

Inaugural meeting of the Eminent Expert Group (EEG) on Tax Policy and Public Expenditure Management for Sustainable Development

Bangkok, 6-7 December 2016

Chair's Summary

1. The inaugural meeting of the Eminent Expert Group on Tax Policy and Public Expenditure Management for Sustainable Development (EEG) took place in Bangkok on 6-7 December 2016. The members of the EEG elected Mr. Wayne Swan, Member of Parliament and former Deputy Prime Minister and Treasurer of Australia, as chair and Mr. Axel Bertuch-Samuels, former IMF Special Representative to the United Nations, as rapporteur, for a term of two-years.
2. **The members of the EEG called for an Asia-Pacific approach and vision on public finance reform for the 2030 Agenda for sustainable development, including on taxation and public expenditure management.** They emphasized that targeted public finance reforms and public revenue enhancement measures in Asia-Pacific developing countries should take into account the unique development characteristics of the region, such as its fast urbanization; aim to formulate policies that are both implementable and feasible in the local institutional, cultural and historical contexts; and leverage on the region's own policy lessons and experiences.
3. **The members of the EEG also urged for closer regional coordination on priority policy issues and for greater Asia-Pacific contribution to ongoing international debates and negotiations on public finance,** thus reversing the previous patterns of lack of proactive and equal participation of Asia-Pacific developing countries in international policy debates and norm setting processes.
4. **Moreover, the members of the EEG highlighted the significant knowledge gaps on policy design and policy implementation, which have become more critical with the new demands of the SDGs and the changing international taxation landscape.** They advocated for continuing research on:
 - Tax and public expenditure policies conducive to inclusive and sustainable development,
 - International tax reforms and their implications for developing countries in the region,
 - Unique local challenges such as municipal public finance for urbanization, and
 - Cross-cutting issues such as building a broad social contract for responsible public spending and taxpayer consent for sustainable revenue mobilization.
5. Correspondingly, the members of the EEG advocated for greater synergy of policy advisory services and capacity building activities in the Asia-Pacific region in these areas, in order to maximize benefits and minimize the capacity burden for recipient countries.
6. **In this context, the members of the EEG recommend:**
 - (i) *The prioritization by Asia-Pacific developing countries of public finance as a key pillar of their implementation strategy for the 2030 Agenda for Sustainable Development, with support from regional intergovernmental bodies, such as ESCAP, and international development and financial organizations;*

(ii) The establishment of an inclusive regional platform for cooperation on public finance to promote knowledge exchange and policy debate, including between tax policy makers and tax administrators, and to facilitate effective participation of the region in international tax or public finance cooperation initiatives;

(iii) Greater efforts by regional development organizations, think tanks and partner institutions to advance policy research on public finance issues directly linked to the new demands of sustainable development and to the unique challenges of the Asia-Pacific region;

(iv) A more effective coordination of policy advisory services and capacity building efforts on public finance in the Asia-Pacific region and the better tailoring of these activities to fully take into account local contexts and policy experiences.

7. To implement this agenda, the members of the EEG propose the following action points for consideration by the Executive Secretary of ESCAP to:

- (i) Utilize ESCAP's comprehensive and inclusive intergovernmental mechanisms to provide a broad-based Asia-Pacific platform, potentially in the form of a regional forum, for knowledge exchange and policy coordination on public finance issues in view of the mandates of the 2030 Agenda for Sustainable Development and the unique challenges of the Asia-Pacific region;
- (ii) Leverage ESCAP's role as the regional arm of the United Nations to articulate Asia-Pacific's vision on public finance for sustainable development and to contribute Asia-Pacific's regional inputs to UN frameworks on financing for development and other appropriate global platforms; and
- (iii) Mainstream public finance into ESCAP's policy research, policy advisory programs, and capacity building activities to support its members States in policy design, implementation, adequate tax administration, and cooperation on public finance for sustainable development;

8. The members of the EEG also reaffirmed the Group's role as an independent advisory board for the Executive Secretary of ESCAP on public finance issues to provide strategic guidance, suggest policy priorities and contribute technical inputs.

9. During the deliberations, the participating members of the EEG discussed the following selected tax policy and public expenditure management issues that are particularly relevant as means of implementation of sustainable development in the Asia-Pacific region.

Enhancing revenue potential for the SDGs

10. The participants noted that public revenues in Asia and the Pacific are below potential, and that lifting them in the most efficient and equitable manner to ensure strong growth and high living standards would be challenging. To confront this challenge, developing countries can not only benefit from new knowledge sharing and capacity building assistances in tax matters launched by the international community with the adoption of the Addis Ababa Action Agenda and the 2030 Agenda for Sustainable Development, but also benefit from experiences of peer developing countries on policy-making in unique local contexts.

11. The formation of a region-wide body to identify shared priorities, exchange regional experiences and perspectives, address knowledge and capacity gaps and coordinate joint efforts for rethinking and recalibrating

tax and public expenditure policies for sustainable development would greatly help Asia-Pacific countries to more effectively tap into new global support initiatives as well as indigenous policy lessons of the region itself.

12. The participants emphasized the importance for countries to devise their own resource mobilization plans and to secure necessary public support for their implementation, while keeping in mind changing social-political circumstances such as the emerging middle-class. The participants also pointed out for consideration by countries the merits of using a diversified range of tax instruments to ensure the efficient, fair and resilient tax systems. Furthermore they emphasized the importance of a well-organized, trained and efficient tax administration, and the need to allocate sufficient budget to establish or further develop such administration capable of implementing the measures considered desirable and feasible in their countries.

Promoting tax compliance and accountable public spending

13. **The participants discussed two important elements for tax compliance: the consistent interpretation and enforcement of the law and people's perception of the quality of government services and the responsiveness of the state.** While taxpayers may have an incentive to avoid or evade taxes if they believe that they will not face any legal consequences, citizens may also more likely comply with tax laws if they accept the state as legitimate and credible. The participants emphasized the importance of continuing improvements of tax legislation to cover new business models and address avoidance opportunities and the effective enforcement of tax laws. They also agreed that a reliable taxpayer database, withholding tax, third-party information reporting and taxpayer segmentation are all important tools to strengthen compliance, as is the simplification of the tax code by eliminating exemptions.
14. **The participants noted that strengthening peace and security and the rule of law are central aspects of the 2030 Agenda, and the successful pursuit of this goal should also contribute to fighting corruption, improving tax compliance and strengthening public revenue mobilization.** They also noted that the 2030 Agenda is not only about fighting poverty in developing countries, but it is designed to achieve sustainable development and to be relevant for all countries. This new commitment by the international community to a truly global and integrated agenda could help further boosting the on-going efforts for more effective international tax cooperation.

Fiscal policies for shared prosperity

15. **The participants highlighted that both effective tax and public expenditure policies are important to address the region's widening income and wealth gaps, provide necessary social protections, and to address broad fairness and inequality concerns including gender inequalities. The participants called for a combined approach of progressive taxation and social public spending.** They noted that although personal income taxes are under-utilized and wealth taxes are largely missing in the developing countries of Asia and the Pacific, these taxes are likely to become more important as middle classes expand. They emphasized that while the tax mix may include both progressive and regressive taxes, it is desirable that the tax system's overall orientation is progressive. On the other hand, pragmatic approaches and well-thought policies should be advised given the increased complexity in tax systems and the institutional, capacity and cultural challenges for the effective implementation and administration of income and wealth taxes.

16. **Taxation, especially progressive income taxation, was seen as only one of the available instruments to address income inequality. Other essential instruments are related to public expenditure management, particularly well-designed, effective, and properly targeted social spending programs in education, health, social safety nets and public housing.** With regard to progressive income taxation, the participants emphasized the importance of the wealthy and multinational corporations being seen to pay taxes according to their ability to pay both for its distributive effect and to strengthen tax morale in the population as a whole.

Green taxes and green public spending

17. **The participants agreed on the potential for tax and public spending policies to contribute to environmental sustainability, both by shaping producers' and consumers' behaviour through pricing signals that reflect environmental costs and by creating incentives for environmentally friendly innovations.** In that regard, they stressed the need to remove distorting and environmentally harmful subsidies. They also noticed that there is a number of environmental taxes and charges such as sewage, water usage and pollution taxes, which can and should contribute to addressing important environmental concerns and can also form a necessary source of revenue at the local level.
18. The challenges for environmental tax implementation were also recognized by the participants; in particular the concerns over regressive changes in tax incidence and damage to the competitiveness of domestic industries. **It was concluded that stronger international and regional coordination and further policy research and knowledge exchange would be necessary for environmental taxes to be broadly accepted and effectively used.**

Public finance for cities: addressing Asia's urbanization challenge

19. **While cities in the region face significant financing challenges to meet their growing needs for infrastructure and sustainable development, they are also generating a tremendous amount of wealth and their tax bases are growing at a rapid rate.** In this regard, participants emphasized **two options that have the potential to provide high revenue streams for cities:** property taxes and user charges such as congestion and motor vehicle taxes. They pointed that although property values have grown quickly and infrastructure investments will push these values even higher, the revenues generated from property taxes are currently low.
20. **Capturing such revenues will require a higher level of autonomy of cities for designing and collecting taxes and, at the same time, a strengthening of local governments' capacities to manage these new responsibilities.** Participants noted that a higher degree of decentralization could allow cities to better tailor their policies to local realities, which may involve tax rates differing across cities. They also emphasized, however, that an effective decentralization policy will require efficient coordination between local governments and central authorities. **In this context they stressed the importance of proper accountability frameworks for city public expenditures to ensure that resources are effectively allocated to solve urban challenges and to enhance the overall credibility of the tax system.**

Tax incentives, tax competition and the protection of tax bases of developing countries

21. The participants highlighted the challenge of protecting the domestic tax bases of developing countries in the face of the growing relevance of cross-border tax spillovers and other international taxation issues, including the effective and efficient use of tax incentives, the costs of tax competition, and the potential implications of the OECD-G20 BEPS project on developing countries' tax practices and tax bases.
22. While tax incentives have been an important policy tool in Asia, their potential economic and political costs should also be recognized. They participants expressed concern about the fact that incentives are often provided to compensate for deficiencies in the investment climate, thus reducing governments' motivation to tackle them. In addition, they observed that developing countries often feel compelled to provide tax incentives to attract investment that otherwise would go to other countries, a phenomenon that is usually referred to as tax competition.
23. The participants emphasized the need to improve the effectiveness of tax incentives through enhanced transparency, particularly about the process of designing and granting tax incentives, including the identity of the recipients and the amounts they receive. For that purpose, they highlighted three key policy elements: "keep it simple, keep records and evaluate results". They also noted the desirability of a regional cooperation platform to promote exchanges of information on the effective use of tax incentives and to facilitate coordination across countries to reduce adverse effects of tax competition.
24. The participants noted that in a world of mobile capital, governments are hesitant to impose taxation at significant levels on multinationals conducting business operations in their jurisdictions. In that regard, they discussed the need for the United Nations and its regional bodies to better support developing countries through policy research and capacity development efforts in the United Nations project on protecting the tax bases of developing countries and in the OECD-G20 BEPS project, in cooperation with other pertinent international organizations.

Challenges and experiences of public finance reforms in developing countries

25. The participants highlighted that public financial management reforms can play a critical role in securing macroeconomic stability and sustainable growth in countries. However, they noted that change management in a large and complex organization like the government is inherently challenging and requires an informed and engaged legislature. They also mentioned that on the spending side equitable access to quality services remains a challenge in many developing countries. In this context, participants stressed that the effective management

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