Mobilizing public resources for infrastructure financing

UNITED NATIONS ESCAP
Economic and Social Commission for Asia and the Pacific

Broad contours of the presentation

- The essential role of public finance for infrastructure
- Enhancing tax revenues in South Asia
- Cities and subnational public finance
- Leveraging public assets for infrastructure financing
- Exploring semi-public resources
- Questions for discussion

The essential role of public resources for infrastructure financing

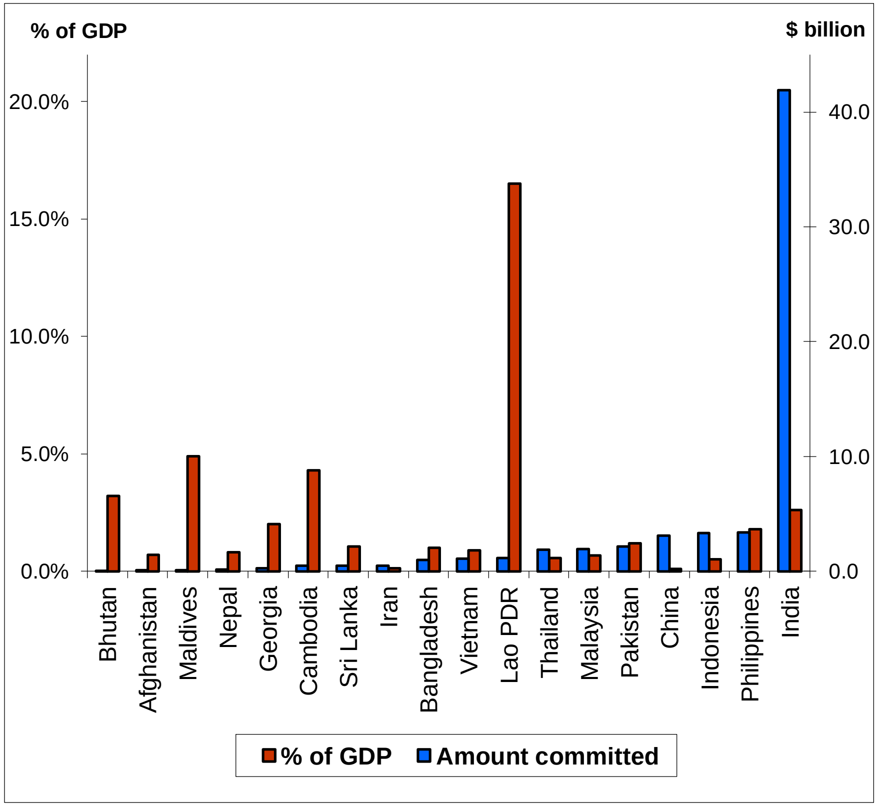
Public resources remain the backbone for infrastructure financing

•In most Asia-Pacific developing countries, private infrastructure investment is less than 1% of GDP, far below the normal infrastructure spending needs of 5-10% per year;
•South Asian countries outperform their peers in leveraging private capital, yet public sector still shoulder the bulk of the burden.

The backing from public sector is also important for PPPs

•Public sector remains the final payer for private services in many PPP projects;
•Strong public credit can lower the borrowing cost for PPP projects;
•Public sector also contribute important seed investment, guarantees, and grants for the financial viability of PPPs;

Private infrastructure investment by Asia Pacific countries in 2008-2012



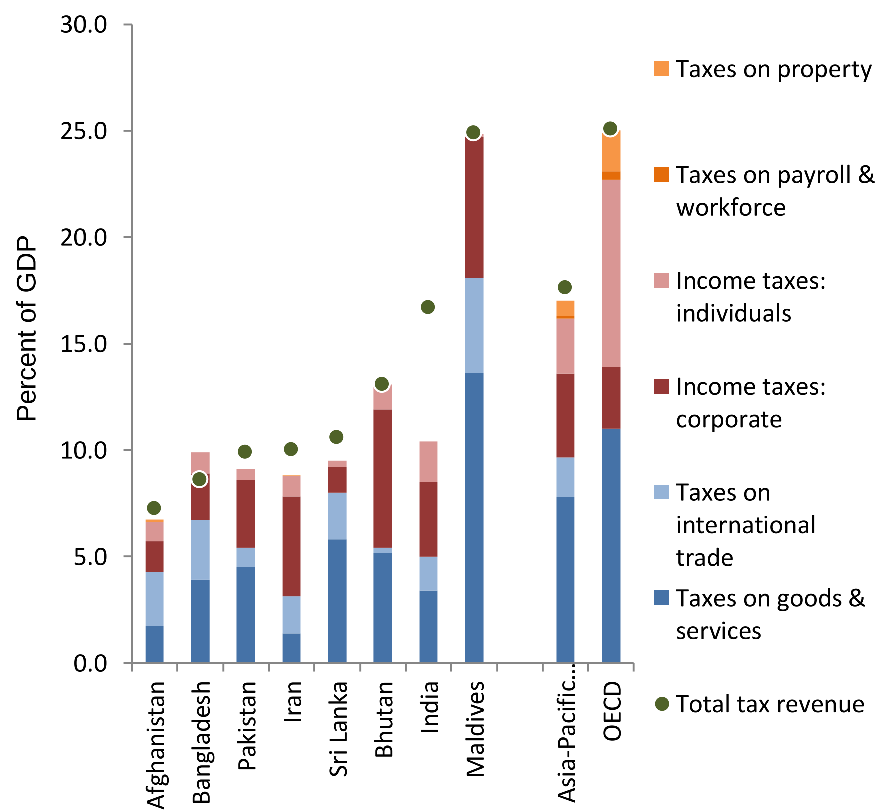
Enhancing tax revenues in South Asia – an urgent task

South Asian countries have the lowest tax-to-GDP ratios in Asia-Pacific

•Afghanistan, Bangladesh, Pakistan, Iran and Sri Lanka collect less than or barely 10% of GDP as tax revenue, which is less than half of the OECD average of 25%;

•Only Maldives collect more than Asia-Pacific regional average from taxes.

Tax revenues as % of GDP (2014)



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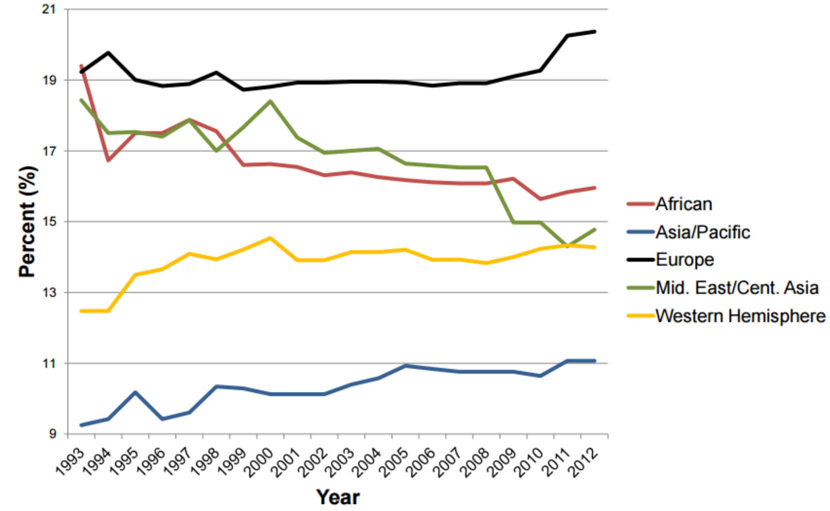
Enhancing tax revenues – make VAT perform

Relatively low VAT rates and decreasing c-efficiency of VAT have led to VAT revenue stagnation in Asia-Pacific

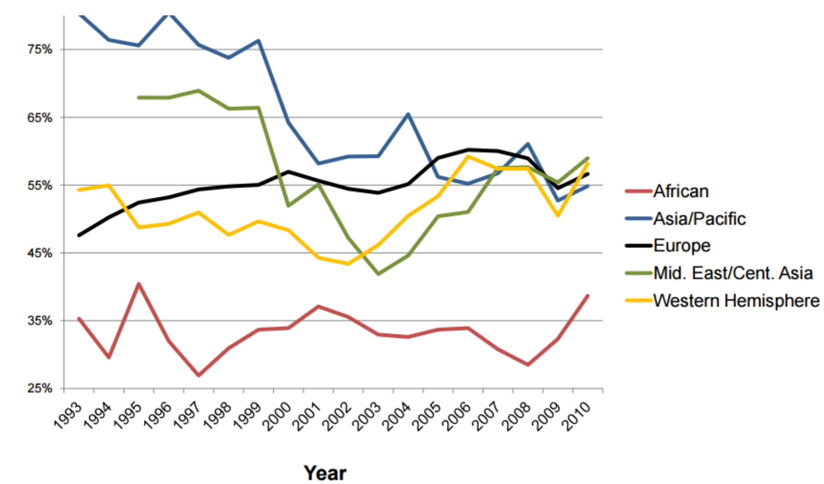
•Asia-Pacific has the world's lowest standard VAT rates, which partly reflects the intense competition for investment and export market;

•Although average VAT rate in Asia-Pacific has gradually increased from around 9% to 11% since the early 1990s, the continuing deterioration in collection efficiency almost wiped out any revenue gain.

Standard VAT rate



C-efficiency of VAT



Enhancing tax revenues – make VAT perform

Low collection efficiency is the main problem for VAT in A-P developing countries

•Broad-base and streamlined VAT reform is viewed as an effective way to enhance GST revenue while reducing economic distortions;

•However, the introduction of VAT itself doesn't automatically deliver on revenue promises;

•Effective VAT administration proved to be a significant institutional and capacity challenge in many cases

- ✓ Collection of business data and institutional/procedural reforms to support the VAT system
- ✓ Excessive exemptions to basic consumption goods, agriculture and export sectors
- ✓ The presence of large informal sector
- ✓ Fake VAT vouchers and export invoices

•VAT implementation is often shaped by the underlying capacity, institutional, legal and political economic factors.

Efficiency of VAT - Pakistan in international context

	Standard rate	Revenue/GDP	C - Efficiency
Pakistan (1990s)	15		0.39
Pakistan (2005)	15	3.4	0.3
Pakistan (2009)	16	3.1	0.27
Sri Lanka	15	6.7	0.47
Philippines	12	4.3	0.45
Turkey	18	7.1	0.48
Viet Nam	10	6.9	0.72
Republic of Korea	10	6.7	0.67
Singapore	5	1.8	0.63
New Zealand	12.5	8.9	0.93

Enhancing tax revenues – explore the potentials of direct taxes

There is space for South Asian countries to enhance their direct taxes

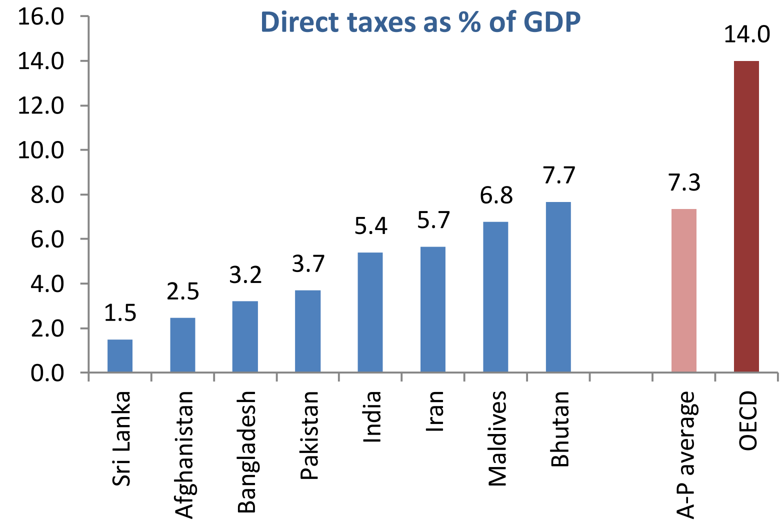
Corporate income tax (CIT)
•CIT revenue is strong in Bhutan and Iran, but weak in Afghanistan, Bangladesh and Sri Lanka;

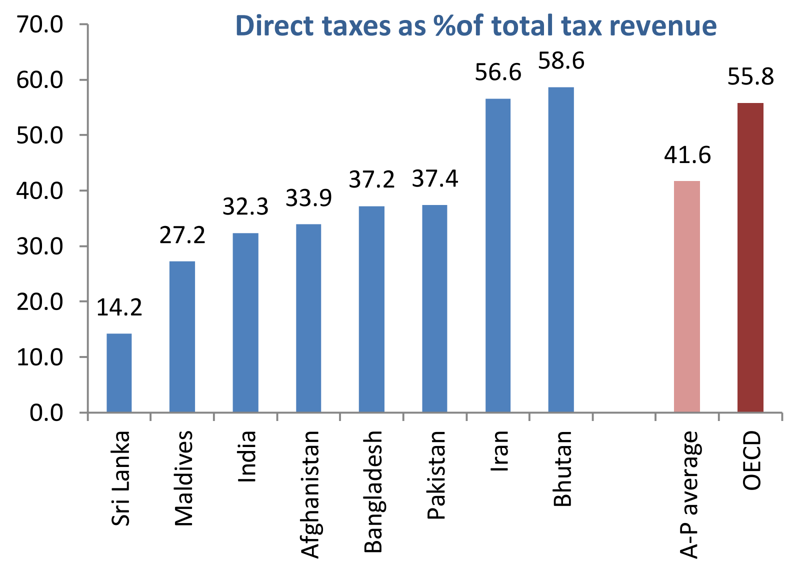
•CIT rates were on a declining trend in A-P in recent years;

•Rationalizing tax incentives and managing harmful regional/sub-regional tax competition would be important.

Personal income tax (PIT)
•PIT is around or less than 1% of GDP in South Asia, with exception of India (2%), far lower than A-P average of 2.6% and OECD average of 8.8%;

•However, PIT is very demanding on administrative and institutional capacities and on a favourable tax culture.





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Enhancing tax revenues – explore the potentials of direct taxes