



20 YEARS
METAC

Good Governance for Economic Resilience

High-Level Seminar: Building Robust Governance Frameworks

Corruption as a Macro-Critical Challenge

Moderator



**Joel
Turkewitz**

Deputy Division
Chief, Legal
Department, IMF

Panelist



**Emmanuel
Mathias**

Division Chief, Legal
Department, IMF



**MIDDLE EAST
REGIONAL TECHNICAL
ASSISTANCE CENTER**

Corruption as a Macro-Critical Challenge

DECEMBER 3, 2024

Emmanuel Mathias

Division Chief, Governance and Anticorruption Division

Legal Department

Assessing macro-critical corruption

Severity and Nature of Corruption

01

Corruption is not uniform – varies in frequency and cost by sectors and functions

02

The dynamics of corruption also vary – who is involved, what are the mechanisms by which it happens

03

Resources that exist to confront corruption vary across accountability institutions and executing agencies

04

Potential economic and political benefits to fighting corruption differ across interventions.

Severity and Nature of Corruption

Not a new question:

Lots of indicators and indexes “measure” corruption and assess severity.

Questions are we looking to answer:

- How often does corruption take place?
- Where does corruption take place – sectors, types of functions?
- What are the mechanisms/patterns/trends that are used – who is involved?
- Is corruption organized or more ad-hoc?
- Are there formal and/or informal mechanism to secure corruption?
- How much does corruption cost?

Severity and Nature of Corruption

- **Examine existing assessments and data.**
- **Examine reports from corruption cases and findings from special commissions/audit agencies, etc.**
- **Examine functioning of key government institutions and the private sector.**
- **Interviews with knowledgeable sources**

▪

Use of Political Economy Analysis in Assessing Severity of Corruption

Better understand:

- Vested interests, patterns and distribution of corruption networks
- Extent of elite capture of institutions
- Behavioral and institutional incentives
- Feasibility and meaningfulness of reforms

“Achieving sustained mitigation of corruption, especially where corruption is systematic, requires a tailored and sequenced approach mindful of political economy realities”

(2023 Review of the IMF’s governance framework)

Fragile and conflict-affected states – A Special Case

- IMF's approach to FCS
- Corruption as a macro critical issue and barrier to escaping fragility in the majority of FCS
- Integrating governance and anti-corruption measures in FCS
 - Implementation capacity
 - Incentives facing stakeholders
 - Complementarity of reforms
 - Transparency
- Context specific and sequenced reforms

Addressing Macro-Critical Corruption

Matching Anticorruption Responses to Typologies

- Balance placed on strengthening enforcement of laws, modifying policies, increasing transparency around corrupt practices.
- As state authority diminishes, returns to anticorruption strategies predicated on enforcement of laws also diminishes.
- “Do no harm” principle – care with recommendations creating new institutions, or strengthening enforcement in highly politicized contexts.
- Factoring in time
- Factoring in external parties

Matching Reforms to Contexts – Examples

- **Transactional corruption – strengthening public sector standards, the ability to detect corrupt acts, and the effectiveness of enforcement. Raising standards/expectations of private sector**
- **Grand corruption – strengthening independence and functioning of anticorruption and enforcement bodies, enhancing transparency and information access, risk-based allocation of control, monitoring, and oversight resources.**
- **Kleptocracy – increasing the visibility of corruption, enabling action by external parties/jurisdictions, preparing for the possibility of regime change, working with partners (including regional political groupings, etc) to promote integrity.**
- **State Capture – the largest challenge – and requires engagement over an extended period of time. Identify and support institutions that have not been captured, establish platforms that enable collaboration among and across groups committed to resisting capture, target specific actors to destabilize capture, draw upon regional, international, and global allies.**

Establish an Anti-Corruption Reform Plan

- Bringing together individual reform efforts – to reduce fragmentation, taking advantage of complementarity.
- Combine economic governance reforms with changes to improve accountability/integrity.
- Overall management of reform
 - High-level engagement
 - Regular public reporting, monitoring, and adaptation.

Creating Reform space

- a) Critical and often over-looked/under-resourced**
- b) Involves multiple roles/functions – from setting reform objectives, to defining institutional arrangements to implement reform, and establishing technical competencies to carry out new routines and procedures.**

Managing Specific Reform Interventions.

- a) Identify concrete measures: Disaggregate steps, set baselines, milestones, timelines and expected outcome/objective**
- b) Seek allies**
- c) Initiate the reform**
- d) Build capacity for new practices and policies**
- e) Sustain the change**
- f) Celebrate Success!**

Thank you!



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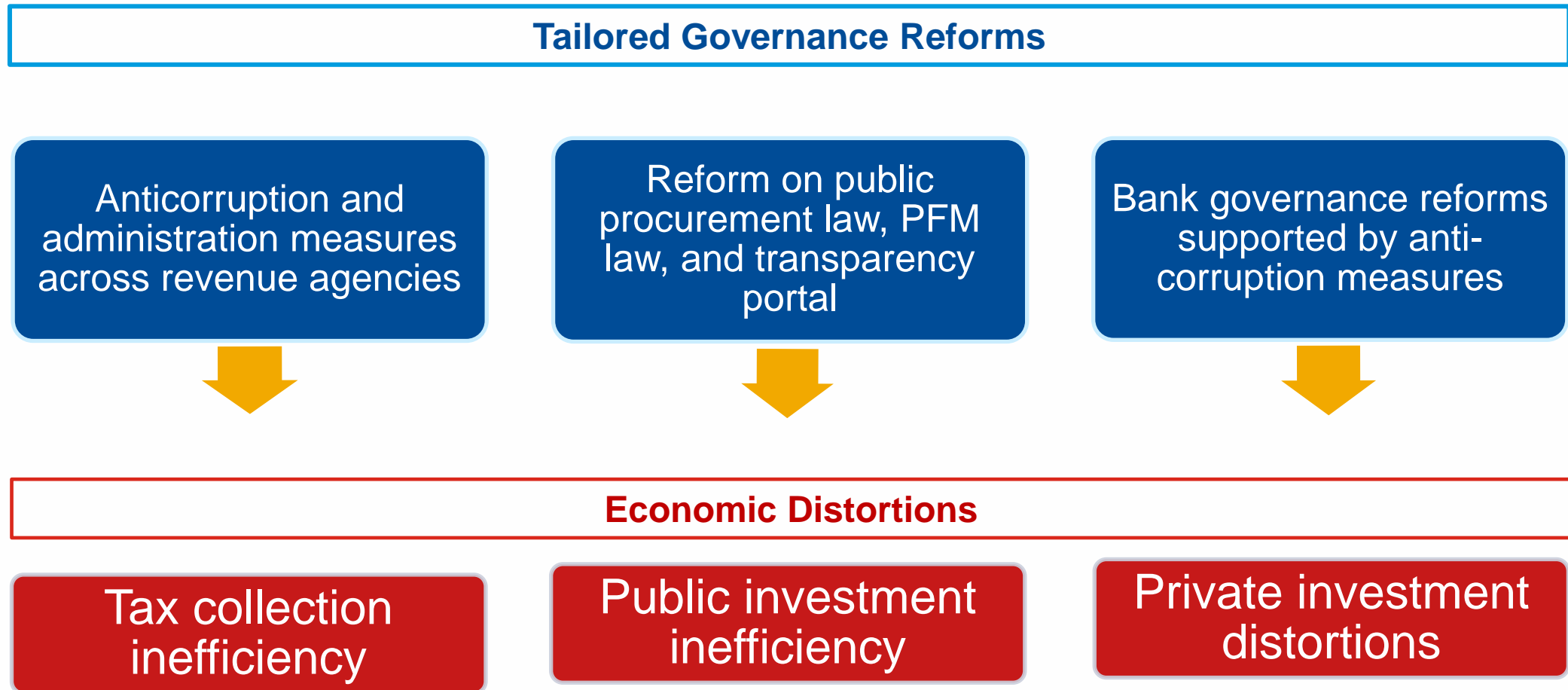
Joel Turkewitz

Deputy Division Chief, Governance and Anticorruption
Division

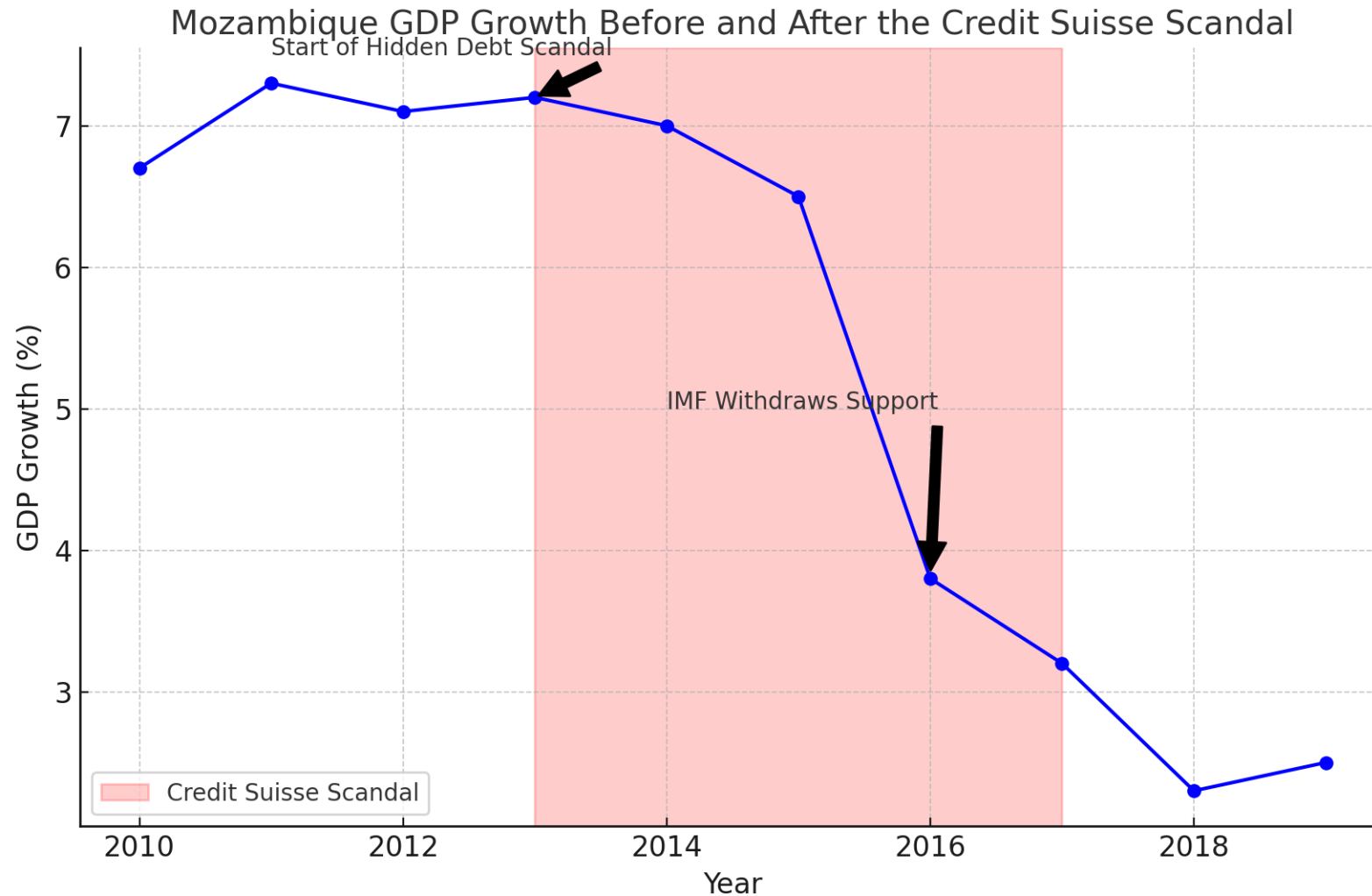
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Macro-Critical Corruption- Country Examples

Understanding the economic impact of corruption



Country examples – Hidden debt in Mozambique (2013-2017)



Mozambique's debt-to-GDP ratio skyrocketed after the Credit Suisse hidden loans scandal, plunging the country into a financial crisis and reducing its ability to service debts, further harming economic stability

Country Examples – Goldenberg Scandal in Kenya (1991-1993)

Channels used to facilitate corruption

Trade policies and export incentive rules abused

Commercial banks involved in the scheme abused overdrafts with the CBK

Foreign exchange fraud by the CBK

Irregular payments were made by the treasury for fraudulent gold exports

The powerful connections with the state elite facilitates the corrupt transaction

After the case was uncovered:

- Two-thirds of the missing funds were recovered
- no prosecutions of high-level officials alleged to be involved

Goldenberg scandal in numbers

Some **Ksh 21.6 billion** were **misappropriated**, equivalent to **6 percent of GDP**

Ksh 15.9 billion was paid by the **CBK** for foreign exchange purchased but not delivered

Credit extended reached **71 percent of reserve money** at end-March 1993

Source: IMF Country Report No. 08/338, 2008

Country examples – Construction Sector in Italy

- Opaque procurement and contracting processes
- Strong links with organized crime
 - Between 1983-2012, 35% of firms confiscated from mafia were in construction sector (Openregio data set by Ministry of Interior of Italy)



Country examples - Ebola Crisis in Sierra Leone



- **Fiscal Costs: undocumented payments/expenses:**
Total of Le74 billion (about 0.33% of GDP in 2014)
- **Corrupt Behavior:** undocumented payments for supplies, procurement procedures disregarded, bribing for circumventing security protocols, mismanagement of EBFs, suspicious payments to parliamentarians and NGOs, undocumented loans.
- **Governance vulnerabilities:**
 - Weak PFM controls, including payroll systems
 - Poor data collection and record keeping
 - Poor tracking of foreign aid and emergency spending

Source: Audit Service Sierra Leone, Report on the audit of the Management of the Ebola Funds, 2014.

Country examples - Covid 19 Spending in South Africa

- **Irregularities and risks detected**
 - Beneficiaries identified who were ineligible to receive grants
 - Possible collusions in bidding in food parcels procurement
 - No verification of employees' salaries for temporary employees' benefits, benefits paid to deceased individuals etc.
- **Governance vulnerabilities**
 - Lack of access to information databases
 - Inadequate planning in the procurement of food parcels
 - Recording food parcel allocations after distribution to the beneficiaries.
 - Deficiencies in validation and verification (e.g., in the payment of temporary employees' benefits)

Source: Auditor-General South Africa: First Special Reports on the financial management of government's Covid-19 initiatives (2020); Second Special Report on the financial management of government's Covid-19 initiatives (2020); Third Special Report (2021)

THANK YOU