



# Good Governance for Economic Resilience

## High-Level Seminar: Building Robust Governance Frameworks

Governance—The IMF's Framework for Enhanced Engagement



**Joel  
Turkewitz**

Deputy Division  
Chief, Legal  
Department, IMF



**Nabila  
Akhazzan**

Senior Economist,  
Fiscal Affairs  
Department, IMF



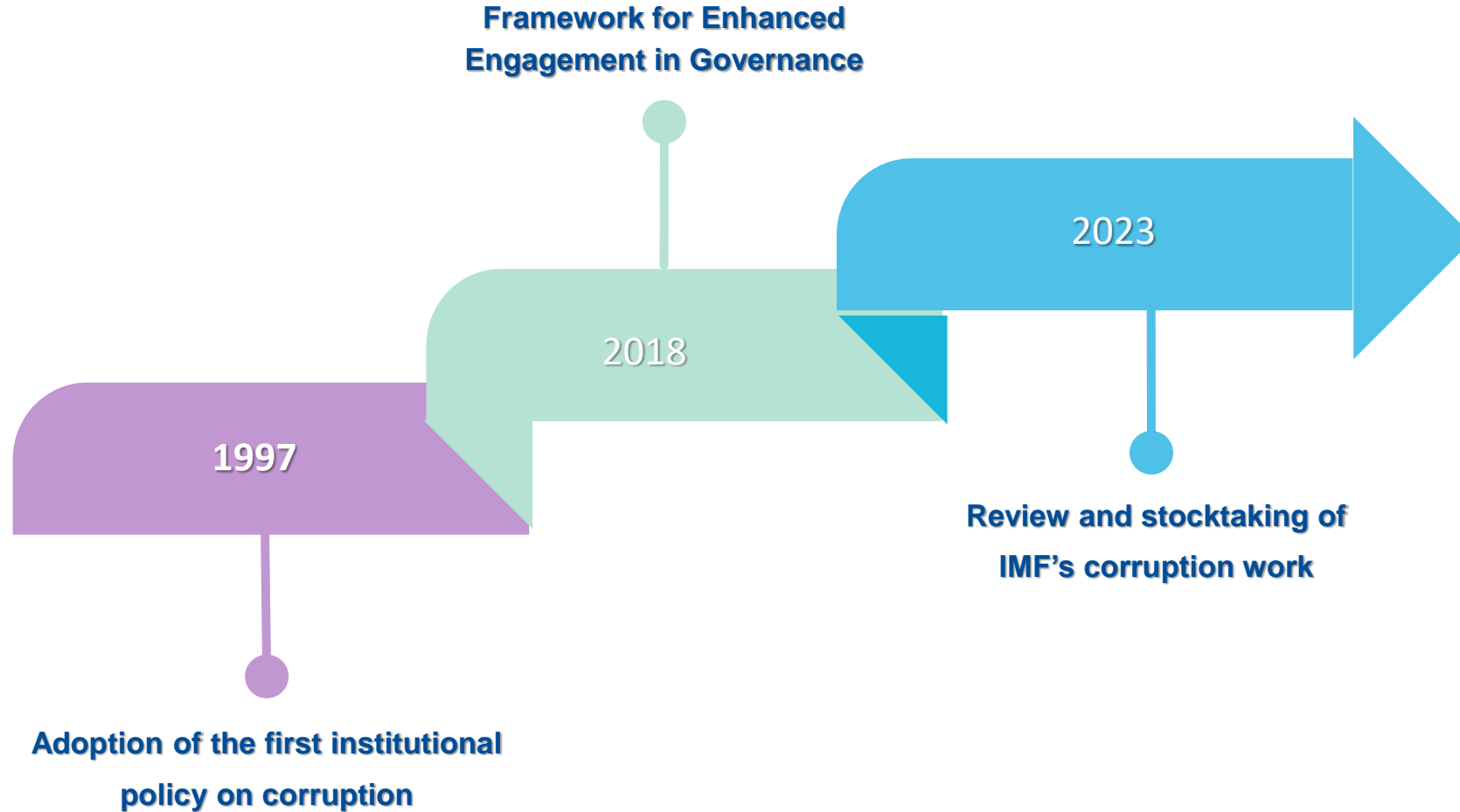
**MIDDLE EAST  
REGIONAL TECHNICAL  
ASSISTANCE CENTER**

# **IMF's Approach to Governance and Anticorruption**

**DECEMBER 2024**

IMF Legal Department

# Evolution of IMF's understanding of corruption



# The cost and macroeconomic implications of corruption – why do we care?

“

“...corruption can have a profoundly detrimental effect on public finances as governments collect less in tax revenue and overpay for goods and services or investment projects. But the cost of corruption is greater than the sum of lost money: distortions in spending priorities undermine the ability of the state to promote sustainable and inclusive growth. They drain public resources away from education, health care, and effective infrastructure—the kinds of investments that can improve economic performance and raise living standards for all.” (IMF 2019)

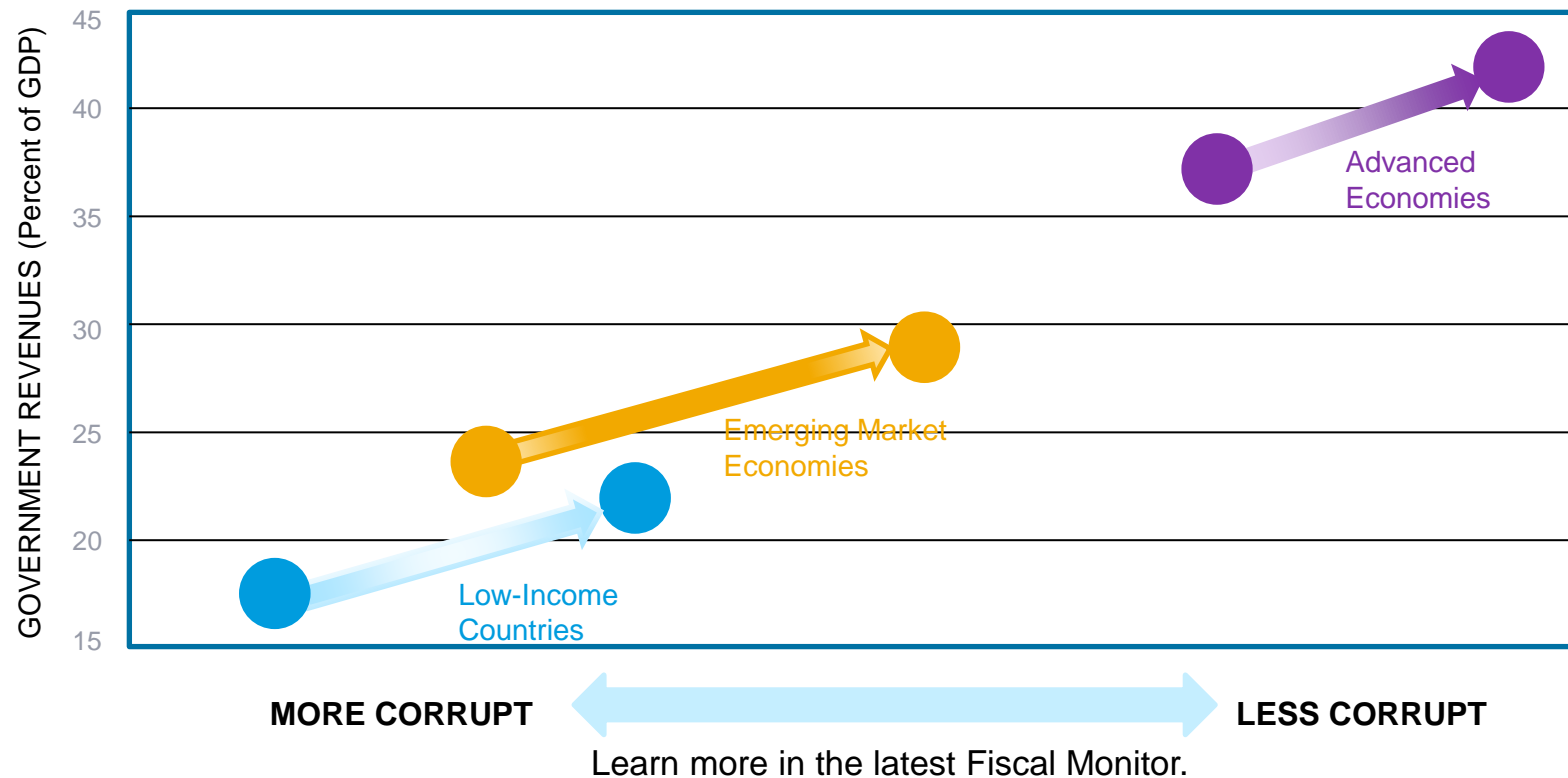
”

- ✓ Corruption and taxation
- ✓ Corruption and financial system
- ✓ Corruption and investment
- ✓ Corruption and human capital
- ✓ Corruption and stability

# Corruption and Taxation

## Corrupt Countries Collect Less Tax

The least corrupt governments collect 4% of GDP more in tax revenues than countries with the highest levels of corruption.

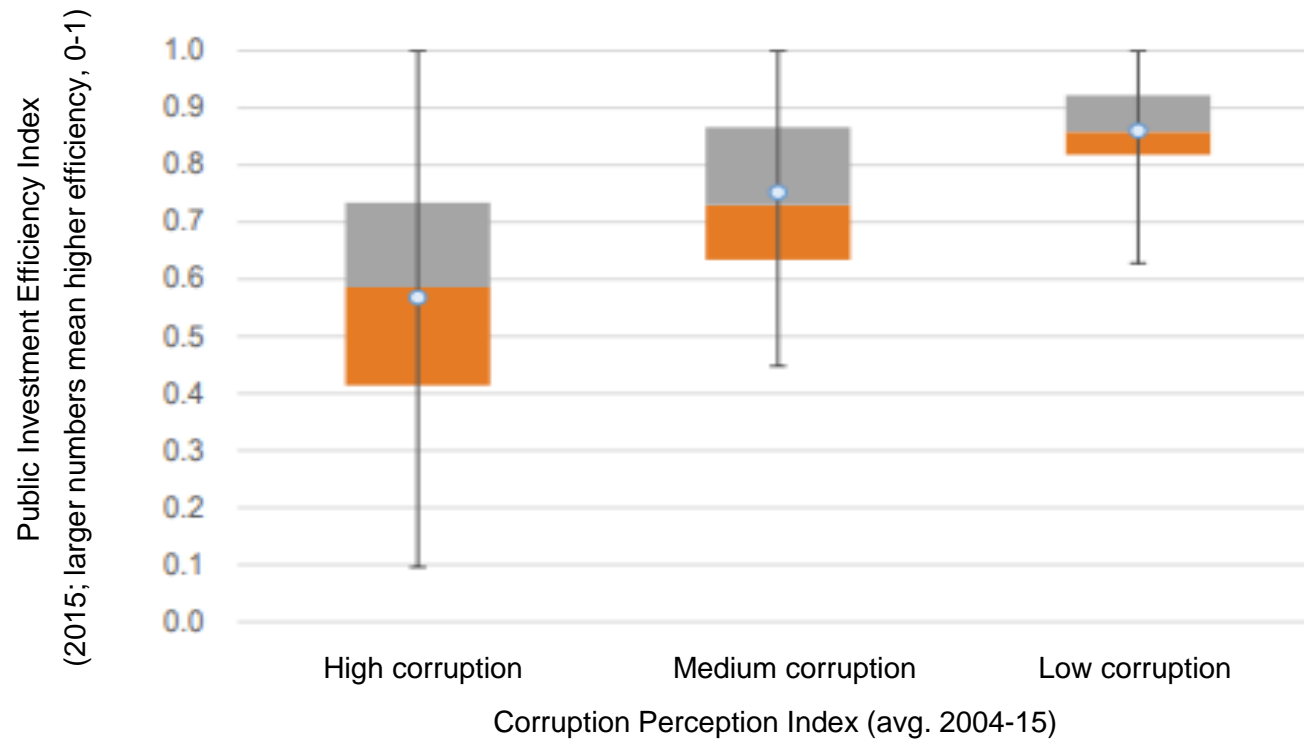


# Corruption and the financial system

- ***It discourages financial development and inclusion*** (Corrupt countries tend to have lower deposits from the public and less credit to the private sector)
- ***It weakens financial oversight and stability*** (corrupt lending practices, weak banking supervision, and regulatory forbearance can threaten the stability of the financial system)
- ***It undermines the recovery of debts or enforcement of claims*** (Corruption negatively affects payment culture and increases market distrust, reducing access to credit and increasing transaction costs)



# Corruption and investment



**Source:** Corruption: Costs and Mitigating Strategies (imf.org)

**Note:**

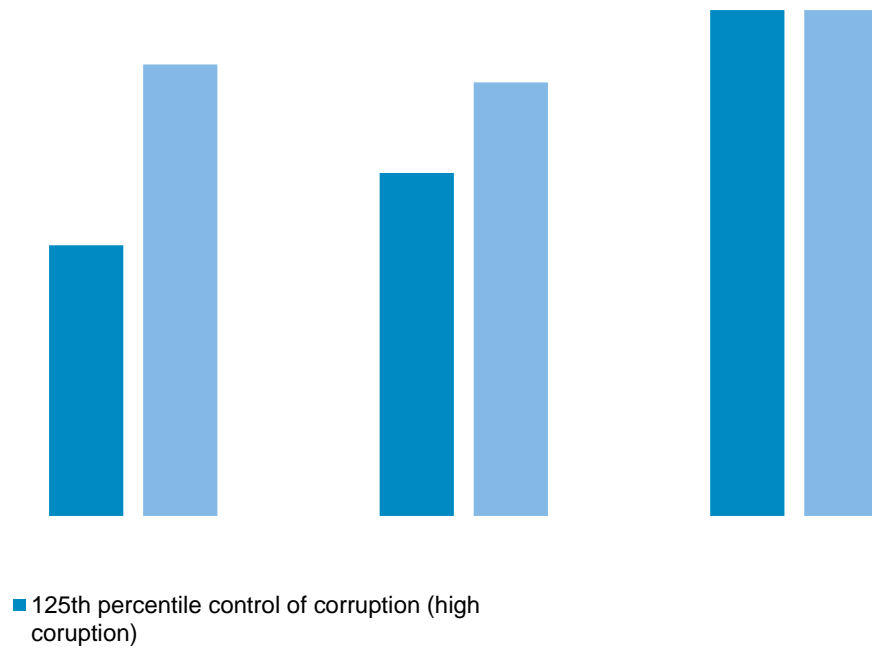
The samples are grouped into high, medium and low corruption in equal numbers based on the Corruption Perception Index. The lines show the range of efficiency for each group. The orange and gray boxes are the second and third quartile (from the bottom) of the samples, thus they cover 50 percent of the countries.

# Corruption and human capital

## Skewed priorities

Public spending on education and health is lower in countries where corruption is higher.

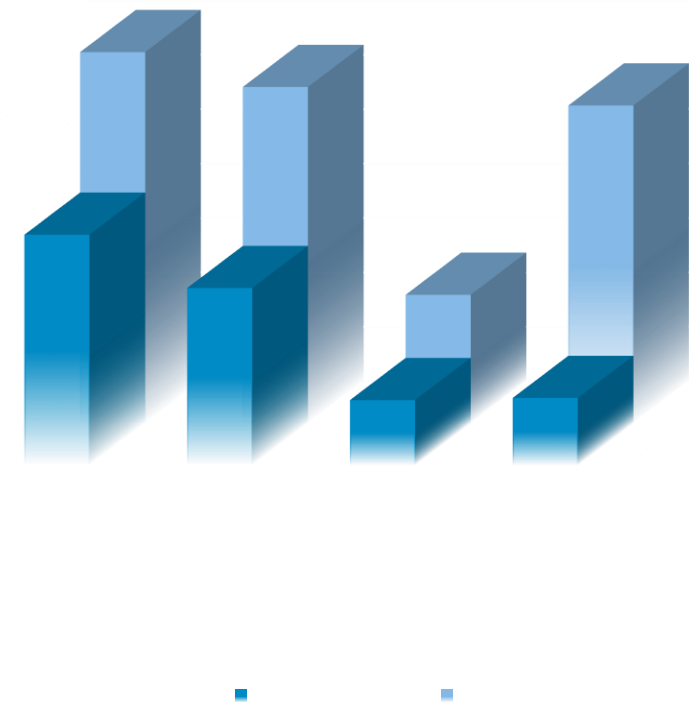
(% of total spending)



**Source:** IMF, The True Cost of Global Corruption.

Note: Data are for 2016.

## Corruption and Social Indicators



**Source:** IMF, Corruption and the Provision of Health Care and Education Services.

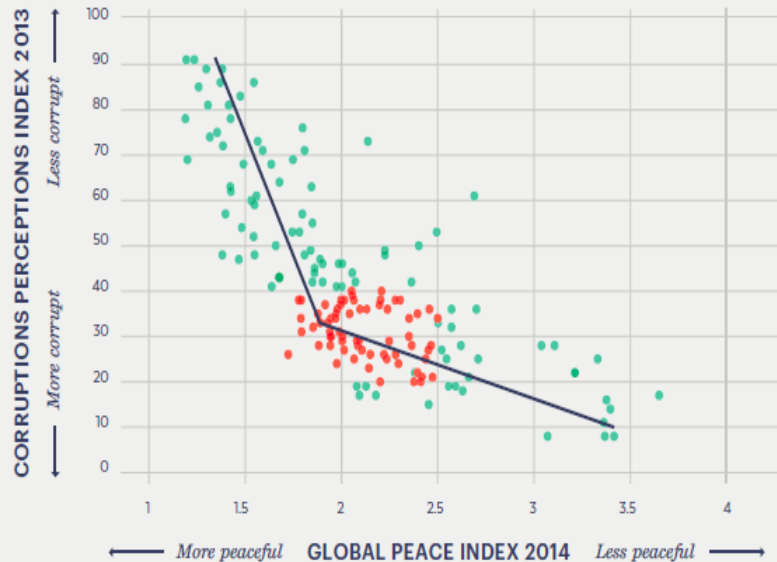


# Corruption and stability

**FIGURE 2**

Corruption Perceptions Index vs Global Peace Index

*'Tipping point' countries are highlighted in red. None of these 'tipping point' countries are full democracies.*



“ There is a strong statistical link between peace and corruption. As corruption decreases prospects for peace improve.

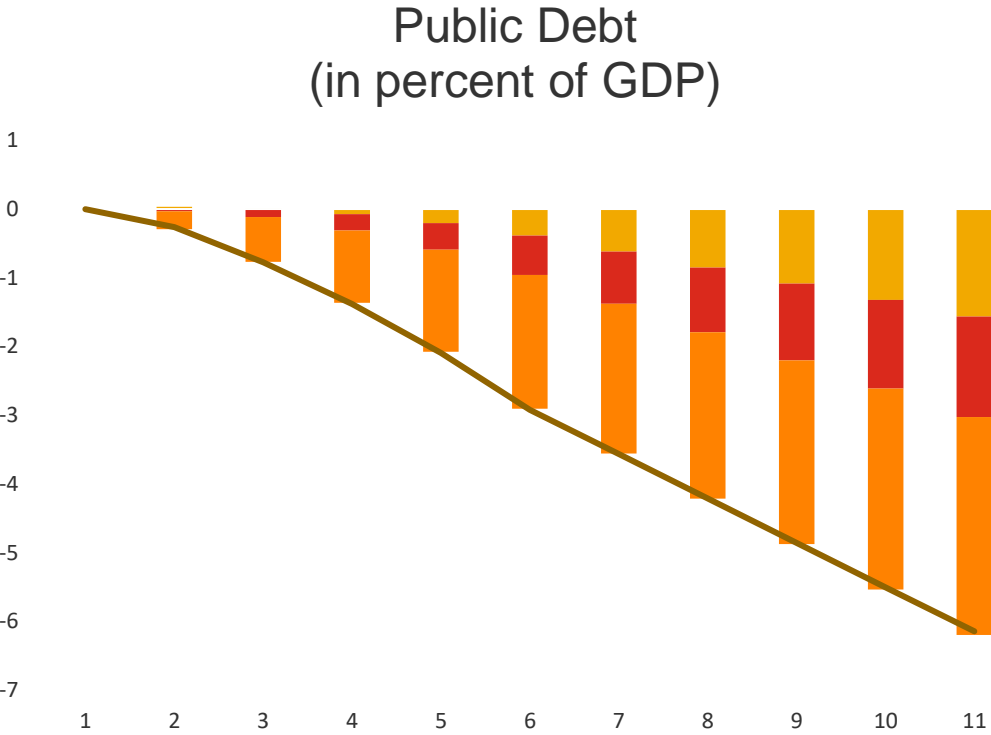
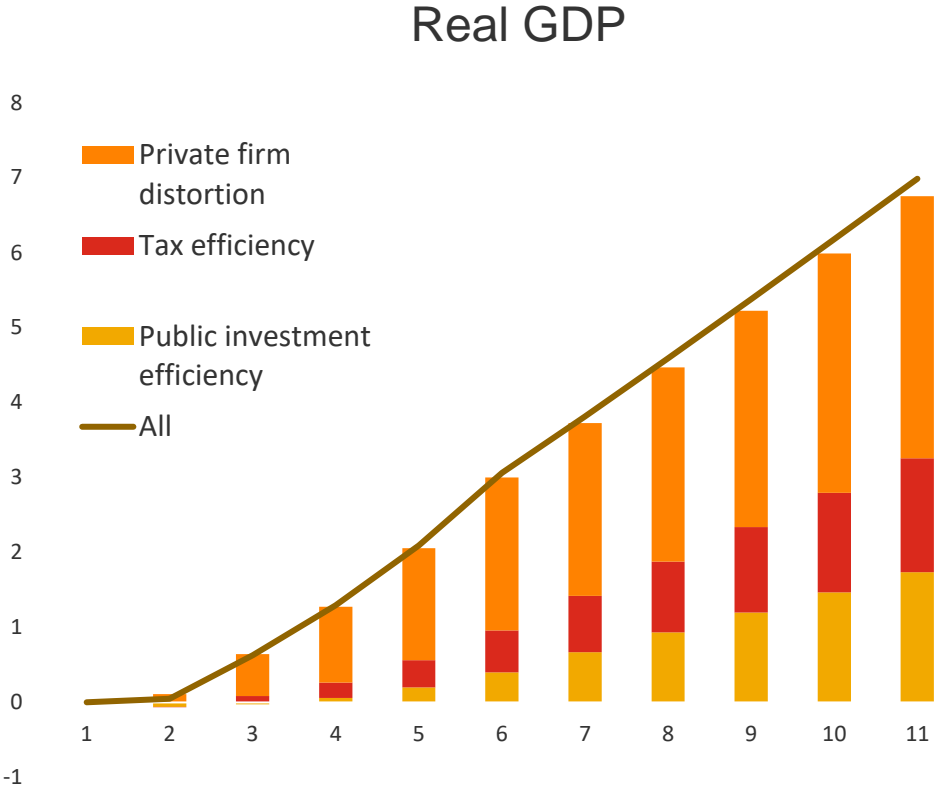
## PEACE AND CORRUPTION

2015

LOWERING CORRUPTION  
— A TRANSFORMATIVE FACTOR FOR PEACE

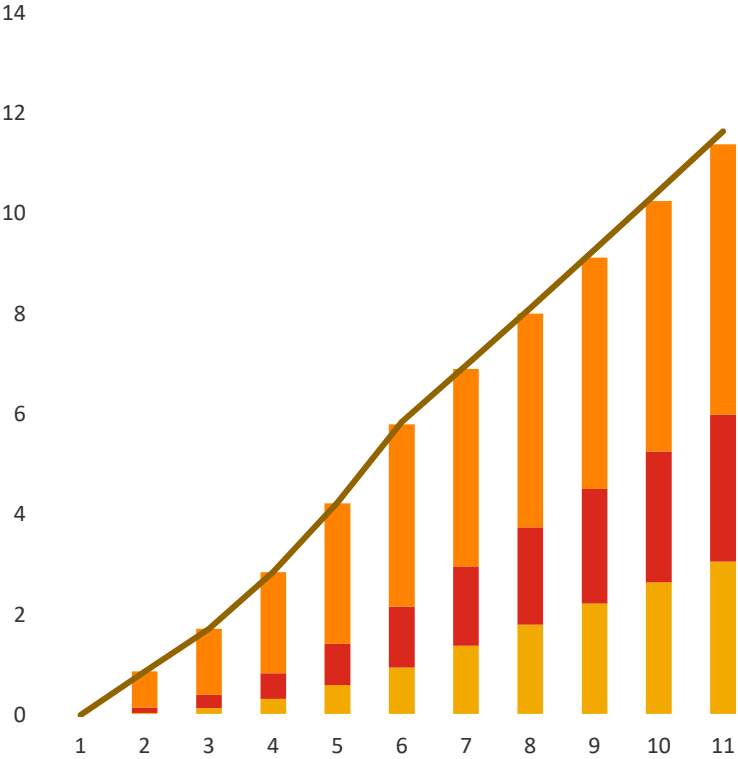
INSTITUTE FOR  
ECONOMICS  
& PEACE

# Comprehensive Governance Reforms Promote Growth, Improve Debt Dynamics

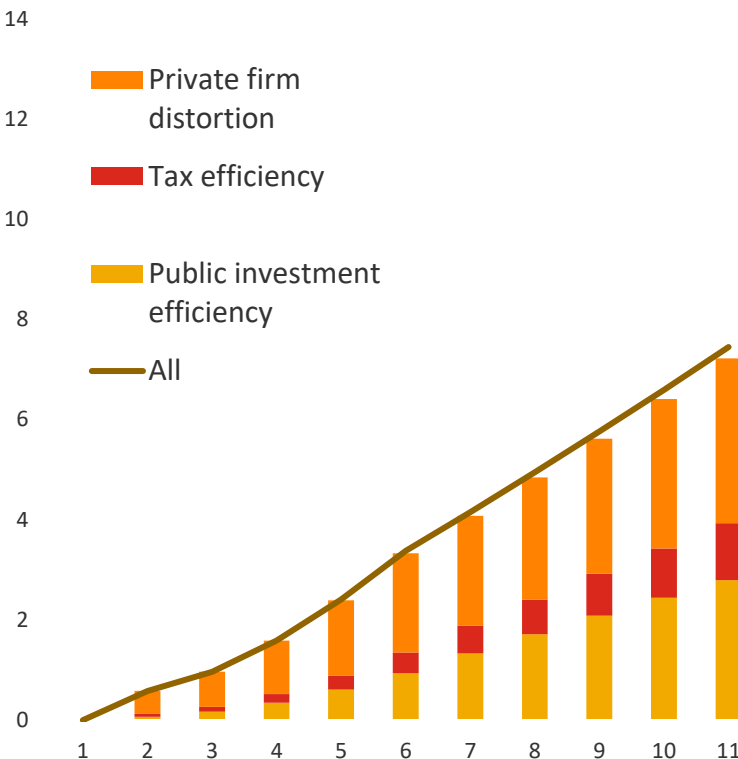


# ... and support consumption, especially the poor.

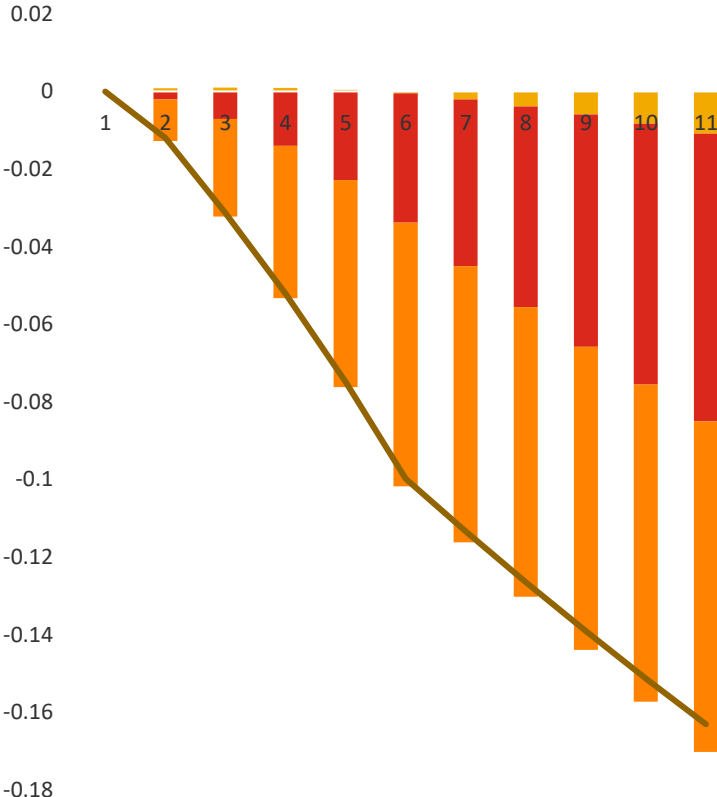
Private Consumption, Poor



Private Consumption, Rich



Consumption Inequality





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# **The IMF's Governance and Anti-Corruption Framework: Progress and Lessons Learned**

**DECEMBER 3, 2024**

Nabila Akhazzan  
Fiscal Affairs Department

# Overview

- I. The IMF's Engagement on Governance**
- II. The 2018 IMF Framework on Governance**
- III. Implementation of the Framework and Way Forward**

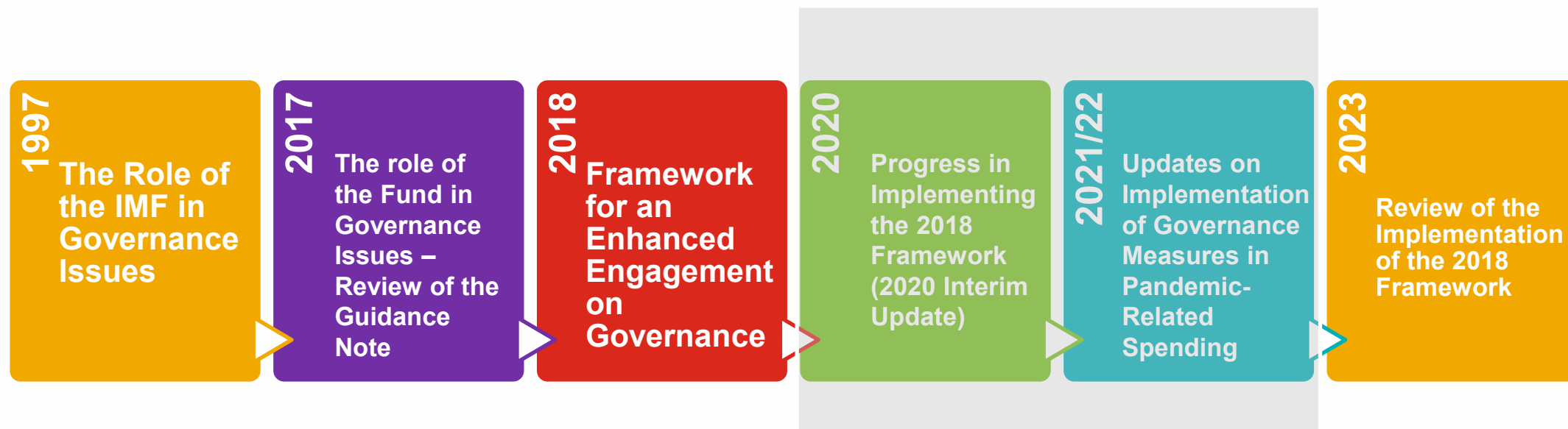
# **I. The IMF's Engagement on Governance**

# IMF's Engagement on Governance and Corruption

- Governance and corruption as macro-critical issues affecting economic stability and growth.
- IMF's engagement through policy advice, surveillance, capacity development, and lending.



# IMF's Engagement on Governance and Corruption – Key Milestones



COVID 19 Pandemic

**G**ood governance is important for countries at all stages of development. . . . Our approach is to concentrate on those aspects of good governance that are most closely related to our surveillance over macroeconomic policies—namely, the transparency of government accounts, the effectiveness of public resource management, and the stability and transparency of the economic and regulatory environment for private sector activity.

Michel Camdessus  
IMF MANAGING DIRECTOR  
Address to the United Nations  
Economic and Social Council  
July 2, 1997



## **II. The 2018 IMF Framework on Governance**

# 2018 Framework: Key Features

## Key Objectives

1

**Systematic:** Across the membership, systematically assess the nature and severity of governance weaknesses and corruption vulnerabilities.

2

**Candid:** Candid discussions of corruption and governance vulnerabilities in staff reports, using clear and direct language.

3

**Effective:** Specific and actionable recommendations covering state functions assessed vulnerable to corruption; implementation of measures

4

**Evenhanded:** Comparable treatment of similarly-situated members.

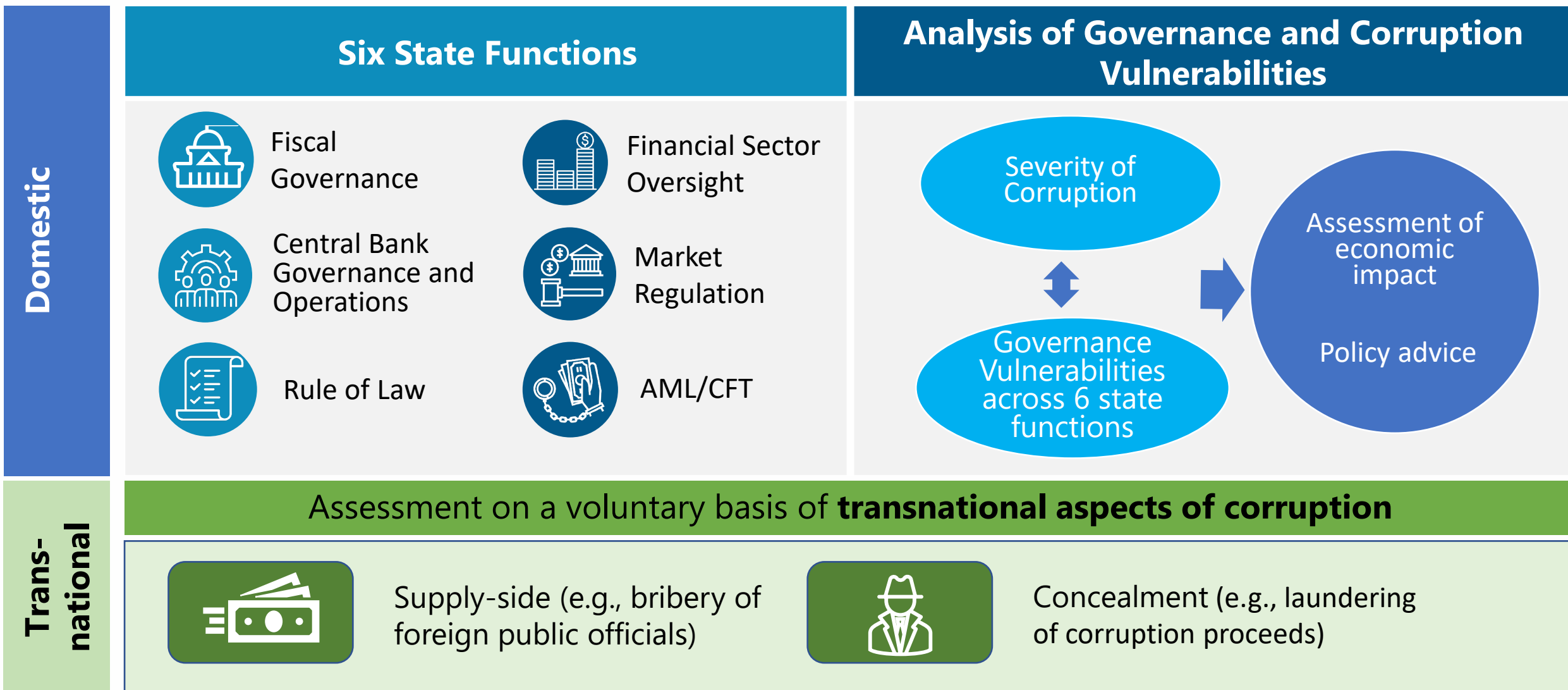
Assess the **nature and severity** of governance weaknesses and corruption vulnerabilities on a systematic basis

Guide **policy recommendations** and help prioritize **CD**.

Assess the **economic impact** of the vulnerabilities identified and determine relevance for AIV and UFR.

Assess **transnational facilitation of corruption** (supply and concealment)

# 2018 Framework: Coverage



# 2018 Framework: State Functions



**Fiscal Governance**—Weaknesses in fiscal governance—the institutional frameworks and practices of the public sector (central government, subnational governments, and public corporations)—can have harmful effects in three areas:

- Tax administration
- Public financial management
- Fiscal transparency



**Central Bank Governance and Operations:** The assessment includes:

- (a) The adequacy of the mandate, decision-making structure and autonomy of the central bank;
- (b) The adequacy of the accountability and transparency framework; and
- (c) The effectiveness of the internal control environment.



**Financial Sector Oversight:** An assessment of the quality of financial sector oversight includes examination of the capacity and effective autonomy of the supervisory agency. The assessment also covers those aspects of the design of the regulatory and supervisory framework that are most relevant to safeguarding the integrity of financial system and minimizing opportunities for corruption.

# 2018 Framework: State Functions



**Regulatory Framework/Market Regulation:** The assessment in this area focuses primarily on the extent to which the complexity and opacity of the regulatory environment creates rent-seeking opportunities, and more generally, hinders the operation of private business.



**Rule of Law:** The focus of this assessment would be on those aspects of the rule of law that support the protection of property and contractual rights, including the predictability and timeliness of the enforcement of those rights.



**Anti-Money Laundering and Countering the Financing of Terrorism:** This assessment would focus not only on the adequacy of the legal framework, but also on overall institutional capacity and effective implementation.

# 2018 Framework: Voluntary assessments to prevent supply- side corruption

- Given the importance of the “supply-side” and “facilitation” issues, the Fund has been urging members—irrespective of whether they experience systemic domestic corruption themselves—to voluntarily agree to have their systems assessed by the Fund in the context of surveillance, both with respect to their anti-bribery frameworks and those aspects of their AML/CFT frameworks that seek to curb concealment of the proceeds of corruption by foreign officials.
- Voluntary assessments of the framework to prevent supply-side corruption and cross-border facilitation has been covered in the Article IV consultations of some advanced economies, including all G7.

Trans-  
national

## Assessment on a voluntary basis of **transnational aspects of corruption**



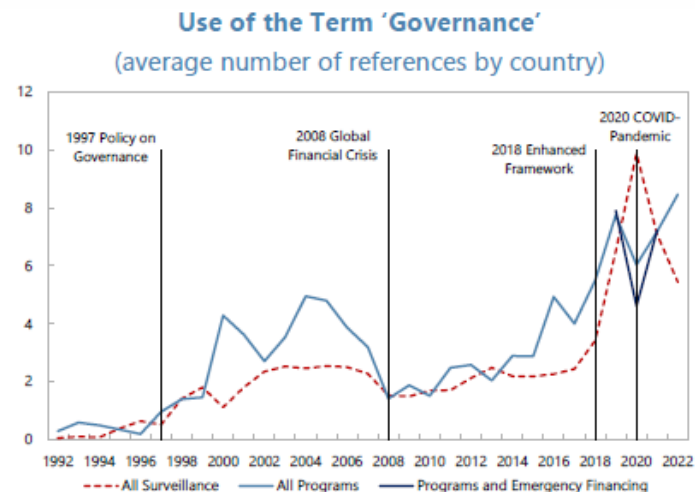
Supply-side (e.g., bribery of foreign public officials)



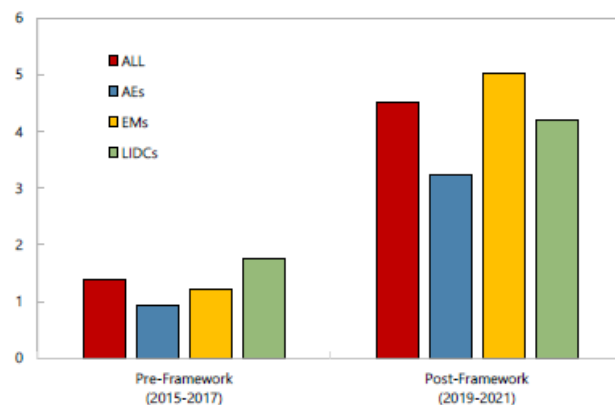
Concealment (e.g., laundering of corruption proceeds)

# **III. Implementation of the 2018 Framework**

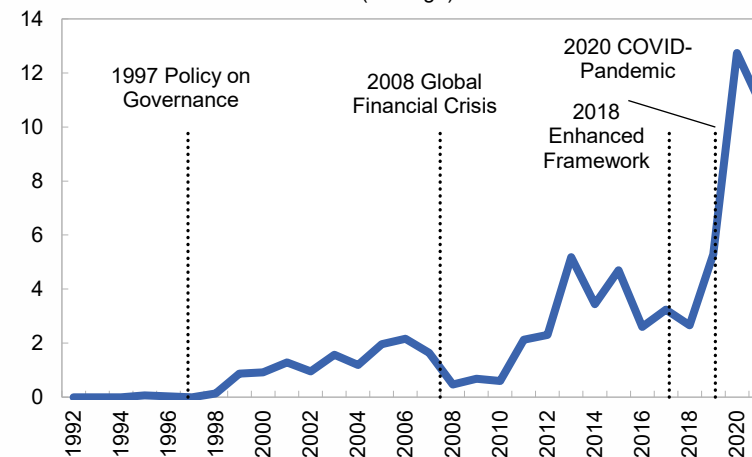
# 2018 Framework: Surveillance



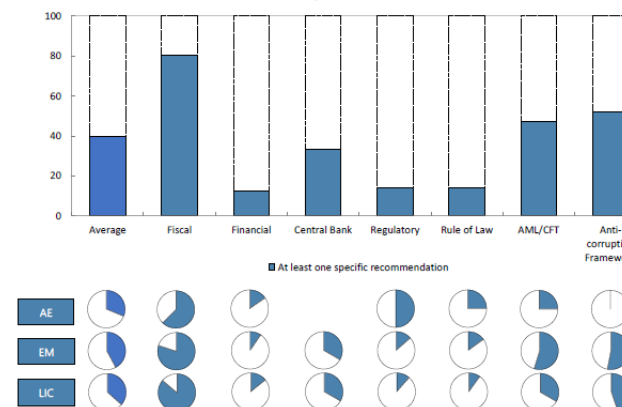
**Frequency of the Term 'Corruption' by Income Group**  
(average number of references per country)



**References to 'Governance' in MENA Staff Reports**  
(Average)



**Article IV Top Three Recommendation in Countries with Identified Vulnerabilities**  
(percent)

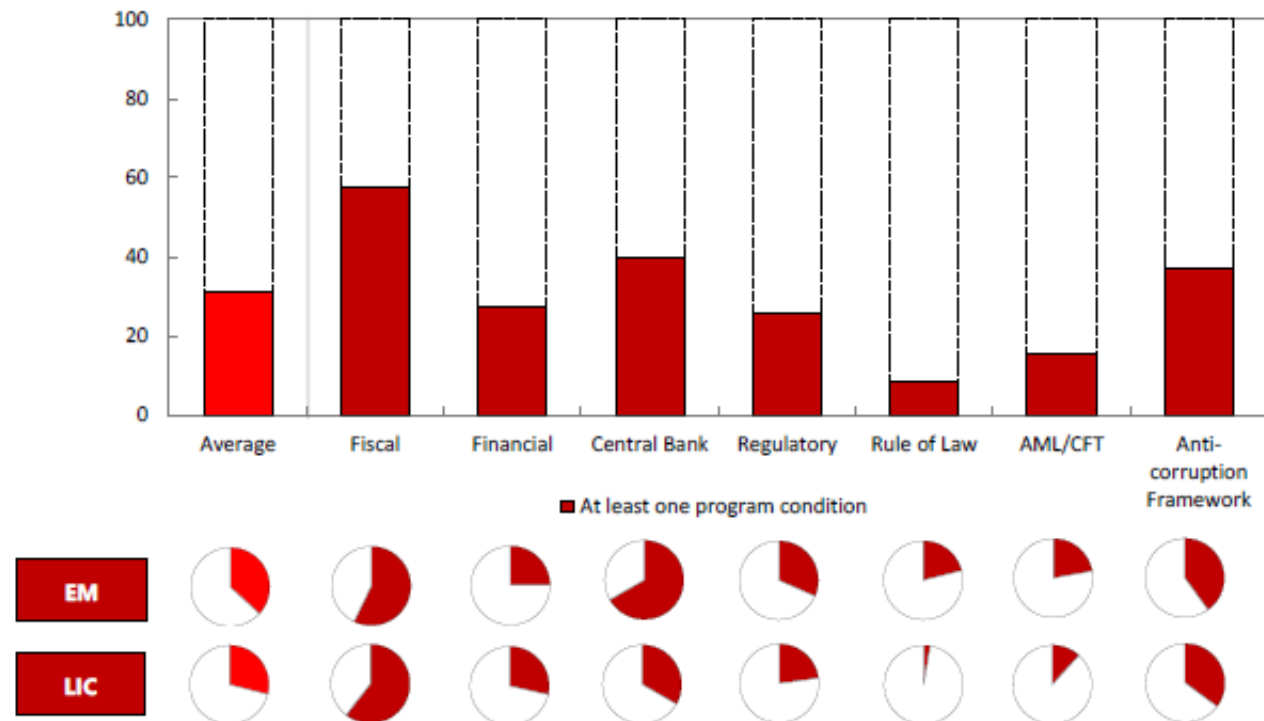


Sources: IMF Text Analytics Database; and staff estimates,  
Board Paper: Review of implementation of the 2018 framework for enhanced fund engagement on governance –April 2023



# 2018 Framework: Lending

Program Conditionality in Countries with Identified Vulnerabilities  
(percent)



Sources: IMF Text Analytics Database; and staff estimates,  
Board Paper: Review of implementation of the 2018 framework for enhanced fund engagement on governance –April 2023

# 2018 Framework: Capacity Building

- Ex-post audit of COVID spending
- Fiscal transparency
- Publication of beneficial ownership of procurement
- Strengthen anti-corruption frameworks
- Financial Sector Stability Reviews to identify financial sector oversight weaknesses
- Strengthen anti-money laundering framework to support anti-corruption efforts
- ...

# **2018 Framework: Capacity Building Governance Diagnostic (GD)**

**A joint CD activity by multiple departments (FAD, FIN, LEG, and MCM), designed to:**

- Assess severity of corruption and identify key corruption vulnerabilities and governance weaknesses; and
- Establish a strategy to address the identified vulnerabilities and weaknesses via a time-bound implementation action plan,
- Foster intensive collaborations with the authorities, key international partners, CSOs, and private sector.