied to companies. With respect to VAT, the new code eliminated the 20 percent withholding tax by the way of advance payment (*accompte*). Furthermore, the application of VAT was broadened by revising the list of exemptions, for example, by eliminating many VAT exemptions for NGOs. Other tax policy reforms included: (i) increasing the excise tax for alcoholic beverages from 25 to 30 percent: [9] (ii) limiting the deductibility of investment spending from profit taxes, (iii) introducing a special tax on transactions related to mining stocks; and (iv) applying VAT on imports of operational mining companies and companies that signed contracts with the government.

Tax administration reforms focused on improving tax compliance. To increase tax compliance, the authorities: (i) diversified the audit types to include issue oriented-audits thereby

[8] Burkina Faso—Ex Post Assessment of Longer-Term Program Engagement (June 2013).

[9] The excise tax rate for alcoholic beverage of 30 percent stayed below the maximum rate set under the directive of the WAEMU and the minimum rates in the WAEMU countries were set at a low level (Mansour and Rota-Graziosi (2013)).

increasing audit coverage; (ii) implemented a tax census in six urban communes to strengthen management of the taxpayer files and to broaden the tax base; (iii) set up a medium-sized enterprises unit to strengthen the monitoring of this segment and; (iv) implemented communication activities to foster a sense of civic responsibility regarding paying taxes. IT acted as an enabler in the improvement of tax compliance. Key reforms included: (i) the introduction of two management systems to improve information sharing between the tax and customs administrations; (ii) the use of the Computerized Tax Information System—to systematically generate a list of large taxpayer office (LTO) filers and non-filers—enabled better management of taxpayers. In addition, SINTAX was used to notify late-filers and non-filers of their obligations. The use of the Automated System for Customs Data facilitated the connection of five additional border posts to improve customs clearance procedures and limit fraud.[10]

Revenue Outcomes

Tax revenue (excluding natural resources) increased by 5 percent of GDP between 2009–2013. In 2011, for the first time, the level of tax-to-GDP ratio reached the average ratio in the WAEMU. During the reform period, income taxes increased by about 2 percent of GDP, and taxes on goods and services increased by about 2½ percent of GDP. The precise impact of the reform measures, however, is difficult to quantify, owing to possible cyclical factors playing a role. An increase in VAT on imports (by 1½ percent of GDP) were partially driven by the increase in imports associated with the boom in the mining sector.[11]

[10] The ministry of finance implemented measures to recover tax arrears. Between 2009–12, a performance contract (*''approche unité de recouvrement, AUR''*) with the tax administration—with providing additional resources and financial incentives to staff—was introduced to improve the collection of tax arrears and reduce them. This performance management contract was ended in 2012. Indeed, this type of measure is not consistent with modern approaches to strengthen revenue administration. A broader HR reform, including a review of remuneration levels is preferred.

[11] Tax revenue declined sharply after 2013 owing to the political crisis in 2014. The political uncertainty leading up to resignation of the President caused a slowdown in growth (from 6.6 percent in 2013 to 4 percent in 2014). Lower growth and political uncertainty induced lower tax receipts. Following the general elections in late 2015, the political stability has resumed, and tax collection has been brought back to the pre-crisis level.

B. The Gambia (2011–2015)—Introducing VAT with Strengthened Tax Administration

The Gambia achieved a sizable increase (by 4½ percentage points of GDP) in tax collection during 2011–2015. During the period, the authorities introduced VAT and reformed excise tax, supported by strengthened tax and customs administration.

Figure 3. The Gambia: Total Tax Revenues

(Percent of GDP)

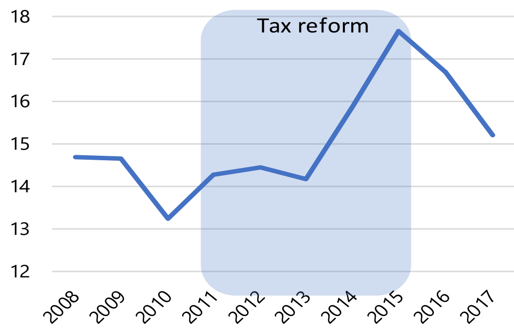


Figure 4. The Gambia: Tax Revenues by Item

(Percent of GDP)

Sources: Country authorities and IMF staff estimates.

Background

The Gambia's political system was relatively stable, though it did not lead to strong national ownership of economic reforms. Former President Yahya Jammeh had been in office since the 1994 coup (until the 2016 election). During this period, the political system was perceived to be relatively stable.[12] This, however, did not lead to strong political commitment for reforms. Based on the experiences under the IMF programs through early 2000s, the IMF concluded (in Ex Post Assessment of Longer-Term Program Engagement, January 2006) that "*inadequate national ownership of reforms to underpin the program and insufficient commitments to key reforms contributed to the implementation problems.*"

After the global financial crisis, the widening of fiscal imbalances raised a serious fiscal sustainability concern. Following a steady erosion of revenues and large spending overruns, the government's fiscal deficit widened substantially during this period, resulting in a sharp increase in total public debt (reaching 70 percent of GDP by 2011). Because of the large fiscal slippages, the government's net domestic borrowing rose significantly, leading to increased pressures on inflation, interest rates, and the exchange rate.

[12] As of 2010, The Gambia ranked 14 out of 53 African countries in the World Bank's Governance Indicators (political stability and absence of violence/terrorism).

Reform Strategy

Tax reforms were needed to restore fiscal sustainability. The Gambia remained at high risk of debt distress from external debt, and its domestic debt posed high rollover risks (as most of the debt was in the form of T-bills with short-term maturities), while interest on domestic debt was very costly (consuming about 18 percent of the government revenues in 2011). To ensure fiscal sustainability and ease debt burden, enhancing tax revenues—as well as the rationalization of fiscal spending—was critical. Furthermore, as The Gambia's business tax system was complex and investor unfriendly, comprehensive tax reforms were also intended to enhance the country's international competitiveness (e.g., through having a relatively simple tax system that spread the burden over a broad base).[13]

The Gambia embarked on a gradual process of tax reforms in 2013, with the focus on reforms on indirect taxes.

- **The authorities introduced a VAT** to replace a general sales tax in 2013 with support from the IMF.[14, 15] The VAT broadened the tax base and lifted revenues by 1–1.5 percent of GDP. The introduction of the VAT was a part of The Gambia's commitment towards the Economic Community of West African States protocol. The Gambia benefited from technical assistance from the IMF and others to prepare and launch the VAT and also to implement overall revenue administration reforms.[16]
- **The authorities also introduced a simple specific excise on tobacco products**. The base of the excise tax on cigarettes was changed from weight to number of packs in 2013.[17] This tax policy change increased the equivalent tax rate on cigarettes by about 25 percent. Further, in 2013, the authorities introduced a weight-based excise on non-cigarette tobacco products.

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[13] The Gambia ranked 176 out of 183 countries in the World Bank's 2011 Doing Business Report for ease of paying taxes.

[14] A major difference between the VAT and the former sales tax was that under the VAT all supplies are considered taxable unless otherwise specified, while under the sales tax only those supplies specified were considered taxable. In addition to the broadening of the tax base, in general, a VAT gives firms, especially for those selling to other registered taxpayers, some incentive to become registered taxpayers VAT (in order to qualify to claim their credits for VAT paid), while the taxpayers do not face cumulative taxation (so they do not have to be concerned about whether or not to shift hidden and cumulative taxes forward to customers).

[15] The introduction of the VAT was required for ECOWAS member states under the ECOWAS protocol. The VAT replaced the sales tax at the same rate of 15 percent.

[16] IMF TA played an important role in the preparations for the VAT since 2009. In addition, a long-term resident advisor—financed by the European Union and back-stopped by the Fund—was placed around mid-2012.

[17] Many governments tie tobacco excise policy to revenue-raising and health objectives (IMF, 2016,"How to Note"), and The Gambia is no exception. The price per pack of cigarettes in The Gambia was well below the regional average of sub-Saharan Africa. As the low price encourages high rate of smoking which has negative health and economic consequences, the authorities decided to raise the price of cigarettes to the regional average level. The authorities consulted their international partners (e.g., WHO and the World Bank) to introduce a specific excise rate per pack (Note that basing taxes on weight of tobacco encourages the industry to produce lighter but not less harmful cigarettes to pay less taxes (WHO, 2014)).

This discourages consumers from switching to a cheaper product when taxes are increased. As a result, excise revenues from tobacco products increased from 0.3 percent of GDP in 2012 to 0.8 percent of GDP in 2014.

- **Furthermore, the elimination of fuel subsidies allowed the government to collect the full value of fuel taxes.** In The Gambia, tax revenues from fuel taxes had been based on operational profits (the difference between the fixed retail price and suppliers' costs), and thus the revenues were lowered with high fuel import prices. The revenue losses from such fuel subsidy reached 0.8 percent of GDP in 2011. To eliminate fuel subsidies, the authorities reformed the fuel pricing formula, through flexibly changing retail price to reflect the changes in world prices. From 2013, monthly fuel price adjustments were implemented, and fuel subsidies were eliminated in July 2014, which allowed gradual increase in fuel taxes.

The authorities implemented several measures to strengthen tax and customs administration. In the area of tax administration, new tax and customs administrative procedures were implemented for launch of the VAT, a headquarters design and monitoring function was established, and the Gambia Revenue Authority (GRA) strengthened its audit capacity through hiring and training of staff during the period.[18] The GRA also implemented a detailed compliance improvement plan for large taxpayers. As a result, about 86 percent of large taxpayers filed their income tax returns in 2012, up from 79 percent in 2011. Also, a new customs and excise law (which reflects international best practice in customs administration and provides an effective platform for customs modernization) was enacted. Further, the custom department upgraded its IT system to the ASYCUDA++.

Revenue Outcomes

These reform measures resulted in sizable increase in tax collection (about 4½ percentage points of GDP).[19] The tax-to-GDP ratio rose from about 13 percent in 2010 to 17½ percent in 2015.[20] Specifically, taxes on goods and services contributed to the increase by 2 percentage points during the period, while taxes on international trade and transactions increased by 2¼ percentage points. The precise impact of the reform measures, however, is difficult to quantify, owing to possible cyclical factors playing a role. After 2016, revenue collection sharply fell, reflecting a low economic activity, import compression due to foreign exchange scarcity, and a drop-in tourism due to the political turmoil.

[18] For more details, see IMF country reports No.12/129 and No. 13/139.

[19] The strong increase in fuel tax revenues played an important role in boosting the tax-to-GDP ratio during 2013-14. Administered retail prices were gradually raised, while international fuel price declined during the period. This led to a gradual increase in operational profits in the oil company and thus boosted tax revenues.

[20] The tax-to-GDP ratio declined by almost 1 percentage point of GDP in 2016, reflecting import compression due to foreign exchange scarcity and low economic activity in the latter part of the year (in part reflecting the political turmoil).

C. Maldives (2011–2017) – Boosting Tax Revenues, Supported by Tourism Industry

Maldives—a tourism-dependent, small island country—achieved a substantial increase in tax revenues (by 12.1 percentage points of GDP over 5 years). The authorities' reform efforts, including the introduction of new taxes and a newly formed domestic tax authority, contributed to the increase in the revenues. In addition, a strong recovery in tourism helped to boost tax revenue collections.

Figure 5. Maldives: Total Tax Revenues

(Percent of GDP)

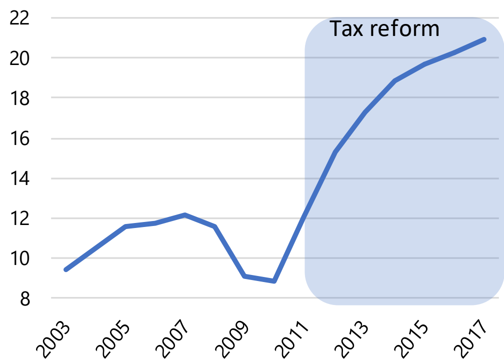
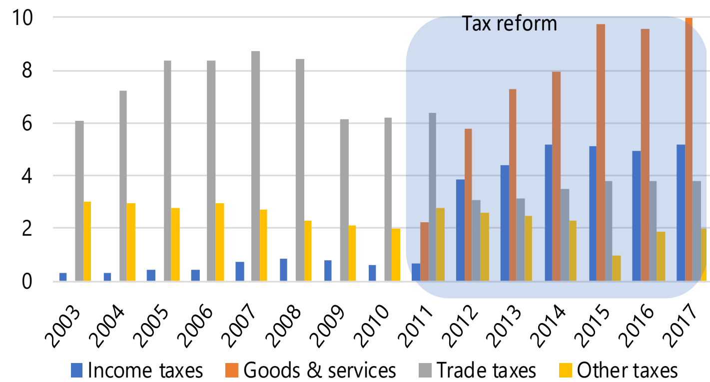


Figure 6. Maldives: Tax Revenues by Item

(Percent of GDP)



Sources: Country authorities and IMF staff estimates.

Background

The global financial crisis hit Maldives' tourism industry, adversely affecting fiscal revenues. As in other tourism-based economies (e.g., the Caribbean countries), tourism revenue was badly affected by the global downturn, reducing fiscal and foreign exchange earnings and driving the economy into recession. With the fiscal deficit reaching 20 percent of GDP in 2009, the authorities started fiscal adjustment through enhancing domestic revenues and containing expenditures. Following the global downturn, tourist activity picked up with a rapid expansion from Asian markets and a tepid recovery from Europe (Maldives performed well relative to other tourism-dependent economies).

Political divergence delayed implementation of economic reforms. The tense relations between the former president Nasheed and the opposition-dominated parliament affected the advancement of the economic reform agenda. With rising and unsustainable debt, strong fiscal consolidation was required. Thus, after the local elections in 2011, the President decided to address the deteriorating fiscal situation. Furthermore, following presidential elections in late 2013, President Yameen's Progressive Party-led coalition strengthened its position with victory in the parliamentary elections.

Reform Strategy

Enhancing tax revenues was needed to secure fiscal sustainability. The country relied heavily on the issuance of Treasury bills and external borrowings to finance large and sustained fiscal deficits. Unmet financing needs led to monetization of the deficit as well as the accumulation of domestic payments arrears. By 2009, public debt reached about 60 percent of GDP. These developments caused the government to place domestic revenue mobilization high on its agenda, to create fiscal space to support higher spending.

The tax reforms focused on the introduction of a tax system based on a small number of broad based taxes. The government established an autonomous domestic revenue authority to ensure the most efficient and effective introduction of the new tax system.

- **Tax policy measures focused on the introduction of new indirect taxes and a business profit tax.** The tourism sector goods and services tax (TGST) was introduced in January 2011.[21] As a natural progression from the TGST, the general goods and services tax (GGST) was introduced in October 2011 to mobilize revenue.[22] The initial GGST rate of 3.5 percent, was increased to 6 percent in January 2012. Furthermore, a business profit tax (BPT) was introduced in mid-2011.[23] Also, in 2015 the authorities increased import duties on some consumer items.
- **On tax administration fronts, the key measure was to establish the Maldives Inland Revenue Authority (MIRA)**. In 2010, the MIRA was established as a fully autonomous body under the Tax Administration Act. This Act mandated the revenue authority to enforce the Taxation Acts of the country and administer tax procedures (such as registration of taxpayers, recovery of tax, taxpayer identification numbers). Following the establishment of the MIRA, a common Taxpayer Identification Number was implemented to be used by all importers and exporters, as well as the MIRA. Also, core IT systems were installed, and e-filing/e-payment was implemented and used for TGST, withholding tax, green tax, and the remittance of tax returns. The authorities also progressively established fundamental elements of a compliance management system and launched an audit program.

[21] The TGST levied an ad valorem tax on sales of tourism operators, mainly resorts, but also tourist vessels, services such as diving shops, spas, water sports facilities, and other similar items. It was initially set at 3.5 percent and subsequently raised to 6 percent in January 2012, 8 percent in January 2013, and 12 percent in November 2014. Maldives is often recognized as natural amenities of premium tourist destinations.

[22] A broad-based tax on consumption expenditures was needed in the Maldives to offset the adverse revenue impact from trade liberalization. In light of this, a GST in the form of a broad-based, multi-stage, credit-invoice VAT was introduced. A multistage invoice-and-credit system of value-added taxation is a common method for implementing approximately uniform taxation of consumption, as increasing the standard VAT rate would lead to an equiproportionate increase in the ratio of VAT revenues relative to consumption (see Ebrill et al. 2001).

[23] The BPT Act imposed a tax at the rate of 15 percent on profits exceeding MVR 500,000 (approx. USD 32,425) in a tax year. A lower rate of 5 percent is applicable to income generated outside of Maldives (that is, offshore operations of Maldivian companies).

- **The human resource strategy was implemented in 2011**. MIRA's human capital comprised a relatively young cadre of highly educated, professional, and motivated staff. Under the strategy, the government invested in improving the technical skills and quality of staff through ongoing training and an increase in staff complement.

Revenue Outcomes

The establishment of the MIRA provided the necessary structure to undertake administrative and tax policy reforms. MIRA's achievements included a larger than anticipated tax registration base (created across the newly implemented taxes). In addition, the audit capacity increased significantly (undertaking more than 850 audits within two years after implementing the audit program). Further, the TGST, GST, and BPT were administered using the online platforms, including for registration and tax filing.

Maldives achieved a substantial and consistent increase in tax revenue after 2011. The tax-to-GDP ratio increased by 12.1 percent between 2011 and 2017. Over the period, revenue from the goods and services taxes (both the GGST and the TGST) increased while revenues from BPT grew even as a proportion of total revenue. After 2015, the revenue increase was sustained, on the back of improved collection from goods and services taxes.

D. Mauritania (2010–2014)—Shifting Toward Noncommodity Tax Revenues

Mauritania's impressive tax performance—from 11.1 percent of GDP in 2009 to 17.2 percent of GDP in 2014—was achieved while implementing a range of tax reforms. Tax policy measures included simplification in the tax system, the removal of exemptions, and differential taxation on nonresidents to limit profit-shifting by multinational companies.

Figure 7. Mauritania: Total Tax Revenues

(Percent of GDP)

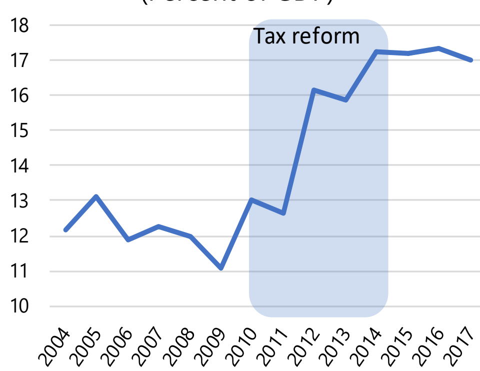
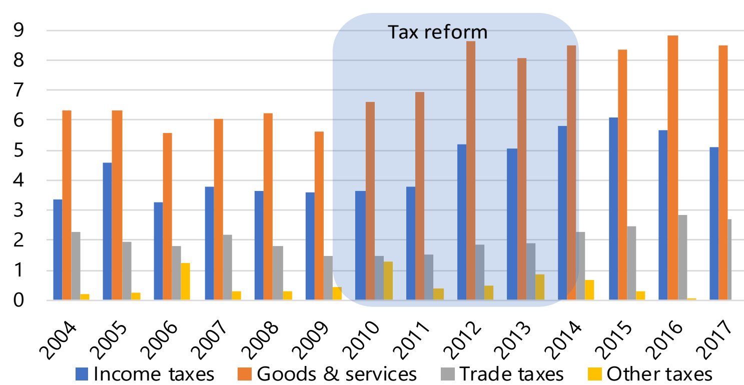


Figure 8. Mauritania: Tax Revenues by Item

(Percent of GDP)



Sources: Country authorities and IMF staff estimates.

Background

On the back of both domestic and external shocks, the fiscal position significantly deteriorated. The global food and fuel price increases weakened the fiscal and external positions and pushed up inflation. The domestic political crisis—the August 2008 *coup d'état* staged by a military junta—led to a significant reduction in external assistance. The global economic slowdown contributed to further fiscal and balance of payments pressures mainly through the decline in the prices of and the demand for Mauritania's main export commodities (iron, copper, and fish). As a result, the basic non-oil fiscal deficit increased to 7.7 percent of non-oil GDP in 2008 up from 2.2 percent in 2007.

The July 2009 presidential election led to a stable reform-minded government coalition. There was a military coup in August 2008 that triggered a domestic political crisis prompting the discontinuation of support and assistance by several bilateral and multilateral donors. In mid-2009, with the new presidential election, Mauritania returned to a constitutional order. The government launched a process of inclusive dialogue with civil society and the opposition. Following the election, the international community, including the Fund, resumed normal relations with Mauritania.[24]

Reform Strategy

A tax reform was needed to put public finances on a sustainable footing and to create space for social and infrastructure spending. Mauritania's fiscal position sharply deteriorated owing to domestic and external shocks. At end-2008, net total public debt (gross external and domestic debt net of oil fund reserves) amounted to roughly 90 percent of GDP. In the meantime, the authorities acknowledged the need to raise the standard of living of the population and to further reduce poverty. In this context, the government prepared a wide-ranging program of reforms covering the period 2010–2012, to enhance efforts toward the Millennium Development Goals.

With a strong political initiative, a set of tax policy measures were undertaken, supported by a series of TA provided by the IMF.

- **Tax policy measures focused on broadening the tax base**. The Mauritanian authorities eliminated the global income tax in 2012 and switched to a dual tax system, with a proportional tax on capital income and progressive taxation of wages. In 2012, the authorities removed the CIT exemption of the main gold company, contributing in the increase in CIT by 1.3 percentage points of GDP. Other tax policy reforms included an increase in excise taxes on tobacco from 10 percent to 30 percent.[25] Furthermore, in 2013,

[24] The PRGF arrangement with the IMF was interrupted in October 2008 after the third review was completed in May 2008.

[25] In 2006, Mauritania abolished all major excises (tobacco, nonalcoholic beverages, and cars) in anticipation of oil revenue by 2010. But revenues from oil turned out to be significantly lower than expected, and Mauritania started reintroducing these excises, initially at very low rates (Mansour (2015)).

the government implemented a withholding tax of 15 percent on payments to nonresidents to protect its tax base against aggressive tax planning by multinational companies.

- **VAT reforms also helped to broaden the tax base.**[26] The VAT was extended to cover the mining sector, and mining companies receive reimbursement only if they can prove that their purchases have been acquired from formal domestic suppliers. This provided an incentive for local supplier to register and become formal. The tax identification numbers increased from 1,789 in 2011 to 5,860 in 2013 and allowed to broaden the tax base.

- **During the tax reform period, some redistributive spending measures were introduced**. While some of the tax measures (e.g., excises) were regressive, fuel subsidy reforms were undertaken during this period. To offset any undesired effects on income distribution, mitigating measures targeted to lower-income groups were introduced. With the assistance of World Food Program, the government completed the vulnerability and poverty survey and introduced a cash transfer program for targeted households in 2012.

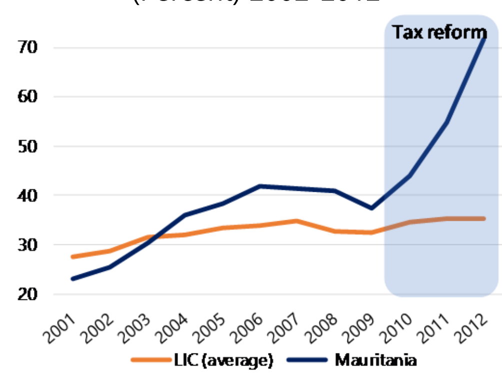
Revenue Outcomes

Noncommodity tax revenues increased significantly during the reform period. Total tax revenues increased from 11.1 percent of GDP in 2009 to 17.2 percent of GDP in 2014. It is notable that, despite the booms of commodity prices, Mauritania enhanced noncommodity tax revenues, avoiding the resource curse regarding taxation.

Between 2009–2013, the collection of VAT—net of refunds—increased by 2.5 percentage points of GDP inducing an improvement in the VAT C-efficiency (Figure 9).[27] Mauritania's C-efficiency ratio increased significantly by about 35 percentage points during the reform period. Noncommodity tax revenues performed well thanks to the formalization of the economy encouraged by the VAT liability of the mining sector.

Figure 9. Mauritania: VAT C-Efficiency

(Percent) 2002-2012



Sources: Mauritania authorities and IMF staff calculations.

[26] Based on notes by O. Luca and; Dell'Erba and Gregoire Rota-Graziosi (Fiscal Affairs Department, IMF (2014))

[27] C-efficiency is defined as the ratio of actual VAT collection to potential VAT if all final consumption were taxed at the current standard rate (14 percent), and so is an indicator of how far the VAT differs from a uniform tax, with full compliance, levied on all consumption.

E. Rwanda (2010–2015)—Comprehensive Reform with Gradual but Sustained Gains

Rwanda achieved a steady and sustained increase in tax collection (by 3¾ percent of GDP) during 2010–2015. Tax policy measures included indirect tax reforms and the removal of exemptions, while tax administration measures improved tax compliance. Aid dependence was significantly reduced during the reform period, as originally intended.

Background

Rwanda is a country with inadequate basic infrastructure and heavy dependence on donor aid. It achieved high growth and macroeconomic stability over the decade, but poverty remained high, with 57 percent of the population living below the national poverty line in 2006. Rwanda had long been relying heavily on donor aid (with total external grants exceeding 40 percent of the total fiscal revenues in 2008), while domestic revenues stood only at 12.5 percent of GDP. Nevertheless, spending needs for basic infrastructure—covering both communication and transportation networks—were high, and the government's strategic investment plan aimed to alleviate critical infrastructure constraints, consistent with the objectives of the government's Economic Development and Poverty Reduction Strategy.

Figure 10. Rwanda: Total Tax Revenues
(Percent of GDP)

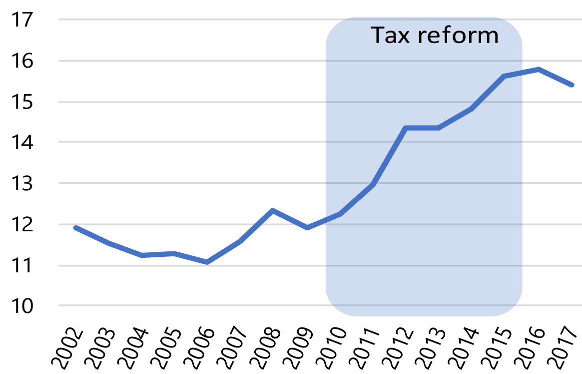
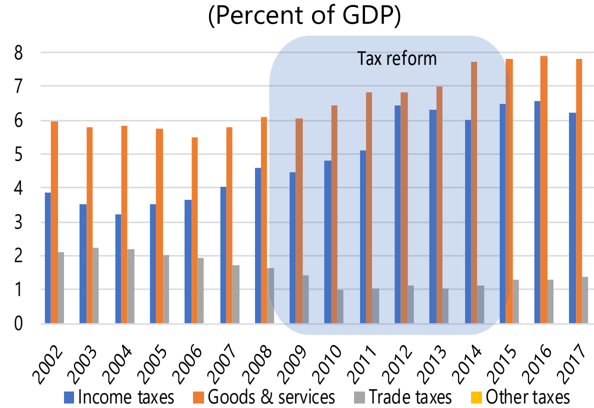


Figure 11. Rwanda: Tax Revenues by Item
(Percent of GDP)



Sources: Country authorities and IMF staff estimates.

There was a need to address a prospective decline in official donor assistance and trade tax revenue. The authorities were certain that official assistance would be declining slightly over the medium term. In addition, taxes from trade were also expected to decline after 2010 when the East African Community (EAC) Common Market became effective, and Rwanda implemented the EAC Common External Tariff Framework. Thus, against the backdrop of increasing aid uncertainties and an expected decline in trade revenue, the government decided to increase domestic revenue mobilization and prioritize spending in support of development.

Reform Strategy

Enhanced revenue efforts were needed to reduce Rwanda's aid dependency and to provide fiscal space for critical development spending. These efforts were supported under two three-year Policy Support Instrument (PSI) programs with the IMF (approved in June 2010 and in December 2013). Under the program, the authorities agreed on revenue measures to achieve the PSI medium-term revenue targets and planned fiscal consolidation to reduce aid dependence and create fiscal space for development spending. The authorities agreed on the importance of increasing domestic revenues—by 2 percent of GDP—over the PSI period, backed up by significant revenue administration reforms. The authorities maintained the momentum to improve revenue collection with a successor PSI program, which also focused on domestic revenue mobilization.

The revenue reform strategy focused on strengthening revenue administration, complemented by tax policy reform measures.

- **Key tax administration measures included better utilizing information management systems and improving tax compliance**. Specifically, electronic filing and payment systems were introduced (2010–2011), and electronic tax registration was implemented. Furthermore, a headquarters design and monitoring function was established and staff was trained, basic risk management approaches were implemented as well as systems and procedures based on self-assessment, direct bank payment of tax was introduced in order to reduce leakages, the tax and business registration process was integrated to ease cost of doing business, and collection of social security contributions was transferred to the Rwanda Revenue Authority (RRA).[28] Other administration measures include automating tax and custom operations and implementing a customs Single Window for trade facilitation. The RRA also enforced VAT compliance, by introducing electronic transactions device (ETD) and withholding VAT at source by government departments, and increased collection of tax arrears.
- **On the tax policy front, the key measures focused on raising the rates for several indirect taxes**. From July 2012, the tax rate for imported construction materials increased from 5 percent to 10 percent. For excise taxes, there was an increase in excise duty on airtime of mobile phones from 5 to 8 percent, then to 10 percent between 2011 and 2014. On direct taxes, the personal income tax (PIT) for micro enterprises was revised by introducing a schedular tax on turnover below 12 million in September 2012. The authorities reduced the turnover tax for small enterprises from 4 to 3 percent and raised the ceiling for this regime from 20 to 50 million, also in September 2012. In 2015, the authorities increased tariffs for water and electricity by 19 and 35 percent, respectively. Furthermore, the FY15/16 budget included an excise tax on petroleum, higher excise tax on tobacco and import tax on non-EAC products.

[28] According to IMF (2018b) on "The IMF and Fragile States: Eight African Country Cases", IMF TA was instrumental in creating the Rwanda Revenue Authority, a key institution.

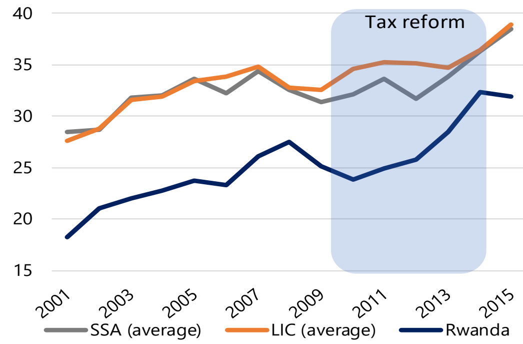
- **The authorities also removed some tax exemptions** through changes in the tax code. The investment code was revised to streamline exemptions. Incentives granting VAT exemptions on imports for investment certificate holders were also removed.

Revenue Outcomes

Rwanda's tax-to-GDP ratio increased by 3¾ percent of GDP between 2010 and 2015. The decline in trade revenue (from adopting the EAC common external tariff) was offset by increasing revenue from taxes on individuals and consumption. Furthermore, measures such as increasing excise rates, and removing tax exemptions on specific items contributed to the increase in tax revenues.

Figure 12. Rwanda: VAT C-Efficiency

(Percent)



Sources: Country authorities and IMF staff estimates.

With these reforms, the collection of VAT (net of refunds) increased by 1¾ percentage points of GDP during the reform period, reflected in an increase in the VAT C-efficiency ratio (Figure 12). Though Rwanda's C-efficiency ratio stayed below its peers following the tax reforms, it has been moving closer towards the regional and LIC averages. The improvement is likely associated with strengthened tax compliance (through tax administration reforms) and the removal of some VAT exemptions.

F. Senegal (2010–2017)—Undertaking Policy and Administration Reforms

Senegal recorded an increase in its tax revenue from 18 percent of GDP in 2009 to 20.9 percent of GDP in 2017 after a revenue shortfall in 2008.[29] *This improved performance was likely associated with vast revenue administration reforms combined with a simplification and a recentralization of the tax system.*

Figure 13. Senegal: Total Tax Revenues

(Percent of GDP)

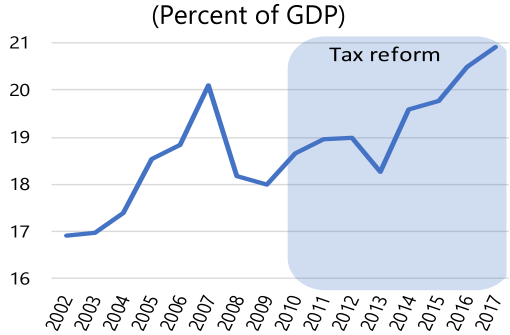
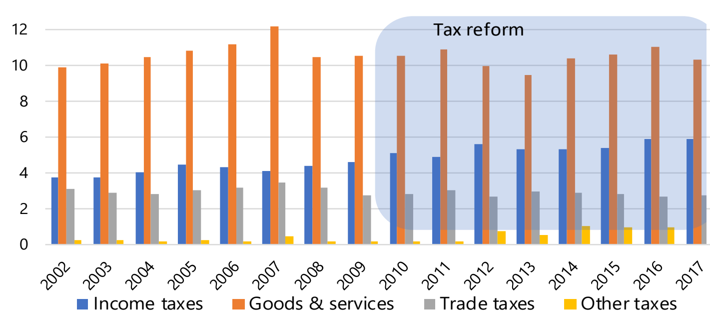


Figure 14. Senegal: Tax Revenues by Item

(Percent of GDP)



Sources: Country authorities and IMF staff estimates.

Background

[29] A hike in tax revenues in 2007 was largely driven by an increase in VAT on imports associated with some large FDI projects.

Senegal's economy was hit by external and domestic shocks in the mid-2000s. First, the sharp run-up in international food and energy prices during 2006–2008 increased the import bill. Second, partly related to the high budgetary costs of untargeted subsidies, the government accumulated sizable payment delays to the private sector. This affected the economy, with non-agriculture GDP growth declining from 6¼ percent in 2007 to 1 percent in 2009. The overall fiscal deficit widened to 5.1 percent of GDP in 2009 from 3.7 percent of GDP 2 years earlier because of lower tax revenues and higher expenditures.

The reform agenda was initiated by the authorities—particularly by the General Directorate of Taxes (DGI)—with support from the IMF. During the period, the two IMF programs under the PSI (2008-2010, and 2011–2014) were arranged with a view to achieving prudent fiscal policy through the rationalization of expenditure and various tax reforms. Senegal benefited from considerable TA from the IMF on tax policy and revenue administration. Through the reforms, the authorities aimed at raising tax revenue beyond 20 percent of GDP by making the tax system more efficient.

Despite a change in administration, the new administration pursued planned reforms with the support of the international community. Mr. Macky Sall, a former prime minister, won the presidential election in 2012, and a coalition government was appointed with a new prime minister and finance minister. The new authorities reaffirmed their intention to reform the state, improve governance, preserve fiscal sustainability, and continue with IMF support under the PSI. They proceeded with the planned ambitious reform of the tax code, publicly stating their intention to make the tax system simpler, more transparent, and more efficient.

Reform Strategy

While Senegal's tax collection was already high in a regional perspective, the authorities aimed to enhance tax collection to create fiscal space for critical infrastructure and social spending. Prior to the tax reform, Senegal collected taxes of 18–20 percent of GDP and performed relatively well compared to other countries in the region. Higher revenues (supported by further strengthening tax administrations and implementing other tax reform measures) were expected to increase the fiscal space for critical infrastructure and social spending.

The strategy focused on major tax policy and administration reforms.

- **Tax policy measures focused on consolidating the tax code and simplifying some major taxes**. To recentralize the tax system, the authorities included all legislation governing domestic taxation into the Tax Code in 2012. The 2012 reforms allowed the ministry of finance to regain full control over the country's tax policy by streamlining some tax expenditures that were outside of the previous tax code. In addition, the authorities expanded the scope of the tax expenditure assessment. Some major taxes were simplified, for example, with the elimination of (i) the proportional PIT and the tax shield (*bouclier fiscal*) to make the PIT simple and progressive, and (ii) the "*quotient familial*", an income splitting scheme based on the number of dependents which was highly regressive (because it

benefited mostly to high-income individuals with large families). In 2017, The ''*Patente*'', a tax levied on the basis of the productive assets of companies, was reformed (to avoid taxing capital) and replaced with the ''*Contribution économique local (CEL).*'' The CEL is based on the rental value of the premises and the value added of companies. Furthermore, on VAT, the authorities significantly diminished the occurrence of the refunds by limiting the VAT withholding (*précomptes*).[30]

- **Revenue administration reforms focused on strengthening taxpayer segmentation and improving the tax collection function**. Segmentation was extended to medium-sized taxpayers in 2012 by creating the Center for Medium-Sized Enterprises (CMZE) covering businesses with turnover of FCFA 200 million to FCFA 1 billion. Measures to improve the compliance management of this segment included: (i) identifying and delineating new taxpayers to be administered under the CMZE; (ii) updating the taxpayer file in SIGTAS; (iii) launching an awareness campaign for new taxpayers under the CMZE for the effective fulfillment of their tax operations; and (iv) implementing case management, monitoring the execution of tax audit and systemic use of e-filling and e-payment. With these measures (implemented with TA by the IMF and AFRITAC West), the authorities achieved: (i) a better targeted tax control that allowed an increase in the number of firms covered under the CMZE by 35 percent within one year, (ii) a reduction in filing and payment noncompliance rates under the CMZE (less than 10 percent in 2013 compared to more than 50 percent previously), and (iii) a 60 percent increase in tax collection for this segment (from 25 to 40 billion FCFA). The function of the revenue authority was strengthened through the institutional restructuring of the DGI headquarters.[31] and the transferring of the direct tax collection function from the treasury to the tax administration (which enabled the latter to improve monitoring of taxpayers' compliance with their payment obligations).

Senegal's approach for tax reforms was inclusive with consultations with employers and labor unions. The authorities proposed tax reform measures that were prepared in consultation with employers and labor unions. These had the opportunity to provide inputs and comments on the draft version of the new tax code. This inclusive approach created a greater acceptance of the reforms.

Revenue Outcomes

[30] The tax rate on real estate transaction value was reduced significantly from 15 percent to 10 percent in December 2012 and to 5 percent in March 2015 to: (i) facilitate access to land; (ii) increase the mobilization of revenue by reducing cases of concealment or markdown in real estate transactions; and (iii) reduce transaction costs for both domestic and foreign investors.

[31] The authorities strengthened the General Directorate of Taxes headquarters function by creating three sub-directorates: (i) case management service to plan and monitor field delivery services, (ii) enforce collection service to manage and monitor tax arrears, and (iii) audit service to carry out tax information management and to plan and monitor the execution of tax audits by the field delivery services.

Senegal achieved gradual improvement in tax revenues. The tax-to-GDP ratio increased from 18 percent of GDP in 2009 to 20.9 percent of GDP in 2017.[32]. Among tax items, though trade taxes and indirect taxes did not improve much during the period, income taxes increased significantly, likely reflecting reform efforts described above. A notable feature of Senegal's tax reform is that it achieved modest but long-lasting impacts on tax revenues, with tax-to-GDP ratio improving for seven consecutive years.

G. Uganda (2013–2017)—Removing Tax Exemptions Through Strong Political Will

To secure fiscal space for infrastructure investment, Uganda undertook tax reforms between 2013–2017. During the period, and supported by political will, tax revenues increased by 3.5 percentage points of GDP, largely through removing tax exemptions.

Figure 15. Uganda: Total Tax Revenues
(Percent of GDP)

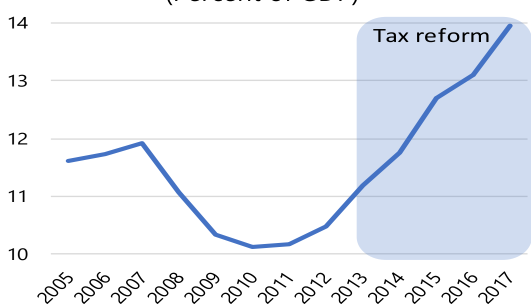


Figure 16. Uganda: Tax Revenues by Item
(Percent of GDP)

Sources: Country authorities and IMF staff estimates.

Background

Uganda had maintained prudent macroeconomic management for decades. Through 2010, per capita income grew at about 4 percent per annum over a decade, and inflation remained in single-digit territory. Fiscal deficits had been modest and public debt stood at 25 percent of GDP. Against this background, the main thrust of the 2011/12 budget was to address the challenges of rising inflation and inadequate infrastructure development, as well as improving social infrastructure and service delivery.

Uganda's tax revenue performance was weak. Uganda had suffered from the lowest tax-to-GDP ratio (about 10 percent of GDP) in the East African Community (EAC), despite its tax rates being in line with regional standards. A VAT gap analysis estimated a gap of about 60 percent

[32] Tax revenue decreased in 2013. This is due to the overall impact of the PIT reform (the elimination of the proportional PIT and the tax shield). This induced a decrease in revenue of about FCFA 30 billion. The adverse impact was temporary and tax revenue bounce back in 2014.

(equivalent to 6 percent of GDP), of which 40 percent was related to compliance issues and 20 percent was attributable to tax policy issues.[33]

Under the stable political environment, the National Development Plan (NDP) (2010/11–2014/15)—covering domestic revenue mobilization—was implemented. President Museveni has been in office since 1986 and was re-elected by a wide margin (68 percent) in February 2011. Under the NDP, the Ugandan government aimed at strengthening domestic revenue mobilization to build fiscal space for investments and to reduce their reliance on donor funds. By the end of the NDP, the government targeted to raise the revenue to GDP ratio by about 0.5 percent per year over the medium term through a combination of broadening the tax base and improving tax administration.

Reform Strategy

Enhancing tax revenues was essential to secure fiscal space and ensure fiscal sustainability. The authorities recognized the need for tax reforms, in view of Uganda's poor tax performance, and the declining trend of foreign aid.

The tax reforms covered mostly tax policy measures.

- **On the tax policy front, the focus was on eliminating tax exemptions and reforming excise taxes**.[34] The VAT system was reformed by submitting a new tax code ('revenue package') to reduce many exemptions (e.g., eliminating VAT exemptions on sales of motor vehicles or trailers, extending VAT to computers), terminate VAT exemptions on hotels, and increase the VAT threshold. Other tax policy reforms include: (i) increasing by 10 percentage point the marginal rate (from 30 to 40 percent) in the top bracket of the PIT, (ii) increasing excise duty on locally produced spirits from 45 percent to 60 percent, (iii) increasing excise duty on cigarettes by almost 60 percent in 2014[35] (iv) imposing excise duty on imported fresh juices and, (v) increasing excise taxes on a variety of products: fuel, sugar, mobile money transfers, and international calls . In 2016, the authorities implemented the Tax Procedures Code. It provides a single regulation on all procedural aspects relating to taxes and aims to streamline and clarify tax procedures. In 2017, URA implemented the Regional Electronic Cargo Tracking System (RECTS), a web-based system to monitor transit cargo in the EAC and improve revenue collection.

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[33] The analysis was undertaken by IMF TA in 2013 using the Revenue Administration—Gap Analysis Program (RA-GAP). The VAT gap is the difference between revenue actually collected and the potential revenues that could have been collected by perfectly enforcing the standard VAT rate applied to various classes of taxable items. The report is available at: *https://www.ura.go.ug/Resources/.../INLB/Uganda%20RA-GAP%20RPT%20(2).pdf*

[34] The tax policy framework in Uganda was characterized by many exemptions and special treatments. In 2012, 21 items were subject to domestic zero-rating, and the VAT law included 73 exemptions.

[35] In 2015, members of the EAC further increased excise duty on cigarettes to comply with the World Health Organization tobacco control regulations (WHO, 2014).

- **Tax administration reforms focused mostly on better segmentation of taxpayers**. The authorities established a high net worth individuals (HNWI) unit[36] as part of the LTO and strengthened the medium-sized taxpayer office (MTO) to improve taxation of these segments. URA established a list of potential HNWI taxpayers and conducted outreach to educate them on their rights and obligations to pay taxes. Following the establishment of the unit, both the number of taxpayers and the tax collection of this segment increased substantially.[37] IMF and AFRITAC East consistently supported URA to establish and strengthen the MTO.[38] The creation of the MTO was necessary to emulate the already existed LTO and to secure and improve compliance of a segment that accounts 20-25 percent of domestic tax collection. The headquarters design and monitoring function was refined to address emerging challenges, business processes were redesigned and automated, risk management concepts were further developed, and intensive recruitment exercises led to significant expansion of the taxpayer register. In addition, URA improved the quality of its taxpayer services by, for example, using e-tax services to facilitate taxpayers' registration, filing and payments.[39]

These tax reforms were implemented with strong initiatives by the head of state. The NDP clearly recognized that domestic revenue mobilization was "the hindrance to fiscal policy," with the revenue-to-GDP ratio being largely stagnant over the decade (since the tax reforms in mid-1990s).[40]

Revenue Outcomes

With these reforms, Uganda increased tax revenues from 10½ percent of GDP in 2012 to 14 percent of GDP in 2017. In five years, Uganda almost closed its tax revenue collection gap with respect to the average in the EAC. Taxes on goods and services account for half of the increase in tax revenue reflecting reforms described above. More recently, URA benefited from a Tax Administration Diagnostic Tool (TADAT) to determine its reform priorities. In addition, Uganda initiated a process to adopt a Medium-Term Revenue Strategy (MTRS), involving the

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[36] For more details see Kangave *et al.* (2017), ''Taxing High Net Worth Individuals: Lessons from the Uganda Revenue Authority's Experience'', International Centre for Tax and Development.

[37] The number of HNWI increased from 17 to 117; the numbers of filing in this segment increased from 13 to 78 percent and; and total taxes collected from this segment increased from USD 0.39 million to USD 5.5 million within a year. The share of revenue from HNWI in total tax revenue increased from 0.01 percent in 2015 to 0.2 percent in 2016.

[38] Key areas of intervention focused on: (i) the definition and the characteristics of the MTO, (ii) the organizational structure and functions of the MTO and; (iii) defining compliance strategies for the MTO.

[39] In light of potential scope to further raise tax revenues, Uganda has recently initiated a process that focuses on a comprehensive strategy—as opposed to a piecemeal approach— by adopting a Medium-Term Revenue Strategy (MTRS) in 2017. The MTRS involves the formulation and implementation of the tax reforms—tax policy, tax and customs administration and legal measures—to achieve its medium-target objective of raising tax revenues to 16 percent of GDP.

[40] The Republic of Uganda, ''National Development Plan – 2010/11-2014-15'', April 2010.

coherent and structured reforms of its tax system (tax policy, customs administration, and legal measures) to achieve its medium-target objective of raising tax revenues to 16 percent of GDP.

III. Lessons Learned from the Case Studies

Although reforms must be tailored to individual circumstances, three lessons stand out: (i) As is widely recognized, tax reforms require first and foremost political commitment and buy-in from key stakeholders;[41] (ii) Countries that pursue both revenue administration and tax policy reforms tend to see much larger and persistent gains; and (iii) A successful strategy often starts with fiscal reform measures with immediate effect to build momentum. The main directions of reform include: simplifying the tax system; curbing exemptions; reforming indirect taxes on goods and services (e.g., excises); and better managing compliance risks through strengthening taxpayer segmentation (often beginning with strengthening the LTO). A comprehensive reform strategy (e.g., MTRS) can help to properly sequence reform measures and facilitate their implementation. The broad lessons about the "how" of revenue mobilization could be grouped into the following categories:[42]

Political Economy and Social Dialogue with Stakeholders

Political commitment facilitates coordination by all relevant agencies and encourages implementation of tax reforms. Notably, in LICs where institutions are weak and large taxpayers could use their political connections to avoid compliance, high-level political commitment is critical to help contain resistance of vested interests.[43] Among the case studies, tax reform was apparently driven by high-level political commitment in some cases (e.g., Burkina Faso and Uganda). It is important to note, however, that political commitment is a necessary but not a sufficient condition for successful tax reform. Political commitment alone—without a properly designed reform strategy or reform measures matching institutional capacity—does not necessarily lead to successful outcomes. Country cases show that conditionality in IMF-supported programs helps promote national ownership of strong policies. In most country cases, the presence of an IMF-supported program often plays an important role in accelerating tax reforms,

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[41] It is important to note that all the countries had IMF programs during the reform period. As outlined in Crivelli and Gupta (2014), IMF programs tend to have a positive effect on tax revenue, particularly in cases where revenue conditionality applies. This is because an increase in the use of revenue conditionality reflects greater reliance on IMF's TA and the desire of countries to implement technical advice. Also, in some countries revenue mobilization efforts were in response to deteriorating fiscal conditions (e.g. Maldives, Mauritania, and Senegal).

[42] These lessons need some cautions. We look at only successful cases, which limits how much one can conclude. Also, all cases except Senegal started from very low tax levels, which may have made revenues easier to raise. Furthermore, as not all of the measures adopted in these case studies would be seen as good practice for others, reform measures need to be tailored to country circumstances.

[43] IMF (2016) notes that, for developing countries, an indispensable prerequisite to improving tax capacity is commitment from country authorities. More specifically, in view of "not entirely successful" experiences of early LTO initiatives in Anglophone African countries from the late 1990s, Kloeden (2011) points to weak political commitment, backlash from large taxpayers, and most commonly, internal tensions (caused by separate VAT and income tax departments) as causes of such outcomes.

by helping overcome resistance, supporting discussions with key stakeholders, and facilitating implementation of reform measures.

Political commitment can still be secured in a weak institutional environment. Many of the country cases started their revenue reforms with weak administrative capacity/institutions (e.g., Burkina Faso). With political commitment, these countries stepped up tax reform efforts, often assisted by TA.

Social dialogue enhances buy-in from stakeholders. A buy-in from stakeholders would help secure political and social support for tax reform, as well as potentially improve design. Effective communication with stakeholders that emphasizes the intended benefits of reforms—or the cost of maintaining the status quo— can help mitigate resistance to reforms (IMF, 2015a). For instance, in Senegal, the government enhanced the likelihood of the tax reform being implemented and sustained by undertaking consultation with employers and labor unions.

Tax Policy Reforms

What do these seven country cases teach us about how best to undertake tax policy reforms? While there is no one-size-fits-all solution, four lessons emerge that are generally in line with FAD advice.

- *Remove/reduce tax exemptions.* Removing or curbing exemptions would enhance the tax base and increase tax revenues, while reducing the tax system's complexity (to enable more efficient tax administration). Many countries incur a sizable loss of revenue through ill-designed exemptions, such as costly tax holidays and other incentives to attract investment.[44] Additionally, discretionary granting of exemptions provides opportunities for corruption. Five of the seven countries removed or reduced tax exemptions. Uganda reduced many exemptions for the VAT (several goods were removed from zero-rating). In the case of Mauritania, the exemptions on CIT were removed to enhance revenue by 1.3 percentage points of GDP. Rwanda revised the investment code to eliminate some exemptions and removed incentives granting VAT exemptions on imports for investment certificate holders. It should also be noted that, although removal of tax exemptions can be a done quickly (with support from key stakeholders), it is easy to reverse the reform.
- *Simplify the tax system.* A simpler tax system, that is easy to understand, can be important in fostering taxpayer compliance, as seen in the reform examples in Burkina Faso and Senegal. Notably, simplicity of the tax system and legislation could improve tax administration in weak states that lack such basic institutions, such as security, and a well-functioning judicial system.
- *Reform indirect taxes on VAT and general (other) goods and services taxes*. The VAT—though it would require thorough preparation—has proved to be an efficient and strong revenue booster: countries that introduce a VAT tend to raise more revenue than those without one

[44] For options for LICs' effective and efficient use of tax incentives for investment, see IMF (2015b).

(Keen and Lockwood, 2010). The Gambia replaced a general sales tax with a VAT in 2013 to broaden the tax base and lift indirect tax revenues by 1–1.5 percent of GDP. Mauritania implemented VAT reforms (e.g., covering the mining sector, broadening the tax base, increasing the VAT registries) and improved VAT C-efficiency from 37 percent in 2009 to 72 percent in 2012. Maldives introduced the tourism sector goods and services tax (TGST) and the general goods and services tax (GGST) in 2011 to achieve a sizable increase in indirect taxes.

Reform indirect taxes on excises. Increasing excise taxes for specific goods (e.g., cigarettes, alcoholic beverages, and motor fuels) This could be an effective measure because such taxes can raise revenue rather quickly without fundamental changes to the tax system.[45] The fact that their relative inelasticity is heavier than normal taxation is also a rationale for reforming excise taxes. Furthermore, excises on these specific goods could work as corrective tools to alter individual behavior in a way that is socially desirable. For example, The Gambia introduced an excise tax on cigarettes, which increased tax revenue by 0.5 percent of GDP. Burkina Faso increased the excise tax for alcoholic beverages, as did Mauritania on tobacco.

Revenue Administration Reforms

Successful revenue mobilization rests on broad-based strategies that recognize that *what* and *whom* to tax (tax policy) should go hand in hand with *how* to tax (revenue administration). It should be developed with the longer view in mind, as institutional changes happen only gradually.

In most case studies, revenue administration reforms featured prominently and covered a broad spectrum of legal, technical, and administrative measures, such as:

- *Enhancing management, governance, and human resources*. Six of the seven countries implemented some management and governance changes. For example, headquarters design and monitoring functions were set up or refined in The Gambia, Rwanda, Senegal, and Uganda which improved capacity to design and monitor delivery of administrative programs. HR reforms, in Maldives and The Gambia for example, helped to support tax collection, including by hiring more qualified staff and investing in strengthening the technical skills of staff of revenue agencies.
- *Establishing or strengthening the segmentation of taxpayers.* To properly manage tax compliance risk, the segmentation of taxpayers—taking into account different characteristics and compliance risks—is critical. Taxpayer segmentation improves the organization and operations of tax administration, beginning with the establishment and/or strengthening of the LTOs and MTOs. In Burkina Faso, Senegal, and Uganda, taxpayer segmentation approaches were expanded to the medium taxpayer segment through setting up of MTOs,

[45] While selective excise and broad-based consumption taxes are efficient sources of revenues, it is important to ensure that countries have access to strong safety nets that adequately protect vulnerable from associated price increases. However, discussing this issue is beyond the scope of this paper.

initially in their capitals (Ouagadougou, Dakar and Kampala, respectively) and implementing appropriate compliance programs for this segment. As a result, filing and payment compliance was facilitated across this segment.

- *Enhancing compliance risk management*. Identifying, assessing and mitigating compliance risks is important to support the functioning of the tax administration. Reforms should be comprehensive by targeting all segments and covering all domain of compliance risk management (registration, filing, payment, and reporting). Senegal, Rwanda, and Uganda established fundamental elements of a compliance management system, while Maldives launched an audit program to enhance tax compliance.
- *Introducing more modern business procedures leveraging on IT.* Successful revenue mobilization hinges on managing information and leveraging the power of data to improve compliance and fight tax fraud. All seven countries studied have taken advantage of IT systems to advance their revenue mobilization reforms. Uganda, for instance, redesigned business processes and automated them using e-tax. Also, Maldives installed core IT systems, and e-filing/e-payment was implemented and used by large businesses for TGST, withholding tax, green tax, and remittance tax returns. Rwanda automated tax and customs administration, which facilitated an improvement in coordination between the tax and customs offices. In addition, Rwanda introduced electronic filing and implemented electronic registration which help to improve the registration process. In this context, IMF (2018a) also discusses the role of new technologies (that is, digitalization) to empower policymakers with quicker access to more reliable information and to enhance the tax base. It is important to stress, however, that IT alone is not enough. IT improvements will need to go hand in hand with advances in other administrative procedures to realize the full benefits (IMF 2015b).

  Most country cases also tackle the challenge to reforming customs administration. Improving compliance and strengthening the customs clearance process can help to boost tax revenue. For instance, Burkina Faso used the Automated System for Customs Data to connect five additional border posts to improve customs clearance procedures and limit fraud. Customs reforms were also implemented in other cases such as, The Gambia and Rwanda.

Reform Strategy

A properly designed tax reform strategy can facilitate reform implementation, with tangible results. Such a strategy will help to identify the areas of reform needs, harmonize reforms among three tax system components (tax policy, administration, and legal framework), properly sequence reform measures, and facilitate the implementation. In Burkina Faso, a comprehensive tax reform strategy was adopted in early 2010 to streamline tax incentives and simplify income tax legislation. More recently, Uganda initiated a process to adopt a MTRS, involving the reforms of its tax system (tax policy, customs administration, and legal measures) to achieve its medium-

target objective of raising tax revenues to 16 percent of GDP.[46]

Identifying appropriate measures under such a strategy is essential. Revenue is not all that matters: it can be increased in ways that damage economic efficiency or the fairness of (and hence support for) the tax system. Denying VAT refunds, for instance, can increase tax collection and increase the VAT C-efficiency, but lead to distortive results,[47] turning the VAT in part into a tax on productive inputs. When tax reform is considered, more comprehensive analysis (e.g., country-specific circumstances, distributional impacts) would be warranted to identify a set of appropriate reform measures.

Comprehensive assessments will strengthen identification and prioritization of reform needs. Specifically, as an effective approach to assessing the relative strengths and weaknesses of a tax administration, TADAT has been established since 2014.[48] This helps to provide an objective assessment of the health of key components of a country's system of tax administration. Rwanda and Uganda both benefitted from TADAT country assessments in 2015. Furthermore, a carefully-designed MTRS can be a useful guide to increasing revenue, and if effectively implemented, it would help to improve revenue performance in a relatively short period. An MTRS lays out a comprehensive medium-term revenue reform strategy, covering its policy, administration, and legal components. An increasing number of LICs are currently adopting (or considering to adopt) MTRSs.

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[46] The importance of an MTRS is highlighted in the recent report prepared by the IMF, OECD, United Nations and World Bank Group ("*Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries*", July 2016). (http://www.oecd.org/ctp/enhancing-the-effectiveness-of-external-support-in-building-tax-capacity-in-developing-countries.pdf).

[47] The VAT C-efficiency can be improved by denying VAT refunds to exporters (Keen, 2013).

[48] See TADAT website (http://www.tadat.org/index.html) for details.

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