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GRAY/23/4367

March 30, 2023

**Joint Statement by Mr. Buissé, Mr. Giammusso, Mr. Jennings, Mr. Mizuguchi, Mr. Nicholl, Ms. Riach, Mr. Vasiliauskas, Mr. Rashkovan, Ms. Quagliarini, Mr. Slettvag, Ms. Ahmed, Mr. Becker, Ms. de Waziers, Ms. Fukuda, Mr. Milutinovic, and Mr. Obeney 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 their papers and substantial engagement with the Board over the course of this review. As stated previously, we strongly support the Fund's enhanced role on governance, given the positive and critical impact of good governance, transparency and strong public institutions on economic prosperity. Evidence shows implementation of the 2018 Framework has been broadly strong. We welcome staff's additional analysis on effectiveness, but its quality underlines data gaps. We agree with the areas staff have identified for further strengthening implementation of the Framework, including enhanced collaboration with IFIs and CSOs, though we would like to have seen more specific detail on how some of these areas will be progressed.

Implementation of the 2018 Framework

We agree that engagement has been more systematic, candid, and evenhanded since the introduction of the 2018 Framework. There has been a very substantial increase in governance content in surveillance and lending, and recommendations have tended to be specific and explicit. So far, analysis suggests that engagement on governance is evenhanded – every member is assessed, and coverage is even by income group and region when holding for the extent of governance weaknesses. There has also been substantial governance coverage in advanced economy surveillance, including transnational corruption assessments.

Staff should continue to tackle any remaining perceptions of a lack of evenhandedness among stakeholders, making use of the analysis in the paper.

While it feels intuitive that effectiveness has also increased, this remains difficult to discern concretely from the analysis. The key concept of effectiveness should be whether the Fund's involvement in governance issues leads to improved governance frameworks and in turn positive macroeconomic impact in countries. This is much more likely to happen if engagement is candid, substantive, and specific (¶12), and we think all these aims are met. However, implementation of staff recommendations, even when included in program conditionality, are also contingent on other issues which Fund activities can support such as political ownership and authorities' capacity. While we appreciate the survey results, which speak to perceptions, and the case study boxes outlining success stories, the lack of a clear link between IMF engagement and strengthening of governance frameworks (outside of isolated examples) underlines the need for better quantitative and qualitative data. On this basis we can support the introduction of a database to track implementation of staff recommendations. We agree that such a database would be helpful in informing improved policy advice and technical assistance. We also emphasize the importance of measuring progress on governance issues based on setting up sound public institutions, monitoring their durability over time, and fostering the institutions' improvement alongside experience.

The analysis of governance safeguards in COVID-19 emergency financing underlines the importance of building up transparency and accountability capacity pre-crisis, and following up on commitments post-crisis. The most successful safeguards were ones which matched existing institutional capacity such as on audits, contrasting with beneficial ownership safeguards which were requested of countries who in some cases had neither the knowledge nor legal structures to follow through. Therefore, consideration should be given to ensuring sufficient institutional capacity for the most likely governance safeguards we expect to see in future lending. Follow-up on commitments is proving effective and should continue to feature in subsequent engagement with the Fund (surveillance, lending, and CD), including in the development of country engagement strategies in FCS. We agree that an update to guidance on governance safeguards is warranted, to take into account lessons learned from the Covid-19 period and enhance the effectiveness of a future Fund response. Such guidance should be flexible, and avoid being too prescriptive given the unpredictability of the next crisis. It should also consider the trade-off between taking a blanket approach to safeguards vs. country-specific, and the implications this has for evenhandedness and the perception of evenhandedness. *Could staff provide an expected timeline for updating the guidance on governance safeguards?*

Resources and risks

It is useful to see additional information on the resource costs of governance work, and that the enhancements proposed in this paper have a marginal additional resource burden. Most of the proposals are focused on tweaks to the existing approach, rather than substantial additional processes, with the exception of the new database. The resultant 1.0 FTE increase in resourcing should be manageable through internal reprioritization. We agree with the risks associated with a failure to engage on governance issues.

On the potential for Capacity Development operations to be underfunded, we see a link to conversations within the upcoming Capacity Development Strategy Review to move to a more sustainable funding model and leverage hybrid delivery, where appropriate, to maximize value for money. We look forward to having further discussions in the context of the Strategy Review to ensure adequate funding is available for critical capacity development initiatives in this area.

Strengthening implementation

We agree with the areas laid out by staff for strengthening implementation, and offer the following specific comments:

- We emphasize the value of proposals to continue the centralized assessments to analyze governance vulnerabilities in an evenhanded manner while tracking improvements or backsliding; as well as deepening work on the rule of law and anti-corruption issues, based on successful inclusion of such issues in surveillance and programs since introduction of the Framework.
- Capacity constraints warrant adequate consideration and CD continues to be a cornerstone in sustaining member countries' steady progress to enhance governance. We encourage speeding up of strategic integration and alignment of CD to country-specific policy advice, and welcome strengthening coordination with Regional Centers to enhance field presence of experts in governance. In parallel, we underscore the importance of carefully sequencing policy advice in light of the authorities' capacity and feasibility.
- We reconfirm our support for stronger efforts towards improving governance and transparency when considering requests for Fund resources, including with timely and thorough safeguards assessment. Sufficient transparency and accountability based on a consistent and evenhanded approach across the membership are needed to ensure appropriate use of the Fund's resources.
- There were several areas listed where the next steps are unclear. For example, we strongly agree with the value of Governance Diagnostic Assessments, which are an

important part of the Fund’s long-term engagement on governance and anti-corruption issues. We wonder how staff intend to increase take-up, including through targeted Capacity Development, and whether there are any actions the Board can take to support. We also attach great importance to enhanced collaboration with IFIs and CSOs – crucial to strengthening implementation of the Framework, and Supreme Audit Institutions which have become key stakeholders following the Covid-19 era. The paper covers ‘what’ staff intend to improve but not ‘how’ this will be done, particularly on how to strengthen IFI and SAI engagement. *Could staff be more specific on the actions they intend to take, or are considering, for the next 2-3 years to increase take-up of governance diagnostics, and strengthen collaboration with IFIs, CSOs, and SAIs while avoiding duplication of work? How will the actions be sequenced and prioritized in the near term?*

- We feel there is good alignment between operationalization of the framework and the key priority areas of FCS, digitalization, and climate change. We appreciate Box 6 on the helpful experience from the use of innovative tools in strengthening governance frameworks and see a great potential from digitalization in fostering the efficiency of core government functions. On this, we look forward to the board paper on GovTech envisaged for FY24. We also emphasize that the availability of high-quality statistical data is a precondition for good governance and sound policy making.

Since a lack of political ownership is identified in the survey as one of the biggest blockers to implementation of Fund governance recommendations and conditions, we believe there should be an additional area for action on strengthening Political Economy Analysis (PEA). Box 9 underlines the utility of PEA, and the important strides made to date. But a further embrace of innovative, efficient solutions, including leveraging of external expertise, is needed to improve effectiveness. For example, a Guidance Note could be prepared by governance leads to support country teams and Resident Representatives to conduct PEA in a way proportionate to their country context. We note the link between good PEA and other areas identified for further action such as engagement with other IFIs and CSOs. *What is staff’s view on including strengthening of PEA as an additional area of action, and are there specific measures they intend to take against this objective?*

We agree with the proposal for an interim review in 2-3 years. If the interim review does not evidence progress against the areas identified for strengthening implementation, it will be even more important to agree a specific set of actions with the Board.