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Informal review session on Chapter I of the Monterrey Consensus:

“Mobilizing domestic financial resources for development”

Statement on behalf of the European Union by

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I have the honour to speak on the behalf of the European Union.

The Candidate Countries Turkey, Croatia* and the former Yugoslav Republic of Macedonia*, the Countries of the Stabilisation and Association Process and potential candidates Albania, Bosnia and Herzegovina, Montenegro, Serbia, and the EFTA country Iceland, member of the European Economic Area, as well as the Republic of Moldova, Armenia, and Georgia align themselves with this declaration.

Distinguished Co-chairs,

The European Union considers the Monterrey Consensus as the foundation of the global partnership through which the international community at large should work to achieve internationally agreed development goals (IADGs), including the Millennium Development Goals (MDGs). Such a global partnership is not restricted to the traditional actors in the field of development cooperation but encompasses all relevant partners including the international and domestic private sector, international and national NGOs and vertical funds. Thanks to such a collaborative spirit of partnership, the goals and objectives of Monterrey, as well as our broader development objectives, can be reached. The effective use and sustainable domestic resource mobilization in and by developing countries, is essential to provide the much needed development resources. While external resources flows have an important supporting role to play, long term development can only be sustained through successful mobilization of domestic resources.

In preparation for the 2008 Doha review conference, we should be reminded of a number of positive developments since the adoption of the Monterrey Consensus in 2002. In the last five years, we have seen the doubling of the average growth rates of GDP in Heavily Indebted Poor Countries (HIPC). Low income countries also experienced substantial export growth that in some cases contributed to greater internationalization of their GDPs and consequently to increased growth of their economies.

We have seen notable development efforts that have lead to improved economic stability: namely debt reduction and inflation stabilization. It is vital that the results of these positive developments will be invested into the attainment of the IADGs, including the MDGs.

Many of these positive developments arose from the mobilization of domestic financial resources, complemented by the international financial and technical cooperation. However, despite the progress made a number

* Croatia and the former Yugoslav Republic of Macedonia continue to be part of the Stabilisation and Association Process

of challenges still remain. In some regions the increase in growth has not always resulted in the improvement of human development indicators and has not been inclusive and pro-poor. The increase in growth has also led to larger income inequalities. Therefore, EU will continue to support developing countries in their efforts to make progress in the following areas:

1. The EU welcomes the fact that the **centrality of country ownership and of the national development strategy** is now a generally accepted principle. However, the EU thinks that in a considerable number of countries the link between national development strategies and the reality of budget allocations needs to be strengthened. In order to be effective, development strategies need to be translated into prioritized and realistically budgeted programs.
2. **Governance, including good governance**, at national and local levels, sound policies and national development strategies based on the rule of law, on accountability, transparency, the promotion of gender and social equality, respect of human rights and democratic processes are all preconditions to sustainable and equitable development. Fight against corruption both at international and national level is also an important element of good governance. In this regard, the implementation of the UN Convention against corruption should be further enhanced.
3. To fund essential public services and investments, the effective and sustainable domestic resources mobilization should be achieved mainly through **the effective use of national resources, strengthening of the national revenue and tax system and sound and transparent management of natural resources and its revenues**. Many developing countries have considerable scope to improve national revenue mobilization through both better tax policy and, as importantly, better administration. This matters because improving tax systems will not only fund improved services for the poor, but also promote better governance and more sustainable growth on which sustainable poverty reduction depends.

National resources mobilization is of the utmost importance to enhance retention of added value within the countries where these resources exist. Small-scale producers who make up the majority of producers in the developing world should be allowed to have access to financial services, and should be supported to be successfully integrated into national and global value chains.

4. **Better economic governance**. Good economic governance refers to a practice of economic management and regulatory and institutional environment that foster economic decisions that lead to sustained pro-poor growth. Key elements in this respect include stability-oriented

macroeconomic policies and an enabling business environment for women and men to fully exploit their entrepreneurial potential. There are still numerous institutional barriers in creating new businesses in the developing countries. Excessive or inappropriate regulation and taxation, anti competitive practices, corruption, expropriation and policy instability often combine to create serious obstacles to both domestic and foreign investment in developing countries. Creating a positive investment climate is therefore one of the most pressing challenges facing development. Institutional reforms to encourage entrepreneurial activities and trade should include the development of legal frameworks to protect private property rights. Greater attentions should be paid to the importance of competition policy in promoting fair opportunities for poor people as consumers and producers, while enhancing competitiveness. To create enabling business environment, partnership efforts, including in particular public-private partnerships, towards infrastructure development should also be further encouraged.

5. EU also welcomes and supports further development of **national financial system**, including **financial deepening*** and improved **access to financial services**. There are over 2 billion low income people in the developing countries that lack access to formal financial services. Increased financial access will accelerate progress towards the MDGs. A concerted and joined effort is required by national governments and central banks, commercial banks, microfinance and other financial institutions, civil society, donors and the International Financial Institutions (IFIs) to dramatically increase access to financial services and cut number of people without access to basic financial services. Successful international practices that lead to the economic empowerment of women should be replicated.
6. **The consolidation of the role of the State.** The State – be it at the central government or sub-national level - has a particularly important role to play in the mobilisation of domestic resources. Fiscal sustainability, with the strengthening of the national tax base, and the reform of tax policies and tax administrations play a crucial role. It can potentially improve several dimensions of economic governance at the same time. Taxation also matters for strengthening political governance because taxpayers' willingness to pay taxes emerges from citizens' trust in government's responsiveness to the needs of the population. Acceptance of tax collection as a legitimate exercise of state power requires political bargaining that is often the root of effective accountability. Special attention should also be given to sound fiscal and monetary policies, transparent public finance management

* It refers to the increased provision of financial services with a wider choice of services geared to all levels of society. A term used to describe the development and expansion of financial institutions, such as banks, stock markets, and insurance companies

and budgetary processes, fiscal decentralization and domestic accountability.

7. **Investment in human capital** through non-discriminatory, better designed and better funded health and education policies and infrastructure, that particularly target the poorest, coupled with better social protection and active labour market policies, respecting international social and labour standards and providing for full employment and decent work for all require further efforts.
8. **Gender equality and the empowerment of women.** Gender aspects should be broadened beyond the social sectors so as to encompass other policy areas such as economic growth, trade, migration, infrastructure, the environment and climate change, fragile states, peace building and reconstruction.
9. The **potential of remittances** as an important source of financing for development **complementing domestic savings** should also be considered.

Distinguished Co – chairs,

In summing up, the domestic resource mobilization is the most important aspect of economic development and fiscal sustainability. Good governance in the forms of socio-political and socio-economic stability, the rule of law, and progressive realizations of human rights, including the realization of gender equality, is essential for national and regional development efforts. The future initiatives should include further strengthening of the national financial and institutional systems, specifically the ones that encourage the entrepreneurial activities, public-private partnerships, the promotion of governance, including at the local level, the economic empowerment of women, and the inclusion of small scale producers into broader economy. This will require improving economic governance, sustaining stability-oriented macroeconomic policies and ensuring the better use of and strengthening the capacity of natural and human resources for the purpose of sustainable pro-poor growth.

Each country has primary responsibility for its own economic and social development. Our responsibility as the EU is to assist where appropriate with technical and financial support. We also have a responsibility to make sure that our own policies are coherent in support of domestic resource mobilization in partner countries.

Thank you.