



GROUP OF TWENTY



# STEPPING UP DOMESTIC RESOURCE MOBILIZATION: A NEW JOINT INITIATIVE FROM THE IMF AND WB

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\*Does not necessarily reflect the views of the IMF and World Bank Executive Boards.

## CONTENTS

<b>INTRODUCTION</b>	<b>3</b>
<b>PUBLIC SPENDING REQUIREMENTS AND POTENTIAL FOR DOMESTIC RESOURCE MOBILIZATION</b>	<b>4</b>
A. Tax Reform Options	7
B. Public Financial Management Reform Options	10
C. A Country-Centric Approach to Reform	11
<b>COLLABORATION BETWEEN THE IMF AND WB IN SUPPORTING DOMESTIC RESOURCE MOBILIZATION</b>	<b>11</b>
A. Current Practice	11
B. Collaboration on the Global Stage	12
C. Collaboration at the Country Level	13
D. Stepping up: A New Joint Domestic Resource Mobilization Initiative	14
E. Operational Steps for Launching a JDRMI	16
References	18
<b>BOX</b>	
Examples of Successful Collaboration Between the WB and IMF on Tax Revenue Mobilization	14
<b>FIGURES</b>	
1. State Capacity and Domestic Resource Mobilization	3
2. Additional Spending to Achieve Good Performance in SDGs for Human and Physical Capital	5
3. More Developed Countries Collect More in Taxes	6
4. Tax Potential is Substantial	6

## INTRODUCTION

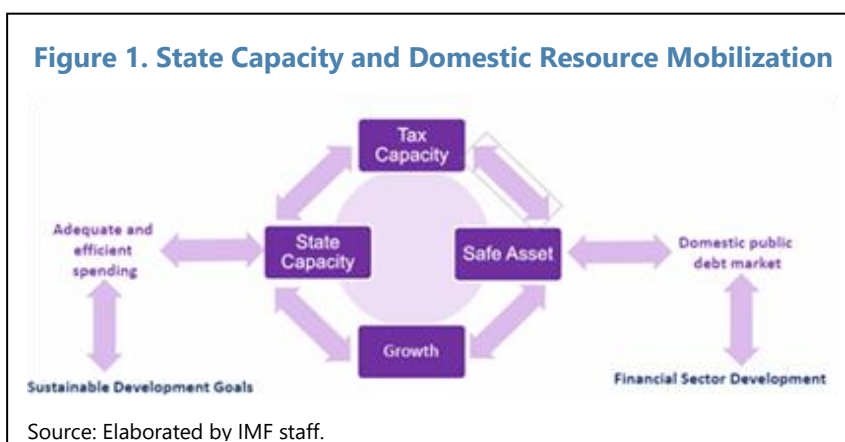
1. This paper describes how the IMF and WB can build on existing collaboration in domestic resource mobilization (DRM), to foster synergies and complementarities in the support they provide to their members.<sup>1</sup> The paper starts with presenting estimates for additional resources in emerging and low-income developing countries (EMDEs) to fund the sustainable development goals (SDGs) and the climate transition, and how this can be met (Section II). It then proposes a Joint IMF-WB domestic resource mobilization initiative (JDRMI) that enhances and integrates the capacity development (CD) provided by the two institutions (Section III).<sup>2</sup> The initiative complements the ongoing work of the WB in the context of IDA21 replenishment and the IMF's Poverty Reduction and Growth Trust discussions.<sup>3</sup>

2. Three public finance functions underpin the JDRMI: tax capacity, spending effectiveness and efficiency, and strong public debt markets (Figure 1). Tax capacity is

the backbone of state capacity. Sound budget procedures and efficient spending are also key.

Together, they ensure that

governments can generate sufficient public revenue and deploy them efficiently to meet their growth and development needs. But state capacity on its own is insufficient; it must complement private sector capacity to achieve fast and inclusive development. The private sector—through investment and employment—requires well-developed financial markets to fully play its role. The domestic public debt market acts as a foundation in the development of domestic financial markets, providing an anchor for the yield curve across various maturities. This enables efficient financing and investment decision-making, thereby fostering a conducive investment environment. Throughout



<sup>1</sup> This paper refers to domestic public resources more broadly as tax and non-tax revenues, savings from more efficient public spending, and financial resources generated via the public debt market. This is broader than the traditional DRM (domestic revenue mobilization), which refers primarily to tax revenue. In this paper, the “R” in DRM refers to this broader definition of resources.

<sup>2</sup> CD is used in this paper as a generic word for a broad list of services provided by the two institutions to their member countries, including advisory services, training, and production and adaptation of analytical tools.

<sup>3</sup> This paper was prepared under the supervision of (on behalf of the IMF) Katherine Baer, Ruud de Mooij, Matt Davies, Guillaume Chabert and Miguel Savastano by a team led by Mario Mansour comprising Thordur Jonasson, Andrew Okello, Carolina Renteria, Michelle Stone, Charles Vellutini, and Tewodaj Mogues. On behalf of the World Bank, the paper was prepared under the supervision of Pablo Saavedra and Manuela Francisco, with a team led by Emilia Skrok and comprising Arturo Herrera, Jean Pesme, Luis Felipe López-Calva, Benu Bidani, Chiara Bronchi, Federico Gil Sander, Emile J. M. Van Der Does De Willebois, Loic Chiquier, Niraj Verma, Serdar Yilmaz, Paolo Di Lorenzo, Anne Brockmeyer, and Indira Iyer.

their development public debt markets enhance financial stability by rectifying currency and maturity mismatches and diminishing susceptibility to capital flows from non-residents.

**3. An effective DRM strategy is one that exploits these three functions and their linkages—while accounting for country-specifics, such as political economy of reforms and the level of development.** Research has highlighted the importance of these linkages and their impact on economic growth, through the channels of price and financial stability, and fiscal sustainability.<sup>4</sup> In a nutshell, a domestic public debt market contributes to price and financial sector stability by providing governments access to borrowing at competitive cost and shielding them from external shocks associated with foreign-currency debt—e.g., channeling various forms of savings, such as private and public pensions funds, to domestic uses.<sup>5</sup> Improved tax capacity and efficiency in spending allow governments to meet their spending targets while keeping the debt-to-GDP ratio at a sustainable level. Countries with a tax-to-GDP ratio below 15 percent are less likely to be able to meet their spending needs in a manner that is consistent with price stability and fiscal sustainability—and thus, they tend to grow slower than countries with a ratio above 15 percent (Gaspar and others, 2016).

## PUBLIC SPENDING REQUIREMENTS AND POTENTIAL FOR DOMESTIC RESOURCE MOBILIZATION

*Public spending pressures are substantial...*

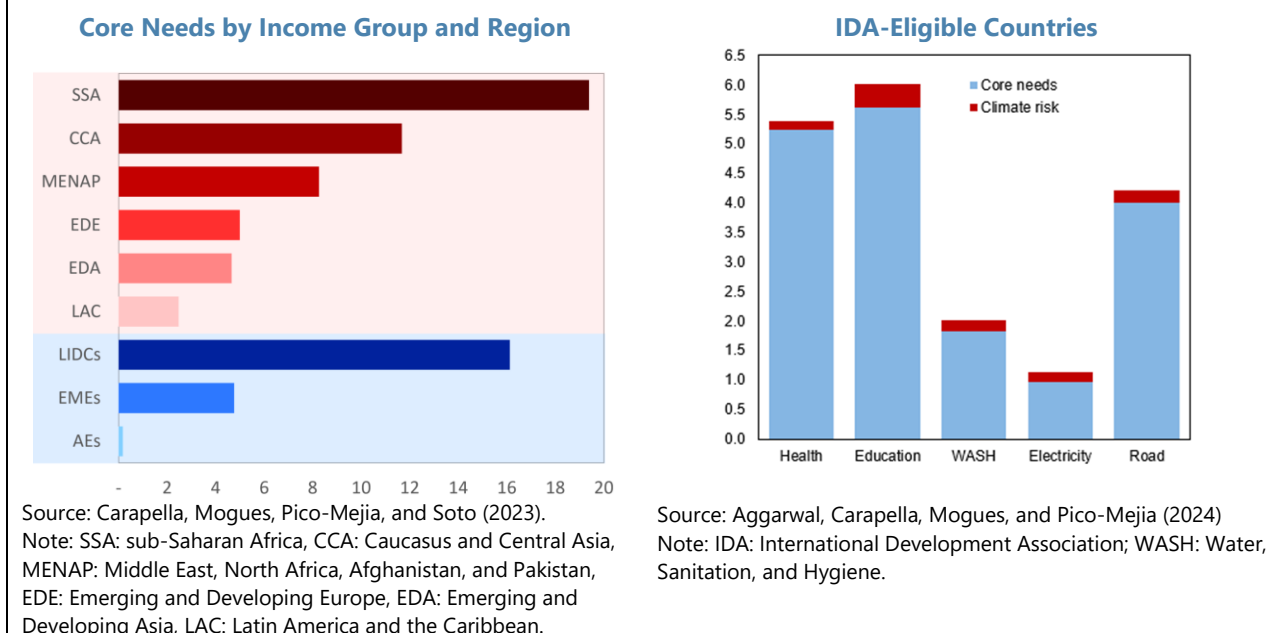
**4. Developing countries need to muster significant additional resources to meet their development goals (Figure 2).** New estimates suggest 3.4 percent of projected global GDP in 2030 is necessary to achieve the SDGs related to health, education, water and sanitation, electricity, and road infrastructure (Gaspar and others, 2019; Carapella, Mogues, Pico-Mejia, and Soto, 2023). When climate mitigation and adaptation are considered, the annualized cost increases to 3.8 percent (Aggarwal, Carapella, Mogues, and Pico-Mejia, 2024). Costs are higher as a share of GDP for poorer countries and countries in Sub-Saharan Africa. For IDA countries, the additional cost of meeting both core expenditures and addressing climate risk is estimated at 18.7 percent of their combined GDP—education (6.0 percent of GDP) and health (5.3 percent) contribute the most.<sup>6</sup>

<sup>4</sup> See BNP Paribas Editorial on the nexus between price stability, financial stability and fiscal sustainability, and the coordination between monetary and fiscal policy: [Part I, April 2023](#), and [Part 2, May 2023](#).

<sup>5</sup> This requires markets to be sufficiently competitive to clear at a price. External shocks can also impact local currency bond markets, particularly where non-resident holdings are sizeable (See Hofmann and others 2020).

<sup>6</sup> The IMF's LIDC country group is smaller and is mostly included under the WB's IDA group. Out of 58 LIDCs, 57 are IDA-eligible, and out of 75 IDA countries 17 are EMEs.

**Figure 2. Additional Spending to Achieve Good Performance in SDGs for Human and Physical Capital**  
(Percent of GDP)



**5. Three public sources to fund these spending priorities stand out:** (a) public revenues are the primary source, with tax revenue being its main component; (b) efficiency gains from public spending in physical and social infrastructures; and (c) government borrowing in domestic public debt markets.<sup>7</sup> There are strong linkages between these resources, which can reinforce their combined effect on resource mobilization and the effectiveness of fiscal policy as an instrument of economic development—e.g., tax capacity is necessary for developing public debt markets; a well-designed and equitable tax system can be conducive to better accountability in budget management; efficiency gains in public spending results in greater returns per dollar spent and translate into a higher fiscal space for development spending.

*... but progress has been insufficient.*

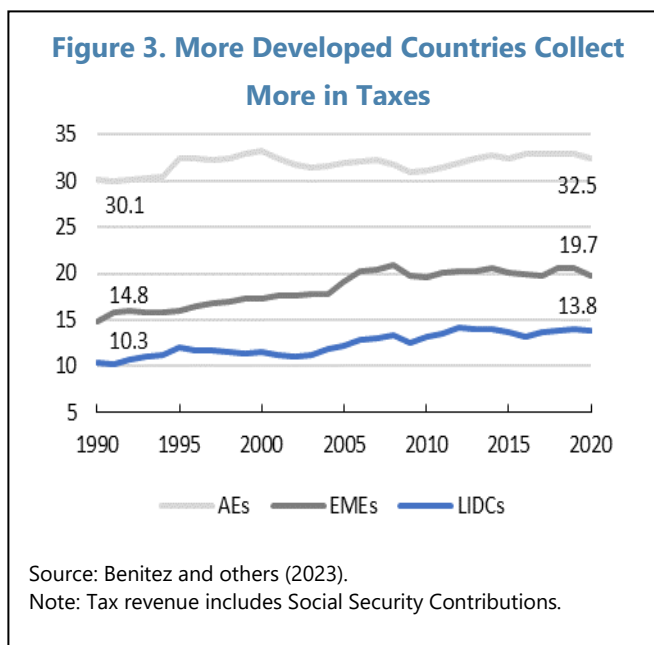
**6. Progress in EMDEs toward mobilizing resources from tax revenues, the primary source to fund their spending, has been slow, insufficient, and has largely stalled since the Great Financial Crisis of 2008.** The average tax-to-GDP ratio rose by 3.5 and 5 percentage points in LIDCs and EMEs, respectively, since the early 1990s (Figure 3). Progress during the last decade has been largely absent, however. Yet, these averages hide significant differences across countries, including IDA members. Although several are collecting less in percent of GDP than in 2010, some have recorded significant increases—e.g., Cambodia (6.7 points), the Maldives (4.4 points), Nepal (3.5

<sup>7</sup> Private financial markets are also important for mobilizing resources for private investment but are not covered under this initiative.

points), and Uganda (3.2 points). Importantly, according to the latest available data there are still 41 out of 75 IDA countries with tax revenues below 15 percent of GDP.

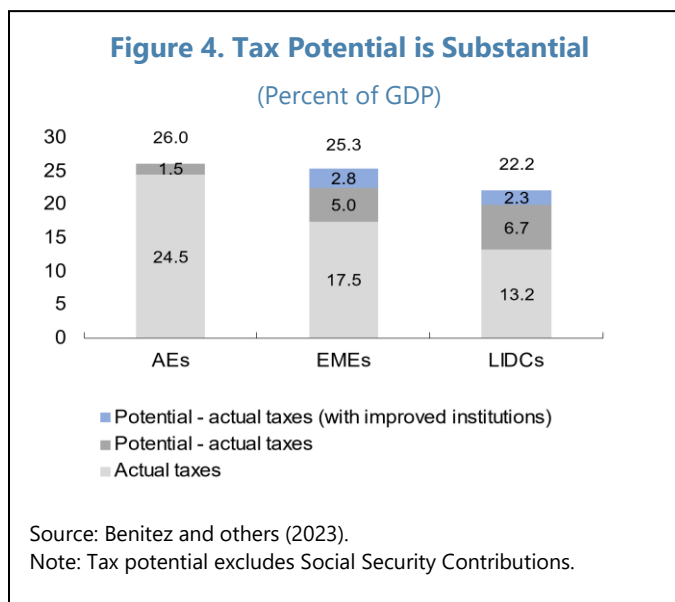
**7. Fragile and conflict states (FCSs), and resource-rich countries—respectively, 32 and 32 out of 75 IDA countries—collect less in tax revenue.**

FCSs suffer from weak government institutions, corruption, and lack of transparency, which can directly affect tax collection (Mansour and Schneider, 2019). Resource rich countries have shown less urgency for embracing tax reforms since they have a ready source of income, which often results in a failure to build effective state institutions, including tax policy and revenue administration. They also tend to invest less in non-resource sectors, which leads to slower development of their tax base.



**8. There is a considerable untapped potential to increase tax revenue to meet the SDGs (Figure 4)**

—as measured by the gap with the best-performing country for a given income level, economic structure, and institutions. LIDCs have the highest potential, estimated at 6.7 percentage points of GDP of additional tax revenue, while EMEs can raise an additional 5 percentage points (Benitez and others, 2023). Moreover, LIDCs’ potential increases by an additional 2.3 points of GDP if their institutional capacity were to be brought to the level of EMEs—implying an overall potential tax increase of 9 percent on average for LIDCs.



**9. Progress has also been slow in improving public spending efficiency.** EMDEs generally face challenges in setting their macro-fiscal frameworks and financial planning, which has consequences for budget execution and implementation of government programs. LIDCs are also relatively weak in budget execution, resulting, for instance, in poor delivery of services and accumulation of arrears. On average, more than 30 percent of the resources spent on creating and maintaining public infrastructure are lost to inefficiencies (Schwartz and others, 2020). These

inefficiencies are closely linked to poor infrastructure governance—i.e., the institutions and frameworks for planning, allocating, and implementing infrastructure investment spending—which accounts for more than half of estimated efficiency losses.

**10. Efforts to strengthen management of fiscal risks can lead to more resilient public finances and reduce volatility in spending and its related costs.** For example, Boukezia and others (2023) calculate that, on average, countries in the Middle East region experience a large macroeconomic shock once every eight years, which increases debt by an average of 12 percent of GDP. Higher debt levels result in higher interest expenses which need to be accommodated. Other important sources of fiscal risks across EMDEs and LICs can arise from explicit government guarantees, troubled or loss-making state-owned enterprises (SOEs), obligations under public-private partnerships (PPPs), and longer-term risks from climate change.

**11. Deeper public debt markets support greater resource mobilization.** Local currency bond markets (LCBM) are a cornerstone of broader capital market development helping to allocate resources more efficiently, price risk appropriately, develop the domestic investor base, set the stage for private sector issuances, and support monetary policy transmission (Hashimoto and others, 2021). In turn, these factors help boost a country’s long-term economic growth potential, resulting in an increase in available resources. LCBM development helps create both fiscal and monetary policy space allowing countries to face higher levels of expenditures without jeopardizing debt sustainability. These dynamics were particularly evident during the recent pandemic shock where there were direct links between a country’s policy space and the depth of their LCBM (Ferrer and Kireyev, 2022).

**12. The public debt market plays a direct role in the broadening of the financial sector** (IMF and World Bank, 2024; Shah, 2007; Carvajal and Bebczuk, 2019). This deepening of domestic financial markets aids in mobilizing domestic savings, attracting foreign investments, and developing long-term finance within the economy. The expansion of long-term lending by banks correlates with a country’s income and growth of its banking, capital markets, and institutional investors. Furthermore, comprehensive regulation and supervision, alongside a strong data and disclosure framework, are essential for creating the conditions necessary for financial deepening. (World Bank, 2020).

## A. Tax Reform Options

**13. Experience in revenue mobilization shows that, while ad-hoc reforms can yield quick revenue, sizable and sustainable revenue mobilization requires medium-to long-term reforms that cover the whole of tax system design, its legal framework, and its administration.** The relevance and shape of reforms will vary by country context, but a good starting point to devise a tax reform strategy is by looking for options to broaden the tax base. On the policy side, these are reflected in tax expenditure statements, which represent foregone revenue from special tax provisions (Heady and Mansour, 2019; Beer and others, 2022). These are estimated at roughly a

quarter of total tax revenue, on average in LIDCs.<sup>8</sup> They may target doubtful policy objectives, often undergo less scrutiny than direct public expenditures, and can easily proliferate and be abused. On the administration side, options for base broadening can be inferred from compliance gap estimates, which often run to several percentage points of GDP.

#### 14. Potential areas for tax policy reforms across EMDEs include:

- **Rationalizing and improving the cost-effectiveness of investment tax incentives—provided primarily through corporate taxation.** Special economic zones that provide tax exemptions and (time-bound) tax holidays to attract foreign direct investment are generally found to be ineffective and costly (IMF and others, 2015). Investment tax incentives that directly reduce the cost of investment, such as investment tax credits, accelerated depreciation, or outright expensing of investment yield more investment per dollar spent. Investment tax incentives would need to be further streamlined in the context of the global minimum tax and the need to counteract base erosion and profit shifting.
- **Broadening the base of value-added taxes (VATs) and reducing informality.** VAT tax expenditures, often motivated by tax-burden concerns on the poor, are less cost effective than providing similar benefits through other tax and spending policies—since they are independent of individual income, they disproportionately benefit richer households (Thomas, 2024; Wai-Poi, Sosa, and Bachas, *forthcoming*). Policies to broaden the tax base must include measures to discourage informality, which would increase fairness and reduce the tax burden on taxpayers in the formal sector.
- **Improving the design and coverage of personal income tax (PIT).** PIT revenue is much lower in developing countries than in advanced economies (Benedek, Benítez, and Vellutini, 2022). Lower revenue weakens PIT’s redistributive impact, suggesting scope to raise additional revenue while enhancing progressivity (Vellutini and Benitez, 2021). To broaden the base of the PIT, countries could consider scaling back regressive tax expenditures and enhancing the level and design of taxes on capital income (Hebous and others, 2024).
- **Leveraging excise taxes.** Excises on alcohol, tobacco, and unhealthy foods are generally motivated with the objective to improve health outcomes (Paraje and others, 2023) but can also be a significant source of revenue (Mansour, Petit, and Sawadogo, 2023; Petit and Nagy, 2016; Petit, Mansour, and Wingender, 2021). For developing countries, excise taxes can have a special appeal as their production and imports are usually concentrated, which make administration easier. Also, carbon taxes or other energy or environmental related excises can be a good revenue source that is relatively easy to administer and contributes to achieving climate objectives.
- **Expanding local government taxation through effective property taxes.** Recurrent real property taxes are among the least distortive for economic growth as their base is immobile.

<sup>8</sup> Global Tax Expenditures Database: <https://gted.taxexpenditures.org>.



Property taxes can be progressive since home values generally increase with income and net total wealth holdings.

- **Imposing sector-specific taxes.** These include rent taxes on non-renewable natural resources and other sectors that have location-specific or market-related rent, such as forestry, fishing, telecommunication, and banking—their use should be carefully considered, taking into account broader tax and regulatory considerations. Broader application of excess profit taxes can also be achieved through enhancing the design of profit taxes or as stand-alone taxes (Hebous and others, 2022).

#### 15. Potential areas for tax administration reforms across EMDEs include:

- **Improving human resource management.** Experienced, competent staff is positively correlated with a higher rate of on-time filing of core taxes and lower collection costs (Benitez and others, 2023). Developing countries have relatively fewer experienced staff relative to advanced economies, which indicates a potential for improvement (Crandall, Gavin, and Masters, 2021).
- **Insulating tax administration from political interference.** Governments should ensure accountability and transparency of revenue administration operations to reduce opportunities for rent-seeking behavior and to build public trust. Effective leadership, management, monitoring, and oversight are vital to good governance.
- **Introducing modern compliance risk management (CRM) techniques.** Modern revenue administrations maximize voluntary compliance with an integrated, holistic approach combining preventive, detective, and corrective actions. This is aided by segmenting the tax base by taxpayer characteristic and targeting taxpayers who are most likely to be non-compliant. Using third-party data and exchanging tax and customs data is associated with higher compliance and stronger tax collections (Brockmeyer and others, 2019).
- **Digitalizing core tax operations.** Developing countries lag advanced economies in e-filing rates and the use of third-party data in pre-filing tax returns. Greater digital adoption is associated with higher tax revenue collection and a reduction in the VAT compliance gap (Bellon and others, 2023; Nose and Mengistu, 2024; Okunogbe and Tourek, 2024). E-filing is also associated with reduced corruption (Kochanova, Hasnain, and Larson, 2016; Okunogbe and Pouliquen, 2022).
- **Enhancing capacity to tackle tax evasion and other illicit financial flows.** Tax evasion, money laundering, and corruption reduce revenues, undermine public trust and the rule of law, and increase risks to the macroeconomic and financial stability of developing countries. Improving beneficial ownership transparency and exchange of information, and promoting stronger public accountability mechanisms, can contribute to effective enforcement of income and wealth taxation.

**16. Tax policy and administration reforms need to be grounded in a simple and enforceable legal framework.** Generally, this depends on the types of reforms undertaken, and the current state of the legal framework. However, legal reforms of a general nature supporting DRM include: a tax procedures code consolidating administrative rules for all taxes, and setting the broad contours for the operations of tax administrations; modernizing the laws underpinning key taxes, to reflect for instance digitalization of production, consumption, and assets holding; coherent anti-avoidance provisions spanning all taxes; and, an inclusive process for consultations on draft laws to ensure that such laws reflect accurately policy intentions while minimizing unintentional consequences due to drafting.

## B. Public Financial Management Reform Options

**17. Achieving value for money requires a wide range of checks and balances in fiscal institutions.** While reform priorities may vary across countries, strengthening the core elements of the budget cycle is critical. This will improve the process through which government tax and spending decisions are formulated, allocated, executed, and reported against, and will ensure that government spending and revenue institutions enable fiscal sustainability. Where applicable, the reforms could go beyond financial management and cover synergies and complementarities in fiscal management, including planning and controlling public spending as well as debt management to achieve economic and social objectives.

**18. Potential areas for public financial management reforms across EMDEs include:**

- **Making the budget more credible.** Key reforms include forecasting and setting in place fiscal targets to ensure the fiscal policy choices are sustainable, and credible budgeting processes to prioritize spending and cost new policy initiatives.
- **Strengthening budget execution systems.** Strong processes for monitoring and controlling budget execution are based on strengthening of expenditure control, cash and debt management, arrears recording and management, and accounting and reporting.
- **Improving fiscal reporting and control.** Sound fiscal reporting is required to know where public finances stand, and that they can be scrutinized by citizens, auditors and parliament. For EMDEs, efforts should focus on strengthening the production and reporting of fiscal statistics, internal and external audit, and legislative oversight.
- **Making public investment more efficient.** Priority should be given to robust project appraisal to assess the strategic importance and the expected costs and benefits of an investment project; selection to prioritize projects with the highest likelihood of achieving strategic objectives and the highest net benefits for society compared to costs; medium-term planning to support resource allocation and implementation to ensure timely and efficient delivery of investment projects.

- **Implementing fiscal risks management.** Comprehensive analysis, disclosure and management of fiscal risks is needed to ensure sound public finances and macroeconomic stability, as well as fiscal transparency. Countries need to develop capacity to identify, analyze, manage, and disclose different sources of fiscal risks, including from macroeconomic shocks, contingent liabilities, and longer-term risks to sustainability from climate change and other factors.

### C. A Country-Centric Approach to Reform

**19. Whatever mix of reforms are pursued, governments must address political economy constraints, and growth and distributional impacts of tax policy changes for reforms to effectively support sustainable and inclusive growth.** Governments can build support for—and minimize public opposition to—DRM reforms if they can credibly explain that such reforms are growth friendly, equitable and just. Evidence from survey experiments, for example, indicates that taxpayers are more willing to pay taxes if they perceive the tax system as more progressive (Hoy, 2022).

**20. Ex-ante analyses of the distributional implications of reforms play a pivotal role in this regard, especially when it is supported by independent stakeholders.** They can inform the debate on policy choices, including the measures necessary to ensure that individuals and small businesses who are financially fragile are protected from undue increases in their tax burden. It is also useful to consider fiscal policy more broadly, since tax subsidies operating through consumer prices can be expensive and ineffective, while budget spending is often more cost-effective in providing direct and targeted support (Wai-Poi, Sosa and Bachas, forthcoming).

## COLLABORATION BETWEEN THE IMF AND WB IN SUPPORTING DOMESTIC RESOURCE MOBILIZATION

### A. Current Practice

**21. The WB and IMF have a long history in collaborating in the support they provide in public revenue mobilization, thereby leveraging their respective strengths.** Both institutions offer tax policy advice and technical assistance, with the IMF support being integrated with its surveillance and lending operations and WB support linked to its lending.<sup>9</sup> Both support implementation of revenue reforms through modernizing tax administrations and their systems, addressing evasion, and enhancing government officials' skills through tailored solutions and capacity-building—e.g., implementing compliance risk management for high net-wealth individuals. The collaboration and coordination have been particularly strong in program countries.

<sup>9</sup> An increasing part of IMF CD to countries is multi-year and country centric. Under this CD model, the objectives and modalities of the CD are discussed with the authorities, and CD is provided over several years, with monitoring and adjustments to activities as time passes—to reflect unforeseen changes.

**22. The IMF and WB collaborate in public finance management (PFM), supporting countries to improve the use of public revenues and enhance the efficiency and impact of public expenditures.** At the global level, the IMF supports the Public Expenditure and Financial Accountability framework alongside the WB (and other international partners). The WB is supporting PFM agenda through its Public Finance Reviews (PFRs), the IMF and WB have developed tools jointly on the management of public private partnerships; and there is joint analytical work on fiscal risk and debt management, relating to the Debt Management Facility. At the country level, the two institutions work closely on public investment management issues and WB staff have participated in most of the roughly 100 public investment management assessments that that the IMF has conducted across the globe. The WB frequently provides follow-up programs to implement the recommendations of these assessments. The IMF and WB are also collaborating to strengthen climate resilience and sustainability, including supporting countries on mitigation policies, green budgeting, assessing climate-related fiscal risks, and strengthening disaster management.

**23. Both institutions have been broadening their engagements with countries by increasing their support in the three interconnected areas mentioned in Section I:** tax revenue; spending efficiency through better public financial management systems, policies, and practices; and developing domestic public sovereign debt markets. The WB has revamped its core diagnostics—the Public Finance Review (PFR)—by adding a revenue mobilization section, complementing spending and debt sustainability and greater consideration for equity objectives. The link to the DRM agenda within the Country Partnership Framework has been tightened, thus increasing its role in lending operations. The IMF has integrated its CD support on the revenue and the spending side; more broadly, CD operations is increasingly integrated with surveillance and lending operations. The launch of the joint IMF-WB LCBM diagnostic framework in 2021 has brought a more systematic approach to domestic market development and related trainings. CD in revenue, expenditure, and financial market development, which includes public debt market development accounts for over half of all CD that the IMF provides. In addition, in both institutions engagements on DRM have expanded to climate and gender and is increasingly tailored to tackle country specific SDGs challenges.

## **B. Collaboration on the Global Stage**

**24. The collaboration on the global stage has concentrated on joint diagnostics, research, and knowledge events.** It reflects the interconnected nature of global challenges and the recognition that adequate revenue collection, more efficient spending and robust domestic public debt markets are essential for sustainable development. The WB and IMF have partnered in several joint diagnostic tools that are now the go-to frameworks on tax, spending, and debt management as well as climate analysis. The Tax Administration Diagnostic Assessment Tool (TADAT)—developed by the IMF, WB, and other development partners—is an invaluable diagnostic tool on tax administration. The Climate Policy Assessment Tool (CPAT)—started in 2018 under a collaboration between economists in FAD and the WB (MTI and the Climate Change Group)—now covers over 200 countries. The Public Expenditure and Financial Accountability (PEFA), hosted in the WB, informs public expenditure management reforms in more than 150 countries. A good example of the

knowledge-sharing is Tax Sunday, which gathers policy makers during Spring and Annual Meetings on a topical issue relevant to revenue mobilization. WB staff participate in IMF led PIMA and Climate PIMA, and reform plans are supported by both institutions.

**25. The WB and IMF designed and implemented the Platform for Collaboration on Tax (PCT), a joint initiative that includes representatives from the OECD and the UN, with a Secretariat hosted by the WB.** Partners meet regularly and consult on critical DRM issues, strengthening work complementarities and limiting duplication in three dedicated areas: Tax and Environment, International Tax, and Medium-Term Revenue Strategies (MTRS). The PCT has developed several toolkits that support tax reform, providing a comprehensive and cohesive approach to tax reforms, including tax incentives, transfer pricing, treaty negotiations, and taxation of offshore indirect transfers. For environmental taxation, the PCT developed an agenda-setting report, Carbon Pricing Metrics: Analyzing Tools and Databases of PCT Partners, which provides guidance on existing datasets and tools that can inform environmental tax reforms. This year, the PCT is focusing its efforts on strengthening linkages between tax policy and the SDGs.

### C. Collaboration at the Country Level

**26. The IMF and WB have successfully collaborated in numerous countries, advancing their development agenda.** The successes observed were underpinned by robust coordination mechanisms, such as regular meetings at mid-management and working levels, facilitating ongoing exchanges and alignment of priorities across institutions, thus avoiding duplication and harnessing the energies of both institutions. Good examples of such collaboration is described in Box 1. Joint diagnostics tools or frameworks such as TADAT and MTRS have provided structure to such collaboration and efficient use of resources.

**27. Notwithstanding these many and positive examples of joint work, there is room to further improve collaboration between the WB and IMF for increased impact.** The somewhat ad-hoc nature and fragmentation of past collaborations, and lack of a strategic focus on the connections between taxation, efficient spending, and development of domestic public debt capacity, leave room for improvement. Moreover, country leadership of reforms can be improved to enhance impact. Finally, the previous near absence of a jointly owned results framework has impeded the ability to measure impact, rather than effort, and draw lessons for improved engagement.

### Box 1. Examples of Successful Collaboration Between the WB and IMF on Tax Revenue Mobilization

Examples of the effectiveness of collaboration between the WB and IMF in IDA and FCSs include:

**Ethiopia.** The two institutions collaborated closely at the technical level on the review of the draft VAT Proclamation and the National MTRS. The review and agreed comments will help frame the policy actions to be supported by the WB's upcoming Development Policy Operation (DPO).

**Kenya.** A high-level Working Group and Steering Committee, supported by a Technical Committee that includes representatives from development partners, was established to facilitate the development of a harmonized tax reform strategy. A key part of the strategy supports the Kenya Revenue Authority (KRA) to pilot and evaluate the enforcement, facilitation, and trust in the strategies to improve tax compliance.

**Senegal.** The IMF and WB helped the government develop an MTRS spanning 2019-2023. The MTRS focused on broadening the tax base, rationalizing tax expenditures, and improving the prioritization of DRM reforms. This initiative contributed to reforms in a WB DPO and an IMF Extended Credit Facility (ECF), supporting policy and institutional reforms to address tax expenditures and energy subsidies.

**Sri Lanka.** Following the economic crisis in 2022, coordination between the IMF and WB led to both organizations contributing to the 2023 Revenue Administration Blueprint for reform. The collaborative diagnostics informed the DRM reform program supported by WB lending and an IMF supported program.

**Ukraine.** In 2022, the IMF and WB coordinated extensive support to the Ministry of Finance for the preparation of a national revenue strategy (NRS), which was published by the authorities in December 2023. It serves as the master plan for achieving a fair and competitive tax framework, with the overall objective of generating revenues sufficient to support postwar development goals while maintaining fiscal and debt sustainability. The WB and IMF contributed in different areas of competence, along with several other development partners (EU, US Treasury, OECD) who also use the NRS as a framework for planning their CD support.

**LCBM diagnostic framework.** This has brought a systematic approach to CD delivery on public debt markets. By applying a set of specific indicators, the framework facilitates a) the assessment of a country's stage of market development, b) the identification of gaps, and c) guides the formulation of a comprehensive reform plan. Since its launch, the IMF and WB have used it in 13 countries in different regions and stages of market development.

## D. Stepping Up: A New Joint Domestic Resource Mobilization Initiative

**28. To strengthen support for developing economies' efforts to unlock resources for development, the WB and IMF are launching a Joint Domestic Resource Mobilization Initiative (JDRMI).** Increasing resources available for investment in developing economies, particularly those with tax-to-GDP ratios below 15 percent, is a shared priority for both institutions. The initiative builds on existing collaboration between the WB and IMF in developing tools, data exchanges, cross-institutional research, and capacity building by intensifying collaboration. The JDRMI will specifically support policies and institutional reforms based on a country-led approach to resource mobilization, aligning it with national strategies and goals. This initiative aims to assist countries,

particularly IDA countries, in increasing their resources available for development over the medium term.<sup>10</sup>

**29. The new initiative has two distinctive pillars.** The first pillar is a **systemic coordination** mechanism, with a country DRM's priorities at its center. The second pillar is a framework to **integrate** the three workstreams that are the drivers of DRM: (a) public revenue, with tax revenue as its main component; (b) spending efficiency; and (c) domestic public debt markets.<sup>11</sup>

**30. The first pillar—coordination.** The coordination will happen at the global and country level. At the global level, WB and IMF will establish protocols enabling collaboration on DRM, enshrined in the Mechanisms for Collaboration on DRM (the Memorandum of Understanding, MOU). The MOU will be anchored on (a) systematic exchange of information (e.g., mission documents, aide memoires, diagnostics) and experts working on DRM (global teams and regional focal points); (b) joint development and information sharing on analytical tools; and (c) data exchange.

**31. At the country level, the framework will anchor collaboration in joint country working groups (CWGs)—in the first-wave countries, as outlined below.** A CWG would include representatives of both institutions who will ensure coordination and facilitate joint work, where appropriate—the formation of such groups can be guided by the broader macroeconomic and development policy framework informed by the IMF's Article IV and program engagement, and the WB's country partnership framework. Its responsibilities include establishing clear engagement priorities aligned with the development objectives of the country, facilitating regular communication between technical and management teams, and enabling joint planning of work. CWGs will also promote joint work and will facilitate decision-making regarding policy advice and accountability for CD delivery. The systemic coordination at the country level will concern all work streams relevant to the JDRMI, including externally financed CD.

**32. The second pillar—integration of DRM workstreams—entails new efforts in the two institutions to develop a cross-functional operational framework for DRM, while respecting current institutional settings.** Its key components are: (a) a programmatic approach based on a multi-year road map of reforms that includes clear country-led objectives, spanning the three DRM workstreams and complementarity of well sequenced reform support, (b) extensive use of existing and new diagnostics (e.g., WB's revamped Public Finance Reviews, Commitment to Equity (CEQ) reports for distributional impact analysis, FSAPs, national risk assessments of tax evasion and money laundering, technical assistance reports), and country-led operational engagements of both institutions; (c) inclusiveness, involving local organizations, universities, think tanks, the private sector, and donors; and (d) results-focused with a systematic reporting on progress conducted through the IMF's and WB's reporting frameworks (such as the corporate scorecard at the WB). Regarding public debt markets, the LCBM diagnostic tool can be used to identify reforms and

<sup>10</sup> This initiative focuses broadly on public resources, rather than only tax revenues.

<sup>11</sup> Although tax revenues are understood to be those collected under a country's tax laws, they also include proceeds from illegal tax evasion.

provide sequencing of actions to meet identified targets, tailored to the country's stage macroeconomic economic setting. The reform plan will serve as a roadmap for implementation over the medium term that will also include, where relevant, support from regional development banks and major bilateral partners.

## E. Operational Steps for Launching a JDRMI

**33. The JDRMI is demand-driven, for country authorities expressing interest in participating.** A group of five first-wave countries will be selected to participate in the initiative, based on discussions with country authorities and reflecting regional representation, demand, strong domestic commitment to reform, adequate absorptive capacity, and where possible building on existing IMF and WB engagements. The first-wave countries will be launched in the second half of 2024 and progress on operationalizing the initiative with the initial countries will be reviewed in 2026.

**34. The following steps or tasks present a general operational framework for the JDRMI, which will need to be fleshed out to provide clarity of roles and responsibilities across the IMF, WB, and beneficiary countries:**

- Upon a request from a country to participate in this initiative, and agreement of the IMF and WB, a CWG is established to facilitate structured engagement and swift communication. The JDRMI will require collaboration between different units/departments at the IMF and WB, including involvement of WB regional teams and strategic leadership role for IMF area department teams—for instance, in identifying macro-critical priorities for reforms, and sequencing. Modalities for the JDRMI include joint missions, joint meetings and presentations with the authorities, and regular data sharing. The Bank and IMF will engage early in the work programming period of both institutions to ensure that DRM activities are well embedded in their work programs and have adequate funding attached.
- WB and IMF take stock of existing diagnostics, databases, and identify any knowledge gaps that require further analytical work.
- Country authorities and the CWG reach a common understanding on the key priorities in DRM and identify policy reforms that are critical to unlocking progress (a joint “matrix of reforms”).<sup>12</sup> The multiannual plan will be designed to maximize the synergies across the tax (policy and administration), spending efficiencies, and domestic debt market development workstreams, with explicit milestones and mechanisms to ensure coherence and sequencing of the proposed reforms. This integration will better account for political economy issues and implementation capacity constraints, for instance in the relative weights it provides to each component.

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<sup>12</sup> WB and IMF teams will take into consideration countries' existing reform programs and plans in the public resource area, to ensure this Initiative closely aligns with and supports existing programs.



- Similarly, coordination across central agencies at the country level is needed. For instance, tax policy, tax and customs administration, budget preparation and execution, and monetary authorities, need to be involved and coordinated coherently. Country authorities would need to put in place counterparts to the CWG, with the authority to undertake such coordination.
- Technical assistance and training support to design and implement the reforms are identified and outreach conducted to other development partners and stakeholders who could provide technical assistance along with IMF and WB.
- WB and IMF jointly support country authorities in the design and implementation of the reforms and associated capacity building, including on change management capacity, building support for reforms, and communication. The CWG leads the discussion and decision making on which CD activities can be delivered separately by the two institutions, and which require pooled resources.
- WB and IMF financial instruments and CD resources are deployed, subject to each institution's policies and resources, to support implementation of the country-led program with focus on DRM, along with support from other partners.
- The country authorities, the IMF, and the WB will periodically assess progress against the prioritized "matrix of reforms" and as needed, identify course corrections.
- A joint ex-post evaluation by the CWG will guide follow-up engagement and peer learning.

**35. Overall, the coordination element of the initiative, between the IMF and WB, should not require additional resources since the primary intention is to generate efficiencies from better coordination—e.g., reducing duplication.** However, improved coordination may place additional burdens on country teams in both institutions and on recipient authorities. Adequate capacity in these teams will be a factor in selecting countries for inclusion in the initiative. The IMF will prioritize first-wave countries in its medium-term CD workplan, with direct resources for CD from existing funding vehicles and enhanced participation of resident experts, specialized economists, and dedicated resources in IMF resident representative offices. The WB global and country teams will prioritize countries through core diagnostics (PFRs) and other relevant diagnostics, and the allocation of experts and funds to these countries (including from the Global Tax Program). Implementation of the initiative in the first-wave countries will provide valuable lessons on how the JDRMI can be improved.

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