

FISCAL AFFAIRS DEPARTMENT

CAPACITY DEVELOPMENT

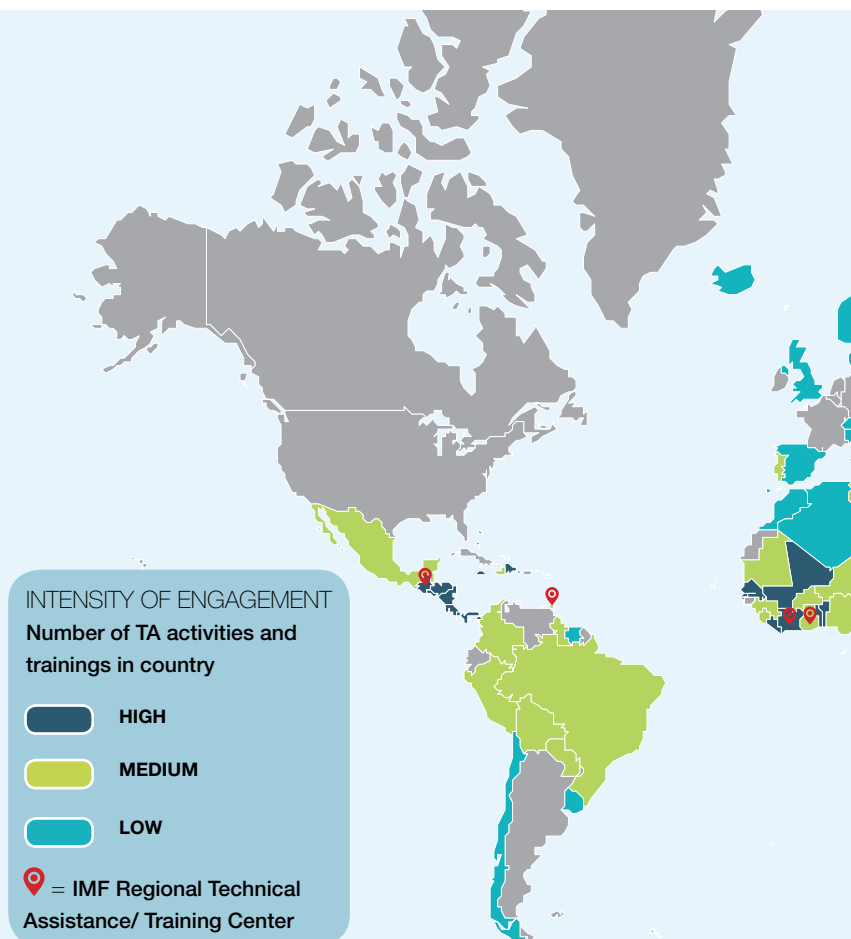


INTERNATIONAL MONETARY FUND

THE FISCAL AFFAIRS DEPARTMENT

Thought-Leadership and Tailored Capacity Development

The Fiscal Affairs Department (FAD) has been the world-leading source of fiscal expertise for over 50 years. We research and analyze fiscal developments with a global perspective; provide policy advice to International Monetary Fund (IMF) member countries; and engage in timely, practical, and tailored capacity development (CD) to countries seeking to modernize their fiscal policies and institutions. The Fund's CD is built on technical assistance (TA) and training focused on strengthening local capacity.

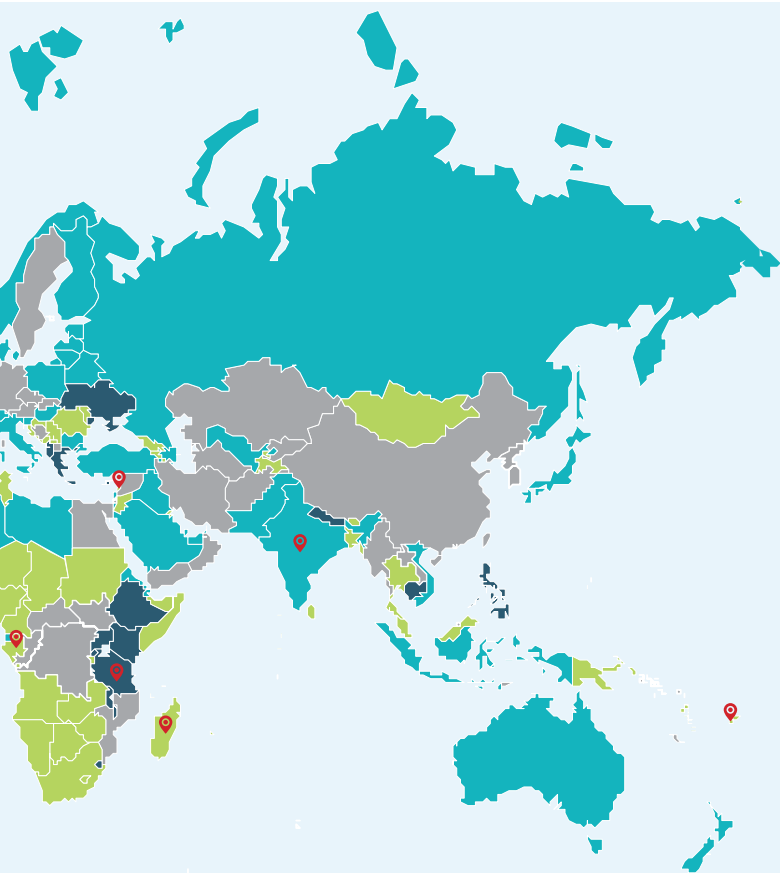


Global Coverage

Capacity development is at the core of FAD's work. Over the last year, we provided technical advice and training to over 120 countries, covering all regions and income levels.

Integration with our other core institutional mandates

The IMF has a universal membership and an institutional mandate to conduct both surveillance and lending. This gives us a unique capacity to define CD priorities based on a **deep understanding of the broader macroeconomic and development needs of countries.** Our surveillance mandate also allows us to reinforce and monitor our technical advice on a continuous and sustained basis.



HOW WE WORK: LEVERAGING UNIQUE EXPERTISE AND A HOLISTIC APPROACH TO DELIVER LASTING RESULTS

Our technical assistance and training covers the full range of fiscal issues. We assist countries to improve their domestic resource mobilization by making **tax policy** more efficient and fair, and by strengthening **revenue administration** so that collection is effective and sustainable. We work with ministries of finance on their **expenditure policy** and **public financial management** so that cost-effective and high-quality public services are delivered using transparent and efficient budgetary systems. We also provide assistance to countries on macro-fiscal policies, such as establishing fiscal rules, debt management, and managing natural resource wealth.

Building Capacity

FAD helps governments **build human and institutional capacity**, leading to better economic outcomes. The large majority of our assistance is provided to low- and middle-income countries, where strong fiscal policies are needed to contribute to macroeconomic stability and healthy growth, including by ensuring that governments have the resources needed to finance necessary social programs and public infrastructure.

Strong Conceptual Framework

FAD has developed a **suite of standardized assessment tools** to strengthen the conceptual and analytical basis of its work. These tools allow for an objective identification of priorities for reform and technical assistance. They also provide measurable indicators to monitor and evaluate progress. These tools cover a wide range of topics, including revenue administration, fiscal transparency, public-private partnerships, fiscal analysis of resource industries, and public investment management.

FAD's Assessment Tools

Diagnostic tools provide an important foundation for technical assistance and help authorities to prioritize and benchmark reforms.

Revenue Administration Fiscal Information Tool (RA-FIT) gathers and analyzes information on tax and customs administrations to establish indicators for assessing revenue administration performance.

Tax Administration Diagnostic Tool (TADAT) helps governments gauge the performance of their tax administrations and identify priorities for reform.

Revenue Administration Gap Analysis Program (RA-GAP) assists countries estimate and understand the causes of their tax compliance gaps.

Fiscal Transparency Evaluations (FTEs) assesses the comprehensiveness, timeliness, and quality of a country's fiscal transparency practices, with a focus on fiscal risks.

Public-Private Partnership Fiscal Risk Assessment Model (P-FRAM) assesses potential fiscal costs and risks arising from Public-Private Partnerships.

Fiscal Analysis of Resource Industries (FARI) is a modeling tool for evaluating, comparing, and designing fiscal regimes for extractive industries.

Public Investment Management Assessment (PIMA) evaluates a country's institutional arrangements for planning, allocating, and implementing public investment projects.

Responsive

Our CD is often directed towards countries facing economic crises. In such cases we can respond quickly, sending specialized teams to the field, and our recommendations can provide input to the design of IMF-supported lending programs. In other countries, **our close coordination with IMF surveillance and policy work** ensures our efforts are in line with country priorities, and focus on issues critical for strong, inclusive, and stable growth.

From Design to Implementation

Leveraging our expertise and assessment tools, CD is delivered both by our headquarters-based staff and our **network of highly qualified and experienced experts.**

- Our headquarters-based staff undertake around 250 missions to member countries each year, which typically involve diagnostic reviews and provide the basis for the design of comprehensive and prioritized reform strategies.
- Assistance with reform implementation includes roughly 600 follow-up visits by experts each year, and the support of over 40 resident advisors stationed in member countries.
- Reform implementation is also supported through a network of eleven Regional Technical Assistance/Training Centers (RTACs), with 30 advisors covering about 96 countries.

Results Oriented

The impact of FAD CD is assured through effective results-based management. We regularly distill lessons from country cases, including through independent evaluations, which then refine the technical bases for our policy advice. This is supported by a strong internal review process, which ensures that our CD is up-to-date and consistent. And in collaboration with our external donor partners, new Fund-wide systems are being established to enhance the definition of CD objectives and the monitoring of outcomes.

A Valued Advisor

An October 2015 report from AidData — drawing upon the experiences and observations of nearly 6,750 policymakers and practitioners in 126 countries — ranked the IMF as one of the top three organizations “seen as being the **most helpful development partners in reform implementation**”.

Strategic Priority: Helping Meet the SDGs



Supported by:

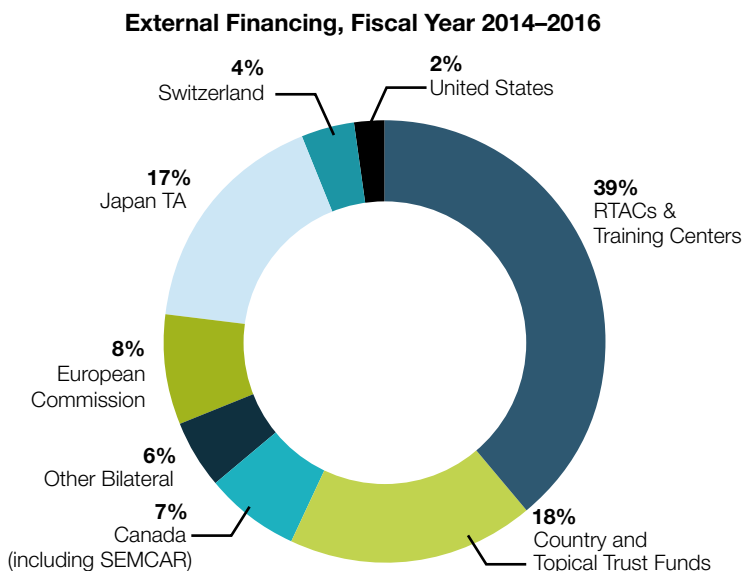
Cutting edge research and analytical work

Focus on measurable results and impacts

Emphasis on training to ensure sustainability

GLOBAL PARTNERSHIPS: WORKING WITH OTHERS IN SUPPORT OF CAPACITY DEVELOPMENT

The reach of our CD work has grown thanks to strong partnerships with our donors. The establishment of the Sustainable Development Goals and donors' commitment to supporting progress, in particular in the area of domestic resource mobilization, has formed the bedrock for donors' financial support to FAD's activities in the coming years. This support is generally provided through multi-year programs that allow FAD to deliver comprehensive institution and capacity building. These programs can be implemented through single-donor support for reform programs, FAD's multi-donor Topical Trust Funds, or the IMF's network of RTACs. These activities are closely coordinated to maximize synergies and to ensure an effective transfer of lessons learned between countries facing similar issues.



FAD'S TOPICAL TRUST FUNDS

FAD has established three multi-donor topical trust funds covering tax policy and administration, the management of natural resource wealth, and the Tax Administration Diagnostic Assessment Tool.

The **Revenue Mobilization Trust Fund (RMTF)** was launched in 2011 (under the name Tax Policy and Administration) to help low-income and lower middle-income countries establish well designed and administered tax systems that generate sustainable revenue to pay for essential public services. Sound tax policy and administration also helps foster an environment where small- and medium-sized businesses can flourish. By raising the tax-to-GDP ratio and supporting sustainable economic growth, the trust fund aims to help countries reduce dependency on foreign aid. The trust fund receives financial support from Belgium, the European Union, Germany, the Republic of Korea, Kuwait, Luxemburg, the Netherlands, Norway, and Switzerland.

The **Managing Natural Resource Wealth (MNRW)** Topical Trust Fund was established in 2011 to help countries strengthen their capacities to derive benefits from extractive resources to boost economic development and alleviate poverty. It supports research and capacity development. Best practices and lessons learnt are disseminated through conferences and workshops. The trust fund receives financial support from Australia, the European Union, Kuwait, the Netherlands, Norway, Oman, and Switzerland.

The **Tax Administration Diagnostic Assessment Tool (TADAT)** Trust Fund was established in 2014 to support the implementation of the Tax Administration Diagnostic Assessment Tool. It finances the TADAT Secretariat, training of assessors, and implementation of the tool. Its financial support is provided by Germany, Belgium, Norway, the EU, Japan, Switzerland, the UK, and the World Bank.

TAX POLICY

Good tax policies help meet revenue objectives and ensure that the tax system supports robust, inclusive, and equitable growth. Our assistance includes:

- **Enhancing the effectiveness of Value Added Taxes.** In many countries, we work to assist with VAT implementation, including in balancing revenue and fairness objectives.
- **Ensuring the efficiency and equity of income taxes.** Our assistance seeks to secure revenues without discouraging investment on the corporate side, and to facilitate the pivotal role of personal income taxes in the fairness of the overall revenue system.
- **Working with countries on the international aspects of corporate taxation.** A key focus of our work is to support developing countries in setting up mechanisms to avoid an erosion of their tax base by cross-border profit shifting.
- **Effective use of property taxes.** These can be an efficient and equitable source of revenue especially among developing countries, but are relatively underutilized.
- **Fair and effective taxation of financial instruments and institutions.** This is an essential component of a strategy for a stable and growth-supporting capital market.
- **Effective fiscal regimes governing extractive industries.** FAD has been a thought-leader in this area and a major TA provider to resource-rich developing countries.
- **Properly designed environmental taxes.** FAD is at the forefront of analysis and advice in helping countries address the externalities caused by underpricing of carbon emissions and energy usage.
- **Building revenue data for effective cross-country analysis and advice.** In this context, FAD publishes the WoRLD tax revenue dataset, covering 186 countries.

TUNISIA

Reforming the tax system during political transition

Challenge:

The December 2010 revolution created an opportunity to reform the tax system, but in the context of an unstable political transition and entrenched vested interests. Although a “big-bang” approach to reform was unlikely to succeed, more gradual approaches could take too long to have an impact.

Approach:

In December 2012, based on a diagnostic study, FAD proposed a five-year reform strategy: (1) simplification of investment tax incentives and reduction of tax rates on business profits; (2) broadening and simplifying the VAT base, and rationalizing the number and structure of excise taxes; (3) restructuring the rates and the base of the personal income tax to instill more progressivity. Short advisory visits assisted the government in designing the components of the reform strategy.

FAD’s advice emphasized the importance of being prepared—building a thorough understanding of the tax system, and developing feasible reform options—and taking advantage of periods of political stability to introduce key policy measures while focusing on the long term.

Results:

- Policy measures were adopted to improve neutrality in the taxation of business profits, and the investment tax incentives regime was simplified.
- Government organized outreach activities to help build acceptance of reforms making the policy process transparent and participative.
- The revenue yield of select excises was improved, though more can still be done.
- Income tax on low-income individuals was somewhat lowered, but further simplification and broadening of the personal income regime are needed.

REVENUE ADMINISTRATION

Fair, effective, and sustainable revenue mobilization is crucial for sound public finances and a pro-growth investment climate.

Our support covers tax and customs administration, and collection of social security contributions. Advice is closely coordinated with our work on tax policy, paying close attention to enhancing macroeconomic stability, reducing fiscal vulnerability, promoting economic growth, and alleviating poverty. Our CD focuses in particular on:

- **Improving revenue administration management and governance arrangements.** Our data-driven approach helps identify key areas that should be targeted for improvement. We provide tailored advice to strengthen strategic planning, reform management, and the underlying foundations for revenue administration (legal frameworks, organizational structures, management methods, performance measurement systems, and human resource and information technology strategies).
- **Strengthening taxpayer compliance management and revenue administration functions.** This includes tax gap and risk analysis, as well as strengthening core operational processes in the areas of registration, returns and payment processing, taxpayer services and trade facilitation, audit and inspection, investigations, border control, collection enforcement, and dispute resolution. We provide advice on compliance strategies for different taxpayer segments—including through setting up specialized administrative units, simplified tax regimes, and strategies targeted to the large, medium, and small taxpayers.
- **Improving administration of taxes and taxpayer segments.** This includes administration of taxes such as value-added taxes, customs duties, excises, income taxes, and social security contributions. We also provide TA to strengthen countries' capacity to administer fiscal revenues from the extractive industries, a significant source of income for natural resource-rich countries.

MONGOLIA

Modernizing the Administration of Large Taxpayers (2010–14)

Challenge:

Tax revenue in Mongolia is highly concentrated on large businesses that are also the country's largest investors, reflecting the importance of the mining sector. In this context, in 2010, the government requested FAD assistance to design a strategy for improving the tax administration's performance.

Approach:

Improving the administration of large taxpayers by strengthening the Large Taxpayer Office (LTO) allowed it to: (i) secure the largest share of revenue; (ii) improve the investment climate; and (iii) introduce new approaches to tax administration. FAD supported the reform program through a comprehensive program of technical support—financed by the Managing Natural Resource Wealth Trust Fund – from the initial strategy to the detailed implementation roadmap and the development of key reform deliverables. An external evaluation ranked the project first among 25 projects reviewed.

Results:

The FAD-supported reforms were highly successful in improving large taxpayer administration as evidenced by:

- The largest portion of tax revenue has been brought under effective control.
- A high rate of on-time tax return filing (nearly 100 percent) has been achieved, with all tax returns filed electronically.
- Tax arrears have been sharply reduced.

And perhaps most importantly, taxpayers expressed a high degree of satisfaction with the reforms as indicated by an independent survey.

PUBLIC FINANCIAL MANAGEMENT

Strong public financial management (PFM) is essential for the sustainability of public finances, effective delivery of public policies, and ensuring fiscal transparency. Our support in this area focuses on:

- **Performing comprehensive assessments of PFM systems.** FAD analyzes the effectiveness, efficiency, and transparency of PFM systems using a suite of standardized assessment tools such as Fiscal Transparency Evaluations (FTE), Public Expenditure Financial Accountability (PEFA) assessments, and Public Investment Management Assessments (PIMA).
- **Improving PFM structures.** Advice is provided to strengthen fiscal frameworks and budget preparation to enhance the role of the budget as the central instrument for allocation of public resources. Our field of expertise also includes budget execution, accounting and fiscal reporting, treasury management, financial management information systems, and internal control and audit.
- **Supporting advanced reforms.** FAD supports the adoption of good international practices such as medium-term fiscal and budget frameworks, fiscal rules, fiscal councils, performance-based budgeting, adoption of accrual accounting standards, and fiscal risk management.
- **Strengthening legal frameworks.** FAD (with the IMF's Legal Department) analyzes legal frameworks and advises on the legal changes required to support reforms. This includes preparation of primary legislation, such as the budget act and fiscal responsibility law, and the design of secondary regulations.
- **Restructuring of central finance agencies.** FAD provides expertise in the organization of ministries of finance, state treasuries, debt and cash management offices, and independent fiscal institutions, such as fiscal councils, to ensure that the right institutional and organizational structures are in place to enable an effective management of public finances.

SOUTH EASTERN EUROPE

Readying PFM Systems for EU Accession

Challenge:

Improvements in PFM systems have been an essential element of many South Eastern European Countries' reform strategies, as they moved towards EU accession. The convergence with good European practices within a short timeframe required intensive capacity building. The impact of the global financial crisis also highlighted the need to strengthen existing fragile fiscal management capacity.

Approach:

From 2010, a five-year project financed by the Japanese government covered 11 countries, focusing on strengthening fiscal institutional arrangements, and establishing sustainable medium-term budget frameworks and associated PFM reforms. This project is now continuing for six pre-accession countries with the financial support of the European Commission. The program combines strategic TA advice with on-the-ground capacity building. This included a regional PFM advisor, expert visits, and cooperation with the Center of Excellence in Finance in Ljubljana to provide highly targeted training to key regional fiscal management personnel.

Results:

- Substantial progress in developing credible medium-term budget frameworks in many countries in the region.
- Development of new fiscal institutions for independent fiscal oversight and the design and implementation of fiscal rules to support achievement of long-term fiscal objectives.
- Significant upgrades to expenditure controls as part of an effort to prevent accumulation of arrears through improvements in commitment controls.
- A major contribution towards production of comprehensive fiscal reporting systems across general government consistent with international standards.
- Progress in developing comprehensive cash management systems including government banking arrangements, cash planning and its integration with debt management operations.

EXPENDITURE POLICY

FAD provides capacity development to member countries on a broad range of expenditure topics. The focus is on ensuring that public spending levels are fiscally sustainable, and enhancing spending efficiency and fairness. Public spending is evaluated through a range of benchmarking tools comparing expenditure levels, spending composition, and spending efficiency with country peers, as well as with established good practices. Over the past five years, FAD has delivered country technical assistance missions and training on numerous expenditure topics, including:

- Broad-based **expenditure rationalization** reforms across all economic and functional classifications aimed at identifying both short-term and medium-term expenditure savings as well as enhancing expenditure efficiency, including within decentralized fiscal systems;
- **Reforms of public pension systems** to restore their financial sustainability while protecting their underlying equity and poverty alleviation objectives;
- **Energy subsidy reforms** focused on sustainably reducing the fiscal cost of subsidies, designing automatic pricing mechanisms to protect this fiscal gains over the medium term, and identifying mitigating social measures to protect the poor;
- **Projection of public health and pension spending** over the medium term to facilitate their integration into medium-term budget frameworks;
- Enhancing the **efficiency of public investment** spending, including through appropriate accounting for the fiscal risks associated with public-private partnerships (PPPs).

Expenditure policy CD is supported by a range of analytical products, including books on the reform of public pensions and health care reforms, and energy subsidy reform. Other complementary activities include capacity-building workshops and online training courses.

ANGOLA

Fuel Subsidy Reform

Challenge:

Low international oil prices have created fiscal pressures in Angola, while the government's subsidies on fuel price reached 3.7 percent of GDP in 2014. Against this background, FAD assisted the government to develop a subsidy reform strategy and create fiscal space for investment and other priority spending.

Approach:

A mission presented the key success factors learnt from other countries' experience: transparency of subsidies in the budget, clear reform strategy and effective communication with stakeholders, gradual implementation, and social safety net to better protect poor households. The mission also proposed measures to mitigate the impact of higher fuel prices on poor households.

Results:

- The reform options identified by the mission informed the government's subsidy reform strategy.
- Reform sequencing was based on the frontloading of price increases for fuel products that are fiscally costly and mostly consumed by better-off households (such as gasoline) while delaying price increases for those consumed by poor households (such as kerosene, LPG, and diesel).
- The need to quickly identify the existing social programs that are best targeted and can be expanded in the short run and to plan for the strengthening of the safety net over time was emphasized.
- As part of its broader communications strategy, the government posted the mission's report on their website.
- The government has continued to gradually phase out fuel price subsidies in line with the strategy recommended by the mission. Gasoline and diesel subsidies have been eliminated and the price of those products has been liberalized.

CUTTING-EDGE AND POLICY RELEVANT RESEARCH

The Fund's research and intellectual leadership in the fiscal area has been significant for decades, and has provided a critical foundation for our capacity development. In addition, our hands-on experience of **solving real-world issues** informs our analytical work.

Our publications are available at www.imf.org/external/publications and our data series at <http://www.imf.org/en/data>

FAD Publications: Sharing the Knowledge and Lessons Learned



Since 2009, the **Fiscal Monitor** has surveyed and analyzed the latest public finance developments, update fiscal implications of the crisis and medium-term fiscal projections, and assess policies to put public finances on a sustainable footing.



Staff Discussion Notes showcase the latest policy-related analysis and research being developed by individual IMF staff and are published to elicit comment and to further debate. They are generally brief and written in nontechnical language, and so are aimed at a broad audience interested in economic policy issues.



Technical Notes and Manuals are produced by FAD to expand the dissemination of their technical assistance advice. They present general advice and guidance, drawn in part from unpublished technical assistance reports, to a broader audience.



“How-to” notes are designed to help officials in member countries, IMF staff, and all interested stakeholders to address topical issues from a very practical point of view. They draw on FAD capacity development advice and cross-country policy work.

KEY CONTACTS

Vitor Gaspar

Director
vgaspar@imf.org

Sanjeev Gupta

Deputy Director
CD to Africa
sgupta@imf.org

Christopher Towe

Deputy Director
CD to Western Hemisphere
ctowe@imf.org

Adrienne Cheasty

Deputy Director
CD to Europe
acheasty@imf.org

Michael Keen

Deputy Director
CD to Asia and the Pacific
and Central Asia
mkeen@imf.org

Abdelhak Senhadji

Deputy Director
CD to Middle East and Central Asia
asenhadji@imf.org

Christine Kamunge

Deputy Director and
Senior Personnel Manager
ckamunge@imf.org

Victoria Perry

Assistant Director
vperry@imf.org

Dominique Guillaume

Advisor
dguillaume@imf.org

Kiyoshi Nakayama

Advisor
knakayama@imf.org

Junji Ueda

Advisor
jueda@imf.org

Matt Davies

Division Chief
Resource and Information
Management
mdavies@imf.org

Catherine Pattillo

Division Chief
Fiscal Policy and Surveillance
cpattillo@imf.org

Bernardin Akitoby

Division Chief
Fiscal Operations I
Anglophone Africa, Middle East and
Central Asia, and Western Hemisphere
bakitoby@imf.org

Era Dabla-Norris

Division Chief
Fiscal Operations II
Asia and the Pacific, Europe, and non-
Anglophone countries in Africa
edablanorris@imf.org

Ruud De Mooij

Division Chief
Tax Policy
rdemooij@imf.org

Juan Toro

Assistant Director and
Division Chief
Revenue Administration I
Asia and the Pacific, Middle East and
Central Asia, and Europe
jtoro@imf.org

Katherine Baer

Division Chief
Revenue Administration II
Africa and Western Hemisphere
kbaer@imf.org

David Coady

Division Chief
Expenditure Policy
dcoady@imf.org

Carolina Renteria

Division Chief
Public Financial Management I
Anglophone Africa, Middle East and
Central Asia, and Europe
crenteria@imf.org

Manal Fouad

Division Chief
Public Financial Management II
Asia and the Pacific, Western
Hemisphere, and non-Anglophone
countries in Africa
mfouad@imf.org

FAD'S MISSION

“Helping countries shape public finances that support sustainable and inclusive growth.”

Fiscal Affairs Department

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