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The Role of the Fund in Governance Issues - Review of the Guidance Note - Preliminary Considerations - Background Notes

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THE ROLE OF THE FUND IN GOVERNANCE ISSUES - REVIEW OF THE GUIDANCE NOTE - PRELIMINARY CONSIDERATIONS - BACKGROUND NOTES

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THE ROLE OF THE FUND IN GOVERNANCE ISSUES—REVIEW OF THE GUIDANCE NOTE—PRELIMINARY CONSIDERATIONS—BACKGROUND NOTES

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EXECUTIVE SUMMARY

The Background Notes in this Supplement provide essential context and analysis needed to understand the problem of governance and corruption, its impact on the economies of Fund members, and the history and nature of Fund engagement on these issues. They also seek to support the assessment of the Fund's overall approach to promoting good governance and reducing corruption—including through the lenses of key stakeholders—with a view to identifying strength and closing any remaining gaps.

Note I provides a framework for understanding the concepts of governance, good governance and corruption, elaborates on the Fund's role in addressing these issues where they are relevant to its mandate, and describes the evolution of these concepts in other international organizations. The international community attaches much importance to promoting good governance and tackling corruption and the Fund's work on governance and corruption has progressed in tandem with initiatives undertaken by other international and regional organizations and international fora. Note II summarizes some of these initiatives and outlines ongoing work.

Note III discusses the use of third-party governance indicators (i.e., comparative indicators developed by external organizations) in Fund surveillance and the use of Fund resources. It covers the characteristics of available indicators, discusses Fund's practice, and outlines areas for future work. Detailed background on some indicators are also provided.

Note IV discusses the long history at the Fund of groundbreaking analytical work to investigate the problem of governance and corruption. It also discusses outreach activities to disseminate the Fund's view on the importance of strengthening governance and reducing corruption as a means to improve a country's prospects for overall economic development.

Inputs from country authorities, Fund mission chiefs, and Civil Society Organizations, which help enrich the Board paper, are summarized in Notes V, VI, and VII, respectively. These notes provide background information and more detailed results from questionnaires, which sought to bring out stakeholders' views on the various aspects of Fund work. Among the aspects covered are the overall approach and appropriateness of Fund engagement on corruption; candor, evenhandedness and effectiveness of Fund engagement; the usefulness of third-party indicators in Fund surveillance; and collaboration with stakeholders.

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NOTE I. DISTINGUISHING GOVERNANCE, GOOD GOVERNANCE, AND CORRUPTION[1]

This Note provides a framework for understanding the concepts of governance, good governance and corruption. It begins with a general overview of terms and then explores the role of the Fund in addressing governance, good governance, and corruption issues relevant to its mandate. An annex describes the evolution of these terms, focusing on the experiences of the World Bank, United Nations Development Programme, and the Organization for Economic Co-Operation and Development.

A. Overview of Terms

1. In discussing the Fund's engagement on governance issues, it is important to clarify the definitions of key terms. In particular, "governance," "good governance," and "anti-corruption" are often discussed interchangeably or as if they have universally agreed-upon definitions, which is not the case. A report by the Organization for Economic Co-Operation and Development (OECD) found that international organizations used 17 different definitions for the term "governance," often using it interchangeably with the term "good governance."[2] Thus, a review of the literature is warranted.

B. Governance

2. Beginning with the broadest term, "governance" is generally understood to concern the various institutions, mechanisms, and established practices through which a country exercises governmental authority, discharges its responsibilities, and manages its public resources. This includes processes at the country level, including institution-level arrangements. Governance is an inherently neutral term, describing a framework—including the institutions, mechanisms, and practices through which a country exercises governmental authority and manages its public resources—but not its outcome. While there is a general consensus on the basic concept, different authors and institutions tend to have specific focuses within this universe—indeed, the

[1] Prepared by Julianne Ams and Sebastiaan Pompe (both LEG).

[2] OECD, 2009. The report also found that international institutions used "governance" and "good governance" interchangeably, generally without clearly distinguishing between one and the other, and attributing qualitative criteria (proper to "good governance") to the "governance" concept. Academic research generated another seven definitions which were different from those of the OECD (Weiss, 2010).

same institution may define "governance" differently over time and for different purposes.[3] Also, the term often is not confronted head-on even in key reports.[4]

3. **International organizations have advanced various definitions that are generally oriented toward their mandates.** The World Bank in a watershed 1992 report introduced the concept of governance which it defined as "the manner in which power is exercised in the management of a country's economic and social resources for development."[5] This is the 25th anniversary of that report, in which the Bank significantly enlarged its engagement in public sector management and gave intellectual leadership to the development community in this area. The broader acceptance of the term, in all its nuances, and the importance of some of its key features, such as institutions, must be acknowledged.[6] Other institutions, while accepting the concept, gave their own contributions to the term. The United Nations Development Programme (UNDP) in 1995 defined governance as "the exercise of political power to manage a nation's affairs."[7] Subsequent UNDP documents have elaborated the concept and, since 2002, UNDP has been using the term "democratic governance" to refer to a system of governance that allows people's rights and freedoms to be respected and for them to have a say in the decisions that affect their lives.[8] The African Development Bank follows a similarly broad approach.[9] The OECD uses the following definition: "the use of political authority and the exercise of control in a society in relation to the management of its resources for social and economic development."[10] The Asian Development Bank

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[3] The United Nations Economic and Social Council conducted an extensive review of the literature defining governance in 2006 (UNESC, 2006). For further examples of approaches to defining governance in different organizations see Center for Global Development, 2013; International Fund for Agricultural Development (IFAD), 2016; United Nations Economic and Social Commission for Asia and the Pacific, 2009; United States Institute of Peace (USIP), 2010; and World Bank, 2011.

[4] For example, World Bank (2007), which outlines the World Bank's strategy on governance, provides no explicit definition beyond a brief quote from former Bank president Paul Wolfowitz. Similarly, African Development Bank (2008) defines good governance in a short footnote. European Commission (2001) provides a similar treatment. See Gisselquist, 2012.

[5] World Bank, 1992, p.1. The Bank's *World Development Report 2017* (World Bank, 2017a) stresses the fact that governance should not be simply viewed as a top-down, formal and instrumental process, but instead has strong interactive elements, with a mix of formality and informality and strong underlying power drivers (which may not solely be vested in formal structures). It states: "governance is the process through which state and nonstate actors interact to design and implement policies within a given set of formal and informal rules that shape and are shaped by power." The Report consequently is unenthusiastic about top-down anti-corruption strategies, which fail to recognize that corruption is increasingly less transactional, and more based on networks of common interests and vested in social expectations (World Bank, 2017a, Spotlight 1).

[6] The World Bank's most recent exploration of governance was published this year and contains a wealth of information on its work in this sphere. World Bank, 2017a. See also World Bank, 2017b.

[7] UNDP, 1995, p. xii & xiii. See also the Annex of this Note.

[8] UNDP, 2002, notably page 51.

[9] "Governance can be defined as a set of institutions, processes, policies, laws, and behaviours that affect the manner in which power is exercised in the management of a country's economic, financial and social resources across the public, private and non-state sectors." African Development Bank, 2014, section 1.1.

[10] OECD, 1993, para. 31.

(1995) has explicitly chosen a definition reflecting its interests in development, and its reasoning is worth noting:

> Among the many definitions of "governance" that exist, the one that appears the most appropriate from the viewpoint of the Bank is "the manner in which power is exercised in the management of a country's economic and social resources for development." On this meaning, the concept of governance is concerned directly with the management of the development process, involving both the public and the private sectors. It encompasses the functioning and capability of the public sector, as well as the rules and institutions that create the framework for the conduct of both public and private business, including accountability for economic and financial performance, and regulatory frameworks relating to companies, corporations, and partnerships. In broad terms, then, governance is about the institutional environment in which citizens interact among themselves and with government agencies/officials.[11]

C. Good Governance

4. **Whereas "governance" refers principally to the process of governing, "good governance" is a more qualitative concept.** This latter term is not neutral but instead recognizes that the quality of governance can impact its effectiveness. "Good governance" has been promoted by many major development organizations; former UN Secretary General Kofi Annan once said that "good governance is perhaps the single most important factor in eradicating poverty and promoting development."[12] Despite this emphasis, there is no single agreed definition of the term, with the definition evolving over time and each institution incorporating elements central to its own mandate (see the section below on "The Fund's Focus").[13] The existing definitions bridge different domains, including economic (typically covering the management of public accounts, of public resources and the stability of the regulatory environment); social (typically covering strong institutions and an inclusive society); and political (typically covering the legitimacy of government through systems of public accountability, respect for human rights and the rule of law).[14] In recent years there is some

[11] Asian Development Bank ,1995, p. 3.

[12] UN, 1998.

[13] UNHROHC, undated (stressing that there is "no single and exhaustive definition of 'good governance'"). See, for example, African Development Bank, 2014 (emphasizing development and inclusion); Asian Development Bank, 1995 (explicitly remaining policy neutral and focusing solely on effectiveness in implementing chosen policies); IFAD, 2016 (emphasizing democracy); USIP, 2010 (emphasizing transparency and inclusion of civil society groups); UNDESA, 2007 (emphasizing democracy).

[14] See examples, *supra*, fn. 3; Kaufmann, 2005 (distinguishing between the economic, the political and the institutional dimensions; the institutional dimension is defined as "the respect of citizens and the state for institutions").

pushback against using the term because of the implication that only a single model of governance is good.[15]

5. The range of definitions can be broadly divided into those that are policy-neutral and those for which politics is integrated into the definition.[16] Also, definitions have progressively shifted from a normative to a more organizational approach, which emphasizes improving the functioning of institutions towards outcomes. The World Bank's original definition, which dates back to the 1980s, is clearly policy neutral. The definition identifies three core elements, which can be broadly categorized as political, economic, and developmental: (a) the form of the political regime (the process by which governments are selected, monitored, and replaced); (b) the economic aspect (the management of a country's economic and social resources); and (c) the developmental aspect (the capacity of the government to effectively formulate and implement sound policies).[17] Because the World Bank's mandate prohibits involvement in politics, the Bank's work on good governance, notably in the earlier period, typically was restricted to the latter two aspects on the assumption that the political element can be kept distinct. This approach has been followed by other organizations, including the Asian Development Bank, whose definition explicitly remains policy-neutral and has focused solely on effectiveness in implementing chosen policies. In more recent years, however, the World Bank has moved away from using the term "good governance." This reflects a shift from a normative to a functional-organizational approach, which focuses more on the nature and details of governance arrangements and targets assistance to improve organizational arrangements, functions, and outcomes. Consequently, the term hardly appears anymore in the World Development Report 2017, which instead is focused on governance, which integrates the political context into analytical and operational engagements.

6. Other organizations from the outset followed the view that the functioning of political systems cannot be cleanly separated from the other aspects of "good governance."[18] For example, UNDP's definition developed to include two core features: (1) a distinction between economic, political, and administrative governance; and (2) inclusion of the concept of "empowerment," which refers to empowerment of poor and disenfranchised persons and communities through self-organization.[19] Instead of distinguishing the political from the technical-administrative aspects of governance, UNDP focuses on the object of governance (the economy, the decision-making process, and the bureaucracy), each of which bundles political and technical-administrative aspects.[20] Similarly, the OECD finds that the technical-administrative and political

[15] The WDR 2017 still uses the term, but very sparsely.

[16] For a fuller explanation of these two approaches, see the Annex to this Note.

[17] See, *inter alia*, World Bank, 1994, p. xiv.

[18] See, e.g., IFAD, 2016 (emphasizing democracy); USIP, 2010 (emphasizing transparency and inclusion of civil society groups); UNDESA, 2007 (emphasizing democracy).

[19] UNDP, 1997a.

[20] More recently, UNDP made an explicit link between democratic governance and conflict prevention: "As a set of values and principles that prioritize respect for human rights and fundamental freedoms, and promote the rule of law, accountability and transparency, democratic governance is a critical instrument for promoting social cohesion,

aspects of good governance are closely linked. The OECD has developed a definition of what it refers to as "participatory development/good governance."[21] This concept has different building blocks, such as participatory development, democracy, good governance and human rights. In this approach, each building block contains elements of politics.[22]

D. Corruption

7. As acknowledged in the 2016 IMF staff discussion note, a comprehensive definition of "corruption" is difficult to formulate given the variation in corrupt behavior and its concealed nature.[23] While there are several definitions in use, the one used by the 1997 Board Guidance Note and the 2016 staff discussion note is "the abuse of public office for private gain."[24] This definition, which is used again for purposes of this paper, has been adopted by a variety of organizations, including the World Bank and Transparency International, and is consistent with the provisions of the United Nations Convention Against Corruption.[25,26] This definition focuses on abuse by public actors, meaning that, for purposes of this stocktaking review, fraudulent acts perpetrated exclusively by private citizens are not covered. It should also be noted that this definition is broadly interpreted to include non-financial gains. For example, an official contributes to corruption if, as a result of political interference, he or she abuses public office by making a determination for reasons other than those identified as relevant by the legal or administrative framework he or she is responsible for administering. Thus, awarding a procurement contract to a company because the company is owned by a family member would give rise to abuse of public office.

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preventing conflict and ensuring inclusive, safe and peaceful societies. Vice versa, investments in conflict prevention, dialogue and mediation and in the consolidation of sustainable peace should no longer be restricted to conflict and crisis situations, but need to be institutionalized as part of the governance and development work of the organisation." UNDP, 2016.

[21] *See, e.g.,* OECD, 2014, Section 3.2.

[22] The OECD has been refining its key building blocks of sound public governance in recent years to considerable detail. See, Annex I, para. 16.

[23] IMF SDN, 2016, Section II.

[24] IMF SDN, 2016, pp. iii, 4; IMF, 1997a, fn 2.

[25] For the World Bank approach, see World Bank, 2017a at Spotlight 1. In recent years, the World Bank's definition of "corruption" has shifted to encompass also individuals and firms that have been put in a position of trust through an act of the state. This extends the scope of corruption to include firms that are state-owned as well as non-governmental organizations tasked to carry out state functions such as service delivery. For the Transparency International approach, see Transparency International's website.

[26] Article 19 of the UNCAC on Abuse of Functions states: "Each State Party shall consider adopting such legislative and other measures as may be necessary to establish as a criminal offence, when committed intentionally, the abuse of functions or position, that is, the performance of or failure to perform an act, in violation of laws, by a public official in the discharge of his or her functions, for the purpose of obtaining an undue advantage for himself or herself or for another person or entity." UNODC, 2004.

8. The presence of corruption generally indicates shortcomings in "good governance."[27] Corruption carries an inherently negative connotation and is generally inconsistent with good governance, particularly when it is pervasive. This would be the case, for example, where it becomes normal that bribes—rather than laws and regulations—determine tax assessments, the awarding of construction contracts, or the outcome of court cases.[28] Good governance is even more deficient in situations where the laws and regulations themselves are steered by corruption because legislators and officials are beholden to private interests rather than to the public interest ("state or regulatory capture").[29] Nevertheless, "governance" covers a broader range of issues than just "corruption." It is possible therefore, for a country to have weak governance (such as may arise from weak institutions or poor political arrangements) but not face major corruption issues. That said, efforts to improve good governance would generally tend to limit opportunities for corruption, even if those efforts are primarily focused on other goals, such as improving effectiveness, efficiency and equity.

E. The Fund's Focus

9. Given the wide reaches attributed to "governance," "good governance," and "corruption," the scope of the Fund's interest within these spheres should be clarified. Fundamentally, the Fund's involvement is limited by its mandate as set forth in Article I of the Articles of Agreement, which is centered on promoting the stability of the international monetary system.[30]

10. Guided by this principle, the 1997 staff guidance states, "the Fund's involvement in governance [is] limited to economic aspects of governance," that is the use of economic institutions to guide economic behavior to meet a country's social and economic objectives.[31] Thus, the staff guidance note sees the Fund as contributing to governance through policy advice and technical assistance in two broad spheres: (a) the management of public resources by public sector institutions (e.g., treasury, central bank, public enterprises) including through administrative procedures (e.g., expenditure control, budget management), and (b) the development and

[27] During the IMF Board discussion of the 1997 Guidance Note, several Directors stressed that "corruption" is not interchangeable with "bad governance" but rather is a symptom of a lapse in good governance. IMF, 1997a at 6, 10, 12, 41. See also Copenhagen Consensus, 2004, p. 1 ("Corruption is one symptom" of a failure of governance, and "efforts to promote 'good governance' must be broader than anti-corruption campaigns.").

[28] See World Bank, 2006a ("Bad governance is associated with corruption, distortion of government budgets, inequitable growth, social exclusion, lack of trust in authorities. Inefficiency of formal governance institutions leads to creation of informal institutions that substitute for the functions that the formal ones are unable to perform."); World Bank, 1992 ("weak institutions, lack of an adequate legal framework, weak financial accounting and auditing systems, damaging discretionary interventions, uncertain and variable policy frameworks, and closed decision-making … increase[] risks of corruption and waste.").

[29] IMF SDN, 2016, pp. 4, 9.

[30] Articles of Agreement. For a detailed discussion of the Fund's mandate, see IMF, 2010.

[31] See IMF, 1997a, para. 5: "The Fund is primarily concerned with macroeconomic stability, external viability, and orderly economic growth in member countries. Therefore, the Fund's involvement in governance should be limited to economic aspects of governance." In discussing the role of the Fund in governance issues, Executive Directors have also stressed that Fund involvement must be limited to aspects within the Fund's mandate. IMF, 1997b.

maintenance of a stable economic and regulatory environment conducive to efficient private sector activities (e.g., price systems, exchange and trade regimes, banking systems and their regulation). It should be noted, however, that the discussion within and between other International Financial Institutions over the years (see Annex) has revolved in part around the issue of whether the economic aspects of governance can be fully separated from the institutional-political aspects, and this challenge will continue to confront the Fund and other IFIs in their work.[32]

11. The Fund's mandate similarly restricts the definition of "good governance" for Fund purposes to economic aspects. The 1997 staff guidance note uses the term in the sense of how well institutions meet broad goals for managing public resources and promoting efficient private sector activities. These economic aspects of good governance include administrative efficiency and policy effectiveness. They can also, however, include fairness and equity, since serious shortcomings in the evenhandedness of the implementation of a governance regime—as distinct from the social or political preferences that it embodies—can have a corrosive impact on trust and compliance with institutions, laws, and policies to the detriment of economic goals over the medium to long term.

12. The Fund's engagement on issues of corruption depends on the implications for macroeconomic performance. The 1997 staff guidance note—while subsuming "corruption" under the term "governance"—outlines when IMF involvement is appropriate, noting that staff "should be guided by an assessment of whether poor governance would have a significant current or potential impact on macroeconomic performance in the short and medium term and on the ability of the government credibly to pursue policies aimed at external viability and sustainable growth."[33] Corruption, being one symptom of "poor governance" would be subject to this assessment. In assessing the impact on macroeconomic performance, short- and medium-term considerations might include foregone tax revenues or misspent public expenditures. In considering the impact of corruption on the "ability of the government credibly to pursue policies," consideration could be given to the impact of the experience and perceptions of corruption on the business climate and on trust and compliance with the institutions and policies that are needed for effective economic governance.

[32] The 1997 Guidance Note acknowledges the difficulty of separating the political and the economic aspects entirely but stresses that Fund involvement should be limited to the economic aspects of governance (IMF, 1997a). The Guidance Note therefore adopts the dichotomous approach of the World Bank in which political and technical-economic aspects can be kept separate. However, while the Fund's focus is on the economic consequences of poor governance and corruption, these consequences can arise from "non-economic" causes, whether state-capture settings and monetized governance, systemic weaknesses in accountability frameworks, data and reporting inadequacies, or institutional weaknesses with wide-ranging impacts (such as judicial weaknesses). Some of these issues are identified in a forthcoming Regional Economic Issues chapter on governance. This issue and the challenge of the strict dichotomy of the 1997 Guidance Note was flagged by prominent observers even at the time. Thus, James (1998) wondered whether the dichotomy could be maintained in reality, particularly in light of the Fund's involvement in topics like military procurement, corruption, democracy and "informal networks," while later reports suggest that the distinction has effectively been abandoned. Santiso, 2001.

[33] IMF, 1997a, para. 9.

Annex I of Note I. Evolution of the Concept of Good Governance

1. **This annex explores the origins of the terms "governance" and "good governance" as well as how—and why—the terms have evolved.** Among international organizations, it can be said that the story begins with the World Bank's exploration of these concepts in the late 1980s, moves through a significant shift in the 1990s with similar but competing definitions from the World Bank (eschewing political systems) on one hand and UNDP and the OECD (infusing political systems into the definition) on the other, which have come together again over the past decade. The distinction between the concepts of "governance" and "good governance" is not always clearly demarcated and can be fluid: The former is often explored through the lens of the latter, given international organizations' focus on promoting optimal practices.

The World Bank's Experience

Definition[1/]

The World Bank's original definition of "good governance" covered the following three elements: (i) the form of political regime; (ii) the process by which authority is exercised in the management of a country's economic and social resources for development; (iii) the capacity of governments to design, formulate and implement policies and discharge functions.

The World Bank has, over time, stepped back from using the term "good governance", reverting to the term "governance" instead. This points to a shift from a normative to a more functional-organizational approach which focuses on organizational arrangements, functions, and outcomes, both between state actors and between state and non-state actors.

1/ There is considerable fluidity in the World Bank's definitions, which reflects an ongoing internal discourse within the Bank. This definition consolidates views over time in the following sources: World Bank, 1991; World Bank, 1992; World Bank, 1994; World Bank, 2000.

2. **The concept of "good governance" finds its origin with the World Bank, which first used the term in the late 1980s and shaped the related discourse for over two decades.**[1] The contours of the concept remain unsettled—more generally and within the Bank, which never articulated a single unambiguous and operational definition of the concept—both because of changes in insights and broader developments.

3. **Important work in the late 1980s and early 1990s by the World Bank laid the groundwork for much of the development in this field.** Good governance was first explored by the World Bank in a 1989 report titled, *Sub-Saharan Africa: From Crisis to Sustainable Growth* (the "1989 Africa Report"), which explored why economic performance in some countries was noticeably lagging. It listed a number of often-cited factors, such as international market factors and weak national policy making, but also identified "poor public administration" and a "crisis of governance"

[1] The World Bank recently published a background paper on the World Bank's evolution on governance that provides an excellent history (World Bank, 2017b).

as key underlying causes.[2] The report referred to governance as "the exercise of political power to manage a nation's affairs." The 1989 Africa Report opened the door for an important adjustment in the thinking and policies of the World Bank, and shortly thereafter the Bank established an interdepartmental task force on governance. In June 1991, the task force published a widely cited discussion paper, *Managing Development: The Governance Dimension*. This, in turn, became the basis of the seminal work in the field, *Governance and Development* (the "1992 G&D Report"), which remains the conceptual launch pad for much of the thinking since.[3] The revolutionary aspect of the 1989 Africa Report and the 1992 G&D Report is that they triggered a broader reassessment of the role of the state in development.

4. This early World Bank work helped pivot the conversation from "less government" to "better governance." Institutional thinking in the 1970s and 80s had been shaped by neo-liberal development theory, which tended to view the state, while important, as a hindrance to development. World Bank development policies during this period, therefore, called for a shrinking of the state to curb public spending and maximize the space for the market to take over. The 1989 Africa Report and 1992 G&D Report reassessed the role of the state and argued that economic development required the state to adopt a major role in creating a favorable environment: "[*G*]*ood governance* is central to creating and sustaining an environment which fosters strong and equitable development, and it is an essential complement to sound economic policies." [4] Thus, the Bank's work on development started to focus attention on how developing countries are governed and to actively support "good governance."[5]

5. This shift made it necessary that the Bank define "governance" in order to articulate the nature of its own engagement. The definition which percolated identifies three core elements, which can be broadly categorized as political, economic, and developmental: (a) the form of the political regime (the process by which governments are selected, monitored, and replaced); (b) the economic aspect (the management of a country's economic and social resources); and (c) the developmental aspect (the capacity of the government to effectively formulate and implement sound policies).[6]

6. The World Bank's definition was shaped by its mandate, which prohibits the institution from engaging in politics.[7] The definition therefore aims to distinguish the political

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[2] World Bank, 1989, pp. 30, 60 and 192.

[3] World Bank, 1991; World Bank, 1992.

[4] World Bank, 1992, p.1. *See also* World Bank, 1997, overview (arguing that the state had been too narrowly seen as a "producer" or "creditor" in the development arena, and instead was rather a "partner, catalyst and facilitator," and whose institutions were critical in putting in place the hard and soft infrastructure on which the market (and society) depend).

[5] World Bank, 1992, pp.47-50.

[6] See inter alia, World Bank, 1994, p. xiv.

[7] World Bank Articles of Agreement, Article IV, Section 10 and also Article III, Section 5(b) and Article V, Section 5(c). Conjunctly with the 1989 Africa and 1992 G & D Reports, the World Bank Legal Department in 1990 issued a Legal

from the other technical components in "good governance" and allow the World Bank to focus its activities on the latter.[8] In this regard, even the early reports, such as the 1992 G&D Report, restrict "good governance" to the "efficient" management of a country's economic and social resources and institutional capacity.[9]

7. Even as the distinction between the political and technical features remained the core feature of the definition in World Bank documents, in fact the two could not always be kept clearly distinct. While the distinction may seem clear on paper—and indeed was the only basis on which the World Bank could engage on the topic of good governance at all—a recurring theme in the debates both within the institution and beyond, was whether these two aspects of good governance can be separated. Even within the Bank there were competing definitions of "good governance" in which these political elements were more manifest.[10] The World Bank became increasingly open about that political dimension as awareness increased that the purely economic and "efficiency" focus of governance depended on the *quality* of governance, including concepts which encroached on the political domain, such as accountability, inclusiveness, legal certainty, public sector management, transparency, and combating corruption. That shift can be illustrated with the concept of "accountability," which initially was viewed as an internal governmental bookkeeping matter. By the late 1990s, thinking had changed, and the concept included accountability towards market players and stakeholders, which was a more political concept. On that basis, the World Bank launched new policy frameworks for governance reform, such as *civil service reform* and *public sector management*. This then also pulled the World Bank into developing an anti-corruption agenda which became an important and key component in its development work generally.

8. By the late 1990s, the World Bank reports reflect a shift in its approach. The 1997 World Development Report reflects this change.[11] The WDR 1997 (and following reports) flagged that it had been assumed that improvements in governance would benefit all (a "lifting of all boats" *avant la lettre*), when actually that was not necessarily so.[12] Even in settings of aggregate growth, structural poverty persisted. The WDR 1997 in this regard made two important points: it linked good

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Memorandum which aimed to corral the debate to the Bank institutional mandate, by cutting out the political dimension and restricting it to economic development issues. See World Bank, 2017b at II.B.

[8] This also is the cornerstone of the IMF definition in the 1997 Governance Note (IMF, 1997a).

[9] "[G]overnance is defined as the manner in which power is exercised in the management of a country's economic and social resources for development. Good governance, for the World Bank, is synonymous with sound development management." World Bank, 1992, p. 1. See also Theobald, 2002, at p. 62 (noting that "good governance" would not take into account human rights issues, which are outside the World Bank's mandate).

[10] Thus Kaufmann, et al. (World Bank, 2010, p. 3) give the concept a more political content: (a) the process by which governments are selected, monitored, and replaced; (b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for the institutions that govern economic and social interactions among them.

[11] World Bank, 1997.

[12] *Id*.

governance with poverty reduction and lifted out the qualitative aspects of governance as being critical. Notably, it argued that structural poverty persisted because of the inability of the poor to articulate and convey their challenges and needs; and it identified the trust deficit mentioning specifically corruption, nepotism, and mismanagement.[13] The World Bank's more recent work on governance has emphasized building institutions. As stated above, it stepped back from the concept of "good governance" and focused on "governance" instead, in which the political context is integrated into its analytical and operational engagement.[14]

9. **As noted in the World Bank's 2017 background paper, criticism of the World Bank's approach generally rests on three grounds.** First, there is a limited understanding of how to build effective institutions. This means that institutions that are effective in a given country are sometimes seen as a one-size-fits-all solution that is recommended, unmodified, for other country contexts. Second, it remains unclear why some countries with high growth also rate very poorly on governance. Third, the World Bank does not address political aspects of governance directly, focusing instead on technical issues. This final criticism is one that can be equally leveled at the Fund and that other IFIs have tried to address in their approaches to governance.[15]

UNDP's Experience

Definition[1/]

UNDP's understanding and use of the term governance has evolved from its initial 1997 definition of governance, which focused on the exercise of economic, political and administrative authority to manage a country's affairs at all levels. (i) Economic governance included the decision-making processes that affect a country's economic activities and its relationships with other economies. (ii) Political governance was the process of decision-making to formulate policy. (iii) Administrative governance was the system of policy implementation. Encompassing all three, good governance defined the processes and structures that guide political and socio-economic relationships.

In 2002, UNDP nuanced and expanded on this definition by emphasizing, *inter alia*, that people's human rights and fundamental freedoms should be respected, they should have a say in decisions that affect their lives, and they should be able to hold decision-makers accountable. This it termed "democratic governance."[2/] Building on that definition, UNDP today qualifies "democratic governance" as being more than a set of values, norms, and principles. It also represents an incremental process of shaping and nurturing a resilient and inclusive social contract between the state and its citizens, in which, in addition to the above, citizens have equal opportunities, are protected from arbitrary action, and have economic opportunities and freedoms.

1/ UNDP, 1997a.
2/ UNDP, 2002.

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[13] The development of the Poverty Reduction Strategy Process (PRSP), to be articulated in a bottom up process, came out of this process.

[14] See World Bank (2017b) for an overview; World Bank, 2002; World Bank, 2003; World Bank, 2004; World Bank, 2006b, Ch. 6; World Bank, 2011. World Bank 2017b represents the views of the author and not the World Bank.

[15] For criticisms of the Fund on this count, see, *supra*, fn. 32 of this Note.

10. UNDP began exploring "good governance" at almost the same time as the World Bank.[16] It came to the topic for the same reasons as the World Bank, but for some time had already been involved in supporting government capacity in developing countries with the so-called Management Development Programs. UNDP, as a result, had a close understanding of the relevance of governance broadly for development. However, UNDP embraced the political (power-related) and democratic aspects to a much greater degree than the World Bank. First, differences in mandate allowed UNDP to come to the issue of development from a different perspective, mindful of the role of democratic political processes.[17] Second, UNDP's areas of concern notably cover social indicators, involving such topics as health and education as well as access to decision-making processes on the distribution of public goods.[18]

11. This orientation of UNDP was echoed in its initial definition of "governance," which notably encompassed human development. In the mid-1990s, UNDP adopted key elements of the conceptual framework developed by the World Bank, notably by following the distinction between the political regime on the one hand, and governance instruments and capacity on the other hand. However, whereas the World Bank purposely aimed to exclude the political component from its involvement, UNDP embraced it to emphasize the aspect of "human development," which was central to its mandate and approach.[19] UNDP declared upfront: "Governance and human development are indivisible."[20]

12. In 1997, UNDP underwent a significant shift, however, launching a radical alternative to the conceptual framework developed by the World Bank that explicitly embraced the role of political systems. The shift was driven in large part by the view that "good governance" should address structural imbalances in society that result from the human development component (poverty, discrimination, illiteracy, insecurity, corruption, exclusion etc.).[21] In "*Reconceptualising Governance*" and later reports,[22] UNDP set forth an approach with two core features: (1) a distinction

[16] From the *Human Development Report 1992* onward, the term became well used in official UN documents. UNDP, 1992; examples of citations can be found, *infra*, fn. 22.

[17] This was enhanced by differences in management structure between both organizations—with the World Bank having a system of weighted voting powers and UNDP having a system of one vote per member country—thus enabling different outcomes.

[18] See UNDP's mission statement.

[19] In 1995, UNDP set up the Management Development and Governance Division, which was tasked inter alia to develop the "good governance" agenda and concept. The Division published a report in the same year which tried to set a new course away from the World Bank definition, notably by stressing the inseparable nature between "good governance" and "human development." UNDP, 1995, p. xii.

[20] UNDP, 1997a.

[21] *See* UNDP, 2002, p. 4 ("Granting all people political equality does not create an equal desire or capacity to participate in political processes - or an equal capacity to influence outcomes. Imbalances in resources and political power often subvert the principle of one person, one vote, and the purpose of democratic institutions. And judicial proceedings and regulatory institutions are undermined if elites dominate them at the expense of women, minorities and the powerless.").

[22] UNDP, 1997a. *See also* UNDP, 1997b; UNDP, 1997c; UNDP, 1999; UNDP, 2000; UNDP, 2002.

between economic, political, and administrative governance; and (2) inclusion of the concept of "empowerment," which refers to empowerment of poor and disenfranchised persons and communities through self-organization. The first feature represents a subtle but important difference from the World Bank definition. The World Bank aimed to distinguish the political from the technical-administrative aspects of governance; UNDP focused on the object of governance (the economy, the decision-making process, and the bureaucracy), each of which bundled political and technical-administrative aspects. The UNDP approach thus integrates an understanding of the importance of political systems into the definition at all levels. The second feature also represented a break from the World Bank, which had been neutral on empowerment, as the issue approaches or even crosses the line into politics.[23]

13. UNDP's understanding of governance continues to evolve, in line with other shifts in international discourse, which increasingly recognize the relationship between forms of governance and peace. This is reflected in the adoption of Sustainable Development Goal (SDG) 16: "Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels." It is also reflected in UNDP's approach to governance and conflict prevention: "As a set of values and principles that prioritize respect for human rights and fundamental freedoms, and promote the rule of law, accountability and transparency, democratic governance is a critical instrument for promoting social cohesion, preventing conflict and ensuring inclusive, safe and peaceful societies. Vice versa, investments in conflict prevention, dialogue and mediation and in the consolidation of sustainable peace should no longer be restricted to conflict and crisis situations, but need to be institutionalized as part of the governance and development work of the organisation."[24]

The OECD's Experience

Definition

The OECD definition of governance has evolved through the years. In the 1990s, it defined governance as "the use of political authority and the exercise of control in a society in relation to the management of its resources for social and economic development."[1/] It distinguished the following different aspects of governance: "the form of the political regime; the processes by which authority is exercised; and the the capacity of the government to formulate and implement policies." The OECD also identified the following building blocks of "participatory development/good governance": participatory development, democracy, good governance and human rights. These building blocks became the basis for a detailed set of engagements on public governance issues in the recent decade.

1/ OECD, 1993.

[23] *See* Weiss, 2000, p. 804 (noting that the UNDP definition evinces support for empowerment, "that is, providing the tool for democracy and freedom that are integral to the political and civic dimensions of governance," while the Bank "treats [these issues] as second order concerns.").

[24] UNDP, 2016.

14. In 1989, the OECD also entered into the global discussion on "governance." Its initial contribution was setting forth as an objective for the coming decade "participatory development," which referred to the promotion of democratic and accountable political systems, respect for human rights and effective and accessible legal systems.[25] The OECD shortly thereafter also embraced the term "good governance" and the associated World Bank definition.[26]

15. As its work evolved, the OECD developed a hybrid concept of "participatory development/good governance," with the following building blocks: participatory development, democracy, good governance and human rights.[27] This has resulted in a more limited technical-administrative meaning for "good governance," but one in which each building block is infused with a political undercurrent.[28] Compared to the World Bank's separation of political aspects from technical-administrative aspects, the OECD tends to find a close link between them. The OECD often uses the term "good governance" in its reports without specifying whether it refers to the broader "participatory development/good governance" concept or to just the narrow building block of "good governance." Consequently, even though the OECD has often indicated that it follows the World Bank definition of "good governance," the OECD approach can be viewed as an alternative due to the emphasis it places on the political aspects, notably participatory development, democracy and human rights.

16. Over the past decade, the OECD further developed the key building blocks of sound public governance. These include effective cross-government coordination to design, implement, and monitor the performance of effective national strategy, including strategies to fight corruption; the effective use of evidence, including performance evidence, in decision making; effective coordination between levels of government to design, implement and monitor the performance of strategy, including to fight corruption; and effective engagement with citizens and civil society stakeholders at all points in the policy cycle. The building blocks also focus on how to implement reforms to enhance sound public governance through effective change management and peer-to-peer exchange of practice and evidence on what works in improving public governance.

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[25] OECD, 1989. This was set forth by the Development Assistance Committee (DAC) of the OECD, which refers to the Ministers for Development Aid and supporting administrative units that meet annually to prepare meetings and issue policy documents. The OECD therefore is both a forum for donor discussions and an independent actor in policy debates.

[26] OECD, 1993.

[27] *See, e.g.*, OECD, 2014, Section 3.2.

[28] The OECD debate was hamstrung by the fact that it referred to its "pd/gg" policy generally as "good governance," when "good governance" also was one of four components thereof. This explains the apparent contradiction in OECD reports, some of which say that the OECD definition of good governance is different from the World Bank, and sometimes that it is identical. *See, e.g.*, OECD, 1995, p. 14.

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NOTE II. GOVERNANCE AND ANTI-CORRUPTION INITIATIVES IN INTERNATIONAL, REGIONAL, AND OTHER FORA[1]

The Fund's work on governance and corruption has progressed in tandem with a number of initiatives addressing governance and anti-corruption being undertaken by various other international and regional organizations. In addition, there are other initiatives, such as those by the G20 and the Anti-Corruption Summit in London. This Note summarizes some of these initiatives. The Annex outlines the ongoing work of a number of key organizations. While it is difficult to know what impact the various initiatives are having, their very existence, breadth, and variety demonstrate the importance that the international community attaches to promoting good governance and tackling corruption.

A. Overview

1. **Strengthening governance and countering corruption is a priority for several international and regional organizations as well as several multilateral groups, such as the G20 and Asia Pacific Economic Cooperation (APEC).** Since the 1990s, engagement in this area has been at various levels. International and regional organizations have established treaties, conventions, "soft law[2]" texts, and capacity development (CD) projects; countries have enacted laws and established anti-corruption agencies; while other multilateral and civil society initiatives have developed anti-corruption and good governance policies, best practices, action plans, and awareness raising activities.

2. **Tackling corruption became a growing concern in the early 1990s.** Many developing countries were increasingly exposed to a globalized environment where sound macroeconomic policies, transparent and accountable public institutions, and protection of property and investors' rights became prerequisites for attracting foreign direct investment. The Foreign Corrupt Practices Act 1977 (FCPA) of the United States (US) that was enacted in the wake of the Watergate scandal and the subsequent Securities and Exchange Commission (SEC) investigation was the first to comprehensively address the issue of corruption and, in particular, it criminalized foreign bribery.[3] Building on the success of the FCPA, the world's biggest economies started focusing on corruption, in particular the "supply" side of corruption—the bribery of foreign officials—culminating in the 1997 Convention on Combating Bribery of Foreign Public Officials in International Business

[1] Prepared by Cecilia Marian (LEG) and Murna Morgan (SPR).

[2] Soft law refers to guidelines, policy declarations, or codes of conduct which set standards of conduct and behavior. However, they are neither strictly binding in nature nor directly enforceable.

[3] In the wake of the Watergate scandal, an investigation into illegal contributions to President Nixon's re-election campaign led to the discovery of cash slush funds in hundreds of US corporations. The SEC revealed that 400 American companies had spent hundreds of millions of dollars bribing everyone from prime ministers to police overseas (http://www.pbs.org/frontlineworld/stories/bribe/2009/02/history-of-the-fcpa.html).

Transactions by the Organization for Economic Cooperation and Development (OECD Convention), which entered into force in 1999. At the same time, the United Nations (UN) adopted an anti-corruption declaration,[4] the Organization of American States (OAS) adopted the Inter-American Convention Against Corruption (1996), and the European Commission (EC) issued an anti-corruption Communication to the European Council and the European Parliament (1997). These were followed by, among others, anti-corruption conventions adopted by the European Union (EU),[5] Council of Europe,[6] the South African Development Community (SADC),[7] and the African Union (AU).[8]

3. **The end of the Cold War and the dawn of an increasingly globalized and private sector driven world with the spreading of more open and accountable practices of government brought greater international focus.** With globalization bringing about a competitive environment and rising international trade and flows of capital, pressure for transparency, accountability, and good governance increased. During this time, the UN, OECD, EU, the World Bank, and other international organizations established various conventions and policies regarding governance and corruption.

B. Key Initiatives

4. **The 2003 United Nations Convention Against Corruption (UNCAC), which entered into force in 2005, ranks among the most important anti-corruption initiatives.** The first international legal instrument on corruption, UNCAC includes obligations on preventive measures, criminalization of corrupt practices, asset recovery, establishment of anti-corruption agencies, enforcement measures, and international cooperation.[9]

5. **Beyond UNCAC, many other initiatives to promote good governance, transparency, and accountability and to address corruption have been undertaken by international and regional organizations, multilateral groups, and nations.** Some of these initiatives directly address corruption and bribery, while some others cover transparency and accountability in the management of natural resources; fiscal and financial transparency and management, including public procurement; anti-money laundering measures related to corruption; and guidance and high level principles on matters inextricably linked to corruption, such as transparency of legal persons and beneficial ownership. For example, fighting corruption stands at the heart of the Sustainable Development Goals. Also, the World Bank Group considers corruption a major challenge to its institutional goals of ending extreme poverty by 2030 and boosting shared prosperity for the

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[4] UN Declaration Against Corruption and Bribery in International Commercial Transactions (December 1996).

[5] EU Convention on the Fight Against Corruption Involving Officials of the EU Communities or Officials of Member States of the EU 1999.

[6] Council of Europe Criminal Law Convention on Corruption 1999 and Additional Protocol 2003.

[7] South African Development Protocol Against Corruption 2001.

[8] African Union Convention on Preventing and Combating Corruption 2003.

[9] 181 countries are parties to the UNCAC.

poorest 40 percent in developing countries.[10] The Stolen Asset Recovery Initiative (StAR) (with UNODC), the World Governance Indicators, country assessments, and numerous guidelines are some of the World Bank's initiatives. The Financial Action Task Force (FATF), the anti-money laundering (AML) standard-setter, included anti-corruption elements in the 2012 revisions to the international AML standard. Another example is the Extractive Industries Transparency Initiative, launched in 2002 by the United Kingdom, which now includes a standard to be voluntarily adhered to by participating countries and companies. The UN, OECD, EU and G20 have all issued guidelines, recommendations, and guiding principles on transparency, foreign bribery, corruption, and other governance issues.

C. Role of Multilateral and Civil Society Organizations

6. **Multilateral groups and some nations have also been instrumental in progressing the anti-corruption agenda.** As already mentioned, the G20 and APEC have issued several initiatives (see Annex to this Note). The US's FCPA inspired the OECD Bribery Convention, which in turn spawned a number of national laws similar to the FCPA. The enactment of strong anti-bribery and anti-corruption laws by countries such as the United Kingdom, Hong Kong Special Administrative Region, and Singapore were landmark achievements.[11] The United Kingdom's 2016 Anti-Corruption London Summit (London Summit) focused on and highlighted anti-corruption issues and has resulted in forty countries signing to general principles and a global declaration. It also elicited specific commitments by countries and international organizations.

7. **Parallel actions by civil society organizations (CSOs) have also been critical.** Non-governmental organizations and other CSOs play a growing role in publicizing issues of corruption; driving good governance, accountability, and transparency initiatives; and assisting in garnering political will and monitoring aid spending. Transparency International (TI, founded in 1993) played a pivotal role in the adoption of the OECD Bribery Convention. Together with the TI, the International Chamber of Commerce (ICC), the Business and Industry Advisory Committee to the OECD, and the Trade Union Advisory Committee to the OECD (TUAC), were critical in raising awareness in the early 1990s and continue to do so. Corruption and governance indicators and assessments are published by TI[12] and other organizations, such as the Political Risk Services Group, which publishes the International Country Risk Guides, and the International Institute for Management Development,

[10] http://www.worldbank.org/en/topic/governance/brief/anti-corruption

[11] See UK 2010 Bribery Act. The basic models for anti-corruption agencies (ACAs) are the Singapore Corrupt Practices Investigation Bureau (established 1952) and the Hong Kong Independent Commission Against Corruption (established 1974). To date, 131 countries have agencies responsible for anti-corruption; in most cases, these are dedicated anti-corruption agencies. There appear to be four traditional anti-corruption functions and anti-corruption agencies are empowered to cover some but not all of these: "prevention, including education and public awareness (82 percent); investigation of corruption cases (78 percent); prosecution of corruption cases (58 percent); and policy, research and coordination (52 percent)." As most ACAs do not have sole or comprehensive responsibilities for all four, they must coordinate with other public institutions. https://www.princeton.edu/~dixitak/home/IEAConf_Dixit_Rev.pdf (Recanatini (2011))

[12] TI's Corruption Perception Index.

which publishes the World Competitiveness Reports.[13] Others, such as Global Witness, have focused on the extractive industry. In-country CSOs have also contributed to efforts to address corruption and promote governance, transparency, and accountability in specific countries.

D. Parallel and Complementary Work of Sectoral Networks

8. In addition, sectoral networks have also focused on specific areas of governance and corruption. These are global and regional anti-corruption networks and multi-stakeholder initiatives that have focused on specific areas, such as fiscal transparency (global initiative on financial transparency), the business sector (Global Compact, Partnering Against Corruption Initiative), the construction sector (Construction Sector Transparency Initiative, Global Infrastructure Anti-Corruption Centre), the defense sector (International Forum on Business Ethical Conduct for the Aerospace and Defense Industry), and the financial sector (Financial Transparency Coalition).[14]

E. Broad Conclusions

9. A number of broad conclusions can be drawn from the foregoing discussion of governance and anti-corruption initiatives.

- Governance and anti-corruption efforts carried out around the world cover a very wide range of issues and are implemented through a wide variety of tools. International and regional organizations have established treaties, conventions, "soft law" texts, and CD projects, while other initiatives have developed anti-corruption, good governance, and transparency policies, best practices, guiding principles, action plans, awareness raising, and outreach activities.

- The treaties, conventions, and "soft law" texts include obligations, commitments, and recommendations that cover preventive measures, criminalization of corrupt acts, enforcement action, asset recovery, international cooperation, and relations with the media and civil society.

- The vast majority of states around the world are legally bound by anti-corruption-specific treaty obligations. For example, UNCAC has been ratified and/or acceded to by 181 countries around the world, while three countries (Barbados, Japan, and Syria) have signed but not ratified the UNCAC.

- As further outlined in the Annex to this Note, each institution undertakes governance and anti-corruption initiatives that are closely linked to its mandate. The mandate of these institutions, and hence the scope of the initiatives, is very diverse. These mandates include those to address and reduce corruption; promote governance and transparency; strengthen

[13] See Note III on indicators.

[14] http://www.transparency.org/files/content/corruptionqas/Sectoral_Anti-Corruption_Networds_and_Initiatives_2016.pdf

development; reduce poverty and bolster confidence in markets; protect democratic institutions; support economic and social development and governmental stability; promote effective growth; protect human rights, democracy, and the rule of law; and enhance democratic processes and citizens' confidence in the political system. Most economic-oriented organizations look at governance and corruption from a development perspective.

- A number of these international and regional organizations have also included internal good governance and transparency rules and procedures, many having done so in the wake of the UN Food for Oil investigations that commenced in 2004. Among these are the World Bank, Asian Development Bank (ADB), EU, European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB).

- The actions of the various international and regional organizations potentially have a much stronger impact when they are anchored into treaty obligations (be it specific anti-corruption treaties or treaties constituting the international institution itself (e.g., a statute).

- Increasingly, the monitoring and evaluation of implementation of measures are being introduced by international and regional institutions and play an important role in assessing progress and generating greater compliance. Examples include the peer review mechanisms of the EU, Council of Europe's Group of States Against Corruption (GRECO), and the FATF.

- Most (if not all) of the international and regional organizations provide—under one form or another—CD to its members.

- Overall, while it is difficult to know what impact the various initiatives are having, their very existence, breadth, and variety demonstrate the importance that the international community attaches to promoting good governance and tackling corruption.

Annex I of Note II. Compendium of Key Initiatives

International Institutions or Initiatives

This section of the Annex outlines the initiatives of some key international organizations and multilateral institutions that support governance and counter corruption.

The United Nations (UN)

1. The UN covers three main areas: treaty making (and compliance thereto), awareness raising, and capacity development (CD). Key initiatives include the following:

- **United Nations Office on Drugs and Crime (UNODC):**

    - **The UN Convention Against Corruption (UNCAC) (2003) is the most comprehensive and global treaty against corruption,[1] which also includes a review mechanism. 181 states are parties to it.** The Convention's Implementation Review Mechanism is a peer review process that is now in its second five-year cycle and assesses how countries are implementing the Convention in their legal, institutional, and enforcement systems at the domestic and international level. Designed to assist states in the effective implementation of the Convention, the Review Mechanism is based on principles of transparency, efficiency, and impartiality and provides opportunities to share good practices. It has been recognized, inter alia, for its impact on legislative and institutional reform, for providing a platform for peer-to-peer learning, and for creating a global network of anti-corruption practitioners. The data gathered through the reviews creates the most comprehensive set of legislative and other measures to counter corruption and is available through UNODC's legal library.

    - **UNODC, in partnership with the World Bank, established in 2007 the Stolen Asset Recovery Initiative (StAR).** StAR works to end safe havens for corrupt funds through country engagements, knowledge development, policy contributions, partnerships and communications. StAR's comparative advantage is based on its capacity to leverage expertise and high-level political contacts, as well as acting as a neutral third party and technical adviser to facilitate international cooperation. The past two years saw a heightened profile for asset recovery on the international agenda, including with illicit financial flows and asset recovery becoming more prominent in the discussions around development. The adoption of the Sustainable Development Goals and the Addis Ababa Agenda for Action bolstered the case for

[1] The UN Convention Against Transnational Organized Crime (UNTOC) (2000) also contains specific provisions on anti-corruption, among others. 187 countries are parties to it.

more concrete action on asset recovery. At the UK Anti-Corruption Summit held in May 2016, the crucial importance of asset recovery was further reaffirmed.

- CD projects to enhance the anti-corruption capacity of states: Through staff at headquarters in Austria and a network of regional anti-corruption advisers based in the field, UNODC provides technical assistance to states to strengthen their legislative and institutional frameworks and to build capacity to prevent, detect, investigate, and prosecute corruption. Such assistance is provided to address technical assistance needs and recommendations emanating from the review mechanism as well as other requests. Regional anti-corruption advisers are perfectly placed to identify specific regional and national needs and to support existing or new regional coordination mechanisms and South-South cooperation. UNODC also works closely with other important stakeholders to ensure a comprehensive response to preventing and combating corruption, including the private sector, civil society, and the academia.

- **The United Nations Development Program (UNDP):**

  - UNDP's involvement in anti-corruption activities includes: (i) the promotion of public sector reform; (ii) the strengthening of governing institutions, such as those related to the judiciary, elections, parliaments, anti-corruption and human rights; (iii) governance in special circumstances (crisis and transition countries); and (iv) strengthening social accountability mechanisms through involvement of women and youth to monitor provision of services.

  - It also encompasses the Global Anti-Corruption Initiative (2014-2016) with its successor global project on Anti-Corruption for Peaceful and Inclusive Societies (ACPIS) 2016–20.

- **Sustainable Development Goals:**

  - In September 2015, countries committed to 17 Sustainable Development Goals (SDGs) aimed at ending extreme poverty, fighting inequality and injustice, and fixing climate change. Goal 16 of the SDGs is dedicated to the promotion of peaceful and inclusive societies for sustainable development, the provision of access to justice for all, and the building of effective and accountable institutions at all levels. Targets for Goal 16 include the following: substantially reduce corruption and bribery in all their forms; by 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets, and combat all forms of organized crime; develop effective, accountable, and transparent institutions at all levels; and broaden and strengthen the participation of developing countries in the institutions of global governance. In addition, addressing corruption is an implicit cross-cutting goal as corruption can impede the achievement of all of the other SDG goals.

- During the London Anti-Corruption Summit held in May 2016, the UN committed to promote compliance with international standards of integrity and transparency and, in particular, UNODC and UNDP would seek to accelerate the practical implementation of UNCAC and SDG 16. Seventeen (17) specific action plan items were included in the commitment.

The World Bank Group (WBG)

2. The WBG confronts corruption through a broad variety of engagements and interventions. At the most basic level, each WBG lending engagement includes an analysis of different types of risk to the potential project, including risks related to corruption. All lending projects contain financial management and procurement rules that are designed to ensure proper oversight and prudence. Those rules are often augmented by special measures to increase oversight and monitoring in those cases where corruption risks are determined to be elevated. The implementation of corruption-related measures is monitored on a regular basis through supervision missions, where progress across all project elements are reviewed.

3. The governance-related aspects of project lending are supported by mechanisms that enable any individual to notify the World Bank of concerns they have regarding corruption in a World Bank-supported project. A special unit of the World Bank, the Integrity Vice-Presidency, reviews complaints of corruption and undertakes investigations of complaints. Each year, the INT VP conducts approximately 60 investigations and debars a substantial number of firms based upon its findings. The World Bank's project-level oversight is also strengthened by the commitment to beneficiary feedback for all projects where there are specific beneficiaries.

4. The World Bank also has an extensive portfolio of engagements with countries to enhance integrity and confront corruption. Those engagements span from work on establishing anti-corruption agencies to support for the development of systems for financial disclosure to assistance in building more effective judicial and legal systems. Related work supports the strengthening of key institutions that play an important role in accountability from supreme audit institutions to parliament and internal audit. Over the last several years, the WBG has also increased its involvement in increasing openness and transparency through support to the implementation of e-government projects, as well as assistance in introducing Right to Information Laws, and specific initiatives, such as Open Contracting and Open Budgets. The World Bank's work on tax administration, often performed in conjunction with the Fund, features work particularly on addressing tax evasion and increasing transparency in the provision of tax holidays and in the signing of tax treaties—two areas that are can be distorted through corrupt acts. An expanding program of work in the area of procurement engages countries in every region on efforts to improve procurement effectiveness and reduce corruption.

5. Work on improving governance and addressing corruption at the center is complemented by efforts at the sectoral level to enhance accountability. For example, the World Bank has extensive programs of support for the Extractive Industries Transparency Initiative (EITI). In addition, the WBG offers particular assistance in strategic areas such as the signing of high-value contracts in extractive industries in order to increase transparency and expertise.

6. **The WBG also provides specific assistance to countries in identifying money laundering risks and in helping countries recover stolen assets relating to corruption.** The World Bank's StAR Initiative, done in conjunction with the UNODC, has been instrumental in enabling countries to recover large sums of money and in building local capacity to allow mutual legal assistance.

7. **During the London Summit,** the WBG committed to support integrity in public sector institutions and work with governments, civil society groups, the private sector, and international organizations to support implementation of the UNCAC and compliance with global standards for transparency and accountability. Specific commitments were made, among others, on building capacity, supporting implementation of AML obligations, recovery of stolen assets, and tax and public procurement reform.

The Organization for Economic Cooperation and Development (OECD)

8. **The OECD takes a multidisciplinary approach to fighting corruption and promoting good governance in areas such as fighting bribery of foreign public officials, fiscal policy, public sector governance and private sector integrity, and development aid and export credits.** Key initiatives include the following:

- **The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions** (opened for signature in 1997 and entered into force in 1999), which is the cornerstone of the OECD anti-corruption efforts. Forty-one states, including non-OECD members, have ratified it and it includes a peer review mechanism;

- **The Network on Governance (GOVNET) of the OECD Development Assistance Committee (DAC)** —Operates within the OECD as a forum for development agencies and partner countries that aims to improve the effectiveness of donor assistance in support of democratic governance in developing countries;

- **Several other instruments have been adopted by the OECD Council, such as:**

    - The 2017 Recommendation on Public Integrity;

    - The 2016 Recommendation for Development Co-operation Actors on Managing the Risk of Corruption;

    - The 2010 Recommendation on Principles for Transparency and Integrity in Lobbying;[2]

[2] The 10 Principles focus on 4 main areas: building an effective and fair framework for openness and access; enhancing transparency; fostering a culture of integrity; mechanisms for effective implementation, compliance and review.

  - The 2009 Recommendation for Further Combating Bribery of Foreign Public Officials in International Business Transactions;[3]

  - The 2003 Recommendation on OECD Guidelines for Managing Conflict of Interest in the Public Service;

  - The OECD Guidelines for Multinational Enterprises,[4] and related Decision which requires adherents to set up national contact points to further the effectiveness of the Guidelines and Recommendations on Due Diligence Guidance for Responsible Supply Chains; and

  - The 2006 Recommendation on Bribery and Officially Supported Export Credits.[5]

- **During the London Summit,** the OECD committed to strengthening the impact and effectiveness of its on-going anti-corruption efforts and increasing its capacity to provide strong analytical support and indicators base, establishing an Anti-Corruption Centre, fostering synergies, and supporting governments as well as other stakeholders in addressing corruption. The OECD also made five specific commitments, including supporting the enforcement of foreign bribery laws, countering the misuse of legal persons and arrangements, and promoting integrity and accountability.

The Financial Action Task Force (FATF)

9. The FATF, an inter-governmental body established in 1989 by the ministers of its members, sets standards and promotes effective implementation of legal, regulatory, and operational measures for combating money laundering (ML), terrorist financing (after the September 11, 2001 terrorist attacks), and other related threats to the integrity of the international financial system. Its focus on anti-corruption stems from the inextricable link between corruption and money laundering. Its main instrument—the FATF Recommendations—is designed to combat ML and terrorist financing, but when effectively implemented, the Recommendations can also help combat corruption. The revised FATF Recommendations of 2012 place a greater emphasis on action against corruption. This is reflected in countries' obligation to ratify and implement the UNCAC, including corruption and tax evasion as predicate offenses to ML, and in the type of measures that certain private sector firms should take. These firms are required to apply enhanced due diligence not only to individuals who are or have been entrusted with prominent public functions by a foreign country—the so-called "Politically Exposed Persons" or PEPs— (as was the case previously), but also, on a risk basis, to domestic PEPs and individuals who

[3] The Recommendation was adopted by the OECD in order to enhance the ability of the States Parties to the Anti-Bribery Convention to prevent, detect and investigate allegations of foreign bribery and includes the Good Practice Guidance on Internal Controls, Ethics and Compliance.

[4] These Guidelines cover all areas of business ethics, including information disclosure, transparency, and the fight against corruption.

[5] The 2006 OECD Recommendation is much more specific in terms of the actions that members must take.

are or have been entrusted with those functions by an international organization and have to report suspicious transactions, including those suspected to be linked to corruption. The FATF Recommendations also require financial intelligence units to transmit to law enforcement information they regard as being linked to crimes, such as ML, TF, and corruption. They also refer to the ability of law enforcement officers to identify, trace, and confiscate assets, a key aspect of the UNCAC.

10. The mutual evaluation or assessment process is among the FATF's main strengths. In February 2013, the FATF adopted a new assessment methodology which calls for assessment against the entire standard and more focus on the effectiveness of the anti-money laundering/counter-terrorist financing (AML/CFT) framework. The FATF recently also adopted a best practices paper on the use of the FATF Recommendations to combat corruption. The paper aims at providing policy makers and practitioners with guidance and best practices on how AML/CFT measures can be used to combat corruption. Additionally, in June 2013, the FATF published a guidance paper on how to implement the FATF standards relevant to PEPs. The FATF, jointly with the G20 Anti-Corruption Working Group, also holds an annual meeting which brings together anti-corruption experts and AML/CFT experts to discuss issues of common interest. The FATF meeting held in Paris in October 2016 focused on countries' experiences in implementing the international standards on transparency and beneficial ownership and the related implications for anti-corruption and AML/CFT efforts.

G20

11. Reducing corruption remains a top priority for the G20, as corruption is a severe impediment to economic growth and a significant challenge for developed, emerging, and developing countries. As major trading nations, the G20 members have a special responsibility to prevent and tackle corruption, to establish legal and policy frameworks that promote a clean business environment, and to continue to assist G20 countries in their capacity building efforts to combat corruption.

12. Since 2010, the work of the G20 Anti-Corruption Working Group (ACWG) has been guided by two-year action plans. So far, the G20 has issued Principles on Denial of Safe Haven (2012), Asset Disclosure by Public Officials (2012), Combatting Solicitation (2013), Mutual Legal Assistance (2013), Enforcement of the Foreign Bribery Offence (2013), Beneficial Ownership Transparency (2014), Corruption and Growth (2014), Private Sector Transparency and Integrity (2015), Open Data (2015), Integrity in Public Procurement (2015), and Cooperation on Persons Sought for Corruption and Asset Recovery (2016).

13. The G20 Anti-Corruption Action Plan 2017–2018 and the more detailed Implementation Plan 2017–2018 specifically focus on the following areas:

- Practical cooperation
- Beneficial ownership

- Private sector integrity and transparency
- Bribery
- Public sector integrity and transparency
- Vulnerable sectors
- International Organizations
- Capacity building.

14. **In line with the Action and Implementation Plans, in 2017, the ACWG will focus on developing High Level Principles on the Liability of Legal Persons for Corruption Offenses as well as on Organizing Against Corruption.** This will involve structuring the public administration to detect and minimize corruption risks. The ACWG will further focus on combating corruption related to the illegal wildlife trade and on corruption in sports.

15. **The ACWG cooperates with other G20 tracks**. It addresses issues closely related to the G20 anti-corruption agenda and continues to support and cooperate closely with the work of relevant international organizations, including the OECD, the UNODC, the FATF, the World Bank, and the Fund. The ACWG will continue to reach out to businesses and civil society, their support being essential for successfully fighting corruption.

The Commonwealth Secretariat

16. **The Commonwealth Secretariat has assisted governments in tackling systemic corruption by supporting the sharing of best practices, training and capacity-building, and policy research.** Its anti-corruption work encompasses strengthening governance and the public sector, reinforcing the rule of law, improving transparency in natural resources, and supporting integrity in sports.

17. **The Commonwealth Secretariat has worked to provide targeted assistance to Commonwealth nations.** The Secretariat has been active in providing practical training and development support for national anti-corruption agencies, with a focus on Africa and the Caribbean. This has built on its long-standing support to establish regional networks. Among such networks are the Association of Anti-Corruption Agencies in Commonwealth Africa (linking national agencies across 18 African member countries) and the Commonwealth Caribbean Association of Integrity Commissions and Anti-Corruption Bodies (supporting 12 Caribbean member nations). These networks promote collaboration and learning by brokering the exchange of best practices and helping to benchmark agencies' capabilities, while also facilitating peer reviews and secondments between members. The Commonwealth Africa Anti-Corruption Center, established in 2013 as a partnership with the Government of Botswana, continues to host many training courses coordinated with the Commonwealth Secretariat. The center's programs are designed to address

capacity constraints at all levels within the 18 Commonwealth Africa national agencies, from heads of agencies to operational staff.

18. The Secretariat has been active in research as well, undertaking a diagnostic and benchmarking survey to identify gaps in anti-corruption policies and procedures in national agencies in Commonwealth Africa. It has also helped to identify weaknesses in how agencies manage exhibits and proceeds of crime and has developed a Commonwealth standard operating framework to help agencies make improvements.

19. In partnership with the Fund and UNODC, it also launched new Model Legislative Provisions on Money Laundering, Terrorism Financing, Preventative Measures and Proceeds of Crime.

20. During the London Summit, the Commonwealth committed to the following: create a new Commonwealth Office of Civil and Criminal Justice Reform, update the Commonwealth model laws, develop a Commonwealth Standard to tackle corruption, and expand the Commonwealth Anti-Corruption Networks.

Regional Institutions and Organizations

This section of the Annex covers initiatives by regional institutions to support governance and counter corruption. While their actions are limited by the geographical composition of the respective organizations and by their mandates, the depth and breadth of these actions make these organizations relevant partners and key players in the global governance and anti-corruption agenda.[6] *Some key initiatives are set out below.*

Africa

The African Union (AU)

21. The member states of the AU adopted the African Union Convention on Preventing and Combating Corruption on July 11, 2003, and the Convention entered into force on August 5, 2006. To date, thirty-seven (37) countries have ratified the Convention and are parties to it.

22. The African Union Advisory Board on Corruption was created on May 26, 2009 under Article 22 (1) of the Convention. This Board bases its work on the provisions of this legal instrument and is mandated by the AU to deal with corruption and related themes in Africa.[7] Amongst others, the mission of the Board is to:

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[6] With the exception of the Council of Europe, which opened its anti-corruption instruments to non-European countries. As such, the US is, for instance, a member of the Council of Europe's Group of States Against Corruption (GRECO).

[7] http://www.auanticorruption.org/auac/about/African-Union-Advisory-Board-on-Corruption-In-Brief

- Promote and encourage adoption and application of anti-corruption measures on the continent;
- Collect and document information on the nature and scope of corruption and related offenses in Africa;
- Develop methodologies for analyzing the nature and extent of corruption in Africa, and disseminate information and sensitize the public on the negative effects of corruption and related offenses;
- Advise governments on how to deal with the scourge of corruption and related offenses in their domestic jurisdictions;
- Collect information and analyze the conduct and behavior of multi-national corporations operating in Africa and disseminate such information to national authorities; and
- Develop and promote the adoption of harmonized codes of conduct of public officials.[8]

African Development Bank (AfDB)

23. The AfDB Group views corruption, fraud, and other similar practices as highly inimical to the achievement of its mandate. The AfDB considers combating corruption as pivotal to efforts by regional member countries (RMC) to promote good governance and achieve sustainable economic growth and development. Among others, the Integrity and Anti-Corruption Department (PIAC) and the Economic Governance Coordination Office (ECGF) spearhead the AfDB's efforts to promote integrity, transparency, accountability.

24. The AfDB's Integrity and Anti-Corruption Office under the Presidency (PIAC) has the mandate to:

- Develop preventive measures to promote integrity and to proactively reduce the potential for misconduct, fraud and corruption within Bank Group financed operations. These responsibilities include mainstreaming anti-corruption and good governance into Bank Group operations; the development of tools to enhance due diligence practices and the recommendation of measures for institutional reforms to address loopholes and ensure compliance with Bank Group policies and applicable international conventions.
- Conduct of investigations into allegations of fraud and corruption and other sanctionable practices in AfDB financed operations. The outcome of these investigations are handled under mechanisms elaborated under the AfBD's sanctions process.
- The conduct of investigations into allegations of fraud, corruption and misconduct involving Bank Group Staff with regard to AfDB operations, corporate procurement or administrative

[8] http://www.auanticorruption.org/auac/about/category/vision-and-mission

budgets and the misuse of Bank resources and to investigate all other staff misconduct. The outcome of the investigations involving AfDB staff are transmitted to the President and administered under the AfDB's disciplinary framework.

25. **The mandate of the Office of PIAC is implemented through collaborations and initiatives with key stakeholders.** These include anti-corruption commissions, civil society, media, and the private sector in regional member countries. Thus, the office has a MOU with Anti-Corruption Regional Associations for a structured relationship.

26. **The ECGF anti-corruption efforts focus on:**

- Assisting RMCs in the area of Economic Governance and Management including their efforts to fight corruption and money laundering and tackle illicit financial flows;
- Supporting research on the nature, origin, development and impact of corruption on African societies; and
- Raising awareness and supporting actors such as civil society and parliaments to enhance demand side accountability.

27. **One key initiative of the AfDB in the area of anti-corruption is the AfDB/OECD Joint Initiative to Support Business Integrity and Anti-Bribery Efforts in Africa.** Launched at the end of 2008, the Initiative seeks to assist African countries in their fight against bribery of public officials in business transactions and to improve corporate integrity and accountability, while sustaining growth through an environment conducive to attracting foreign investment. The overall objectives of the Joint Initiative are:

- to increase the capacity for effective anti-bribery enforcement;
- reinforce global anti-bribery efforts;
- enhance public sector integrity; and
- contribute to the opening of a new era of transparent and accountable business in Africa.

Southern African Development Community (SADC)

28. **The SADC Protocol Against Corruption[9] aims to promote and strengthen the development within each member state of mechanisms needed to prevent, detect, punish, and eradicate corruption in the public and private sector.** The Protocol further seeks to facilitate and regulate cooperation in matters of corruption amongst member states and foster development

[9] The protocol was adopted in 2001 and came into force in 2005.

and harmonization of policies and domestic legislation related to corruption.[10] SADC established an Anti-Corruption Committee which held its first meeting in July 2015. Its work is expected to "contribute to SADC efforts to fight corruption in the region and in the operationalization of the Protocol Against Corruption."[11]

Asia-Pacific

Asian Development Bank (ADB)

29. **ADB was the first multilateral development bank to adopt in 1995 a special policy on governance, and in 1998 it adopted an anti-corruption policy to strengthen its governance work.**[12] Governance is a core strategic objective under ADB's Strategy 2020.[13] ADB's governance efforts include helping governments operate more efficiently and equitably, as well as strengthening stakeholders' capabilities to achieve their development goals.[14] [15]

30. **ADB manages, jointly with the OECD, the ADB-OECD Anti-Corruption Initiative for Asia and the Pacific (Initiative).** Launched in 1999, the Initiative supports the 31 member economies' anticorruption efforts by fostering policy dialogue, policy analysis, and regional knowledge sharing.[16]

31. **ADB's Office of Anticorruption and Integrity (OAI)[17] helps ensure that finite development funds entrusted to ADB are not lost to corruption or other integrity violations.**[18] OAI is mandated to (i) investigate integrity violations;[19] (ii) conduct proactive project integrity reviews known as Project Procurement-Related Reviews (PPRRs);[20] (iii) conduct integrity due diligence (IDD); (iv) provide knowledge solutions to address integrity violations; and (v) promote ADB's Anticorruption Policy and Code of Conduct. Its head reports directly to the president and

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[10] http://www.sadc.int/documents-publications/show/

[11] https://www.sadc.int/news-events/news/sadc-anti-corruption-committee-sacc-meeting-2-3-july-2015/

[12] https://www.adb.org/documents/anticorruption-and-integrity-policies-and-strategies

[13] ADB's Strategy 2030 is under preparation. It identifies governance, through the promotion of transparency and accountability of public systems, as a strategic priority under consideration.

[14] This is led by ADB's governance thematic group (GTG), Sustainable Development and Climate Change Department. The GTG's activities are primarily targeted at assisting ADB's developing member countries (DMCs) improve governance standards.

[15] https://www.adb.org/sectors/governance/main

[16] http://www.oecd.org/site/adboecdanti-corruptioninitiative/

[17] OAI has 28 staff, utilizes the services of consultants, and has a budget to engage specialized investigative services.

[18] Includes fraudulent, corrupt, collusive, coercive, and obstructive practices, abuse, and conflict of interest.

[19] https://www.adb.org/site/integrity/investigations

[20] These reviews identify non-compliance issues, irregularities, and integrity concerns in procurement activities, fund disbursements, and delivery of project outputs.

quarterly to the Audit Committee of ADB's Board of Directors. OAI's multi-pronged approach reflects a balance between both enforcement and prevention.

I. *Enforcement: Investigations and Sanctions*

ADB imposes sanctions for violations of its Anticorruption Policy. Pursuant to the 2010 Cross Debarment Agreement between participating international financial institutions (IFIs),[21] ADB cross-debarred[22] eleven entities debarred by other IFIs. In 2016, ADB sanctioned 47 firms and 31 individuals and cross-debarred 83 firms and 45 individuals.

I. *Prevention: Outreach and Awareness-Raising*

OAI provides capacity building and anti-corruption awareness seminars for government staff, civil society organizations, and other participants in ADB projects. Since 2011, OAI has also been conducting awareness-raising activities for its *iACT to fight corruption!* campaign to emphasize each ADB staff's responsibility to fight corruption. In 2016, OAI conducted seven *iACT* learning events and 31 anti-corruption training seminars.

OAI's IDD unit supports project teams in assessing integrity and reputational risks and conducts employee screening. In 2016, OAI completed 255 screenings. OAI also regularly conducts PPRRs on a number of ongoing ADB-financed projects to identify integrity risks and safeguard project funds. In 2016, OAI conducted seven PPRRs.

II. *Tax Integrity, Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT)*

ADB recently updated its 1998 Anticorruption Policy to take into account issues of tax integrity at the country and project levels.[23] ADB has also increased its technical support to developing member countries on these issues as well as AML/CFT.[24]

Association of Southeast Asian Nations (ASEAN)

32. ASEAN's anti-corruption initiatives are set out in the ASEAN Political-Security Community Blueprint (APSC), which was adopted in November 2015. The APSC Blueprint 2025

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[21] African Development Bank Group, European Bank for Reconstruction and Development, Inter-American Development Bank, and the World Bank Group.

[22] Debarment renders the entity/individual ineligible to participate in ADB-financed, supported, or administered projects in any manner.

[23] https://www.adb.org/documents/anticorruption-policy-enhancing-role-adb-tax-integrity-r-paper

[24] In 2016, ADB approved a US$1 million Technical Assistance (TA) program to protect DMCs against base erosion and profit shifting (BEPS) and support DMC participation in BEPS initiatives. ADB also approved the concept note for a US$2 million TA project to develop the capacity of DMCs to become members of the Global Forum. For AML/CFT, ADB approved a US$2 million TA program to help domestic banks keep pace with global financial developments and Financial Action Task Force requirements.

comprises several key characteristics that are interrelated and mutually reinforcing and which member countries should pursue in a balanced and holistic manner.[25] Amongst others, the APSC is aimed at strengthening ASEAN unity and cohesiveness to build a more democratic, transparent, just, rules-based, and inclusive community that shares the values of tolerance and moderation. Combating corruption is included in one of the elements of the rules-based, people-oriented and people-centered community, which requires member countries to do the following:

A.2. **Strengthen democracy, good governance, the rule of law, promotion and protection of human rights and fundamental freedoms, as well as combat corruption.** This is achieved, *inter alia*, by requiring member countries to do the following:

A.2.3. **Instill the culture of integrity and anti-corruption and mainstream the principles thereof into the policies and practices of the ASEAN Community:**

i. Fully implement the Memorandum of Understanding (MoU) on Cooperation for Preventing and Combating Corruption signed on December 15, 2004;

ii. Promote ASEAN cooperation to prevent and combat corruption, among others, by utilizing the Treaty on Mutual Legal Assistance in Criminal Matters 2004 (MLAT);

iii. Promote ASEAN cooperation in implementing the United Nations Convention Against Corruption;

iv. Strengthen the implementation of domestic laws and regulations against corruption and of anti-corruption practices in both the public and private sectors within ASEAN, including through capacity building programs;

v. Intensify cooperation, in the framework of applicable national and international laws to combat corruption, in the area of asset recovery and in denying safe havens to those found guilty of corruption;

vi. Encourage the strengthening of the South East Asia Parties Against Corruption network to enhance regional cooperation on anti-corruption and at the national level through relevant bodies or agencies;

vii. Promote the sharing of experiences and best practices and the exchange of views on ethics, values, and the culture of integrity to strengthen anti-corruption activities, including through the ASEAN Integrity Dialogue; and

[25] http://www.asean.org/wp-content/uploads/2012/05/ASEAN-APSC-Blueprint-2025.pdf

viii. Enhance and encourage cooperation among financial intelligence/authorized units of ASEAN member states in the areas of collection, analysis, and dissemination of information regarding potential money laundering.

Europe

The Council of Europe (CoE)

33. **The CoE sees strengthening governance and combating corruption as a key element to achieving its statutory aims to protect and promote democracy, human rights, and the rule of law and to support social and economic progress.** The approach of the CoE to fighting corruption has always been multidisciplinary and consists of three interrelated elements: the setting of norms and standards, the monitoring of compliance with and effective implementation of the standards, and capacity building offered to individual countries and regions through technical assistance programs. The CoE has adopted numerous instruments (binding and non-binding) against corruption. These include the Criminal Law Convention on Corruption (1999) ratified by 44 states (including non-European states) and its additional protocol, the Civil Law Convention on Corruption (1999, ratified by 35 states). Others are the 20 Guiding Principles Against Corruption, Recommendation No. R (2000)10 on codes of conduct for public officials and Recommendation No. R (2003)4 on common rules against corruption in the funding of political parties and electoral campaigns. The CoE's anti-corruption body, the Group of States against Corruption (GRECO), is the peer review mechanism which monitors, on the basis of mutual evaluation and peer pressure, the effective implementation of the CoE anti-corruption standards in GRECO's 49 members (47 CoE member states, Belarus, and the United States of America).

The European Union (EU)

34. **The EU's mandate to promote governance and counter corruption is both internal and external.** Internally, action against corruption is established in its constituting Treaty (Article 29). The EC issued a 1997 Communication from the Commission to the European Parliament and the European Council (EC) (updated in 2011) and an EU policy against corruption. In 2003, the EU adopted the Framework Decision on Combating Corruption in the Private Sector that aims to criminalize both active and passive bribery. The EU adopted the Convention to Fight Corruption Involving European Officials or National Officials of Member States of the European Union and the Convention on the Protection of the European Communities' Financial Interests. In addition, in June 2011, the Commission set up a mechanism for the periodic assessment of EU States' efforts in the fight against corruption.[26] During the London Summit, the EC committed to expose corruption by taking further action on beneficial ownership, the extractive industries, tax, public procurement and fiscal transparency and by preventing the facilitation of corruption; to punish corruption by

[26] See European Commission Decision of June 6, 2011 establishing an EU Anti-corruption reporting mechanism for periodic assessment ("EU Anti-Corruption Report").

preventing corrupt bidders from winning contracts, promoting asset recovery and return; and to drive out the culture of corruption by supporting various programs.

The European Bank for Reconstruction and Development (EBRD)

35. The EBRD has been working for over two decades in countries where corruption is a serious concern, addressing the policy, legal, economic, and corporate aspects of governance. By fostering transparency and accountability in the countries where it invests, the EBRD supports their successful transition to market economies.

- **At the level of its investment operations, the EBRD's anti-corruption and governance focus is primarily centered on ensuring that all activities of the EBRD are in accordance with international best practice.** The EBRD's Office of the Chief Compliance Officer (OCCO) promotes good governance and ensures that the highest standards of integrity are applied to all investment activities of the EBRD in accordance with international best practice. Anti-corruption is addressed through training, a rigorous ex ante due diligence process to review the suitability of prospective clients, and ongoing project monitoring. OCCO produces an annual Integrity and Anti-Corruption Report, which describes in greater detail the EBRD's strategy to promote integrity and prevent fraud and corruption and highlights the most recent measures taken.

- **All EBRD staff have an obligation to report suspected incidents of corruption and external parties may report allegations of corruption through the EBRD's website.** OCCO's Investigations Unit investigates, inter alia, allegations of corruption in EBRD-financed activities and, where appropriate, recommends companies and individuals for sanctions to the EBRD's Enforcement Commissioner. The EBRD, along with four multilateral development banks, is a signatory to the Uniform Framework for Preventing and Combating Fraud and Corruption and the Agreement for Mutual Enforcement of Debarment Decisions.

- **The EBRD applies its procurement policies and rules to all EBRD-financed operations.** While these rules are primarily to ensure that contracts placed represent best value for money and that conditions are in the best interest of the client, they are also constructed to minimize the scope for corruption through stringent procurement procedures and EBRD oversight.

- **At the policy dialogue level, the Investment Climate and Governance Initiative (ICGI) consolidates the EBRD's policy efforts to improve the investment climate.** This is done in selected recipient countries committed to fighting corruption, strengthening state institutions, and implementing reforms to attract investments. In the context of ICGI, the EBRD established a Business Ombudsman Institution in Ukraine, which aims to create a level playing field and to act as a recourse mechanism for businesses with legitimate claims against state or sub-state entities that infringe on their rights. Similar bodies are being considered for establishment in Central Asia and the Caucasus.

- **In the Western Balkans, the EBRD is partnering with UNODC to build the capacity of civil society organisations.** Such works aims to improve oversight on the enforcement of the UNCAC and to work collaboratively with the private sector on anti-corruption issues.

- **The EBRD, jointly with the OECD, is leading a programme on "Business Integrity in Eastern Europe and Central Asia."** This work is aimed at enhancing knowledge about business integrity risks and supporting policy reform through expert seminars, technical assistance to relevant stakeholders, and advocacy through a framework for regular monitoring of progress and cross-country peer pressure.

- **The EBRD also actively participates in various international bodies.** Among these bodies are the OECD Anti-Corruption Network, FATF, MONEYVAL, and Transparency International's Steering Committee on the Business Principles for Countering Corruption. Such involvement includes participation in expert field missions when carried out in the EBRD's countries of operation.

Western Hemisphere

The Organization of American States (OAS)

36. The OAS has the following principal instruments in this area:

- The Inter-American Convention against Corruption (1996). This Convention has been ratified by 33 countries (of the 35 independent states of the Americas), which reflects its importance for the American Hemisphere, being one of the most ratified inter-American treaties in comparison to the OAS Charter itself. It contains measures for the prevention, detection, and investigation of acts of corruption, for the punishment of those who commit them, and for the recovery of the proceeds of such acts. It also has provisions on the necessary international cooperation for the effectiveness of such measures.

- **The Mechanism for Follow-Up on the Implementation of the Inter-American Convention Against Corruption (MESICIC).** The MESICIC was established in the framework of the OAS on June 4, 2001, to support its states parties (currently 31) in the implementation of the provisions of the Convention through a process of reciprocal evaluation, based on conditions of equality among the states. On the basis of that evaluation, reports are adopted, including specific recommendations for improving and strengthening the legal and institutional instruments that the states have in place for tackling corruption, filling gaps, and remedying any shortcomings detected in that process.

37. The Mechanism is composed of the Conference of States Parties, the political body, as well as the Committee of Experts, the technical body. It is supported by the OAS Department of Legal Cooperation which serves as Technical Secretariat for the Mechanism. The review process carried out by the MESICIC Committee of Experts draws on information provided not only by the member states, but also by civil society, the private sector, professional associations, academics, researchers, and other social actors. Onsite visits are part of this process, which allows for an "on the ground" evaluation of the actions with which the countries are implementing the provisions of the Inter-American Convention and the recommendations of the MESICIC.

- The Anticorruption Portal of the Americas, developed by the Department of Legal Cooperation of the Secretariat for Legal Affairs, provides information regarding transparency in public administration and anti-corruption cooperation. This encompasses developments within the MESICIC framework and technical cooperation efforts, as well as links to the web pages of the member states' agencies with responsibilities in this area. It also provides access to cooperation tools to combat corruption, such as model laws, legislative guidelines, and best practices in this area.

Inter-American Development Bank (IDB)

38. Transparency and anti-corruption are important instruments for the IDB to achieve its goal to reduce poverty and inequality in Latin America and the Caribbean. In 2001, the IDB adopted the document "Strengthening a Systemic Framework against Corruption for the Inter-American Development Bank." In this document, the IDB emphasized its commitment to promote transparency and integrity, dealing with three separate but closely related areas:

- Ensuring that IDB staff act in accordance with the highest levels of integrity and that the institution's internal policies and procedures are committed to this goal;

- Ensuring that activities financed by the IDB are free of fraud and corruption and executed in a proper control environment; and

- Supporting programs that will help the borrowing member countries of the IDB strengthen good governance, enforce the rule of law, and combat corruption.

39. The first commitment to strengthen integrity and transparency begins with IDB's own staff. IDB employees adhere to strict ethical standards laid out in the 2012 Code of Ethics and Professional Conduct. The Board of Executive Directors is subject to its own Code. The IDB's ethics officer investigates ethical violations by IDB staff and ensures compliance with financial disclosure requirements. The IDB has strong mechanisms to protect whistleblowers.

40. The second commitment is fulfilled by ensuring the IDB's operations are safeguarded from the risk of fraud and corruption and are conducted following the highest integrity standards. The Sanctions System is made up of the Office of Institutional Integrity (OII), the case officer, and the Sanctions Committee. OII investigates allegations of wrongdoing and conducts prevention activities, while the case officer and the Sanctions Committee review the OII's investigative findings and have the authority to sanction parties for wrongdoing. The list of sanctioned parties is published on the IDB's website.

41. The third commitment is fulfilled by supporting member countries. IDB helps members to increase their own transparency and accountability practices with projects that contribute to the strengthening of public policies. It also assists with building the institutional capacity of both local and national governments with the objective of improving access to information, targeted transparency, control, and auditing units. Within the strategic framework that defines the Action Plan to Support Countries' Efforts to Combat Corruption and Foster Transparency (PAACT, GN-2540), and upon the request of borrowing member countries, the IDB provides support at the institutional and sectoral level and at the national and subnational levels of government. The IDB contributes to the improvement of public policies and national plans for preventing and combating corruption and strengthening the institutional capacity of governments by improving access to information, promoting targeted transparency in strategic sectors, modernizing agencies of supreme, external and internal control, and enhancing the oversight role of legislative bodies.

42. A key strategic component of IDB's third commitment is the Transparency Trust Fund (AAF). In recognition that corruption is a serious threat to economic development and social equity and undermines efforts to promote good governance and enhance service delivery, the IDB signed, on March 19, 2007, an agreement with the government of Norway for the establishment of the AAF. The AAF's objective is to strengthen the IDB member countries' institutional capacity to prevent and reduce corruption by improving governance and transparency. In 2011, the IDB made a US$1 million contribution to the Fund. The Government of Norway renewed its support in 2012 and 2013. In 2014, the Government of Canada made a one-time contribution and the MasterCard Corporation joined the AAF as new donors. The AAF plays a critical role in catalyzing greater transparency and anti-corruption interventions.

43. Since 2007, and as of December 1, 2016, the AAF has financed 46 technical cooperation projects for a total of approximately US$16 million and leveraged approximately US$ 800 million in loans. These loan operations represent long-term commitments from countries to work on transparency and anti-corruption reform efforts in partnership with the IDB. Based on country demand, regional priorities, and the IDB's own technical expertise, the AAF's work has been structured along four main pillars: 1) Control Systems; 2) Financial Integrity (AML/CFT and FATF compliance); 3) Open Government; and 4) Natural Resource Governance.

Other Multilateral Initiatives

This section of the Annex highlights other significant multilateral initiatives that also seek to address corruption and governance issues.

Anti-Corruption Summit 2016 (London Summit)

44. Building on the 2030 Agenda for Sustainable Development to "substantially reduce corruption and bribery in all their forms" and to "strengthen the recovery and return of stolen assets," the May 2016 Anti-Corruption Summit in London, organized by the United Kingdom, sought to galvanize a global response to tackle corruption. Forty countries issued a communique, signed general principles and a global declaration against corruption, and made specific country commitments. International organizations such as the Fund, World Bank, EC, OECD, UN, and the Commonwealth Secretariat also made specific commitments.

The Asia-Pacific Economic Cooperation (APEC)

45. Following the APEC Leaders' commitment to implement general and area-specific APEC Transparency Standards in Los Cabos in 2002 and in Bangkok in 2003, an Anti-Corruption and Transparency Experts' Working Group (ACTWG) was established to institutionalize its anti-corruption and transparency work. Since 2004, the ACTWG has been serving as the framework within APEC which facilitates the coordination of anti-corruption commitments by taking appropriate steps consistent with the implementation of the UNCAC, the Santiago Commitment to Fight Corruption and Ensure Transparency (2004), the APEC Course of Action, and the APEC Transparency Standards; by implementing concrete actions in accordance with the fundamental principles of each economy's legal system; as well as by promoting cooperation in areas such as extradition, legal assistance, and law enforcement; asset penalization and recovery; and anti-money laundering. In 2014, APEC leaders highlighted the Beijing Declaration on Fighting Corruption, the APEC Principles on the Prevention of Bribery and Enforcement of Anti-Bribery Laws, and the APEC General Elements of Effective Voluntary Corporate Compliance Programs as useful instruments that support the commitment to work together against corruption and deny safe haven for corrupt officials and their illicitly-acquired assets.

46. The APEC Network of Anti-Corruption Authorities and Law Enforcement Agencies (ACT-NET) was established in 2014. Since then, it has been developing as an inter-economy network connecting anti-corruption and law enforcement officers to enhance informal cross-border cooperation between agencies responsible for investigations and prosecutions of corruption, bribery, money laundering, and illicit trade as well as on the identification and return of the proceeds of those crimes.

47. The APEC Pathfinder Dialogue on Combating Corruption and Illicit Trade is an initiative that started in 2013. It gathers together law enforcement and anti-corruption authorities, customs bureaus, and sectoral authorities with the purpose of combating illegal wildlife trafficking in the Asia-Pacific region. It does so by going through an overview of strategic drivers, practical examples of threat convergence, and key elements of multi-agency and international cooperation to combat corruption. Further, it helps in exchanging information on strengthening customs and border security practices. The mechanism also seeks cooperation with representatives from the private sector in keeping supply chains free of products obtained by corruption, fraud, and other illicit means, and by developing best practices for combating corruption in the environment to include wildlife trafficking, illegal logging, illegal mining, and illegal fishing.

Open Government Partnership (OGP)[27]

48. The OGP is a multilateral initiative that aims to secure concrete commitments from governments to promote transparency, empower citizens, fight corruption, and harness new technologies to strengthen governance. In the spirit of multi-stakeholder collaboration, the OGP is overseen by a Steering Committee including representatives of governments and civil society

[27] From http://www.opengovpartnership.org/about

organizations. To become a member of the OGP, participating countries must endorse a high-level Open Government Declaration, deliver a country action plan developed with public consultation, and commit to independent reporting on their progress going forward. The OGP formally launched on September 20, 2011, when the eight founding governments (Brazil, Indonesia, Mexico, Norway, the Philippines, South Africa, the United Kingdom, and the United States) endorsed the Open Government Declaration and announced their country action plans. Since 2011, the OGP has welcomed the commitment of 67 additional governments to join the Partnership. In total, 75 OGP participating countries have made over 2,500 commitments to make their governments more open and accountable.

NOTE III. FUND USE OF THIRD-PARTY CORRUPTION INDICATORS[1]

This background paper discusses the Fund's use of third-party governance indicators with a focus on measures of corruption. It opens with a discussion of the characteristics of available indicators; discusses Fund practices in using third-party indicators; explores tentative findings with regard to evenhandedness; and concludes with areas for further work.

Preliminary findings are that third-party governance indicators are used infrequently and inconsistently in surveillance and use of Fund resources. In some cases, where indicators pointed to high levels of corruption coverage of corruption issues in Fund documents was limited. Although there is generally a close correlation between the different third-party corruption indicators considered in this study, the relationship between these measures and the Fund's coverage of governance/corruption in country Board papers is much weaker. This suggests that greater use of third-party indicators could contribute to more evenhanded treatment of corruption by the Fund.

Annex I discusses the different approaches third-party indicators take to measuring corruption. Annex II explores how a few of the third-party indicators are constructed and examines how methodological approaches are constantly evolving to address the difficulty of measuring corruption. Annex III provides the average historical global percentile rankings of countries under three third-party indicators.

A. Introduction

1. A range of third-party indicators are typically available to provide perspectives on corruption in any given country. As noted in Annex I to this background note, the available governance/corruption indicators have different characteristics; they measure a variety of aspects of corruption, have different scope and depth of coverage, and have changed methodologies over time.[2] While the Executive Board endorsed the greater use of indicators in general, and although staff guidance has further highlighted the usefulness of indicators produced by the World Bank, Transparency International (TI), the International Country Risk Guide (ICRG), and others, there is no definitive list of indicators approved for Fund use and little guidance on when their use might be appropriate.[3] This Note explores the characteristics of a range of available indicators (see table below).

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[1] Prepared by Julianne Ams, Cecilia Marian, Concha Verdugo Yepes (all LEG), and Haimanot Teferra (SPR).

[2] A detailed analysis of the different measures of corruption and their pros and cons can be found in *User's Guide to Measuring Corruption and Anti-Corruption*, United Nations Development Programme, 2015.

[3] For the Executive Board's position, see *The Chairman's Summing Up—Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision*, 7/23/2004 (encouraging greater use of existing indicators generally as well as ROSCs and other available materials to refine coverage of governance issues); see also the underlying staff paper Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision—Content of Surveillance, 7/2/2004, ¶139 (concluding that the use of indicators such as those developed by

Note III, Table 1. Description of Selected Third-Party Indicators		
Source	**Label**	**Comments**
Transparency International Corruption Perceptions Index	TI	Annual ranking of countries since 1995, with the latest ranking (2016) including 176 countries and territories. Based on polling of corruption perceptions reported by 12 reputable institutions covering 13 different data sources on public sector corruption.
WB Worldwide Governance Indicators[1/]	WGI	Annual index of 6 dimensions of governance, including control of corruption (CCI), for over 200 countries and territories since 1996. Compiled and published by staff from the World Bank, Natural Resource Governance Institute, and Brookings Institution, aggregating more than 30 different surveys of enterprise, citizen, and expert perceptions.
International Country Risk Guide	ICRG	Monthly data since 1984 for 140 countries published by the Political Risk Services (PRS) Group. Ratings are published for three subcategories of risk (political, financial, economic), with level of corruption as one risk within the political category. Ratings are based on a range of empirical sources compiled by PRS' roster of global analysts, and through a continuous dialogue with its network of individuals and institutions globally.
Maplecroft Corruption Risk Index	Maple	Annual data since 2009 for 198 countries, based on expert assessments of corruption prevalence and anti-corruption institutions. The index seeks to reflect the specific qualities of institutions in each country.
WB Country Policy and Institutional Assessment	CPIA	The World Bank's CPIA ratings have been published for low-income (IDA) countries since 1980. Rating are provided by Bank staff for 16 CPIA sub-components,

the World Bank and Transparency International should be encouraged). For examples of staff guidance, see *Guidance Note on Jobs and Growth Issues in Surveillance and Program Work,* 9/30/2013, Annex I ¶11 (noting usefulness of governance indicators generally to examine economic constraints); *Flexible Credit Line—Operational Guidance Note*, 6/2/2015 (relevant indicators to inform judgment on strength of member's institutional policy framework are the government effectiveness and control of corruption indicators from the World Bank); *Precautionary and Liquidity Line—Operational Guidance Note*, 6/2/2015 (same); *Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument—Specific Proposals*, 5/1/2014 (noting that "no single indicator currently exists that can sufficiently summarize information about the quality of a country's institutional policy frameworks," but suggesting use of the ICRG and WGI); *Debt Limits in Fund-Supported Programs—Proposed New Guidelines,* 8/7/2009, ¶¶ 9, 10 and Table 2 (for assessing debt capacity, highlighting the use of, *inter alia*, the Public Expenditure and Financial Accountability Framework; the World Bank's CPIA, DeMAP, and WGI; and Project Performance Assessments); *Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries*, 10/8/2008, Box 2 (listing indicators that can help establish link between public expenditure and growth, including CPIA, Public Expenditure and Financial Accountability Framework, public expenditure management analyses, and "public governance indicators" more generally). See also Review of Some Aspects of the Low-Income Country Debt Sustainability Framework, 8/7/2009 (discussing how CPIA scores may be used in determining debt distress thresholds).

		including Transparency, Accountability, and Corruption in the Public Sector.
World Economic Forum Global Competitiveness Index	WEF	WEF's Global Competitiveness Index (CGI) assesses the institutions, policies, and factors that determine the level of productivity for 138 economies. Combining 114 individual indicators organized in twelve categories, the GCI includes several ethics- and corruption-related indicators, derived from the Forum's annual Executive Opinion Survey.
World Justice Project Rule of Law index	WJP	Quantitative assessment tool designed to measure adherence to the rule of law in 113 countries. Performance across eight rule-of-law factors is measured using primary data from more than 110,000 households and 2,700 expert surveys to assess how the rule of law is experienced by the general public in practical, everyday situations. Factor 2 of the Index measures corruption—including bribery, improper influence, and embezzlement—in the executive branch, judiciary, military and police, and legislature.
Global Insight Country Risk Rating	GI	Country Risk Ratings for 205 countries. Aggregates six component ratings—Political, Economic, Legal, Tax, Operational, and Security. The principal quality these ratings are measuring is stability.
1/ Based on a long-standing research program of the World Bank, the WGI do not reflect the official views of the Natural Resource Governance Institute, the Brookings Institution, the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.		

B. Characteristics of Third-Party Indicators

2. **There is no single state-of-the-art corruption indicator**. Operational considerations for using corruption indicators were explored in the 2015 UNDP's "User's Guide to Measuring Corruption and Anti-Corruption" (UNDP Guide)[4]. The Guide reviewed a range of tools and indicators and concluded that there is no single formula or one-size-fits-all approach given the complex nature of corruption. It recommends that a variety of methods and tools be used to capture the progress and evaluate the effectiveness and impact of anti-corruption programs and projects. In considering which indicators to use, several factors should be taken into consideration.

3. **A key consideration is the methodology used in compiling a particular indicator**. A key distinction is between three broad types of indicators: (a) those that measure corruption perception; (b) those that measure the actual experience of citizens or businesses with corruption; and (c) measures based on assessments of the characteristics of anti-corruption laws, policies, and institutions (see Annex I for further details). A further distinction relates to the extent of country

[4] UNDPs Guide to Measuring Corruption and Anti-Corruption (2015).

coverage of different measures. Some measures are based on fixed methodologies and data sources, while these elements have evolved over time for other indicators, so that comparisons over time are not fully reliable. In some cases, methodological approaches are constantly evolving to address the difficulty of measuring corruption. Most measures are also compiled by aggregating different data sources, and procedures are needed to handle missing data sources. The aggregation process can also conceal individual areas of better- or worse-than-average performance in a particular country. Corruption perception measures are perhaps most straightforward to compile, and tend to have the widest country coverage. But even where perceptions are based on expert opinions, the latter can be influenced by scandals that may not reflect the underlying conditions (Olken and Panda (2012)).[5] Similarly, corruption perception indices do not directly measure the volume of bribes, the incidence of corruption, or its actual impact.

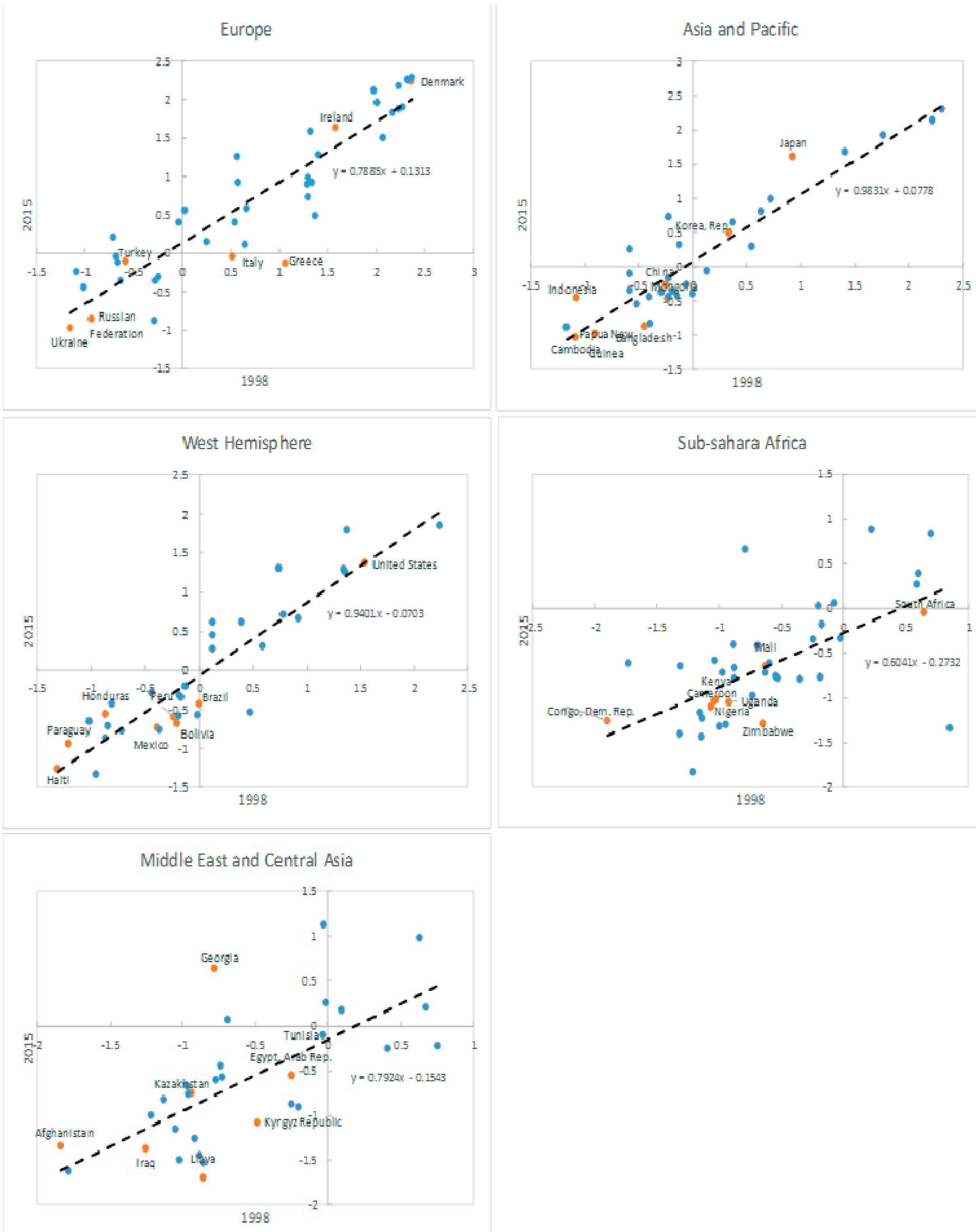
4. **Country corruption indicators tend to evolve only slowly, over time.** While a premium is usually assigned to the most recent macroeconomic data, this is less critical for corruption indicators, which tend to move more slowly over time. This reflects, several factors. The political economy institutions that influence the extent of corruption tend to change only slowly (See Figure 1). This is reflected in a tendency for perceptions of corruption to change only slowly. Last, where there are gaps in data (perhaps relating to the availability of component perception surveys), the aggregate indicators are often compiled by substituting the preceding year's data, which gives the measure a "moving average" quality.

5. **Corruption measures are often closely correlated**. While different measures bring different perspectives, they often produce similar messages. The correlation is highest between measures that have the same methodological approach: for example, perceptions-based measures tend to show similar cross-country patterns. Table 2 reports correlation coefficients for four measures (TI, WGI, ICRG, and Maple). The three perceptions-based measures (TI, WGI, and ICRG) are most highly correlated with each other (correlation coefficients around 0.95) while the institutions-based measure (Maple) has a lower correlation coefficient with the perceptions-based measures (around 0.70-0.75). This suggests that corruption perceptions do not always move in line with measures of the adequacy of anti-corruption institutions, and Fund staff may want to consider country ratings according to both concepts. There are also challenges in comparing country rankings over time and across countries (see Annex I of this Note).[6]

[5] "Corruption in Developing Countries," Annual Review of Economics, 2012, vol. 4, issue 1, pages 479-509.

[6] For example, the World Bank provides a disclaimer on the use of the WGI to compare perceptions across countries and over time, noting that "a key feature of the WGI is that all country scores are accompanied by standard errors. These standard errors reflect the number of sources available for a country and the extent to which these sources agree with each other (with more sources and more agreement leading to smaller standard errors). These standard errors reflect the reality that governance is difficult to measure using any kind of data." For more details, see Annex II and http://info.worldbank.org/governance/wgi/index.aspx#doc-methodology

Note III, Figure 1. WGI – Control of Corruption Index by Region, 1998 vs 2015



Note III, Table 2. Correlation Matrix for Third-Party Corruption Indicators (2012–15)

Pairwise Correlations - All Correlations Significant at Conventional Levels

All years pooled					**2014**				
	wgi	icrg	maple	ti		wgi	icrg	maple	ti
wgi	1				wgi	1			
icrg	0.954	1			icrg	0.9497	1		
maple	0.7354	0.7236	1		maple	0.7382	0.7264	1	
ti	0.9862	0.9575	0.7732	1	ti	0.9823	0.9545	0.7832	1

Note: All correlations significant at conventional levels.

6. **Other external measures of governance or corruption also result in high correlations.** Indicators such as BTI, WJP, EIU and GI which are also inputs to TI's measure of corruption, are strongly correlated with each other (0.75-.0.88) and with indicators of WGI, ICRG and Maple.

C. Use of Governance Indicators by Fund Staff

7. **Use of existing governance indicators in the Fund's work has been encouraged by the Executive Board and in staff guidance.** The Fund itself does not produce measures of governance and corruption and thus relies on external governance indicators for comparisons over time and across members.[7] In the surveillance context, Directors have called for wider use of appropriate outside sources of information, including governance indicators.[8] Use of such indicators is viewed as facilitating the selective but evenhanded coverage of governance/corruption issues. The use of indicators has also been encouraged in the area of Jobs and Growth to identify constraints on growth such as poor institutional quality.[9] In the context of use of Fund resources, indicators provide a useful basis on which to assess the strength of members' institutional policy framework, have helped assess capacity to manage public resources, and assist in identifying structural constraints to

[7] While the Fund does produce indicators on fiscal, budget, and investment issues, these are not directly focused on governance. Fiscal Transparency Evaluations (FTEs) are the Fund's fiscal transparency diagnostic. FTEs provide countries with: a comprehensive assessment of their fiscal transparency practices against the standards set by the Fiscal Transparency Code; rigorous analysis of the scale and sources of fiscal vulnerability based on a set of fiscal transparency indicators; a visual account of their fiscal transparency strengths and reform priorities through summary heat maps; a sequenced fiscal transparency action plan to help them address those reform priorities; and the option of undertaking a modular assessment focused on just one pillar of the Code. A number of FTEs have been conducted to date in countries across a wide range of regions and income level.

[8] *The Chairman's Summing Up—Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision*, 7/23/2004; *Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision—Content of Surveillance*, 7/2/2004, ¶139 (providing as examples indicators developed by the World Bank and Transparency International).

[9] *Guidance Note on Jobs and Growth Issues in Surveillance and Program Work*, 9/30/2013, Annex 1 ¶11.

growth.[10] See Annex I of this Note for an overview of the role, benefits, and shortcomings of external governance and corruption indicators and a discussion of how methodological approaches are constantly evolving to address the difficulty of measuring corruption.

8. However, the stocktaking exercise found that external governance indicators do not appear to be used regularly in staff's analysis in the context of surveillance and the use of Fund resources. The stocktaking exercise shows that only 20 percent of country reports reviewed for 2005-16 used third-party indicators.

9. The stocktaking exercise also found that, where staff cite third-party indicators, most use World Bank or Transparency International corruption perceptions measures. However, a wide variety of other measures have also been used. The World Bank's Doing Business Indicator, as well as three of the four indicators discussed above (TI, WGI and ICRG) have most often been used in Fund documents; the Maplecroft measure is a relatively new index (since 2009) with similar country coverage but has not been widely cited. It appears that the choice of these indicators is primarily driven by their extensive country coverage along the lines of the Fund's membership, stability of the criteria/definition used to construct the indicators and the availability of time series. According to the results of the stocktaking exercise, staff selected a mix of perception-based indicators of corruption and indirect corruption related indicators to analyze corruption and governance in a country. The stocktaking exercise shows that of the reports that relied on third-party indicators, perception based indicators such as the TI's Corruption Index, and World Bank's WGI were most often cited. However, in many instances, staff used indicators that have a less direct relationship with corruption and governance issues (e.g., World Bank's Doing Business, Heritage Foundation's Index, and the World Economic Forum's global competitiveness report).[11] See Annex II of this Note for a summary of how some of these indicators are constructed. Based on a survey of Fund mission chiefs, about half rely on third-party corruption indicators and other external information but noted familiarity with shortcomings in some indicators (see Note VI).

[10] *Flexible Credit Line—Operational Guidance Note*,, 6/2/2015 (listing the government effectiveness and control of corruption indicators from the World Bank); *Precautionary and Liquidity Line—Operational Guidance Note*, 6/2/2015 (same); *Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument—Specific Proposals*, 5/1/2014 (suggesting use of the ICRG and World Bank Governance Indicators Database); *Debt Limits in Fund-Supported Programs—Proposed New Guidelines*, 8/7/2009, ¶10 (highlighting, *inter alia*, the Public Expenditure and Financial Accountability Framework, the World Bank's DeMAP and WGI, Project Performance Assessments); *Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries*, 10/8/2008, Box 2. *See also* *Review of Some Aspects of the Low-Income Country Debt Sustainability Framework*, 8/7/2009.

[11] See Annex II on how these indicators are constructed and a discussion on how methodological approaches are constantly evolving to address the difficulty of measuring corruption.

Note III, Table 3. Third-Party Indicators of Corruption Used in Fund Documents (2005–2016)

	Number of Countries using the third-party indicator
Transparency International's Corruption Perception Index (CPI)	16
World Bank Governance Indicators (WGI)	8
WB Governance Indicators: Governance Effectiveness (a subset of the WGI)	1
WB Governance Indicators: Control of Corruption (a subset of the WGI)	8
The Political Risk Services International Country Risk Guide (ICRG)	3
Country and Policy and Institutional Assessment (CPIA)	3
European Quality of Governance Indicator	2
Maplecroft Corruption Index	2
Natural Resources Governance Institute Report	2
Transparency International's Global Corruption Barometer	2
Global Competitiveness Index-corruption	2
Global Integrity Reports	1
Transparency International's Bribes Payers Index	1
PNG Institute of National Affairs and its measurement of corruption.	1
Ibrahim Index of African Governance.	1
Open Budget	1
Incidence of Graft Index	1

10. There also appears to be an uneven relationship between a country's rank on external governance indicators and staff's treatment of corruption in Fund documents. In accordance with the 1997 Guidance Note and the Fund's mandate, governance should be addressed when it has been judged to have a significant macroeconomic impact. However, staff's judgment of macroeconomic impact has been informed by a wide variety of sources; it does not appear to have been made solely based on third-party indicator rankings. In general, staff made use of the third-party indicators largely in order to compare a country's indicator rank to its peers in the region. In other reports, staff's limited usage of third-party indicators also briefly described whether the country had moved up positions in the third-party indicator rank or simply mentioned whether the country's rank was too low compared to other countries.

D. Correlation Between Fund Engagement and Third-Party Indicator Rankings

11. As a supplement to the qualitative review of staff reports, a word search was conducted to gain insights into the correlation of Fund engagement on governance and corruption issues with third-party indicator rankings. Specifically, the number of references to governance-related terms in Fund documents was used as a proxy for the extent of engagement. These data were compiled for two country samples:

- a sample of all country documents in the Institutional Repository for the period 2012-2015; and
- a narrower sample of country documents for 1976-2016 covering surveillance, UFR, press releases, TA reports, and assessment letters.[12]

12. For each sample, countries were ranked according to the number of references to "corruption," "governance," or "transparency" (or all three concepts together) (for methodology see Box 1). This ranking of countries was then compared to external corruption/governance indicators. For the latter, in addition to the four third-party indicators discussed above (TI, WGI, ICRG, and Maple), staff also looked at corruption indicators which were readily available for 2012-15. These are the World Economic Forum corruption index (WEF), the transformation index of the Bertelsmann Foundation, the rule of law index of the World Justice Project, the country risk assessment of EIU, and the country risk rating of Global Insight.[13]

13. It is recognized that drawing conclusions and implications from a word search of key terms can be highly speculative. In particular, many policy measures relevant to governance and corruption can be discussed without using key terms such as "governance," "transparency," or "corruption," and terms such as "governance" and "transparency" can have multiple meanings depending on the context. Also, the qualitative review of staff reports showed that even when these key terms are used, this does not necessarily mean that the Fund engages on the issue. Nevertheless, when combined with the detailed qualitative review, the word search may reveal certain broad trends that may be of interest.

Findings

14. Fund references to corruption, governance, and transparency for a given country are correlated but not to a high degree. Countries for which there are a high number of references to corruption in Board papers also tend to rank high in number of references to governance or transparency. The relationship is stronger over the longer 1997-2016 period than over the more recent few years (2012–15) (Table 4). The number of references in a country to governance and transparency are more similar than the number of references to either governance or transparency relative to corruption.

[12] In comparison to the first sample of reports, this excludes Board grays, duplication of country documents (ISCR), Decisions, Executive Board documents such as PRSP and related government documents, and Working Papers.

[13] These indicators are also inputs for the index of Transparency International.

Note III, Table 4. Correlation Matrix of Country Ranking Based on References in Fund Documents

	1997-2016			2012-2015		
	Corruption	Governance	Transparency	Corruption	Governance	Transparency
Corruption	1			1		
Governance	0.69*	1		0.42*	1	
Transparency	0.65*	0.82*	1	0.37*	0.73*	1

15. Rankings of countries based on the number of references to corruption or governance are also correlated with third-party corruption indicators. Results are presented below using the World Bank WGI data for Control of Corruption. However, similar results are obtained using other measures. The significant correlation between the number of references to corruption in Fund documents (See Box 1 on methodology) and the World Bank WGI metric suggests that the Fund's engagement has some basis in independent data. The fact that Fund engagement as measured by references to governance or transparency is less closely correlated may reflect the different meanings of these terms, and their less direct relationship to the WGI Control of Corruption measure. The fact that correlations are much weaker over a short period may not be a cause for concern, given that the focus on corruption and governance issues can be expected to be irregular and addressed occasionally in annexes or special issues papers rather than on a regular basis.

Note III, Table 5. Correlation of Country Ranking Based on References in Fund Documents with Third-Party Indicators

Correlation with 2015 WB WGI (CCI) country ranking with:	Fund country ranking based on country references to:		
	Corruption	Governance	Transparency
1976-2016 sample	0.56*	0.34*	0.26*
2012-2015 sample	-0.18*	0.04	-0.08

16. Outliers on the evenhandedness comparisons. Countries such as Somalia, Equatorial Guinea, Libya, and Syria that rank high on corruption according to the WB WGI measure score low in terms of frequency of Fund references to corruption, primarily due to the scarce Fund interaction/engagement with these countries. Conversely, in Georgia, Indonesia, Kenya, and Ukraine the references to "corrupt" in Fund documents were more frequent than expected based on their ranking on third-party indicators of corruption. This is attributable to the deeper Fund engagement on governance/corruption issues with these countries.

17. Different external metrics. It is unclear whether more broad third-party indicators of "governance" might better explain the Fund's references to governance issues than corruption-specific measures such as the WGI's control of corruption.

Note III, Box 1. Methodology for Measuring the Degree of Fund Attention to Corruption Issues

As a supplement to the qualitative review of staff reports, the number of references to corruption-related terms in Fund documents was generated in order to estimate the degree of the Fund's attention to governance/corruption. Staff used Python word search across all documents in the Institutional Repository (IR) for 2012–15 to generate word count data related to corruption/governance and ranked the countries accordingly. Similarly, the word search was conducted on selected IR documents for 1997–2016 (TA reports, surveillance and UFR staff reports, press releases), controlled for duplication of reports.[1] Reports that focus on more than one country were also dropped. The word-search counted the number of times the keywords "corrupt," "governance," and "transparency" occurred. The search did not analyze the context such words were included in the documents.

The data generated using Fund IR documents for 2012–15 were aggregated by country and year so as to obtain the total number of times these three keywords were mentioned in Fund documents in any given year.

For data generated using the three keywords on selected documents for 1997-2016 the result was aggregated by country only to obtain the total number of times the keywords "corruption" and "governance" were mentioned during a 19-year period.

1/ Documents included: TA reports classified as TAR, BUFFs, excl. ED statements, EVC docs related to country FO/Dis (such as assessment letters), MD/SP (related to a country); NB, PDP, EBS, PIN, PR, SM, and SUR.

Note III, Table 6. Correlation Matrix: Third Party Indicators of Corruption and Word Count in Fund Documents (2012–15)

All years			Pairwise correlation coefficients, star if significant at 5% level											
	wgi	icrg	maple	ti	WEF-TI	BF-TI	WJP-TI	PRS_TI	EIU-TI	GI-TI	python(corrupt)	python(governance)	python(transparency)	python(all_three)
wgi	1													
icrg	0.9540*	1												
maple	0.7354*	0.7236*	1											
ti	0.9862*	0.9575*	0.7732*	1										
WEF_TI	0.9149*	0.8682*	0.5397*	0.9060*	1									
BF-TI	0.8427*	0.7623*	0.7876*	0.8837*	0.5785*	1								
WJP-TI	0.9595*	0.8898*	0.7001*	0.9470*	0.8836*	0.7477*	1							
PRS_TI	0.9430*	0.9947*	0.7205*	0.9513*	0.8590*	0.7457*	0.8840*	1						
EIU-TI	0.9162*	0.8851*	0.6926*	0.9338*	0.8001*	0.7591*	0.8779*	0.8768*	1					
GI-TI	0.9219*	0.8890*	0.7350*	0.9366*	0.8115*	0.7879*	0.8760*	0.8815*	0.8845*	1				
python(corrupt)	-0.1805*	-0.1484*	-0.0815	-0.1511*	-0.1945*	-0.0801	-0.1527*	-0.1516*	-0.2022*	-0.1117*	1			
python(governance)	0.0363	0.0483	-0.0071	0.018	0.0072	-0.057	0.0274	0.0513	0.0261	0.0093	0.4229*	1		
python(transparency)	-0.0708	-0.0615	-0.0669	-0.0698	-0.082	-0.1430*	-0.0729	-0.0618	-0.0593	-0.1027*	0.3697*	0.7284*	1	
python(all_three)	-0.0272	0.0532	-0.0126	-0.0108	-0.0829	-0.0432	0.1034	0.0484	0.0154	-0.0161	0.6374*	0.9478*	0.8262*	1

E. Parallel Fund Work on the Use of Third-Party Indicators

18. In parallel with this stocktaking exercise, the Fund is also reviewing the use of third-party indicators in surveillance. This review is expected to result in a guidance note to staff on a principles-based approach to using third-party indicators in surveillance to ensure minimized reputational risks to the Fund while preserving flexibility for staff to make progress on issues identified in the Integrated Surveillance Decision[14] and the Triennial Surveillance Review. The guidance note will be accompanied by an "Indicators Digest," which is being developed to inform staff's judgement on the use of potentially controversial third-party indicators.

[14] See "*Modernizing the Legal Framework for Surveillance—An Integrated Surveillance Decision*."

Annex I of Note III. External Sources of Measurements on Corruption

1. **Measuring corruption and its costs, consequences, and impact is critical for a wide range of stakeholders at a global, regional, and national level.** Measurement of corruption itself is important in order to facilitate the analysis of corruption and its impact and to monitor and assess the results of measures to address corruption. Recognition of this fact has renewed interest by international organizations—and among aid donors, aid recipients, investors, and civil society—in developing measures of corruption, both in aid-financed projects as well as more broadly in both advanced and developing countries.

2. **However, there are challenges in the measurement of corruption, and often a variety of indicators are used.** The UNDP Guide has reviewed a selection of these indicators and acknowledged that trying to quantify the exact costs of corruption by using a single indicator is difficult given corruption's hidden nature and the variety of forms it can take.[1] [2]

3. **Given the difficulty of capturing precise data on corruption, there has been a reliance on perceptions and experiences of corruptions.** The UNDP Guide notes that there is a dearth of knowledge about the effectiveness of anti-corruption interventions due to weak reporting and evaluation standards. Currently, indicators tell us nothing about how corruption operates, nor do they differentiate between corruption that represents a transfer of funds and corruption that distorts the allocation of resources. Finally, these indicators do not directly measure the volume of bribes, the incidence of corruption, or its impact. Rather, they are better proxies of transparency, accountability, and integrity.

4. **Organizations that produce governance indicators have used differing approaches to measuring corruption.** This means that different organizations may use different quantitative and qualitative data of perceptions, experience, external assessments, administrative data, and a hybrid thereof as well as surveys, monitoring and evaluation systems, crowdsourcing, compliance reviews, and indicator/scorecard case studies to obtain the data. Understanding the type of input into an indicator and its limitations helps prevent misuse of the indicator. For example, an indicator measuring perceptions of corruption should not be assumed to reflect actual corruption; perceptions can rise and fall independently of levels or extent of corruption, and only a political economy analysis could clarify why perceptions are changing.

5. **In general, there are two different types of corruption indicators**: i) composite indicators; and ii) policy-relevant indicators. A snapshot of different indicators and the type of data used in each in indicator is reflected in Figure 1.

[1] A user's guide to measuring corruption (UNDP 2015)

[2] See also Rose-Ackerman & Palifka, *Corruption and Government* (2016). This annex also includes input from the IADB Seminar on the use of Corruption Indicators in Latin American countries.

- Composite indicators gather many different data points with the goal of broad topical coverage, global country coverage, or both. These indicators use statistical means of summarizing, combining, and organizing different types of data (e.g., perceptions, experiences, administrative information). In principle, the use of many data points can potentially result in greater accuracy, provided that the same concepts are measured consistently over time. Composite indicators, however, generally fall short since the methodologies and sources of data of many composite indicators change from year to year. Further, given the many different data inputs, the rankings of individual countries may take years to change, particularly if similarly-ranked countries are also undergoing reforms. The aggregation of data may also obscure low scores on some underlying indicators. Finally, given that the composite indicators give varying weight to underlying input, it is important that the user has a clear understanding of the relationship between the input used and the final composite measurement, which is often not possible.

6. **Examples of composite indicators are Transparency International's Corruption Perceptions Index (CPI), and World Bank's Control of Corruption Index (CCI).** The CPI has been published annually since 1995.[3] The CPI is a compilation of data from other sources that are merged to generate a single number for a country. CPI's scores tend to persist over time, with only few countries showing marked improvement or deterioration. The other major cross-country index is the CCI, which is part of the Worldwide Governance Indicators. The CCI is also a compilation, including most of the same sources and countries as the CPI.[4] The methodology is somewhat different, but the two indices are highly correlated, and scores generally fall within the margin of errors of each.

7. **Policy-relevant indicators are useful, necessary, and complement composite indicators.** They can serve as the underlying data aggregated in composite indicators or can stand alone as individual data points. Such indicators can demonstrate variation in outcomes of anti-corruption policies within a country. They also facilitate benchmarking across provinces and within national boundaries, given their narrower focus, and provide more robust information about the local drivers of change. However, these datasets necessarily build local context into their frameworks, potentially preventing meaningful cross-country analysis. Finally, this kind of data can be very difficult to collect, especially since corruption is a covert phenomenon.

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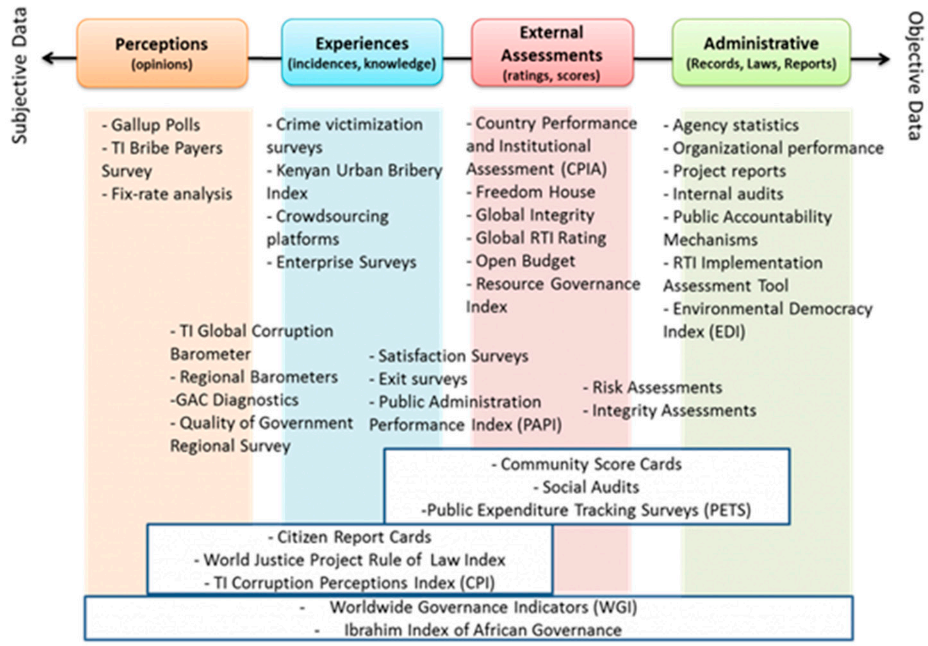
[3] The CPI is available on Transparency International's website.

[4] The CCI is reported as normalized distribution, with a zero mean and a standard deviation equal to one. This form has the advantage of not imposing cutoff points at the top and the bottom of the scale, but it is centered at zero each year. Hence, it cannot measure global trends, but can only show how countries fare relative to each other. See discussions on World Bank and Transparency International indicators on corruption in Donchev and Ujhelvi (2014), What Do Corruption Indices Measure?

Figure 1. Subjective vs. Objective



Source: UNDP 2015

8. **In some external composite indicators** (e.g., WGI, Transparency International), the underlying data may range from subjective perceptions to specific laws and statistics.

9. **Perceptions-based input** includes opinions by ordinary citizens, business owners, or experts on specific topics, often expressed through public opinion surveys and hypothetical vignettes. These types of inputs are helpful for capturing information about topics that are difficult to conceptualize for objective data collection, such as public trust, civic space, grand or political corruption, and client preferences. They also fill a gap where administrative data are unavailable, such as for the quality of public administration or governments, and can include anecdotal information on the frequency, location, and cost of bribes, or the incidence and severity of crimes, as well as the extent of knowledge about specific laws, policies, or practices.

10. **Corruption perceptions are an important part of citizens' attitude towards political systems and leaders and affect the level of political trust in a society.** It is well known that, in turn, this trust can be an important determinant of investment decisions, political participation, and other behaviors with economic consequences. It should be highlighted, however, that corruption perception data do not measure actual levels of corruption, point to what policies are most effective at changing perceptions of a country's level of corruption, or show what the impact of perceptions on real variables is. Examples of perceptions-based indicators include Gallup public opinion polls, and Transparency International's Bribe Payers Index Experiences.

11. **Experiences-based input** provides specific citizen experiences (or knowledge). These data are commonly used in service delivery fields, such as health, education, law enforcement, and

transportation. Experiences data are often collected through surveys, but face-to-face survey-based interviews are also common. As with perceptions data, surveys of experiences may result in higher data-collection costs in order to ensure a sample size that reduces the margin of error. They are useful when administrative data are unavailable and can be used to measure the extent and nature of petty corruption, such as bribes, in particular sectors. They are also very helpful in supplementing performance data collected by government agencies and can identify bottlenecks and problems at the government-citizen interface. Examples of experiences-based indicators include the World Economic Forum Competitiveness Report, the Latin American Public Opinion Survey (LAPOP), crime victimization surveys, the Kenya Urban Bribery Index, and Ushahidi platforms (crowdsourcing).

12. External assessments capture data through scoring, rating, or ranking and are often some of the most popular global datasets. This type of data may constitute either expert assessments or citizen assessments. Often, the former tend to focus on country or institutional performance (e.g., grand corruption in extractive industries, transparency in public finance), whereas the latter often concentrate on micro-level impacts (e.g., petty corruption in education ministries, fraud in the provincial health system). External assessments can provide much more specific data on petty corruption and service delivery at the country or community level than other types of indicators. Because of the lower cost involved in data collection and quality control (e.g., online surveys, no travel, no interviews), it is easier to cover a large number of countries. These assessments are based on administrative data (further described below) or third-party reports—such as case studies, audit reports, or agency statistics—and in this way can be understood as "evidence-based" assessments of corruption and governance. Examples of external assessment-based indicators include the Open Budget Index, the Financial Secrecy Index, Benchmarking Public Procurement, and the Campaign Finance Indicator.

13. Administrative data consist of agency statistics or performance data generated by governments about their own activities, as well as audit reports or project reports, compliance or field tests, and citizen feedback or observations. (e.g., data from the anti-corruption agency). These data are useful for assessing the quality of government resources, processes and performance. These are also the easiest data to translate into action, since the data already closely adhere to existing public sector functions. However, there are questions about the reliability of self-reported data in government monitoring and evaluation systems.

14. In general, methodological approaches are constantly evolving to address the difficulty of measuring corruption. While some progress has been made in the areas of data collection, analysis and dissemination, challenges remain in the areas of coverage (global vs. local), subjectivity (perception-based not being fully based on facts), comparisons over time (given changing methodologies and data sources), data quality and reliability, and cross-country comparisons.

Annex II of Note III. Methodology: External Governance/Corruption Measures

This Annex explores some of the key external governance/corruption measures. An analysis of some the benefits and shortcomings of each of the measurements are set out in the UNDP Guide and summarized in Annex I.

Transparency International -Corruption Perceptions Index (CPI)[1]

1. The CPI ranks countries and territories based on how corrupt their public sector is perceived to be since 1995 (latest 2016). It is a composite index—a combination of polls—drawing on corruption-related data collected by a variety of reputable institutions. It is calculated using 12 different data sources from 11 different institutions that capture perceptions of corruption within the past two years. The index reflects the views of observers from around the world, including experts living and working in the 180 countries and territories evaluated.

2. Select data sources: Each data source that is used to construct the CPI must fulfil the following criteria to qualify as a valid source:

- Quantifies perceptions of corruption in the public sector
- Be based on a reliable and valid methodology, which scores and ranks multiple countries on the same scale
- Performed by a credible institution and expected to be repeated regularly
- Allow for sufficient variation of scores to distinguish between countries.

3. Standardize data sources: Data scores are standardized to a scale of 0-100 where a 0 equals the highest level of perceived corruption and 100 equals the lowest level of perceived corruption. This is done by subtracting the mean of the data set and dividing by the standard deviation and results in z-scores, which are then adjusted to have a mean of approximately 45 and a standard deviation of approximately 20 so that the data set fits the CPI's 0-100 scale. The mean and standard deviation are taken from the 2012 scores, so that the rescaled scores can be compared over time against the baseline year. Because of the update in the methodology CPI scores before 2012 are not comparable over time.

4. Calculate the average: For a country or territory to be included in the CPI, a minimum of three sources must assess that country. A country's CPI score is then calculated as the average of all standardized scores available for that country. Scores are rounded to whole numbers.

[1] For more information, see Transparency International's Corruption Perceptions Index website.

5. **Report a measure of uncertainty:** The CPI is accompanied by a standard error and confidence interval associated with the score, which capture the variation in scores of the data sources available for that country/territory.

Transparency International -Global Corruption Barometer (GCB)[2]

6. **The GCB draws on a survey of 100,000+ respondents in 100+ countries**. The surveys are conducted through face-to-face or telephone interviews. It addresses people's direct experiences with bribery and details their views on the overall prevalence of corruption in the main institutions in their countries. It also captures their perception of the government's anti-corruption performances, amongst others. Since the survey reflects on experiences of the population at large, it only captures street-level corruption experiences and not grand corruption by high-level officials. Corruption incidences reported in the GCB measures the user-based incidences by tabulating experiences based on survey of respondents' use of various services and if they paid a bribe.

7. **Beginning in 2015, the GCB questionnaire was fielded in collaboration with a number of regional surveys networks and has been published as regional GCB reports for Sub-Saharan Africa, Middle East & North Africa, Europe and Central Asia, and Asia-Pacific.** The Americas regional report as well as a summary Global Corruption Barometer report will be published by mid-2017. The most recent complete GCB survey is the 2013 Barometer which reflects the responses of more than 114,000 people in 107 countries**.** The survey sample in each country has been weighted to be nationally representative where possible. Global results are based on the entire sample, i.e., one response is counted as one vote. For most countries, the sample size is approximately 1000.

Worldwide Governance Indicators (WGI)[3]

8. **The WGI reports aggregate and individual governance indicators for over 200 countries and territories over the period 1996–2015, for six dimensions of governance:**

- Voice and Accountability
- Political Stability and Absence of Violence
- Government Effectiveness
- Regulatory Quality
- Rule of Law
- Control of Corruption.

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[2] For more information, see Transparency International's Global Corruption Barometer website.

[3] For more information, see the World Bank's Worldwide Governance Indicators website.

9. These aggregate indicators combine the views of a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. They are based on over 30 individual data sources produced by a variety of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms.

10. The last dimension in the WGI, the Control of Corruption (CCI) uses a broad concept of corruption, covering not only perception of corruption but also victimization and anticorruption institutions such as electoral integrity and freedom of the press. The CCI is reported as a normalized distribution, with zero mean and a standard deviation equal to one, hence avoiding arbitrary cutoff points at the top and bottom of the scale. One disadvantage of such scaling is that it cannot be used to measure global trends but only how countries fare relative to each other.

International Country Risk Guide (ICRG) Corruption Risk Index[4]

11. The PRS Group Inc.'s ICRG has been published monthly since 1984. ICRG rating and forecasting methodology comprises 22 metrics affecting three categories of country risk: political, financial, and economic. Multiple tables are available for each of these subcategories.

12. ICRG's political risk rating includes 12 weighted variables (and 15 subcomponents) covering an extensive menu of risks, including those that affect the overall stability of government, socio-economic conditions, investment risks, and other risks related to a variety of conditions internal and external to the country in question. Assessments are made using both qualitative and quantitative data with the former 'harnessed' through the application of proprietary risk bands.

13. PRS has a roster of analysts located globally, and the firm's universe of country coverage includes 140 developed, emerging and frontier markets. However, the firm's coverage does not include small islands/states, except for four states (Bahamas, Guyana, Surinam, and Trinidad &Tobago), but provides its clientele, on request, with specialized risk analyses on countries not covered on a regular basis.

14. One sub-component of the political risk index is the level of corruption within the political system. There is a 6-point corruption risk assessment that is utilized when measuring corruption. The low score (0) represents a very high risk, whereas a high score (6) means the risk posed by corruption is minimal. Scores are rounded to the nearest 0.5.

15. One of the main indicators used in assessing country graft is government's longevity in office, which may reflect corrupt practices. While the measure takes financial corruption into account, through demands for special payments and bribes connected with import and export licenses, exchange controls, tax assessments, police protection, or loans, the index is more concerned with actual or potential corruption in the form of excessive patronage, nepotism, job

[4] For details see PRS/ICRG Methodology document

reservations, 'favor-for-favors', secret party funding, and suspiciously close ties between politics and business.

16. ICRG's corruption component measures the risk posed by corruption to the private sector and factors in incidents of graft. However, since corruption is typically hidden, perception indices are taken as a proxy for corruption and, in this context, PRS relies on a network of individuals and institutions ("experts") to uniformly assess corruption across countries.

Maplecroft Corruption Risk Index (CRI)[5]

17. A sub-component of Maplecroft's governance index is the Corruption Risk Index (CRI). It has been developed to enable companies to identify the countries where the risk of association with corruption is highest. The CRI evaluates 198 countries on the reported prevalence and persistence of corruption in the public and private sectors, as well as the efficiency of governments in tackling the issue.

18. CRI is a qualitative survey index. Analysts assess ten key indicators relating to the legislative framework (structure); anti-corruption implementation bodies and the practical applications of the law (process), and the frequency with which various kinds of corruption occur (outcomes). It assesses risk by modelling the strength of anti-corruption legislation, the efficacy and independence of anti-corruption bodies and the prevalence of corruption from a business perspective, including distribution, petty and grand corruption.

19. The index is constructed by averaging scores for Structure and Process questions (see below) and combining that with the Outcome score. The outcome score is weighted twice as much as the average Structure and Process score. Thus, the outcome pillar is the most important in determining a country's overall score in the index.

20. Structure and Process questions used for the index are related to whether: legislation is in place to tackle corruption in the public sector; political appointments are subject to patronage or nepotism; the public budget process is transparent; the recipients of government contracts are published; there are anti-corruption investigation or prosecution bodies; and corruption is a particular concern for business from an operational perspective, for example regarding business permits and planning.

21. The scores for grand and petty corruption are multiplied and assigned a score based on an S-curve model where the highest frequencies of grand and petty corruption are assigned higher-risk scores.

[5] For details, see https://maplecroft.com/

22. **The CRI methodology has been updated to provide a more granular assessment of the issue.** While highly correlated, and capturing the same issue, the methodologies are not directly comparable around this break, and time series analysis should be handled with care.

World Bank's Country Policy and Institutional Assessment (CPIA)[6]

23. **The CPIA is a diagnostic tool compiled by the World Bank.** It is designed to assess the quality of a country's policies and institutional arrangements according to 16 criteria currently covering economic management, structural policies, policies for social inclusion and equity, as well as public sector management and institutions.

Selection/Performance Criteria:

24. **The 16 CPIA criteria are grouped into four clusters:**

- *Economic Management*: Macroeconomic Management; Fiscal Policy; Debt Policy
- *Structural Policies:* Trade; Financial Sector; Business Regulatory Environment
- *Policies for Social Inclusion/Equity*: Gender Equality; Equity of Public Resource Use; Building Human Resources; Social Protection and Labor; Policies and Institutions for Environmental Sustainability
- *Public Sector Management and Institutions*: Property Rights and Rule Based Governance; Quality of Budgetary and Financial Management; Efficiency of Revenue Mobilization; Quality of Public Administration; Transparency, Accountability, and Corruption in Public Sector.

25. **The country teams prepare rating proposals that are based on their informed professional judgment**. To ensure that scores are consistent across countries and regions, the country team proposals undergo a series of checks and balances in which they are reviewed first within each operational Bank Region by the respective Chief Economist, and then by sector specialists in Global Practices and Cross-Cutting Solutions Areas and by staff from central departments. For each criterion, countries are rated on a scale of 1 (low) to 6 (high). Each of the four clusters gets equal weight in overall rating. Also within each cluster, each criterion receives equal weights. The CPIA data is produced for all World Bank clients and are publicly disclosed only for IDA-eligible low-income countries.[7]

[6] For details See World Bank Group on CPIA methodology

[7] CPIA data is not compiled for OECD and high-income countries.

Annex III of Note III. Average Historical Global Percentile Rankings of Economies by Indicator

Note III, Annex III, Table 1. Perceptions Index (World Bank WGI CCI), Average of 2005–15[1/]

Denmark	99.6	Spain	79.8	Italy	61.8
New Zealand	99.3	Malta	79.6	South Africa	61.0
Finland	98.9	Botswana	79.4	Lesotho	60.7
Sweden	98.2	St. Vincent and the Grenadines	79.4	Kiribati	60.4
Singapore	97.6	Slovenia	78.2	Croatia	59.4
Switzerland	97.2	St. Kitts and Nevis	78.0	Turkey	59.1
Norway	97.1	Bhutan	77.0	Georgia	59.0
Iceland	96.5	Israel	76.8	Greece	58.5
Netherlands	96.5	Cabo Verde	75.0	Micronesia, Fed. Sts.	56.4
Luxembourg	95.7	Taiwan Province of China	74.1	Ghana	56.2
Australia	95.5	Dominica	73.4	Saudi Arabia	55.8
Canada	95.0	Brunei Darussalam	72.0	Tunisia	55.5
China, P.R.: Hong Kong Special Administrative Region	93.5	Costa Rica	71.5	Brazil	54.1
Germany	93.3	Mauritius	70.3	Romania	53.2
United Kingdom	92.8	Korea, Rep.	69.8	Macedonia, FYR	52.9
Austria	92.3	Grenada	69.3	Tuvalu	52.0
Ireland	92.1	Poland	67.8	Bulgaria	51.4
Chile	90.3	Hungary	67.1	Montenegro	51.4
Japan	90.0	Vanuatu	66.1	Belize	51.2
France	89.9	Czech Republic	65.6	Swaziland	49.0
Belgium	89.7	Bahrain	65.6	Sri Lanka	48.7
Bahamas, The	89.5	Seychelles	65.3	Nauru	48.6
Barbados	89.5	Namibia	65.1	Serbia	48.5
United States	88.7	Slovak Republic	64.4	El Salvador	47.8
Uruguay	86.0	Latvia	64.2	Colombia	47.7
Antigua and Barbuda	83.8	Lithuania	64.0	Trinidad and Tobago	47.3
Qatar	83.5	Jordan	63.9	Thailand	47.1
United Arab Emirates	82.7	Oman	63.7	Bosnia and Herzegovina	47.0
Cyprus	82.2	Rwanda	63.6	Panama	46.7
Estonia	81.2	Kuwait	63.6	Morocco	46.5
St. Lucia	80.8	Malaysia	63.5	Marshall Islands	46.1
Portugal	80.8	Samoa	62.8	Suriname	45.7

Peru	45.2	Albania	31.2	Azerbaijan	14.3
Senegal	44.2	Guyana	31.1	Bangladesh	14.3
Madagascar	44.1	Philippines	30.7	Cameroon	13.2
Solomon Islands	44.0	Liberia	30.1	Nigeria	12.7
Jamaica	43.8	Nepal	29.4	Tajikistan	12.4
Burkina Faso	43.2	Mauritania	29.0	Syrian Arab Republic	12.0
Palau	42.4	Indonesia	28.9	Guinea	12.0
Mexico	42.4	Niger	28.8	Lao PDR	11.1
Djibouti	42.0	Iran, Islamic Rep.	28.7	Uzbekistan	10.8
Sao Tome and Principe	41.2	Moldova	28.5	Papua New Guinea	10.8
Fiji	41.2	Gambia, The	28.4	Congo, Rep.	10.5
India	39.7	Benin	27.5	Burundi	10.4
Argentina	39.0	Comoros	27.3	Cambodia	10.3
China	38.4	Dominican Republic	25.8	Guinea-Bissau	9.9
Zambia	37.1	Gabon	24.5	Kyrgyz Republic	9.9
Algeria	36.2	Nicaragua	24.5	Venezuela, RB	9.6
Maldives	35.1	Ecuador	23.9	Libya	8.3
Malawi	35.0	Honduras	23.2	Haiti	7.1
Mozambique	34.6	Lebanon	20.6	Myanmar	5.7
Armenia	34.6	Timor-Leste	20.4	Chad	5.4
Mali	33.7	Kazakhstan	19.6	South Sudan	5.2
Bolivia	33.6	Ukraine	19.3	Congo, Dem. Rep.	5.0
Eritrea	33.5	Cote d'Ivoire	18.9	Angola	4.9
Tonga	33.5	Pakistan	18.3	Zimbabwe	4.8
Tanzania	33.3	Sierra Leone	18.3	Iraq	4.2
Mongolia	32.8	Uganda	18.1	Sudan	4.0
Kosovo	32.7	Togo	17.2	Turkmenistan	3.9
Egypt, Arab Rep.	32.7	Russian Federation	16.9	Afghanistan	2.4
Belarus	32.6	Paraguay	16.0	Equatorial Guinea	1.0
Vietnam	32.0	Kenya	15.5	Somalia	0.3
Guatemala	31.8	Yemen, Rep.	14.8		
Ethiopia	31.8	Central African Republic	14.5		

1/ These comparative indicators are developed by external organizations. While each offers insights on the extent of corruption, they also have inherent limitations and do not by themselves, or collectively. represent the Fund's assessment of corruption in any country

Note III, Annex III, Table 2. Experience Index (Transparency International GCB), Average of 2005–13[1/]

Australia	97.0	Luxembourg	59.2	Bolivia	28.5
Germany	87.8	Bulgaria	61.0	Moldova	24.4
Denmark	92.4	Turkey	53.9	Lithuania	31.6
New Zealand	91.3	Sudan	58.2	Mexico	26.8
Switzerland	90.8	Cyprus	56.4	Paraguay	24.7
Canada	91.6	El Salvador	55.9	Algeria	23.4
Norway	88.3	Hungary	60.0	Ukraine	23.1
Spain	88.7	Bosnia and Herzegovina	53.8	Pakistan	20.5
Maldives	86.2	Slovakia	52.1	Mongolia	20.3
Belgium	86.2	Sri Lanka	51.4	Kyrgyzstan	20.2
Uruguay	86.1	Colombia	47.8	Zambia	21.6
Japan	88.1	Thailand	52.6	Iraq	20.0
Brazil	86.9	Greece	49.3	Ethiopia	18.7
Finland	83.6	Rwanda	48.2	Kenya	17.1
Israel	84.1	FYR Macedonia	45.1	Ghana	18.6
Korea (South)	86.1	Czech Republic	49.9	Bangladesh	15.3
Portugal	84.1	South Africa	44.2	Tanzania	17.0
France	82.9	Philippines	50.6	Morocco	21.2
Slovenia	82.3	Solomon Islands	44.8	South Sudan	16.3
United Kingdom	82.9	Papua New Guinea	43.6	Nigeria	15.1
Estonia	80.9	Kosovo	41.4	Congo, Dem. Rep. of	14.6
United States	77.8	Madagascar	42.6	Senegal	14.2
Georgia	77.3	Peru	42.0	Afghanistan	14.1
Italy	75.3	Serbia	41.8	Zimbabwe	13.3
Jamaica	74.5	Venezuela	43.7	Malawi	13.1
China	69.7	Vietnam	38.9	Azerbaijan	12.9
Taiwan Province of China	61.6	Romania	38.0	Uganda	7.7
Croatia	69.6	Lebanon	36.6	Libya	7.4
Chile	69.7	Nepal	36.8	Albania	10.2
Fiji	66.7	Armenia	44.6	Mozambique	6.8
Argentina	67.0	Indonesia	35.4	Cameroon	7.3
Vanuatu	65.4	Kazakhstan	35.1	Cambodia	4.7
Poland	60.5	Russia	35.1	Yemen	5.1
Malaysia	62.1	Egypt	31.9	Sierra Leone	3.3
Latvia	60.5	India	23.1	Burundi	3.0
Tunisia	59.6	Jordan	27.7	Liberia	0.4

[1/] These comparative indicators are developed by external organizations. While each offers insights on the extent of corruption, they also have inherent limitations and do not by themselves, or collectively. represent the Fund's assessment of corruption in any country

Note III, Annex III, Table 3. Institutions Index (Maplecroft CRI), Average of 2013–16[1/]

Norway	97.6	United Arab Emirates	77.0	Turkey	57.9
Denmark	97.5	Dominica	77.0	Hungary	57.6
New Zealand	95.7	Taiwan Province of China	76.7	Marshall Islands	57.5
Luxembourg	95.0	Botswana	76.3	Romania	56.6
Finland	94.1	Lithuania	75.2	Montenegro	56.4
Iceland	93.5	Samoa	74.5	Czech Republic	55.9
Netherlands	93.3	Saint Vincent and The Grenadines	74.4	Bulgaria	55.6
Sweden	93.3	Antigua and Barbuda	74.2	Tonga	55.5
Germany	93.0	Brunei	73.7	Vanuatu	55.2
Australia	92.7	Costa Rica	71.6	Belize	54.6
Switzerland	92.6	Italy	71.5	Algeria	54.3
Belgium	92.4	Slovenia	70.1	Kuwait	52.2
United Kingdom	91.9	Namibia	69.8	Macedonia	52.0
Uruguay	91.6	Bhutan	69.3	Malaysia	52.0
France	89.9	Poland	68.6	Timor-Leste	51.4
Canada	89.8	Lesotho	68.6	Colombia	51.3
Singapore	89.7	Palau	68.2	Peru	51.1
Japan	89.7	Mauritius	67.8	Suriname	50.9
United States	88.8	Trinidad and Tobago	67.7	Jamaica	49.6
Ireland	88.4	Tunisia	66.7	Serbia	48.8
Barbados	87.3	Grenada	66.5	Albania	48.5
San Marino	86.2	Bahamas	65.9	Morocco	48.2
Qatar	86.0	Seychelles	64.4	Argentina	47.6
Austria	85.1	Latvia	64.1	Brazil	46.6
Estonia	84.0	Jordan	63.6	Paraguay	46.3
Chile	83.6	Slovakia	63.4	Ghana	45.8
Saint Kitts and Nevis	82.3	Bahrain	63.0	Djibouti	45.7
Portugal	81.4	Georgia	62.3	Panama	45.4
Tuvalu	81.3	Kiribati	62.0	El Salvador	45.3
Saint Lucia	79.9	Rwanda	61.9	Nepal	45.2
Malta	79.5	South Africa	61.6	Malawi	44.8
Cyprus	79.3	Nauru	61.5	Dominican Republic	43.6
South Korea	78.6	Maldives	60.1	Solomon Islands	42.1
Oman	78.2	Saudi Arabia	59.9	Bosnia-Herzegovina	41.7
Spain	77.9	Micronesia	59.0	Mongolia	39.8
Israel	77.6	Greece	58.8	Philippines	38.1
Cabo Verde	77.5	Croatia	58.0	Ecuador	38.0

China	35.6	Tanzania	27.2	Russia	12.1
Ethiopia	35.6	Nicaragua	26.6	Nigeria	11.8
Sao Tome and Principe	35.1	Bolivia	26.5	Haiti	11.3
Benin	35.0	Papua New Guinea	26.2	Yemen	11.1
Sierra Leone	34.9	Kyrgyzstan	26.1	Chad	10.9
India	33.5	Armenia	25.1	Togo	10.9
Moldova	33.1	Mauritania	25.1	Cameroon	10.8
The Gambia	32.7	Gabon	24.7	Venezuela	10.4
Indonesia	32.7	Laos	24.4	Afghanistan	10.3
Zambia	32.0	Kazakhstan	21.6	Libya	9.8
Eritrea	31.5	Sri Lanka	21.6	Turkmenistan	8.1
Liberia	31.2	Vietnam	20.5	Central African Republic	7.9
Fiji	30.3	Uganda	19.6	Burundi	7.8
Guyana	30.1	Honduras	19.5	South Sudan	7.8
Mexico	29.6	Lebanon	18.3	Zimbabwe	7.5
Belarus	29.6	Cote d'Ivoire	18.1	Syria	7.4
Mozambique	29.5	Azerbaijan	17.7	Iraq	6.9
Mali	28.9	Swaziland	17.4	Guinea	6.5
Comoros	28.3	Tajikistan	17.1	Angola	6.4
Ukraine	27.9	Kosovo	16.8	Sudan	5.3
Egypt	27.9	Bangladesh	16.4	Myanmar	4.6
Burkina Faso	27.8	Congo	15.9	Guinea-Bissau	4.5
Guatemala	27.6	Uzbekistan	14.5	Equatorial Guinea	1.4
Senegal	27.6	Pakistan	13.5	Somalia	1.0
Thailand	27.4	Kenya	13.2	DR Congo	0.4
Madagascar	27.4	Cambodia	13.1		
Niger	27.2	Iran	12.2		

1/ These comparative indicators are developed by external organizations. While each offers insights on the extent of corruption, they also have inherent limitations and do not by themselves, or collectively. represent the Fund's assessment of corruption in any country

NOTE IV. ANALYTICAL WORK OF THE FUND ON GOVERNANCE AND CORRUPTION[1]

This note assesses the Fund's analytical contributions on governance and corruption, with a focus on key publications as well as outreach events that have helped disseminate Fund views.

A. Analysis and Research

1. **Fund staff have made important contributions to the growing literature on governance and corruption** (bibliography below). Staff's analysis of governance and corruption issues is usually framed in the context of economic growth and development, and leverages individual expertise and experience on a wide array of topics. Working papers and occasional papers have been published on such fundamental and diverse subjects such as the causes, consequences, and scope of corruption, effect of corruption on growth, corruption and income inequality, structural reform, privatization, institutionalized corruption, corruption and natural resources, corruption and public finances, corruption and health care and educational services, etc.

2. **In the 1990s, early work by Fund staff sought to guide the development of Fund policies on governance and corruption**. This work was inspired in part by the parallel academic literature on economic institutions analyzing significant economic and political developments around the world. These include the growth of international trade and business, which created temptations for multinational companies to offer large bribes to public officials in order to obtain contracts, get privileged access to markets, or secure special benefits (e.g., tax incentives) (Tanzi, 1998). Post-cold war transitions experienced in post-communist Europe and reformist countries in sub-Saharan Africa also opened opportunities for abuse and corruption in the privatization processes of state enterprises. The economic analysis of governance and corruption issues were enriched with the launch of cross-country indicators such as Transparency International's Corruption Perception Index (1995) and the World Bank's Worldwide Governance Indicators (1996). An early impetus for the Fund's analytical work on governance and corruption was driven by Vito Tanzi, with seminal publications provided by Sanjeev Gupta, Hamid Davoodi, and Paolo Mauro, among others.[2]

3. **The 2000s saw a deepening of this analysis**. The internationalization of governance and corruption issues in the 2000s contributed to continuing interest in specialized studies in these fields, including areas in which the Fund had a comparative analytical advantage. The entry into force of the United Nations Convention Against Corruption and other regional treaties helped strengthen a global consensus against corruption and contributed to developing common standards on addressing the vulnerabilities of institutions to corrupt activities (including with respect to fiscal transparency, money laundering, and asset recovery, among others). Academic literature during this period tended to analyze in greater depth the impact of corruption on investment, growth and

[1] Prepared by Jonathan Pampolina (LEG).

[2] See Tanzi (1994, 1998, 1999), Mauro (1996, 2004), Tanzi and Davoodi (1997, 2000), and Gupta, et al. (1999, 2000).

poverty across countries, and were sustained in part by public uproar against large-scale corruption scandals (e.g., UN Oil-for-Food Program and Siemens bribery scandals). Building on earlier work, Fund staff explored issues of governance and corruption for specific sectors (such as natural resource extraction, fiscal decentralization, and taxation) and for specific regions and countries. For example, oil rents were found to significantly increase corruption, resulting in a substantial welfare loss due to misallocation of resources. (Arezki, et al., 2009) For fiscal decentralization to be a catalyst for improved governance and accountability, appropriate economic and political institutions are needed to insulate the decentralization process from excessive capture of the benefits of government provision by the elites (de Mello and Barenstein, 2001). A study of tax revenues in the Middle East showed that government revenues from taxation could rise if corruption falls and recommended measures such as modernizing the tax administration, changing incentives for tax administration staff, and strengthening internal control systems (Imam and Jacobs, 2007).

4. Staff's recent work on corruption has been in the context of growing international attention to the issue. Following the global financial crisis, heightened public attention to governance and corruption have led to renewed interest in analyzing their drivers and effects, in which the Fund is playing an important role. Causes for this general reengagement could be various, including the increased political salience of the corruption issue in social upheavals (e.g., Arab Spring, Ukraine's Maidan Revolution), and the increase in enforcement actions against foreign corrupt acts by larger economies (e.g., 1997 US Foreign Corrupt Practices Act and 2010 UK Bribery Act). The global financial crisis also contributed to exacerbating economic inequalities, which in turn contrasted evidence of corruption among powerful elites with the difficult economic adjustment faced by the majority. Major news stories (e.g., FIFA corruption allegations and Mossack Fonseca documents) revealed the complexity of corruption schemes and opportunities in the era of increasing interconnectedness and globalization.

5. With heightened attention to issues of corruption in Ukraine, the Fund was asked by the Ukrainian government to assist in conducting a diagnostic study. This study examined corruption, the business climate and the effectiveness of the judiciary, and produced a frank and hard-hitting assessment of institutional vulnerabilities.[3] The authorities agreed to publish the report, which has since formed the basis for the governance measures included as part of the current Fund-supported program in Ukraine.

6. More generally, the 2016 Staff Discussion Note (SDN) provided a global perspective on the impact of corruption. Responding to the growing global attention to corruption, the Fund published an SDN on "Corruption: Costs and Mitigating Strategies" (IMF, 2016b). This describes how corruption undermines growth and economic development and enumerated several factors that could assist members to address corruption and to mitigate corruption risks.

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[3] Government of Ukraine, 2014.

B. The Fund's Flagship Publications

7. **World Economic Outlook Report (WEO).** Since the late-1990s, the Fund's flagship publications have analyzed the detrimental effects of corruption and recommended targeted measures to promote good governance. In the late 1990s, the Fund urged country authorities to increase the transparency of fiscal data as a necessary element for sound government finances, good governance and overall fiscal integrity, and noted that economies in transition had made the greatest progress towards this end (IMF, 1998). The May 1998 WEO dedicated a chapter to fiscal reform in transition economies and recognized the need to implement legal frameworks on the financial operations of government, which should be characterized by accountability and transparency (IMF, 1998). The October 2000 WEO focused again on transition economies, noting that corruption, weak courts and an overbearing bureaucracy could undermine enterprise efficiency and long-term investment incentives by increasing transaction costs and constraining the efficiency of resource allocation (IMF, 2000). The September 2003 WEO, focusing on developing countries, argued that the quality of institutions has a strong influence on economic growth, as good institutions encourage productive activities rather than rent-seeking, corruption and other unproductive activities (IMF, 2003). Some WEO reports also mentioned (but sometimes only in passing) significant governance and corruption concerns in vulnerable countries (e.g., Nigeria, Russia, Pakistan, Bangladesh, Cambodia, Kenya, Italy, etc.).[4]

8. **Regional Economic Outlooks (REOs).** Governance and corruption issues were likewise analyzed in some REOs, most notably those produced by AFR and APD. The 2006 AFR REO argued that good governance is essential if higher aid flows are to be effective, and reiterated that pervasive corruption tends to be associated with poorly enforced property rights, weak rule of law and weak incentives for productive investment, all of which damage economic growth (IMF, 2006b). In the same year, APD's REO noted that governance is a significant determinant of foreign direct investment and that structural improvements in the investment environment, notably in governance frameworks, would in some instances be helpful to deal with uncertainty, raise expected rates of return, and improve competitiveness in the face of globalization (IMF, 2006a). More recently, the 2016 REO for Central, Eastern and Southeastern Europe pointed to concerns over the quality of institutions in key countries affected by corruption (e.g., Ukraine, Macedonia and Moldova), and found that creating reform momentum requires taking into account political economy factors since improvements in government effectiveness may be constrained by poor accountability, low quality of bureaucracy or weak control of corruption in politics (IMF, 2016a). A forthcoming REO for the same region will also include a thematic chapter on governance and institutions.

9. **Global Financial Stability Report (GFSR)**. In assessing the global financial system and markets, GFSRs have highlighted systemic issues that could pose a risk to financial stability and sustained market access. Although GFSRs generally do not cover issues of public governance and corruption, the recent reports following the global financial crisis looked at related issues of

[4] Nigeria, *see* IMF, 2000 at Chapter 1; Russia, *see* IMF, 2000 at Chapter 3, Box 3.3; Pakistan and Bangladesh, *see* IMF, 2004 at Chapter 1; Cambodia and Kenya, *see* IMF, 2003 at Chapter 3, Box 3.4; Italy, *see* IMF, 2012 at Chapter 3.

corporate governance (2016) and banking governance (2014). Financial stability benefits associated with improved corporate governance strengthen the case for further reform, including recommendations to reform the legal, regulatory and institutional frameworks to foster effectiveness and enforceability of corporate governance regimes.[5] Excessive risk-taking by banks was held to be a contributing factor to the global financial crisis, and policy measures to improve bank governance were recommended, including the need to foster transparency as a critical factor to the accountability and effectiveness of market discipline.

10. Fiscal Monitor. Launched in 2009 in the aftermath of the global financial crisis, the Fund's Fiscal Monitor surveys and analyzes the latest public finance developments, updates fiscal implications of the crisis and medium-term fiscal projections, and assesses policies to put public finances on a sustainable footing. These reports often discuss fiscal governance reforms and the strengthening of institutions. For example, the October 2016 report concluded that strong governance principles should be applied in decision-making processes to safeguard public funds.[6]

C. Outreach

11. Dialogue and Outreach. The Fund helps promote discussions on governance and corruption issues through its various outreach activities. In recent times, the Fund's annual meetings have been a venue to foster dialogue on relevant issues such as ethics and finance (October 2014), integrity in public sector governance (October 2015), and youth perspectives on the costs of corruption (October 2016). Fund management have also discussed the problem of corruption in their public engagements.[7] Recent significant developments (e.g., Arab Spring, Ukraine's Maidan Revolution and massive banking scandals),[8] global forums (e.g., 2016 London Anti-Corruption Summit)[9] and numerous seminars and conferences (2016 International Bar Association Conference)[10] have presented unique opportunities for Fund management to expound on the negative macroeconomic consequences of corruption and to call on stakeholders from the public and private sectors to effectively combat it. Contributing to the collection of essays for the 2016 London Anti-Corruption Summit, the Managing Director highlighted the need to address corruption, concluding that turning a blind eye is not a viable option (Lagarde, 2016).

D. Conclusion

12. Overall Assessment: In the Fund's analytical work on governance and corruption issues, there is widespread institutional acceptance that strengthening governance and reducing corruption are crucial to improving a country's prospects for overall economic

[5] IMF, 2016d at Chapter 3.

[6] IMF, 2016c at Chapter 1.

[7] De Rato, 2005; Camdessus, 1998; Camadessus, 1997.

[8] Lagarde, 2014; Lagarde, 2015; Lagarde, 2016c.

[9] See Lagarde's remarks in IMF (2016e) as well as video interview on CNN (2016).

[10] Lagarde, 2016b.

development. Fund publications and staff working papers have analyzed the negative economic impact of corruption on growth and efficiency and have often recommended measures to strengthen transparency, enhance the rule of law, prioritize appropriate economic reform and regulation, and build the capacity of institutions to improve their effectiveness.

13. Positive Feedback Loop: The Fund's analytical work together with its outreach activities assist in guiding Fund staff in its discussions of governance and corruption issues in the context of surveillance, programs and capacity development projects. The WEOs and REOs are based on feedback from country mission teams, which provide their assessment of whether governance and corruption concerns will have macroeconomic significance to the country's growth projections. The bi-annual publication of WEOs and REOs likewise guide the mission teams in their discussions with the authorities in the periodic Article IV surveillance consultations. The Fund's analytical work in specific countries can likewise aid the formulation of structural benchmarks on governance and corruption for Fund-supported programs, such as Ukraine's diagnostic study. Outreach programs, which are informed by analytical and research work, in turn inform the Fund's work and build support for Fund engagement with its members on governance and corruption issues.

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NOTE V. THE ROLE OF THE FUND IN GOVERNANCE AND CORRUPTION: VIEWS OF COUNTRY AUTHORITIES[1]

1. **Country authorities were invited to share their views regarding the Fund's anti-corruption efforts since the adoption of the 1997 Guidance Note (Guidance Note)**, including the overall appropriateness of the Fund's corruption efforts, the links between corruption and macroeconomic impact, the relative engagement under surveillance and programs, the treatment in the context of technical assistance, the evenhandedness of Fund engagement, and collaboration with other institutions in this area. Only about 20 percent (38 out of 189) of the membership provided substantive responses.[2] While the group is not representative of the Fund membership as a whole,[3] a number of interesting and valuable perspectives can be derived from their responses. Therefore, this note provides an overview of those perspectives without treating them as reflecting a cross-section of the membership.

Overall Approach of the Fund on Corruption

2. **In general, country authorities recognize and value the Fund's engagement on corruption issues.** While most respondents were favorably impressed with how the Fund had been addressing corruption and agreed that the Fund's global vantage point provides it with unique perspectives on how corruption impacts macroeconomic outcomes, a significant group felt that the Fund's efforts had been insufficient in one way or another. No respondent called for a retrenchment of Fund efforts in this area and several specifically welcomed the reinvigorated focus manifested by the current work program.

3. **Respondents who were generally satisfied with the Fund's work on corruption emphasized the Fund's comparative advantages.** They noted that the Fund has a broad membership that allows for a cross-country perspective and is uniquely positioned to evaluate how corruption impacts sustainable growth, poverty, and income inequality levels, issues that affect macroeconomic stability. They also emphasized that the Fund's work on corruption is supported by its more broader work in promoting good governance and felt that these issues are fully integrated into Fund mainstream activities—through surveillance, UFR, and capacity development (e.g., fiscal

[1] Prepared by Paul Ashin and Chady El Khoury (both LEG).

[2] The respondents were Albania, Belarus, Belgium, Burkina Faso, Canada, Chile, Congo, Czech Republic, Dominican Republic, Ecuador, Estonia, France, Germany, Hungary, Italy, Japan, Kosovo, Lebanon, Libya, Madagascar, Malta, Mauritania, Netherlands, Norway, Panama, Peru, Philippines, Poland, Portugal, Russia, San Marino, Saudi Arabia, Senegal, Singapore, Switzerland, United Arab Emirates, United Kingdom and United States.

[3] Specifically, 32 percent of respondents were from advanced economies and 51 percent were from the EUR region.

transparency evaluations, AML/CFT, enhancing independence of institutions, statistics and transparency, single treasury accounts, and subsidy reforms)**.**

4. Respondents who felt that the Fund's efforts on corruption were insufficient noted a tendency for the coverage to be infrequent, indirect, broad, brief, passive or marginal to reports, particularly in surveillance. Some found that the coverage was sometimes rather general or indirect, even in countries where corruption is recognized to be widespread. A few considered that the Fund's focus on preventive aspects has become less prominent and consistent after the global financial crisis due to reprioritization of the Fund's attention and resources. Others felt that the discussions tended to proceed without relying on analytics on the source of corruption or being forthcoming about policies that could reduce it.

5. A number of respondents also commented on the scope of the Fund's engagement. They underlined the importance of limiting Fund engagement to the economic aspects of governance and corruption and that the Fund's judgment should not be influenced by the nature of the political regime. Others emphasized that the Fund should not interfere in the politics of members.

Macroeconomic Impact

6. Respondents considered that the macroeconomic impact test is not always clearly applied and is difficult to measure in the short and medium term. There was general recognition that the test is not easy to apply, and many felt that clearer operational guidance for staff was warranted. Given these uncertainties, less than half of countries believed that the standard has been appropriately applied. This group generally considered that macroeconomic performance was not properly defined in the 1997 Guidance Note and that proper tools to measure it have not been developed.

7. As examples of appropriate engagement based on macro-economic impact, respondents cited: Ukraine's energy sector, Cyprus' bankruptcy regulation and non-performing loans, Malawi's "cashgate" episode, Afghanistan's Kabul Bank fraud, and the suspension of the Democratic Republic of the Congo's (DRC) ECF arrangement in 2012 over opacity of contracts in the mining sector and of Mozambique's SCF arrangement over the misreporting of government guaranteed debt

8. Other respondents cited examples where corruption was either not addressed despite its macroeconomic consequences or was raised without attention to macroeconomic analysis. Some argued that corruption was only discussed when there was a major change in political leadership, or only in cases of grand corruption related to public officials, without being consistent in lower profile cases. Among the examples cited were: the lack of transparent statistics in Greece; public sector wages and ghost workers in Ghana; disappearance of large amounts of petroleum revenues accruing to the national oil company in Angola.

Time Horizon

9. Country authorities were asked whether they felt the current short- to medium-term (generally up to 5 year) time horizon was adequate to assess the macro-economic impact of corruption or the effectiveness of anti-corruption measures.

10. A little over half of those responding to this question generally agreed with the current timeframe. The short- to medium-term time frame was seen as helping to focus attention on areas of corruption where the impact was most imminent. It was also viewed as appropriately aligned with the time horizon of Fund-supported programs.

11. A slightly smaller group saw scope for extending the analytical time frame, at least in some circumstances. They argued that such period does not take into consideration the length of the legislative process for the introduction of anti-corruption measures and the duration of the subsequent implementation phase that require building proper institutions and governance mechanisms, transformation of existing behavior and values, and achieving concrete results and outcomes (e.g., convictions, asset recovery). Some considered that the time horizon should take into account the specific needs and level of income of the country (e.g., fragile states or low income countries might require more time to build capacity).

Programs and Surveillance

12. While acknowledging that there is room for improvement, most respondents were generally supportive of how the Fund has addressed corruption issues in the program context. Several respondents referred positively to situations where the Fund suspended program disbursements because of corruption concerns. Financial assistance has been delayed or suspended in several programs because of corruption and poor governance (e.g., Ukraine, Malawi, DRC, Mozambique), or because of the safeguards assessment exercise on central banks. A number noted that corruption tends to receive more attention in program countries than in surveillance and believed this to be warranted. Moreover, they viewed program conditionality as providing more leverage for Fund involvement. However, a few wondered whether the need to convey confidence in a program could sometimes lead to understatement on corruption and other governance problems.

13. Regarding surveillance, most respondents saw scope for more robust engagement. They considered that there is modest coverage of corruption issues under surveillance compared to programs. Some indicated that there is hardly any discussion of corruption under Article IV consultations in advanced economies even where corruption was known to exist. Accordingly, they felt that more attention is required in surveillance, including with greater follow-up on recommendations and advice. Some underscored how the Article IV consultation provides a unique platform for engagement that should be more effectively mobilized to address corruption and governance issues. A few saw the possibility of augmenting Article IV consultations with other tools (including diagnostic) that could address longer-term, structural corruption issues. However, a few saw no major differences between surveillance and programs, and others actually found that questions of macroeconomic implications were sometimes covered better in surveillance.

Capacity Development (CD)

14. Country authorities were divided on the value of the Fund's CD work for addressing corruption.

15. About half of country respondents cited Fund CD work as playing a very helpful role in addressing corruption-related issues. Many respondents noted the positive impact that CD products and deliverables (e.g., in the areas of tax administration, social security, fiscal transparency, ROSCs, AML/CFT, improving the independence of central banks, ministry of finance, and sovereign wealth funds) can have on reducing the scope for corruption, notably by helping to frame policy advice and conditionality on issues of Fund expertise. Some argued that CD work is a good way to identify structural issues before pressing ahead with required policy measures.

16. The other half seemed to place more emphasis on the limitations of the impact of Fund CD on corruption directly. The limitations cited include the voluntary nature of the CD relationship and the perceived attendant limited traction of CD recommendations, the lack of Fund expertise and skills on corruption issues, and the lack of Board access to CD reports. A few suggested that the Fund should consider developing a methodology for assessing the anti-corruption frameworks of its members as a possible CD product.

Perception of Evenhandedness

17. Countries saw scope to improving evenhandedness although many emphasized that evenhandedness does not mean equal treatment. Accordingly, it was important to avoid a one-size-fits all approach or an inflexible trigger for engagement. This could be achieved by taking into account individual country circumstances, political and economic contexts, and the differing capacities of members.

18. Two-thirds of those responding on this topic saw shortcomings in the evenhandedness of the Fund's engagement on corruption. Some saw the Fund focusing mostly on grand corruption scandals rather than routine corruption; highly visible or egregious instances of corruption tended to receive more Fund attention. Others saw the Fund as failing to engage sufficiently forcefully in countries where corruption was a major concern, or to adequately address cross-border corruption issues, or corruption issues typical to emerging market and advanced economies, such as regulatory capture. Several countries noted that perceived lack of evenhandedness could adversely affect the Fund's traction on corruption issues. Some raised the question of whether over-reliance on perception-based indices (which can be driven by media reports, rather than actual events) could account for lapses of evenhandedness and whether "idiosyncratic factors (such mission team leaders and mission team composition)" could account for perceived uneven treatment.

19. Authorities cited several specific situations which they felt indicted a lack of evenhandedness, including the following: (i) lack of discussion of corruption in advanced economies, under surveillance and FSAPs. For instance, regulatory capture in some advanced economies was not discussed; (ii) CIS countries, especially Central Asian countries were treated more harshly compared to other members; (iii) Angola, where corruption was only mentioned in the context of AML/CFT, de-risking and business climate—not with regard to broader, more pervasive government corruption; (iv) Laos, where despite a high-level corruption case in 2015, staff did not directly mention corruption in the 2016 Article IV staff report. It was noted that, even though government corruption looms large in Laos, staff have not mentioned the issue in the past five Article IV staff reports; (v) Ghana, where the Fund has recently seemed unwilling to properly engage on corruption, though there are major issues involving, for example, reform of the public-sector wage bill and ghost workers that would be suited to Fund engagement; and (vi) Kenya, where staff make no mention of corruption in recent program documents or included in program conditionality.

Use of Third-Party Indicators

20. Country authorities noted the challenges of using third-party indicators. In this regard, some respondents emphasized the need for caution in regard to subjective measures of corruption perceptions and the need for robustness checks, given changes in methodologies for some indicators. Notwithstanding these challenges, some countries saw the existing use of third-party indicators as broadly appropriate, while a somewhat larger group of countries favored expanded use, informed by more regular staff discussions with the World Bank and other sources (such as Transparency International). Only a few country respondents appeared to support the Fund developing its own corruption indicators.

Collaboration with Other Institutions

21. Country authorities emphasized the importance of collaboration with external counterparts. Respondents were divided on how well they felt that this collaboration had functioned in the past, but there was a broad consensus in favor of it being strengthened in the future. While about half of respondents considered that existing collaboration with other organizations is adequate, a significant group saw scope for strengthened collaboration. The latter saw scope for using external expertise (for example, on the nature of corruption and its political context), while maintaining the Fund's focus on the macroeconomic aspects of corruption. A few cited specific examples (Ukraine, Malawi, Madagascar) where they thought such collaboration had taken place in an effective manner. Some explicitly motivated their support for further collaboration by suggesting that Fund staff lacked expertise on corruption issues.

Other Issues

22. Some respondents provided useful views on the impediments to a fruitful discussion related to corruption, and on how to make Fund engagement more effective in the future.

These included the following views and recommendations:

- The Fund's discussions of corruption and setting of anti-corruption reform objectives should take place within a rigorous understanding of the political context of the country, how political power is exercised and how corruption fits in to the political settlement of the country. The Fund is a hugely important external actor, and can have significant influence over the investment climate in a country and the government's willingness to drive reforms, particularly where Fund lending is involved. However, government ownership, and genuine internalization, of reforms will always remain critical to the likelihood of implementation, so the Fund needs to find ways of determining whether governments and agencies are committed to reform, and if not, how best to influence their thinking. The Fund should seek to work with those within country authorities who have the willingness, the mandate and the political cover to drive reforms, and reforms should be designed in such a way as to incentivize and strengthen such reformers.

- Since the 2007 Global Financial Crisis, the Fund has enhanced its surveillance mandate to financial issues (G20 mandatory FSAPs, macro-financial works). The Fund engagement on financial stability and integrity issue should be maintained and enhanced. In this regard, it is key to provide adequate attention and resources on governance and corruption practices in the financial industry.

- It is not clear why the Fund seems to single out corruption and overlook a broad range of other governance issues. For example, institutional shortcomings in many advanced economies and the inappropriately powerful role of financial institutions and their lobbying activities led to the dangerous weakening of regulation and supervision and had profound damaging effect on many economies. New policies should be advocated to close these gaps.

- In relation to LICs, the Fund should continue engaging on PFM, support national audit offices, develop ex-ante fiscal horizon testing, increase FTEs, discuss macro risks of off budget expenditures and liabilities under Article IV, have more long-term resident experts, and develop further analytical work on the cost of corruption and impact on growth.

- The Fund should discuss the effects of informal economies, illicit trade, and the role of financial institutions in relation to AML/CFT.

NOTE VI. SURVEY OF MISSION CHIEFS ON THE ROLE OF THE FUND IN GOVERNANCE ISSUES—A SUMMARY OF RESULTS[1]

A. Background

1. **A survey of Fund mission chiefs was conducted in January 2017** on the role and the effectiveness of the Fund on corruption issues.[2] The short questionnaire sought to bring out mission chiefs' experience on working with the authorities as well as their views on the candor, evenhandedness and effectiveness of Fund engagement, the usefulness of the governance and corruption indicators and the need for more guidance in this area of work.

2. **The response rate was 31 percent or 70 mission chiefs.**[3] Figure 1 below summarizes the statistics on the respondents' countries by region, income level, and the type of engagement with the Fund, which are broadly representative of the Fund membership. It also summarizes the level of corruption assessed by the mission chiefs for their countries.[4]

Main Findings:

Areas of corruption encountered

3. **Fund mission chiefs encountered corruption issues** in their work most frequently in the areas of fiscal and legal/judicial system.

Mission chiefs who considered corruption to be widespread in the fiscal sector reported weakness in the areas of **expenditure** (e.g., procurement fraud, off-budget transactions; **91 percent** of respondents) and **revenue management** (e.g., tax evasion, tax fraud; **79 percent** of respondents). **Thirty-five percent** of the respondents also reported corruption problems in the area of **natural resources management**

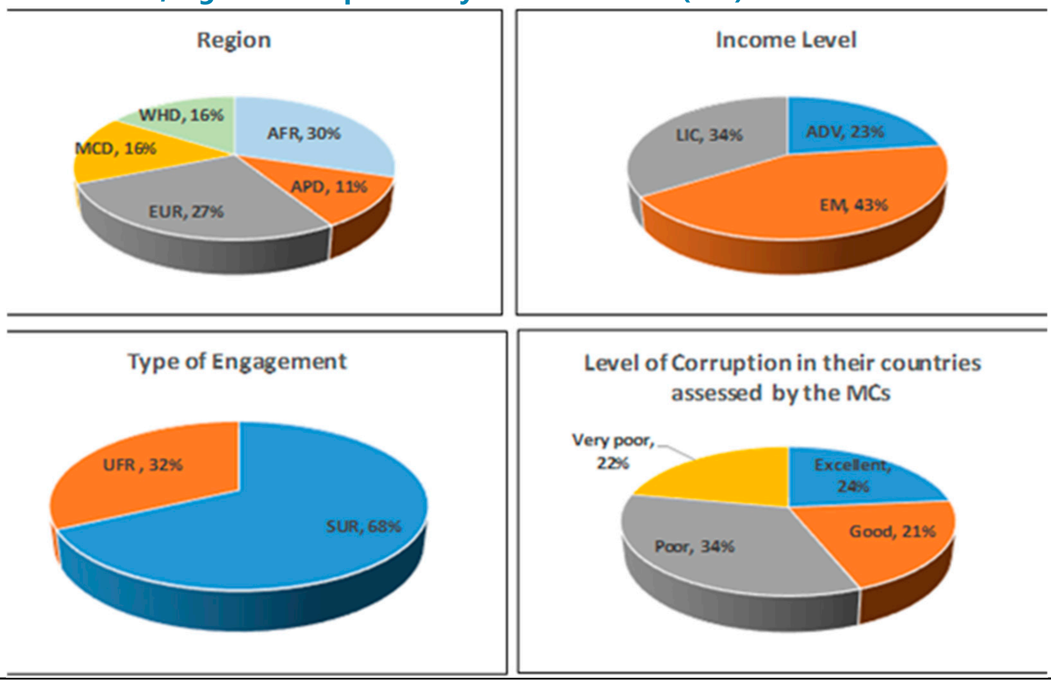
[1] Prepared by Ashvin Ahuja (SPR), Paul Ashin, and Sebastiaan Pompe (both LEG).

[2] The survey was made available electronically to 224 Fund mission chiefs during January 10-27, 2017.

[3] The respondents included the mission chiefs of 11 of the 40 countries that were selected in this stocktaking exercise for more in-depth review of surveillance and UFR staff reports (China, Georgia, Haiti, Honduras, Iraq, Italy, Russia, South Africa, Spain, Turkey, and Uganda). About 5 percent of the respondents provided only partial answers to the questionnaire.

[4] The reporting mission chiefs represented AFR (24 percent), APD (16 percent), EUR (23 percent), MCD (17 percent), and WHD (19 percent). About 19 percent work on advanced economies, 42 percent emerging markets, and 39 percent LICs. About 22 percent work on countries that have financing arrangements with the Fund, and the rest (78 percent) are surveillance-only countries. With regard to level of corruption, "very poor" means an assessment that corruption levels are high, while "excellent" means an assessment that corruption levels are low.

Note VI, Figure 1. Responses by Mission Chiefs (MC): Basic Information



- For those who indicated widespread corruption in the legal/judiciary system, the problems were identified in the areas of **judiciary (82 percent)** and **law enforcement agencies (68 percent)**.

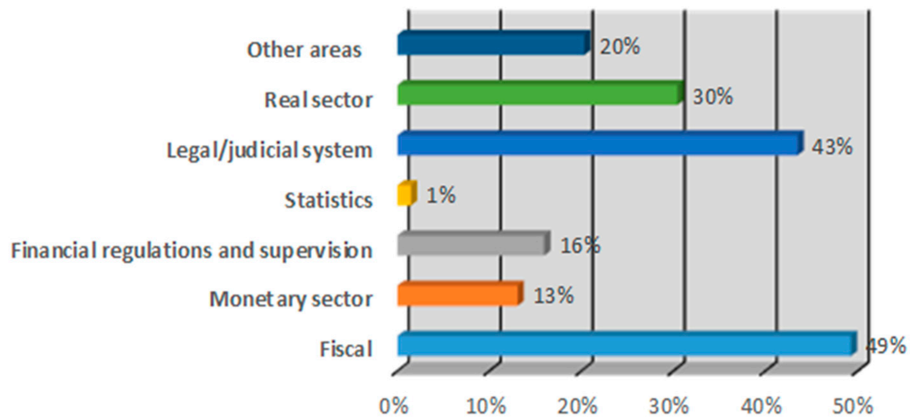
- Thirty percent of respondents viewed corruption to be widespread in the real sector. Among these mission chiefs, **71 percent** attributed it to malpractices in the **state owned enterprises** and **53 percent** to **extractive industries**.

- Those who identified financial regulation and supervision as problematic cited **regulatory capture** and **interference in financial supervision** as the main reasons.

- **Monetary operations** (e.g., FX fraud) and **central bank governance** (e.g., interference with central bank management and operation) were identified as leading sources of corruption in the monetary sector.

- Eleven respondents also indicated that **cronyism** in the public sector was an important source of corruption in their countries.

Note VI, Figure 2. Areas/Sectors Characterized by Widespread Corruption

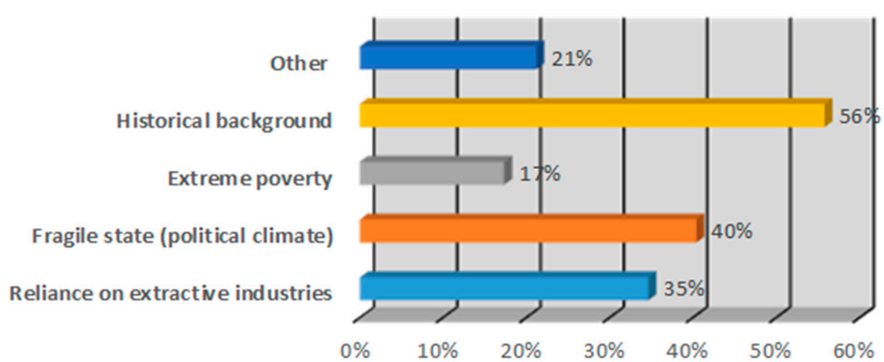


Factors behind corruption

4. **Mission chiefs highlighted the role of history** (including political and cultural background) and the current political climate as factors behind the current state of corruption. Where corruption was macro-critical, 56 percent of respondents attributed it to the country's political and cultural history and 40 percent to its current political situation (e.g., fragile state). Reliance on extractive industries was also an important factor for 35 percent of respondents and, less so, extreme poverty (17 percent).

Note VI, Figure 3. Country-Specific Factors Rendering the Country More Prone to Corruption

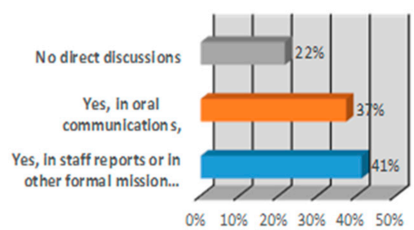
(Total responses: 52)



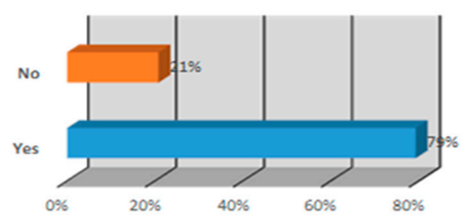
Nature of discussion

5. Most respondents reported discussing corruption problems with the authorities, though only around 40 percent included the discussion in staff reports or in other formal ways. Excluding the 17 countries where corruption was assessed as not being an important issue, 78 percent of respondents indicated that they discussed the issues with the authorities *directly,* with slightly more than half of this group documenting the discussion in a country report (41 percent). A similar percentage of respondents (79 percent) indicated that corruption issues were addressed *indirectly* with the authorities—in the context of economic policies that could strengthen economic governance while also reducing the scope for corruption (e.g., AML/CFT, bank bail-outs, tax collection and PFM reform, judiciary system, fiscal and statistical transparency, and evenhanded treatment of SOEs and other enterprises). In cases where corruption was relevant but was not discussed with the authorities (11 cases), it was mostly due to lack of information (73 percent) or expertise (55 percent); the authorities' perceived sensitivity (45 percent); or because the respondents felt that the issue was not an area of the Fund's core mandate (36 percent).

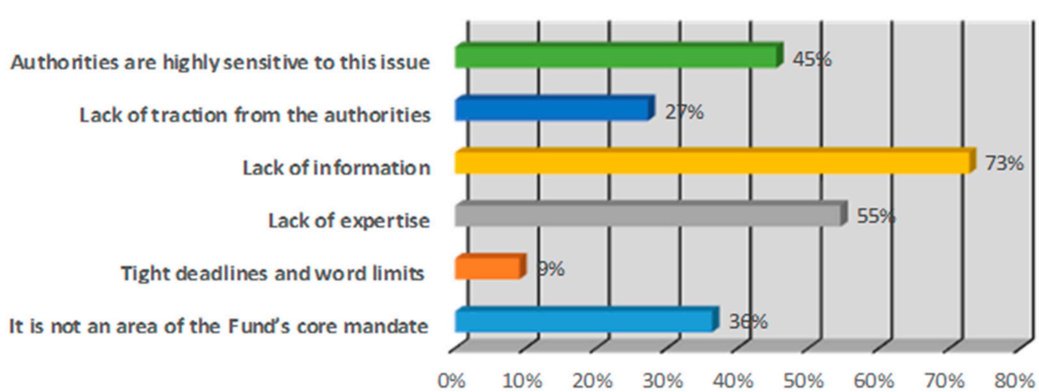
Note VI, Figure 4. Direct Discussions with the Authorities on Corruption Issues
(Total responses: 51)



Note VI, Figure 5. Indirect Discussions with the Authorities on Corruption Issues
(Total responses: 53)



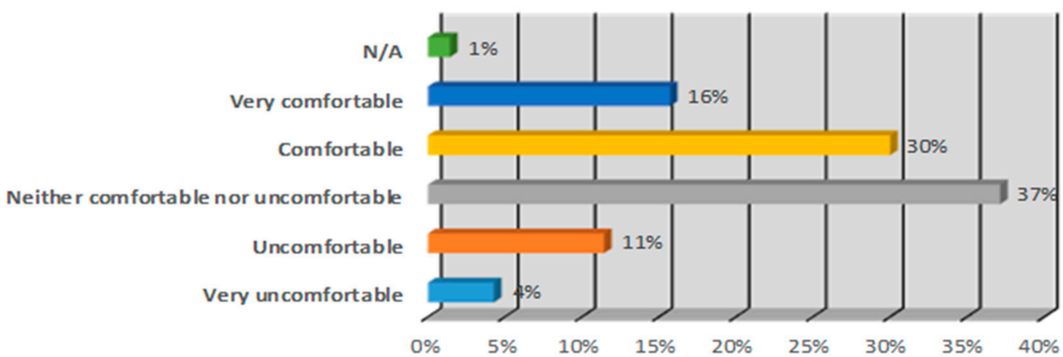
Note VI, Figure 6. Reasons for not Discussing Corruption Issues with the Authorities
(Total responses: 11)



6. Most *did not feel uncomfortable* discussing corruption issues with the authorities. Nearly half of the respondents indicated that they were comfortable or very comfortable discussing corruption issues, while 37 percent expressed no strong view either way. Only 15 percent responded that they were uncomfortable or very uncomfortable, and the reasons for their discomfort were similar to the responses to the question on why they did not discuss corruption with the authorities (i.e., lack of information, lack of expertise, high sensitivity of the authorities on this issue).[5]

Note VI, Figure 7. Ease of Discussing Corruption Issues with the Authorities

(Total responses: 70)



7. Several responses gave examples of indirect language that they used in staff reports to discuss corruption. Examples include:

- need for a level playing field
- efficiency of public spending
- enhancing expenditure framework
- implementation problems
- asset recoveries
- governance issues
- transparency and accountability
- enhancing business climate/environment and
- improving AML-CFT.

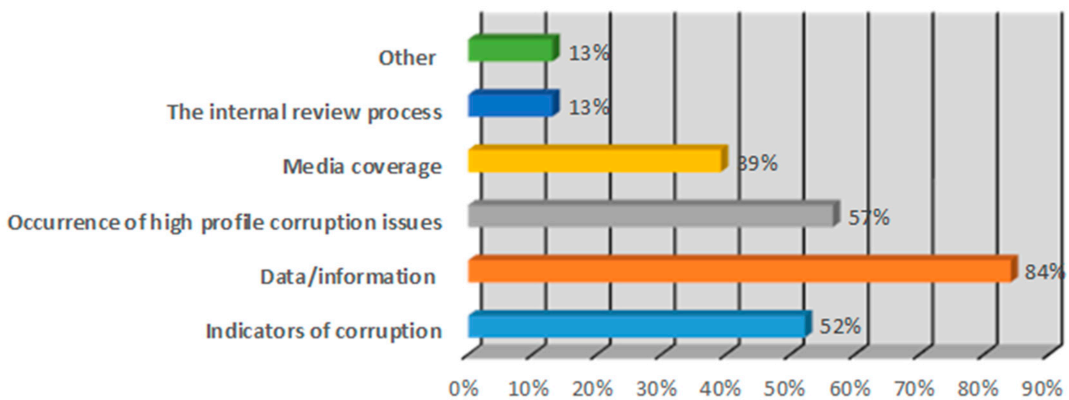
What determines the nature of engagement?

[5] 27 out of 70 respondents did not reveal their countries, demonstrating their preference for anonymity. However, a majority of these respondents indicated that they felt comfortable (12 respondents) or neutral (10 respondents) about discussing corruption issues with the authorities.

8. A large majority of respondents (81 percent) felt confident or very confident in deciding whether corruption in their countries merited discussions. This judgment is influenced by a wide range of factors. The most widely cited consideration (84 percent of respondents) was direct data and information on the impact of corruption, such as loss of revenues or wasteful spending. However, more than half of mission chiefs also take into account high profile corruption cases (57 percent) and third-party indicators of corruption (52 percent). A not insignificant group also take into account media coverage in general (39 percent).

Note VI, Figure 8. What Helps You Decide Whether to Engage with the Authorities on Corruption?

(Total responses: 69)



Indicators

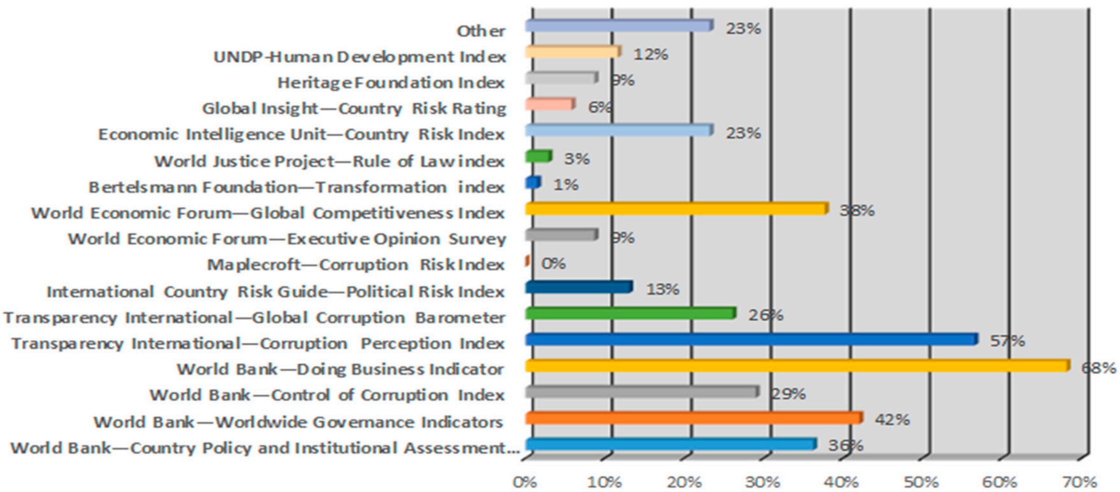
9. According to the survey, published corruption indicators produced by the World Bank and Transparency International (TI) are the most widely used. The World Bank's *Doing Business Indicator* and TI's *Corruption Perception Index* were used by 68 and 57 percent of the MCs, respectively. Other World Bank indicators such as *Worldwide Governance Indicators and Country Policy and Institutional Assessment* and the World Economic Forum's *Global Competitiveness Index* were also widely used. MCs also acknowledged the many challenges of relying on these indicators. Many of them viewed the indicators as too blunt to be useful in formulating country-specific advices. They also noted that the indicators are based on inputs from limited respondents and that there are problems in the methodologies and data used to compile them.

Collaboration with other agencies

10. Direct cooperation with other institutions on corruption issues was limited. Fifty-eight percent of respondents working on countries with corruption problems consulted with the World Bank regularly (at least once a year) when developing Article IV advice or program conditionality for combating corruption. About 42 percent consulted with the Bank on an as needed basis. Forty-three percent consulted regularly with other institutions, while 35 percent did so on an as-needed basis.[6] The most frequently cited reasons for not consulting with other organizations more frequently were: (1) corruption was not a core mandate of the Fund; and (2) other organizations did not provide clear and realistic solutions to the problem. In some countries, the World Bank was not active, and in some, the MCs felt that since corruption status did not change frequently in a country, there was no need to consult with them regularly. Over 90 percent of respondents consulted with other IMF departments, however; most frequently with LEG (63 percent of MCs), FAD (46 percent), and SPR (37 percent).

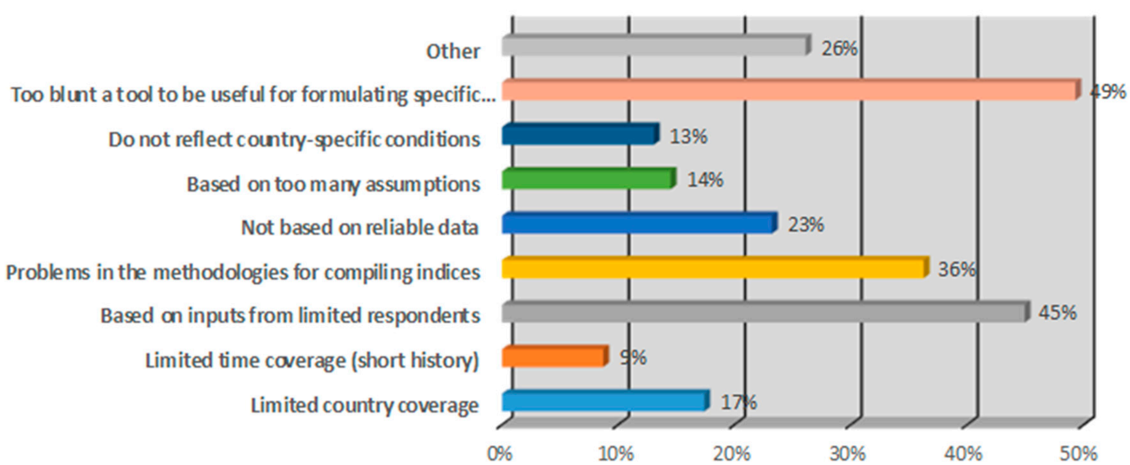
Note VI, Figure 9. Governance/Corruption Indicators

(Total responses: 69)



Note VI, Figure 10. The Biggest Challenges to the Use of External Indicators of Corruption

(Total responses: 69)



[6] These organizations included international institutions (e.g., ECB, OECD, UN agencies), regional development banks (AfDB, ADB, EBRD, IADB, CDB), and major donors (EU, DFID, USAID, GiZ). FATF was also consulted on AML-CFT issues.

Figure 11. Frequency of Consultation with the World Bank

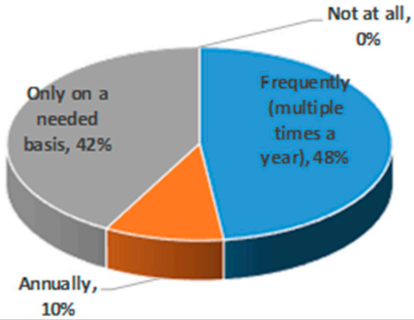
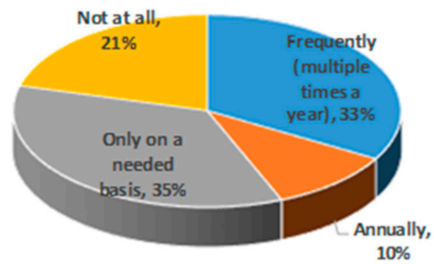


Figure 12. Frequency of Consultation with Other Organizations



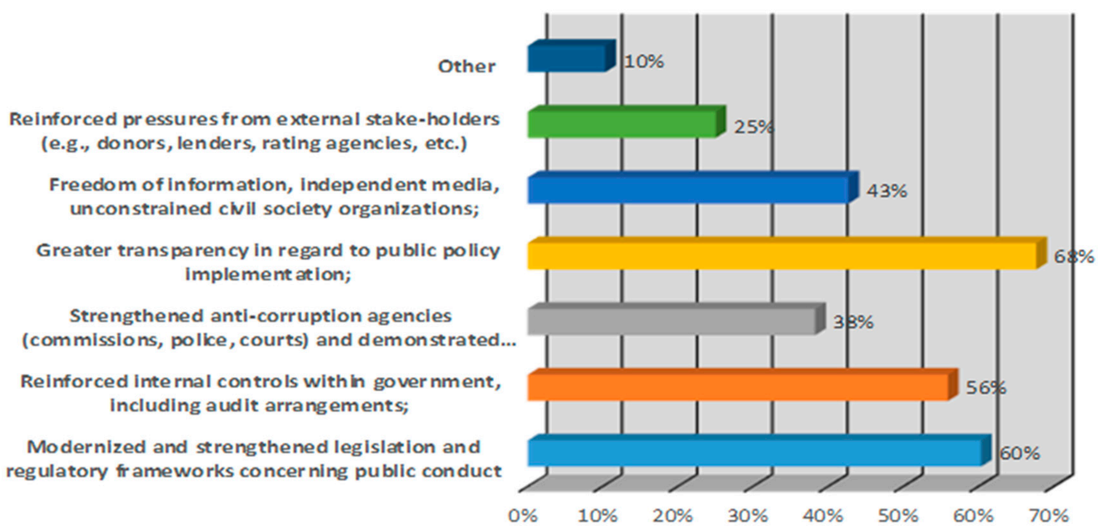
Surveillance versus program work

11. While the advice given by staff on the approaches to tackle corruption are the same under surveillance or in a program context, mission chiefs found that a program provides certain advantages (71 percent of MCs). MCs viewed that program conditionality provides a lever, and allows for more concrete, granular and targeted action/advice, leading to more traction as opposed to staff advice in the context of surveillance. Respondents considered the most effective approaches for tackling corruption are through greater transparency in public policy implementation (68 percent), followed by modernizing and strengthening legislation and regulatory frameworks (60 percent), reinforcing internal controls within government (56 percent), promoting freedom of information, independent media, unconstrained civil society organization (43 percent), and strengthening anti-corruption agencies and commitment to pursue prosecution (38 percent). About 1/3 agreed that the short- to medium- term horizon within which the macroeconomic impact of corruption is supposed to be assessed was realistic. About 1/5 disagreed, while the remainder had no strong views either way.

Perception of evenhandedness

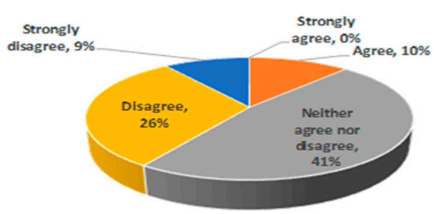
12. Mission chief responses concerning evenhandedness skew toward the negative. While 41 percent of mission chiefs responding took no position on the subject, only 10 percent of MCs agreed that the Fund treated each member evenhandedly, and none strongly agreed with this statement. On the other hand, 9 percent felt strongly that the Fund was *not evenhanded* in addressing governance or corruption in the member countries and an additional 26 percent expressed more qualified support for that position. Among the roughly 1/3 who viewed the Fund as not evenhanded, 46 percent said the Fund was more lenient towards countries from certain regions. Forty-six percent also indicated that staff and management tended to overlook corruption problems in countries from upper income groups, in particular, in advanced economies. Twenty-five percent felt that corruption/governance issues were more often raised in UFR cases than during surveillance. Thirty-three percent said that the treatment of corruption issues varied country by country, that it depended on the mission chief, the department's views, and whether there were pressures to engage in a program.

Note VI, Figure 13. Most Effective Approach to Tackling Corruption in Article IV Advice or Program Conditionality



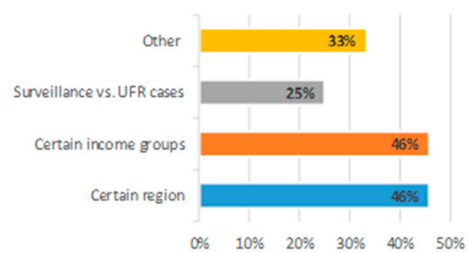
Note VI, Figure 14. Evenhandedness on Corruption Issues

(Total responses: 68)



Note VI, Figure 15. Group of Countries Treated not Evenhandedly

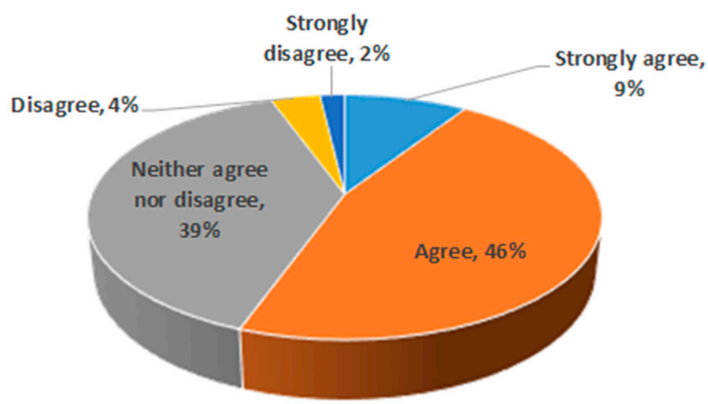
(Total responses: 24)



Traction and impact

13. The majority of respondents viewed the Fund's engagement as having helped countries tackle corruption. In countries where corruption is assessed as an issue, 46 (9) percent of MCs agreed (strongly agreed) that the Fund's involvement in governance and corruption issues had a positive impact on his/her country, 4 (2) percent disagreed (strongly disagreed), and 39 percent had no views either way. Those who were positive about the role of the Fund explained that the Fund played a catalytic role in gathering donor support by highlighting the issue, and that conditionality attached to programs were a useful tool to implement reforms to tackle corruption. Fund TA and follow up missions also helped to highlight the issue and improve the capacity of anti-corruption institutions, while plugging the leakages. Those who were less sanguine about the role of the Fund attributed it to lack of expertise of Fund staff in this area. They were also wary of the low traction from the authorities and the issue of political sensitivity. Some felt raising corruption issues could lead to further political instability in fragile states. Others felt the Fund understated corruption in the financial sector. In particular, the Fund could have more impact by recognizing regulatory capture, which may be common even in advanced countries, as a form of corruption.

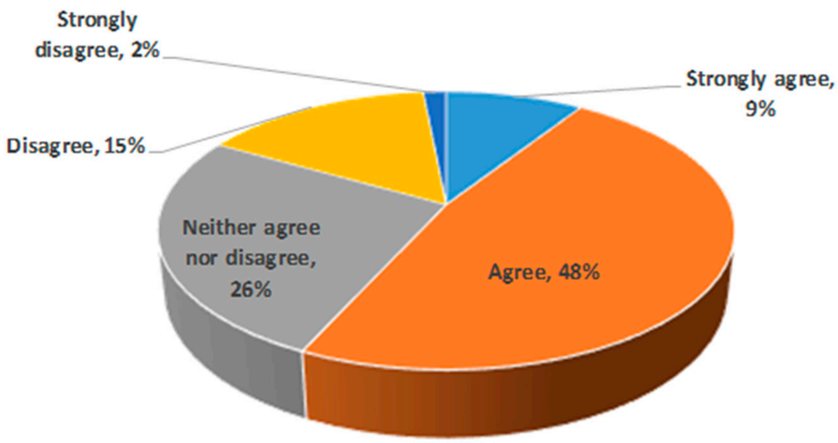
Note VI, Figure 16. Do You Think that the Fund's Involvement in Governance and Corruption Issues Has a Positive Impact on Your Country?
(Total responses: 54)



Building expertise and guidance

14. The majority of respondents saw the need to develop further in-house expertise and an updated guidance note on corruption. 36 (11) percent of all MCs agreed (strongly agreed) while 17 (4) percent disagreed (strongly disagreed) on the need to develop in-house expertise to deal with corruption issues. Most were familiar at least to some extent with the "The Role of the Fund in Governance issues and the 1997 Guidance Note" (76 percent), and had a clear understanding of what was expected in the coverage of governance and corruption issues in their country (61 percent). However, a majority (57 percent) still saw a need for *more specific guidance* on how Fund staff should engage on issues of corruption. Most importantly, 78 percent of respondents were interested in learning more on how to design policy advice or conditionality, and 68 percent about how to assess whether corruption has a significant macroeconomic impact or risks in a given country (Figure 18). Many were also keen to learn more about when to advocate policies aimed at eliminating opportunities for rent seeking, corruption and fraudulent activity (46 percent), and how to ensure evenhandedness in treatment across countries (46 percent).

Note VI, Figure 17. Need for an Updated Guidance Note
(Total responses: 65)



Other issues

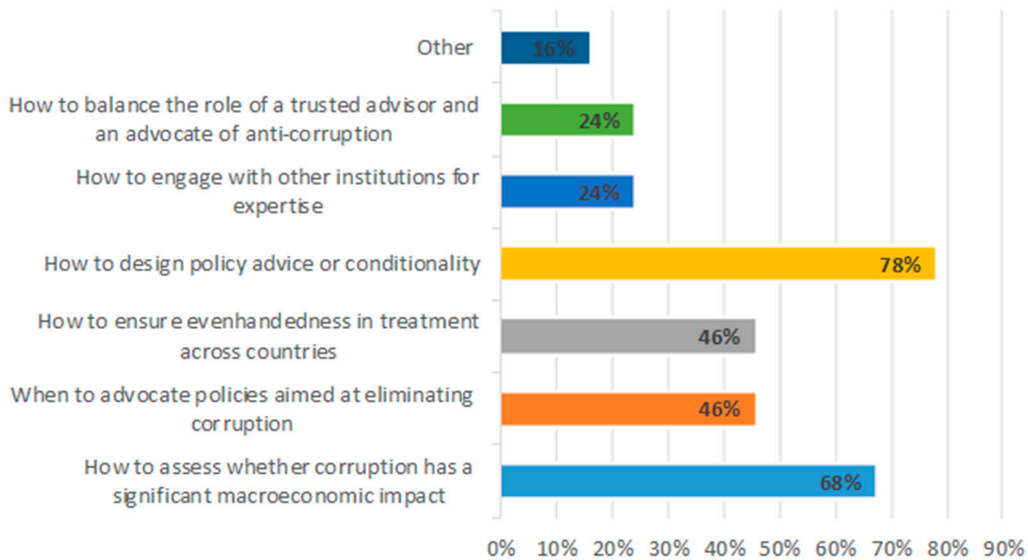
15. Respondents provided useful views on the impediments to fruitful discussions, and on how to make Fund engagement more effective in the future. These include:

- Difficulties in working with the authorities where powerful political figures/forces are themselves corrupt or hinder the implementation of anti-corruption measures (6 out of total 23 respondents).

- Difficulties in working with authorities who are extremely sensitive to this issue and the Fund's position on corruption can be interpreted as partial to a particular political party (2 respondents).

- A need for a structured framework to deal with corruption issues. Such a framework should suggest which governance indicators are reliable, when governance issues are macro-critical, and best practices in improving governance. (3 respondents). Others, however, questioned whether the Fund should delve more into corruption, citing lack of expertise, and mission creep into the domain of other institutions such as the World Bank (4 respondents). Some saw the Fund's work in building more effective institutions as sufficient to deal with corruption issues and therefore found no need to focus on corruption specifically (2 respondents).

Note VI, Figure 18. Top Priorities in an Updated Guidance Note
(Total responses: 37)



- A need for an independent unit within the Fund to focus on corruption issues and engage with countries where corruption is significant. (1 respondent)
- A need to work more closely with CSOs and being more upfront and specific in highlighting corruption as an impediment to economic growth in the Fund's public communications. (1 respondent)

NOTE VII. THE FUND'S ENGAGEMENT ON GOVERNANCE—CSO PERSPECTIVES[1]

1. **Staff prepared a survey questionnaire for Civil Society Organizations (CSOs) to seek their views on the Fund's involvement in governance/corruption issues.**[2] Specifically, the questionnaire sought views on the nature, scope, and effectiveness of Fund engagement, usefulness of the governance indicators, evenhandedness, and the Fund's collaboration with other multilateral organizations/CSOs/stakeholders.

2. **Responses were received from:** global organizations (Global Financial Integrity, the Natural Resource Governance Institute, Oxfam International, and Transparency International), private entities (JGCC Investment and Finance and SICPA SA), and private individuals from Carnegie Endowment for International Peace and the University of Juba.

Main Findings:

3. **Fund engagement is improving, but further progress is needed**.

- **The Fund is seen as having become more effective** in addressing governance and corruption by many (e.g., Fund's involvement in Ukraine). However, some do not agree and see the substance of the Fund's guidance note on governance as not yet fully reflected in its work.

- **A wider perspective on corruption is needed**. The Fund should address corruption across a broad spectrum of public activities, targeting not only the Fund's member authority counterparts but also officials working in areas such as state-owned enterprises and regulatory bodies. Corruption is not limited to a transactional problem, but is also an operating principle linking the powerful public and private actors ("state capture"). The Fund should go beyond addressing public corruption and also tackle private sector corruption such as mis-invoicing and price transfers, which can cause huge losses to public revenues. Further, the discussion of deregulation should also take into account that the failure to regulate certain areas, such as quality and safety, can also feed into corruption.

- **The Fund should be more forceful in promoting governance standards**. The Fund's standards on fiscal transparency have contributed to greater transparency, but such initiatives should be regular, mandatory, and published. The Fund's Tax Administration

[1] Prepared by Julianne Ams, Kyung Kwak (both LEG), and Jung Yeon Kim (SPR).

[2] The questionnaire and a briefing on the governance stocktaking were posted on the internet and advertised by COM through emails, Twitter and country representatives. The online consultation was open for seven weeks and garnered eight responses.

Diagnostic Assessment Tool is also useful, but it should be expanded to assess measures to collect excise duties.

- **Corruption should be tackled on a sustained, longer-term basis** given the slow process of identifying, tackling, and resolving corruption. It should be a more regular feature of surveillance and should be addressed across the full range of Fund activities—research to operations. Further work is needed to help identify, understand, and quantify the main forms and modalities of corruption for particular countries, and technical assistance should be provided to give country-specific, actionable advice.

- **The Fund could contribute more to improve the timeliness and transparency of fiscal/budgetary processes.** The Fund should focus on reducing corruption in key economic agencies such as customs and revenue authorities. More attention should be given to strengthening the control bodies such as Offices of the Auditor-General. Other areas for further attention include: independence of the judiciary and media; tracing and return of stolen funds; and scope to use new technologies to tackle corruption in the tax system.

4. Current governance indicators are important but not sufficient.

- Existing governance indicators are necessary but not sufficient.

- The Fund could add to existing measures of corruption by conducting research on how corruption works and what works to address it.

- Because corruption tends to morph from one country to another, the Fund should contribute to the discussion by preparing "subjective indicators" to indicate countries where corruption is endemic and provide specific TA to authorities on that basis. The existing governance indicators by the World Bank and Transparency International could serve as starting points.

5. The Fund must continue to improve evenhandedness in the coverage of corruption/ governance.

- Valuable contributions on corruption in some countries (Angola, DR Congo, Republic of the Congo, Cameroon, Ghana) were recognized. However, some high-level cases (Nigeria) were also missed due to political sensitivities. Egypt, Mexico, the Balkans, and several Asian countries also suffered from the Fund's failure to take a firm stand against corruption.

- Corruption issues should also be addressed more rigorously in developed countries.

6. Continued cooperation with other multilaterals and regular dialogue with CSOs are important.

- The Fund could place further emphasis on corruption where it has the strongest implications for an individual member's economy (e.g., budgetary procedures) and on other economies. Joint Fund/World Bank research in this area is could be useful.

- While Fund outreach to CSOs has improved, civil society involvement in anti-corruption efforts is crucial, and the Fund should continue regular meetings with CSOs.