Increasing affordable and long-term financing:

domestic policy actions

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Macroeconomic Policy and Financing for Development Division
Context

- Significant SDG financing gaps
  5% for A-P average, 16% for LDCs

- Growing public debt pressure
  19 percentage points, 2008-2021

- Tightening global financing environment

- Domestic policy VS international cooperation

Three-pronged strategy

- Ensure productive public investment and efficient public spending
- Enhance domestic public revenue mobilization and international development transfers
- Strengthen sovereign debt management and monitoring
Overview of the chapter

**Public revenue mobilization**

- Taxation as the fiscal backbone
  - Landscape
  - General lessons learned
  - Tax potentials & successful examples in A-P
  - Tax morale
  - Carbon taxes

- Additional fiscal space from non-tax revenues
  - Landscape
  - Land value capture potentials
  - Public asset management

**Domestic savings and long-term financing**

- Domestic savings
  - Landscape
  - Conducive environment for domestic savings
  - Unorthodox measures
  - Financial intermediary

- Long-term financing
  - Landscape
  - Dedicated financing institutions for public/policy purposes

- Other measures to reduce sovereign borrowing premium
Highlights of preliminary findings

Tax revenue mobilization improved substantially in the past decade

- Between 2009-2019, regional average tax-to-GDP ratio increased by 3.5 percentage points to 18.4 per cent
- Above 15 per cent in all ESCAP subregions
- Although regional average is still lower than world average and OECD
Highlights of preliminary findings

The revenue increase was broad-based

- Tax-to-GDP ratio increased in some 3 quarters of the countries

- Most impressive progresses were achieved in least developed countries and countries in special situation
Highlights of preliminary findings

The revenue increase was broad-based

- COVID-19 resulted in significant setbacks in many A-P developing countries

- In contrast, most developed countries managed to increase their tax-to-GDP ratio during the pandemic

  • Why?
Highlights of preliminary findings

GST & CIT drove the tax-to-GDP ratio increase in A-P

• Only marginal contribution from PIT and trade taxes
• But PIT increased in all subregions except for the Pacific; Taxes on property also saw decent growth in EA
## Highlights of preliminary findings

<table>
<thead>
<tr>
<th>Total tax revenue performance</th>
<th>Taxes on goods and services</th>
<th>Corporate income taxes</th>
<th>Personal income taxes</th>
<th>Taxes on property</th>
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</thead>
<tbody>
<tr>
<td><strong>Armenia</strong>, 17.1% - 22.8%</td>
<td><strong>Bangladesh</strong>, 2.8% - 5.1%</td>
<td><strong>Bangladesh</strong>, 1.0% - 1.7%</td>
<td><strong>Armenia</strong>, 1.9% - 6.3%</td>
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<td><strong>Bangladesh</strong>, 7.5% - 8.9%</td>
<td><strong>Bhutan</strong>, 3.8% - 6.9%</td>
<td><strong>Bhutan</strong>, 5.1% - 6.0%</td>
<td><strong>Bhutan</strong>, 0.7% - 1.8%</td>
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<td><strong>Bhutan</strong>, 10.0% - 16.2%</td>
<td><strong>Cambodia</strong>, 5.4% - 12.5%</td>
<td><strong>Cambodia</strong>, 1.3% - 3.7%</td>
<td><strong>Micronesia</strong>, 4.4% - 19.0%</td>
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<td><strong>Cambodia</strong>, 9.7% - 19.7%</td>
<td><strong>Maldives</strong>, 2.0% - 10.5%</td>
<td><strong>Maldives</strong>, 0.8% - 4.1%</td>
<td><strong>Philippines</strong>, 2.8% - 5.1%</td>
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<td><strong>Philippines</strong>, 3.4% - 4.4%</td>
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Highlights of preliminary findings

Generic best-practice policy messages for tax revenue mobilization

• Improvements in tax administration play a crucial role in supporting successful implementation of tax policy reforms
  • Autonomy, governance and staffing of revenue authorities
  • Streamlined, transparent and accountable tax administration processes,
  • Capacity and effort in tax auditing and enforcement
  • Digitalization and automation

• Rate adjustment and reduction in exemptions are most widely adopted measures

• Governments also target economic rents in domestic niche sectors, such as tourism, telecom, or extractive industries

• PIT and property tax reforms are rare

• Only a third of revenue-enhancement reforms fully achieved lasting-gains
### Highlights of preliminary findings

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<td><strong>Methodology</strong></td>
<td><strong>Regression</strong>&lt;br&gt;Dependent variables&lt;br&gt;- GDP per capita&lt;br&gt;- agriculture share of GDP&lt;br&gt;- trade openness&lt;br&gt;- geographical dummies</td>
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<td><strong>Regression</strong>&lt;br&gt;(stochastic frontier model)&lt;br&gt;Dependent variables&lt;br&gt;- GDP per capita&lt;br&gt;- agriculture share of GDP&lt;br&gt;- trade openness&lt;br&gt;- education expenditure</td>
<td><strong>Regression</strong>&lt;br&gt;Dependent variables&lt;br&gt;- specific macroeconomic, demographic, and institutional features</td>
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<td><strong>Main findings</strong></td>
<td><strong>potential for revenue enhancement</strong>&lt;br&gt;- 3.6 per cent of GDP (average)</td>
<td><strong>potential for revenue enhancement</strong>&lt;br&gt;- 3-4 per cent of GDP in larger countries</td>
<td><strong>potential for revenue enhancement</strong>&lt;br&gt;- 3-16 per cent of GDP for low tax effort countries&lt;br&gt;- 0-2 per cent of GDP for high tax effort countries</td>
<td>On average, tax burden in developing Asia-Pacific is on a par with that of advance economies, and substantially higher than that of other developing regions (tax burden is defined as the ratio between actual tax-to-GDP over predicted tax-to-GDP)</td>
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<tr>
<td><strong>Countries with greatest tax revenue improvement potentials (per cent of GDP)</strong></td>
<td>Bangladesh, 7.5&lt;br-Iran, 7.2&lt;br-Bhutan, 6.7&lt;br-Afghanistan 6.2&lt;br-Maldives, 5.8</td>
<td>Myanmar, 8.4&lt;br-Tajikistan, 7.7&lt;br-Cambodia, 5.5&lt;br-China, 4.1&lt;br-India, 3.1</td>
<td>Malaysia, 16.1&lt;br-Thailand, 14.0&lt;br-Pakistan, 10.1&lt;br-Indonesia, 7.4&lt;br-Philippines, 5.9</td>
<td>NA</td>
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</table>
Planned discussions

Tax morale & behavioral factors for tax compliance
Determinants of tax compliance beyond (material) utility maximization

Five channels for tax morale to work:
1. Pride or self-image
2. Good public services for perception of fairness & reciprocity;
3. Peer effects & social pressure
4. Long-run cultural factors, such as established norms and consensus
5. False believes on the probability of being caught for tax misconduct
Planned discussions

Land value capture

- Property tax remains less than 1% of GDP in developing countries
- Even 2% a year will fall short of the needs
- Investments for economic take-off and SD are frontloaded

Modalities for land value capture

1. Auction of land usage right: China
2. Commercial land for infrastructure developer: Hong Kong, China
3. Sales of development rights (zoning, approval fees)
4. Betterment charges
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