



July 2017

Establishment of the Domestic Resource Mobilization Trust Fund

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ATI	–	Addis Tax Initiative
DMC	–	developing member country
DRM	–	domestic resource mobilization
DRMTF	–	Domestic Resource Mobilization Trust Fund
GDP	–	gross domestic product
GovTG	–	Governance Thematic Group
OCO	–	Office of Cofinancing Operations
SDCC	–	Sustainable Development and Climate Change Department
SDG	–	Sustainable Development Goals
TA	–	technical assistance

NOTE

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

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I. BACKGROUND AND RATIONALE

1. A strong governance environment goes hand in hand with developmental progress, economic growth, and prosperity. Research has shown that countries in developing Asia with “...governance surplus in government effectiveness, regulatory quality, and control of corruption grew close to 2 percentage points faster annually than those with governance in deficit during 1998–2011.”¹ The Asian Development Bank (ADB) Midterm Review of Strategy 2020 similarly points out that good governance is positively associated with economic growth and that governance reforms help to share the rewards from growth to benefit many.² ADB’s core business—infrastructure development—is more likely to contribute to inclusive growth if underpinned by institutions that enable equitable access to services as well as financial, technical, social, and environmental sustainability of investments.³

2. Although public sector management and institutional performance improved in Asia and the Pacific over the past decade, numerous governance shortfalls continue to hamper the provision of essential services and developmental progress. Data on the regional comparison of perception-based governance performance has shown that Asia and the Pacific ranked lower than all other geographical regions, except for sub-Saharan Africa.⁴ A 2012 ADB survey of stakeholder perceptions also found that corruption continues to be perceived as the greatest threat to development in the region.⁵

3. Nevertheless, decision makers in ADB’s developing member countries (DMCs) recognize the importance of a robust governance environment to achieve progress. Good governance and institutional performance are set to further gain in significance in the new global development agendas. Effective public institutions that can deliver quality public services, fair economic policies, and inclusive environmental protection are important to achieving the governance targets under Sustainable Development Goals (SDGs) 16 and 17 and will also play a vital role in accomplishing the 2030 Agenda for Sustainable Development.⁶ As DMCs explore ways to meet evolving challenges and fulfill their commitments to the new global agendas, ADB must be ready to scale-up its support to help them respond.

4. International financial institutions have made a strong commitment to assist developing countries in addressing the global agendas. In October 2016, the multilateral development banks and the International Monetary Fund issued a joint statement acknowledging their critical role and firm intent to support the agendas by expanding the provision of policy advice, technical assistance, and the dissemination and sharing of best practices. The multilateral development banks also pledged to “... redouble [their] efforts to scale-up financing for

¹ X. Han, H. Khan, and J. Zhuang. 2014. Do Governance Indicators Explain Development Performance? A Cross Country Analysis. ADB Economics Working Papers Series. No. 417. Manila: Asian Development Bank.

² ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

³ ADB. 2016. *Better Performing Institutions in ADB Developing Member Countries: Positioning ADB’s Approach to Public Sector Management and Institutional Performance*. Manila.

⁴ Footnote 3, p. 3. Governance performance was based on the measurement of six indicators: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption.

⁵ ADB. 2012. *ADB Perceptions Survey: Multinational Survey of Stakeholders*. Manila.

⁶ United Nations. 2015. *Transforming Our World: The 2030 Agenda for Sustainable Development*. http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E.

development as well as the capacity to achieve the SDGs by leveraging, mobilizing, and catalyzing resources at all levels.”⁷

5. Achieving the global agendas will still require resources far beyond what the international community will be able to provide. The United Nations has estimated that accomplishing the SDGs will require global investment needs of about \$5–\$7 trillion per year on average during 2015–2030, with developing countries having resource gaps of \$1.9–\$3.1 trillion a year.⁸ The issue of resource gaps was at the center of the Addis Tax Initiative (ATI) in July 2015 that listed the need for improved domestic resource mobilization (DRM) as a necessity for countries to achieve their 2030 SDG’s targets.

6. Agenda 2030 is a top development priority that requires urgent and substantial financial resources if DMCs are to meet the SDG targets. Target 17.1 illustrates this by specifically calling for increased DRM. The potential for DRM expansion may be particularly high in Asia and the Pacific since the region only had a tax revenue to gross domestic product (GDP) ratio of 17.8% compared to 21.8% for Latin America and 28.6% worldwide in the 2000s.⁹

7. However, strengthening domestic revenue systems requires more than raising revenue. It requires designing a revenue system that promotes inclusiveness, encourages good governance, promotes investments and job creation, matches society’s views on reducing inequality, and promotes social justice. Thus, it strengthens the fiscal contract between the state and its citizens.¹⁰

8. ADB recognizes the need for increased DRM and explicitly calls for stronger engagement in this field.¹¹ In April 2016, ADB joined more than 30 countries and international organizations to express support for the ATI. The ATI aims to boost DRM capacity, covering both tax efforts and countering leaks through tax cooperation, in support of the SDGs.

9. To respond to the region’s needs, ADB proposes to establish a multi-partner Domestic Resource Mobilization Trust Fund (DRMTF) to support the 2030 Agenda for Sustainable Development.¹²

10. ADB’s extensive experience and in-depth knowledge of countries in Asia and the Pacific along with its strong track record in sector operations and sector-level reforms make it well placed to effectively contribute to improved DRM, public sector performance and public financial management in the region. In addition, the long-term impact of ADB’s lending activities to stimulate growth, reduce poverty, and tackle climate change is largely influenced by the DMCs’ ability to accomplish Agenda 2030. Therefore, it is urgent to establish a trust fund that will help

⁷ ADB. 2016. Delivering on the 2030 Agenda. News Release. 9 October. <https://www.adb.org/news/delivering-2030-agenda>.

⁸ United Nations Conference on Trade and Development. 2014. *World Investment Report 2014 – Investing in the SDGs: An Action Plan*. New York and Geneva.

⁹ ADB. 2015. *“Making Money Work: Financing a Sustainable Future in Asia and the Pacific”*. Manila.

¹⁰ Organisation for Economic Co-operation and Development. 2015. *Strengthening Tax Systems to Mobilize Domestic Resources in the Post-2015 Development Agenda*. OECD Post-2015 Reflection Series. Element 11, Paper 2. Paris.

¹¹ ADB. 2016. *Anticorruption Policy: Enhancing the Role of the Asian Development Bank in Relation to Tax Integrity*. Manila.

¹² Even though the proposed trust fund will primarily focus on strengthening revenue generation, ADB will, as relevant, support DMC plans, budgets, programs; and implement and monitor work on domestic revenues aimed at realizing Agenda 2030.

ADB attract the much-needed resources to support DMCs to translate the SDGs into development outcomes that leave no one behind.

II. OBJECTIVE AND SCOPE

A. Objective and Outcome

11. The DRMTF's overall objective is to enhance DRM in ADB's DMCs, and this will help translate the 2030 Agenda for sustainable development into specific plans, policies, and projects necessary to achieve the SDGs. The expected outcome will be an improved environment for meeting the SDGs in Asia and the Pacific through increased mobilization of domestic resources. This will play a key role in helping countries tackle other urgent development challenges facing them.

B. Scope and Activities

12. The DRMTF will provide a key mechanism to coordinate and deliver speedy and flexible financing for ADB technical assistance (TA) to promote DRM. It will also streamline operational and administrative arrangements to direct the support efficiently and effectively. It will include (i) TA through the DRMTF not exceeding \$500,000 per proposal, which may include transactional and knowledge and support subprojects; (ii) direct charges through the DRMTF not exceeding \$225,000 per proposal, which may include financing experts, consultants, and other expenses for activities such as knowledge provision, workshops, and exchanges on tax policy and administration, which are directly related to the operation of the DRMTF and not covered under specific TA projects; and (iii) any other activities that the partners contributing to the DRMTF (Financing Partners) and ADB agree upon.

13. Details about the specific parameters of the use of resources will be set out in the implementation guidelines, which ADB will develop upon the establishment of the DRMTF.

III. ELIGIBILITY CRITERIA

14. All ADB DMCs will be eligible for support from the DRMTF. It will support activities for resource generation, at national and sub-national (including municipality) levels, in accordance with the following categories:

- (i) Revenue policy:
 - (a) Strengthen broad-based, simple, fair, comprehensive, and neutral revenue systems; improve the quality of tax legislation and regulations; introduce new taxes; and curb wasteful tax incentives.
- (ii) Revenue administration:
 - (a) Improve tax compliance; reduce tax avoidance; improve enforcement capacity and oversight mechanisms, including strengthening tax audit and arrears collection capacity; strengthen control and risk management instruments; and improve taxpayer services; and
 - (b) Enable efficient, effective, and transparent tax administration by streamlining business procedures, electronic tax administration, and effective human resource management.
- (iii) International taxation and international cooperation:
 - (a) Reduce tax impediments to cross-border trade and investment by eliminating double taxation and improve dispute resolution mechanisms;

- (b) Enhance the integrity of tax systems with improved information exchanges on tax matters to prevent cross-border tax avoidance and evasion; and
- (c) Promote cross-country collaboration on international taxation.
- (iv) Administration data and information:
 - (a) Increase the exchange of information on revenue statistics, benchmarks, and good practices; and advance tax administration diagnostic analysis.
- (v) Others:
 - (a) Support the work, and capacity enhancement, of regional tax associations (e.g., the Study Group on Asian Tax Administration and Research); and
 - (b) Ensure all additional DRM-related initiatives that fall within the relevant country partnership strategies are in alignment with Strategy 2020, the upcoming strategy being developed by ADB for 2030, and the Addis Tax Initiative.

IV. IMPLEMENTATION ARRANGEMENTS

15. The DRMTF will be established as a multi-partner trust fund managed by ADB for the Financing Partners. The DRMTF will be governed by the implementation guidelines that will be prepared once it has been established. The guidelines will follow the broad implementation arrangements that are detailed in this section.

A. Governance Structure

16. ADB's Sustainable Development and Climate Change (SDCC) Department will manage the DRMTF via the Governance Thematic Group (GovTG) Secretariat. The GovTG Committee¹³ will guide the work of the GovTG Secretariat and will provide operational oversight. In this regard, a sub-group of the GovTG Committee (called the DRM Group) will technically validate all proposals to be supported by DRMTF and make a recommendation to the GovTG Committee for approval on a no-objection basis. The GovTG Committee will also approve the annual workplan, annual report, and the implementation guidelines as well as its subsequent revisions from time to time.

17. SDCC will appoint a fund manager for the DRMTF who will oversee the day-to-day operations, monitoring and evaluation, and reporting of the DRMTF to the Financing Partners. The fund manager will also make policy and procedural recommendations to the GovTG Committee regarding the DRMTF's operations and implementation.

18. ADB and Financing Partners will meet annually, or as deemed necessary,¹⁴ to (i) review the operations of the DRMTF and (ii) provide general strategic and policy guidance.

B. Procedure

19. A selection of project proposals under the DRMTF will be conducted using criteria provided in the implementation guidelines. Departments can initiate project proposals, which the

¹³ Current GovTG Committee members represent the five regional departments, Private Sector Operations Department, Office of Anticorruption and Integrity, Operations Services and Financial Management Department, Economic Research and Regional Cooperation Department, and Office of the General Counsel. The Committee is chaired by the technical advisor for governance in SDCC. The regular meeting of the GovTG Committee is held every 3 months. For purposes of the DRMTF, the committee will meet as often as necessary (including online) to ensure a rapid approval process for the proposals to be supported by the fund.

¹⁴ Meetings via videoconference will be considered adequate.

GovTG Secretariat will screen and prioritize and the GovTG Committee's DRM Group¹⁵ will endorse for consideration of funding, on a no-objection basis. The GovTG Secretariat will then forward the proposals to the Financing Partners for (i) information, if the amount of the proposal is up to \$225,000; and (ii) clearance on a no-objection basis, if the amount of the proposal is more than \$225,000 (up to the maximum of \$500,000). A flow chart of the process is presented in Appendix 1.

20. The DRMTF may provide assistance in the form of untied grants for stand-alone TA projects or parts of other TA projects, direct charges, and other activities agreed to by the Financing Partners and ADB.

21. Project activities supported by the DRMTF will be implemented in ADB's DMCs, but knowledge sharing and coordination activities may take place in other countries as permitted by applicable ADB requirements and procedures. Assistance may be made available to central and local governments, government agencies, nongovernment agencies, and other entities eligible to receive assistance from ADB. DRMTF resources will be used to finance expenses related to eligible project activities in the form of foreign exchange and/or local expenditures for goods, works, and services following ADB's applicable guidelines and procedures. Resources will also be used to engage the necessary technical and administrative experts to support the DRMTF.

22. Activities to be supported by the DRMTF will be identified, designed, processed, approved, and implemented in accordance with applicable ADB policies, procedures, and guidelines, including consulting services and procurement, social and environmental safeguards, financial management and reporting, disbursements, risk management and anticorruption measures, and governance. The implementation guidelines will provide detailed procedures for the application and implementation of activities financed by the DRMTF.

23. Procurement (including consulting services) to be financed by the DRMTF will follow the ADB Procurement Policy (2017, as amended from time to time). TA projects will be implemented in line with ADB existing policies, practices, and procedures. TA disbursements will be done in accordance with the Technical Assistance Disbursement Handbook (May 2010, as amended from time to time). The direct charges will be disbursed in accordance with the procedure designed in the implementation guidelines.

24. Recipients of financing from the DRMTF must ensure that such financing will be used for its intended purpose on the same terms, conditions, and principles as are set forth in this paper.

V. CONTRIBUTIONS

25. ADB will accept contributions¹⁶ to the DRMTF from bilateral, multilateral, and other sources. To ensure cost-effective processing and reporting, the minimum required amount for contribution to the DRMTF is \$1 million. Integrity due diligence shall be conducted for cofinanciers other than bilateral and multilateral agencies in accordance with the process and

¹⁵ The DRM Group of the GovTG Committee consists of the five directors of the public management and financial sector divisions of these regional departments: South Asia, Central Asia, Southeast Asia, East Asia, and the Pacific.

¹⁶ The fund is being established through an initial untied grant contribution of \$2 million from the Government of Japan. ADB has received an expression of intention from the government to provide contribution amounting to \$2 million dated 31 May 2017. Several governments and multilateral bodies, such as the Organisation for Economic Co-operation and Development, have promised in-kind support.

procedures set out in the integrity due diligence guidelines referred to in the *ADB Operations Manual* on the role of ADB in combating money laundering and financing terrorism.¹⁷

26. Contributions will be effected through instruments of contribution to be executed by Financing Partners in the form contained in Appendix 2, whereby the Financing Partners will be deemed to have accepted the objectives of the DRMTF, as outlined in this paper, and the terms and conditions set forth in this paper. Contributions to the DRMTF may also be effected by signing a separate contribution agreement or memorandum of understanding substantially in accordance with the terms and conditions set forth in this paper.

27. ADB's Office of Cofinancing Operations (OCO) will facilitate the receipt of contributions to the DRMTF and act as the official channel of communication for financial issues between Financing Partners, ADB, and the DRMTF. OCO will also lead negotiations and discussions with such Financing Partners on contribution agreements or memorandums of understanding, where applicable.

28. Contributions to the DRMTF will be made in cash in an easily accessible and freely convertible currency. Contributions may also be made by redirecting available funds under existing trust funds in ADB, subject to the agreement of the respective Financing Partners. Contributions will be deposited into a US dollar account to be specified by ADB under the DRMTF, as appropriate. For contributions received in currencies other than US dollars, they will be converted upon receipt into US dollars by the depository bank at the then-prevailing market rate and transferred to the respective account.

29. Commitments by a Financing Partner to the DRMTF will not be subject to any conditions, other than that the DRMTF will be implemented as provided in this paper. By depositing an instrument of contribution, the Financing Partner will be deemed to have accepted the objectives of the DRMTF as outlined in this paper, and the terms and conditions set forth in it.

30. Contributions will be held, administered, and invested at the discretion of ADB. Pending disbursements, ADB may invest and reinvest contributions. Any income earned in respect of such investment and reinvestment, as well as interest accrued in respect of the account (collectively, the available funds net of expenses), will be credited to the account and used for the purposes of the respective fund, including related administrative expenses.¹⁸

31. ADB will make withdrawals from the account as necessary to meet the expenditures of activities supported by the DRMTF. If other currencies are required for payment to meet eligible expenditures, ADB may purchase the required currencies with the available funds. Any fees and charges relating to such a purchase will be paid out of the account.

VI. ADMINISTRATIVE ARRANGEMENTS

32. Regarding contributions provided by Financing Partners, ADB will exercise the same degree of care as it does in the administration of other official or concessional cofinancing resources.

¹⁷ ADB 2010. *Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Operational Manual. OM C6/BP. Manila (see footnote 2 of OM C6/OP).

¹⁸ Administrative expenses include service charges, the cost of external audits, and finance charges that may be incurred in purchasing required currencies and in remitting funds.

33. ADB will hold and administer contributions separately from its other resources. As a multi-partner fund, all available funds in the account will be comingled. ADB will make withdrawals from the fund account as necessary to support projects and activities. In accordance with its standard procedures, ADB will maintain records and accounts that identify the contributions made and the commitments to be financed out of the available funds, including eligible activities and administrative expenses. ADB will provide Financing Partners with financial statements of the DRMTF audited annually by external auditors, with the cost of these audits charged to the fund.

34. In accordance with its standard procedures, ADB will charge a 5% service fee¹⁹ of the amounts disbursed for TA projects financed under the DRMTF to cover its incremental cost for the administration, management, supervision, and operation of the fund, as may be amended from time to time. The service charge will be paid from available funds at the same time as disbursement. The fund may also be used to reimburse all direct and identifiable costs related to ADB's international staff administering the DRMTF pursuant to relevant ADB staffing program arrangements (i.e., the Secondment Program and/or the Sponsor-Funded Staffing Program, whose terms and conditions are set out in ADB's relevant guidelines).

35. ADB will submit annual progress reports to Financing Partners on the performance of the DRMTF. It will consolidate and prepare the reports in accordance with its normal reporting standards and annual work programs. ADB will also provide Financing Partners with reports and information, as appropriate, on the progress of activities under the DRMTF.

36. SDCC will be responsible for coordinating with various ADB departments on projects and activities to be supported by the DRMTF. SDCC will be the focal point for preparing the annual progress report of the DRMTF, which will be submitted to the Financing Partners. OCO will liaise with Financing Partners on all financial matters related to contributions to the DRMTF.

37. ADB will promptly inform the Financing Partners of any event or circumstance that interferes with, or threatens to interfere with, ADB's administration of the DRMTF.

38. From time to time, ADB may adopt additional rules for administering the DRMTF that are substantially based on the terms and conditions of this paper and will inform the Financing Partners accordingly.

39. The DRMTF will terminate on the date ADB gives notice to all Financing Partners that the contributions have been substantially disbursed by ADB and no replenishment is anticipated to support the DRMTF, unless ADB and all Financing Partners decide on its earlier termination. If at any time ADB or any Financing Partner determines in good faith that the purpose of the DRMTF can no longer be effectively or appropriately carried out, or there is any other cause for the termination, such party may give at least 90 days prior notice requesting ADB and all other Financing Partners to discuss termination of the DRMTF (whether following substantial disbursement of the contributions or unanimous agreement). In that event, ADB shall wind up its activities in an orderly and expeditious manner.

40. Unless otherwise agreed with the Financing Partners, upon termination of the DRMTF and subsequent liquidation of the account, ADB will return any available funds to the Financing

¹⁹ ADB.2009. *Review of the Asian Development Bank's Service Charges for the Administration of Grant Cofinancing from External Sources*. Manila.

Partners in proportion to their available contributions paid. Following the termination of the DRMTF, ADB will provide the Financing Partners and the Board with a final report on the projects and activities supported by the DRMTF.

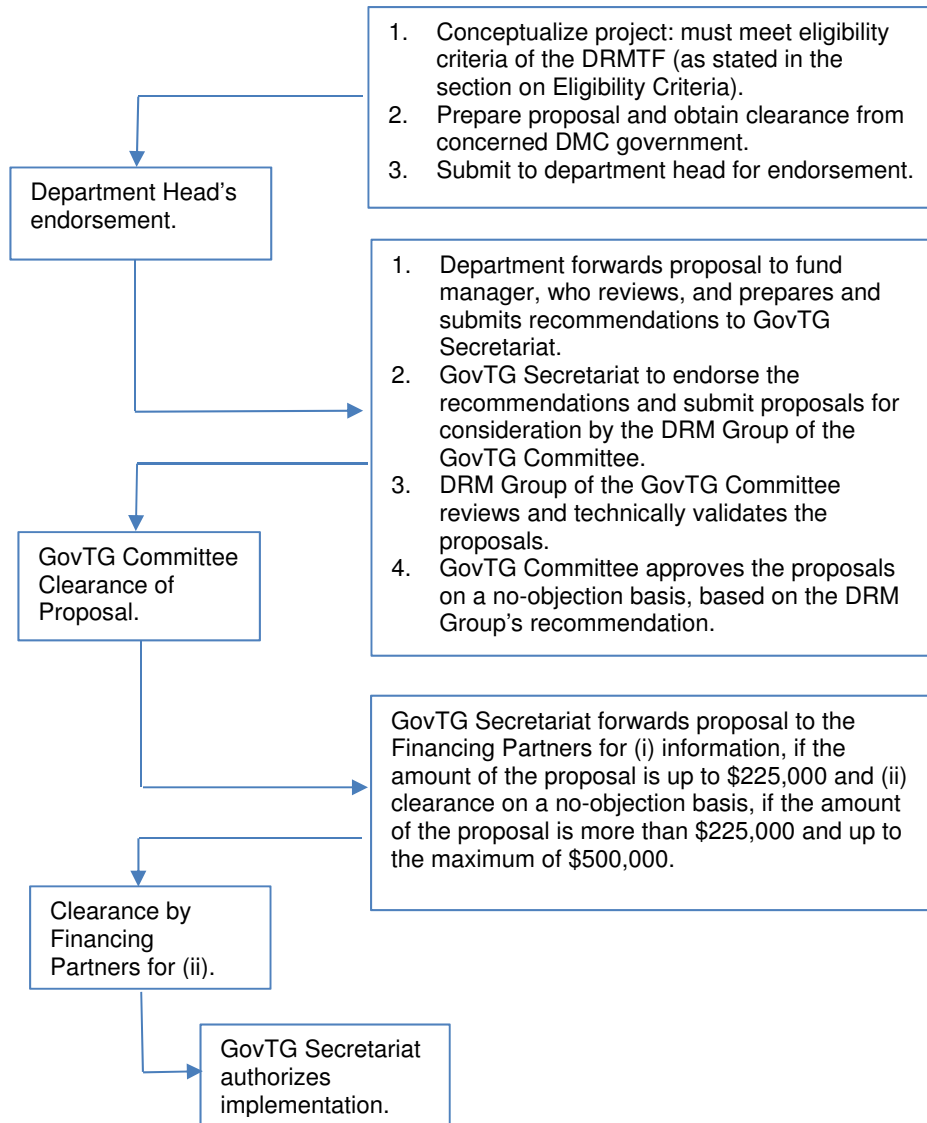
VII. THE PRESIDENT'S DECISION

41. The President, acting under the authority delegated by the Board of Directors, has approved:

- (i) the establishment of the multi-partner Domestic Resource Mobilization Trust Fund, (DRMTF) in accordance with the provisions set forth in this paper; and
- (ii) the acceptance and administration by the Asian Development Bank of contributions to the DRMTF by bilateral, multilateral, and other sources, in accordance with the terms and conditions set forth in this paper;

and hereby reports this action to the Board of Directors.

APPROVAL PROCESS



Abbreviations:

DMC - developing member country
 DRM - domestic resource mobilization
 DRMTF - Domestic Resource Mobilization Trust Fund
 GovTG - Governance Thematic Group

Source: Asian Development Bank

INSTRUMENT OF CONTRIBUTION

[date]

Asian Development Bank
6 ADB Avenue,
Mandaluyong City,
Metro Manila 1550
Philippines

[Name and identity of Financing Partner] (hereafter referred to as the "Financing Partner") hereby undertakes to contribute to the Domestic Resource Mobilization Trust Fund in an amount of [\$] in accordance with the provisions of the Management Approval Paper entitled "Establishment of the Domestic Resource Mobilization Trust Fund" (the Paper) and subject to the terms and conditions set forth in the Paper.

The contribution will be paid to the Asian Development Bank in the form of immediately available funds on or prior to [specify date]/in accordance with the following schedule [insert disbursement schedule]:

The contribution shall be paid into [ADB to specify account details].

Dated this _____ day of _____

For and on behalf of

Authorized Representative