New Framework for Enhanced Fund Engagement on Governance and Corruption

MEFMI—Executive Fora Events
Governors of MEFMI Central Banks
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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
## AML-CFT

<table>
<thead>
<tr>
<th>Financial Integrity</th>
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<tbody>
<tr>
<td>Is there adequate AML-CFT supervision?</td>
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<td>Are adequate preventive measures implemented by private sector?</td>
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<tr>
<th>Entity Transparency</th>
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<tbody>
<tr>
<td>Are companies and trusts prevented from being used for criminal purposes?</td>
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<tr>
<td>Are companies and trusts sufficiently transparent?</td>
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<tr>
<td>Is accurate beneficial ownership information available on a timely basis?</td>
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<tr>
<th>Criminal Justice</th>
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<tr>
<td>Are acts of corruption and laundering of corrupt proceeds adequately criminalized?</td>
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<td>Are they investigated and offenders prosecuted and sanctioned?</td>
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<td>Are proceeds of crime confiscated?</td>
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<th>International Cooperation</th>
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<tr>
<td>Does international cooperation deliver appropriate information and evidence?</td>
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<td>Does it facilitate action against corrupt officials and their assets?</td>
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Central Bank Governance and Operations

- Independence
  - Adequacy of the mandate?
  - Adequacy of decision-making structure?
  - Adequacy of operational autonomy?

- Accountability and Transparency
  - What accountability structures are in place?
  - How transparent are central bank decisions and activities?

- Audit and Internal Controls
  - Adequacy of internal controls?
  - Adequacy of internal audit?
  - Adequacy of external audit?
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
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 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
  - Completed and published—UK, Japan, Czech Republic and United States

- IMF staff will rely on work/collaborate with the UNODC, OECD, and FATF
Synergies—New Framework and IMF AML/CFT Policy

**Governance Framework that are most relevant for economic activity covers seven areas**
- Fiscal Governance
- Financial Sector Oversight
- Central Bank Governance
- Market Regulation
- Rule of Law
- AML/CFT
- Anti Corruption

**AML/CFT to support anti-corruption—parts of 4 areas**
- Preventive measures
- Entity Transparency
- Investigating and prosecuting ML
- International Cooperation

**AML/CFT covers 40 Recommendations and 11 Effectiveness Areas**
- National Risk Assessments
- International Cooperation
- Supervision
- Preventive measures
- Entity Transparency
- Financial Intelligence
- Investigating and prosecuting ML
- Confiscation
- Investigating and prosecuting TF
- Targeted Financial Sanctions TF
- Targeted Financial Sanctions PF
Emerging Issues in AML/CFT—FATF June 2019 Plenary

- Virtual Assets—guidance on mitigating risks
- Strategic Review of “effective implementation” of AML/CFT measures and review of FATF/FSRB assessment processes
- CFT—Guidance on assessing TF risk
- Strengthening standards on Countering the Financing of Proliferation
New Framework—
Key Issues in Central Bank Governance and Operations

- While Central Banks are often viewed as one of the most effective institutions within a country...
- ...there have been cases where central banks have exhibited severe governance weaknesses

- Recent points of IMF attention:
  - Price-stability focused mandate (no quasi fiscal activity)
  - Robust, well designed Oversight Boards (e.g., non-exec majority)
  - Strong Audit Committee, internal and external audit
  - IFRS as financial reporting standard
  - Robust governance framework for official foreign reserves management
Recent Interactions with MEFMI Central Banks on Governance and Operations

- IMF Legal Department Work:
  - Botswana: TA
  - Eswatini: TA
  - Kenya: Safeguards Assessments
  - Madagascar: Program implementation TA
  - Malawi: Program implementation TA
  - Mozambique: Safeguards Assessments
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
Findings 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
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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