New Framework for Enhanced Fund Engagement on Governance and Corruption

MEFMI—Executive Fora Events
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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?

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

Many governments responding by being much more open to discussing corruption

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

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

- 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

- **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

- Fiscal governance
  - Revenue Efficiency
  - Spending Efficiency
  - Fiscal Transparency

- Financial Sector Oversight
  - Supervisory Framework

- Central Bank Governance
  - Governance Structure
  - Operational Safeguards

- Market Regulation
  - Investment Climate
  - Market Reforms
  - Trade Liberalization and Facilitation

- Rule of Law
  - Contract Enforcement
  - Property Rights

- AML-CFT
  - Financial Integrity
  - Entity Transparency
  - Criminal Justice
  - International Cooperation

- Corruption
  - Perception (citizen and expert)
  - Incidence or Experience
  - Effectiveness of Anti-Corruption Framework
Example of AML-CFT

**Financial Integrity**
- Is there adequate AML-CFT supervision?
- Are adequate preventive measures implemented by private sector?

**Entity Transparency**
- Are companies and trusts prevented from being used for criminal purposes?
- Are companies and trusts sufficiently transparent?
- Is accurate beneficial ownership information available on a timely basis?

**Criminal Justice**
- Are acts of corruption and laundering of corrupt proceeds adequately criminalized?
- Are they investigated and offenders prosecuted and sanctioned?
- Are proceeds of crime confiscated?

**International Cooperation**
- Does international cooperation deliver appropriate information and evidence?
- Does it facilitate action against corrupt officials and their assets?
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

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

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

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

- 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

- **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

- **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