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GRAY/23/4386

April 3, 2023

**Statement by Mr. Palotai, Mr. Just, Mr. Mert, and Mr. Meizer on Review of the
Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance
(Preliminary)
Executive Board Meeting 23/26
April 4, 2023**

We thank staff for the comprehensive set of reports and their extensive outreach to the Board. After an expansion of governance-related Fund activities since 2018, the current review provides an important opportunity to draw lessons from experiences and find a more fitting and perfected way for the Fund to engage in this area. Good governance is rightly seen as a linchpin of economic success, and so deserves particular attention from the Fund. Staff adequately identified several areas for improvement, and a number of proposals have potential to make the Fund's respective engagements more pertinent. Some proposals, however, would benefit from a more focused approach, being more mindful of the need for keeping these engagements be guided by the Fund's core expertise and macro-criticality, as well as of the need for ensuring evenhandedness. We ask staff to give even more prominence to these key principles when prioritizing and implementing improvements to the current framework.

The four goals along which the Fund's enhanced framework on governance was adopted should continue to be applied; however, in a more targeted way. The 2018 Framework marked an important milestone for the membership's efforts to integrate governance-themed considerations into the Fund's assessments and policy advice in a more structured way. It is a legitimate claim that the Fund's engagement with member countries on governance and corruption should be (i) systematic, (ii) candid, (iii) effective and (iv) evenhanded; however, to gain more traction, the activities also need to be kept close to the Fund's core mandate and be grounded in close cooperation with national authorities. We appreciate that the current review is informed by multiple inputs, but various sources of information should be weighed carefully to form reasonable proposals. We studied Annexes with great interest. The extent to which country teams and the national authorities see the Fund's governance activities differently as well as whether these activities meet stakeholders' commitments and expectations merit special attention. In that context, even though the distribution of the submitted responses is unequal, survey responses shed light on

several areas that need to be addressed. **As an overarching takeaway, the Fund needs to put a premium on forging a mutual understanding with national authorities on how its governance-related workstreams can be best organized and put in place towards achieving economic policy goals most effectively.**

While agreeing on the systematic approach, we also emphasize the importance of properly focusing the Fund's assessments on those areas where identified governance weaknesses are macrocritical and fall closer into the Fund's mandate. In this sense, we see some variation in discussions across six state functions less problematic. In the context of economic policy making, the Fund is undoubtedly in a prime position to examine governance issues. Since assessments on rule of law have many dimensions, staff need to be more focused on those that are related to economic policy making and can be assessed on a factual basis. Instead of setting a stand-alone goal for having a larger coverage of rule of law, we believe that these assessments should continue to be driven by macrocriticality, along with the aforementioned principles. Comparably, while we also agree that the quality of judiciary is fundamental to the effectiveness of anti-corruption and governance frameworks, we believe that scrutinizing more judicial independence and integrity are outside of the Fund's perimeter. Overall, we suggest continuing to keep a closer eye on fiscal, monetary, and financial sector governance issues. We see the rationale of regularly updating the centralized assessment of the membership by channeling various sources of information. However, staff need to be prudent about maximizing the use of qualitative information. In general, we prefer to keep these assessments on a quantitative basis.

Ensuring candid discussions is essential to build a shared understanding of key governance vulnerabilities and to establish a solid foundation for policy advice. The Fund should also be more transparent about how assessments of its external partners are incorporated in its own assessments. At an aggregate level, we welcome the marked increase in candid discussions, which seems well recognized by national authorities, including those of fragile and conflict-affected states (FCS), and country teams as well. However, in that respect, we see scope for strengthening candidness in some aspects of the state functions to make better informed decisions. We also note staff's efforts to involve external stakeholders more into their governance-related workstreams, where necessary and appropriate; however, we would expect more transparency about considerations along which staff establish relations with CSOs, including local counterparts and interlocutors, especially in view of the proposal to increase engagement with these organizations. More specifically, we would expect more details on to what extent these relations influence governance-related workstreams and what safeguards are in place to prevent subjective points of views influencing the Fund's assessments.

The effectiveness of the Fund's engagement on governance issues would benefit from targeted and parallel improvements to processes, substance and monitoring. Although the 2018 Framework has brought some effectiveness in how the Fund engages in governance issues, as staff outline there is room to move forward. There is an evident need for developing interdepartmental processes as well as synergies with other priorities, such as the FCS strategy. Just as importantly, we support enhancing collaboration with other multilateral institutions, particularly with the World Bank, through leveraging comparative advantages.

We note the arguments for further stepping up governance-related capacity building, such as through governance diagnostics, and integrating even more of these workstreams into financing programs, especially into those where their success requires meaningful progress with governance reforms. Relatedly, we also encourage greater transparency with governance commitments from the considered member countries and more enhanced monitoring from the Fund. Even though the compliance ratio for governance-related benchmarks has somewhat converged to other benchmarks, its ratio (in terms of ‘fully met’ structural benchmarks) is disappointing, especially as it also falls short of the period before the adoption of the 2018 Framework. This striking finding calls for having a deeper understanding of root causes, including the adequacy of program conditionalities and ownership. As a specific case, experiences with commitments in pandemic emergency financing also offer some important lessons to learn from.

Underpinning evenhandedness as a core principle must be high on the agenda. We find the survey results less convincing than staff in that regard. The proportion of countries with a positive perception of evenhandedness is not even half of the respondents. While staff consider the 40 percent rate of neutral responses to be explainable, we rather consider this result a call for further work, especially since responses to the same question show even worse results among country teams. Arguments that country teams may not be in a position to comprehensively assess evenhandedness are even less acceptable. It would also be helpful to gain better understanding of whether same governance issues are treated in the same manner and with the same thoroughness in bilateral surveillance. Overall, measures to buttress evenhandedness should be featured more prominently among the proposals. We also encourage staff to explore in more detail the causes of the low demand for participating in the Fund’s assessment of the transnational aspects of corruption before deepening its coverage.

Overall, along the above-mentioned principles, we see a need for a well prioritized action plan to introduce improvements to the current framework. By developing a more focused approach, the Fund cannot only add more value for the membership but also avoid putting an extra burden on an already very stretched staff. Thorough communication about the improvements to the 2018 Framework remains essential both internally and externally. **We support to carry out an interim update in 2-3 years once experience has been gained with the new round of assessments.**