

Natural Resources Governance Institute

September 2016

We at the Natural Resource Governance Institute (NRGI) are grateful for the opportunity to comment on the IMF Guidelines on Governance Issues and would be pleased to discuss any of the below inputs in more detail if requested.

In resource rich countries, the oil, gas and mining sectors often provide fertile ground for corruption which can bring about severe economic and political costs. Given their highly concentrated and highly profitable nature, the extractive industries can generate the kind of political and private incentives that favour rent-seeking and the capture of state institutions for personal gain.

Corruption needs to be called out and tackled across the entire extractive industry value chain.¹ If the IMF is to take note of and address the main types of corruption that can inflict major harm, this will mean having to increase its engagement in areas previously left to others, particularly those “upstream” of core PFM processes. For example, national oil companies (NOCs) can be the sites of economically costly and politically destabilizing corruption, as the current turmoil at Brazil’s Petrobras illustrates. Another area is in the awarding of mining, oil, and gas rights: a recent OECD review of extractive sector corruption cases found that just over 25% took place in the awarding of licenses phase.²

To inform its growing anti-corruption work, NRGI has assembled an extensive library of around 50 case studies of recent oil, gas and mining sector corruption cases. For each case, we have a fully-referenced narrative and ask a set of standard questions, such as about the role of enablers (lawyers, banks, accountants) or the role of secret corporates. This is an internal resource, but we would be pleased to explore ways to make its findings available should this kind of empirical evidence be useful as the IMF defines its future work in this area.

In some cases, the IMF will need to address corruption with high level officials where they are complicit. In Nigeria, we can’t yet calculate the grand total of public oil revenues lost to corruption under President Goodluck Jonathan (2010-2015), but the figure certainly tops \$15 billion. Thanks to scams orchestrated by high level officials, the country failed to benefit from a historic oil price boom and today is left facing a serious economic crisis. During this period the IMF and other international actors largely failed to raise the alarm and confront

¹ OECD, (2016) ‘Corruption in the Extractive Value Chain’ OECD. Available at:

<http://www.oecd.org/dev/Corruption-in-the-extractive-value-chain.pdf>

² Ibid.

the government on its historic oil sector corruption and mismanagement, choosing instead to focus on less controversial areas of policy away from the mess.

This contrasts with a few other instances where the IMF did *not* shy away from oil sector corruption and mismanagement: calling out Angola on the \$32 billion discrepancy in treasury receipts caused by the discretionary retention of oil revenues by the national oil company, for example, and acknowledging the problem of similar off-budget spending and other costly manipulations by the national oil companies in Cameroon and Congo-Brazzaville.

Statements matter; actions matter even more. Raising the alarm and bearing witness to gross mismanagement and corruption have the potential to act as a strong incentive for government to improve transparency and accountability in the sector, and are important in their own right. We hope such forthright statements will increase. However, in contexts such as the example of Nigeria provided above, the IMF's decisions and actions should reflect the challenges of corruption, in addition to the kinds of statements and assessments it releases. This could involve lending decisions, conditionality selection, etc. When in 2012 the IMF halted a loan intended for the Democratic Republic of Congo due to the failure of the government to publish its mining contracts, it set a clear signal that it would not stand by idly as opacity in the sector enabled politicians to line their pockets. The current IMF involvement in Ukraine illustrates well how anti-corruption can become integral to the Fund's programs with countries.

Compulsory, timely and publicly-available assessments of integrity and transparency could help. At the UK Anti-Corruption Summit, Christine Lagarde stated that she would seek approval from the IMF's board to add transparency and integrity as new formal components of the IMF's compulsory bilateral annual surveillance of member countries. We applauded this commitment in our commentary on the Summit, published by *This is Africa* and the Brookings Institution.³ An update on its progress would be of great interest.

Publicly available, robust and timely assessments of this kind could have symbolic and practical value. They would: help institutionalize and mainstream the consideration of corruption in IMF operations; produce assessment information of useful value to actors across the field, including domestic civil society who often are left shouting in the wind about the severity of corruption problems; and, provide a predictable basis for raising corruption concerns with government officials and reflecting it in country-related decisions.

³ Daniel Kaufmann and Alexandra Gillies. "London calling about corruption: How will countries rich and poor answer—and what does it mean for Africa?" May 2016, The Brookings Institution. <https://www.brookings.edu/blog/africa-in-focus/2016/05/23/london-calling-about-corruption-how-will-countries-rich-and-poor-answer-and-what-does-it-mean-for-africa/>

The information would also send important signals to the financial markets, which could add an additional incentive for reform.

One idea for developing the format of the assessments would be to run retroactive tests against any potential model. For example, any assessment that the IMF conducted in 2010 in Nigeria should have detected the staggering levels of oil sector corruption happening at the time. The aim of the assessments should be to uncover and enable discussion of such scenarios *when there's still time* to prevent the haemorrhage of further public funds.

We would welcome the opportunity to contribute further ideas for how these assessments could work, drawing on NRGi's experience with assessing transparency and governance through the Resource Governance Index and other tools.

The more assertive promotion of the IMF's robust standards on transparency is another crucial approach. The IMF paper 'Corruption: Costs and Mitigating Strategies', rightly acknowledges that priority should be given to greater transparency in extractive industries. The 'Guide on Resource Revenue Transparency' as well as the 'Fiscal Transparency Code' are valuable contributions in this field. Updated versions of the 'Fiscal Transparency Code' or 'Guide on Resource Revenue Transparency' should bolster their transparency requirements specifically for national resource companies, as well as placing a greater emphasis on open data requirements.⁴

We welcome the introduction of Fiscal Transparency Evaluations (FTEs) for resource rich countries which assess fiscal transparency within a country against the standards of the FTC, provide a rigorous analysis of the scale and sources of fiscal vulnerability, provide a visual account of fiscal transparency strengths and reform priorities and a sequenced fiscal transparency action plan to help countries address the reform priorities. In the 2016 Anti-Corruption Summit Communiqué,⁵ participating countries committed to "undertake periodic assessments of fiscal transparency, as appropriate, using internationally adopted diagnostic frameworks, such as the IMF's Fiscal Transparency Evaluation...." A number of countries, including Afghanistan and Mexico explicitly committed to undertaking FTEs in their country statements.⁶

The impact and effectiveness of the FTEs will dramatically improve if they are conducted on a regular and mandatory basis, made publicly available, and integrated into the prerequisites for lending. On this last point, we need to avoid lending good money which

⁴ NRGi has submitted comments to the IMF on the Revised Draft Resource Revenue Management Pillar of the FTC, please refer to these for more information or alternatively contact Nicola Woodroffe, Legal Analyst, Legal and Economic Programs at nwoodroffe@resourcegovernance.org.

⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/522791/FINAL_-_AC_Summit_Communique_-_May_2016.pdf

⁶ <https://www.gov.uk/government/publications/anti-corruption-summit-country-statements>

will only become opaquely managed. As above, a backward-looking simulation could be used to identify how such evaluations might have been deployed to avoid cases where countries should not have been lent money in hindsight.

More broadly, the prominence given to transparency in the overall communications and reform recommendations of the IMF could improve. Its standards are strong, but they do not always receive the same backing as other aspects of policy in country discussions.

Future IMF research could improve our shared understanding of corruption and its economic costs, and the usefulness of various corrective actions. We see a high need for up to date, globally informed and empirically based research on how corruption works, and what works in its abatement. More evidence on the costs of corruption – both using macro data but also more country-level analysis – could help raise the priority with which this challenge is pursued. The 2016 Staff Paper on corruption is a great start in this regard. The question of state capture deserves attention, as the most costly types of corruption often occur through systemic channels in kleptocratic environments such as Azerbaijan and Angola. And the field needs better guidance on what works: often at discussions on corruption, the problem is acknowledged as a priority but our toolkit of solutions (anti-corruption laws, commissions, etc.) is bemoaned as highly inadequate.

Through this research and other means, the IMF could adopt a more active role in tackling the many ways in which the global financial and legal system enables corruption to occur. There is some real momentum gathering to address issues such as tax and secrecy havens, anonymous companies and property owners, and the role of enablers including lawyers, accounting firms and banks. The IMF could add rigor and legitimacy to this cause by adopting it as a priority issue and pursuing it in multiple global and country level arenas.

Thank you again for the chance to contribute to this discussion. We look forward to continuing this exchange.

Contact: *Alexandra Gillies, director of governance programs.*

OXFAM

Dear IMF colleagues,

Please find below some very brief thoughts from Oxfam on IMF's Guidelines on Governance Issues:

On question #7, the IMF has certainly improved its outreach to civil society over time, however governance and corruption are certainly sensitive issues to discuss. We believe that through regular engagement with civil society organizations in a given country, the IMF team (resident rep or mission chief for example) could develop over time a good relationship with CSOs which would make communication about these types of topics easier. We suggest regular meetings and outreach to civil society.

These were some thoughts specifically on the Staff Discussion Note on this topic which was presented at a roundtable earlier this year:

- The SDN outlined 5 overall strategies to address corruption, based on IMF experience in assisting member countries: transparency, rule of law, economic reform policies designed to eliminate excessive regulation, and effective institutions. The failure to explicitly mention the role of civil society was a glaring omission here. Surely a vibrant civil society and an independent media are crucial watchdogs to uncover corrupt practices, as well as to deter corruption, and must play a critical role in tackling corruption. The IMF should recommend that governments take action to fight corruption by protecting and increasing civil society space in order to foster the growth of a vibrant and independent civil society.

- The discussion of regulation in the roundtable presentation of the SDN was problematic - although the SDN focuses on eliminating *excessive* regulation, the recommendations about deregulation implied that most regulations create problems. What about a lack of appropriate regulations, a failure to enforce existing regulations because of corruption, and an underfunding of regulatory agencies so that they lack capacity to effectively regulate. Some examples of regulatory failures that negatively impact development processes include a failure to regulate the quality and safety of private companies providing health and education services, and the failure to appropriately regulate the environmental and social impacts of companies' activities for example in the extractives sector. In many cases, more and not less regulation is necessary to promote good governance, protect citizens and the environment, and reduce corruption.

We hope this input is useful and that you will take it into consideration as you move forward.

Very best,

Nadia

NADIA DAAR | Head of Washington DC Office
Oxfam International

Associate Prof/ Asha A.Rahim A.Farag, Ph.D.
College of Social and Economic Studies, Economics Department
University of Juba, South Sudan

1. Budget transparency: Opening up budgets process by democratizing all steps of the budget process. Involves citizens in policy formulation and resource allocation. Budget transparency refers to the extent by which the citizens will no difficulty to understanding and have easy access to information on government revenues, allocations, and expenditures.

2. Timely dissemination of the budget: Given the complicated technical information and details on budget process, details information about budget must be circulated to the Citizens in a timely manner so that citizens can efficiently contribute their feedback that may impact policy formulation and resource reallocation.

3. Simplified budget process: Given the technical nature of budgets and the budget process, transparent budgets require that the information contained in budgets be presented in simplified form and actively distributed to citizens, boost vibrant participating in budget discussions.

Participation of citizen in budget process can help to achieve the followings:

1. Targeting corruption: Budget transparency and supervision about ways how resources are allocated and spent are strong disincentives for officials to abuse financial resources since their actions are most likely to be scrutinized.

2. Improve Efficient used of resources.

3. Enhance confidence on the government by the citizens.

4. Improve revenue

5. Reduce debt

6. Budget transparency should be implemented at all government levels include- **National, Federal, and State levels.** At the Local government (municipals, county Payam and Buma levels and finally services delivery facility include schools, health care. Example from South Sudan showed the level of corruption could be control through targeting communities and level of services delivery.

7. Fiscal and monetary control:

A key body to help enforcing laws and to control public finance is the Office of the Auditor General. It is tasked to control if public expenditures have been done according to budget. It needs to be able to audit all public expenditures by national and state governments and other public agencies, including the army. All public officials, from the lowest clerk to the

president need to see themselves as public servants.

8. Check and balance control:

The Auditor General's reports have to be published and discussed. It needs to have the resources to do its job properly. With an effective Auditor General, there is no need for a separate Anti-Corruption Commission, which would only dilute the former's role.

Government needs to be accountable to its citizens. The oil resources or others, public money, supporting donor funds belong to the people. However, the citizenry is, due to the low education of many, not yet in a position to hold government accountable. This is why international actors have a role to play. There is a body that can help the country to come to grips with its oil resources: the Extractive Industries Transparency Agency. Countries not yet enrolled needs urgently to become a member.

Way forward

Increase accountability. Fight official corruption, and introduce transparency measures. Give South Sudan's independent Auditor's Chamber prosecutorial powers to exercise enforcement decision. This may enable the Auditor's Chamber to choose how to punish a person who has violated the law. Empower other accountability institutions, such as South Sudan's Public Grievances Chamber, Fiscal, Financial Allocation and Monitoring Commission according to well-established international standards. Reform the mandate, and powers of the Anti-Corruption Commission in accordance with international standards and best practice.

3. Protect the independence of the judiciary and the media.

4. Support the tracing and return of stolen public funds.

Sarah Chayes
Senior Associate, Democracy and Rule of Law Program
Carnegie Endowment for International Peace

I would like to make a general comment in response to this request for input.

Having conducted in-depth research into the functioning of corruption and particularly its contributions to international security crises for the past decade, it is my view that the IMF has been making progress of late, particularly during its interactions with Ukraine, but that the substance of the guidance note is not yet fully absorbed into IMF practices.

Corruption is still largely seen as a practice indulged in by a certain number of corrupt officials, rather than the operating principle of networks linking the most powerful actors in government and the private sector – not to mention the criminal sector. Too often, the IMF's longstanding macro-economic reflexes play into the hands of these networks, which control the primary private sector institutions likely to benefit from aid packages, while co-opting or disabling those bureaucratic units that receive technical support.

I would recommend a thorough, integrated analysis of partner countries, along the lines of the one outlined in [my paper linked here](#), as a part of the planning process for designing new or renewed packages for each of about 65 countries (listed in [this testimony](#) before the United States Senate Foreign Relations Committee).

I would be happy to discuss these matters further.

Kind regards,

Sarah

Jérôme Duperrut, Associate Director, Public Affairs & Government Relations
Government Security Solutions

Dear Madam, dear Sir,

Attached please find our contribution to the “Consultation on the IMF Guidelines on Governance Issues”. We thank the IMF for conducting an open consultation on governance and corruption issues. We deem these issues as of key importance, not only for successful Fund engagement with its member countries, but primarily to promote their economic prospects and well-being. We agree with the IMF that corruption undermines the public’s trust in governments, threatens market integrity, distorts competition and endangers economic development. Fiscal policy is often at risk of governance and corruption problems, in particular the ability of the state to mobilize adequate domestic resources efficiently and equitably. New technologies – specifically secure track and trace solutions – are a very useful tool to improve public sector governance and fight corruption.

In summary, our contribution’s main points are:

- The IMF’s policies and recommendations to strengthen governance and fight corruption should include the adoption and implementation of secure track and trace solutions, as a useful tax administration measure. We recognize the value of the Guidance Note on the Role of the IMF in Governance Issues. We also agree with the IMF that “where corruption is a major problem, the tax system is usually a major culprit”.
- Secure track and trace solutions are a relatively new technology which support tax administration, strengthen governance and fight corruption. They combine material-based and IT systems to secure the supply chain, ensure efficient product authentication, fight against illicit trade, and increase domestic revenue mobilization. They are a much more sophisticated version of fiscal stamps and are commonly applied to products subjected to excise duties, VAT, and customs duties. These technologies are imposed by international agreements and have been endorsed by international institutions. According to the WHO, improvements in tax administration to eliminate illicit trade in tobacco could increase annual domestic revenue mobilization by around US\$31 billion.
- The IMF should promote the use of new technologies, including secure track and trace solutions. Secure track and trace solutions fit into the IMF’s three main functions of surveillance, lending, and capacity building. On surveillance, the IMF should support the use of secure track and trace solutions – as part of its policy advice on corruption and governance issues – since they can have a significant impact on macroeconomic performance and the sustainability of sound economic policies. On lending, the Fund and the country authorities should introduce secure track and trace solutions as part of the set of program measures and conditions to strengthen domestic revenue mobilization. On capacity building, the Fund should

better incorporate the contribution of excise duties and secure track and trace solutions in its existing tools, instruments, and technical assistance.

- The IMF Staff Discussion Note on “Corruption: Costs and Mitigating Strategies” mentions the use of computerized processing of documents as a means to strengthen the integrity in areas such as the customs services. We think that there is ample scope and country-specific evidence to similarly include secure track and trace technologies as a means to strengthen governance and fight corruption in the fiscal area.

We would welcome the acknowledgement of the reception of our contribution to this consultation.

Best regards,

Consultation on the IMF Guidelines on Governance Issues

EXECUTIVE SUMMARY

The IMF’s policies and recommendations to strengthen governance and fight corruption should include the adoption and implementation of secure track and trace solutions, as a useful tax administration measure. We recognize the value of the Guidance Note on the Role of the IMF in Governance Issues. We also agree with the IMF that “where corruption is a major problem, the tax system is usually a major culprit”.

Secure track and trace solutions (sometimes called traceability, tracking-and-tracing systems, or electronic fiscal stamps) are a relatively new technology which support tax administration, strengthen governance and fight corruption. They combine material-based and IT systems to secure the supply chain, ensure efficient product authentication, fight against illicit trade, and increase domestic revenue mobilization. They are a much more sophisticated version of fiscal stamps and are commonly applied to products subjected to excise duties, VAT, and customs duties. These technologies are imposed by international agreements and have been endorsed by international institutions. According to the WHO, improvements in tax administration to eliminate illicit trade in tobacco could increase annual domestic revenue mobilization by around US\$31 billion.

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capacity building, the Fund should better incorporate the contribution of excise duties and secure track and trace solutions in its existing tools, instruments, and technical assistance.

The IMF Staff Discussion Note on “Corruption: Costs and Mitigating Strategies” mentions the use of computerized processing of documents as a means to strengthen the integrity in areas such as the customs services. There is ample scope and positive country-specific evidence to similarly include secure track and trace solutions as a means to strengthen governance and fight corruption.

Introduction

1. We thank the IMF for conducting an open consultation on governance and corruption issues. We deem these issues as of key importance, not only for successful Fund engagement with its member countries, but primarily to promote their economic prospects and well-being. We agree with the IMF that corruption undermines the public’s trust in governments, threatens market integrity, distorts competition and endangers economic development. Fiscal policy is often at risk of governance and corruption problems, in particular the ability of the state to mobilize adequate domestic resources efficiently and equitably. New technologies – specifically secure track and trace solutions – are a very useful tool to improve public sector governance and fight corruption.

2. We take the opportunity to comment on specific elements linked with governance and corruption issues, especially on the relevance of secure track and trace solutions for government revenue mobilization, good governance and the fight against corruption. First, we make general remarks and illustrate them with country-specific cases. Second, we make a recommendation for the IMF to consider. Third, we give our feedback on some of the specific questions of interest raised by the IMF.

General remarks

3. The IMF adopted a Guidance Note on the Role of the IMF in Governance Issues in 1977, and recognizes that, “where corruption is a major problem, the tax system is usually a major culprit”⁷ The IMF can contribute to good governance and the avoidance of corrupt practices by promoting the management of public resources through reforms covering public institutions, including administrative procedures (e.g., revenue collection). Tax collection might fall short of the expected potential yields as a result of weak administration of tax laws.

4. The IMF’s policies and recommendations to strengthen governance and fight corruption would benefit from including the adoption and implementation of secure track and trace solutions as a useful tax administration measure. We see potential for the IMF to recommend improving government management processes and systems that would prevent the occurrence of corrupt practices. IMF policy advice should make use of the broad

⁷ IMF, 2011, *Tax Policy and Administration (TPA-TTF)*, p. 7.

experience of countries with different economic systems and institutional practices and promote best international practices of economic management based on the principles of transparency, simplicity, accountability and fairness.

5. Secure track and trace solutions are a relatively new technology which combines material-based and IT systems to secure the supply chain, ensure efficient product authentication, fight against illicit trade, and increase domestic revenue mobilization.

Secure track and trace solutions are also described as “traceability solutions”, “tracking-and tracing systems” or “electronic fiscal stamps”. These solutions take the form of secure tax stamps, security banderoles, or sophisticated direct markings, and are much more advanced than simple fiscal stamps. They are commonly applied to products subjected to excise duties, VAT, and customs duties. They help strengthen governance and the fight against corruption along several lines:

- They monitor and oversee production activities, capture undeclared production, prevent false declarations or mis-classification of products and safeguard legitimate distribution channels.
- They ensure that the government collects its due taxes, in particular excise duties.
- They strengthen the capacity of the tax administration and contribute to its modernization, in particular by providing data and intelligence.
- They reduce incentives for corruption by officials and private sector agents, thanks to modern IT systems and sophisticated inspection devices.
- They level the playing field among economic operators, by supporting the registration of unregistered taxpayers, reducing the shadow economy, and combatting illicit trade.
- They provide tangible evidence to support prosecutions.
- They allow for improved tax planning and forecasting.
- They ultimately increase the public’s trust in the government.

Secure track and trace solutions provide governments with the ability to get maximum value from their limited law enforcement and customs resource. For the Ministry of Finance and the Tax Administration, they serve as (i) a dashboard of economic operators’ activities, (ii) a cockpit with key indicators and alerts, (iii) a support for risk profiling, and (iv) a tool to maximize law enforcement controls. There are examples of success in a growing number of countries such as Brazil, Turkey, Morocco, Georgia⁸, Albania⁹, Malaysia, Kenya¹⁰, etc. The “WHO Report on the Global Tobacco Epidemic, 2015” shows how new technologies – such as secure track and trace solutions – can improve tax administration.¹¹ In particular, it

⁸ IMF, 2012, *Georgia: Request for a Stand-By Arrangement and an Arrangement Under the Standby Credit Facility—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Georgia*, IMF Country Report No 12/98, p. 53.

⁹ IMF, 2016, *Albania: Selected Issues*, IMF Country Report No 16/143, p. 36.

¹⁰ Ross, Hana, 2016, *Tracking and Tracing Tobacco Products in Kenya*, SALDRU Working Paper No 164.

¹¹ See the WHO report on secure track and trace solutions in Kenya, Brazil, and Turkey:

emphasizes that “controls over the distribution chain, improved technologies and better use of data help to reduce illicit trade and complement tobacco tax reforms”.

6. Secure track and trace solutions are imposed by international agreements and have been endorsed by international institutions. The main agreements introducing requirements for secure track and trace solutions are the WHO Framework Convention on Tobacco Control and its Protocol to Eliminate Illicit Trade in Tobacco Products, the WHO Resolution on Global Strategy to Reduce the Harmful Use of Alcohol, and the UN Framework on Climate Change. Efforts are under way by many other international institutions to promote the use of secure track and trace solutions, such as by the FAO for fish¹², UNICRI for precious metals¹³, and the International Tropical Timber Organization for timber¹⁴. The momentum for secure track and trace solutions is possibly strongest thanks to the WHO Protocol to Eliminate Illicit Trade in Tobacco Products: it is a key international treaty requiring countries to put in place measures to control the supply chain of tobacco products and cooperate with each other in implementing and enforcing the measures. Its Article 8 requires that each country “*shall establish, in accordance with this Article, a tracking and tracing system, controlled by the Party for all tobacco products that are manufactured in or imported onto its territory taking into account their own national or regional specific needs and available best practice. With a view to enabling effective tracking and tracing, each Party shall require that unique, secure and non-removable identification markings (hereafter called unique identification markings), such as codes or stamps, are affixed to or form part of all unit packets and packages and any outside packaging of cigarettes (...)*.” By August 2016, the Convention had been ratified by 20 parties.¹⁵ Secure track and trace solutions have also been endorsed by the World Customs Organization¹⁶, the United Nations Interregional Crime and Justice Research Institute¹⁷, as well as Interpol.¹⁸

7. The IMF should ensure it is a source of expertise on and promotes the use of new technologies, including the adoption of secure track and trace solutions. The May 2016 Staff Discussion Note on “Corruption: Costs and Mitigating Strategies”¹⁹ lists mitigating strategies for an effective anti-corruption policy, which include transparency, enhancing the rule of law, economic reform, and building institutions. Secure track and trace solutions comply fully with these points – they go further than simple fiscal stamps, by combining

http://www.who.int/entity/tobacco/global_report/2015/report/en/index.html (pages 44-45).

¹² <http://www.fao.org/cofi/29510-0d3ea0e690044579673debe9c27579459.pdf>

¹³ http://www.unicri.it/special_topics/metals_gemstones/

¹⁴ http://www.itto.int/direct/topics/topics_pdf_download/topics_id%3D4859%26no%3D1&sa=U&ved=0ahUKEwikqKP7o9zOAhVMvRoKHax5Cb0QFggVMAg&client=internal-uds-cse&usq=AFQjCNG-l_nSIEinLFvAuoMO4M7bH-C7g

¹⁵ https://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=IX-4-a&chapter=9&clang=en

¹⁶ World Customs Organization, 2016, *Technology Network*. Available at: <https://ten.wcoomdpublishations.org/> The

¹⁷ UNICRI, 2016, *Ensuring Supply Chain Security: the Role of Anti-Counterfeiting Technologies*. Available at: http://www.unicri.it/topics/counterfeiting/anticounterfeiting_technologies/Ensuring_supply_chain_security_report.pdf

¹⁸ <http://www.interpol.int/fr/News-and-media/News/2016/N2016-011>. The Interpol Travel Document initiative, recognized by 103 member countries, is supported by SICPA since its inception in 2009 with a number of its solutions integrated into the Interpol Travel Documents for increased protection against counterfeiting and tampering. Standards defined by SICPA in relation to print quality and the chemical and physical resistance of inks for printed banknotes were endorsed by Interpol’s 5th International Counterfeit Currency Conference in 1969 and adopted as norms by banknote printers worldwide, are still valid today.

¹⁹ IMF, 2016, “Corruption: Costs and Mitigating Strategies”, *IMF Staff Discussion Note* SDN/16/05.

material and IT security to secure the supply chain of excisable goods. On transparency, they deter illicit behavior and provide valuable data and intelligence to the authorities and to the public. A new development sees consumers able to check that they consume licit products – those that have paid the correct taxes – thanks to applications on their cellphone. On enhancing the rule of law, they support a predictable and effective enforcement of the legal framework. On economic reform, they help streamline the regulatory approval, with the use of technology, and lighten the burden of regulation. On building institutions, these solutions help governments modernize their administrative capacity by adopting new technologies. They improve their information system and investigative capacities and upgrade the technical expertise of the public sector. On all these dimensions, the adoption of secure track and trace solutions can help countries fight corruption, improve governance, and increase domestic revenue mobilization. The Staff Discussion Note quotes “the use of computerized processing of documents as a means to strengthen the integrity in areas such as the customs services”. The IMF should similarly support the use of secure track and trace solutions as a means to strengthen governance and fight corruption.

8. Secure track and trace solutions usefully fit into the three main IMF functions of surveillance, lending, and capacity building.

9. On surveillance, the IMF should support the use of secure track and trace solutions – as part of its policy advice on corruption and governance issues – since they can have a significant impact on macroeconomic performance and the sustainability of sound economic policies. According to the IMF “Guiding Principles for Producing a Balanced Domestic Revenue Base”, excise taxes should be levied on (only) a few key items—tobacco, alcohol, fuels—which can raise significant revenues while also addressing wider social, health and environmental concerns. On average, excise taxes account for around 10 percent of total revenue collection and 2 percent of GDP in emerging market and developing countries. The IMF “Current Challenges in Revenue Mobilization” argues that non-compliance undermines revenue collection, distorts competition and compromises equity. Illicit global trade – smuggling, trade diversion, counterfeiting, theft and under-declaration – is estimated by the WTO at 7 percent of world trade, which translates into fiscal losses (excise duties, customs duties, VAT) for governments of around US\$2.1 trillion. The WHO estimates that improvements in tax administration and revenue collection to eliminate illicit trade in tobacco could increase annual domestic revenue mobilization by around US\$31 billion, at current tax rates.²⁰ The WHO also reports that 30 percent of alcohol consumed globally is untaxed. On oil, the IMF reports that oil revenue can be large (over 10 percent of GDP in 22 countries) and that the administration of fiscal regimes for oil involves physical operations with outputs that can be analyzed, weighed, and measured.²¹ Secure track and trace solutions are an efficient means to do that. The “WHO Report on the Global Tobacco Epidemic, 2015” recognizes the contribution made by secure track and trace solutions to improve tax administration for tobacco taxation. The IMF “Fiscal Monitor” calls for strengthening tax compliance by identifying and acting on compliance gaps, exploiting consumption taxes more fully, and reviewing excise levels. In light of the importance of excise duties and their potential to increase domestic revenue mobilization,

²⁰ WHO, 2015, *WHO Report on the Global Tobacco Epidemic*

²¹ IMF, 2012, *Fiscal Regimes for Extractive Industries: Design and Implementation*.

secure track and trace solutions have proven very helpful in countries where they have been implemented.

10. On lending, the Fund and the country authorities should introduce secure track and trace solutions as part of the set of program measures and conditions. These measures and conditions can address governance issues, public financial management, and corruption, including reforms to tax policy and tax administration. They must have a macroeconomic rationale. A significant and strong impact of IMF programs on tax revenue is found when revenue conditionality is part of the program.²²This is particularly the case for taxes on goods and services (including VAT and excise duties). Measures on tax policy and on tax administration have a similar impact on revenue collection. The adoption of secure track and trace solutions easily fits into program conditionality (prior actions, structural benchmarks), and would qualify as a specific tax administration measure.

11. On capacity building, the Fund should better account for the contribution of excise duties and secure track and trace solutions in its existing tools, instruments, and technical assistance. The Tax Administration Diagnostic Assessment Tool (TADAT) assesses good practice in key components of a country's tax administration system. Secure track and trace solutions enter TADAT, in so far as they support tax administration in several dimensions, such as the Integrity of the Registered Taxpayer Base, Effective risk management, Accuracy of information reported in tax declarations, Efficient revenue management, Accountability and transparency, and the Timely Payment of Arrears. The Tax Policy and Administration Topical Trust Fund (TPA-TTF) provides technical assistance to countries to help them, among other things, strengthen the efficiency and administration of the tax systems by bringing the underground economy into the formal sector and by improving governance. The Managing Natural Resource Wealth Topical Trust Fund (MNRW-TTF) also provides technical assistance and advocates for simplicity in policy design and implementation, streamlined procedures, minimal administrative discretion, and accountability through maximum transparency, [which] will promote good governance and limit the scope for corruption. It recognizes that developing countries face enormous problems in collecting all taxes due to them, as administrative capacities are weak. The revenue collection process is vulnerable to abuse and consequently in many countries citizens mistrust the results. The introduction of secure track and trace solutions strengthens the credibility of tax administration.

Recommendation

We recommend that the IMF supports the introduction of secure track and trace solutions as a means to strengthen governance and fight corruption. The Staff Discussion Note quotes

“the use of computerized processing of documents as a means to strengthen the integrity in areas such as the customs services”. The IMF should similarly support the use of secure

²² Crivelli Ernesto and Sanjeev Gupta, 2014, *Does conditionality in IMF-supported Programs Promote Revenue Reform ?*, IMF Working Paper 14/206.

track and trace solutions as a means to strengthen governance and fight corruption. Secure track and trace solutions usefully fit into the three main IMF functions of surveillance, lending, and capacity building. They are particularly useful to support domestic revenue mobilization, level the playing field between economic operators, and ultimately increase the public's trust in the government.

Feedback on some of the specific questions of interest raised by the IMF

1. In your view, has the IMF's engagement with member countries matched its aspirations as set out in the 1997 GN?

Can you cite examples of productive engagement? Where might our engagement have been more effective? Are there cases where the IMF should have engaged but did not?

The Fund should embrace – along with its member states – new technologies that strengthen public sector governance and tax administration, fight against corruption, and improve domestic revenue mobilization, such as secure track and trace solutions. For example, the Greek Minister of Health declared in Parliament in January 2016 that the illicit trade in tobacco product represents 25 percent of the market in Greece. This translates into annual fiscal losses of EUR657 million in excise and VAT revenue. Including other excisable products such as spirits, wine and beer, fiscal losses total EUR1061 million per year. An additional EUR162 million per year could be recovered in corporate income tax, due to the recording of additional profits by businesses. Furthermore, raising additional domestic revenue limits the need to borrow and reduces debt servicing costs. Greece is in the process of adopting the WHO Protocol to Eliminate Illicit Trade in Tobacco Products. These solutions would have significant impact on promoting good governance, reducing corruption and enabling domestic revenue mobilization. The IMF should engage with Greece - and other countries – to show them the gains of adopting appropriate secure track and trace solutions.

2. To make our engagement more effective, what should the IMF do differently? Increase coverage in our regular surveillance/Article IV consultations with member countries? Establish more governance-related conditionality for IMF financing? Increase technical assistance and training on anti-corruption, transparency, and other economic issues? Conduct and publish more transparency evaluations? Are there any other areas where the IMF's engagement can be strengthened?

We believe that there is scope for the Fund to sharpen its views and recommendations in its core functions – surveillance, lending, capacity building. The Fund should ensure it is a source of expertise on the new technologies that are developed to strengthen governance and combat corruption, in particular in the fiscal area. Secure track and trace solutions are one of these new technologies that have proved successful for domestic revenue mobilization in many countries. The Fund could share best practices with other countries. On surveillance, the IMF should support the use of secure track and trace solutions – as part of its policy advice on corruption and governance issues – since they can have a significant impact on macroeconomic performance and the sustainability of sound economic policies. On lending, the Fund and the country authorities should introduce secure track and trace solutions as part of the set of program measures and conditions. The adoption of secure track and trace solutions could easily fit into program

conditionality (prior actions, structural benchmarks), and qualify as a specific tax administration measure. On capacity building, the Fund should better account for the contribution of excise duties and secure track and trace solutions in its existing tools, instruments, and technical assistance. The introduction of secure track and trace solutions supports tax administration in several dimensions, such as the Integrity of the Registered Taxpayer Base, Effective risk management, Accuracy of information reported in tax declarations, Efficient revenue management, Accountability and transparency, and the Timely Payment of Arrears.

3. In your view, is the IMF appropriately engaged in the different aspects of governance and corruption? Are there activities, countries, or regions where we should be more engaged? In the latter context, has our engagement been “evenhanded” across different countries?

We think that the IMF should emphasize the benefits of adopting secure track and trace solutions in improving governance, fighting corruption, and increasing domestic revenue mobilization. There are examples of successful programs in a growing number of countries such as Brazil, Turkey, Morocco, Georgia, Albania, Malaysia, Kenya, etc. Other countries would benefit from an exchange of views on best practices gleaned from experiences in these countries. The WHO in its “WHO Report on the Global Tobacco Epidemic, 2015” shows how useful these solutions are for tax administration.

4. In making assessments and giving guidance, the IMF’s time horizon has been short- to medium-term (2-5 years). Is this an appropriate time horizon over which to assess governance/corruption issues?

The appropriate time horizon for measures to combat corruption and improve governance is indeed likely to be in the range of 2-5 years. The authorities need to own the reform measures and civil servants need to be trained accordingly. Private sector agents (producers, consumers) need to internalize the governance reforms and modify their behavior. While new measures can generate quick gains, their sustainability and durability will determine their ultimate success. For this to happen, the authorities need to demonstrate commitment and capacity to enforce the new measures over a longer period of time than 5 years. This is the experience made with the countries, which have adopted and implemented secure track and trace solutions. Countries have all renewed their use of secure track and trace solutions and have even expanded the scope of goods covered.

5. Do you view the use of comparative measurements/indices (e.g., World Bank’s Control of Corruption Indicator, Transparency International’s Corruption Perception Index, International Corruption Risk Group’s Corruption Risk Index) to be useful in assessing governance/corruption? Why or why not? Which indices are most informative for the country, region, or topic on which your organization focuses?

We view these indicators as partially useful. Some of these indicators focus on the assessment of corruption and governance, as an outcome. It could also be useful for these indicators – or for others – to also measure the “input” side, by looking at the adoption and implementation of remedial measures to combat corruption and improve governance, such as secure track and trace solutions. More specifically linked to the IMF, the TADAT

assessment is useful, but should be extended to better account for excise duties and measures to secure tax revenue collection in this area. The introduction of secure track and trace solutions supports tax administration in several dimensions, such as the Integrity of the Registered Taxpayer Base, Effective risk management, Accuracy of information reported in tax declarations, Efficient revenue management, Accountability and transparency, and the Timely Payment of Arrears.

6. In your view, has the IMF appropriately collaborated with other multilateral organizations and/or donors on governance/corruption issues in your country/region/topic?

The IMF should engage more with other multilateral organizations and draw from their expertise, while continuing to focus on its core mandate. Secure track and trace solutions are imposed by several international agreements, in particular the WHO Protocol to Eliminate Illicit Trade in Tobacco Products. Often these solutions are adopted for health or safety reasons, but they have an important fiscal dimension (revenue mobilization, tax administration, governance). The “WHO Report on the Global Tobacco Epidemic, 2015” analyses in detail the impact of taxation on tobacco and clearly shows the positive contribution of secure track and trace solutions to tax administration. While acknowledging the lead of the WHO on health issues, the proactive engagement of the IMF could raise the profile of the fiscal aspects of this international agreement, by highlighting the governance gains and the fiscal benefits to the countries which have ratified these treaties and conventions, so that they move forward with implementing these solutions. The IMF should make use of estimates made by other international institutions on the extent of losses in domestic revenue, which could be recovered by the adoption of secure track and trace solutions. For example, the WTO estimates that illicit global trade comprising smuggling, trade diversion, counterfeiting, theft and under-declaration represents 7 percent of world trade, which translates into fiscal losses (excise duties, customs duties, VAT) for governments of around US\$2.1 trillion. The WHO estimates, that, at current tax rates, improvements in tax administration and revenue collection to eliminate illicit trade in tobacco could increase annual domestic revenue mobilization by around US\$31 billion and that 30 percent of alcohol consumed globally is untaxed. Furthermore, secure track and trace solutions have been endorsed by several multilateral organizations – the World Customs Organization, the United Nations Interregional Crime and Justice Research Institute, as well as Interpol – and the IMF could engage with them on this topic.

7. Has the IMF communicated effectively with civil society organizations (CSOs) and been responsive to your views on governance/corruption issues? In what ways could we strengthen the effectiveness of our communications?

The IMF should consider engaging CSOs and the private sector more formally and more regularly, in particular to stay informed about new technologies that are being developed. New technologies are developing fast. The opportunities created by smart IT systems and track and trace technologies open new avenues for countries to improve public sector governance and fight corruption.

8. Do you have any other views or concerns on the IMF's work on governance/corruption issues that are not specified above?

We believe that the impact of the Fund's work and thus the situation of its member states would be enhanced if it were to put greater emphasis on exploiting new technologies which strengthen public sector governance and tax administration, fight against corruption and improve domestic revenue mobilization. Secure track and trace solutions are one such new technology which can significantly add value.

Manuel Pérez, JGCC Investment and finance, Spain

In your view, you have the IMF's engagement with member country clubs matched ITS aspirations as Set Out in the GN 1997? Can you cite examples of productive engagement? Where Might Have Been our engagement more effective? Are there cases Where the IMF Should Have engaged but did not?

THE INTERNATIONAL MONETARY FUND HAS MADE HIS ROLE IS TO SUPPORT THE DEVELOPMENT OF COUNTRIES. SUPPORT IN GOVERNANCE AND DEBT CONDOCNACIÓN is very positive for these developing countries.

To make our engagement more effective, What Should the IMF do differently? Increase coverage in our Regular surveillance / Article IV Consultations with member country clubs? Establish more governance-related conditionality for IMF financing? Increase technical assistance and training on anti-corruption, transparency, and other economic issues? Conduct and publish more transparency evaluations? Are there any other areas Where the IMF's engagement can be Strengthened?

I THINK THE IMF SHOULD DO SEE COUNTRIES sustainable growth is to continue a pattern of GROWTH, FIRST INTERIOR SOCIALLY SUSTAINABLE, creating infrastructures and public institutions GENERATING WORK AND THEN ONCE REACHED A MINIMUM OF EMPLOYMENT AND SUSTAINABILITY, OPENED THE ECONOMY OF CAPITALISM.

In your view, is the IMF Appropriately engaged in the different aspects of governance and corruption? Are there activities, countries, or regions Where We Should be more engaged? In the Latter context, our engagement've been "evenhanded" across different country clubs? COMMITMENTS HAVE TO BE AT LEAST DEVELOPED COUNTRIES. WHICH they ARE DEVELOPED AS SOME HAVE GROWN AND HAVE HAD NORMAL PATTERNS a maturation process. POOR COUNTRIES HAVE NOT BEEN AND ARE THREATENED BY CAPITALIST aggressive policies

In making assessments and giving guidance, the IMF's time horizon has-been short- to medium-term (2-5 years). Is this an Appropriate time horizon over Which to ASSESS governance / corruption issues? THIS IS SCARCE HORIZON FOR DEVELOPING COUNTRIES. TAKE LONGER IN SUIT

Do you view the use of comparative measurements / indices (e.g., World Bank's Control of Corruption Indicator, Transparency International's Corruption Perception Index, Corruption Risk Group International's Corruption Risk Index) to be useful in Assessing governance / corruption? Why or why not? Which Are Most informative indices for the country, region, or topic on your organization Which Focuses? INDICATORS ARE NOT ENOUGH BUT NECESSARY

In your view, you have the IMF Appropriately With other multilateral collaborated Organizations and / or Donors on governance / corruption issues in your country / region / topic? YES, I THINK THE ROLE OF THE IMF IS POSITIVE

Has the IMF Communicated Effectively With civil society Organizations (CSOs) and Been responsive to your views on governance / corruption issues? In what ways Could we

Strengthen the effectiveness of our communications?

IMF SHOULD GET MORE CITIZENS TO SEE THE IMPORTANT ROLE THAT THE IMF ON BEHALF OF ALL MEMBERS pises MAKES FOR DEVELOPMENT

Do you have any other views or Concerns on the IMF's work on governance / corruption issues That are not specified above?

THANKS FOR YOUR KIND ATTENTION

Dev Kar, Chief Economist, Global Financial Integrity
1100 17th Street NW, Suite 505, Washington DC 20036

Dear IMF Consultation Group on Governance:

Thank you for inviting various stakeholders to suggest ways to improve the effectiveness of the IMF's involvement in governance issues. I have the following comments for your consideration:

1. The definition of corruption, also used by the World Bank, should be broadened in order to capture corruption that originates in or is initiated by the private sector. Such corruption need not necessarily involve "abuse of the public sector" but rather extracts a private gain which imposes a public loss without the connivance of corrupt government officials. For example, deliberate misinvoicing of goods may well go undetected by Customs rather than involve a bribe to its officers to look the other way. Similarly, transfer pricing by multinationals can also go undetected in poor developing countries that lack the trained manpower necessary to detect transactions that violate the OECD's guidelines on what constitutes "normal" as opposed to "abusive" transfer pricing. Clearly in such cases, the question of "the abuse of public office for private gain" does not arise. Hence, we would suggest that the definition be expanded as follows:

"Corruption could be defined as the abuse of public office for private gain but could also involve the extraction of a private gain at the expense of a public loss without the connivance of corrupt public officials."

The latter types of transactions, those that extract a private gain at the expense of a public loss, have serious implications for tax revenues. Thus, for example, import under-invoicing can directly lead to a loss of Customs revenues while import over-invoicing and export under-invoicing can be used to circumvent foreign exchange regulations. Also, multinationals could use abusive transfer pricing to shift profits to lower tax jurisdictions.

2. The IMF should encourage governments to implement targeted reduction in corruption in key government agencies (such as Customs and Tax Revenue departments) along the lines used in IMF programs involving the use of its resources where the capacity to repay the Fund was an issue. For instance, a PRGF program in 1999/2000 in Ghana used such a conditionality on Customs to strength governance and improve import duty collections. Governments should be encouraged by the IMF to self-impose and monitor such conditionalities to improve the efficiency and governance of revenue collecting departments including Customs and Tax Revenue departments. Governments should be encouraged to discuss their experience with such self-imposed conditionalities in Article IV discussions.
3. The guidelines should explicitly recognize that corruption is extremely difficult to capture or specify in its totality as its scope and nature tends to morph from one

country to another. Discussing corruption in broad terms serves little purpose. Economists and policy makers have been talking about the need to curtail corruption for decades but have little to show for it. It is therefore necessary that the IMF prepare papers seeking to capture the main forms of corruption that significantly impact the economy of its members. There is a need to rely on quantitative measures of the importance of illegal activities. The World Bank's governance rankings supported by Transparency International's corruption perceptions index should provide a starting point for drawing up a list of countries where corruption is endemic and entrenched. These subjective indicators should be complemented by a joint IMF/World Bank study updating the earlier "Shadow Economies Around the World" published by the Bank.

4. There is established academic literature on trade misinvoicing as a significant conduit for transferring illicit capital from developing countries. Such transfers drain scarce resources from poor countries and hamper poverty alleviation. The IMF should encourage developing countries to monitor and curtail trade misinvoicing by strengthening Customs departments in its enforcement functions. The Fund should provide technical assistance to selected developing countries based on step 3 or whether there is prima facie evidence of corruption in Customs. It is better to quantify and start making concrete advances in curtailing corruption than to hold discussions in broad terms where policy makers have little guidance on where to begin or how policy actions translate into increases in tax revenues and other indicators that can be monitored and verified.

Thank you.

Dev Kar
Chief Economist
Global Financial Integrity
1100 17th Street NW, Suite 505
Washington DC 20036

Frank Vogl [<mailto:frankvogl@gmail.com>]

Subject: Re: Your help with circulating that: Now open: consultation on the work of the IMF on governance and corruption issues (Deadline September 16, 2016)

Dear Nicholas:

As you can see, I have copied a number of my TI and other colleagues who may have their own views and may wish to contact you direct with regard to consultations.

Over many years the IMF has had programs in most developing and emerging market economies. If the Fund's interventions ever reduced corruption in the overwhelming majority of these countries well, to be candid, this remains one of the best kept secrets. One is forced to conclude that from Egypt to Mexico, from the Balkans to many countries in Asia, the failure of the IMF to take a firm stand against corruption has if anything encouraged public authorities to continue to abuse the public's trust. The potential influence of the IMF is enormous. Sadly, my impression is that the Fund, which is concerned with fiscal affairs in member countries, have ignored the outright robbery of public funds by many public officials in many countries. So, when it comes to "consultations" the issue is where does one start?

Transparency International strives to be active through national chapters in approximately 100 countries. If the Fund wants to dig deep into a few country studies and to discuss corruption in public finances in those countries, then I am sure my colleagues would be ready to engage. What the Fund dare not do is suggest that curbing corruption is easy, that it involves just some tweaking in Fund approaches rather than a broad and fundamental commitment by the Fund to seriously consider the many facets of corruption and sustainable anti-corruption from research to operations to the Executive Board of Directors.

With best wishes, Frank