This concept note discusses the organization of a High-Level Conference on Governance and Corruption on 12 March 2020 in Accra, Ghana. The Conference is a joint initiative by the IMF’s ATI (Africa Training Institute) and the African Union Commission (AUC). It will be held on the margins of the 4th session of the AU Specialized Technical Committee (STC) on Finance, Monetary Affairs, Economic Planning, and Integration. The STC convenes ministers of economy and finance, central bank governors, regional economic communities, private sector, and development partners.

I. CONTEXT

1. Recent research provides evidence on the significant adverse macroeconomic impact of poor governance and corruption. Poor governance and corruption hamper inclusive socioeconomic development and increase inequalities. Econometric analyses find that these impacts work through various channels, including through increased illicit financial flows (IFFs), deficiencies in government functions and distortions to economic incentives (Hammadi et al., 2019). This strand of the economic literature has helped put the fight against corruption and in favor of good governance at the center of global priorities. Its potential pay-off in Africa is significant, considering the Continent fares poorly on governance and corruption (Figure 1). In addition, African citizens consistently rank corruption as one of their top concerns. According to Transparency International and Afrobarometer (2019), over half of these citizens believe that corruption is on the rise in their countries, and that their governments are not doing enough to fight this scourge.
2. The cost of corruption is generally significant and affects all countries. The IMF 2019 Fiscal Monitor estimates that an improvement in the control of corruption could increase government revenues by US$ 1 trillion annually.\(^1\) Corruption has an immediate impact on the quality of services offered to citizens, as well as long-term consequences on growth. The UN Secretary General (2018) stated that corruption deprives citizens from critical services (“Corruption robs schools, hospitals and others of vitally needed funds”), while it also erodes institutions with a broader effect on the economy, driving away investment, increasing transaction costs, reducing access to credit and resulting in sub-optimal growth. In extreme forms, corruption can erode government legitimacy and effectiveness. Recognizing the deleterious impact of corruption, both the AU and the IMF decided to give governance and anti-corruption a higher profile in the policies within their respective mandates.

II. OBJECTIVES

3. The overall objective of the High-Level Conference on Governance and Corruption is to spur a response to endogenous calls in Sub-Saharan Africa (SSA) to advance governance reforms and ramp up the fight against corruption. The conference will offer an opportunity to discuss the importance of good governance for the realization of Africa’s growth opportunities and progress toward the

\(^1\) The report assumes an improvement in the Control of Corruption Index by one-third of a standard deviation (equivalent to the average improvement for those countries that reduced corruption between 1996 and 2017.)
Sustainable Development Goals (SDGs). It will offer a platform to present the IMF’s new framework for enhanced engagement and discuss its implications on the IMF’s lending, surveillance, and capacity development operations. The Conference offers a unique opportunity for a sustained commitment of African leaders in addressing governance and corruption issues.

4. The specific objectives of the conference include: (i) launching the AUC strategy and the IMF framework on governance and corruption; (ii) helping build consensus on macro-critical impact of poor governance and corruption and their transmission channels; and (iii) disseminating key IMF and AUC messages on governance and corruption issues, including from the 2019 Fiscal Monitor (Curbing Corruption) and the Anti-Illlicit Financial Flows Working Group (IWG) of the Consortium to Stem IFFs from Africa. The event will also offer an opportunity to present the outcomes of the AUC report on “Domestic Resource Mobilization: A fight against Corruption” and the IMF’s forthcoming work in this area, including in the context of the second Phase of the Africa Training Institute ( ATI).

III. APPROACHES TO GOVERNANCE AND ANTI-CORRUPTION

A. African Union

5. The African Union (AU) has revamped its vision to help its members bolster governance and fight corruption. Its engagement in this domain goes back almost a decade, with a focus on illicit financial flows (IFFs). In 2010, the 3rd Joint African Union/United Nation Economic Commission for Africa’s (AU/ECA) Conference of African Ministers of Finance, Planning and Economic Development, tasked the AUC and ECA to develop a strategy to tackle the problem of IFFs. It reflects reports that over the last five decades, Africa is estimated to have lost a cumulative amount of over US$1 trillion in IFF, or US$ 50 billion annually (Kar & Cartwright-Smith, 2010; Kar & LeBlanc, 2013, OECD 2018).

6. This vision led to the adoption of Resolution L8 and the establishment of a High-Level Panel (HLP), chaired by H.E. Thabo Mbeki, former President of South Africa. The HLP was constituted during the 4th Joint meeting in 2011, and it included nine other members both from within and outside the African continent. According to the findings and recommendations submitted by the HLP in 2015 during the 24th AU Summit of Heads of States and Governments, commercial activities are the largest contributor to IFFs, followed by organized crime and public sector activities. In addition, because the sources of IFFs reside within the continent and the issue is mostly political, the fundamental responsibility to eliminate them rests with the Governments of Member States.

7. The AUC declared 2018 the year of African Anti-Corruption with the theme “Winning the Fight Against Corruption: A Sustainable Path to Africa’s Transformation”. In line with that theme, the AUC’s Department of Political Affairs, under its African Governance Architecture Platform (AGA), conducted activities directly with Member States such as Nigeria, Rwanda, Uganda, Senegal, and Botswana, encouraging good governance as outlined through the African Charter on Democracy, Elections and Governance ( ACDEG). The ACDEG sets norms, values and standards agreed among
African States, including “universal values of democracy and respect for human rights; rule of law premised on supremacy of the constitution; the holding of democratic and credible elections; prohibition and rejection of unconstitutional changes of government; promotion and protection of the independence of the judiciary; sustainable development and human security; fostering citizen participation; transparency and accountability in the management of public affairs”. To date, 46 AU Member States have signed this Charter and 34 have ratified it. A number of advocacy and engagement initiatives were held throughout the year to encourage ratification and to improve governance throughout the continent.

8. In addition, the AUC conducted consultations across the five regions to promote and infuse new energies and reflections towards the fight against corruption. The youth were specifically consulted around key thematic sessions such as corruption as a key driver of governance deficits; anti-corruption frameworks; fostering collaborative actions and working across government to prevent corruption in Africa and leveraging youth capacities to further fight corruption and develop strategies based on good practices. These consultations resulted in some policy recommendations and best practices including advocating for universal ratification and implementation of Continental and Global Anti-Corruption norms through the ratification and implementation of instruments such as the African Union Convention on Preventing and Combatting Corruption (AUCPCC) and the UN Convention Against Corruption (UNCAC); curbing Illicit Financial Flows (IFFs) by implementing the recommendations of the Report of the High Level Panel on IFFs from Africa; and promoting greater access to information and protection of whistleblowers and activists working against corruption in Africa.

B. The IMF

9. The IMF Executive Board in 2018 approved a New Framework for Enhanced Engagement on Governance and Corruption Issues to promote a more “systematic, evenhanded, effective, and candid engagement on these issues with member countries”. The Board stressed the key role demand-driven Capacity Development (CD) should play to help members redress governance lapses identified during program discussions or regular policy consultations.

10. IMF work on governance up to 2018 was guided by a policy dating back from 1997. Under the 1997 policy, the Fund covered governance issues falling within its mandate and expertise, concentrating on two broad areas: (i) improving the management of public resources, and (ii) supporting the development and maintenance of a transparent and stable economic and regulatory environment, conducive to private sector growth. To assess whether there is enough justification for IMF engagement on governance issues, the Executive Board asked staff to determine to what extent poor governance would have any significant current or potential impact on macroeconomic performance, in the short to medium term and on the ability of the government to credibly pursue policies aimed at external viability and sustainable growth. Staff could draw upon comparisons with good international practices of economic management to assess the need for reforms.
11. The new framework for enhanced Fund engagement on governance and corruption issues consists of four elements:

- The *first element* is designed to enable the Fund to assess the nature and severity of governance vulnerabilities. This includes an assessment of those state functions that are most relevant to economic activity, namely (i) fiscal governance; (ii) financial sector oversight; (iii) central bank governance and operations; (iv) market regulation; (v) rule of law; and (vi) Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT). Given its particularly pernicious impact on a member's ability to achieve sustainable inclusive growth, the severity of corruption will also be assessed.

- The *second element* will guide the Fund's assessment of the macroeconomic implications of governance vulnerabilities, considering the standards for surveillance and the Use of Fund Resources (UFR). The policy paper accompanying the Board Paper lays out empirical evidence of the negative effect of governance vulnerabilities on economic performance; this is instrumental in determining whether these vulnerabilities should be addressed under surveillance when they are deemed severe.

- The *third element* provides a framework for policy advice and capacity development support to members where Fund engagement is warranted, and

- The *fourth element* focuses on measures designed to prevent the private actors from offering bribes or providing services that facilitate concealment of corruption proceeds.

C. AU-IMF APPROACHES ON Capacity Development (CD)

12. These are being implemented at the operational levels, with the following focus on CD for the African continent.

- The AU Commission (AUC) is promoting peer-learning opportunities between Member States by disseminating good practices in the fight against IFFs. In addition, the AUC aims to strengthen governments’ capacities to combat illicit financial flows and raise awareness among stakeholders (government, private sector, civil society, etc.). In support of these initiatives, the AUC has produced a publication entitled “Domestic resource mobilization: fighting against illicit financial flows and corruption” which lays out in detail both the problem of corruption and IFFs and the remedies and actions needed to eliminate these problems. The publication includes case studies of different countries from the AU’s five regions where Government, State Institutions, the judiciary, the private sector and civil society have rallied to the call to eliminate corruption and IFFs.

- The AUC has also organized several High-Level Discussions under their Fridays of the Commission series and in Collaboration with Coalition for Dialogue on Africa (CODA) calling
on experts and Member States to propose concrete actions and recommendations in fighting against Corruption and IFFs. Further, the AUC coordinates the work on curbing Illicit Financial Flows (IFFs) by providing the Secretariat to the Anti-IFF Working Group (IWG) of the Consortium to stem IFFs from Africa. The IWG, composed of experts from the African Development Bank (AfDB), United Nations Economic Commission for Africa (UNECA), the African Capacity Building Foundation (ACBF) and other stakeholders, aims to lead African efforts towards the continued collaborative implementation of the recommendations of the AU Heads of State and Government to curb IFFs from Africa.

- As regards the IMF, during the 2018 board discussion on governance, directors agreed that the Fund’s capacity development on governance and corruption should be “appropriately prioritized with—and well-integrated into—surveillance and Use of Fund Resources”. In addition, “recognizing the need for sustained efforts where weaknesses are entrenched, particularly in fragile states, directors emphasized the importance of a capacity development strategy anchored within a longer-term framework.” This means addressing not only urgent cases, with imminent and severe macroeconomic impacts, but also systemic vulnerabilities.

- The work on governance consequently was prioritized by the IMF African Department in its FY20 CD work plans. The Steering Committee (SC) of the Africa Training Institute (ATI) endorsed proposals to do more work in the area. ATI would organize a high-level conference to raise policymakers’ awareness on the impact of poor governance and corruption, and a peer-learning event to offer Sub-Saharan Africa (SSA) officials an opportunity to exchange views on common challenges and best practices. ATI is also working to organize a two-week course on governance and corruption. Further CD initiatives are being developed at HQ and are expected to become effective in 2020.

- The IMF’s CD on governance and corruption issues has evolved to reflect the increasing importance attached to governance in explaining macroeconomic outcomes. In the absence of an integrated framework, IMF CD services on governance and corruption issues were delivered piecemeal and did not follow a structured and holistic approach to enhance economic governance and combat corruption.

- The Fund’s CD work on governance and corruption issues has traditionally covered a wide range of challenges, including in the areas of public financial management, fiscal transparency, revenue administration, financial sector oversight, central bank governance, and Anti-Money-Laundering/Combating the Financing of Terrorism (AML/CFT) measures. Training done by the Institute for Capacity Development (ICD) on inclusive growth included materials on the importance of governance and corruption issues, while training by the Finance Department focused on central banks’ safeguards. In addition, the Communications Department (COM) organizes occasional workshops on the issue.
CD services on governance and corruption issues are increasing and follow a more structured approach under the new framework for enhanced engagement, but nonetheless gaps remain. On the TA side, the governance diagnostic missions conducted by LEG and FAD (Republic of Congo, Equatorial Guinea, Mozambique, Zimbabwe, etc.), aim to undertake a comprehensive assessment of the nature and severity of governance weaknesses and vulnerabilities to corruption. However, to date there is no training that addresses in a holistic manner the impact of governance and corruption vulnerabilities on economic performance and its transmission mechanisms.

IV. ORGANIZATION OF THE CONFERENCE

13. The High-Level Conference on Governance and Corruption is to be held on the margins of the 4th session of the AU Specialized Technical Committee (STC) on Finance, Monetary Affairs, Economic Planning, and Integration that is scheduled to take place in Accra, Ghana, during 9-14 March 2020. The High-Level Conference is planned as a one full-day side event of the STC and will take place on 12 March 2020.

14. The targeted audience is composed of Ministers of Economy, Finance and Integration and Central Bank Governors. The AUC will invite two representatives from each of the 55 AU Member States. Representatives from the eight regional economic communities (RECs) that are recognized by the AUC will be invited. Representatives of [five] non-African countries known for their successes in the area could be invited as well. About 10 heads of regional organizations interested in governance and corruption issues will also be invited. Panelists will include academics, IMF and AU officials working on the issue, officials from multilateral and regional organizations and select government officials known for their work on the subject.

15. The conference will be launched (see agenda in Annex I) by keynote addresses by IMF management and AUC leadership. The keynote remarks will aim to frame the policy issues and present the new IMF framework for enhanced engagement on governance and corruption issues and the AUC strategy on fighting IFFs. A session linking governance with economic growth and inclusiveness would set the stage for the discussions, by introducing issues covered in subsequent sessions and linking them into a coherent framework. This session would present the source data used in analyzing governance and corruption, set the parameters for a discussion of supply and demand sides of corruption, and review the potential implications of the new IMF governance framework on UFR, surveillance and capacity development activities, and present a progress report on the implementation of the recommendations of the AU Heads of State and Government on curbing IFFs. Subsequent sessions will focus on the aspects of governance and corruption found to be critical to the realization of the continent’s economic potential. The conference will officially be launched and presented to the public through a joint press conference at the end of the STC.
16. The expected outcomes and outputs of the conference are to help (i) raise awareness on the importance of good governance for macroeconomic outcomes; (ii) clarify the Fund’s stance and approach on governance and corruption issues; (iii) strengthen the reputation of the Fund and the AUC as institutions combating poor governance; (iv) help establish regional networks and share best practices; (v) identify best practices that could be used in the prospective training workshops; and (vi) trigger demand for capacity development services on governance and corruption issues.
References


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