

Comments on draft element paper on FFD

A. Domestic public finance

Comments from Good Financial Governance Perspective

1. The Elements paper remains on a general level and focuses too much on the challenges of resource mobilization. We should **aim for a new financing framework and a more implementation-oriented approach**. The paper should not stop at the formulation of goals, but propose also concrete steps on how to reach the goals. Change is an incremental process which needs a concerted effort and requires that political and administrative realities are taken into account on international but also on **national level**.
2. **Capacity building**: In many countries it is **basics first** in tax reforms that need to be addressed before more ambitious goals can be addressed. Other reform initiatives and in particular the **sincere will to reform** is needed. We therefore demand that **countries accept ownership**; in turn **we pledge to continue to assist developing countries to develop the capacities of their institutions and people**. Opportunities for **peer-to-peer learning**, including South-South and triangular cooperation could be strengthened. Informal fora for exchange like the **International Tax Compact (ITC)** have important functions.
3. **Investments in supporting tax policy and administration** (national and ODA) promise significant return on investment. However, as also pointed out by the Elements paper, we strongly believe that **“effective use of resources must go hand in hand with their mobilization”**(p. 4). **Only by adoption of a comprehensive approach can we unlock the full potential of domestic resources to finance sustainable development in the future**. We recommend that financial and technical assistance is strengthened **not only towards the tax system, but extended to other relevant domains of public financial management, such as the public budget, public procurement, external financial control and the management of natural resource revenues**. Strengthening stakeholders outside of government, such as civil society organizations and the general public also promises to be a useful endeavor as this could have a positive effect of government accountability.
4. While data may be used successfully for advocacy, we are **hesitant to setting a single target for general government tax-to-GDP ratios**. It can be a **valuable starting point**. Interpretations behind the figures have to be carefully dealt with. Taxation is not only about the how much, but also about the way taxes are raised. Taxes should be raised in a **fair, efficient and equitable manner**. Further there is evidence, that actors change their

behavior only to meet external expectations. By setting targets, we might incentivize governments to misreport statistics to appear to have reached the target. A target may therefore be a perverse incentive and lead to unintended and undesirable consequences. Besides, data capturing capacities in tax administrations and statistical capacities in statistics departments might only be rudimentary, which raises the general question of data quality. So **trends in tax collection are more important than absolute levels**. Also **the stability and predictability of revenues** is as and sometimes even more important than short term hikes in tax collection. We propose to further explore the potential of using the **TADAT – Tax Administration Diagnostic Assessment Tool** for capturing tax administration capacities and their development over time. **Regular TADAT assessments** might provide a better incentive to reform ones tax system.

5. We are generally supportive of **broadening the tax base**, including formalizing the informal sector. However efforts to broaden the tax base should take into account administrative capacities.. The registration and taxation of financially weak individuals and corporations needs to be carefully considered in relation to the expected revenues. Further tax incentives schemes should be reconsidered. In many cases associated revenue losses are large, while benefits in terms of new investments remain limited. **Reduction of wasteful tax incentives should be taken into consideration**. This would address harmful tax competition between countries and increase tax revenues.
6. Germany **actively supports that international tax cooperation is strengthened to tackle tax avoidance and evasion**. We use our G7 Presidency to take works on countering base erosion and profit shifting and the implementation of an automatic exchange of financial account information as a global standard forward. Enhanced transparency and exchange of information is important not only in relation to tax matters, but also in **budgeting and procurement**. In this regard, it is important not only to pass international regulations and agree on definitions, what is needed are also **corresponding national implementation regulations and enforcement mechanisms**.
7. We acknowledge the need to further promote international cooperation in tax matters and the important role of the **UN, through its Committee of Experts**, in this process. To improve cooperation in tax matters every effort should be made to ensure that the existing Committee functions in the most effective way. Regular financial contributions, specifically to increase the frequency of working sessions and to enable more developing countries to participate in meetings and discussions is a more promising measure. **Strengthening a participatory broad-based dialogue on international tax cooperation** including the UN, G20, IMF, OECD, World Bank and regional tax administration networks is needed. Further it is important that **developing countries are able to participate more in other existing**

processes. In this domain, already promising achievements, e.g. in the BEPS-process have been made in recent years. We could build on these initiatives.

Specific comments:

Domestic public finance – P. 4 last para – on domestic mobilization and spending

Effective use of resources must go hand in hand with their mobilization. Fiscal policies need to be consistent with macroeconomic stability, equitable growth, social transformation and sustainability. Good governance is essential to achieving sustainable development and reducing fragility and conflict. It includes democratic institutions, combatting corruption, as well as transparency, participation, fair competition in procurement, and a strong enabling environment. Internalizing external environmental costs (e.g. e.g. through carbon taxes, air passenger duties, taxes on pesticides or fertilizers, etc.) can play important roles in raising resources and aligning incentives with sustainable development.

Comment: This para mixes revenue mobilization with domestic spending. Considering the relevance of both aspects for mobilizing revenues or freeing up additional resources, these two aspects should be treated in two different paragraphs.

Also: CO2-tax is not the only (and one of the more complex) options. It is recommendable to enumerate a number of options here.

Not only domestic revenue mobilization, also domestic public spending must be consistent with National Sustainable Development Strategies. There is wide scope for improving budgeting, including environmental and gender-responsive budgeting, as well as medium term expenditure programs to support NSDSs. The consistency of national budgeting with sustainability goals should be checked regularly, during the budgeting process (ex—ante) as well as ex-post. Relevant domestic resources can be freed up especially by rationalizing harmful subsidies especially those for fossil fuels. IMF figures suggest that subsidies in the energy sector are worth 2 Trillion US\$ globally.

Comments from Gender Perspective

We acknowledge the Elements paper's references to gender equality (p.2, 3f.), to the challenges of women's insufficient access to affordable financial services (p.5), and to the need of promoting women's and girls' access to STEM education and technologies (p.19).

We agree that public and private resource mobilization at domestic and international levels remain important approaches of financing for development and are essential to ending poverty and reducing gender-based inequalities (p.3, 6).

We regret that the need for human-rights based and gender-responsive approaches to development financing has not been systematically and comprehensively mainstreamed in all building blocks of the Elements paper, nor have they been mainstreaming in monitoring and data issues.

We welcome the Elements paper's proposal to reduce the financing gap for gender equality through the adoption of gender-responsive budgets at all levels (p.13). However, it should be further emphasized that this requires transparent gender analyses of revenues and expenditures, as well as the elaboration and effective implementation of gender-responsive national development plans. We therefore urge that the countries' domestic environments, in terms of policies, practices, institutions and resources, are further strengthened to ensure gender-equitable development financing. We must also ensure that ODA funds remain a vital lever for gender equality and the realization of women's and girls' human rights.

Besides, we consider domestic and international private finance as important means for a gender-responsive financing for sustainable development. Capacity-building of and investments in women's organizations as well as in micro, small, and medium enterprises that focus on gender equality and the empowerment of women and girls are important opportunities for reducing gender-based inequalities. This should be more strongly reflected in the Elements paper.

The implementation of the UN's Guiding Principles on Business and Human Rights (p.14), a commitment to environmental, social and human rights standards (p.18), as well as achieving financial inclusion particularly for women (p.14) are key elements in achieving a rights-based and gender-responsive financial framework for sustainable development. Those references should therefore be maintained and further strengthened in the ongoing discussions.

Annex p. II

- The following sentence has to be removed:
"Adopt national social protection floors according to nationally defined benefit levels".

Addis should address systematic approaches of HOW jointly to implement the ambitious agenda, especially how to mobilise resources, and not deal with specific issues of expenditure.

Comment: The suggestion to "set up a global social protection floor" remains unclear. GER asks UN-DESA to explain the concept behind its suggestion in further detail, especially how it is related to the idea of a "Global Fund for Social Protection", brought forward by two UN Special Rapporteurs in October 2012 (Rapporteur on the right to food / Rapporteur on extreme poverty and human rights). In order to ensure sustainability, any form of social protection should primarily be financed by the respective state (via taxation) and/or its citizens (via contributions).

Concluding remarks:

Given the complexity of topics raised in the elements-paper these preliminary comments are by no means exhaustive nor concluding. They shall provide a first compilation of thoughts and indications for the German perspective in association with the European Commission comments.

The attached statements complement this introductory approach of clarifying and contributing to the Agenda of FFD-negotiations by narrowing down and concretising the topics to be covered.