New Framework for Enhanced Fund Engagement on Governance and Corruption

Presentation by Rhoda Weeks-Brown
General Counsel and Director of the Legal Department, IMF

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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 econ 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
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

How Is Your Tax Money Lost To Corruption?
Learn more in the latest Fiscal Monitor.

INTERNATIONAL MONETARY FUND
IMF.org
Anti-Corruption (incl. Legal/Institutional Frameworks)

Preventive Measures
- Are there effective and coordinated anti-corruption policies?
- Are adequate preventive measures implemented to detect corruption?

Criminalization and Law Enforcement
- Are acts of corruption offenses properly criminalized, prosecuted and subject to effective sanctions?
- Are corruption offenses being investigated and offenders being prosecuted and sanctioned?
- Are proceeds of corruption being confiscated?

International Cooperation
- To what extent has the country provided constructive and timely information and evidence across the range of international cooperation requests?
- To what extent has the country sought legal assistance for international cooperation in an appropriate and timely manner to pursue transactional corruption cases?

Asset Recovery
- Is international cooperation being used for purposes of confiscation?
- Is international cooperation leading to return and disposal of assets?
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

**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

**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?
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

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<th>Reforms to central bank laws</th>
<th>Trade facilitation</th>
<th>Contract enforcement, property rights, investor protection</th>
<th>Anti-corruption framework</th>
<th>Several areas of fiscal governance</th>
<th>Transparency of government operations in the natural resource sector</th>
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- Several areas of fiscal governance
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- 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
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| 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 |
| 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

- IMF Fiscal Monitor, “Curbing Corruption”, April 2019
New Framework—Enhanced Fund Engagement on Governance and Corruption

Thank You!