INTERNATIONAL MONETARY FUND

Middle East and Central Asia Department

Economic Governance Reforms to Support Inclusive Growth in the Middle East, North Africa, and Central Asia

Prepared by an IMF team composed of Chris Jarvis, Gaëlle Pierre, Bénédicte Baduel, Dominique Fayad, Alexander de Keyserling, Babacar Sarr, and Mariusz Sumlinski, with support from staff in other IMF departments

No. 21/01

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Cataloging-in-Publication Data
IMF Library

Names: Jarvis, Christopher J., author. | Pierre, Gaëlle, author. | Baduel, Benedicte, author. | Fayad, Dominique, author. | Keyserling, Alexander de, author. | Sarr, Babacar, author. | Sumlinski, Mariusz A., author. | International Monetary Fund. Middle East and Central Asia Department, issuing body. | International Monetary Fund, publisher.
Title: Economic governance reforms to support inclusive growth in the Middle East, North Africa, and Central Asia / Prepared by an IMF team composed of Chris Jarvis, Gaëlle Pierre, Bénédicte Baduel, Dominique Fayad, Alexander de Keyserling, Babacar Sarr, and Mariusz Sumliński, with support from staff in other IMF departments.
Other titles: International Monetary Fund. Middle East and Central Asia Department (Series).
Description: Washington, DC : International Monetary Fund, 2021. | At head of title: Middle East and Central Asia Department. | Departmental paper series. | Includes bibliographical references.
Identifiers: ISBN 9781513520759 (paper)
Subjects: LCSH: Political corruption—Middle East. | Political corruption—Africa, North. | Political corruption—Asia, Central. | Financial services industry—Law and legislation. | Money laundering—Prevention.
Classification: LCC JF1081.J37 2021

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Acknowledgments

This IMF Departmental Paper was prepared under the general guidance of Jihad Azour and supervised by Juha Kähkönen and Zeine Zeidane. The team was led by Chris Jarvis with Gaëlle Pierre and comprised Bénédicte Baduel, Dominique Fayad, Alexander de Keyserling, and Mariusz Sumliński from the Middle East and Central Asia Department (MCD), and Babacar Sarr from the Fiscal Affairs Department (FAD). Two accompanying background papers on central bank governance were authored by Wouter Bossu and Arthur Rossi from the Legal Department (LEG), and Julia Cardoso, Elie Chamoun, Arkadiusz Majewski, and Riaan van Greuning from the Finance Department (FIN). The team would also like to thank Chady El Khoury, Ozlem Aydin, Alessandro Gullo, Ioana Luca, Jonathan Pampolina, and Jonathan Swanepoel (all from LEG) for their inputs on anti-corruption, AML/CFT, and the rule of law. The authors are grateful for the editorial assistance of Cooper Allen (MCD) and the overseeing of the publication process provided by Houda Berrada, Communications Department (COM).

The team would like to acknowledge the helpful comments from MCD country teams, Ali Alreshan, Imen Ben Mohamed, Nicolas Blancher, Anastasia Guscina, Kathleen Kao, Eric Mottu, Lorraine Ocampos, Wei Shi, Jean van Houtte, Sergio Rodriguez, Fang Yang, and Mohd Zahir (MCD); Yehenew Endegnanew (Strategy, Policy, and Review Department); Nico Mombrial, Rahim Kanani, Randa Elnagar, and Christoph Rosenberg (COM); Olivier Basdevant, Paulo Medas, Keyra Primus, Gwenaëlle Suc, and Benoit Wiest (FAD); Ashraf Khan (Monetary and Capital Markets Department); Parisa Kamali, Mizuho Kida, and David Moore (FIN); Ezatullah Adib (Integrity Watch, Afghanistan); Aleksi Aleksishvili (Chairman of the Board, PCG, Georgia); Sawsan Gharaibeh (Rasheed, Jordan); Adib Nehmeh (United Nations Economic and Social Commission for Western Asia, Lebanon); Azmi Shuaibi (AMAN, Palestine); and Shereen Talaat (Arab Watch Coalition).

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Abbreviations

AML/CFT	anti-money laundering/combating financing of terrorism
CCA	Caucasus and Central Asia
EITI	Extractive Industries Transparency Initiative
EM	emerging market
FATF	Financial Action Task Force
IFRS	International Financial Reporting Standards
LIC	low-income country
LICC	low-income and conflict country
MECA	Middle East, North Africa, Afghanistan, Pakistan, Caucasus and Central Asia
MENA	Middle East and North Africa
NRGI	Natural Resource Governance Institute
OBS	Open Budget Survey
OECD	Organisation for Economic Co-operation and Development
OGP	Open Government Partnership
PFM	public financial management
SOE	state-owned enterprise
SWF	sovereign wealth fund
UNCAC	UN Convention Against Corruption

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Executive Summary

Reforms to improve economic governance and reduce corruption vulnerability are key to fostering higher and more inclusive growth—factors gaining importance as countries recover from the COVID-19 pandemic and aim to build forward better. Evidence suggests that strong governance is associated with better economic performance—higher economic growth, lower inequality, higher government revenues, more efficient spending, higher private investment, etc. Conversely, weak governance and corruption diminish public trust in government and institutions and could feed public anger, triggering uprisings and political instability. Given the health risks and likely strained balance sheets of the post-COVID world, governments will face difficult policy choices. Policymakers will need to win public trust and maintain social cohesion. Thus, governance and anti-corruption reforms will be high-priority goals.

This IMF Departmental Paper presents the key areas in which countries of the Middle East, North Africa, and the Caucasus and Central Asia (MECA) can enhance governance and fight corruption to achieve their economic policy goals. It draws on advances that have already taken hold in the region. For example, in the last decade, Georgia implemented large-scale governance and anti-corruption reforms and dramatically raised tax revenue. Most countries implemented reforms to strengthen public financial management, improve the rule of law, and enhance business environment. Many countries adopted international conventions and joined anti-corruption initiatives.

For many countries, addressing remaining weaknesses in fiscal governance, notably in terms of transparency and accountability, can bring large dividends—improvements that are already being demanded by the public in countries grappling with COVID-19. In the financial sector, there are gaps in supervisory practices and in the frameworks for anti-money laundering and combating terrorism financing (AML/CFT). Although effective regulation of

businesses will be crucial, many countries' overly complex regulatory frameworks create environments prone to bribery and rent seeking. Countries with strengthened laws and regulations need to enforce and implement the new rules. Anti-corruption frameworks, notably in the areas of prevention and enforcement, remain under-developed in many countries.

This paper draws on analysis of gaps in current governance and successful approaches taken by countries in the region. It offers advice on what can be done to improve governance while recognizing that countries' reform priorities will vary according to national circumstances. In general, fiscal institutions can be strengthened by simplifying their operations, limiting discretion in decision-making, increasing transparency, and improving internal controls and auditing processes. Governments can be made more accountable and transparent by publishing economic and social data and providing access to information. Central banks and financial sector supervisors can benefit from more autonomy, with more transparency and accountability. Sound AML/CFT frameworks can help detect the proceeds of corruption. Business regulations can be streamlined and better enforced. Robust, well-enforced legislation can target corruption directly. Digitalization could play a critical role in many of these areas. Importantly, although strong institutions are essential, individuals are as well. Political leaders can carry forward ambitious and sustainable reforms, particularly in collaboration with businesses, unions, and civil society organizations. Doing so is critical to foster investor confidence, public trust, and social cohesion and spur strong, inclusive, sustainable growth.

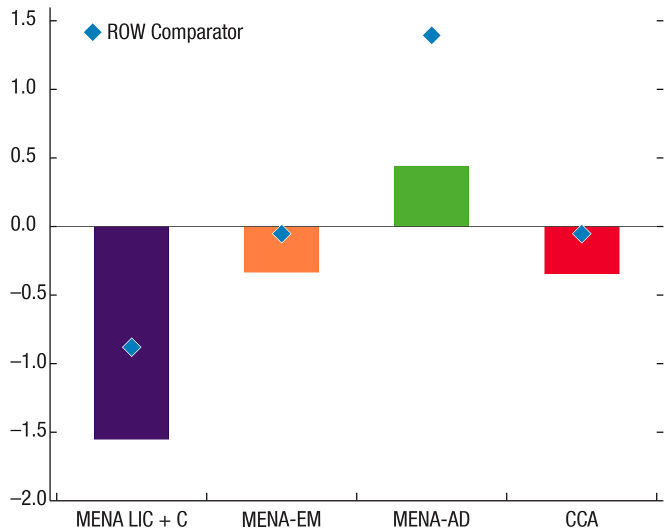
CHAPTER

1 Introduction

Fostering higher and more inclusive growth has been a key long-term objective of MECA countries (see Purfield and others 2018; Vera Martin and others 2019). Many countries in the region have implemented economic reforms to improve the macroeconomic management of their economies. They have advanced on structural reforms in various areas, including business and labor regulation and generalized subsidies, to enhance private sector dynamism and job creation for the millions of young people who form the labor market of much of the region. In this context, enhancing economic governance has multiple benefits for the economic development of any country (Hammadi and others 2019; IMF 2016a, 2018a, 2019i; Blackburn, Bose, and Haque 2006; Blackburn, Neanidis, and Haque 2008; Dreher and Herzfeld 2005; Mauro 1995).

The economic literature spanning the past three decades shows the different ways in which improved governance and lower corruption risks have beneficial effects on economic growth. First, they improve macroeconomic stability by increasing government's effectiveness in using public resources and providing services (IMF 2019b; World Bank 2016; Tanzi and Davoodi 2002, Abed and Gupta 2002). Second, they improve investors' confidence and countries competitiveness in the global market (Busse and Hefeker 2007). Third, they can make growth more inclusive by spreading its benefits among all members or groups in society (Campos, Estrin, and Proto 2010; Chêne, Clench, and Fagan 2010; Gupta, Davoodi, and Alonso-Terme 2002). Fourth, they can improve or restore trust in government and strengthen social cohesion thereby strengthening political stability (Chen 2000; Chayes 2015). Fifth, they can favor a greener economic growth (Welsch 2004). On the contrary, weak governance and associated vulnerabilities to corruption impose high economic and social costs, especially when widespread.

Figure 1. Government Effectiveness
(Scale, –2.5 [weak] to 2.5 [strong], 2018)



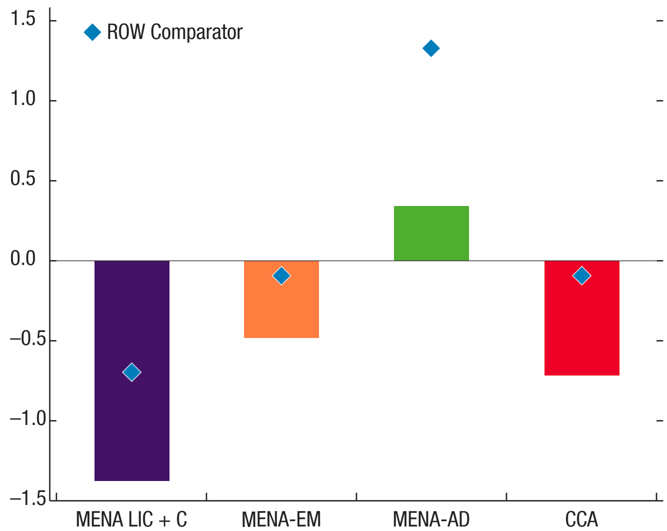
Source: Worldwide Governance Indicators.
Note: ROW = rest of world.

Good governance is key to the effective management of the coronavirus disease (COVID-19) crisis. Strong fiscal governance ensures the effective use of resources to address the increased needs in the health sector and the economic fallout of the pandemic. Good governance, which enables more effective policymaking, also helps with a quicker response to the crisis. Moreover, good governance promotes public trust in government, which is particularly important in these times when policymakers are compelled to take difficult measures to contain the pandemic (Box 1).

Many countries in the MECA region have made progress in improving economic governance, but surveys suggest there is still much to do to reach higher levels of public confidence. Citizens and businesses view weak governance and corruption as serious problems in the region. Countries score low on the perceived quality of public services, the civil service, and on policy formulation and implementation, as well as the degree of governments' independence from political pressures and credibility of their commitment to their policies (all dimensions captured in the government effectiveness indicator in Figure 1). The Control of Corruption Index[1] and the Corruption

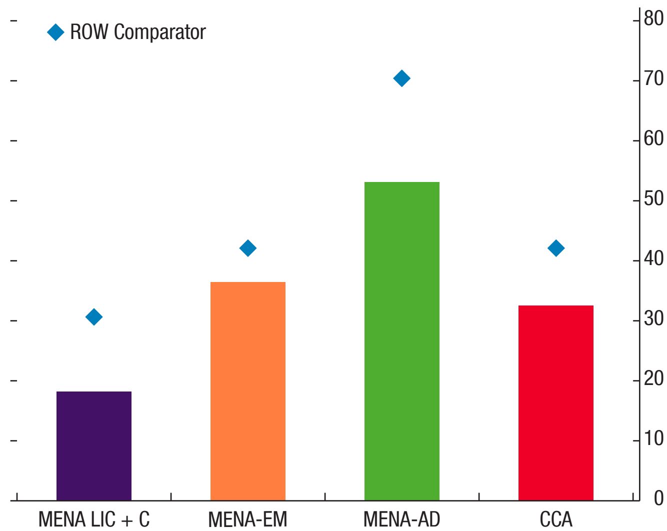
[1]The paper uses the Control of Corruption Index (Worldwide Governance Indicators) because it has a broad country coverage and aggregates information from more than 30 different sources, which helps limit biases associated with any specific measure. The Worldwide Governance Indicators are composite governance indicators based on more than 30 underlying data sources. https://info.worldbank.org/governance/wgi/#home

Figure 2. Control of Corruption
(Scale, –2.5 [weak] to 2.5 [strong], 2018)



Source: Worldwide Governance Indicators.
Note: ROW = rest of world.

Figure 3. Corruption Perceptions
(Scale, 0 [highly corrupt] to 100 [very clean], 2019)



Source: Transparency International Corruption Perception Index.
Note: ROW = rest of world.

Perception Index[2] show that MECA countries tend to score below their peers (Figures 2 and 3), suggesting that corruption is perceived as a significant issue.[3]

This paper seeks to inform and guide policymakers in the region by diagnosing the main governance weaknesses and vulnerabilities to corruption in the MECA region, and proposing actions that governments can take to make things better. Its methodology is based on recent IMF work (see IMF 2016a, 2017d, 2018a; Annex 1 for methodological notes; and Annex 2 for country groupings). It looks at the governance of the public sector and does not cover the challenges related to corporate governance. It identifies opportunities to improve governance in key government functions related to economic policy. These include (1) strengthening fiscal institutions, which deal with taxation and public spending, by simplifying their operations, fostering integrity of civil servants, limiting discretion in decision-making, and improving internal controls and auditing processes; (2) making governments more efficient,

[2]The corruption perception index is compiled by Transparency International, which seeks the informed views of analysts, businesspeople, and experts in countries around the world. This indicator is derived from perceptions-based data. Confidence intervals for group averages are negligible. https://www.transparency.org/research/cpi/overview.

[3]As noted in IMF (2018), perception of corruption could increase in the initial stages of an anti-corruption drive, though pervasive perception of corruption can, in and of itself, have an important impact on economic performance.

accountable, and transparent; publishing economic and social data; and providing access to information; (3) ensuring autonomy and accountability of central banks and financial sector supervisors; (4) continuing to improve AML/CFT frameworks and their implementation to better detect the proceeds of corruption; (5) streamlining business regulations and strengthening their enforcement; and (6) establishing robust anti-corruption legislation and ensuring its fair enforcement. Finally, although strong institutions are essential, individuals are as well. Political leaders can carry forward ambitious and sustainable reforms, particularly in collaboration with employers, unions, and civil society organizations.

The rest of the paper is organized as follows. Chapter 2 provides a diagnosis of the governance challenges in MECA countries, comparing outcomes to international peer groups. Chapter 3 follows with policy recommendations to improve governance, using country examples, and discusses the role of the IMF and other international financial institutions in supporting country efforts in this area.

Box 1. Governance Challenges Arising from the COVID-19 Pandemic

Governments worldwide needed to respond strongly and quickly to the COVID-19 pandemic and, at the same time, avoid wasting scarce resources. Although major industrialized countries were able to take wide-ranging measures, many emerging and developing countries had resource constraints that limited what their governments and central banks could do to support the economy. In this environment, good governance of public resources devoted to healthcare, pandemic containment, and mitigation of the economic impact of COVID-19 has been especially important.

In the immediate crisis phase, key governance safeguards requirements, to which governments committed for example through Letters of Intent, were the following:

- **Design:** Balancing a quick response with being transparent in selecting and explaining policy responses.
- **Implementation:** Monitoring, executing, and controlling spending to ensure that money is spent transparently and efficiently for its intended purpose while retaining the flexibility to change policies as the crisis developed.
- **Oversight:** Putting in place transparent reporting and public accountability procedures and empowering oversight institutions such as parliaments and audit institutions to oversee the process. Access to information by civil society organizations and the public at large is a further important step taken that helps to build trust.

Jordan's crisis effort, which was supported under the IMF Rapid Financing Instrument, is a good example of steps that can be taken quickly and effectively. Jordan's government allocated additional funds to contain and treat COVID-19, created specific budget lines for the purpose of tracking and reporting crisis-related expenditures, and linked the emergency fund to its Treasury Single Account. The government also committed to publish on the government website procurement plans, notices, and awarded contracts, including beneficial ownership of awarded entities, for the emergency responses. The Jordanian Audit Bureau will also undertake ex post audits of all crisis-mitigating inflows and spending and will publish the results. Many other countries in the region have made similar commitments (see factsheet).

As the COVID-19 crisis enters a new phase and plans for recovery from the crisis are made, new governance challenges and opportunities will emerge. Governments will need to make decisions on how to procure vaccines and how to run vaccination programs if and when a vaccine becomes available. They will also need to identify target groups for continued government financial support and the limits and conditions for such support, provided either directly or through the banking system. In these decisions the same principles—planning and clear communication of objectives, implementation that is fair and even handed, and oversight of new and continuing programs—will need to be applied. Opportunities will also emerge. In particular, the increased use of online

Box 1. Governance Challenges Arising from the COVID-19 Pandemic *(continued)*

transactions could offer opportunities to develop e-government and reduce opportunities for corruption.

The IMF has given guidance on the fiscal transparency aspects of crisis spending in several forms. Managing Director Kristalina Georgieva has reiterated the public message that government should "do what it takes but keep the receipts." A factsheet describes how the IMF is promoting transparent and accountable use of COVID-19 financial assistance. The Fiscal Affairs Department has published a blog and two related policy notes: "Keeping the Receipts: Transparency, Accountability, and Legitimacy in Emergency Responses" and "Budget Execution Controls to Mitigate Corruption Risk in Pandemic Spending" that policymakers can use. Further work will be forthcoming as the crisis unfolds.

CHAPTER

2 Key Governance Challenges in Middle East and Central Asia Countries

Transparency and Accountability in Fiscal Institutions

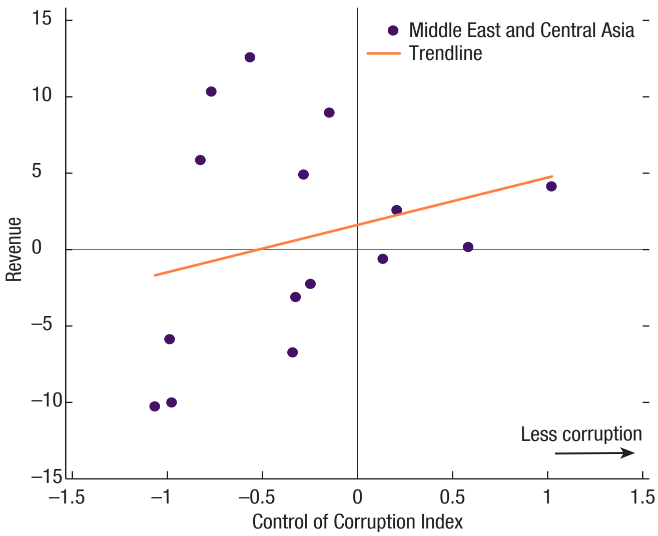
Implementing a strategy for higher and more inclusive growth relies on strong fiscal institutions that can efficiently allocate public resources. The mechanisms through which weak governance negatively impacts fiscal institutions are well-documented. Weak governance and corruption weaken the states' capacity to tax, leading to lower revenue collection.[1] For example, corruption, especially when widespread, harms tax compliance, thereby increasing tax evasion. It also reduces the efficiency of public spending through cost inflation and low-quality outcomes as bribe payers use both to offset the costs of bribes. Empirical evidence confirms that countries that have a higher level of perceived corruption are less able to collect taxes and spend public resources more inefficiently (IMF 2019b; Figures 4 to 7).

The areas of focus for fiscal governance vary across country groups: (1) MENA low-income and conflict countries (LICCs) lag their peers in fiscal transparency; spending outcomes; especially in health and education; and procurement. They perform better than their peers in the efficiency of revenue collections and public financial management (PFM) controls. (2) MENA emerging markets (EMs) lag peers in fiscal transparency and revenue outcomes, but tend to have stronger PFM systems and spending outcomes. (3) Caucasus and Central Asia (CCA) economies perform as well as their peers, except in procurement. (4) MENA advanced economies tend to have lower scores than their peers in all areas of fiscal governance.[2] Differences in PFM systems and spending efficiency are marginal, but they are larger in procurement.

[1]IMF (2019b) documents correlations between weak fiscal institutions and corruption, see p. 43.

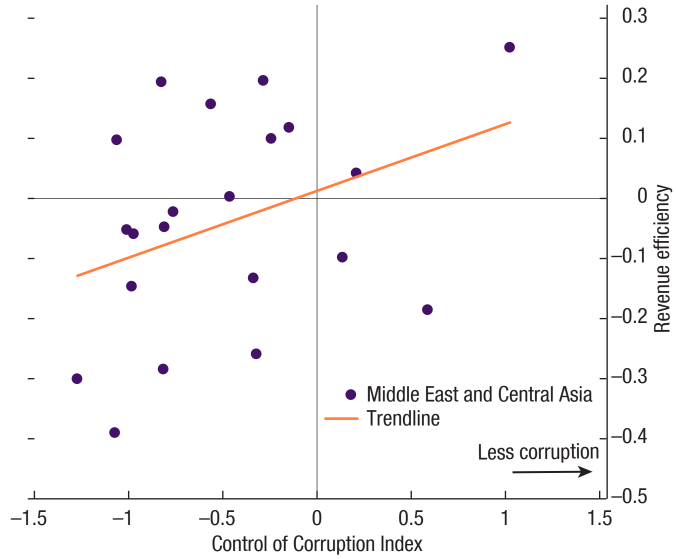
[2]The analysis of revenue institutions and outcomes does not include MENA advanced economies due to lack of data.

Figure 4. Revenue
(Percent of GDP)



Sources: IMF (2019b); IMF, World Economic Outlook database, and Worldwide Governance Indicators.
Note: Revenue data is the average of 2015–17 (excludes oil exporters) and control of corruption shows 2017 data. See Online Annex 2.1. Revenue and the Control of Corruption Index are adjusted for GDP per capita.

Figure 5. Revenue Efficiency



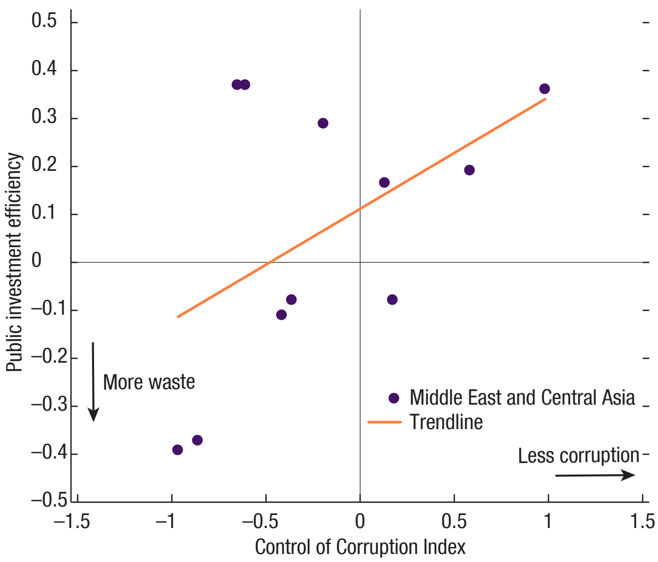
Sources: IMF (2019b); IMF, World Economic Outlook database; and Worldwide Governance Indicators.
Note: Revenue efficiency is an average of 2013–16 and control of corruption shows 2017 data. Revenue efficiency is calculated based on personal income tax efficiency and value-added tax c-efficiency. It compares what countries collect relative to what they should collect based on average statutory tax rates. See Online Annex 2.1. Revenue efficiency and the Control of Corruption Index are adjusted for GDP per capita.

Overall, fiscal transparency[3] is the area of fiscal governance where the region can advance the most on average. Transparency allows for scrutiny of how resources are collected and spent, leading to more efficient use of resources and less opportunity to divert them. Publishing government accounts is likely to improve trust in government, thereby increasing public ownership of government policies and easing implementation of reforms. The importance of fiscal transparency has been recognized in several countries of the region, which have taken steps to improve their laws and processes. Fiscal transparency weaknesses occur in several areas:[4]

[3]Fiscal transparency refers to the publication of information on how governments raise, spend, and manage public resources. More specifically, it means publication of high-quality information on how governments raise taxes, borrow, spend, invest, and manage public assets and liabilities.

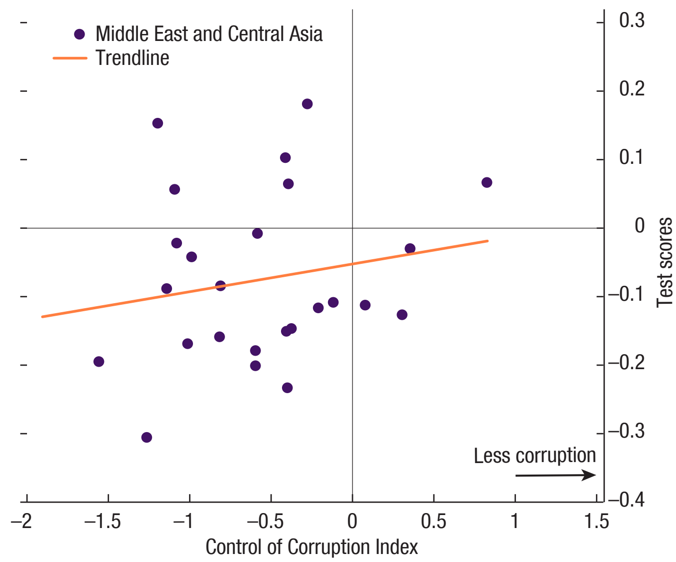
[4]Internationally comparable information on this topic is available through surveys such as the Open Data Barometer (https://opendatabarometer.org/?_year=2017&indicator=ODB), the Open Budget Surveys (http://survey.internationalbudget.org/#home.), as well as Public Expenditure and Financial Accountability assessments (https://www.pefa.org/about). These surveys and assessment provide checklists that can inform countries of best practices in enabling public access to and participation in budget processes.

Figure 6. Public Investment Efficiency



Sources: IMF (2019b, Figure 2.8, p. 47); Patrinos and Angrist (2018); Worldwide Governance Indicators; and IMF staff estimates.
Note: Public investment efficiency is estimated using efficiency frontier analysis and measures inefficiency as the distance to the frontier—that is, the maximum level of output for given levels of inputs. Output is measured by a physical indicator of the volume of economic infrastructure and social infrastructure. Inputs include capital stock and income. See IMF (2019b), Online Annex 2.1 2015 data.

Figure 7. Test Scores



Source: IMF (2019b), Figure 2.8, p. 47; Patrinos and Angrist (2018); Worldwide Governance Indicators; and IMF staff estimates.
Note: Test scores for school-age students are harmonized across sources (and adjusted for GDP per capita). See IMF (2019b), Online Annex 2.1 2015 data.

- *Public access to budget information is uneven.* Surveyed MENA countries tend on average to allow less access to budget documents.[5] Some countries, such as Iraq, the Kyrgyz Republic, and Saudi Arabia have made significant progress since the last survey in 2017. Overall, further progress can be achieved on these measures, for example emulating achievements in Georgia, Jordan, or the Kyrgyz Republic, which all have relatively good access to budget information.
- *Public participation in the budget process is limited.* Public participation in the budget process[6] remains elusive throughout the world, and surveyed MENA countries score lower than other regions' averages. There are variations across MENA countries with Egypt, Jordan, and Tunisia being the

[5]Open Budget Survey includes 109 questions about the level and quality of public access to budget documents. Surveyed MENA countries have an average score of 22, against 51 in surveyed CCA countries, 50 in Latin America and the Caribbean, 56 in Eastern European countries, and 72 in western Europe). However, there are significant variations in the scores from 0 to 61 in MENA and 17 to 63 in the CCA.

[6]Public participation in the budget process is measured through 18 questions, aggregated to a score out of 100. Surveyed MENA countries score a low 4.5, and CCA countries score 19. But scores are relatively low elsewhere: 11 in eastern Europe, 16 in Latin America and the Caribbean, and 22 in western Europe. The standard presumes a society eager and ready to engage with the budget process, which is an idealized expectation.

only countries somewhat including the public in the budget process, while all countries surveyed in the CCA provide some means of participating to the public. For example, Tunisia's legislature provides feedback to the public on how citizens' inputs have been used during legislative deliberations on the annual budget. In Egypt, the executive takes concrete steps to include individuals and/or CSOs representing vulnerable and underrepresented parts of the population in the formulation of the annual budget.

- *Procurement practices could improve as well*. In MENA, there are potential costs tied to inefficient procurement practices, especially due to the absence of a uniform application of procurement legislation and transparent dissemination of tender offers above a certain threshold (OECD 2013), which still persist (OECD 2018), although progress have been made in several countries.
- *Auditing*. There is scope for greater transparency and accountability in audit processes. Notably, the Open Budget Survey shows that in most surveyed countries the head of the Supreme Audit Institution (SAI) can be removed from office by the Executive without assent from the judiciary or legislature. In more than half the countries from the region surveyed, the SAI has not conducted any of the three types of audits (compliance, financial, or performance) or has not made them available to the public.

Governance and Accountability of State-Owned Enterprises

Given their economic importance, improving the governance of state-owned enterprises (SOEs) would bring significant benefits to the countries of the region. SOEs tend to employ a large share of the labor force, and in some countries, they dominate economic activity. Three of the region's SOEs are among the 500 largest companies in the world.[7] SOEs provide important services including infrastructure services, logistics, finance, manufacturing, and real estate.[8] Natural-resource-based SOEs can generate large fiscal revenue. Additionally, their extensive resources may be used for the benefit of the wider economy—for example, through their investment—and their ability to attract foreign investment can spur economic development.

While SOE governance issues are not restricted to MECA, different surveys have shed light on challenges facing the region in this area. For instance, nearly half of the respondents to a 2018 OECD survey[9] of SOEs in 37

[7]Emirates Group of the United Arab Emirates, SABIC, and Saudi Aramco of Saudi Arabia; see OECD (2019, p. 144).

[8]For example, Saudi Aramco, on behalf of the government, has developed neighboring communities, operated schools and hospitals, and constructed a university, thus substituting for the government's resources and actions.

[9]OECD 2018b. SOEs from Kazakhstan and Pakistan responded to the survey analyzed by the study.

countries across the world noted a corrupt act or another irregular practice in their organizations. Another 2019 OECD study[10] of MENA SOEs identifies several governance vulnerabilities in their operations. Specifically, the fact that they have operational goals that often mix commercial and public policy goals makes their performance evaluation more complicated. Moreover, their governance structure allows conflicts of interest. For example, SOEs are audited by state audit institutions, and most of them are owned by line ministries that regulate the markets where they operate. Those that are listed on local stock exchanges disclose information to comply with the exchange disclosure requirements but are mostly limited to the basic minimum.

For natural resources SOEs, there is scope to improve transparency in order to allow for scrutiny of their operations, improve fiscal revenues, and increase the ability of the public to understand the use of national resources. In particular, most of the MECA companies surveyed by the Natural Resource Governance Institute would benefit from improving the disclosure of the commodity sales (most of the 23 surveyed companies disclose very partial information, 8 of which do not provide any information at all).[11] Similarly, there is scope for the reporting of oil and gas production to become more prevalent—currently a minority of companies (about a quarter of companies publishing their annual report in 2018) report their production.[12]

Relatedly, there is also scope to enforce better governance in the region's sovereign wealth funds (SWFs). Transparency is again an area wherein SWFs could make progress in several countries of the region (see for example the Linaburg-Maduell Transparency Index).[13] Although in some countries this translates into designing better regulations, in others the issue is enforcement of existing regulations. For example, the Natural Resource Governance Institute shows that the rules and practices in terms of deposit and withdrawal, investment, and financial reporting tend to require more transparency than what SWFs are doing in practice.

[10]OECD 2019b.

[11]This information comes from the Natural Resources Governance Index, which assesses governance of 74 SOEs including 23 natural resource SOEs in MECA. https://resourcegovernanceindex.org/data/both/issue?region=global.

[12]The national oil companies database offers consolidated and harmonized data publicly available on SOEs in the oil and gas sector worldwide. It comprises 71 SOEs from 61 countries, including 17 countries from MECA. It is available from the Natural Resource Governance Institute at https://www.nationaloilcompanydata.org/.

[13]The index looks at 10 aspects of transparency. Few of the region's assessed funds fulfill 8 or more aspects of transparency (Azerbaijan, Bahrain, Kazakhstan and the UAE), which is considered appropriate. The Linaburg-Maduell Transparency Index was developed at the Sovereign Wealth Fund Institute by Carl Linaburg and Michael Maduell as a method of rating transparency in respect to SWFs. This index of rating transparency was developed in 2008 and has since been used worldwide by SWFs in their official annual reports and statements as the global standard benchmark. https://www.swfinstitute.org/research/linaburg-maduell-transparency-index.

Information Sharing and Civil Engagement

Publishing economic and social data is key to helping citizens hold government accountable, allowing them to monitor and assess the quality of public services and government effectiveness. This, in turn, can limit corruption opportunities. This also improves trust between government and citizens and fosters inclusiveness including by giving a voice to vulnerable groups (IMF 2014; Purfield and others 2018). This feedback loop in turn helps governments design economic and social policies that account better for the needs of the population.

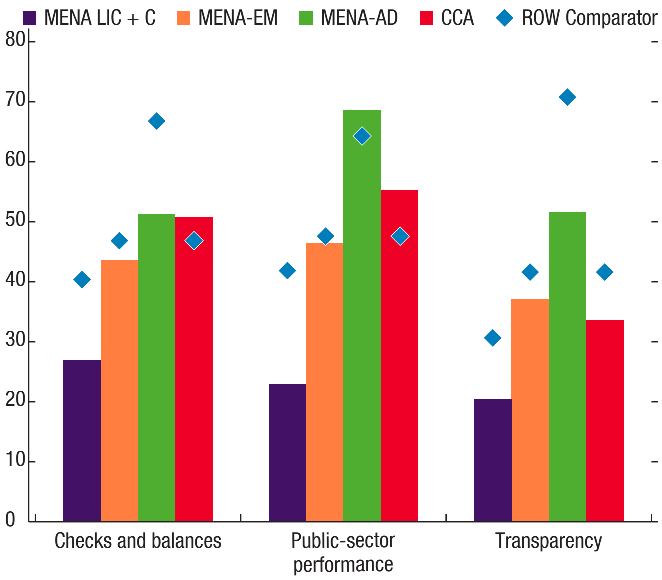
Indicators on public access to information, public accountability, and engagement with the public show that countries in the region could improve publication of economic and social data (transparency indicator from the Global Competitiveness report[14]; Figure 8; World Bank 2020). All subregions, especially MENA high-income, have on average lower scores than peer groups. Also, there is scope for the countries in the region to leverage better new technologies to improve the provision of online services, human capacity, and telecommunication connectivity (UN e-government index). All income groups lag their peers, except for the CCA, which is on par with other EMs.

Moreover, surveys of key ministries done by the World Bank (2019) show that countries in the region could expand consultations on planned and proposed regulations, and better reflect feedback and impact evaluations when designing them. MENA LICCs and advanced economies could also make their laws more user friendly (Figure 9).[15]

[14]The Global Competitiveness Report (World Economic Forum) produces an index made up of more than 110 variables, of which two-thirds come from the Executive Opinion Survey and one-third comes from publicly available sources such as the United Nations. The variables are organized in 12 pillars, each pillar representing an area considered an important determinant of competitiveness. https://www.weforum.org/reports/how-to-end-a-decade-of-lost-productivity-growth

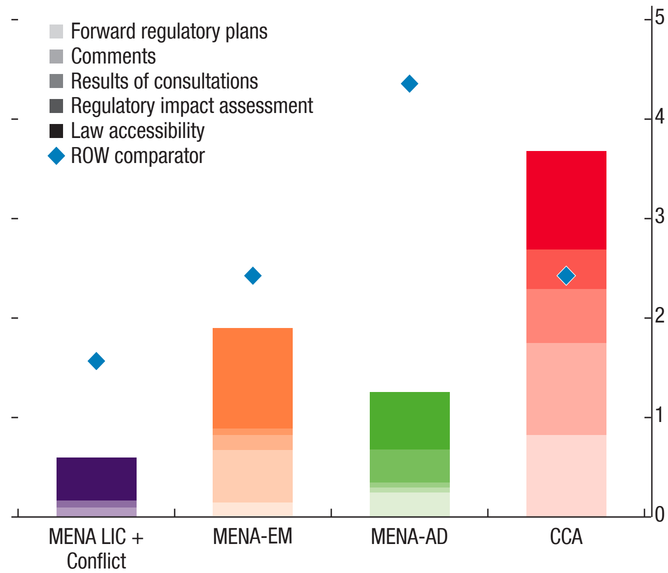
[15]The Global Indicators of Regulatory Governance project (World Bank) explores how policymakers interact with stakeholders when shaping regulations affecting business communities. The project provides information about legal frameworks that allow interested parties to engage in rule-making processes and captures practices not required by law. The data are collected through a questionnaire on stakeholder interaction with regulatory authorities, which is sent to more than 1,500 regulatory experts in 186 countries worldwide. The term "regulation" is defined as "any draft rule of general applicability proposed by an executive authority, ministry, or regulatory agency of a government, which if finalized is intended to bind any individuals or companies covered by it – such as subordinated legislation, administrative formalities, decrees, circulars, and directives – affecting business activities in your jurisdiction. The term also includes rules proposed by the Government that require final approval by the parliament or other legislative body or by the head of state." The breadth of this definition is intended to capture regulatory practices in multiple political systems and countries of different legal origins. https://rulemaking.worldbank.org/

Figure 8. Global Competitiveness
(Scale, 0 [worst] to 100 [best], 2019)



Source: World Economic Forum.
Note: ROW = rest of world.

Figure 9. Regulatory Governance
(Scale, 0 [worst] to 5 [best performance], 2019)



Source: World Bank Global Indicators of Regulatory Governance.
Note: Each subcomponent scored on a 0 (worst) to 1 (best performance) scale.

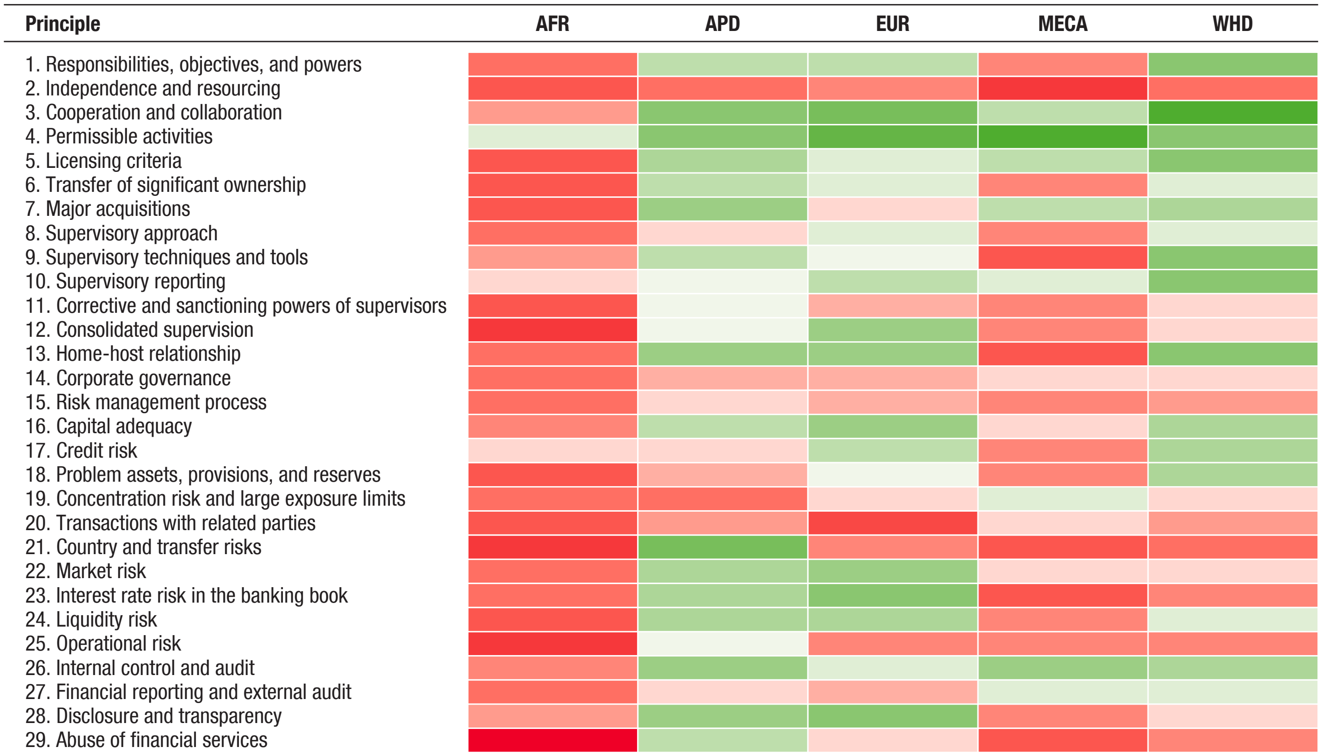
Financial Sector Supervisory and Regulatory Frameworks and Central Bank Governance

Financial Sector Oversight

Weak financial sector regulations and supervision can facilitate corruption, which can have undue economic costs notably through misallocation of resources. Examples of such weaknesses include lax supervision, tolerating connected lending involving public officials, and inadequate supervisory AML/CFT infrastructure that allows AML/CFT regulation to be circumvented. The countries of the region that have been assessed have on average good compliance with about 30 percent of the core Basel principles. They comply with fewer core principles on average than countries assessed in other regions in their compliance with international benchmarks, except countries assessed in sub-Saharan Africa (Figure 10).[16] Assessed countries perform particularly well in defining permissible activities: the permissible activities of institutions that are licensed and subject to supervision as banks tend to be clearly defined and the use of the word "bank" in names is controlled.

[16]Based on compliance to the Basel Core Principles for Effective Banking Supervision, as assessed in Financial Sector Assessment Programs.

Figure 10. Compliance to Basel Core Principles for Effective Banking Supervisions, by Region
(Scale, red [least] to green [most compliant], 2019)



Source: IMF Monetary and Capital Markets Compliance to Basel Core Principles for Effective Banking Supervisions.

Among all the dimensions of effective banking supervisions, the areas where assessed countries can make progress include supervisory governance and cross-border coordination. Assessed MECA countries are also below international standards on independence and resourcing of supervisors (Figure 10). These countries tend to intensively monitor the banking sector, but in some cases and contrary to good practice, their supervisory approach does not yet support a fully integrated view of individual banks' risk profiles. Moreover, analysis of banks' resolvability, especially for systemic banks, and comprehensive frameworks for handling banks in distress are lacking.

Central Bank Governance

Central bank autonomy and governance are important to pursuing the goal of macroeconomic stability and can help with anti-corruption efforts.[17]

[17] When assessing vulnerabilities in the governance and operations of central banks, the issues covered in this paper include the adequacy of (1) the mandate, decision-making structure and autonomy of the central bank;

Transparency and accountability act as counterweights to autonomy (independence), which is important for central banks to effectively carry out their mandate. Lack of robust internal controls and transparency can create opportunities for various forms of corruption, ranging from the misappropriation of assets and funds to the diversion of funds by public officials or the use of public office for private benefits, particularly when the central bank is also the financial supervisory body. Involvement in quasi-fiscal activities can lead to inefficiencies and accountability issues and create vulnerabilities to corruption.

The governance of the central bank of the countries of the region can be improved in three main ways (see Rossi and Bossu 2021; Cardoso and others 2021):

- *Oversight*. A significant proportion (27 percent) of central banks' boards have a majority, or sole membership, of central bank executives. Having executives in control of the internal oversight process does not provide for robust checks and balances to ensure high-quality decision-making and avoid excessive concentration of power. Whereas such a setup is understandable given the board's typical role in monetary policy formulation, care must be taken to also mitigate ensuing risks for the autonomy of the board from executive management. Moreover, a large majority of central banks' oversight boards are chaired by the governor, who is often also responsible for all the executive management of the central bank, thereby casting doubt on the degree of autonomy of the board from executive management. Finally, a large majority of the region's central banks have weak or no eligibility criteria[18] for selection of non-executives.
- *Financial statements.* Currently, only about 60 percent of the region's central banks publish full annual financial statements, which is low compared to other regions (Cardoso and others 2021).[19] Eight central banks do not publish their financial statements, either because the country is in conflict or the central bank has confidentiality concerns or weak transparency practices. Fewer than 40 percent of MECA central banks that publish their financial statements have adopted International Financial Reporting Standards (IFRS) in its entirety, and about 20 percent have adopted standards that differ from IFRS as issued by the International Accounting Standards

(2) the accountability and transparency framework; and (3) the internal control environment (see Cardoso and others 2021). For a broader definition of central bank governance, see IMF 2019f.

[18]The presence of high-caliber professionals on the board with the ability to express opinions that may differ compared to the ones of the governor chairing their meetings is necessary. Indeed, governors are often more informed as to the functioning of their complex institution than the independent directors and are often very well-respected professionals. Hence, it is only reasonable to expect a check on the activities of the governor and the executives from experienced and independent-minded non-executive directors.

[19]A set of annual financial statements includes (1) statement of financial position, (2) income statement, (3) cash flow statement, (4) statement of changes in equity, and (5) disclosure notes.

Board to a certain degree.[20] This compares with a global rate of full adoption of IFRS of 50 percent. Encouragingly, auditing practices tend to be strong among MECA central banks that publish their financial statements. Most of the central banks that publish their financial statements also publish their audit opinions and are audited by international audit firms.[21] Moreover, three-quarters of these audited central banks complete their audit within four months.

- *Autonomy of central banks*. The financial autonomy of a central bank helps sustain its credibility, which is safeguarded by the ability of the central bank to carry out its mandate without recourse to external financial assistance. Most importantly, carrying out quasi-fiscal activities is sometimes associated with reduced autonomy of MECA central banks, which may lead to their recapitalization. The two main types of quasi-fiscal activities in the region are subsidized lending to the financial sector and to the government.[22]

Anti-Money Laundering/Combating the Financing of Terrorism Frameworks

An effective AML/CFT regime helps prevent, deter, and detect the laundering of corruption proceeds. Drawing on the international AML/CFT standard set by the Financial Action Task Force (FATF), four key areas in a country's AML/CFT regime support efforts to combat corruption: (1) preventive measures implemented by financial institutions and other reporting entities; (2) entity transparency (for example, access to basic and beneficial ownership information of legal entities and legal arrangements); (3) a criminal justice system that criminalizes and investigates acts of corruption and laundering of their proceeds, and seizes or confiscates their proceeds; and (4) international cooperation and asset recovery on transnational corruption and its proceeds. It is also important to preserve correspondent banking relationships as the high compliance costs of conducting due diligence on potential proceeds of corruption can overly burden correspondent banks.

There is still scope to enhance some aspects of AML/CFT regimes. Countries in the region are overall assessed by the FATF[23] as having weak effectiveness (Figure 11) on the capacity to detect and address money-laundering activities

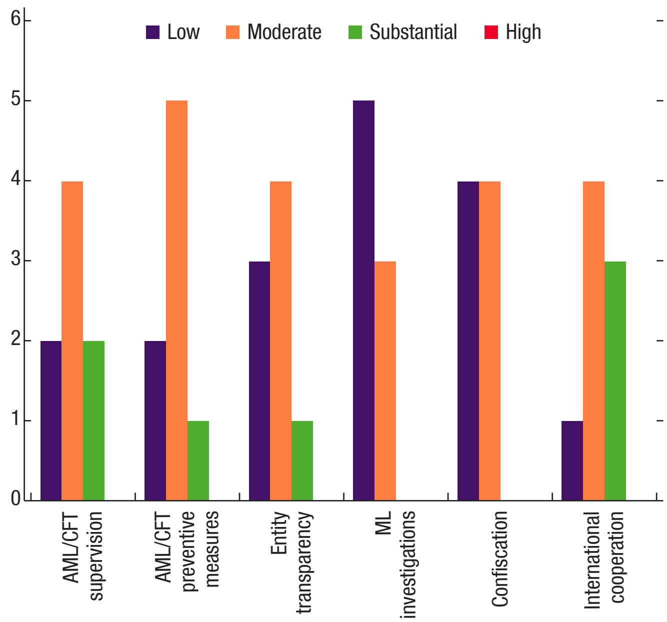
[20] Modifications are related primarily to the treatment of unrealized gains and losses.

[21] Among the 19 central banks that publish a set of financial statements, 18 include their audit opinion. Additionally, two central banks that only publish abbreviated financial statements based on their local accounting framework also included their audit opinion.

[22] Usually, central banks are involved in more than one quasi-fiscal activity—six central banks do both subsidized lending to the financial sector and lending to the government. No information was available for five central banks. For more details on central bank quasi-fiscal activities in low-income countries, see IMF (2015).

[23] The FATF and FATF-style regional bodies comprehensively assesses countries' AML/CFT regimes against the 2012 FATF standards, which placed a more structured emphasis on assessing the level of effectiveness.

Figure 11. AML/CFT Effectiveness, MECA
(Number of countries assessed)



Source: IMF staff calculations based on FATF/FSRB reports for eight countries (2016–19).

and sanction criminals (*criminal justice* indicators). There are also weaknesses in preventing the proceeds of crime from entering the financial and other sectors (*preventive measures* indicators) and ensuring entity transparency, although a few countries in the region have high ratings. Regarding international cooperation indicators, most of the countries assessed in the region need major to moderate improvements. There are of course important variations between countries of the region, and progress has been uneven. Out of the 61 countries that the FATF has included in its list of jurisdictions with serious AML/CFT deficiencies since 2010, one-third have come from the region. Although many have demonstrated enough progress to exit the FATF list throughout the years, a few have been continually listed.[24]

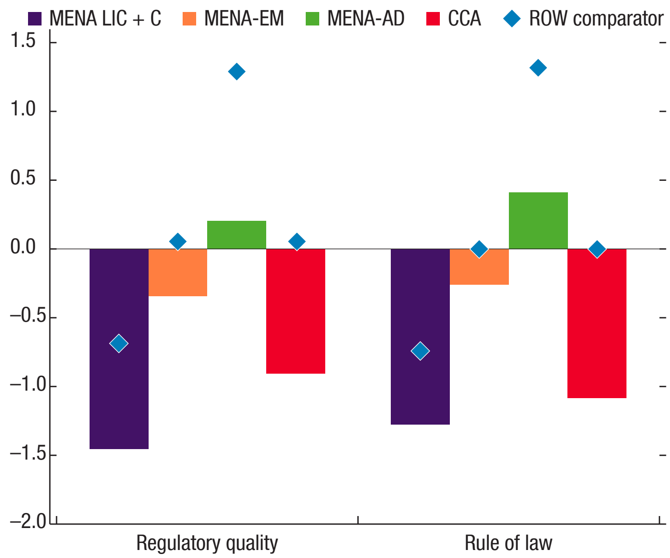
Streamlining and Enforcing Business Regulations

An attractive and predictable business environment is key to foster private sector dynamism. It is crucial to have regulations fairly enforced to avoid

Comprehensive AML/CFT assessments undertaken under the 2003 FATF standards were more focused on technical compliance. https://www.fatf-gafi.org/.

[24]For more details, see FATF https://www.fatf-gafi.org/home/.

Figure 12. Rule of Law
(Scale, –2.5 [weak] to 2.5 [strong], 2018)



Source: Worldwide Governance Indicators.
Note: ROW = rest of the world.

incurring unexpected costs for businesses. Complex regulations may also create incentives for corruption, which may carry significant costs for businesses, for example in the form of bribes or delays.

Countries of the region have made significant progress in addressing impediments to doing business in de jure regulations. Many countries of the region have designed first-best laws, such as new investment laws or streamlined business regulations. Although there are significant variations across countries, they have on average decreased the number of procedures and decreased the time it takes to perform these procedures in the past decade.

Despite these significant improvements, uneven implementation remains an issue. Sub-regions achieve on average lower regulatory quality and rule of law than their comparators (Figure 12). Uneven implementation of regulations may impair the success of regulatory reforms and limit their beneficial impact on private sector economic activity, it may also incentivize corruption. For example, corruption may arise in contexts where implementation of laws and regulations varies across the geographic location, size, or connections of firms either because of tradition, nepotism, preferential treatment, or weak administrative capacity. Also, individuals wishing to maintain corrupt behaviors may resist implementation. There are several examples across the region where rules are applied selectively due to political interference and lack of accountability.

Anti-Corruption Frameworks

Countries that wish to significantly reduce vulnerabilities to corruption and their associated economic costs can seek to address these directly. Four priority areas emerge for the region.

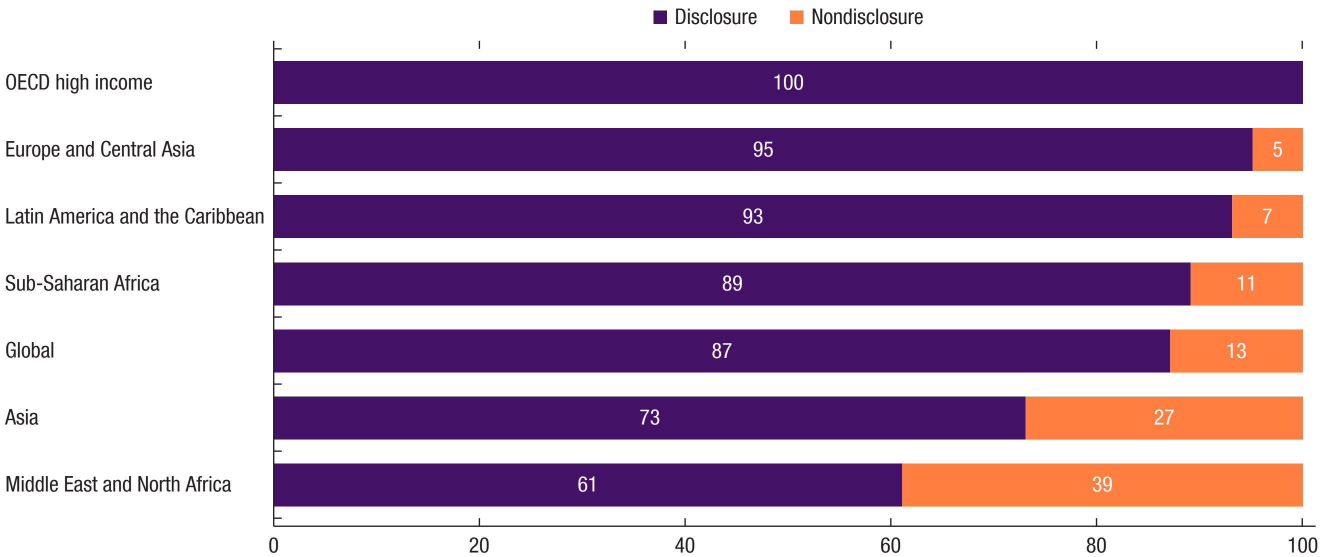
Participation in international initiatives. Since corruption does not have borders, it is important for countries to participate in international initiatives. These initiatives also provide peer-learning opportunities and guidance, a concept that has been embraced by most countries in the region. Almost all countries in the region have become state parties to the UN Convention Against Corruption (UNCAC).[25] Furthermore, all Arab states have ratified the Arab Convention against Corruption. Although several countries of the region adopted the necessary legal and institutional arrangements to tackle corruption under these initiatives, they are facing implementation challenges.

Preventive measures to detect corruption activities. Overall, information held by the public sector is not easily accessible, whistleblowers are often not protected, and rules of conflict of interest are not properly applied. Moreover, a strong financial disclosure system is crucial for an anti-corruption strategy. Financial disclosure[26] has increasingly gained relevance as one of the few instruments that can serve multiple anti-corruption objectives at once: prevention, detection, investigation, prosecution, AML, and asset recovery. However, adoption of financial disclosure requirements in MENA countries is still in its early stages compared to global adoption (Figure 13). In addition, even for countries that require financial disclosure, enforcement is sometimes inadequate. Often, compliance with the obligation to declare is low, the submissions are not verified, and there are no sanctions for failure to declare. Finally, the declarations are not published and access to related data is strictly confidential.

[25]Of the 31 countries that form MECA, only Somalia has neither signed nor ratified UNCAC. Syria has signed, but not ratified, the UNCAC. Countries that ratified the UNCAC are committed to transpose the convention into domestic laws and effectively implement it. This notably involves enhancing preventive measures to detect corruption, criminalizing corruption offenses and enforcing against the perpetrators of corruption, cooperating at the international level, and bolstering asset recovery. They also commit to the formulation of an anti-corruption strategy and engaging with civil society organizations. Chapter III of the UNCAC provides for three primary categories of criminalization: (1) acts which states parties are obliged to criminalize; (2) acts which states parties shall consider criminalizing; and (3) acts which states parties may consider criminalizing. In respect of the obligation to consider criminalization in respect of some offenses, there is some academic debate as to the extent to which states parties are obliged to consider criminalization of these measures. In this regard, the UN Office on Drugs and Crime has noted that the obligation extends to "making a genuine effort to see whether [the measure] would be compatible with [the states parties'] legal system." See UN Office on Drugs and Crime (2012).

[26]Financial disclosure requires periodical submission of information to a government authority on income, assets, liabilities, and interests of entities and persons subject to disclosure.

Figure 13. Jurisdictions with Financial Disclosure Legislation
(Percent of total, 2017)



Source: World Bank Stolen Asset Recovery Initiative.

Enforcement. Convictions against corrupt officials and confiscation of their illegal proceeds are necessary for bolstering accountability and anti-corruption efforts.[27] Weak enforcement could enable a climate of impunity and contributes to a feeling of lack of accountability and favoritism, which emboldens corrupt public officials, and encourages bribery of public officials by private sector actors and discretionary application of regulations.

Asset recovery and cooperation between states. International cooperation is facilitated by the UNCAC and Arab Convention against Corruption, but implementation of these provisions is rare among countries in the region. For example, very few cases from the Arab Spring resulted in the recovery of assets laundered abroad.[28] This is partly due to inefficiencies in the process itself and the practical and legal complexity of international cooperation on these matters, including issues of sharing confidential data, cooperation between agencies, etc. The threat of prosecution for noncompliance also needs to be credible.

[27]An effective and independent judiciary plays a crucial role in fighting corruption. This paper focuses on economic institutions and does not expand on the role of the judiciary in detail.
[28]Stolen Asset Recovery Initiative, https://star.worldbank.org/corruption-cases/?db=All.

Chapter

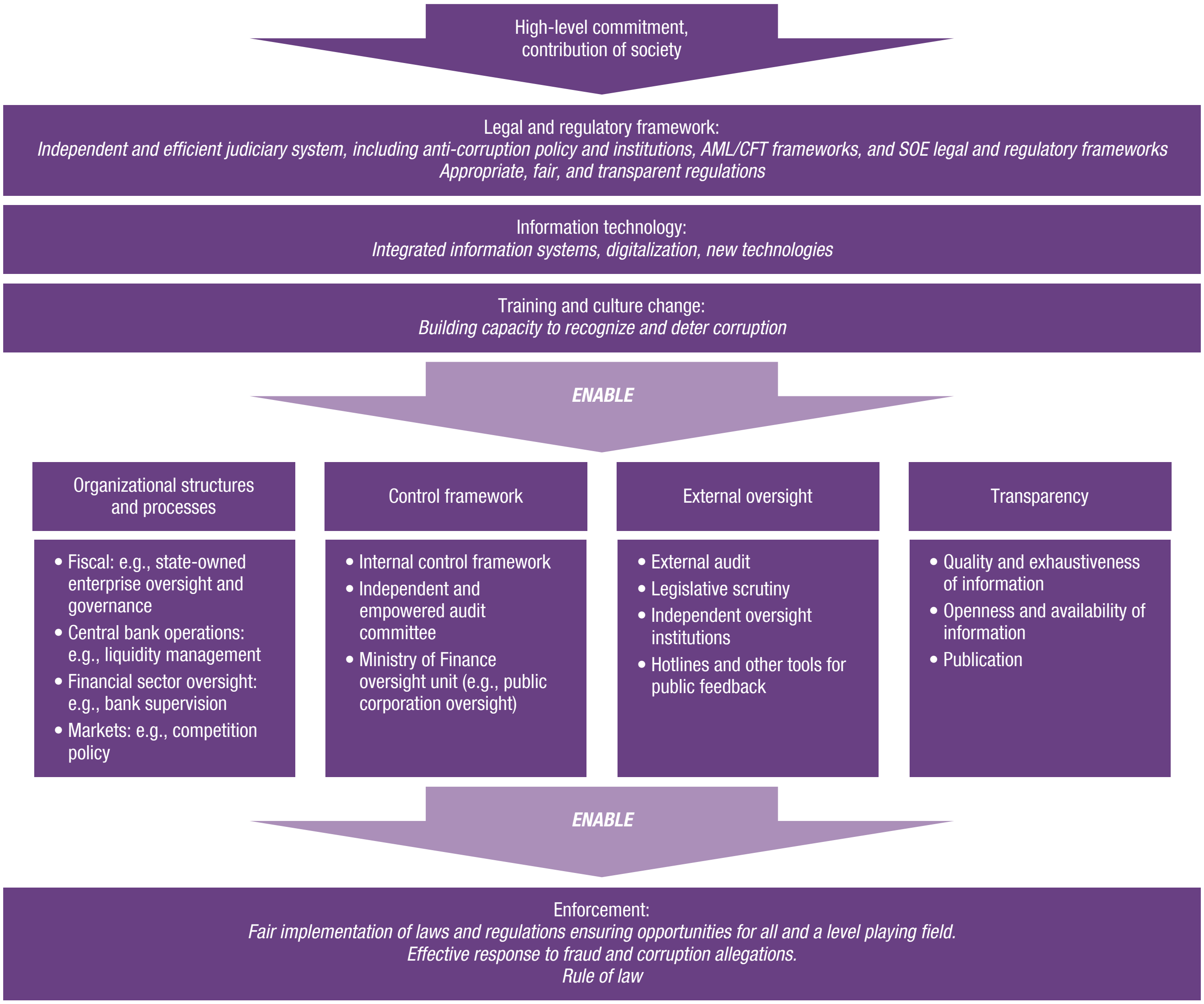
3 How to Improve Economic Governance

The principles underlying improvements in economic governance are applicable to all policy areas and cover several aspects of policymaking, including political will, laws and regulations, internal processes, and external audits (see Box 2 and Figure 14). Chapter 2 suggests that the following reforms have the most potential to improve governance and support inclusive growth in the region:

- For all countries, a key to improving governance is greater transparency and accountability—especially in government policies and in the functioning of SOEs.
- For most countries, there is a need to improve the implementation of existing laws and regulations while removing red tape.
- For some countries, there is a need to strengthen laws, regulations, and institutions, including those targeting corruption.

This chapter proposes recommendations to address the weaknesses identified in each policy area in Chapter 2 and illustrates the progress that countries have achieved so far. Countries in the region have scope to act in all the policy areas. This said, governance reforms need to be tailored to country circumstances, and their success hinges on strong leadership, well-designed laws and regulations, dedicated and skilled civil service, and better leveraging technology (Box 2).

Figure 14. Framework for Economic Governance Institutions



Source: Authors based on IMF 2019b; and OECD 2017.
Note: See Box 2 for more details.

Improving Governance in Key Government Economic Functions

Fiscal Institutions

- *Publishing fiscal data and engaging with the public*. Publishing up-to-date and relevant information on governments' budgets and public spending demands a proactive approach. Official documents and laws in their

official forms, such as official journals, can remain quite opaque to the public. Greater transparency therefore requires the publication of more user-friendly versions. Moreover, these publications need to be timely to remain relevant. Several countries of the region, including Egypt, Georgia, Kazakhstan, and the Kyrgyz Republic have increased public access to budget information.

- *Streamlining rules and regulations*. The idea is to reduce the complexity of fiscal institutions' operations and related PFM rules and regulations. For example, Kazakhstan is introducing universal filing of tax returns in 2020; Tajikistan adopted electronic tax filing that resulted in an increase in tax payments among high-risk firms. Afghanistan has modernized budget regulations and procedures to increase revenue and rationalize spending. Georgia improved PFM procedures, the tax code, business registrations, and import clearance thereby lowering corruption and increasing revenue intake from 12 percent of GDP in 2003 to 25 percent of GDP in 2008 (IMF 2019b).
- *Enhancing accountability and integrity of institutions and civil servants.* This may begin with establishing a professional and competitive public service as in Georgia (World Bank 2012). One idea is to limit individual discretion in decision-making, including through digitalization and e-services adoption. Incentives can also be adapted, for example, Pakistan introduced performance pay for tax collectors to improve accuracy of tax assessments.
- *Improving procurement mechanisms*. In a sound procurement process, projects are tendered in an open, competitive process, on which timely information is made public. There is a complaint mechanism that provides adequate checks and balances. Moreover, accountability is enforced through monitoring annual project costs and physical progress, as well as having ex post external audits. Georgia adopted an e-procurement service that increased transparency and reduced discretion in decision-making. Kuwait passed a new procurement law in 2016, which aims to promote competition, transparency, and equal treatment.[1] In 2019, Saudi Arabia also passed a new public procurement law and reformed its procurement process in order to strengthen spending efficiency. In Afghanistan, the National Procurement Authority's compliance with the publication of high-value contracts reached 77.5 percent in 2018 (IMF 2019a). Implementation of procurement reforms is accelerating in Azerbaijan (IMF 2019j), Morocco (OECD 2018a), and Uzbekistan (OECD 2019a), where preparation and adoption of new legislation and regulatory practices features e-procurement and increased transparency of bidding and contracting. Kazakhstan has

[1]It also lays the groundwork for establishing dedicated procurement bodies in public organizations, adopting modern approaches to bid evaluation, introducing lifecycle costing and other non-price criteria, instituting an enhanced complaint mechanism, and facilitating small- and medium-sized enterprises.

introduced amendments to its public procurement legislation that would significantly reduce single-source procurement.

- *Enhancing audits and internal controls*. This involves improving the depth, breadth, and trustworthiness of auditing processes. In this context, Morocco is preparing a draft law on illicit enrichment to support the Court of Auditors in identifying and prosecuting cases of illicit enrichment.
- *Increasing the accountability of SOEs*. To achieve this goal, the same principles that would enhance economic governance more generally can be applied (for example, promoting integrity, strengthening internal controls, enforcing regulations). In addition, specific areas can be enhanced including ensuring professional and transparent SOE interactions with the ownership entity and broader public sector, and holding SOEs to corporate governance standards similar to private sector companies. This would be facilitated by a policy and a legal and institutional framework for the financial oversight of public corporations (IMF 2016b). Afghanistan recently adopted legislation on state-owned corporations and public-private partnerships to increase their accountability.

Access to Economic and Social Information

- *Ensuring broad access to information*. One way to ensure access to information is to write it into law. Enforcing such laws require significant capacity since they imply that public institutions have information in a readily available format and have adequate resources to respond to public requests. Technology has a role to play here as setting up online portals can eventually facilitate access to information. Tunisia created in 2016 an independent access to information body, endowed with legal personality and financial autonomy to guarantee the exercise of this constitutional right. Jordan has made efforts to improve enforcement of its access to information law, including as part of its membership in the Open Government Initiative. Nine MECA countries[2] have made commitments under the Open Government Partnership, which brings together government reformers and civil

[2]These are Afghanistan, Armenia, Azerbaijan, Georgia,* Jordan,* the Kyrgyz Republic, Morocco, Pakistan, and Tunisia. Countries with an asterisk (*) have certain ambitious and transformative commitments designated as “starred commitments.” To receive an asterisk, a commitment must meet the following criteria: (1) It must be specific enough that a judgment can be made about its potential impact. Starred commitments will have “medium” or “high” specificity. (2) The commitment language must relate to at least one of the Open Government Partnership values of access to information, civic participation, or public accountability. (3) The commitment must have “transformative” potential impact, should it be fully implemented. (4) The commitment must see significant progress during the action plan implementation period (receiving a ranking of “substantial” or “complete” progress).

society leaders to create action plans that make governments more inclusive, responsive, and accountable.[3]

- *Promoting civil society participation* would also contribute to improved public sector transparency and accountability, and allow for more citizens engagement in public policymaking, thereby making government policies more efficient.
- *Better leveraging new technologies*. Initiatives such as Morocco Digital 2020 or the Etimad platform in Saudi Arabia, which aim at dematerializing administrative procedures to increase the efficiency of public services and addressing corruption, are steps in the right direction.

Central Banks and Financial Sector Oversight

- *Increasing the quality of central banks' oversight*, there is scope for most MECA central bank laws to introduce or improve eligibility criteria of oversight board members. Moreover, the organic law of the central bank and associated legal instruments should establish the key aspects of good governance.[4]
- *Improving central bank transparency* requires publishing a full set of audited financial statements and applying a widely recognized accounting framework, such as IFRS, that provides consistent and comparable information on the central bank's financial position and activities.[5] To improve central banks' accountability, quality audits conducted by independent audit firms ensure the credibility of financial reporting, as well as timely and accurate financial statements (see Arda and others 2018). In countries where financial statement publication and accountability frameworks are lagging behind, the IMF recommends adopting IFRS and requires publication of financial statements as part of the safeguard's assessments. As good examples of reforms in MECA countries, Mauritania recently completed the first phase of adopting IFRS standards, Iraq changed the central bank law to include a majority of non-executive members on the board, and Afghanistan started publishing financial statements during its first IMF program.

[3]https://www.opengovpartnership.org/.

[4]It is crucial that organic laws contain the key mechanisms of good governance, as such acts are binding upon even the highest decision-making bodies of central banks such as Oversight Boards. Hence, organic laws ensure that the core elements of good governance mechanisms are not subject to the purview of the bodies for which they aim to set best practices. However, other tools of good governance, such as the charter of the audit committee, are well placed in the bylaws, as often they contain very lengthy provisions that are subject to rapid changes.

[5]IFRS were developed and are maintained by the International Accounting Standards Board, an independent accounting standard-setting body. The International Accounting Standards Board's objective is that the standards be applied on a globally consistent basis. IFRS are now used by more than 100 countries, including by more than two-thirds of the Group of Twenty.

- *Strengthening supervisory frameworks*. The legal framework for banking supervision should include legal protection for the supervisor. Strict customer due diligence rules determined and enforced by MECA supervisors will promote higher ethical and professional standards in the financial sector.

Anti-Money Laundering/Combating the Financing of Terrorism

Addressing weaknesses identified by the FATF in prevention, transparency, criminalization, and international cooperation is critical to detecting the proceeds of corruption. The experience of countries in the region (particularly those that have been assessed under the 2012 FATF standard) can provide guidance to other MECA countries on steps to strengthen AML/CFT frameworks:

- *Understanding risks.* A robust national risk assessment assists the authorities in prioritizing and allocating resources for AML/CFT policies and activities. For instance, Saudi Arabia's national risk assessment showed a good understanding of its AML/CTF risks, which benefited from good access to information, participation of relevant authorities, and a sophisticated analytical approach.
- *Asset recovery.* Robust AML/CFT and anti-corruption frameworks also help prevent, disrupt, and recover proceeds of corruption. The political transitions in the region highlighted the challenges faced in recovering assets hidden abroad (for example, lack of information to enable asset tracking and slow responses to requests for information). As a fundamental principle in the UNCAC, recovery of stolen assets requires effective mechanisms for tracing assets, their seizure/confiscation, and their eventual return.
- *Addressing vulnerabilities in AML/CFT frameworks.* Strengthening the effectiveness of the AML/CFT framework could support overall efforts in fighting corruption.
  - On *supervision*, MECA countries can enhance monitoring of fit-and-proper requirements for financial institutions (for example, identification of beneficial owners), coverage of designated non-professionals and businesses, risk-based supervision (such as identification of politically exposed persons), and enforcement actions (for example, poor sanctioning regimes). Saudi Arabia, for instance, was noted to have a comparatively intensive AML supervision of the higher-risk sectors in accordance with a risk-based approach and has done a great deal of outreach and engagement with regulated entities to communicate their new obligations and supervision arrangements.

- On *entity transparency*, ensuring ownership information of legal entities and legal arrangements (such as trusts) will contribute to preventing them from being abused for money laundering or corrupt purposes. Detecting cases of conflict of interest, bribery, or collusion (for example, the beneficial owner of a company bidding for a government contract is the public official approving the contract or a family member or close associate) can be facilitated if ownership information on the bidding companies is made available and accessible. In Armenia, basic ownership information of legal entities is publicly available and legal entities are required to provide information on their beneficial owners. The 2015 AML/CFT assessment report also noted that the beneficial ownership register is maintained by the state register and recommended further enhancements to monitoring and verification of beneficial ownership information and the sanctions regime for noncompliance.
- On *international cooperation*, further efforts are needed to pursue mutual legal assistance to enhance investigative and prosecutorial approach, especially in cases involving a transnational element. Given its role as a financial and business center, Bahrain considers international cooperation an important element. The authorities send and respond to requests for mutual legal assistance (including the seizure and freezing of bank accounts in relation to corruption charges in a foreign jurisdiction) and use informal cooperation mechanisms for a variety of purposes.

Business Regulations

- *Streamlining regulations.* In the past decade, countries in the region have taken steps to streamline business regulations. For example, Egypt has reduced regulations and tax exemptions and streamlined the process for starting a business. Georgia used the so-called Zero Plus model to reform its public sector, abolishing all previous licenses and permits before designing and adopting new ones. Several countries reduced time it takes to deal with construction permits (Bahrain, Kuwait, Pakistan, United Arab Emirates); to obtain a new electricity connection (Bahrain, Kuwait, Morocco, Oman, Pakistan, Qatar, Saudi Arabia); and to register property (Kuwait, Oman, Qatar, Tunisia). Several countries introduced improved electronic submission and processing of documents for exports (Armenia, Kuwait, Morocco, Saudi Arabia, United Arab Emirates) and imports (Kuwait, Morocco, Saudi Arabia, Uzbekistan).
- *Making regulations more transparent and enforceable*. Countries have improved transparency by increasing public access to information concerning construction permits regulation (Georgia); publishing electricity tariffs (Egypt, Pakistan); and increasing transparency of information on property registration (Azerbaijan, Bahrain, Kuwait, Pakistan, Qatar, Tunisia).

One-stop shops have proved popular across the globe to improve convenience, minimize waiting times, and reduce red tape. They also facilitate the enforcement of regulations. They act as a business' and citizens' primary contact point for accessing multiple public services and information. They have been introduced to different degrees in several countries in the region to facilitate business registration.[6] For example, Kazakhstan has now a large network of "Public Service Centers" which, based on models used in Canada and Australia, offer hundreds of government services. In some countries, they have supported efforts to tackle petty corruption, especially when part of wider efforts to reduce corruption—removing the ability of public servants to demand bribes when citizens apply for documents. Azerbaijan developed a digital public service window called ASAN (easy) that has been used by 5 million people over the last four years. As well as establishing one-stop shops, Tunisia reduced fees to start a business.

- *Engaging civil society in support of business regulation reforms*. In Tunisia, the opening of civil society has been spurred by tech-savvy youth and has accompanied reforms, leading to important changes in the processes of starting, participating in, and doing business. For example, the civil society was instrumental in the Tunisian parliament eventually passing the Digital Tunisia 2020 strategy in 2017, which includes provisions to facilitate startups.

Anti-corruption Frameworks

- *Drawing on international best practices*. For example, many MECA countries have transposed the commitments made under the UNCAC into domestic law, and have stepped up international cooperation.[7] Some have gone further in the technical transposition of the UNCAC offenses and related improvements to criminal procedure laws. For example, this was done in Afghanistan in 2017 for the recognition of corrupt acts.[8] Many MECA countries have also set up specialized bodies to oversee the implementation of the anti-corruption strategies, which are required under the UNCAC.[9] It is important that these bodies, especially those with investiga-

[6]These are Afghanistan, Armenia, Azerbaijan, Djibouti, Egypt, Jordan, Kazakhstan, Kuwait, the Kyrgyz Republic, Mauritania, Oman, Pakistan, Qatar, Saudi Arabia, Tajikistan, Tunisia, and Uzbekistan.

[7]Compliance with the obligations of the UNCAC is assessed through a peer review mechanism, in which two other states parties assess the extent to which the country has implemented its obligations. These assessments are designed to identify areas of good practice, as well as those areas where further efforts may be required. See Resolution 3/1 of the Conference of UNCAC States' Parties. Currently, the first round of peer review assessments, which considers Chapters III and IV of the UNCAC, has almost been completed.

[8]Available at https://www.unodc.org/unodc/en/treaties/CAC/. See also IMF 2017a, p. 27, which documents submission to parliament legislation criminalizing corruption in line with UNCAC and UN Assistance Mission in Afghanistan (IMF 2019a, p. 18–20).

[9]See Articles 5 and 6 of the UNCAC.

tive powers, are sufficiently independent and properly resourced, including through sufficient staff training.

- *Enhancing enforcement of anti-corruption legislation*. Jordan is a good example, with a transparent anti-corruption institution that publishes regular activity reports. In Georgia, in 2004, when the anti-corruption drive began, the authorities dismissed the entire traffic police force and arrested high-level officials suspected of corruption. In Afghanistan, since late 2017 when the National Strategy for Combating Corruption was adopted, the Attorney General's Office prosecuted some 1,635 cases, leading to 468 people sentenced to prison terms and collection of more than $14 million in fines.
- *Adopting explicit anti-corruption frameworks and creating institutions to enforce them*. Governments can thereby show that corruption will not be tolerated and set up mechanisms to target it. Relevant regulations include protection of whistleblowers, identification and removal of conflicts of interest. Afghanistan and the Kyrgyz Republic adopted asset declarations for civil servants and the law on combating corruption envisages publishing income and assets information for certain categories of officials and their families. In 2018, Tunisia adopted an Asset Declaration Law.
- *Facilitating information-sharing at the domestic and international levels*. Interagency cooperation is crucial in making sure corruption offenses are identified, investigated, prosecuted, and sanctioned. Bringing on board a variety of stakeholders, including civil society, could also help bolster the legitimacy of anti-corruption institutions.

Leveraging the Work of the IMF and Other International Organizations

The IMF is engaging with its members on governance and corruption. Within the IMF's mandate, this engagement happens under a program, surveillance, or technical assistance framework. In addition, members may request an in-depth evaluation of their governance framework by the IMF. When there is an IMF-supported program, the engagement may be formalized through structural conditionality on measures that are deemed critical for the success of the program. Under the surveillance framework, the IMF may engage the authorities on macro-critical governance and corruption vulnerabilities and advise on reforms to address such vulnerabilities. For a specific group of countries—including all G7—and on voluntary basis, IMF surveillance includes an assessment of measures to prevent private actors in these countries from offering bribes to foreign officials ("supply side") or providing services that enable the proceeds of corrupt acts to be concealed. Through the capacity-building framework, the IMF provides policy advice and technical assistance and training on policy implementation in specific areas.

The IMF promotes good governance through many initiatives. These include encouraging members to improve accountability and transparency through disclosure of documents related to their engagement with the IMF either under the program[10] or surveillance framework.[11] The IMF also assesses members' compliance with selected international transparency standards through the standards and codes initiative.[12] In addition, the IMF has developed transparency principles for fiscal and monetary policies and a transparent management of natural-resource-related revenues.[13] At a more granular level, the IMF promotes the application of and adherence to specific data collecting and reporting standards[14] to provide comprehensive, timely, accessible, and reliable economic and financial data to the public and the world at large in addition to the required sharing of certain data as per the IMF's Articles of Agreement.

The engagement on governance is taking place in macro-critical areas:

- *Anti-corruption and AML/CFT frameworks.*[15] With the IMF's capacity development (CD) support, several countries of the region made significant reforms to exit FATF monitoring and be removed from its public list of countries with strategic AML/CFT deficiencies (for example, Afghanistan, Iraq, Kuwait, and Sudan), and to ease correspondent banking relationship pressures (for example, Sudan). IMF staff also provided CD to help countries implement measures under IMF-supported programs (for example, Iraq and Tunisia) or bilateral surveillance (such as Djibouti, Oman, Qatar, and Saudi Arabia[16]).
- *Fiscal governance.* In the context of lower hydrocarbon prices and the need to rationalize spending and revenue collection, improving fiscal governance has been the focus of several Article IV consultations in 2019: for example, policy discussions have helped Bahrain, Kuwait, Turkmenistan, and Saudi Arabia in identifying weaknesses, notably in fiscal transparency, and potential solutions.[17] Reforms to improve fiscal governance by strengthening public financial management and improving revenue mobilization have also been discussed in the context of IMF-supported programs in Mauritania. The IMF also partners with the World Bank, the European Union, and the

[10]See IMF 2017c.
[11]See IMF 2019g.
[12]See IMF 2017e, which explains the role of the IMF in recognizing and disseminating international standards in various policy areas and the ongoing work in these areas.
[13]See IMF 2019f.
[14]Available at https://dsbb.imf.org/.
[15]See IMF 2017b, 2019h.
[16]Saudi Arabia 2018 AIV consultation (Box 7) and 2019 AIV consultation (IMF, 2019e), which provide a fuller description of governance and anti-corruption reform efforts of Saudi authorities.
[17]See IMF 2019c, 2019d, 2019e.

development agencies of France, Norway, Slovakia, Switzerland, and the United Kingdom to conduct Public Expenditure and Financial Accountability assessments.[18] In addition, the IMF partners with other international community members in various groups, including the Extractive Industries Transparency Initiative, the G20 Anti-Corruption Working Group, the International Forum of Sovereign Wealth Funds, and the Stolen Assets Recovery initiative.

- *Monetary and financial sector governance.* When the IMF provides a loan to a country, a due diligence exercise is carried out to obtain assurance that the country's central bank that is receiving IMF resources can manage the funds and provide reliable information. This safeguards assessment provides a diagnostic of a central bank's governance and control framework. In addition, the Financial Sector Assessment Program is a comprehensive and in-depth analysis of a country's financial sector. To date, more than three-quarters of the institutions' member countries have undergone Financial Sector Assessment Programs.
- *Regulatory environment.* Fostering private sector activity and job creation is a key element of a strategy to reach higher and more inclusive growth in MECA countries. Improving the regulatory environment for firms, including reducing excessive bureaucracy, simplifying regulations, and making enforcement fairer has therefore been a focus of surveillance work for most countries of the region.[19]

The international community supports country efforts, including through conventions and benchmarks. The OECD and the United Nations have established good governance guides embodied in conventions such as the UN anti-corruption convention or the OECD anti-bribery convention. Countries that sign on to such conventions need to abide by international standards and rules and are supported through peer learning and technical assistance. The international scrutiny that accompanies these conventions can spur significant progress in signatory countries. More generally, participation in inter-national initiatives mentioned throughout this paper, such as the Extractive Industries Transparency Initiative[20] and Open Government Partnership, can provide significant incentives to advance and sustain reforms.

[18]See http://www.pefa.org/.

[19]A 2017 survey of all country teams in the Middle East and Central Asia region reveals that more than 70 percent of the teams advise countries on improving the business environment. For most of them, this includes advice on strengthening the legal framework.

[20]The EITI Standard requires the disclosure of information along the extractive industry value chain from the point of extraction to how revenues make their way through the government, and how they benefit the public. https://eiti.org/

Box 2. The Foundations of Good Economic Governance

Improving governance requires action on multiple fronts. Figure 14 shows the building blocks that are needed to improve governance and reduce corruption, starting with political will and inclusion of all stakeholders. It highlights the processes needed, supported by a strong judicial system and legislation, capacity building and technology, and ultimately enabling appropriate and fair enforcement and implementation of legislation (based on IMF 2019b; OECD 2017).

Improving governance and reducing corruption, especially when systemic, is a long-term endeavor that requires a full commitment from society and continued focus (for example, UN 2019a, 2019b). *Strong leadership* is crucial in driving ambitious and sustainable reforms. It helps reduce the likelihood of grand corruption, and it is necessary to address often powerful vested interests, which resist change. This has a "role model" effect on lower segments of the administration and makes it difficult for lower-level, petty corruption to happen. At the same time, as with other reforms, plans need to be clearly communicated and explained to the public and civil society, who will not only benefit but coalesce around these reforms and participate in delivering them once given the means—including through information and legitimacy.

Laws and regulations, technology, and dedicated and skilled civil servants support reform efforts:

Well-designed laws and regulations are the backbone of the effort to improve governance and reduce vulnerabilities to corruption.

Capacity building of and incentives for civil servants and appropriately designed institutions are necessary for successful implementation. For example, internal control and audit practitioners or external auditors need to be properly trained and receive adequate incentives to ensure staff retention. More generally, civil servants can be sensitized to corruption issues and risks, such as conflict of interest, and trained in responding to them at their level. Promoting public sector integrity can provide an environment favorable to reducing corruption.

New technologies can also play a crucial role in improving governance and fighting corruption. Governments are increasingly using new technologies to provide public services more efficiently and ensure transparency. For example, e-government services can be used to file and pay taxes, reducing interaction with taxpayers, to procure goods and services, to channel transfers using biometric technology and digital payments etc. Recent technological innovations such as machine learning and crypto currencies, and international initiatives such as automated exchange of information, can also help better track illicit flows. Blockchain and other digital technologies are helping government

Box 2. The Foundations of Good Economic Governance *(continued)*

improve transparency and accountability. Artificial intelligence can help identify fraud and white-collar crime more effectively. However, new technologies also present challenges: for example, crypto currency comes with anonymity, which can facilitate corrupt and money-laundering transactions.

To detect, prevent, and deter corruption, economic institutions need to engage at four levels that can applied in all state functions: organizational structures and processes, control frameworks, external audits and oversight, and transparency mechanisms.

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Annex 1. Methodological Notes

In 2018 the IMF launched a framework for enhanced engagement to more systematically diagnose governance weaknesses and their links to corruption in IMF-supported arrangements, surveillance, and technical assistance (IMF 2018). Under this framework, the IMF assesses governance weaknesses in six state functions that have been identified as the most relevant to economic activity: (1) fiscal governance: the institutional framework and practices that support revenue administration, public financial management, and fiscal transparency; (2) financial sector oversight: the supervisory agency, and the regulatory and supervisory frameworks of the financial system; (3) central bank governance and operations: the mandate, decision-making structure, and autonomy of the central bank; the accountability and transparency frameworks, and the internal control environment; (4) market regulation: the regulatory environment for private businesses; (5) rule of law: the property and contractual rights frameworks and their enforcement; and (6) AML/CFT: the legal and institutional frameworks and their implementation.

This paper uses this framework, grouping for ease of exposition, the state functions in four broad policy areas: fiscal policy (1), central banking and financial sector supervision ((2) and (3)), AML/CFT frameworks (6), and regulatory environment ((4) and (5)). The paper also addresses government transparency and accountability and the quality of the anti-corruption frameworks as cross-cutting issues. It uses the definition of corruption as defined in the framework: the abuse of public office for private gain. Economic governance is defined as the accountability, transparency, and effectiveness of institutions involved in economic policymaking and implementation. Governance weaknesses in institutions, mechanisms, and practices through which governmental power is exercised in a country may exist alongside or independently of perceived corruption and may result in macro-critical impacts on economic performance.

The region discussed in this paper, which encompasses the Middle East, North Africa, Afghanistan, Pakistan, Caucasus, and Central Asia, is covered by a single IMF department: the Middle East and Central Asia Department. As per the new classification from the October 2019 *World Economic Outlook*, the abbreviation for the region is MECA.

To complement information gathered through operational experience and to make meaningful international comparisons, this paper uses third-party indicators. It should be noted that these indica-tors are based on questionnaires administered to national sources. This means some of them are based on perception and/or subjective views of respon-dents; others are based on assessments of renowned international bodies. All the indicators used in the paper are widely recognized and used across the world. When available, the paper uses several indicators from different sources to evaluate each dimension of governance.

Annex 2. Country Groupings

MENA LICCs include Afghanistan, Djibouti, Iraq, Libya, Mauritania, Somalia, Sudan, Syria, and Yemen.

MENA EMs include Algeria, Egypt, Iran, Jordan, Lebanon, Morocco, and Tunisia.

MENA advanced economies include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

The CCA includes Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

Rest-of-the-world LICs is the comparator group for MENA LICCs and includes Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Republic of Congo, Côte d'Ivoire, Eritrea, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Haiti, Honduras, Kenya, Kiribati, Lao P.D.R., Lesotho, Liberia, Madagascar, Malawi, Mali, Moldova, Mozambique, Myanmar, Nepal, Nicaragua, Niger, Nigeria, Papua New Guinea, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Solomon Islands, South Sudan, Tanzania, Timor-Leste, Togo, Uganda, Vietnam, Zambia, and Zimbabwe.

Rest-of-the-world EMs is the comparator group for MENA EMs and CCA and includes Albania, Angola, Antigua and Barbuda, Argentina, Aruba, The Bahamas, Barbados, Belarus, Belize, Bolivia, Bosnia and Herzegovina, Botswana, Brazil, Brunei Darussalam, Bulgaria, Cabo Verde, Chile, China, Colombia, Costa Rica, Croatia, Dominica, Dominican Republic, Ecuador,

El Salvador, Equatorial Guinea, Eswatini, Fiji, Gabon, Grenada, Guatemala, Guyana, Hungary, India, Indonesia, Jamaica, Kosovo, Macedonia FYR,

Malaysia, Maldives, Marshall Islands, Mauritius, Mexico, Micronesia, Mongolia, Montenegro, Namibia, Nauru, Pakistan, Palau, Panama, Paraguay, Peru, Philippines, Poland, Romania, Russia, Samoa, Serbia, Seychelles, South Africa, Sri Lanka, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Thailand, Tonga, Trinidad and Tobago, Turkey, Tuvalu, Ukraine, Uruguay, Vanuatu, and Venezuela.

Rest-of-the-world advanced economies is the comparator group for MENA advanced economies and includes Australia, Austria, Belgium, Canada, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Japan, South Korea, Latvia, Lithuania, Luxembourg, Macao SAR, Malta, Netherlands, New Zealand, Norway, Portugal, San Marino, Singapore, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

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