
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**

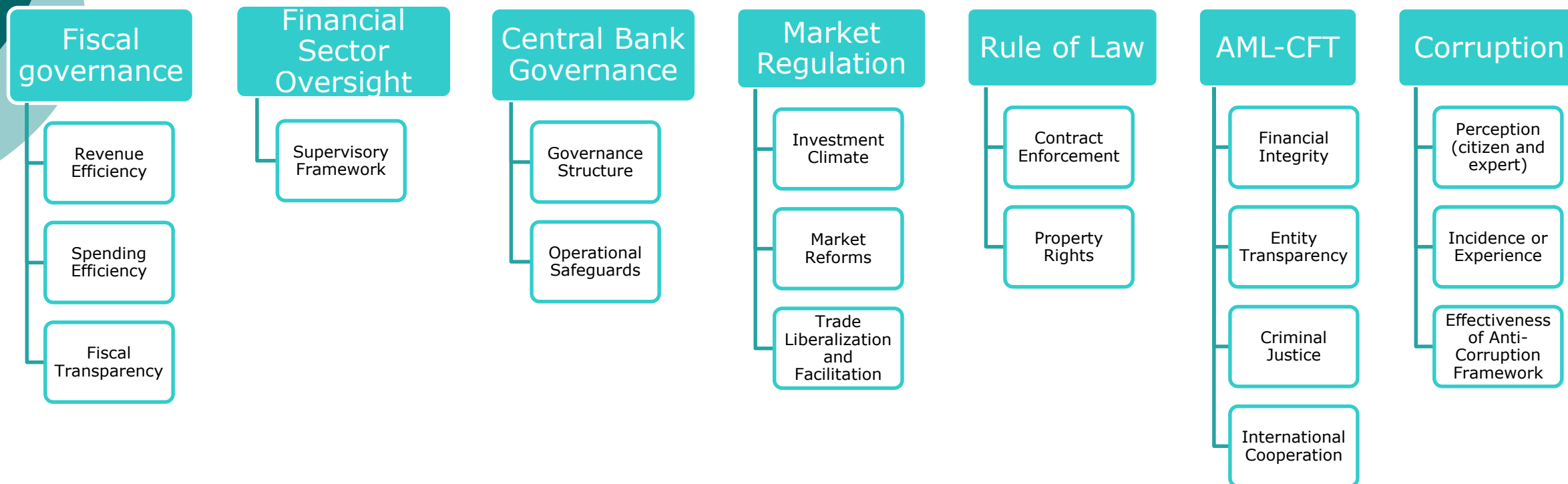
New Framework for Addressing Governance Weaknesses—Four Elements



- **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





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?

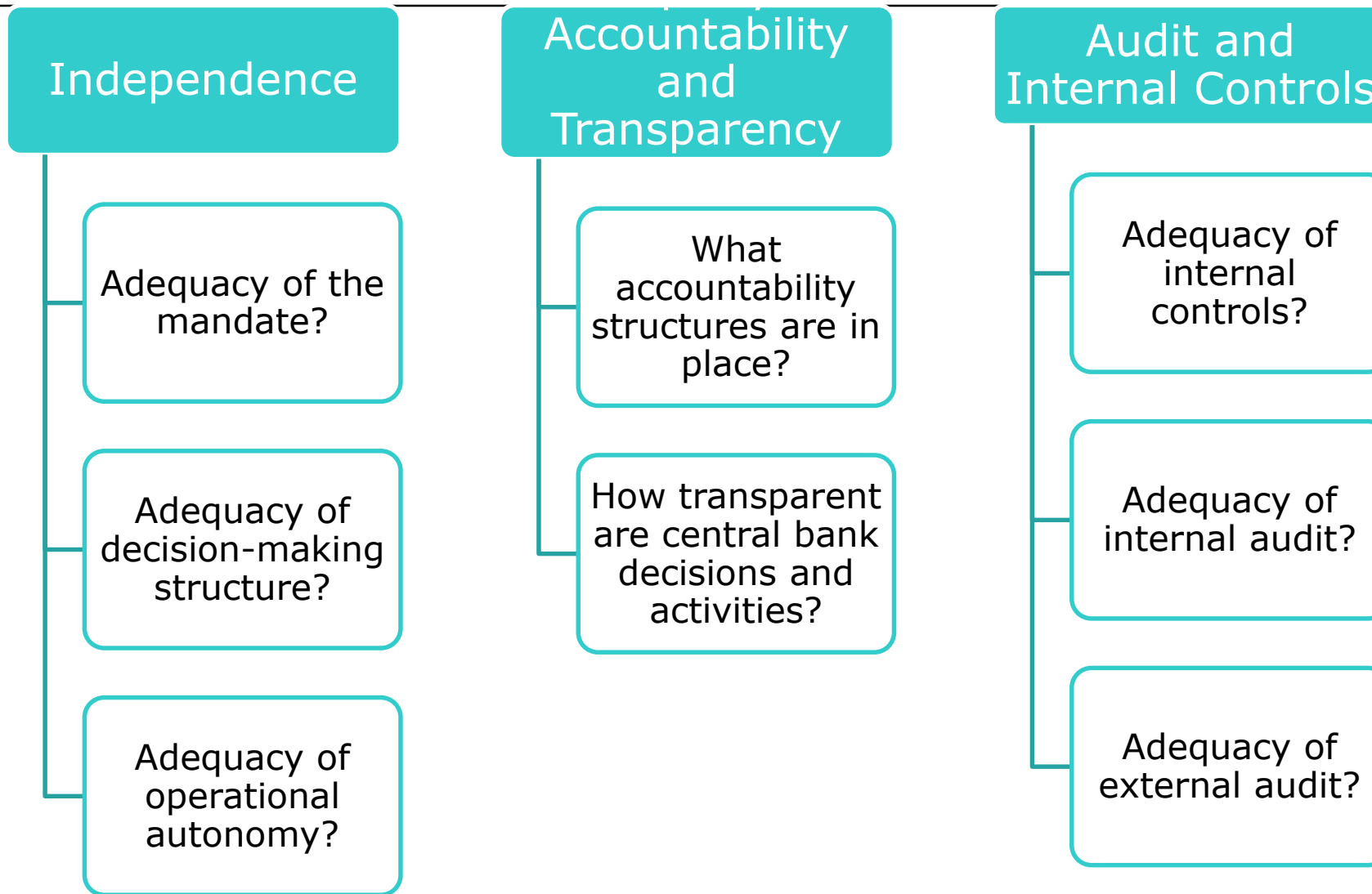
International Cooperation

Does international cooperation deliver appropriate information and evidence?

Does it facilitate action against corrupt officials and their assets?



Central Bank Governance and Operations



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 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