Fund’s Enhanced Engagement on Governance

The IMF’s Executive Board just ***approved a revised framework on governance and corruption.*** It builds on the **1997 governance guidance note** and puts in place a more ***systematic, evenhanded, effective, and candid engagement*** with member countries.

Why do we care about corruption?

Entrenched corruption ***undermines the ability of countries to deliver inclusive and sustainable economic growth***. The paper we are publishing presents empirical results showing that high corruption is associated with significantly lower growth, investment, FDI, and tax revenues. For instance, sliding down from the 50th to 25th percentile in an index of corruption or governance is associated with a fall in GDP per capita growth of half a percentage point or more, and a decline in the investment-to-GDP ratio by 1.5%–2%.

How will the Fund operationalize this new approach?

- ***For surveillance***, this will translate into a ***regular assessment on the nature and severity of governance weaknesses*** by looking at areas such as, fiscal governance, financial sector oversight, central bank governance, market regulation, rule of law, and fighting money laundering and terrorism financing.

- Once that is done, the next step will be to ***assess the economic impact of the identified governance weaknesses and to provide policy recommendations***. Importantly, we will consider these aspects over a longer time horizon, given that poor governance and corruption harm the economy not just through short-term disruption but also through slow institutional decay that may not be immediately recognizable.

- ***For lending***, we will be looking at whether governance vulnerabilities hinder the ability of a country to implement Fund-supported programs. In essence, ***measures to address these vulnerabilities will be part of conditions under Fund programs*** if they are critical to achieving the goals set forth in the program. Importantly, just as before, Fund arrangements could be suspended or delayed on account of poor governance.

Governance & corruption

The focus is on ***governance more broadly—and not just corruption***. Apart from the fact that governance weaknesses—such as lack of capacity or inefficiency—can have negative macroeconomic impact, they often also create opportunities for corruption. Moreover, an effective anti-corruption strategy needs to rely on more than just throwing people into jail; it also requires broader regulatory and institutional reforms, including greater transparency and accountability, to be sustainable.

Addressing the supply side

To truly fight corruption, we also need to address the facilitation of corrupt practices by private actors. To do this, we will be ***encouraging members to volunteer to have their legal and institutional frameworks assessed as part of surveillance***—to see whether they criminalize and prosecute foreign bribery and whether they have mechanisms to stop the laundering and concealment of dirty money.