Domestic Public Resources in the Arab Region

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Mobilizing domestic public resources

✓ Financial

- Revenues (Tax revenues, oil & gas revenues, other non-tax revenues)
- Illicit financial flows
- Debt
- ODA

✓ Non-Financial (Technology, Trade, Capacity building, Systemic issues)

This presentation focuses on financial resources.
Revenues, as a share of GDP, widely differ across regions: Arab oil-rich countries noted significant decline in revenues in recent years; Arab oil-poor countries are among low performers.

Total revenue (% GDP) across regions in the world

Tax revenues, as a share of total income, remain far below potential across most Arab States

*Oil-rich countries (Tax/GDP) %*
Public budgets are largely reliant on oil and gas rents

*Oil-poor countries (Tax/GDP) %*
Public budgets are largely reliant on tax resources

Mobilization of tax revenues remain inequitable; increase in tax collections relied mostly on tax reforms in goods and services, which imposes a greater burden on the poor and middle-class.

**Composition of tax revenue (% share)**

- 2005: Egypt (44.2), Jordan (31.0), Morocco (33.0), Tunisia (10.0)
- 2014: Egypt (42.8), Jordan (35.9), Morocco (31.0), Tunisia (13.9)
- 2015: Egypt (47.6), Jordan (31.0), Morocco (17.4), Tunisia (13.0)
- 2017: Egypt (66.3), Jordan (71.1), Morocco (7.0), Tunisia (9.8)

**Burden of direct tax on income deciles in Jordan (an example)**


Public finance is under pressure across the region

Oil-rich countries

Both fiscal and current account balances show worsening trends;
Oil revenues remained unpredictable
Debt increased significantly in some parts of GCC, such as in Bahrain

Oil-poor middle income countries

Worsening fiscal balances
High public debt
Increasing non-concessional external debt

Source: UNESCWA (2017). Rethinking Fiscal Policy for the Arab Region
ODA to critical sectors that matter for the SDGs is shrinking; but increased to conflict affected countries for humanitarian aid; in-country refugee costs

Source: UNESCWA 2018b

Source: OECD 2018b
Illicit financial flows constitute a significant drain of resource

ILLICIT FINANCIAL FLOWS VS. FDI & ODA INFLOWS TO THE ARAB REGION

- Increase in trade misinvoicing in non-oil trade amounting to USD 482.7 billion (aggregate between 2008 and 2015).
- Nearly three quarters of illicit outflows (IIFs) are associated with trade misinvoicing.
- Since 2014, IIFs have outstripped the combined aggregate of total ODA and FDI inflows into the region.

Source: UNESCWA 2018b
Conflict-affected countries lost significant revenues

In the Arab region, greater income has not meant better governance


Note: Data pertain to year 2013

Fiscal policy response to rising debt in the oil-poor countries is insignificant, indicating lack of adherence to fiscal rules.

The fiscal reaction function, a measure of overall fiscal policy response to public debt, shows that primary balances continue to decline until about 90 percent of debt to GDP ratio in the previous year.

Projected fiscal adjustments largely rely on cutting expenditure, revenues share in GDP is sluggish.

Source: IMF Article IV reports, latest years of respective countries.

Expand and sustain fiscal space by putting systematic efforts on raising tax revenues

- Harnessing the potential of tax revenues is key to mobilize domestic resources (Setting short and medium term fiscal rules can help)
  - Improving tax fairness – Increase progressivity especially in direct tax collection, harness potential tax base (property tax/wealth tax, non-wage incomes)

- Improving effectiveness of tax systems -- Administrative reforms to control tax evasion, mandatory filing of tax (at residents’/businesses’ end)

- Controlling illicit financial flows necessitates strengthened international cooperation (also adjusting domestic tax laws)

- Oil-rich countries need to diversify revenues through promoting economic diversification and better public finance management, including debt and SWFs

- Improving expenditure efficiency is essential to meeting greater social expenditure needs toward achieving the SDGs
  - Enhancing progressivity in fiscal redistribution and better targeting public budgets to social development priorities

  - Monitoring social expenditure and reprioritizing: ESCWA tool on Social Expenditure Monitor (SEM) is currently being developed
Thank you