



Technical Assistance Report

Project Number: 47149-001
Regional—Capacity Development Technical Assistance (R-CDTA)
April 2014

Enhancing Transparency and Exchange of Information for Tax Purposes (Financed by the Japan Fund for Poverty Reduction)

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	developing member country
OECD	–	Organisation for Economic Co-operation and Development
SGATAR	–	Study Group on Asian Tax Administration and Research
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Regional—capacity development technical assistance (R-CDTA)
Targeting classification	–	General intervention
Sector (subsector)	–	Public sector management (public expenditure and fiscal management)
Theme (subtheme)	–	Governance (economic and financial governance)
Location (impact)	–	National (high) and regional (medium)
Partnership	–	Japan Fund for Poverty Reduction

NOTE

In this report, "\$" refers to US dollars.

Vice-President	B. Lohani, Knowledge Management and Sustainable Development
Director General	W. Um, Officer-in-Charge, Regional and Sustainable Development Department (RSDD)
Director	B. Édes, Poverty Reduction, Social Development and Governance Division, RSDD
Team leader	S. Araki, Public Management Specialist (Taxation), RSDD
Team members	C. Faustino-Chan, Senior Operations Assistant, RSDD E. Fischelis, Senior Public Management Specialist, RSDD L. Francisco, Public Management Officer (Financial Management), RSDD P. Gonzales, Senior Operations Assistant, RSDD R. Sahay, Senior Operations Coordination Specialist, RSDD

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I. INTRODUCTION

1. Cross-border tax evasion and avoidance undermine public finances and trust in the fairness of the tax system.¹ International cooperation among tax authorities through the exchange of information is essential in addressing cross-border tax evasion. The Asian Development Bank (ADB) has engaged with tax authorities in ADB developing member countries (DMCs), through regional conferences and training seminars on tax issues, to identify challenges these authorities face. Tax authorities that are members of the Study Group on Tax Administration and Research (SGATAR), a regional cooperation forum for tax authorities in Asia and the Pacific, have noted that the risk of cross-border tax evasion increases in line with development of the regional economy. They have also observed that the regulatory frameworks and capacity of tax authorities to address cross-border tax evasion remain limited, and that further coordination among the tax authorities is needed. This technical assistance (TA) will conduct regional training courses, designed on the basis of a capacity development needs assessment, to enhance the capacity and regional cooperation of tax authorities. The project design and monitoring framework is in Appendix 1.²

II. ISSUES

2. Rapid globalization of financial services, investment, and trade has significantly impacted the revenue base of developing countries. Cross-border financial transactions are increasingly used to aggressively avoid and evade taxes, resulting in reduced domestic tax revenues through the use of offshore financial centers. The problem is particularly acute in Asia. Developing countries lost \$5.6 trillion in illicit financial outflows in 2001–2010; Asia accounted for 61% of the total illicit outflows, which are illegally transferred and accumulated outside of the taxpayers' countries of residence.³ The G20 Leaders' Declaration (issued 6 September 2013 during the Saint Petersburg Summit) stated that "... in many countries ensuring that all taxpayers pay their fair share of taxes is more than ever a priority. Tax avoidance, harmful practices, and aggressive tax planning have to be tackled."⁴ In order to counter international tax evasion schemes and the erosion of domestic tax revenues, tax authorities are increasingly seeking to strengthen their international network and capacity to obtain relevant information from taxpayers including that held in financial institutions, and to exchange information with foreign tax authorities.⁵

3. SGATAR's members comprise the tax authorities in 16 countries in Asia and the Pacific.⁶ ADB attends the annual meetings as an observer member and has expressed its willingness to assist ADB DMCs according to specific demand.⁷ At SGATAR's annual meetings,

¹ Tax evasion is a criminal attempt to avoid paying tax owed, and tax avoidance is an attempt to use the law including the exploitation of its loopholes to reduce taxes owed.

² The TA first appeared in the business opportunities section of ADB's website on 24 June 2013.

³ D. Kar and S. Freitas. 2012. *Illicit Financial Flows from Developing Countries: 2001–2010*. Washington, DC: Global Financial Integrity.

⁴ Russia G20 Leaders' Declaration, p. 12.

https://www.g20.org/sites/default/files/g20_resources/library/Saint_Petersburg_Declaration_ENG.pdf

⁵ Tax treaties that prevent double taxation between two countries normally have a provision addressing information exchange (Article 26, Model Tax Convention on Income and on Capital, OECD Committee on Fiscal Affairs).

⁶ SGATAR was initiated at the 5th Southeast Asian Ministerial Conference for Economic Development in Yogyakarta in 1970 as a study group for review and exchange of information on tax structures in Southeast Asia. The first SGATAR meeting was held in Manila in 1971; members comprise Australia; the People's Republic of China; Hong Kong, China; Indonesia; Japan; the Republic of Korea; Macau, China; Malaysia; Mongolia; New Zealand; Papua New Guinea; the Philippines; Singapore; Taipei, China; Thailand; and Viet Nam.

⁷ From 1991 to 2011, ADB and the ADB Institute provided an annual tax conference program for DMCs as regional capacity development TA projects; these mainly focused on double tax treaty and international taxation issues.

members expressed the need to enhance the exchange of information to counter international tax avoidance, and increase the capacity of member tax authorities. Most recently, countering international tax avoidance and the exchange of information was one of the three working group themes at the 43rd SGATAR annual meeting in October 2013 in Jeju, Republic of Korea, and its communiqué reaffirmed that encouraging the exchange of information to tackle offshore tax evasion was a common challenge for tax administration bodies in Asia.⁸

4. Further, it was recognized that tax authorities in DMCs, including SGATAR member authorities, face common difficulties. First, legal frameworks, internal procedures, and organizational arrangements remain underdeveloped. Second, tax officials charged with exchanging information with the country headquarters of foreign tax authorities have limited practical experience. In particular, while some DMC tax authorities have handled information exchange requests from developed countries, most lack experience sending such requests to foreign tax authorities for the purpose of investigating tax evasion in their own countries. Third, front-line auditors have limited understanding of cross-border tax evasion schemes, and equally limited capacity to obtain information requested by foreign tax authorities. Finally, there is insufficient mutual understanding of the legal and administrative systems and capacity of partner countries, which is critical for carrying out a smooth exchange of information.

5. The Organisation for Economic Co-operation and Development's (OECD) Global Forum on Transparency and Exchange of Information for Tax Purposes is promoting legal and regulatory frameworks on the exchange of information among tax authorities.⁹ While the OECD Global Forum recognizes the need for capacity development of tax authorities in Asia, it has limited resources for capacity development activities in the region. The forum welcomes ADB take a leading role in capacity development activities for tax authorities in Asia.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

6. The TA impact will be a sustainable tax base in participating DMCs through strengthened international cooperation on tax matters. The outcome will be enhanced enforcement capacity in the member tax authorities of SGATAR.

B. Methodology and Key Activities

7. The TA will strengthen the capacity of tax authorities in the eight ADB DMCs that are members of SGATAR—i.e., the People's Republic of China, Indonesia, Malaysia, Mongolia, Papua New Guinea, the Philippines, Thailand, and Viet Nam—for the exchange of information for tax purposes and audit on cross-border tax evasion. For the effective and sustainable capacity development of tax authorities, the focus will be on developing training modules, and delivering training courses targeting tax officials (i) in charge of exchanging information with foreign tax authorities at their country headquarters, and (ii) in charge of investigating cross-border tax evasion cases at audit and investigation departments.

8. The TA has three main outputs.

⁸ SGATAR Communiqué. 17 October 2013. Jeju, Republic of Korea.

⁹ The OECD Global Forum's work is supported by the G-20 process (G20 Leaders' Declaration. Saint Petersburg Summit. 6 September 2013).

- (i) **Technical consultation session on international standards on the exchange of information for tax purposes delivered.** A technical consultation will target tax policy and administration officials of four DMC members of SGATAR (Mongolia, Papua New Guinea, Thailand, and Viet Nam).¹⁰ The consultation session will analyze the current legal and administrative frameworks and practices with respect to the exchange of information for tax purposes, and identify issues to be addressed by the participant tax authorities.
- (ii) **Recommendations for strengthening international cooperation and exchange of information for tax purposes produced.** The recommendations will be proposed through a recommendation report, which will cover eight DMC members of SGATAR, and will identify and analyze areas that require further capacity development with respect to exchange of information for tax purposes in regional and country-level contexts.
- (iii) **Training courses for tax officials on the exchange of information and cross-border tax evasion designed and delivered.** The training courses will be based on the capacity development needs assessment conducted by outputs (i) and (ii). The training courses will target tax administration officials of eight DMC members of SGATAR. Possible topics for the training courses include procedures for exchanging information, and bank information and cross-border tax evasion audits.

9. The TA assumes that participant tax authorities are committed to developing their capacity for exchanging information and enhancing international cooperation. The main risk is that capacity development activities do not immediately result in an increase in the number of exchange-of-information cases, because of a lack of institutional commitment to understanding the need for international cooperation. To mitigate this risk, training sessions will target not only officials in charge of international cooperation at country headquarters, but also front-line tax auditors in charge of investigating cross-border tax avoidance and evasion.

C. Cost and Financing

10. The TA is estimated to cost \$820,000, which will be financed on a grant basis by the Japan Fund for Poverty Reduction and administered by ADB.

D. Implementation Arrangements

11. The Regional and Sustainable Development Department, ADB will be the executing agency for the TA. The TA will also coordinate with other ADB grant and TA projects on the capacity development of tax authorities being implemented by regional departments and the Economics and Research Department.¹¹

¹⁰ ADB's preliminary review has found that these four DMCs' legal and administrative frameworks require further improvement. In addition, the DMCs are not members of OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes.

¹¹ For example, ADB. 2013. *Technical Assistance to the Republic of the Philippines for Supporting Capacity Development for the Bureau of Internal Revenue*. Manila (TA 8354-PHI); ADB. 2013. *Technical Assistance to the People's Republic of China for Public Finance Development Strategy 2020*. Manila (TA 8379-PRC); and ADB. 2013. *Technical Assistance for Tax Policy and Administration Research and Capacity Development*. Manila (TA 8450-REG).

12. The TA will be implemented in partnership with external partner organizations that have expertise and practical experiences in the exchange of information for tax purposes in both global and regional contexts. The OECD Centre for Tax Policy and Administration is promoting international standards on transparency and exchange of information for tax purposes, and the National Tax Agency, Japan, is leading regional good practices on international cooperation among tax authorities. These two entities are expected to provide resource persons for technical consultation sessions and training courses.

13. The TA requires seven experts (two international consultants with 14 person-months of inputs and five national consultants with 20 person-months of inputs). The two international consultants will produce a recommendation report and lead capacity development activities; the five national consultants will assist the international consultants with country-specific expertise, and provide support to capacity development activities. As assignments are specific and narrowly defined, individual consultants are most appropriate. Consultants will be engaged by ADB on an individual basis in accordance with its Guidelines on the Use of Consultants (2013, as amended from time to time). Disbursement under the TA will be made in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). No TA activities will be financed or undertaken in the territory of a DMC until a no-objection confirmation has been obtained from the government of the DMC concerned.

14. The Tax Policy and Administration Specialist will regularly report progress to ADB. A recommendation report will be widely disseminated among DMCs and international organizations as well as within ADB. The TA will be implemented from 1 May 2014 and will be completed by 31 March 2016.

IV. THE PRESIDENT'S DECISION

15. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$820,000 to be financed on a grant basis by the Japan Fund for Poverty Reduction for Enhancing Transparency and Exchange of Information for Tax Purposes, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact A sustainable tax base in participating DMCs through strengthened international cooperation on tax matters</p>	<p>The ratio of tax revenue to GDP increases by 3% in participant DMCs by 2020 (baseline: 2012 average 18.8%)</p>	<p>Asian Development Bank's <i>Key Indicators for Asia and the Pacific</i></p>	<p>Assumption Tax authorities committed to tackling aggressive tax avoidance schemes through international cooperation</p>
<p>Outcome Enhanced enforcement capacity in the member tax authorities of SGATAR</p>	<p>New exchange-of-information and audit regime, based on TA recommendations and training courses, adopted in at least two DMCs by 2016 (baseline: zero)</p>	<p>Follow-up assessment by the TA team Country reports at SGATAR's annual meetings</p>	<p>Assumption Tax authorities actively employ an exchange-of-information mechanism to tackle aggressive tax avoidance schemes</p> <p>Risk Enhanced capacity does not directly lead to an increase in the number of exchange-of-information cases</p>
<p>Outputs</p> <p>1. Technical consultation session on international standards on the exchange of information for tax purposes delivered</p> <p>2. Recommendations for strengthening international cooperation and exchange of information for tax purposes produced</p> <p>3. Training courses for tax officials on the exchange of information and cross-border tax evasion designed and</p>	<p>12 tax policy and administration officials from four DMCs participate in a 4-day technical consultation session (by January 2015)</p> <p>A recommendation report proposing further areas for capacity development in regional and country-level contexts with respect to eight DMCs published and disseminated (by March 2015)</p> <p>A total of 80 tax officials from eight DMCs undergo training courses</p>	<p>Participant evaluation</p> <p>Recommendation report</p> <p>Participant evaluation</p>	<p>Assumption Tax authorities willing to share experiences with other foreign tax authorities</p> <p>Risk Information on internal operations provided by tax authorities is limited due to confidentiality.</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
delivered	Internal process and awareness improved in each participant DMC (by January 2016)	Follow-up assessment by the TA team	
Activities with Milestones			Inputs
<ol style="list-style-type: none"> 1. Technical consultation session on international standards on the exchange of information for tax purposes delivered <ol style="list-style-type: none"> 1.1 Conduct a technical consultation session on implementing internationally agreed standards for transparency and exchange of information for Mongolia, Papua New Guinea, Thailand, and Viet Nam (by January 2015) 1.2 Conduct follow-up dialogue, identify actions planned or taken, and monitor progress after the session (by February 2015) 2. Recommendations for strengthening international cooperation and exchange of information for tax purposes produced <ol style="list-style-type: none"> 2.1 Conduct research on the current practices and capacity development assessment needs for eight DMC members of the SGATAR, i.e., the People's Republic of China, Indonesia, Malaysia, Mongolia, Papua New Guinea, the Philippines, Thailand, and Viet Nam (by January 2015) 2.2 Taking into account the outcome of the research, capacity development needs assessment, and technical consultation, produce and disseminate a recommendation report that will propose issues requiring further capacity development in regional and country-level contexts (by March 2015) 3. Training courses for tax officials on exchange of information and cross-border tax evasion designed and delivered <ol style="list-style-type: none"> 3.1 Based on the recommendation report, design curriculums for capacity development training courses (by April 2015) 3.2 Conduct capacity development training courses on exchange of information and cross-border tax evasion for tax administration officials of eight DMC members of the SGATAR (by January 2016) 3.3 Conduct a follow-up assessment and evaluate the outcome of the TA outputs (by February 2016) 			Japan Fund for Poverty Reduction: \$820,000

ADB = Asian Development Bank, DMC = developing member country, GDP = growth domestic product, SGATAR = Study Group on Asian Tax Administration and Research, TA = technical assistance.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Japan Fund for Poverty Reduction^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (14 person-months, intermittent)	275.00
ii. National consultants (20 person-months, intermittent)	85.00
b. International and local travel	100.00
c. Reports and communications	40.00
2. Training, seminars, and conferences	230.00
3. Miscellaneous administration and support costs	10.00
4. Contingencies	80.00
Total	820.00

^aAdministered by the Asian Development Bank.
Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. A total of 14 person-months (intermittent) of international consulting services and 20 person-months (intermittent) of national consulting services will be required to ensure the effective implementation of this technical assistance (TA) project. Consultants will be recruited as individuals, in accordance with Asian Development Bank (ADB) Guidelines on the Use of Consultants (2013, as amended from time to time).

2. **Tax policy and administration specialist** (international, 11 person-months, intermittent). The tax policy and administration specialist will have experience in tax policy and administration issues, including tax information exchange agreements, exchange-of information-practices at a tax administration body, and providing TA to developing countries, and will undertake the following tasks:

- (i) design methodologies to research practices for the exchange of information and audits on international tax evasion in member countries of the Study Group on Asian Tax Administration and Research (SGATAR), and assess the capacity development needs of eight SGATAR developing member countries (DMCs);
- (ii) conduct a capacity development needs assessment. The assessment will take into account current information and audit exchange practices with respect to cross-border tax evasion in SGATAR member countries, and assess the capacity development needs of SGATAR DMCs;
- (iii) design and lead a technical consultation session for the tax policy and administration officials of Mongolia, Papua New Guinea, Thailand, and Viet Nam that provides good international practices, and facilitate, for each participant country, improvements in transparency and the exchange of information for tax purposes. Conduct follow-up dialogue to identify actions planned or taken in each participant country;
- (iv) taking into account the capacity development needs assessment and the outcome of the technical consultation session and follow-up dialogue, produce a recommendation report that proposes regional model practices and improvement measures designed for each participating DMC;
- (v) based on the findings proposed in the recommendation report, design and lead a capacity development training course on the information exchange operations for tax officials in charge of international cooperation and information exchange for eight SGATAR DMCs. Conduct a follow-up assessment to evaluate the impact of the TA outputs;
- (vi) communicate and coordinate with partner international organizations, including the Organisation for Economic Co-operation and Development, on the implementation of the TA project; and
- (vii) regularly report the progress of the TA project to the ADB's project officer.

3. **International tax audit specialist** (international, 3 person-months, intermittent). The international tax audit specialist will have experience in tax administration, including the audit of cross-border tax evasion schemes, the exchange of information with foreign tax authorities, and providing TA to developing countries, will undertake the following tasks:

- (i) support the tax policy and administration specialist in conducting research and a capacity development needs assessment, in particular with respect to cross-border tax evasion schemes, and in producing the recommendation report;

- (ii) contribute to the design and implementation of a technical consultation session with selected DMCs with respect to the audit of cross-border evasion schemes; and
- (iii) support the tax policy and administration specialist in the design and delivery of capacity development training courses, in particular, regarding the audit of bank information and cross-border tax evasion schemes.

4. **Taxation consultants** (four national, 3 person-months each, intermittent). The taxation consultants (one based in each of the following countries: Mongolia, Papua New Guinea, Thailand, and Viet Nam) will have expertise in tax policy and administration, and undertake the following tasks:

- (i) using their country-specific expertise, assist the tax policy and administration specialist and international tax audit specialist to conduct research and a capacity development needs assessment, and produce the recommendation report. Assistance will include the translation of relevant materials;
- (ii) communicate and coordinate with tax authorities and other organizations located in their respective countries, and provide assistance with activities to follow up on technical consultation sessions and training courses; and
- (iii) carry out other duties within their specialization as may be assigned by the ADB project team, tax policy and administration specialist, and international tax audit specialist.

5. **Public management consultant** (national, 8 person-months, intermittent). The public management consultant will be based in the Philippines and have expertise in public management and governance, including tax policy and administration. They will undertake the following tasks:

- (i) assist in communicating and coordinating among the ADB project team, international specialists, and taxation consultants;
- (ii) assist the tax policy and administration specialist and international tax audit specialist in conducting the capacity development needs assessment and producing the recommendation report, including document management, editing, printing, and dissemination;
- (iii) provide logistical support in the preparation and implementation of the technical consultation sessions and capacity development training courses; and
- (iv) carry out other duties within their specialization as may be assigned by the ADB project team, tax policy and administration specialist, and international tax audit specialist.