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# New Framework for Enhanced Fund Engagement on Governance and Corruption

MEFMI—Executive Fora Events  
Deputy Permanent Secretaries and Deputy Governors Forum  
Victoria Falls, Zimbabwe  
May 7-8, 2019



# Why do IMF member countries care about corruption?



- Corruption not a victimless crime: real direct and indirect **economic and social costs** for countries
  - Example of direct cost—bribe given to evade taxes results in loss of public revenue
  - Indirect costs—low tax compliance, impedes foreign and domestic investment
- Corruption **undermines social norms, ethics, and trust** in national and international institutions
  - Edelman Trust Barometer—trust in government lowest of all major national institutions
- Corruption can contribute to **protests, political instability, conflict**
  - Brazil, Moldova, South Korea, Ukraine Maidan Revolution, Arab Spring

# Why do IMF members countries care about corruption?

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Not surprising, corruption can make **citizens angry and frustrated** (role of technology)

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Many governments responding by being **much more open to discussing corruption**

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Many governments want the IMF to help them address corruption in a **more forthright and systematic manner**

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IMF has **mandate** to help as poor governance and corruption **impede IMF's basic objectives**

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# What is IMF doing in support?



## Producing **analytical work** on corruption

- May 2016 staff paper: "*Corruption: Costs and Mitigating Strategies*"

## Making its **voice heard** through outreach

- Management and staff speeches at various fora, blogs, social media
- Organization and participation in international *seminars* and conferences

## **Review of IMF policy** framework in 2017 and 2018

- Enhanced framework for governance and corruption—April 2018
- Evolving framework to be enhanced by experience
- Interim stocktaking expected during 2020



# New Framework for Addressing Governance Weaknesses—Four Elements

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- Cannot tackle corruption effectively if do not address **broader governance weaknesses** giving rise to **corruption vulnerabilities**
  - Simply throwing everyone into jail—is neither feasible nor sufficient
- “Governance”—the institutions, mechanisms, and practices through which governmental power is exercised, including management of public resources and regulation of economy
- “Good governance”—more normative concept, quality of governance can impact its effectiveness and efficiency
- “Corruption”—“the abuse of public office for private gain”

# New Framework for Addressing Governance Weaknesses—Four Elements



- **Governance and good governance are broader concepts than corruption**
  - Country can have poor governance even without significant corruption because of ineffectiveness or inefficiency
  - Significant corruption, however, generally indicates governance weaknesses
  - Thus, to have lasting impact, effective anti-corruption strategy requires broader good governance approach
  - Durable solutions entail governance improvements in **transparency, accountability, balanced regulation, effective institutions**

# New Framework for Addressing Governance Weaknesses—Four Elements

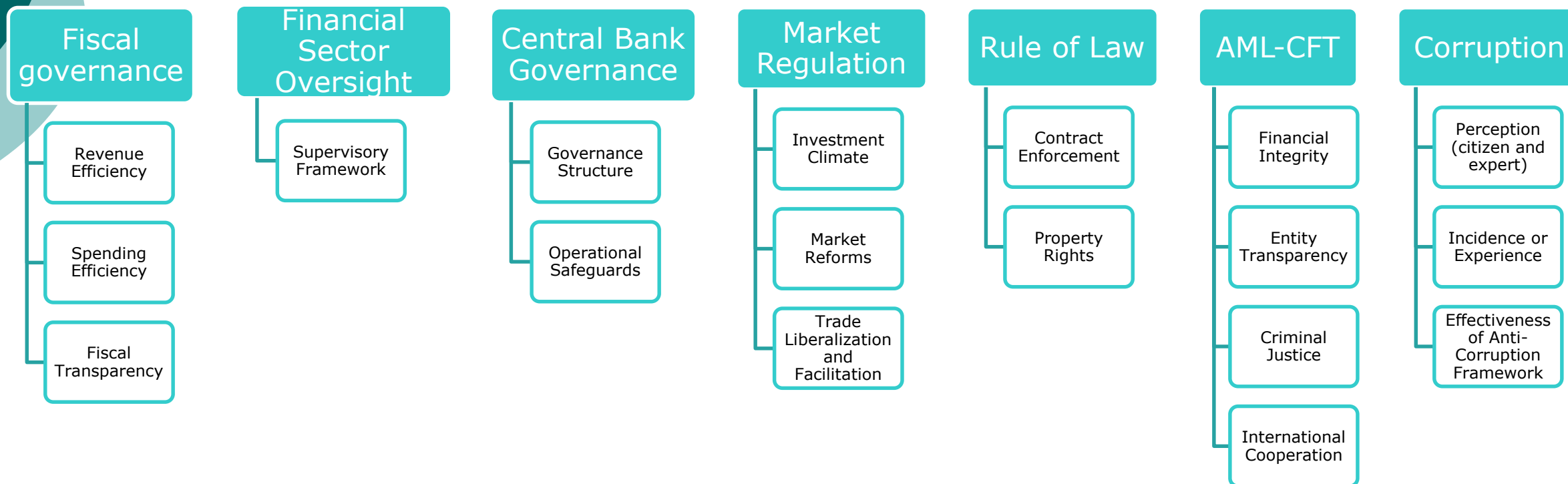
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- **Key idea**—corruption bad for economic outcomes, governance weaknesses create vulnerabilities to corruption, therefore policies to improve governance will help reduce corruption
- Fund now making assessments of governance weaknesses in **six key governmental areas** to expose corruption vulnerabilities
  - Should allow for **more specific, concrete, and granular** diagnosis
- To ensure systematic and consistent process:
  - **Centralized process, every year for all 189 members,** using agreed criteria



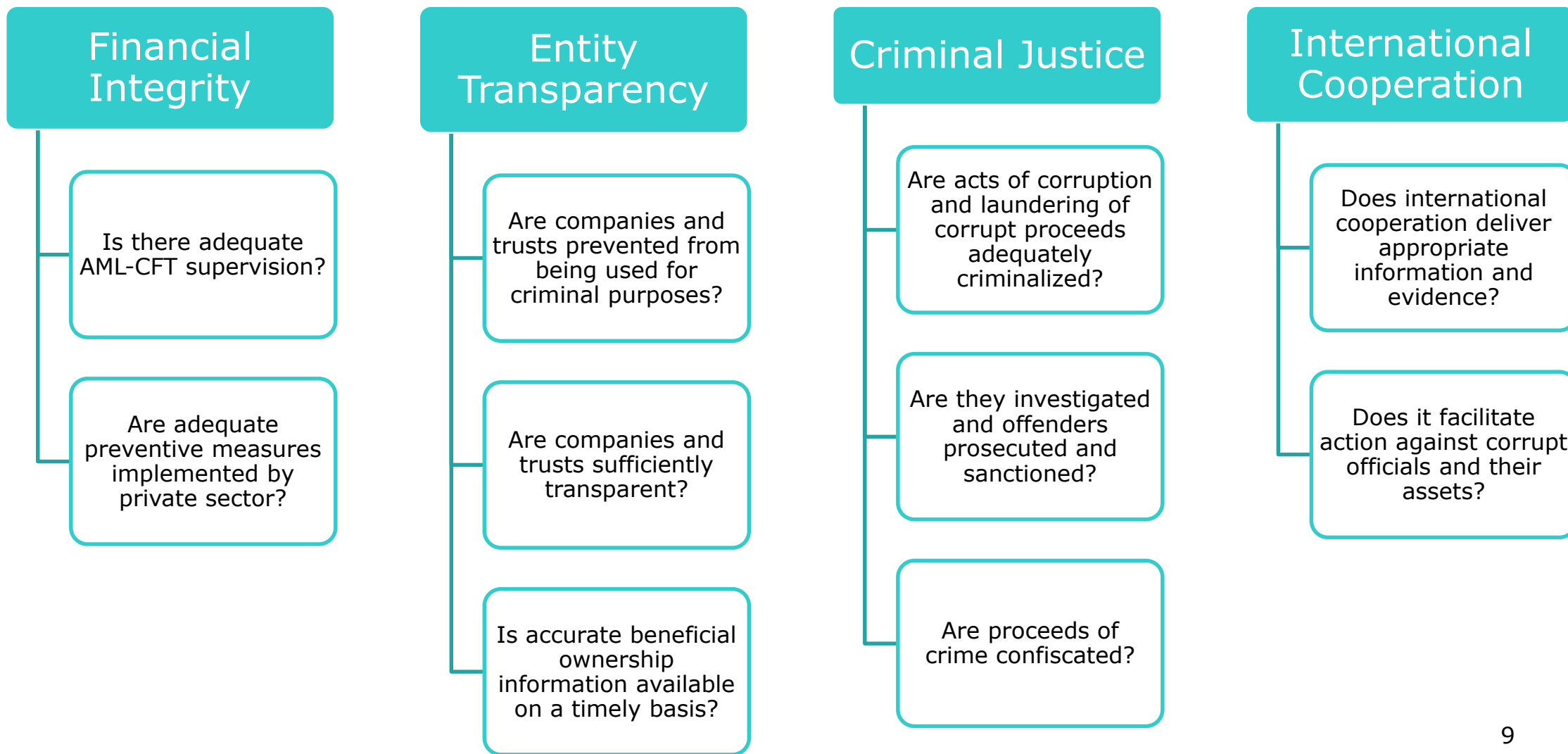
# Six Key Governmental Functions







# Example of AML-CFT



# New Framework for Addressing Governance Weaknesses—Four Elements



## **First, enable assessment of nature and severity of governance vulnerabilities**

- To extent possible, **staff rely on IMF information**, in the context of existing activities, including from members
- In **areas not typically covered by IMF**, staff **rely on information provided by other institutions**, especially World Bank
- Holistic assessments, relying on **both quantitative and qualitative** information
- **Third-party indicators consistent** with recently-approved IMF policy (2017)
- Recognition that assessments of some categories for some countries are subject to **information constraints**, expected to improve over time

# New Framework for Addressing Governance Vulnerabilities—Four Elements

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## **Second, guides IMF's assessment of economic impact of governance and corruption vulnerabilities**

- IMF research—**if these vulnerabilities are severe, growth will be lower in the long-term**—even if things look good today
- Thus, whenever vulnerabilities assessed as severe, **economic impact deemed sufficiently significant to require** an assessment and policy recommendations in surveillance
- In lending, could lead to program conditionality

# New Framework for Addressing Governance Vulnerabilities—Four Elements

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## **Third, assessment of governance weaknesses will guide policy advice—more tailored, concrete, and granular**

- Areas outside IMF's expertise require **close collaboration with other institutions**—especially World Bank, UNODC, OECD
- Early, close, and open **consultation with authorities** required—views should be adequately reflected in staff reports
- **Capacity Development prioritized** and **integrated** with policy advice
- Staff should use **clear and direct language**

# New Framework—Recent Country Examples



## Albania

Corruption and Judicial reform: international perspective

Economic costs of judicial corruption

Agenda for judicial reform and strengthening of anti-corruption framework

Next steps in reform process

## Cameroon

Fiscal governance

Transparency and Extractive Industries

Market regulation and private sector-led growth

Rule of Law

AML/CFT

Anti-corruption framework

## South Africa

Rising corruption and deteriorating governance indicators

Adverse economic impact

Procurement/SOEs

Governance reform in electricity utility

## Ukraine

Central bank governance

Financial sector oversight

Governance and restructuring of SOEs

Revenue administration

Spending efficiency

Streamlining of regulatory framework

AML-CFT

Anti-corruption framework

# New Framework for Addressing Governance Vulnerabilities—Four Elements

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## **Fourth, an effective anti-corruption strategy must address facilitation of corrupt practices by private actors**

- **Bribery (supply-side)**—steps to prevent private actors from offering bribes to public officials
  - Achieved through **criminalization and prosecution** of bribery
- **Concealment (facilitation)**—steps to deny corrupt officials access to services offered by private actors to hide proceeds of corruption
  - Achieved through application of **robust AML/CFT** laws and institutional frameworks

# New Framework for Addressing Governance Vulnerabilities—Four Elements

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- New policy urges all members to **volunteer for IMF assessment** of their own legal and institutional frameworks in surveillance to determine whether:
  - they criminalize and prosecute the **bribery of foreign public officials**; and
  - have an **effective AML/CFT system** designed to prevent foreign officials from concealing corruption proceeds.
- **G7, Austria, Czech Republic, and Switzerland** have so far volunteered
- IMF staff will rely on **work/collaborate with the UNODC, OECD, and FATF**



## Finding on MEFMI Countries

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- **Fiscal Governance biggest problem area**
  - Recurring problem areas: tax administration, expenditure controls, payment arrears, procurement, internal and external audits, SOE oversight, fiscal transparency, poor spending and revenue outcomes
- **Next problem area is in AML-CFT**
  - Recurring problem areas: weak legislation and, especially, enforcement
- **Somewhat better performance for Market Regulation and Rule of Law**
  - Recurring problem areas:
    - **Market Regulation:** exchange restrictions, transparency, complexity, enforcement, product market regulation, trade facilitation, ease of doing business, lack of data
    - **Rule of Law:** Enforcement of contract and property rights, investor protection





## Finding on MEFMI Countries

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- **Best performance in Financial Sector and Central Bank Governance**
  - Caveat: Problem of lack of sufficient in-depth data
    - IMF data mostly from FSAPs and Safeguards Assessments, but not done for every country
    - Where data available, some countries doing quite well
  - Recurring problem areas:
    - Financial Sector: Quality of regulatory and supervisory framework
    - Central Bank: Legal framework, external and internal audit, reporting, internal controls
- **Corruption—Poor performance, only a few countries doing quite well**
  - Recurring problem areas: perception, experiences, anti-corruption framework—design and enforcement