

Building Fiscal Capacity in Fragile States

ITC Conference
June, 2017



Outline

- Characteristics of Fragile States (FS)
- Revenue and expenditure trends
- Approach to designing and implementing fiscal reforms
- Preliminary assessment of outcomes
- Lessons learned

Characteristics of Fragile States

Fragile states: definition

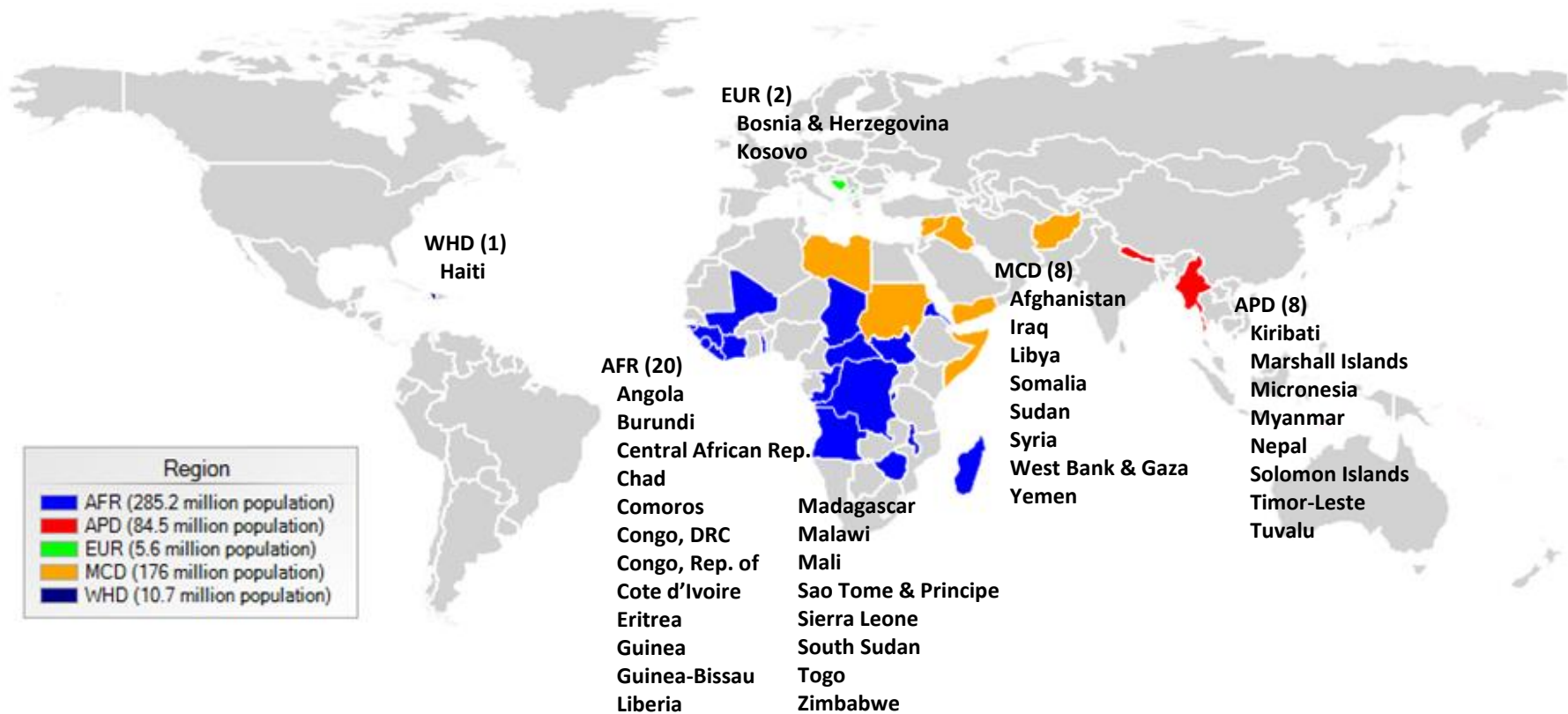
- Definition based on 3-yr average of WB's Country Policy and Institutional Assessment (CPIA) score and/or experience of conflict – 39 total in 2016, 20 in Africa
- During 2006-2016 a total of 53 classified as FS:
 - 19 have remained fragile
 - 18 have 'exited' fragility

Basic economic trends

	2006–2007		2014–2015	
	FS	Non-FS	FS	Non-FS
GDP per capita (US\$)	1,549.25	3,660.67	1,474.83	4,428.59
Real GDP per capita growth (%)	3.1	5.2	-0.9	2.5
Real GDP growth (%)	4.6	6.6	1.9	3.8
Inflation (%)	8.3	6.3	6.1	4.1
Debt (% GDP)	78.4	41.9	44.9	49.9
Current Account Balance (% GDP)	-1.3	-3.8	-5.4	-6.6
Current Account Balance (% Exports)	15.5	-14.8	-0.2	-23.0
Fiscal Deficit (% GDP)	-2.4	-0.2	2.7	3.7
Reserve Assets (% GDP)	15.2	19.8	18.5	21.0
ODA (% GNI)	16.3	4.6	14.0	3.3
Grants (% GDP)	9.2	1.9	4.7	2.1
No. of Countries	38	93	38	93

Source: IMF World Economic Outlook (WEO) Database, IMF World Revenue Longitudinal Database (WoRLD), World Bank World Development Indicators (WDI) Database.

Geographic distribution, 2016



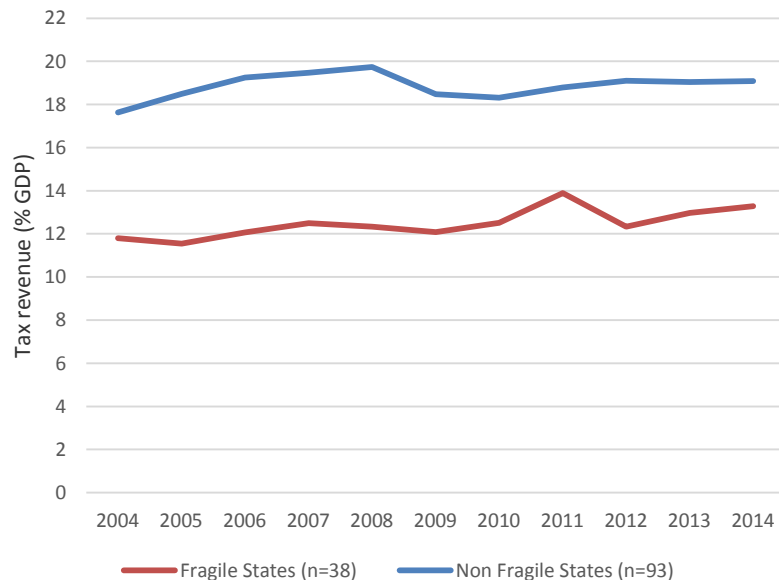
Notable features

- External or internal wars
- Vulnerable to natural disasters
- Corruption
- Poor governance and weak institutions
- Incidence of IMF programs

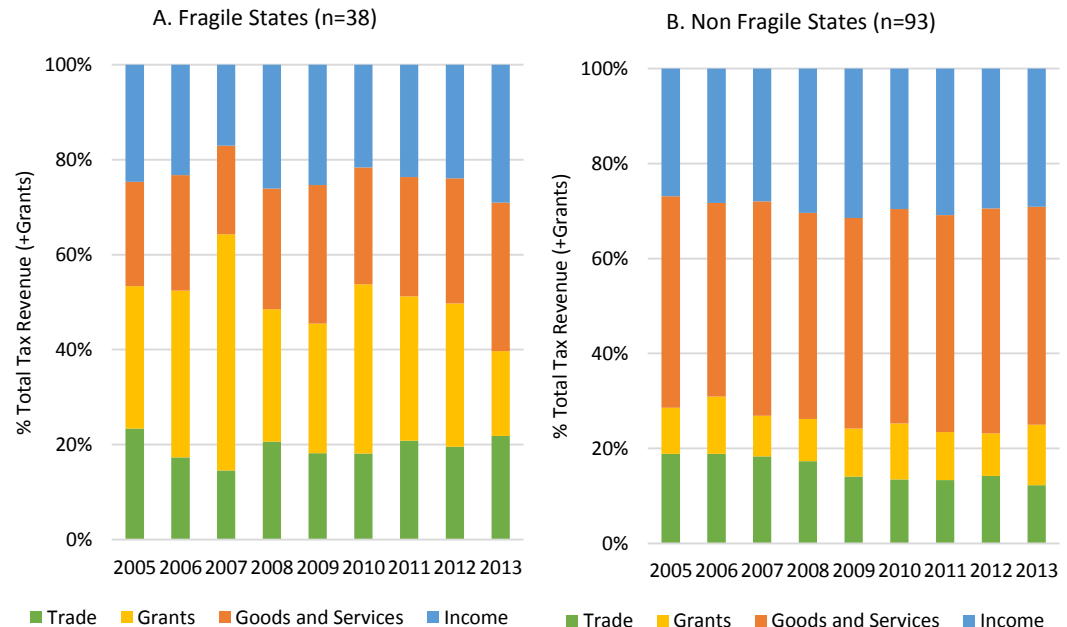
Revenue and expenditure trends

Tax revenue ratios are modest and show less diversified sources compared to non-FS

Tax Revenue to GDP Ratio: 2004-2014
(weighted average by GDP per capita)



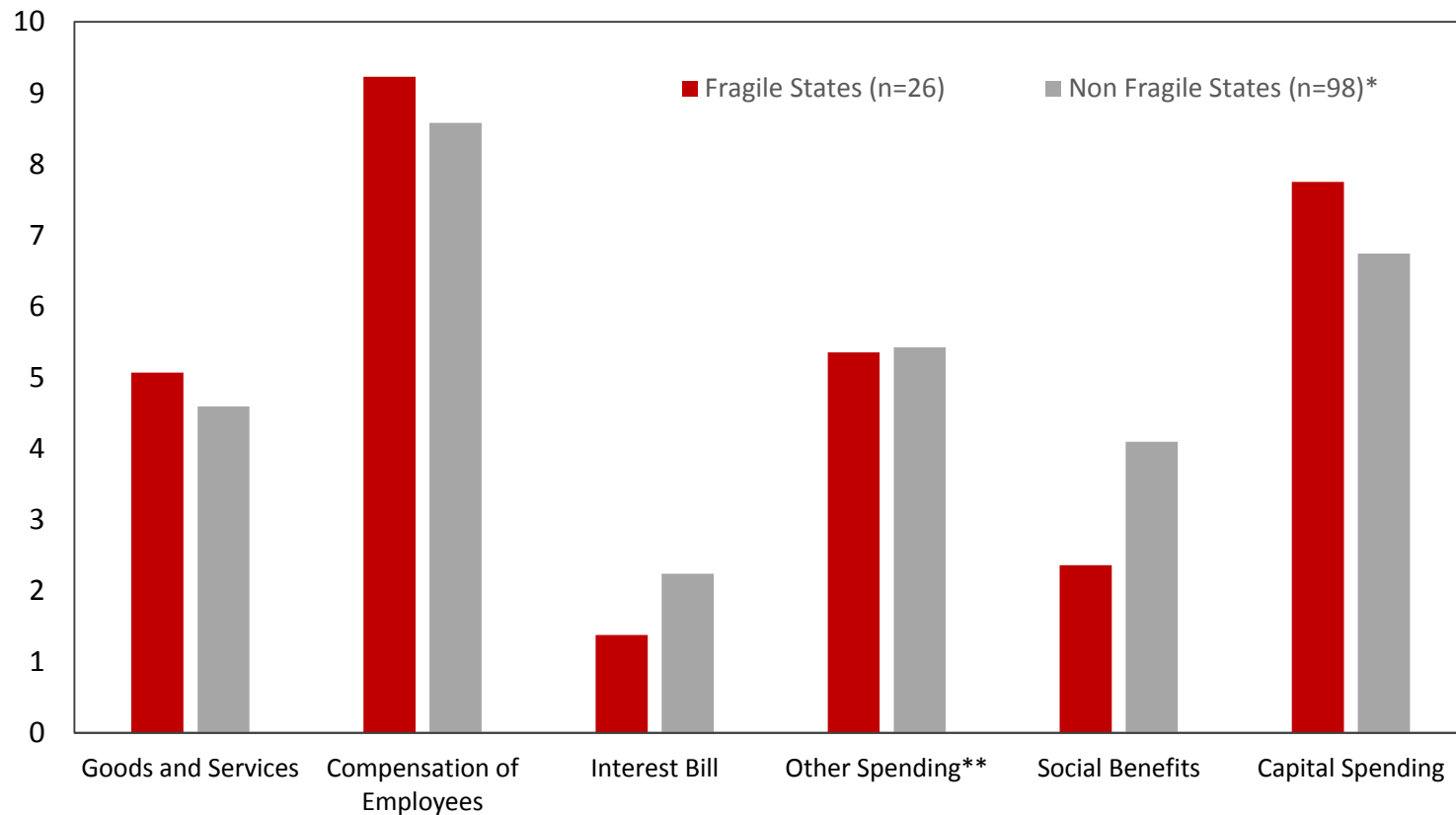
Composition of Revenue: 2005-2013
(percent of total tax revenues incl. grants)



Public expenditure levels in FS are lower than in non-FS, especially for social spending



Public Expenditure Composition, 2015 Percent of GDP



Approach to designing and implementing fiscal reforms

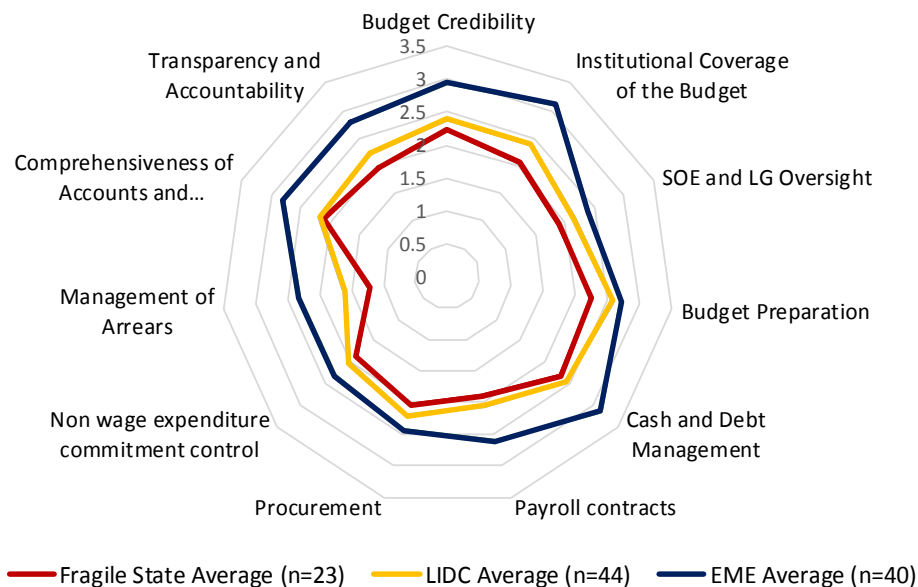
The design of fiscal strategies reflects the degree of fragility...



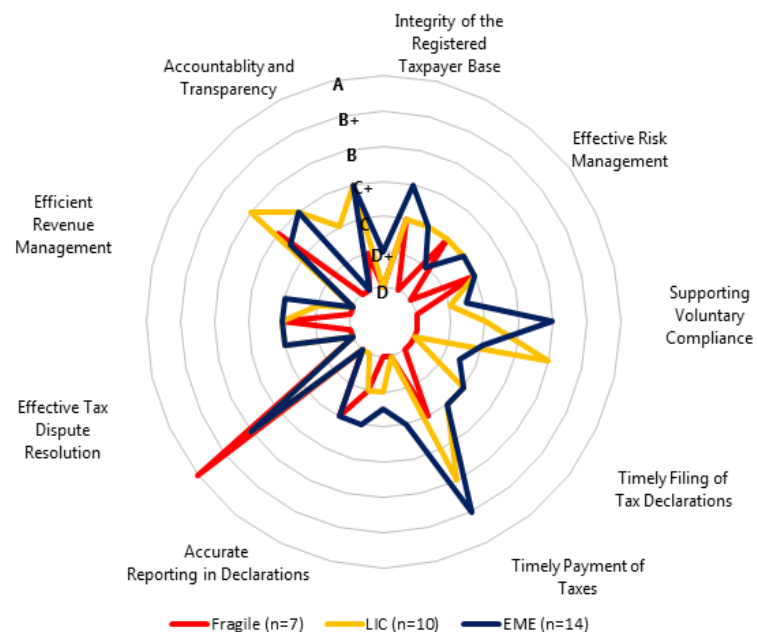
		Revenue				Expenditure										
Characteristics	No Longer Fragile	Establish a MTRS. ^{1/} Begin building participation in the taxpayer base focusing on large and medium taxpayer first. Introduce or strengthen CIT, personal income tax (PIT), value added tax (VAT) (with high threshold). Establish a simple small business regime for the small taxpayers. Build tax administration headquarters capacity. Establish function-based				Establishing a medium-term public financial management (PFM) capacity development strategy focusing on building fiscal institutions including medium-term budgeting, PFM IT systems, internal controls accounting standards and annual financial statements, cash and debt management and fiscal oversight over state owned enterprises (SOEs) and local governments (LGs) (e.g., Kosovo).										
	Fragile: Stable but Vulnerable															
	Most Fragile/ Immediately Post-Conflict	A focus on targeted revenue collection by customs duties at the border on imports, and large sectors using excise and targeted taxes (telecoms, banking, hotels). Simple organization structures, basic processes (e.g., Afghanistan).		large and medium taxpayer offices (LTOs and MTOs). Begin developing information technology (IT) support (package system). Establish basic compliance improvement strategies (e.g., Myanmar).		A focus on preparation of annual budget and basic payment systems and controls to allow the budget to be executed. Consolidation of cash resources to allow immediate government obligations to be met and production of basic and timely fiscal reports (e.g., South Sudan)										
	Conflict/ Disaster	Wait		Basic Revenue Mobilization		Incremental Institutional Modernization		Advanced Reforms		Wait		Basic Expenditure Management		Incremental Institutional Modernization		Advanced Reforms
		Approach/Core Objective of Support														

Tools such as the PEFA and the TADAT can help identify common TA needs

PEFA



TADAT

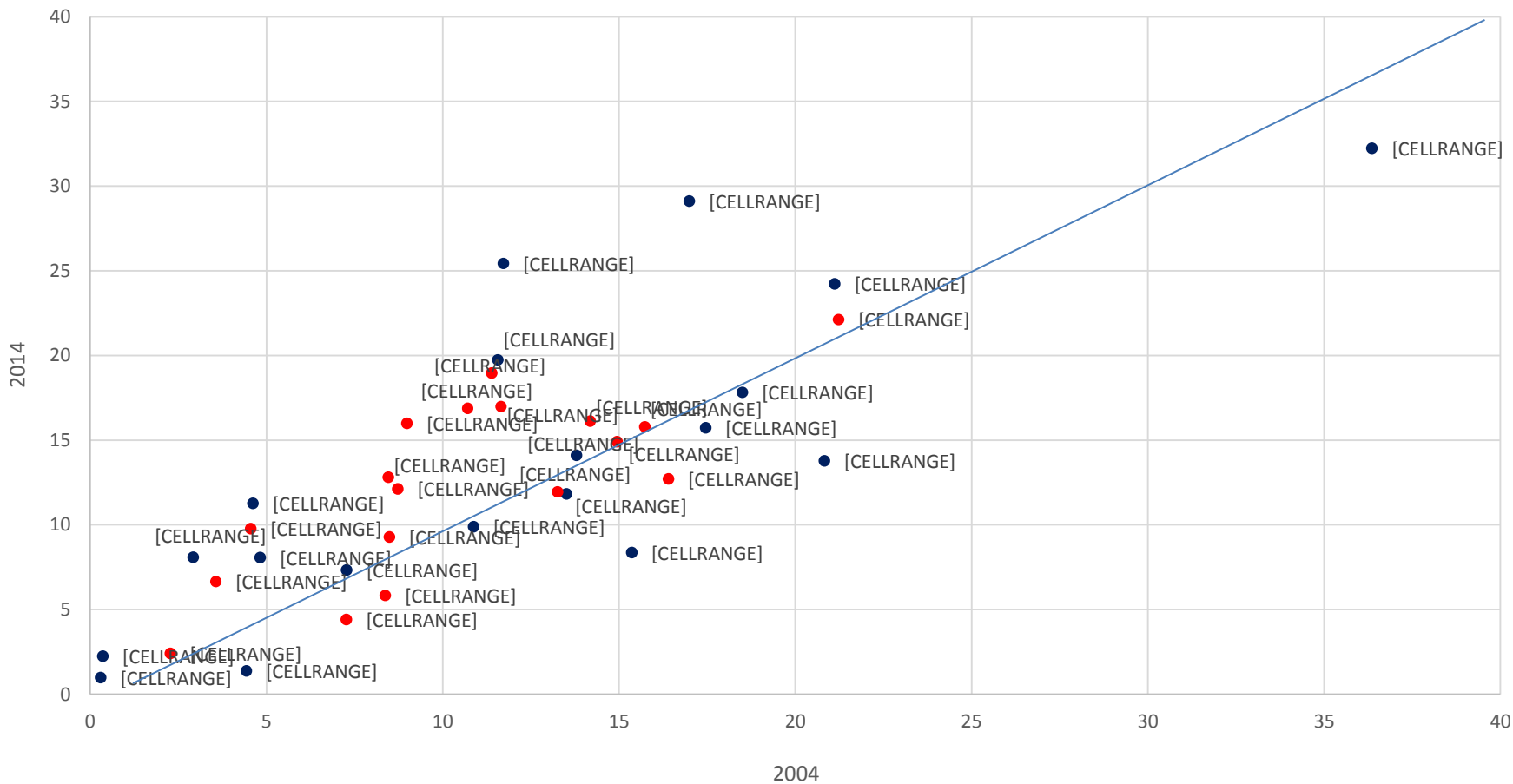


Preliminary assessment of outcomes

Some results of capacity building on the revenue side



FS with Improved Tax-to-GDP Ratios vs. Recipients of FAD TA, 2004–2014



Lessons learned



To address challenges presented in FS

- Target fiscal TA to achieve fiscal stability, financial control, and secure 'own' revenues.
- Set priorities and pay attention to the sequencing of reforms.
- Promote effective donor coordination.
- There is value in having a medium-term reform focus
- Do not underestimate the importance of customs
- More extensive TA presence and more flexible TA delivery modes may be needed.