

PUBLIC SECTOR MANAGEMENT AND GOVERNANCE

SECTOR OVERVIEW

Stronger macro-fiscal management and effective governance with improved policy framework and institutional capacities in ADB's developing member countries (DMCs) are the core objectives of PSMG sector operations. PSMG's role has become even more relevant as the Asia Pacific region faces complex challenges such as global financial tightening, a slowdown in external demand, global food and energy shocks, rising inflation, escalating public debt levels, digitalization challenges, and climate change.

HOW DO WE ENGAGE WITH DMCs?

- ◊ Macroeconomic and fiscal assessments in DMCs with active engagement in the sector.
- ◊ Regular structural reform programs in subsector areas with focus on medium-to long-term engagement.
- ◊ Urgent economic assistance necessitated by conflicts, pandemics, disasters, and global and regional financial crises.
- ◊ Rapid response is ensured through a regular dialogue with authorities on macro-fiscal policies and issues.
- ◊ We deploy the full range of ADB instruments like policy-based lending (PBL), countercyclical support facility (CSF), results-based lending (RBL), sector development programs (SDP), investment projects, and technical assistance (TA) in designing and delivering support for ADB DMCs.

VISION

"Good governance and improved macro-fiscal management for sustainable social and economic development."

SPECIALIZED SUBSECTORS

Fiscal Policy and Management

climate fiscal management, medium-term fiscal framework, fiscal risk management, fiscal decentralization, PPP policy and regulatory frameworks, legal policy framework in national and sub-national levels, and social protection systems.

Domestic Resource Mobilization

tax policy, tax administration, and international tax agreements.

Public Financial Management

specialization in expenditure management at the central and subnational levels. The subsector covers issues such as public debt and cash management, government securities market, infrastructure governance, public investment management, and digitalization.

Economic Diversification

private sector and related reforms, including investment climate, trade and competitiveness, digitalization and logistics policy and systems.

Corporate Governance and State-Owned Enterprises Reforms

corporate governance reform of SOEs, commercialization, fiscal risk management and enterprise restructuring.

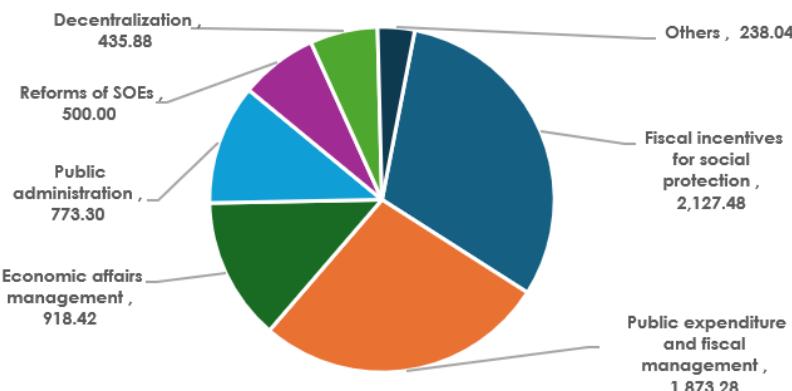
SECTOR OFFICE MANAGEMENT TEAM



PSMG IN ACTION

CURRENT PORTFOLIO

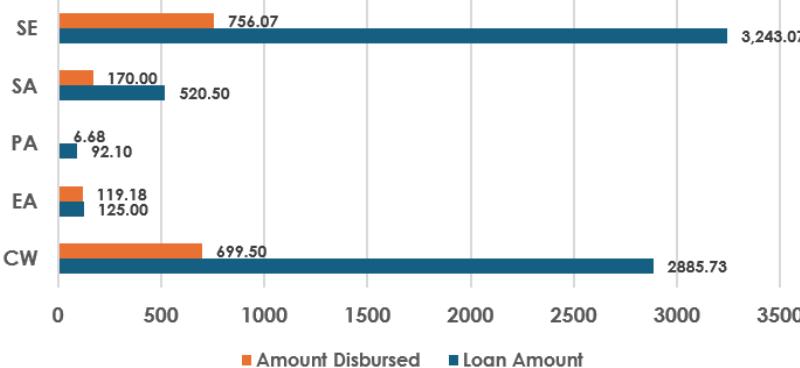
Portfolio by Subsector
(\$ million)



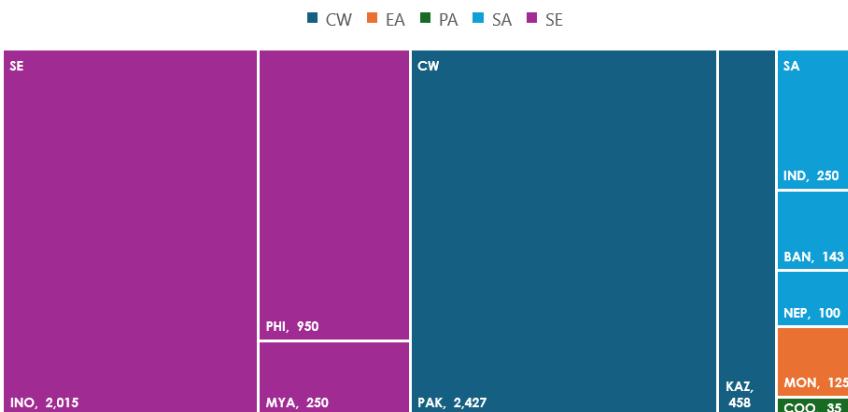
Portfolio by Modality
(\$ million)

Program Loans and Grants	2,635.06
Programmatic Approach Policy-Based Lending and Guarantees	1,760.33
Countercyclical Support	1,500.00
Results-Based Lending/Grant	627.48
Sector Development Program	143.00
Project Loans and Grants	114.29
Credit Line	86.24
TOTAL	6,866.40

Distribution by Region
(\$ million)

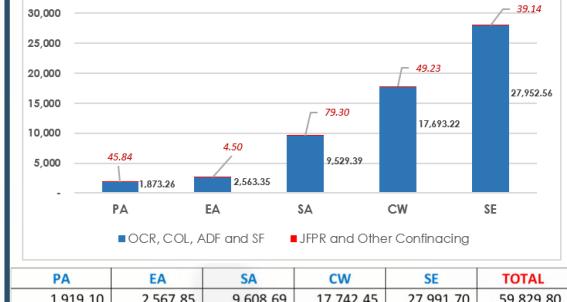


Top 10 DMCs
(\$ million)



CUMULATIVE ACHIEVEMENT SINCE 1966

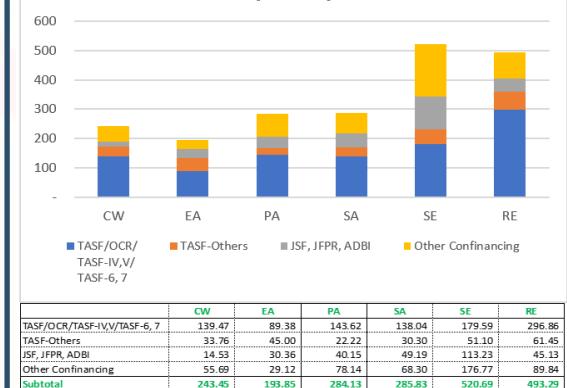
PSM Loans and Grants Committed (1966-2023)
(\$ million)



The sector has committed a total of \$59.8 billion in loans and grants since 1966, financed by ordinary capital resources (OCR), concessional OCR lending (COL), Asian Development Fund (ADF), and Special Funds (SF). Co-financing started in 2000s and has totaled \$218 million to date. ADB has provided loans and grants to Southeast Asia amounting to \$28 billion (47%) and to Central and West Asia with \$17.7 billion (30%). The pandemic, Russian invasion of Ukraine and natural hazards during 2020-2022 have highlighted the vulnerability of ADB DMCs to exogenous and economic shocks. The sector has disbursed around \$19 billion in 2020-2022, of which \$10 billion was disbursed in 2020 alone, including 26 programs under the COVID-19 Pandemic Response Option (CPRO) modality. In 2022, five programs were approved under the Countercyclical Support Facility modality.

Overall cumulative TA totaled \$2 billion over the years, 61% of which was financed by Technical Assistance Special Fund (\$1.2 billion) while 39% was funded by co-financiers such as the Japan Special Fund (JSF), Japan for Poverty Reduction Fund (JFPR), Asia Trust Fund (ATF), Regional Integration and Cooperation Fund (RCIF), and Climate Change Fund (CCF).

PSM TA Commitments
(\$ million)



REGIONAL HIGHLIGHTS – 2024 PIPELINE

EAST AND SOUTHEAST ASIA AND THE PACIFIC

\$1.9 billion, 16 projects (11 PBLs, 2 CDFs, 3 projects)

Climate: Almost all programs and projects have climate finance contributions, which is estimated at \$221.3 million (\$160.2 million for adaptation and \$61.1 million for mitigation). Contingent disaster financing (CDF) operations are being prepared for COO, FSM, PHI, RMI, TUV, and VAN. Reform actions to strengthen environmental sustainability and disaster resilience are also being pursued in FIJ, NAU, PAL, SAM, and SOL.

Domestic resource mobilization: There is an ongoing project focusing on DRM modernization in LAO to improve tax administration. PBLs in FIJ, PAL, PNG, SOL, and TON include reform actions to improve domestic resource management.

Customs, trade and logistics: Customs and trade reforms are being pursued as reform areas of PBLs in CAM, NAU, PAL, and TON. These reforms range from support participation in free trade agreements, improvement of customs administration systems to implementation of authorized economic operator schemes.

Private sector development and broad-based economic growth: PBLs in CAM, COO, FIJ, SAM, and SOL have reforms to improve the enabling environment for private sector as well as financial sector development. A project loan for PHI for a project development and monitoring facility to support PPPs is being prepared.

Socio-economic resilience: PBLs for COO, FIJ, NAU, and TON support strengthening of the fiscal sustainability of social protection framework for the vulnerable.

Fiscal governance and SOE reforms: PHI has a dedicated PBL to improve public financial management at the national and local government levels. PBLs in COO, FIJ, NAU, PAL, PNG, SAM, SOL, and TON include a mix of reforms on PFM, public investment management, accountability, and public debt management. RMI has a project loan to improve PFM. INO has a dedicated SOE reform program, while PBLs in NAU, PNG, and SOL include SOE reform actions.

CENTRAL AND WEST ASIA

\$1.0 billion, 7 projects (5 PBLs, 1 RBL, 1 project)

Climate: Almost all programs and projects have climate finance contributions, which is estimated at \$355.3 million, of which adaptation is \$197.1 million and mitigation is \$158.1 million; Further, climate PBLs are being processed in UZB and KGZ.

Fiscal governance: Fiscal consolidation is targeted in most of the PBLs.

Domestic resource mobilization: Ongoing support under PBLs in PAK, UZB, KGZ, TAJ, and ARM. TA support to AZE.

SOE Reform: Ongoing PBLs in UZB and KGZ. A results-

SOUTH ASIA

\$1.2 billion, 7 projects (4 PBLs, 1 SDP, 1 RBL, 1 project)

Climate: Almost all programs and projects have climate finance contributions, which is estimated at \$396.7 million (\$137.1 million for adaptation and \$259.6 million for mitigation). Further, Green, Resilient and Inclusive Development (GRID) PBL in NEP (2024), and eBus PBL in IND (2024 standby) are focused on climate interventions.

Domestic resource mobilization: Ongoing PBLs in BHU and MLD include reform actions to improve domestic resource management. Another ongoing PBL in NEP is focused on service delivery and resource augmentation at the subnational level. Subprograms of these PBLs will be processed in 2024 and 2025. In addition, the GRID PBL and the SASEC customs and logistics program (2025) also aim towards revenue augmentation.

Customs, trade and logistics: Customs and trade reforms are being pursued as reform areas of LDC graduation PBL in BAN (2024), SASEC customs and logistics PBL in NEP (2025), trade and investment PBL in SRI (2025), and an investment project in MLD (2025). In IND, logistics PBL (2024), and two corridor development programs/ SDPs (2025) are being pursued. SG-PSMG will also begin consultations for a PBL in BHU (2025 standby).

Private sector development and broad-based economic growth: IND portfolio is strong on private sector development projects with MSME RBL (2024), Tripura industrial estates SDP (2024), West Bengal corridor development PBL (2025), and national industrial corridor PBL (2025).

Socio-economic resilience: Subprogram 2 of BHU's fiscal sustainability program is slated for approval in 2024. Other programs include: economic recovery and fiscal sustainability PBLs in Jharkhand and Chhattisgarh states of IND (2025), a food security PBL in Madhya Pradesh, IND (2025), and a PFM program in SRI (2024).

Fiscal governance and SOE reforms: Although most SG-PSMG PBLs have fiscal governance elements, PBLs in BHU (2024), SRI (2025), BAN (2024 and 2025), and IND (Jharkhand, and Chhattisgarh 2025) have fiscal reforms focus.

lending (RBL) program is proposed for PAK in 2025.

Pensions Reform: Proposed PBLs in PAK and GEO.

Customs, trade, and logistics: Ongoing PBL in PAK to operationalize Single-Window System.

Private sector development and broad-based economic growth: Proposed PBLs in PAK and UZB covering PPPs, and ongoing policy-based support in ARM. The proposed PBL in TAJ and ongoing loan in UZB also support broad-based growth. All loans that encompass tax reforms support creating enabling environment for the private sector and broad-based growth.

Socio-economic resilience: Proposed PBLs in GEO and PAK.

SECTOR OUTLOOK: 2024 AND BEYOND

THE FOUR SHIFTS UNDER THE NEW OPERATING MODEL

ADB has a broad development mandate and the ability to offer a wide range of financial and technical solutions to its clients. Unlike some other development institutions, it can provide and combine sovereign and non-sovereign financing and advice. This unique combination enables ADB to provide comprehensive and coordinated solutions to clients. The changing development landscape prompted ADB to focus on aspects of its business in which a paradigm shift would enable it to do more for, and remain relevant to its DMCs. SG-PSMG has effectively supported the sector's transformation, but it can do even more to increase impact and remain relevant to the sector's needs. As a result, the organizational review focuses on the following four fundamental shifts.



Climate Shift

- development of policies for pricing of carbon emissions and fiscal policies that promote clean technology.
- design of climate-sensitive eco-fiscal transfer systems and development of climate-smart fiscal rules.
- green public investment management and green taxonomies.
- climate-sensitive budget tracking systems and integrating climate risks into fiscal risk and debt management systems.
- green procurement.

Private Sector Development Shift

- downstream development opportunities for Private Sector Operations Department in ADB.
- exploring One ADB opportunities with OMDP, and PSOD.
- economic diversification, upstream PPP work, PPP centers & capacity building, institutional framework for MSME, economic corridors, and trade and logistics.

Solutions Shift

- knowledge integration with operations
- 3 Communities of Practice (Debt, Climate-Fiscal, and Digitalization).
- fiscal policy and management and DRM
- coordination with other sectors for programmatic and solutions delivery approach.

New Ways of Working Shift

- regional teams and specialized teams
- country focal and staff outposting to Resident Missions
- inter-regional cooperation and sharing of good practices.

POSITIONING FOR CAPITAL ADEQUACY FRAMEWORKS (CAF)

The ADB Board of Directors on 28 September 2023 approved the review of ADB's Capital Adequacy Framework that unlocks \$100 billion in new funding capacity over the next decade. The framework is designed to protect the risk-bearing capacity of ADB without relying on callable capital and to maintain ADB's ability to lend even during crises and after large nonaccrual shocks. ADB's CAF is reviewed every 3 years to ensure it is benchmarked against best practices and aligned with the evolution of ADB's operations. This review is particularly significant given the immense challenges faced both in Asia and the Pacific and globally, including climate change, pandemic impacts, and others. The reforms are part of ADB's response to the call for multilateral development banks (MDBs) to do more with resources and faster.



Through **upscaling** DRM, climate fiscal, digitalization, and SOE transformation



Special attention on **climate interventions** for meeting both climate and CAF objectives



Focus on **cross-regional** learnings and innovation for country-specific support in new areas

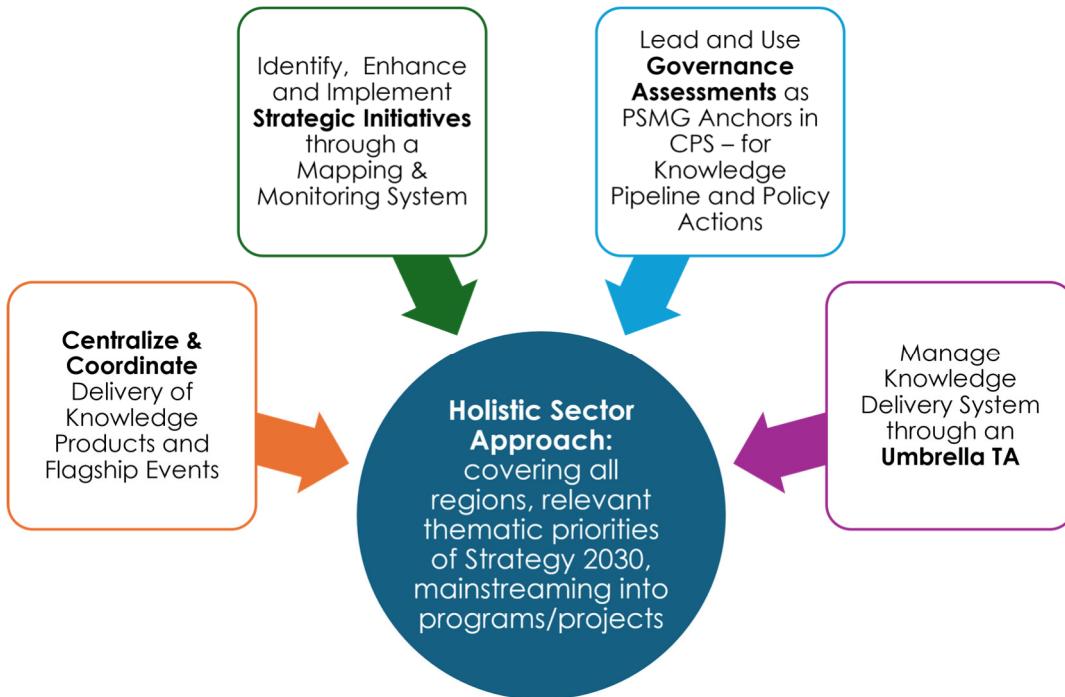


Inter-sectoral **collaboration** for designing cross-sectoral projects



Programmatic and medium-term outlook for **pipeline development**

KNOWLEDGE SOLUTIONS AND INTEGRATION WITH PROJECTS



CONSTITUENCY BUILDING AND PARTNERSHIPS



- Continued partnership in the **Asia Initiative** supported by the **Global Forum**
- Enhanced collaboration with OECD on **Revenue Statistics**, and with IMF/TADAT Secretariat on **MTRS and TADAT**, and on the **International Survey of Revenue Administration** with IMF, OECD, IOTA and CIAT
- Continued cooperation with ATI/CEP on **Tax Expenditure Analysis** capacity building
- Continued cooperation with IGF and OECD on **international taxation of the Extractive Sector**



- New collaboration in **digital transformation** of tax administrations with PFTAC and PITAA
- Continued cooperation in the **Pacific Initiative** with the Global Forum, OECD, PITAA, SGATAR, WBG, ATO, NZ IRD
- Continued cooperation in **digital transformation** of tax administrations with NTA, SGATAR, OECD, WBG
- Enhanced collaboration with The Coalition of Finance Ministers for Climate Action, IMF, OECD & UN DESA on **Carbon Pricing**
- Collaboration with Bloomberg Philanthropies, WHO & ASEAN Secretariat on **Tobacco & Alcohol Taxation**
- MOU with Leiden University on **Knowledge Sharing**

KNOWLEDGE SOLUTIONS (2020-2023)

111 Knowledge Products

54 Knowledge Events

KNOWLEDGE SOLUTIONS (2024)

17 Knowledge Products (already published in Q1)

31 Knowledge Events and capacity building initiatives (5 Flagship Events and 4 SDP funded programs)

KNOWLEDGE EVENTS and VIDEOS

PUBLISHED KPs

THE ASIA-PACIFIC TAX HUB

DRM and ITC have become a more crucial agenda for DMCs due to (i) revenue decline across the region due to economic contraction and tax expenditure programs to support businesses and households; (ii) increasing pressure on national budgets and bigger public debt; and (iii) clear need to make significant investments in public services, such as health care. In May 2021, ADB launched the **Asia Pacific Tax Hub (APTH)** on DRM and ITC at the ADB Annual Meeting. The Tax Hub serves as an open and inclusive platform for strategic policy dialogue, knowledge sharing, and collaboration and development coordination. The second **High-Level Regional Tax Conference** was held in Manila on 6-7 November 2023. About 150 representatives from 44 economies attended at the ADB headquarters in person and online. The APTH is supporting many DMCs in strengthening DRM and ITC with the Tax Administration Diagnostic Assessment Tool (TADAT), capacity development programs in ITC, digitalization of tax administration, capacity building, and development of relevant knowledge products. The APTH will continue with such activities as well as its tax policy initiatives, and diversity further into emerging areas such as green and health taxation, progressivity, and equity.

TA ACTIVITIES (2021-2024)

9	26	13	8	20 DMCs
TADA* and/or MTRS** Training	AEOL, BEPS and EOIR related training	Tax Expenditure analysis, VAT Audit, Others	Support to DRM, PBLs, Environmental Taxation and DRM	

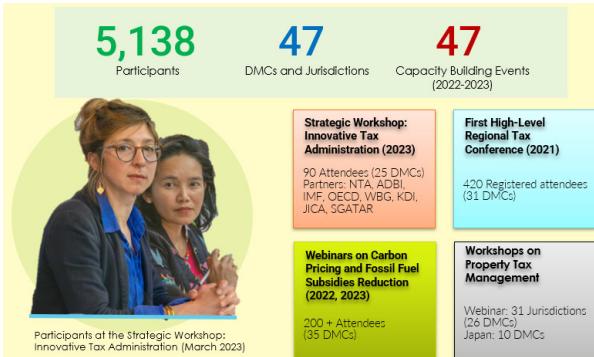
*Tax Administration Diagnostic Assessment Tool (TADA)

** Medium-term Revenue Strategy

KNOWLEDGE PRODUCTS (2021-2024)



EVENTS AND COMMUNICATION (2021-2023)



Four Meetings of the Asia Initiative With Global Forum	Five BEPS Regional Consultations / virtual and in-person (HQ) With OECD, CATA, PITAA, SGATAR	5 Meetings of the International Tax Pacific Initiative Global Forum, OECD, PITAA, WCO, Australian Taxation Office, New Zealand Inland Revenue Department
Two Workshops on Tax Treaties: Permanent Establishment, Services, Royalties and the Prevention of Treaty Abuse With OECD	Two Workshops on Tax Challenges and Opportunities Arising from Digitalisation / virtual With OECD	Two Beneficial Ownership and EOIR Assessors Trainings With Global Forum (Denmark and ADB HQ)
Four Brown Bag Sessions on BEPS Two-Pillar Solution / virtual 24 jurisdictions (21 DMCs)		



ABOUT ADB

The Asian Development Bank (ADB) is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. It assists its members and partners by providing loans, technical assistance, grants, and equity investments to promote social and economic development.

Headquarters

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