

Germany statement on

BMZ/413

27.01.2015

Comments on draft element paper on FFD

A. Domestic public finance

Comments from Good Financial Governance Perspective

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

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

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.