Sanjeev Gupta, Deputy Director, IMF Fiscal Affairs Department

Opening remarks at the ICGFM Winter Training Conference, December 4, 2017

Good afternoon, and let me begin by welcoming you all to the annual ICGFM International Winter Training Conference. It is a great pleasure for the IMF to host this conference again this year, and I am pleased to see so many public financial management practitioners from around the world attending the conference.

The topic for this year's conference - *Creating a Citizen and Business Enabling Environment* – is very timely. It speaks to the role that good governance and public financial management can play in supporting the prosperity of people and businesses. Sound and sustainable macroeconomic policies, strong fiscal institutions, and good governance are key to sustainable development, and how governments mobilize resources and spend them in a transparent and responsive way on public goods and services are critical for inclusive growth and well-being of societies.

During this conference, we will be hearing a variety of perspectives on this topic and learn from different country experiences. In my remarks today, I would like to focus on three specific aspects that have the potential to significantly improve governance of fiscal policy.

***

The first is the importance of domestic resource mobilization. Building tax capacity should be at the center of a viable development strategy in developing countries. A recent IMF paper found that there is a tipping point at around 15 percent of GDP, above which growth strengthens and becomes more sustained.

At the same time, there are factors that are holding back countries from achieving their tax potential. The ever-increasing use of tax exemptions and incentives, poor tax compliance as well as base erosion and profit shifting by multinationals, are examples of policy weaknesses. Poor drafting results in arbitrary interpretation of laws and increases the costs of compliance. In addition, the lack of risk-based audits, weak coordination between tax and customs administrations, low levels of tax return filing, limited use of modern technologies, and ineffective taxpayer services, point to significant weaknesses in tax administration in many countries.

The IMF is working closely with member countries and international partners to help address these shortcomings. In this regard, the Platform for Collaboration on Tax was established by the IMF, OECD, the UN, and the World Bank in 2016 to formalize regular discussions on tax matters and to support partners' own and others' capacity development efforts.

An important Platform initiative is the development of "Medium-Term Revenue Strategies". These are high-level roadmaps for an individual country's tax system reform, extending for a period of 4 to 6 years. These strategies cover both tax policy and administration, and are also intended to serve as a roadmap for other partners/assistance providers. The IMF is now working with several member countries to develop them, with clear quantitative medium-term tax revenue objectives.

***

The second aspect I would like to highlight is the importance of transparency in government spending. Our research finds a clear link between fiscal transparency and good governance: countries that are fiscally more transparent also tend to have stronger governance. Similarly, insufficient transparency is often associated with corruption, which in turn undermines the quantity and quality of public spending, negatively impacts the private sector, and leads to poor social and environmental outcomes.

The IMF's Fiscal Transparency Code, which was revised in 2014, sets out the international standard for disclosure and analysis of information about public finances. We have already assessed fiscal transparency practices through Fiscal Transparency Evaluations in 22 countries covering a diverse range of regions and income groups, and have published 19 of them. They reveal that transparency levels vary both across and within countries and are positively related with income. There is scope in all countries to improve practices, particularly in the areas of fiscal reporting and fiscal risk analysis and management, which remains an area of institutional weakness in many countries.

Let me briefly highlight four general issues that have come up across the board:

- First, while countries have raised the coverage of their fiscal reporting, a significant amount of public sector activity, largely in the form of public corporations, remains outside of fiscal reports;
- Second, there are large gaps in many countries' balance sheet, with significant liabilities, such as state pension obligations, being unreported;
- Third, macroeconomic and fiscal forecasts tend to be overly optimistic, particularly over the medium-term; and
- Fourth, contingent liabilities, such as guarantees and liabilities of public corporations, often go unreported and can be significant, ranging from 25 to 300 percent of GDP.

Addressing these and other issues to strengthen fiscal transparency can help countries better understand their underlying fiscal position and the risks to the fiscal outlook, and, ultimately, contribute to holding governments accountable for their fiscal performance and the utilization of public resources.

***

The third and the final aspect relates to the use of technology.

Earlier this month, the IMF, supported by the Bill and Melinda Gates Foundation, launched a book on *Digital Revolutions in Public Finance*. It demonstrates the potential for reaping benefits from digitalization. If technology is used in smart ways, we can do what we do now, but in better ways.

Tax authorities, for example, are increasingly gaining access to the vast amount of information held by the private sector which can improve tax compliance. Tax authorities in Australia and the United Kingdom are now receiving real-time reporting of payroll information, and, in Brazil and Russia, electronic invoicing systems allow immediate access to data on firm sales.

The availability of high-frequency fiscal data generated from government financial management information systems presents significant opportunities for fiscal policymakers, such as better forecasting of revenues and budget preparation. Daily fiscal data can be particularly useful to policymakers attempting to stabilize the business cycle, allowing governments to monitor economic activity in real time. With increased capacity to store and analyze data, governments can exploit data on tax receipts to anticipate a crisis, monitor cash balances to better assess liquidity and borrowing needs, or crosscheck information on contract payments and tax collection.

New technology to monitor and record biometric characteristics provides a unique, secure, and less-costly alternative to more traditional paper-based official documentation systems. Latin America leads the way in biometric-enabled national identity systems, but other regions are not far behind. India’s Aadhaar is the world’s largest biometric identification system, with more than 1.1 billion citizens registered.

Governments are now extensively using this biometric technology to expand the coverage of social benefits and improve targeting. Launched in 2013, the Indian government’s Direct Benefit Transfer program significantly changed the delivery system of subsidy and welfare benefits by transferring payments directly into bank accounts linked to beneficiaries’ Aadhaar biometric ID. This has helped reduce leakages and corruption. Kenya, which has pioneered the use of mobile-phone-based money transfer through M-Pesa, now allows the direct payment of taxes and for government services by mobile phone.

These are just a few of the many examples of how countries by transforming the way they collect, process, and act on information can reshape the way they design and implement their tax, spending and macro-fiscal policies to the benefit of their citizens.

***

Let me conclude by thanking for your attention and wishing you all a productive conference.