



Regional: Establishing a Regional Hub on Domestic Resource Mobilization and International Tax Cooperation

Project Name	Establishing a Regional Hub on Domestic Resource Mobilization and International Tax Cooperation		
Project Number	54454-001		
Country	Regional		
Project Status	Proposed		
Project Type / Modality of Assistance	Technical Assistance		
Source of Funding / Amount	TA: Establishing a Regional Hub on Domestic Resource Mobilization and International Tax Cooperation		
	Technical Assistance Special Fund		US\$ 2.00 million
Strategic Agendas	Inclusive economic growth Regional integration		
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships		
Sector / Subsector	Multisector - ADB's corporate management, policy and strategy development		
Gender Equity and Mainstreaming	Some gender elements		
Description	<p>The knowledge and support technical assistance (TA) is a corporate priority TA that will support developing member countries (DMCs) to enhance collaboration and knowledge sharing on domestic resource mobilization (DRM) and international tax cooperation (ITC), in partnership with other development partners (DPs), and strengthen the establishment and implementation of differentiated, country-specific roadmaps on DRM and ITC. This will be achieved through the establishment of an effective and inclusive regional hub on DRM and ITC, where all DMCs and DPs collaborate closely to promote DRM and ITC in Asia and the Pacific region. The TA's key outputs are to establish a regional hub secretariat function in the Asian Development Bank (ADB), promote strategic dialogues and information sharing among DMCs, DPs and ADB including by organizing high-level regional conferences, develop the web portal for the regional hub, and drive digital solutions on DRM and ITC. The secretariat -- initially to operate virtually -- will promote a One ADB approach to maximize internal resources and cost effectiveness through close communication with relevant departments. The TA builds on the initial accomplishments of the TA for Enhancing Tax Transparency of ADB Developing Member Countries (TA 9433).</p> <p>The TA supports ADB's Strategy 2030 Operational Plan for Operational Priority (OP) 2 on accelerating progress in gender equality, Operational Plan for OP 4 on making cities more livable, Operational Plan for OP 6 on strengthening governance and institutional capacity and Operational Plan for OP 7 on fostering regional cooperation and integration. The TA was endorsed during the corporate priority framework meeting in November 2020 and is included in the 2021 management-approved, results-based workplan of the Sustainable Development and Climate Change Department (SDCC). It is also aligned with ADB's Anticorruption Policy in supporting efficient, accountable, and transparent public administration as part of its broader work on good governance and capacity building.</p>		

Project Rationale and
Linkage to
Country/Regional Strategy

The ADB Strategy 2030 recognizes the importance of revenue mobilization through: the OP 6 on strengthening governance and institutional capacity, and the Anticorruption Policy on Enhancing the Role of the Asian Development Bank in Relation to Tax Integrity. Given ADB's long-standing experience and partnership with DMCs and DPs across the region and its strong convening power, ADB will further enhance its efforts on DRM and ITC as one of the keys to enhance DMCs' successful achievement of the Sustainable Development Goals (SDGs) in a world reshaped by coronavirus disease (COVID-19).

Over the past year, the COVID-19 pandemic has caused a multidimensional health and economic crisis. With only a decade left to achieve the SDGs, the pandemic threatens to reverse years of progress. Before the pandemic, the financing gap for developing countries worldwide to achieve the SDGs was estimated at \$2.5 to \$3 trillion each year. The Economic and Social Survey of the United Nations Economic and Social Commission for Asia and the Pacific found that Asia-Pacific's developing countries would need \$1.5 trillion annually to end extreme poverty and ambitiously move toward universal health coverage, quality education and infrastructure while staying on track to limit climate change. However this amount will likely increase due to the impact of COVID-19. While the role of external finance is crucial in filling the fiscal gap of DMCs, strengthening DRM is key. DMC tax yields have not increased concomitantly with the strong and steady growth in gross domestic product (GDP) over the last decades. Even prior to the pandemic, many DMCs did not achieve a tax yield of 15% of GDP -- now widely regarded as the minimum level required for sustainable development - due to a narrow tax base and low capacity of tax administration in general. For countries to finance their SDGs, and to promote medium-term fiscal sustainability, greater effort in increasing tax revenues will be required. This TA will be specifically aligned to SDGs 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development.

DMCs can only achieve the SDGs if they develop and implement an ambitious program to mobilize substantial additional financial resources. Many governments will have to carefully consider their next steps in economic and public policy reform, in particular, on how to transition their government budgets from pandemic relief to recovery and, eventually, to providing its citizens with a more equitable, sustainable and reliable access to essential services. Enhanced mobilization of domestic resources would not only reduce the need to issue domestic debt, but also address possible overreliance on external debt, which may undermine the use of fiscal and monetary policy to support domestic economy. In developing the program to mobilize substantial additional revenue, the following reforms will be critical: (i) broadening the domestic tax base; (ii) enhancing tax compliance; and (iii) developing more transparent and efficient tax administration with digital technologies. It will also require ensuring that tax policy promotes investment, and that private sector development leads to more inclusive and sustainable economic growth including the SDGs. The tax policy measures, such as environmental taxes, may be leveraged to recover the strong growth trajectory and to get development goals, including SDGs and green recovery, on track. Lessons from previous TAs point to strengthening capacity in revenue administrations. This will take on added importance reflecting emerging challenges, including significant and rapid changes in the business environment (i.e., expansion of cross-border supply chain and digital economy) and scaling up capacity building initiatives.

To broaden the tax base and mitigate income inequality, DMCs should consider expanding the tax net in a manner that encourages trust among its citizens, while adopting a more progressive tax system may be a possible solution for addressing income inequality. This also means that governments should take decisive steps to address harmful tax practices, such as: (i) aggressive tax planning of some multinational enterprises that exploit gaps in the interaction of different tax systems to artificially reduce taxable income coming from DMCs, a process known as base erosion and profit shifting (BEPS), and (ii) tax evasion, which happens through the exploitation of the interconnected global financial network and use of tax havens. Joining the Inclusive Framework on BEPS and the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) are key steps towards protecting national revenue against BEPS and strengthening DRM through the implementation of international standards on global transparency and exchange of information for tax purposes. In addition, DMCs should engage with the international community to address tax challenges arising from the digital transformation of the global economy, which are increasing from the impact of COVID-19. Indeed, the loss of potential revenues on account of a lack of a global agreement on the tax challenges arising from the digitalization of the economy are estimated at \$50--80 billion per year. Given the narrower tax base, the loss of revenue from a no-agreement scenario is proportionately greater for developing and emerging economies.

Subsequent economic and public policy reforms should be informed both by international standards on transparency and exchange of information for tax purposes, as well as by country-level development and fiscal needs, revenue administration, and tax and governance structures. The country-specific, medium-term revenue strategy (MTRS) is a mechanism for countries to determine a comprehensive, whole-of-government strategy for increasing tax revenues over the medium term. Complemented by a thorough communication plan, MTRS can help DMCs attain sustainable and effective tax system reforms. The MTRS will require high-level political support over an extended period, with the revenue goals being aligned with political economy considerations. The MTRS can also serve as a foundation for development coordination. To this end, DMCs, in collaboration with DPs, need to maximize regional and international resources of knowledge, expertise, and finance on DRM and ITC. A significant gap in DRM and ITC in the region is the lack of a pan-regional tax community. Although there are important tax communities in the region, such as the Study Group on Asian Tax Administration and Research and Pacific Islands Tax Administrators Association, they do not provide a platform for strategic policy dialogue and the coverage of economies are limited. Those limitations will be addressed under the regional hub. To fill this gap, ADB announced the creation of a regional hub on DRM and ITC, which will serve multiple functions, including an open, inclusive and pan-regional tax platform for (i) strategic dialogue, institutional and capacity development, and exchange of information and ideas among DMCs; (ii) knowledge sharing across knowledge partners, international finance institutions, other bilateral revenue organizations, and DMCs; and (iii) collaboration and development coordination across DPs. The regional hub will promote the SDGs and the G20/Organisation for Economic Co-operation and Development's (OECD) initiatives, such as the Global Forum and the Inclusive Framework on BEPS, and assist each DMC to define differentiated DRM and ITC goals, including MTRS in coordination with Platform for Collaboration on Tax and a roadmap of digitalization of tax administrations which facilitates the introduction of digital tools, appropriate for their specific circumstances and level of development.

Impact	DRM and ITC for supporting SDGs and sustaining economic recovery from COVID-19 improved (ADB Strategy 2030 Operational Plan for Priority 6)
Outcome	Collaboration and knowledge sharing on DRM and ITC enhanced
Outputs	Regional hub on domestic resource mobilization and international tax cooperation established and institutionalized Strategic conferences and dialogues among developing member countries, development partners and Asian Development Bank facilitated Web portal on the regional hub developed Digital solutions on domestic resource mobilization and international tax cooperation promoted
Geographical Location	Regional

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Responsible ADB Officer	Nagata, Go
Responsible ADB Department	Sustainable Development and Climate Change Department
Responsible ADB Division	SDTC-GOV
Executing Agencies	Asian Development Bank 6 ADB Avenue, Mandaluyong City 1550, Philippines

Timetable

Concept Clearance	20 Nov 2020
Fact Finding	-
MRM	-

Approval	-
Last Review Mission	-
Last PDS Update	12 Feb 2021

Project Page	https://www.adb.org/projects/54454-001/main
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