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March 29, 2023

**Statement by Mr. Subramanian and Mr. Hansda on Review of the Implementation of the
2018 Framework for Enhanced Fund Engagement on Governance
(Preliminary)
Executive Board Meeting
April 4, 2023**

We thank staff for a very comprehensive review on the implementation of the 2018 framework for enhanced Fund engagement on governance. While we broadly agree with the review, we have the following observations:

2. The review finds that Fund engagement with member countries on governance and corruption has been broadly systematic, candid, effective, and evenhanded, which were the key goals of the 2018 framework.

3. Six state functions, namely, (i) fiscal governance, (ii) central bank governance and operations, (iii) AML/CFT, (iv) rule of law, (v) financial sector oversight, and (vi) market regulation are supposed to be covered under this framework. However, it's mentioned that **there have been limited coverage of the last 2 functions: financial sector oversight and market regulation. Staff may please elaborate why it's so and accordingly propose corrective action.**

4. **While staff have mentioned that there are implementation constraints related to limited capacity and vested interests, there appears to be hardly a root cause analysis. Often, there's the problem of over-regulation and opacity in the process flows from the emphasis on having complete regulations that account for every possible outcome (Process Reforms, *Economic Survey, 2020-21*, Government of India). The optimal solution is to have simple regulations combined**

with transparent decision-making process, ex-ante accountability mechanism (such as through boards) and ex-post resolution arrangement (such as through supervision). **Staff may offer their views on the foregoing.**

5. While one of the focal points of 2018 framework has been preventing private actors from offering bribes, perhaps the time is now to think and rethink innovatively in search of a solution to the implementation challenges. Towards containing 'harassment' bribes that people often have to give to get what they are legally entitled to (eg, tax refund), **immunity to 'harassment' bribe-giver from any punitive action by the state may paradoxically bring down the incidence of bribery** (<https://mpa.ub.uni-muenchen.de/50335/>). **Staff may offer their views on the foregoing.**

6. We're inclined to accept the staff view that effectiveness of the Fund's engagement on governance would benefit from further integration with other Fund priorities such as Fragile and Conflict States, climate change and digitalization/GovTech, thus avoiding duplication of works. We also support the idea of interim update in 2-3 years.
