Increasing affordable and long-term financing:

domestic policy actions

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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

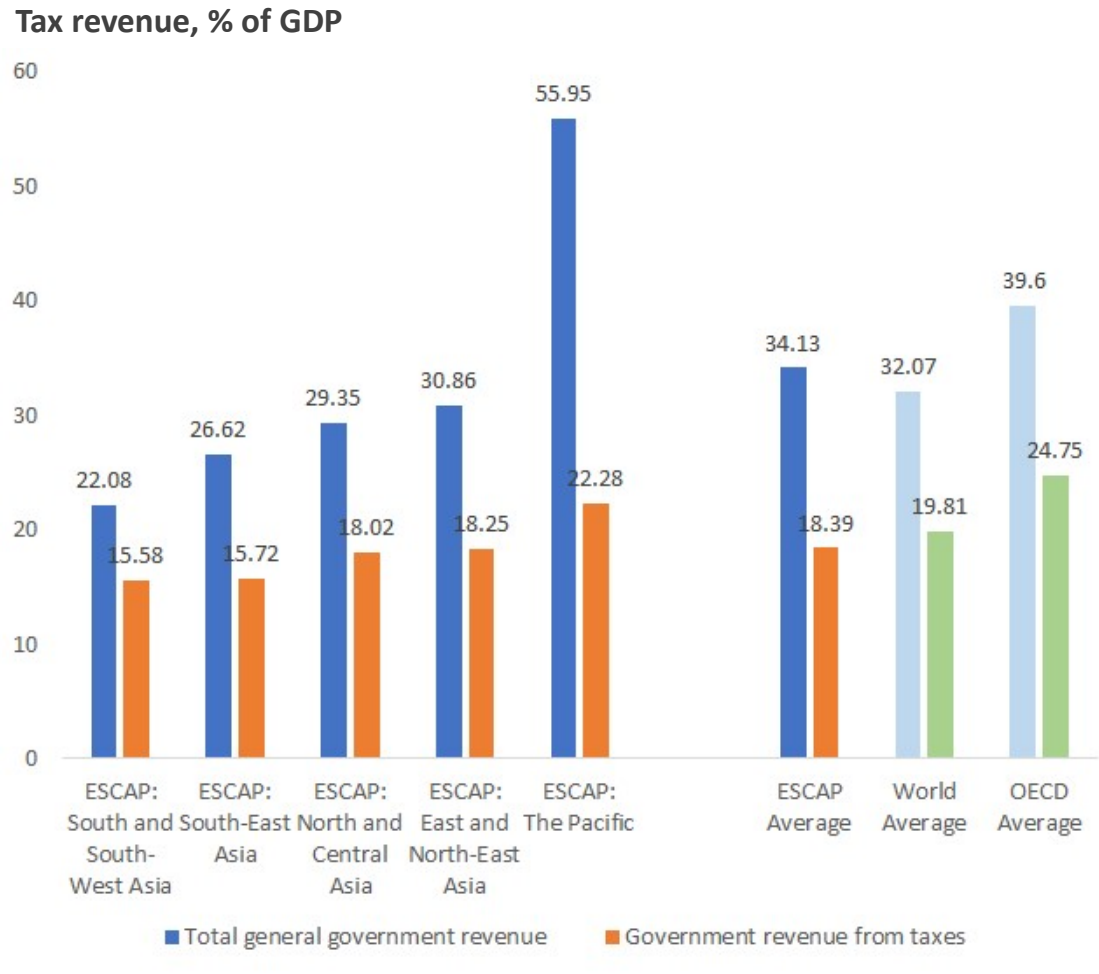
Domestic savings and long-term financing

- **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



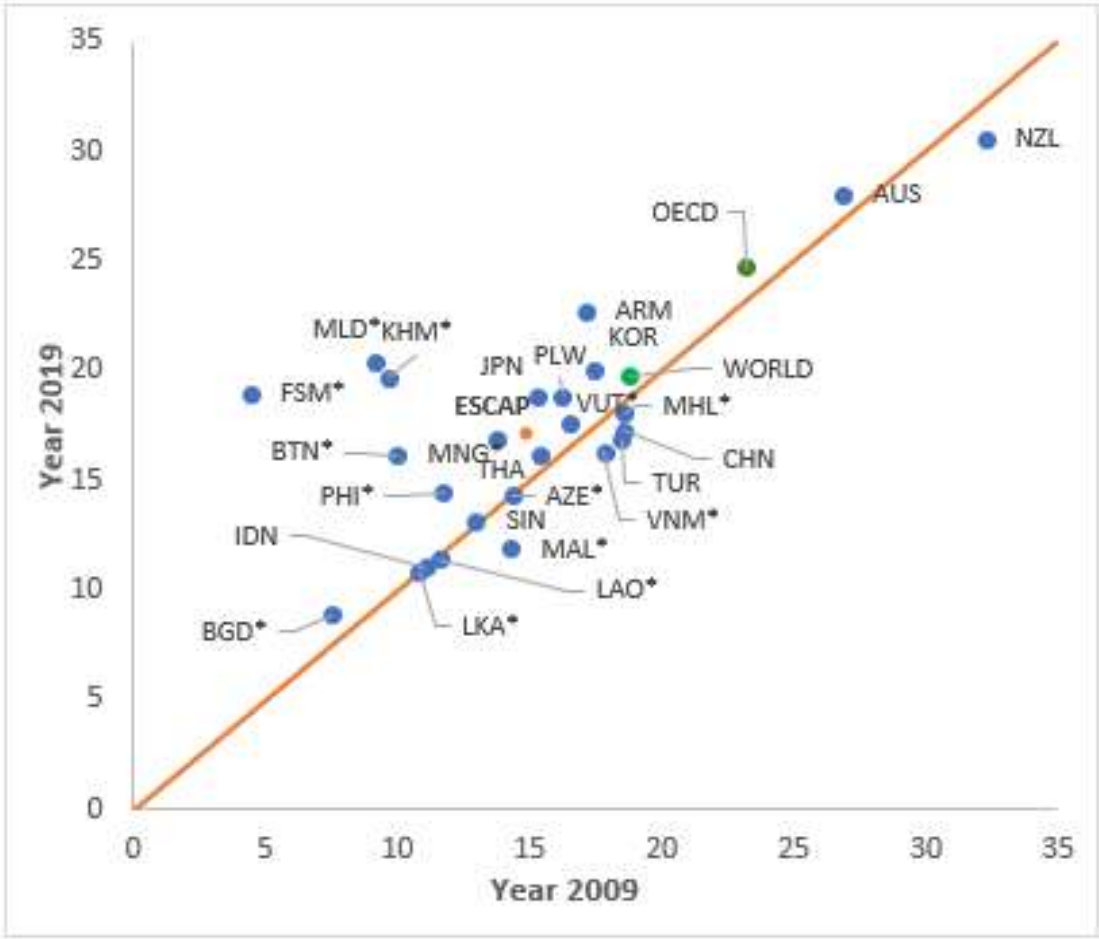
Highlights of preliminary findings

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

Tax revenue, 2009 vs 2019, % of GDP



Highlights of preliminary findings

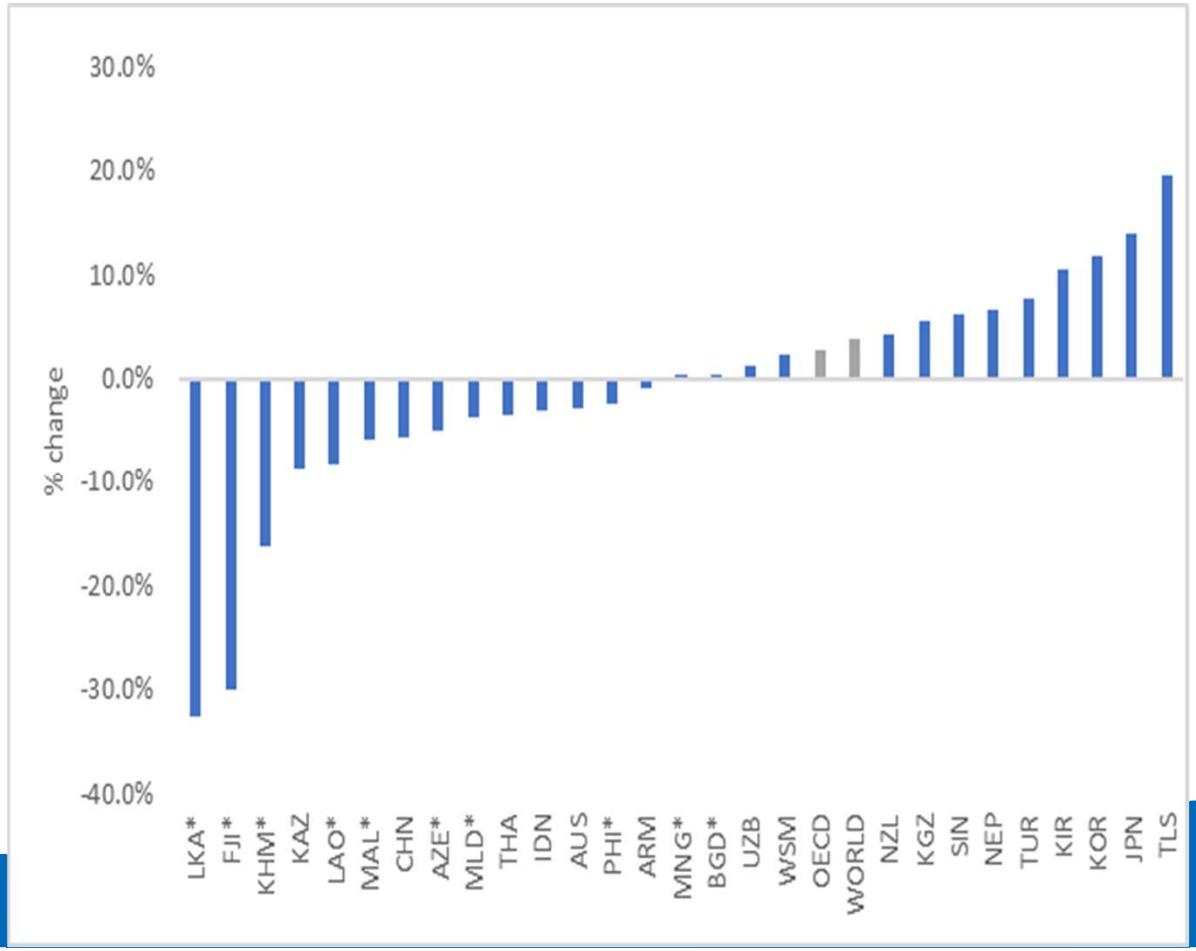
The revenue increase was broad-based

- 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?**

Tax revenue shock during COVID, per cent change in tax-to-GDP ratio

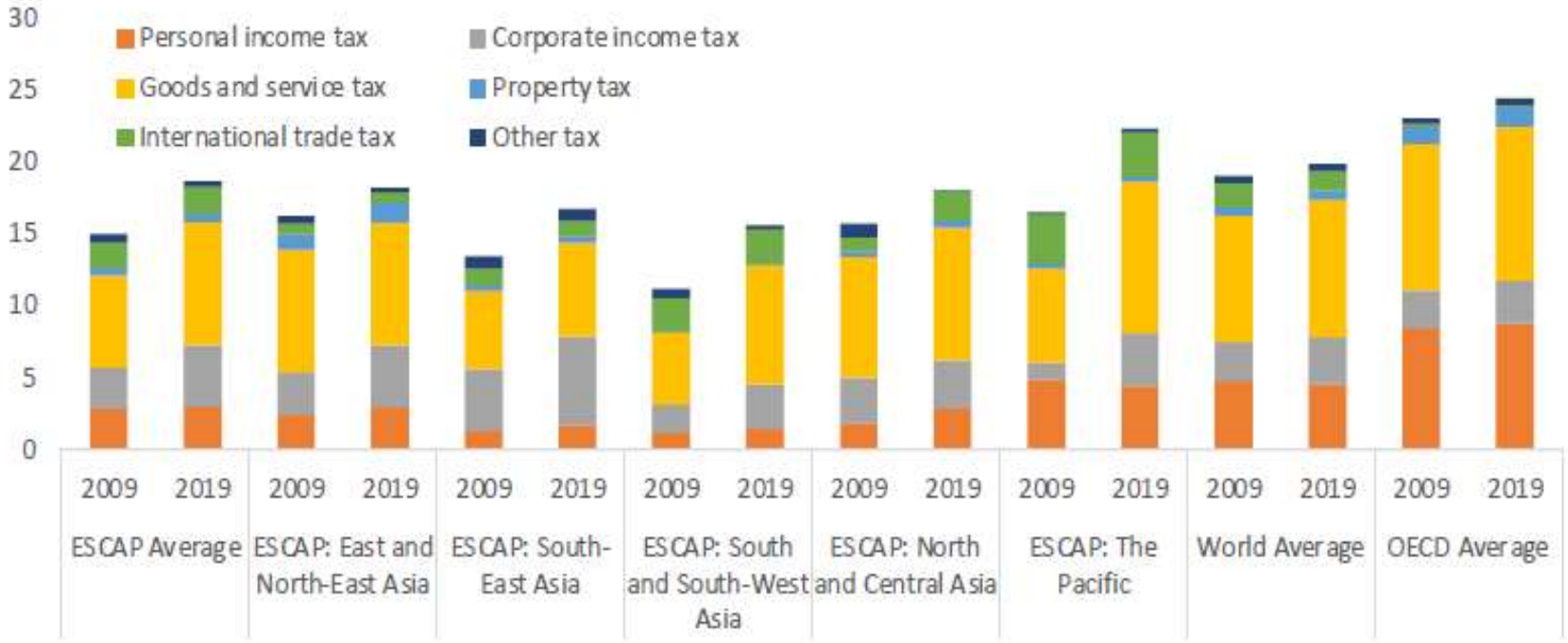


Highlights of preliminary findings

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

Tax revenue by source, 2009 vs 2019, % of GDP



Highlights of preliminary findings

Total tax revenue performance	Taxes on goods and services	Corporate income taxes	Personal income taxes	Taxes on property
Armenia, 17.1% - 22.8%			Armenia, 1.9% - 6.3%	
Bangladesh, 7.5% - 8.9%		Bangladesh, 1.0% - 1.7%		
Bhutan, 10.0% - 16.2%	Bangladesh,2.8% - 5.1%	Bhutan, 5.1% - 6.0%	Bhutan, 0.7% - 1.8%	
Cambodia, 9.7% - 19.7%	Bhutan, 3.8% - 6.9%	Cambodia,1.3% - 3.7%		
Maldives, 9.1% - 20.4%	Cambodia,5.4% - 12.5%	Maldives, 0.8% - 4.1%		
Micronesia, 4.4% - 19.0%	Maldives, 2.0% - 10.5%	Micronesia, 0.0% - 14.9%		
Mongolia, 13.7% - 16.9%		Mongolia, 3.1% - 5.4%		
Philippines, 11.7% - 14.5%	Philippines, 3.4% - 4.4%		Philippines, 1.6% - 2.5%	
Japan, 15.3% - 18.9%	Japan, 5.3% - 6.5%	Japan, 2.6% - 4.6%		
Korea (ROK), 17.4% - 20.0%		Korea (ROK), 2.9% - 3.8%	Korea (ROK), 3.5% - 5.4%	Korea (ROK), 0.9% - 1.8%

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

Study	ESCAP (2014)	ESCAP (2018)	Gupta and Jalles (2023)	Gupta and Jalles (2023)
Methodology	**Regression** Dependent variables - GDP per capita - agriculture share of GDP - trade openness - geographical dummies	**Regression** Dependent variables - tax administration index - various economic, institutional and regional characteristics	**Regression** (stochastic frontier model) Dependent variables - GDP per capita - agriculture share of GDP - trade openness - education expenditure - income Gini	**Regression** Dependent variables - specific macroeconomic, demographic, and institutional features
Main findings	potential for revenue enhancement - 3.6 per cent of GDP (average)	potential for revenue enhancement - 3-4 per cent of GDP in larger countries	potential for revenue enhancement - 3-16 per cent of GDP for low tax effort countries - 0-2 per cent of GDP for high tax effort countries	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)
Countries with greatest tax revenue improvement potentials (per cent of GDP)	- Bangladesh, 7.5 - Iran, 7.2 - Bhutan, 6.7 - Afghanistan 6.2 - Maldives, 5.8	- Myanmar, 8.4 - Tajikistan, 7.7 - Cambodia, 5.5 - China, 4.1 - India, 3.1	- Malaysia, 16.1 - Thailand, 14.0 - Pakistan, 10.1 - Indonesia, 7.4 - Philippines, 5.9	NA

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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