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Dr. Shamshad Akhtar,
Under-Secretary-General of the United Nations & Executive Secretary of
The Economic and Social Commission for Asia and the Pacific

Opening Remarks
Executive Secretary's Inaugural Meeting of the Eminent Expert Group on Tax Policy and Public Expenditure Management for Sustainable Development

Meeting Room A
8:30, 6 December 2016

I would like to welcome and thank all the experts for agreeing to serve in this Eminent Group on Tax Policy and Public Expenditure Management for Sustainable Development.

As you are all aware, the Asia-Pacific region has one of the lowest levels of tax revenue in the world. Over the period of 2012 to 2014, the tax-to-GDP ratio averaged 17.6 per cent in the Asia-Pacific, compared to averages of 21.3 per cent for the world's developing countries and 26.4 per cent for the world's developed countries.[1] If developed economies and the Central Asian sub-region are excluded, the region's average is even lower, at just 15.6 per cent. In countries such as Afghanistan, Bangladesh, Iran, Pakistan, and Sri Lanka tax-to-GDP ratios are at or below 10 per cent.

The alarmingly low tax revenue level will continue to constrain the region's low income countries' ability to raise public investment, which is critical for addressing the social, economic and environmental dimensions of sustainable development.

Raising the tax-to-GDP ratio is a complex and delicate task. It must be consistent with the broad social contract linking the responsibilities of those paying taxes with accountable public sector expenditure that delivers on multi-sectoral economic, social and environmental outcomes. It will require implementing appropriately sequenced and paced reforms to rationalize tax structure, enhance tax administration capacities, align legislation, and improve the transparency of public finance regimes. It also requires regional and international cooperation to close loopholes, address the risk of excessive tax competition, and promote a fair distribution of tax revenues across countries.

In line with the Issues Paper that has been prepared for this meeting, it would be instrumental to structure our discussions around the following priority areas and key questions.

1. Tax incentives

Tax potential in the Asia-Pacific region has been partly eroded as the region has begun integrating itself into global value chains. In doing so, the region has offered incentives to attract FDI and sustain export oriented industries and zones. Both local and export industries, enjoy a range of tax incentives to offset deficiencies in the business environment

[1] The only region in the world with lower tax revenues was the Middle East and North Africa, but this region is characterized by high levels of non-tax public revenues from the exploitation of oil and gas resources.

that affect firms' competitiveness. The use of these incentives[2] results in the shrinking of tax bases.

Recognizing this, it would be instructive to focus our discussions around the following questions:

- How can countries strike the right balance between providing an attractive tax regime for investment and securing the necessary revenues for public spending?
- How can countries enhance the transparency of the costs of incentives to minimize rent-seeking behavior? Is there a role for enhanced regional cooperation and coordination in this area?
- To what extent will recent reforms in the international tax regime, including the OECD-G20 BEPS project, help protect the tax bases of the region's developing countries from the detrimental impacts of tax competition?

2. Municipal finance

The Asia-Pacific region is at the center of the world's largest rural to urban transition in history. Almost 200 million people have moved to urban areas in East Asia alone. By 2030, Asia's total urban population is expected to exceed 2.6 billion. Our region will account for 60 per cent of the increase in the world's urban population over the period 2000 to 2030. For Asia's urbanization to be well managed, trillions of dollars in investment and effective financial management are needed to provide public services to close existing and future gaps in public transportation, ICT infrastructure, housing, and urban environmental management.

A large proportion of municipal government's expenditures greatly exceed their revenues. With central government's resources already strained and over-stretched, relying on central government transfers and borrowing to finance municipalities is challenging. Most municipal finances face fiscal imbalances which limit their prospects for self-financing urban SDGs or seeking recourse to capital markets to fund their requirements. There are, however, a number of municipalities in the region that have managed their public finances and governance well. Cross fertilizing these good experiences, while reflecting on ways and means to strengthen municipalities will be critical to support implementation of urban SDGs.

So,

- How can this best be done?
- Should they focus on boosting property taxes, and what are the main obstacles they need to overcome?
- Which other local taxes and non-tax revenues could be most effectively tapped? And,
- How can transfers across different levels of government and across different jurisdictions be more effective?

3. Progressive income taxes

Inequality has been on the rise in the Asia-Pacific region since the 1990s.[3] Tax policies can contribute to reducing inequality through two main channels. First, they can contribute to public spending on healthcare, education, training, and social protection to help the poor

[2] Such as tax holidays, VAT exemptions, reduced corporate income tax, etc.

[3] In particular, there has been a dramatic rise in income inequality since the 1990s. Illustrating this, the population-weighted Gini coefficient in the region, based on household income estimates, increased by 11 points, from 37 to 48, between 1990 and 2014, an increase of almost 30 per cent in less than three decades. (Survey 2016)

both build their capacities and hedge against external shocks. Second, taxes and transfers can also be primary policy tools for direct redistribution.

In this context,

- What is the feasibility and scope for raising the share of direct taxes, including the personal income tax and wealth taxes, in the overall tax mix to promote equality in Asia and the Pacific?
- Furthermore, what is the role of social protection policies, including cash transfers?

4. Environmental taxes

Although the use of environmental taxes[4] is limited in Asia and the Pacific, their potential contribution to both raising revenue and addressing the environmental pillar of the 2030 Agenda makes them worthy of consideration.

Besides correcting distortions and contributing to overall economic efficiency and growth, experience in OECD countries has shown that environmental taxes are advantageous because of their low incidence of tax evasion, ease of implementation and low administrative costs. However, unless appropriately structured, environmental taxes can have detrimental consequences on income distribution and they can drive firms to relocate to countries with lower or no environmental taxes. Given the potential of environmental taxes,

- What is the feasibility for their adoption in Asia and the Pacific, and
- How can their adverse distributional consequences best be tackled?

5. Voluntary tax compliance

Citizens are more likely to comply with their tax obligations when they perceive that their government has committed to a social contract that delivers public goods and services. This means that the ability of governments to collect tax revenue depends on people's perception of the quality and responsiveness of the state. This calls for implementing a public finance system that transparently links expenditure and revenue decisions.

- What is the scope for developing countries in the region to implement fiscal reforms aimed at transparently linking tax revenues with desirable expenditures, particularly those associated with the achievement of specific SDGs? And,
- What can these countries learn from international experiences?

6. Enhancing cooperation in tax matters in Asia and the Pacific

Regional tax cooperation in Asia and the Pacific will be critical to enhancing domestic resource mobilization to achieve the 2030 Agenda.[5] The Asia-Pacific region does indeed have a number of regional tax organizations,[6] which have launched a range of capacity building programs for tax collectors, restructured tax bodies and administrations, and facilitated tax official networking across countries. Since the Addis Ababa Action Agenda, which offers a comprehensive reform agenda, there has been greater understanding of the

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[4] Environmental taxes belong to the category of Pigouvian taxes, which are levied on market activities that generate negative externalities.

[5] Recognizing this, the Addis Ababa Action Agenda includes a commitment to scaling up international tax cooperation, recognizes the need for technical assistance through multilateral, regional, bilateral and South-South cooperation, and supports the strengthening of regional networks of tax administrators.

[6] Including the Study Group on Asian Tax Administration and Research (SGATAR), the Pacific Islands Tax Administrators' Association (PITAA), and the Association of Southeast Asian Nations (ASEAN) Forum on Taxation (AFT).

significant need to and the dimensions of mobilizing sustainable financing. It is vital, however, that we better develop our understanding of how to shape and utilize fiscal policy and instruments as tools for SDG implementation. In this context, broadening tax bases, streamlining tax concessions and exemptions, ensuring an equitable tax regime, and using environmental taxes to curb emissions are some areas where greater advocacy and training could be warranted.

Recognizing this, ESCAP has proposed setting up a region-wide Asia-Pacific Tax Forum for Sustainable Development (AP-TFSD)[7]. The Forum would be aimed at enhancing the tax capacities of our region's developing countries, particularly the countries with special needs, in support of the SDGs. Through working closely with ESCAP member States, the regional Forum would also develop alliances with regional tax organizations, and the global Platform for Collaboration on Tax.

In this context, we seek your advice on how to promote

1. An inclusive regional platform for tax policy debate and coordination, with special focus on small and low income countries;
2. This regional platform as trusted independent advisor for developing countries on tax issues, especially in norm-setting processes related to international taxation; and
3. Well-targeted capacity building on taxation for the achievement of the SDGs.

To conclude, your advice and expertise as members of the Executive Secretary's Eminent Expert Group will be extremely valuable in helping ESCAP to provide our member States with the needed guidance on their taxation and public expenditure policies. To this end, I am confident that this meeting, along with those that will follow it, will positively contribute to ESCAP's capacity to support its member States in domestic public resource mobilization for the SDGs.

I thank you.