



# Technical Assistance Report

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**PUBLIC**

Project Number: 56006-002  
Transaction Technical Assistance (TRTA)  
August 2022

## Islamic Republic of Pakistan: Preparing the Improved Domestic Resource Mobilization Reform Program

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**Asian Development Bank**

## **CURRENCY EQUIVALENTS**

(as of 19 July 2022)

Currency unit	–	Pakistan rupee/s (Pre/PRs)
PRr1.00	=	\$0.0046
\$1.00	=	PRs216.23

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
FBR	–	Federal Board of Revenue
TA	–	technical assistance

## **NOTES**

- (i) The fiscal year (FY) of the Government of Pakistan ends on 30 June. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2020 ends on 30 June 2020.
- (ii) In this report, "\$" refers to United States dollars.

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## CONTENTS

	<b>Page</b>
TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE	
I. THE ENSUING PROJECT	1
II. THE TECHNICAL ASSISTANCE	1
A. Justification	1
B. Outputs and Activities	2
C. Cost and Financing	4
D. Implementation Arrangements	5
APPENDIXES	
1. Cost Estimates and Financing Plan	6
2. List of Linked Documents	7

## TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 56006-002	
<b>Project Name</b>	Preparing the Improved Domestic Resource Mobilization Reform Program	<b>Department/Division</b>	CWRD/CWPF
<b>Nature of Activity Modality</b>	Project Preparation Regular	<b>Executing Agency</b>	Ministry of Finance
<b>Country</b>	Pakistan		
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ Public sector management	Economic affairs management		0.32
	Public administration		0.31
	Public expenditure and fiscal management		0.31
	<b>Total</b>		<b>0.95</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
✓ OP2: Accelerating progress in gender equality		GHG Reductions (tons per annum)	0
✓ OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		Climate Change impact on the Project	Medium
✓ OP6: Strengthening governance and institutional capacity		<b>ADB Financing</b>	
✓ OP7: Fostering regional cooperation and integration		Adaptation (\$ million)	0.05
		Mitigation (\$ million)	0.05
		<b>Cofinancing</b>	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
<b>Sustainable Development Goals</b>		<b>Gender Equity and Mainstreaming</b>	
SDG 1.a, 1.b		Effective gender mainstreaming (EGM)	✓
SDG 5.5, 5.c			
SDG 8.3		<b>Poverty Targeting</b>	
SDG 10.3, 10.4		General Intervention on Poverty	✓
SDG 12.c			
SDG 13.a			
SDG 16.5, 16.6			
SDG 17.1, 17.4			
<b>4. Risk Categorization</b>	Complex		
<b>5. Safeguard Categorization</b>	Safeguard Policy Statement does not apply		
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>0.95</b>	
Transaction technical assistance: Technical Assistance Special Fund		0.95	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>0.00</b>	
None		0.00	
<b>Total</b>		<b>0.95</b>	
<b>Currency of ADB Financing:</b> US Dollar			

## I. THE ENSUING PROJECT

1. The proposed Improved Domestic Resource Mobilization Reform Program aims to help the Government of Pakistan implement reforms that will help ensure fiscal sustainability and generate fiscal space to finance critical investments in human capital, infrastructure, and poverty alleviation. The proposed program will support policy, legal, and institutional actions in three key reform areas that will help improve (i) domestic revenue mobilization, (ii) the quality of public expenditure and cash management for increased allocative efficiency of scarce public resources, and (iii) the mobilization and utilization of domestic savings and foreign direct investment. These key reform areas are closely aligned with the government's reform agenda for public sector management outlined in Pakistan's Vision 2025, the national development strategy; the medium-term budget strategy; and the Asian Development Bank (ADB) country partnership strategy for Pakistan, 2021–2025.<sup>1</sup> A proposed transaction technical assistance (TA) will help the government prepare the ensuing project. The TA also aligns with the Central Asia Regional Economic Cooperation (CAREC) Program, particularly the CAREC Integrated Trade Agenda 2030 and the CAREC Digital Strategy 2030 that promotes trade through applying digital technologies.<sup>2</sup>

2. The proposed transaction TA will focus on the first and third key reform areas. It will, through the Ministry of Finance and the Federal Board of Revenue (FBR), support the implementation of critical tax administration, pension system, and institutional, and capacity development reforms in Pakistan. The development and implementation of the second key reform area for improving the quality of public expenditure and cash management will be provided through ADB's ongoing regional TA facility for Supporting Public Financial Management and Tax Policy.<sup>3</sup> The TA coverage of all key reform areas ensures not only adequate support for implementation of complex reforms but also a strong demonstration of ADB value-addition.

## II. THE TECHNICAL ASSISTANCE

### A. Justification

3. The Government of Pakistan requested TA to support complex tax administration and pension system reforms that provide the basis for the proposed Improved Domestic Resource Mobilization Reform Program. An extensive consultation mission reached agreement with the government on the scope and coverage, results framework, implementation arrangements, and cost estimates of the TA. The urgent need for TA support and the ensuing program stems from the extremely challenging macroeconomic and fiscal situation that the country frequently finds itself in and efforts by succeeding governments, with support from development partners such as the International Monetary Fund, the World Bank, the United Kingdom's Foreign and Commonwealth Development Office, and ADB, to substantively address the longstanding structural factors behind this perennial cycle.

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<sup>1</sup> The Government of Pakistan. 2014. *Pakistan 2025: One Nation—One Vision*. Islamabad; and ADB. 2020. *Country Partnership Strategy: Pakistan, 2021–2025—Lifting Growth, Building Resilience, Increasing Competitiveness*. Manila.

<sup>2</sup> CAREC Secretariat. 2017. *CAREC 2030—Connecting the Region for Share and Sustainable Development*. Manila; CAREC Secretariat. 2019. *CAREC Integrated Trade Agenda 2030 and Rolling Strategic Action Plan, 2018–2020*. Manila; CAREC Secretariat. 2022. *CAREC Digital Strategy 2030: Accelerating Digital Transformation for Regional Competitiveness and Inclusive Growth*. Manila.

<sup>3</sup> ADB. 2020. *Technical Assistance to the Islamic Republic of Pakistan for Supporting Public Financial Management and Tax Policy*. Manila.

4. The TA grant of \$950,000 will support the (i) design and implementation of detailed policy actions under the ensuing program; (ii) development of capacity in the executing and implementing agencies; and (iii) policy dialogue with the government to improve awareness and understanding of international standards, best practices, and lessons learned in the tax administration and pension system reform areas.

## B. Outputs and Activities

5. The major outputs and activities are summarized in Table 1.

**Table 1: Summary of Major Outputs and Activities**

<b>Major Outputs</b>	<b>Delivery Dates</b>	<b>Key Activities with Milestones</b>
1. Tax administration services and products improved	August 2022– November 2023	<p>1.1 Develop a framework for tax administration surveys and consultation to improve tax administration efficiency and transparency, by August 2022.</p> <p>1.2 Provide support to conduct tax administration surveys and consultations under the framework developed in 1.1, by November 2022.</p> <p>1.3 Provide support to establish and operationalize a Center for Revenue Studies, by November 2022.</p> <p>1.4 Produce and present to the FBR recommendations to improve tax administration services and products to ensure timely filing and payments, by March 2023.</p> <p>1.5 Deliver trainings to FBR staff on tax administration services, by November 2023.</p>
2. Digital transformation and automation in tax administration promoted	August 2022– July 2024	<p>2.1 Establish a diagnostic framework and conduct a diagnostic assessment to (i) evaluate the coverage of the current system, IRIS, stakeholders involved, key functions and services, service levels, key performance indicators, and legal and administrative framework and business processes; and (ii) assess their readiness for the ICT-based transformation of the tax administration system, by September 2022.</p> <p>2.2 Prepare an implementation plan specific to the tax administration that will be largely based on its priorities and objectives for automation in a phased manner, by November 2022.</p> <p>2.3 Support implementation of the plan, primarily focusing on design and development of the ICT systems; supply, procurement and installation of ICT infrastructure; data digitization; and capacity building, as well as business process reengineering, amendment of the</p>

Major Outputs	Delivery Dates	Key Activities with Milestones
		<p>legal and administrative framework, and communication and change management, by September 2023.</p> <p>2.4 Develop and implement monitoring, evaluation, and reporting mechanisms in tracking operational targets in the short and medium term, by May 2024.</p>
3. Legislation and administration on the taxation of international transactions and investment improved	August 2022–May 2024	<p>3.1 Review existing tax treaty network and develop a tax treaty policy framework, including a model tax treaty, to guide the scope and substance of tax treaties, by September 2022.</p> <p>3.2 Review and identify gaps in legislative, regulatory, and administration framework of international taxation and develop recommendation to address these through improved alignment with internationally accepted standards, including BEPS, and legislative amendments, in order to reduce cases involving tax avoidance in transactions across borders and digital services, by November 2022.</p> <p>3.3 Support drafting proposals to revise tax treaties to commence negotiations with treaty partners based on the framework (item 3.1), by March 2023.</p> <p>3.4 Support to strengthen legislative, regulatory, and administration framework on the taxation of international transactions based on the gap analysis and recommendation (item 3.2), including through developing transfer pricing manuals, by August 2023.</p> <p>3.5 Deliver capacity development trainings to FBR staff for complex functions such as international audits and transfer pricing, by May 2024.</p>
4. Fiscal sustainability in national pension system improved	August 2022–May 2023	<p>4.1 Review and evaluate legal framework and design of the pension schemes, and implementation capacity of the relevant government entity, by August 2022.</p> <p>4.2 Develop a pension reform policy road map for federal government employees to improve the financial sustainability of the pension system, by November 2022.</p> <p>4.3 Produce and present to the MOF a recommendation on amendments to the laws, respective rules and regulations, and</p>



Major Outputs	Delivery Dates	Key Activities with Milestones
		institutional architecture to implement pension reforms, by May 2023.
5. Inclusive tax system improved	August 2022– November 2023	<p>5.1 Assess the policy, legal, and institutional framework of the tax system with respect to gender equality and climate change, including identification of explicit and implicit biases and their impacts, by August 2022.</p> <p>5.2 Identify guiding principles and best practices in the tax systems that have improved gender equality and consideration of climate change in the tax system, by September 2022.</p> <p>5.3 Develop a gender and social inclusion policy and action plan of the FBR, by November 2022.</p> <p>5.4 Develop recommendations for the policy, legal, and regulatory framework for carbon pricing by August 2023.</p> <p>5.5 Develop recommendations to improve the collection of gender-disaggregated tax data in general, by November 2023.</p>

BEPS = base erosion and profit shifting, FBR = Federal Board of Revenue, ICT = information and communication technology, IRIS = Inland Revenue Information System, MOF = Ministry of Finance.

Source: Asian Development Bank.

6. The knowledge and support TA, ongoing as of July 2022, will support reforms to strengthen the capacity for tax policy analysis and design, including a tax gap analysis and tax code review (footnote 3). The Asia Pacific Tax Hub will support tax administration reforms through trainings and other capacity development events.<sup>4</sup> Moreover, the team is exploring additional grant financing from the Domestic Resource Mobilization Trust Fund to support the government in enhancing the collection of indirect taxes on cross-border trade in digital services.

### C. Cost and Financing

7. The TA financing amount is \$950,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 7). The key expenditure items are listed in Appendix 1.

8. The government will provide counterpart support in the form of counterpart staff, office space, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions. The government was informed that approval of the TA does not commit ADB to finance any ensuing project.

<sup>4</sup> ADB. 2017. [Technical Assistance for Enhancing Tax Transparency of ADB Developing Member Countries](#). Manila. The Asia Pacific Tax Hub aims to establish a collaborative and inclusive platform to stimulate dialogue and knowledge sharing on domestic resource mobilization and international tax cooperation in the Asia and Pacific region, to support the Sustainable Development Goals, and to sustain economic recovery from the coronavirus disease (COVID-19) pandemic and other pressing demands.

## D. Implementation Arrangements

9. ADB will administer the TA, and the Public Management, Financial Sector, and Trade Division of the Central and West Asia Department will select, supervise, and evaluate consultants.

10. Implementation arrangements are summarized in Table 2.

**Table 2: Implementation Arrangements**

Aspects	Arrangements		
Indicative implementation period	August 2022–July 2024		
Executing agency	Ministry of Finance		
Implementing agencies	(i) Federal Board of Revenue (ii) Ministry of Finance (iii) Ministry of Climate Change		
Consultants	To be selected and engaged by ADB		
	Individual: Individual selection	International (14 person-months)	\$370,550
	Individual: Individual selection	National (48 person-months)	\$446,900
	Firm: Fixed budget selection	Survey firm	\$20,000
Disbursement	Disbursement of TA resources will follow ADB's <i>Technical Assistance Disbursement Handbook</i> (2020, as amended from time to time).		

ADB = Asian Development Bank; CWPF = Public Management, Financial Sector, and Trade Division of the Central and West Asia Department; TA = technical assistance.

Source: ADB.

11. **Consulting services.** ADB will engage the consultants and resource persons, if needed, following the ADB Procurement Policy (2017, as amended from time to time) and its associated staff instructions.<sup>5</sup>

<sup>5</sup> Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 2).

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

<b>Item</b>	<b>Amount</b>
<b>Asian Development Bank<sup>a</sup></b>	
1. Consultants <sup>b</sup>	
a. Remuneration and per diem	
i. International consultants	281.75
ii. National consultants	439.38
b. Out-of-pocket expenditures	
i. International and local travel	82.60
ii. Miscellaneous administration and support costs <sup>c</sup>	23.00
2. Training, seminars, and conferences <sup>d</sup>	40.00
3. Miscellaneous technical assistance administration costs <sup>e</sup>	5.00
4. Surveys	15.72
5. Contingencies	62.55
<b>Total</b>	<b>950.00</b>

Note: The technical assistance (TA) is estimated to cost \$950,000, of which contributions from the Asian Development Bank are presented in the table. The government will provide counterpart support in the form of counterpart staff, office space, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions. The value of the government contribution is estimated to account for 5% of the total TA cost.

<sup>a</sup> Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF 7).

<sup>b</sup> Fixed or lump sum out-of-pocket expenses will be considered for administrative efficiency and a simplified disbursement process.

<sup>c</sup> May include, among others, consultants' office operations and administration, technical staff, Office 365 licenses, reports and communications, focus group discussions, and related logistical costs.

<sup>d</sup> Includes in-country and travel to other countries, dissemination activities, representation costs, as well as travel expenses of ADB staff participating in workshops as resource persons, in accordance with the memorandum on Use of Bank Resources: Regional Technical Assistance and Technical Assistance vs. Internal Administrative Expenses Budget, issued by the Budget, Personnel, and Management Systems Department and the Strategy and Policy Department on 26 June 2013. Representation expenses will be kept minimal level and follow ADB's guidelines (PAI 5.09, para. 26).

<sup>e</sup> May include, among others, service providers, reports and communications, land transportation and vehicle hire, and other logistics costs.

Source: Asian Development Bank estimates.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/LinkedDocs/?id=56006-002-TARreport>

1. Terms of Reference for Consultants