

## **Key elements for EU statements at the UN FFD thematic debate**

### **11/11/2014 Session on domestic public finance**

#### **1. Context**

Domestic public finance is a key element in the Monterrey Consensus, the Doha Declaration and also in the ICESDF report. It is the main tool for ownership of the development process. Some countries may want to avoid the discussion at international level, and it will be important to counter such arguments. The discussion needs to go beyond mobilisation/tax revenue, and also discuss effective use and transparency, and institutions for that.

#### **2. Overall issues on the session on domestic public finance**

- Domestic public finance covers the mobilisation of domestic revenues as well as the effective use and control of them. An efficient and transparent domestic public finance system, which addresses both dimensions, is an indispensable precondition for sustainable growth. It should efficiently mobilise and channel public funds, and possess the control mechanisms to prevent misuse. Domestic public finance systems are essential for a well-functioning state and the provision of public goods and services. In most developing countries the tax ratio is still below 20% (compared to 35% in OECD countries) and the ratio for non-resource related taxes is even lower in resource-rich countries<sup>1</sup>. The tax optimal tax to GDP ratios differ from country to country. To finance and successfully implement global agreements and the development aspirations of its citizens, states will require more domestic revenues and sound public spending systems.
- The recent financial crisis highlighted the volatility of private finance and demonstrated the importance of increasing domestic revenues to finance sustainable development. Domestic revenue mobilisation is furthermore part of the social contract that underpins government accountability, public participation, increases social cohesion and contributes to good governance and to sustainable and inclusive growth.
- Extractive industries have changed significantly the nature of economic activity in many countries. The recent increased demand and extraction of natural resources suggest that

### **3. Key points on specific issues: Mobilizing domestic public resources**

#### **i) Policy reforms**

- Efficient, transparent and fair tax policies are an integral element of a functioning state. Compliance of tax policies with minimum standards of good governance in the tax area (transparency, exchange of information and fair tax competition) can be a catalyst for higher revenues, by reducing tax evasion and tax avoidance. The critical nexus between tax policies and the improvement of the business environment can be reinforced by conducting appropriate tax reforms

- Sovereign debt restructurings can entail high costs to debtors, creditors and the international monetary system. Recent developments have underscored the importance of strengthening the existing contractual legal framework for sovereign debt restructuring, as well as the IMF's framework in the context of sovereign debt distress. The EU is following discussions on sovereign debt restructuring closely.

**iv) Impact of illicit flows on domestic resource mobilization**

- The increasing integration of international markets and economic globalisation infuses

