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Follow-up to the World Summit for Social Development and the twenty-fourth special session of the General Assembly: priority theme: Addressing inequalities and challenges to social inclusion through fiscal, wage and social protection policies

Statement submitted by EIVHGI — Europäischer Interessenverband — Handel — Gewerbe — Industrie, World Union of Small and Medium Enterprises, non-governmental organizations in consultative status with the Economic and Social Council*

The Secretary-General has received the following statement, which is being circulated in accordance with paragraphs 36 and 37 of Economic and Social Council resolution 1996/31.

* The present statement is issued without formal editing.



Statement

National Foundations for Economic Development and Crises Prevention (ECOFOUND)

An Innovative Approach for the financing of social protection policies, particularly of farmer- and crafts- families in less privileged economies.

This statement primarily intends to contribute to “Family issues, policies, and programmes”.

Safeguarding the rights, interests, and competitiveness of Small and Medium Enterprises, including crafts and farms, is paramount for sustainable economic and social development and for the eradication of poverty, particularly of families running small farms and smaller enterprises in less developed countries. Additional funds are urgently needed for the financing of supporting programs. Our recommendations herein would decisively contribute to feasible solutions and, at the same time, optimize government spending of taxes and limit government debt policy.

There are some estimated 450 million smallholder farming households (representing 2 billion people) relying to various degrees on agricultural production for their livelihoods. They represent the largest client segment by livelihood of those living on less than \$2 a day, though they significantly contribute to the well-being of their societies.

We recommend that Civil Society Organizations that work to safeguard the rights, interests, and competitiveness of Smaller Enterprises and which enjoy Special Consultative Status at United Nations Economic and Social Council (ECOSOC) initiate the registration of ECOFOUNDs as legal entities. Members shall be all persons who are obliged to collect the VAT or comparable taxes for the Governments.

A VAT, like most taxes, distorts what would have happened without it. Because the price for someone rises, the number of goods traded decreases. Correspondingly, some people are worse off by more than the government is made better off by tax income. That is, more is lost due to supply and demand shifts than is gained in tax. This is known as a deadweight loss. If the income lost by the economy is greater than the government’s income; the tax is inefficient. It must be noted that a VAT and a Non-VAT has the same implications on the microeconomic model.

Basic sustainable financing of ECOFOUNDs shall be small parts of tax revenues (VAT, Finance Transaction Tax, Currency Transaction Tax). ECOFOUNDs shall be governed by SME Supporting National Organizations, e.g. Chambers of Commerce and other Entrepreneur- and International Associations. These foundations need a sustainable annual income for providing efficient services for the beneficiaries. Sources of funding shall be: 0,5% to 1% (in our examples 0,6%) of the VAT and Employer Tax revenues of a Member Country, Alternatively and/or in addition 0,05% of a Currency Transaction Levy (CTL), Funds of European Union Programmes (e.g. COSME, HORIZON), the IFC — International Finance Corporation, other Entrepreneur Organizations, and Charity Foundations. In order to achieve political acceptance, it is conditional to prove that such tax revenues are been allocated in accordance with tax optimization criteria, e.g. Pareto optimality.

Organizational Structure of ECOFOUNDs

Based on legislation in the host country, ECOFOUNDs should have the following main bodies: General Assembly Members, who shall be Delegates of Chambers of Commerce, NGOs that have VAT paying members, and Consumer Organizations; Board of Directors to be appointed by the General Assembly; Chief

Executives, appointed by the Board of Directors; and a Control Board, appointed by the Government.

Calculation of national VAT revenues

For the purpose of calculating the VAT revenues, the C-Efficiency Ratio is illustrated: The C-efficiency ratio is the most commonly used indicator for evaluating the revenue performance and overall efficiency of the VAT system. It is simply the ratio of actual revenues to theoretical revenues from a perfectly enforced tax, levied at a uniform rate on all consumption.

$VAT = GDP (PPP) * C$, $\%AIF = VAT * 0.003$ (three per mill), $VAT = \text{Value Added Tax}$, $C = C \text{ efficiency}$, $GDP(PPP) = \text{Gross Domestic Product (purchasing Power Parity)}$, $AIF = \text{Annual Income of the Foundation}$, Formula: $AIF = (GDP * C) * \%AIF$.

Example

VAT Revenue (in billion USD): 353.12

AIF — Annual Income ECOFOUND: 1.05936

The annual revenues of an Indian ECOFOUND would be approx. 1 billion and 60 million USD

Tentative Conclusions

The implementation of the ECOFOUNDs incurs no significant fiscal impacts on the national budget, as funds remain in the country of origin, to be used for developing of Entrepreneurs, particularly SMEs and Crafts.

ECOFOUNDs is an effective (“Pareto — improved”) contribution to economic growth and employment policy,

ECOFOUNDs would be qualified to obtain financing of the IFC — International Finance Corporation and World Bank, EIB European Investment Bank and other SMEs supporting Organizations,

ECOFOUNDs would have a sustainable income, enabling them to extend micro-financing to the smallest companies without bank guarantees and at low interest rates,

We also recommend introducing a Currency Transaction Levy (“Tobin Tax”), which would further strengthen the financial possibilities of the IFEDT with approx. one to three billion USD.