



New Framework for Enhanced Fund Engagement on Governance and Corruption

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Threshold Considerations

- Corruption not a victimless crime: real direct and indirect **economic and social costs** for countries
 - Revenue side—e.g., bribe given to evade taxes results in loss of public revenue
 - Expenditure side—e.g., effect on scale, composition, quality of public spending
 - 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**



Context

Citizens angry and frustrated (amplifying role of technology)

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

More broadly, many governments want to address corruption in a **more forthright and systematic manner**

IMF **mandate**: poor governance and corruption **impede IMF's basic objectives (promoting economic stability; helping members achieve strong, sustainable and inclusive growth)**

What is IMF doing in support?



Producing **analytical work** on corruption

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



- 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, recognizes that quality of governance can impact its effectiveness and efficiency
- “Corruption”—“the abuse of public office for private gain”

New Framework for Addressing Governance Weaknesses



- **Governance/good governance broader than corruption:**
 - Country can have poor governance even without significant corruption because governance is ineffective, inefficient, lacks technical or financial capacity, or is not exercised in an impartial manner for the benefit of all citizens
 - In our experience, significant corruption, however, generally indicates governance weaknesses
 - Thus, the framework rests on the idea that to have lasting impact, an effective anti-corruption strategy requires a broader good governance approach
 - Durable solutions under such an approach entail governance improvements in **transparency, accountability, balanced regulation, effective institutions**

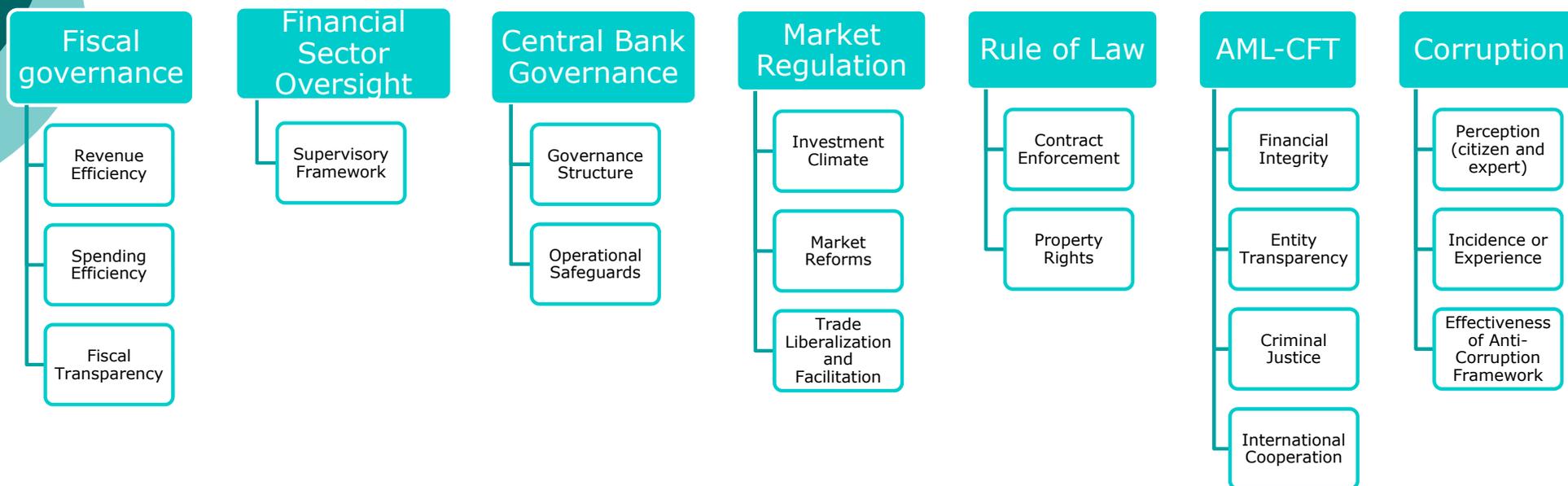
New Framework for Addressing Governance Weaknesses



- **Key idea**—corruption bad for economic outcomes, governance weaknesses create vulnerabilities to corruption, therefore policies to improve governance will help reduce corruption/improve economic outcomes
- Given this: 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
- **Centralized assessment process now in place, every year for all 189 members**, using relevant criteria



Six Key State Functions (and Corruption)



New Framework for Addressing Governance Weaknesses—Four Elements



First, the policy enables assessment of the 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, the policy 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 (“termites in the wood”)
- 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: **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** in providing policy advice, which was not always the case in the past due to sensitivities of the issues

New Framework for Addressing Governance Vulnerabilities—Four Elements



Fourth, an effective anti-corruption strategy must address facilitation of corrupt practices by private actors, including from foreign countries

- **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 members to **volunteer for supply side assessments**; focus on 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**

Fiscal Governance

An infographic with a blue background. At the top left, a vertical pipe labeled "TAX REVENUE" is shown with gold coins falling into it. The pipe then turns 90 degrees to the right. A large section of the pipe is missing, and gold coins are falling out of a hole into a red bucket labeled "CORRUPTION". The pipe continues to the right, labeled "GOVERNMENT SERVICES", with gold coins falling out of it. The text "How Is Your Tax Money Lost To Corruption?" is written in large white letters in the center. Below it, in smaller blue text, it says "Learn more in the latest Fiscal Monitor." At the bottom, there is a dark blue bar with "INTERNATIONAL MONETARY FUND" on the left and "IMF.org" on the right.

How Is Your Tax Money Lost To Corruption?

Learn more in the latest Fiscal Monitor.

TAX REVENUE

CORRUPTION

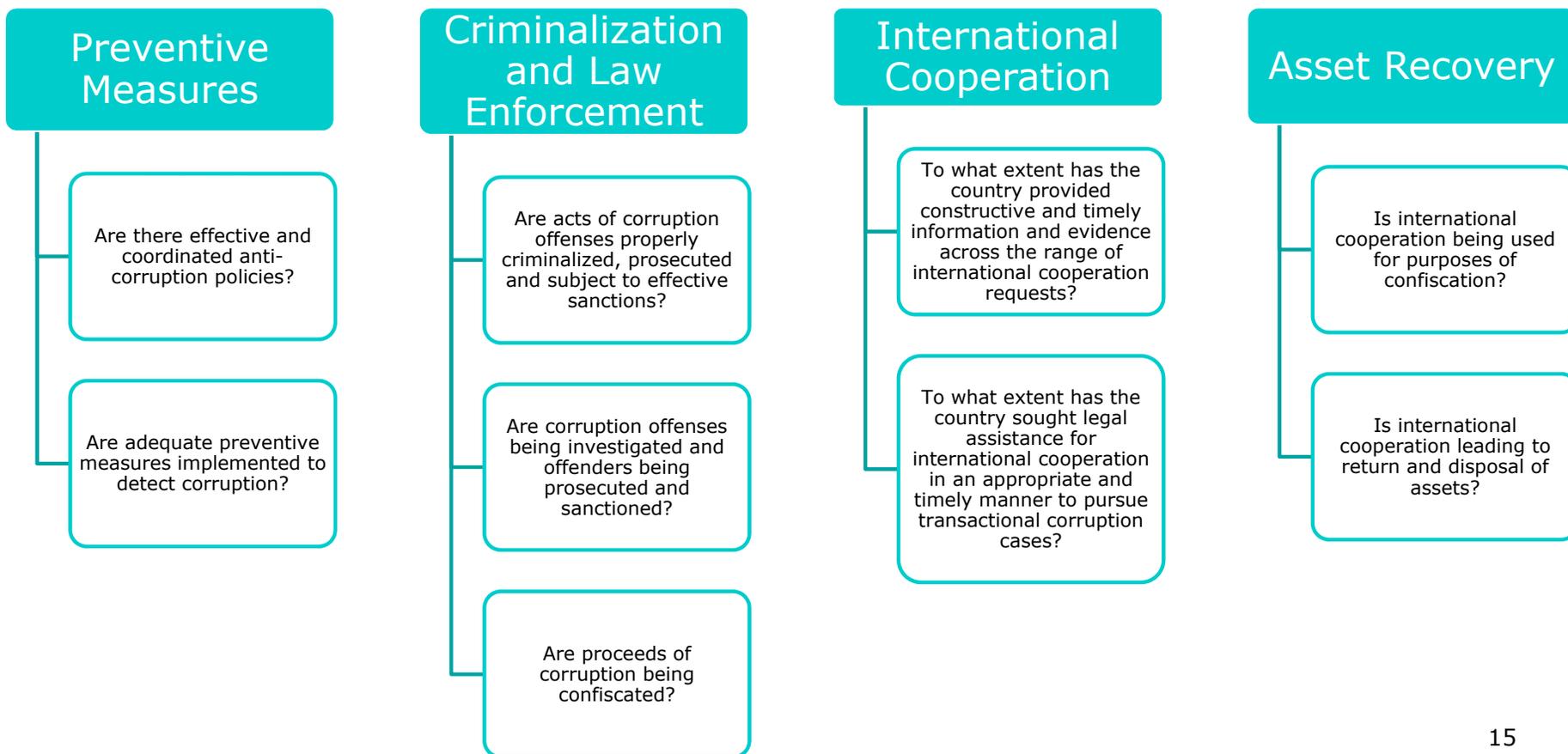
GOVERNMENT SERVICES

INTERNATIONAL MONETARY FUND

IMF.org



Anti-Corruption (incl. Legal/Institutional Frameworks)



Rule of Law – Protection of Property and Contractual Rights



Contract and Property Rights

Is the enforcement of those rights predictable and timely?

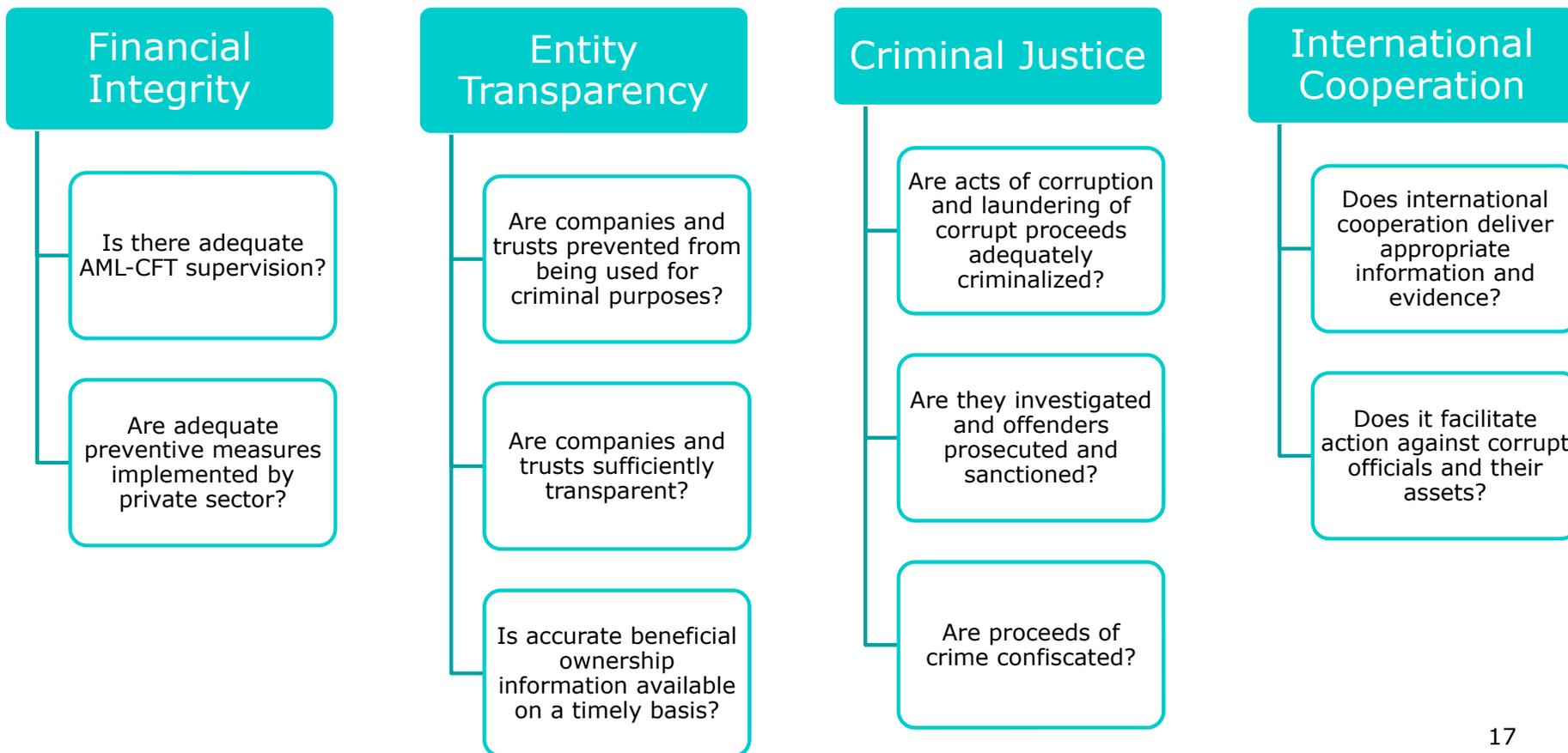
Is credit available more generally without undermining financial inclusion and investment?

In the context of financial crisis, are the authorities able to restructure debt and regain market access?

How is the quality of the judiciary in terms of its technical capacity and its independence from private influence and public interference?

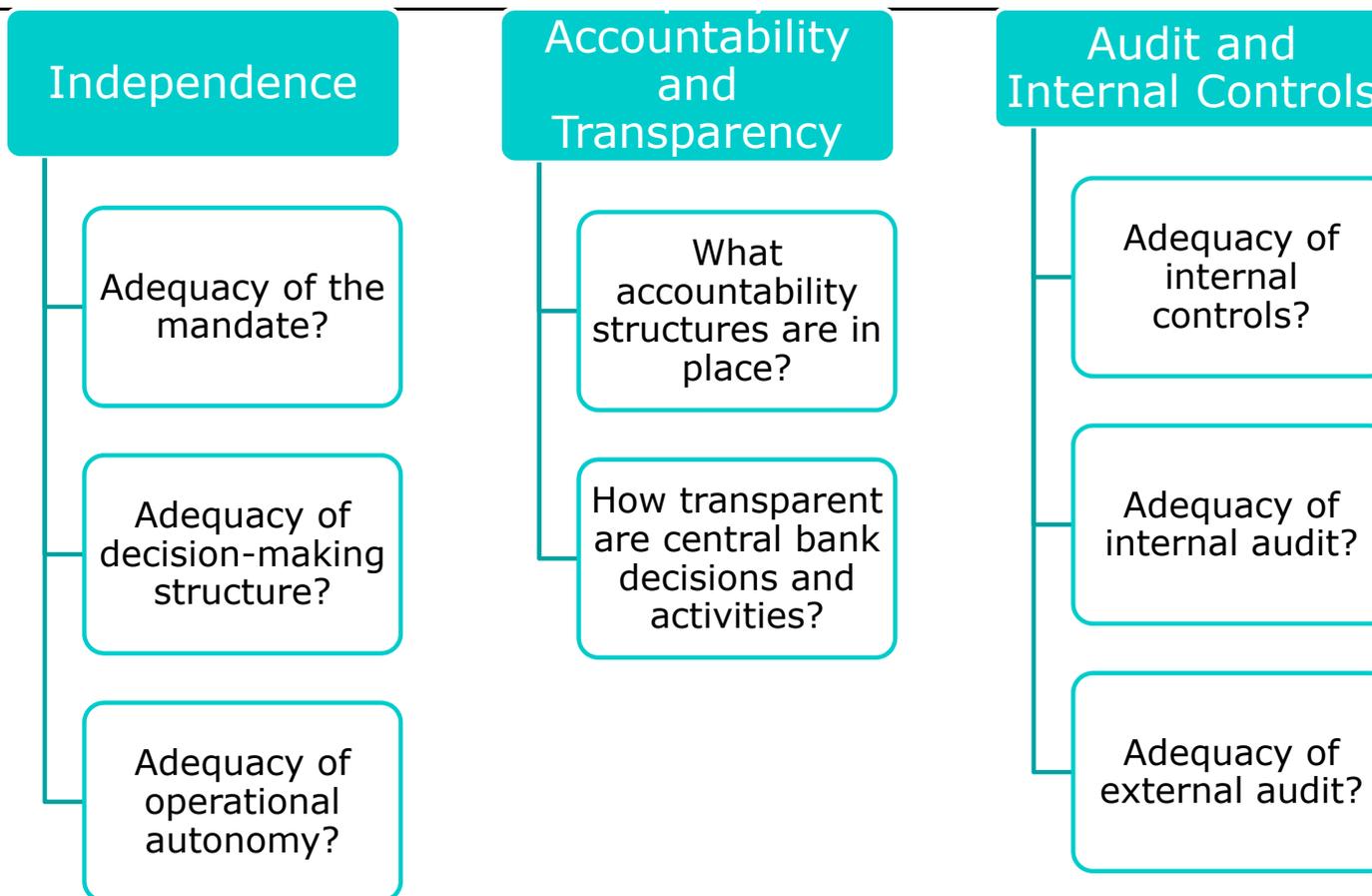


AML/CFT





Central Bank Governance and Operations





Some General Findings

- **Fiscal Governance – Key issue for some AFR countries**
 - Key issues: tax administration, expenditure controls, payment arrears, procurement, internal and external audits, SOE oversight, fiscal transparency, poor spending and revenue outcomes
- **AML/CFT - Key issue for some AFR countries**
 - Key issues: good legislation but weak implementation, overall weak prosecution and tracing/confiscation of ill-gotten proceeds
- **Somewhat better performance for Market Regulation and Rule of Law**
 - **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



General Findings

- **Best performance in Financial Sector and Central Bank Governance**
 - Caveat: Data issue-- IMF in-depth data mostly from FSAPs and Safeguards Assessments, but not done for every country
 - Where data available, some countries doing quite well
 - Recurring key issues:
 - Financial Sector: Quality of regulatory and supervisory framework
 - Central Bank: Legal framework, external and internal audit, reporting, internal controls
- **Anti-Corruption framework—only a few countries doing quite well**
 - Recurring key issues: perception, experiences, anti-corruption framework—legal and institutional framework not in line with UNCAC and enforcement is weak



Recent Country Discussions

Mozambique (Art. IV and RCF, May 2019)

Several areas of fiscal governance

Reforms to central bank laws

Trade facilitation

Contract enforcement, property rights, investor protection

Anti-corruption framework

Bolivia (Art. IV, Dec. 2018)

Several areas of fiscal governance

Transparency of government operations in the natural resource sector

Regulatory environment for the private sector

AML/CFT

Nigeria (Art. IV, March 2019)

Revenue and spending outcomes; transparency; focus on petroleum sector and SOEs

Weaknesses in financial sector oversight

Weaknesses in Central Bank governance

Weaknesses in ease of doing business, exchange restrictions, and contract enforcement

AML/CFT

Anti-corruption framework



Recent Country Discussions

Cambodia (Art. IV, Nov. 2018)

Several areas of fiscal governance

AML/CFT

Anti-corruption framework

Tanzania (Art. IV, Dec. 2018)

Fiscal Governance (e.g., fiscal transparency including in extractive industries)

Trade facilitation and property registration

Contract and Property Rights

AML/CFT

Anti-Corruption framework

Kosovo (Art. IV, Dec. 2018)

Macro-criticality of corruption and adverse economic impact

Fiscal governance

Business climate and cost of doing business

AML/CFT and Anti-corruption



Recent Country Discussions

United States (Art. IV, June 2019)

Weak entity transparency and lack of available beneficial ownership information

Weak preventive measures related to foreign politically exposed measures

Japan (Art. IV, Nov. 2018)

Weak framework to detect, investigate, and prosecute foreign bribery cases

Lack of legal basis to confiscate proceeds of bribery related to foreign public officials

Weak role of the Ministry of Economy, Trade and Industry in ensuring the prevention of bribery to foreign public officials

Switzerland (Art. IV, June. 2019)

Weak sanctions in foreign bribery cases, including in relation to legal persons

Lack of framework to protect whistleblower in the private sector

Lawyers, notaries and fiduciaries not subject to AML/CFT requirements when they establish, manage and administer legal persons and arrangements

Financial Intelligence Unit cannot access information from financial intermediaries bases on foreign requests



Diagnostic Reports (deep dives w/govt)

- Ukraine (original; significant reforms followed)
- Republic of Congo (just completed and published; reform program underway)
- Mozambique, Equatorial Guinea (last phases of completion before publication)
- Others (Paraguay, Honduras, Zimbabwe)



Examples of Recent Staff Analytical Work

- Working Paper, June 2019 – Macro-fiscal gains from anti-corruption reforms in the Republic of Congo
- Working Paper, Jan. 2019 – A Governance Dividend for Sub-Saharan Africa?
- IMF Fiscal Monitor, “Curbing Corruption”, April 2019

New Framework—Enhanced Fund Engagement on Governance and Corruption



Thank You!