DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

EXECUTIVE BOARD MEETING

SM/23/86
Correction 1

April 4, 2023

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance—Annexes**

Board Action:	The attached corrections to SM/23/86 (4/3/23) have been provided by the staff:
Factual Errors Not Affecting the Presentation of Staff's Analysis or Views	**Pages 37, 45, 92, 95 (first row), 96, 98, 101**
Typographical Errors	**Pages 7, 41, 95 (eighth bullet), 103**
Questions:	Mr. Moriyama, FAD (ext. 38547) Ms. Rossi, LEG (ext. 38332) Mr. Augsten, SPR (ex. 39054)

fiscal governance, anti-corruption frameworks, and central bank governance and operations; the fewest concern ~~is~~ the rule of law.

4. Program Goals-Conditionality Alignment. Even prior to the adoption of the 2018 Framework, and consistent with the 2002 Conditionality Guidelines, there was a high degree of alignment between the inclusion of governance-related conditionality and the specific goals of the Fund-supported programs (Table 3).

5. Application of Conditionality. Beyond the broad alignment between the application of conditionality and the program's goals, conditionality is applied, to varying degrees, according to identified governance vulnerabilities. Thus, in around 60 percent of cases where fiscal governance is identified as vulnerable to corruption, there is at least one program condition (Figure 1). Similarly, in about 40 percent of identified vulnerabilities in central bank operations or anti-corruption frameworks, conditionality is applied. At the low end is the rule of law, where in only about 10 percent of cases is there conditionality. On average, conditionality is applied in some 30 percent of cases of identified vulnerabilities.

6. Compliance. Compliance rates for governance-related structural benchmarks are comparable to other structural benchmarks on average. However, there are compliance rate differences across state functions, with Anti-Corruption, Rule of Law, and AML/CFT showing noticeably lower compliance rates (Table 4~~)~~ and ~~(~~Figure 2).

Table 1. Number of Programs and Share of Program Objectives

		Share of Program Objectives			
	Number of Programs	Fiscal	Financial Sector	Central Bank	Governance
1st Period (2015-2017)	45	98%	91%	44%	33%
2nd Period (2019-2021)	42	88%	83%	50%	76%

Sources: MONA database; and staff estimates.

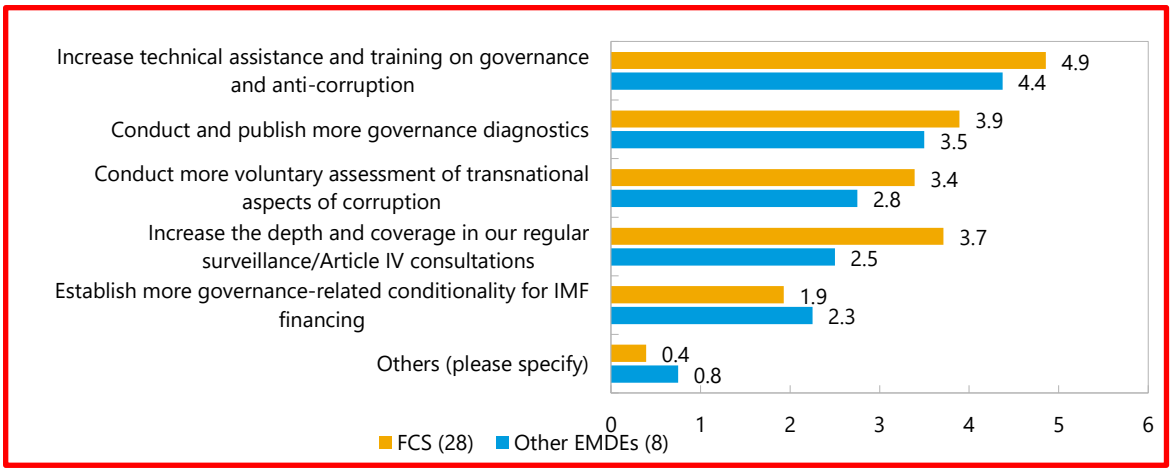
Table 2. Prior Actions and Structural Benchmarks by State Function – Before (2015-17) and After (2019-21) the Framework Introduction

Sources: MONA database; and staff estimates.

	1st Period (2015-17)				2nd Period (2019-21)			
	Total SBs	In % of Total SBs	Total PAs	In % of Total PAs	Total SBs	In % of Total SBs	Total PAs	In % of Total PAs
Fiscal Governance	285	19.6%	30	10.4%	252	22.0%	28	14%
Central Bank Governance and Operations	27	1.9%	7	2.4%	41	3.6%	14	7%
Financial Sector Oversight	41	2.8%	12	4.2%	32	2.8%	5	2%
Regulatory Framework	26	1.8%	5	1.7%	32	2.8%	2	1%
Corruption	25	1.7%	2	0.7%	42	3.7%	1	0%
AML/CFT	19	1.3%	2	0.7%	21	1.8%	1	0%
Rule of Law	22	1.5%	3	1.0%	14	1.2%	8	4%
Total Governance SBs and PAs	445	30.6%	61	21.2%	434	37.8%	59	29%

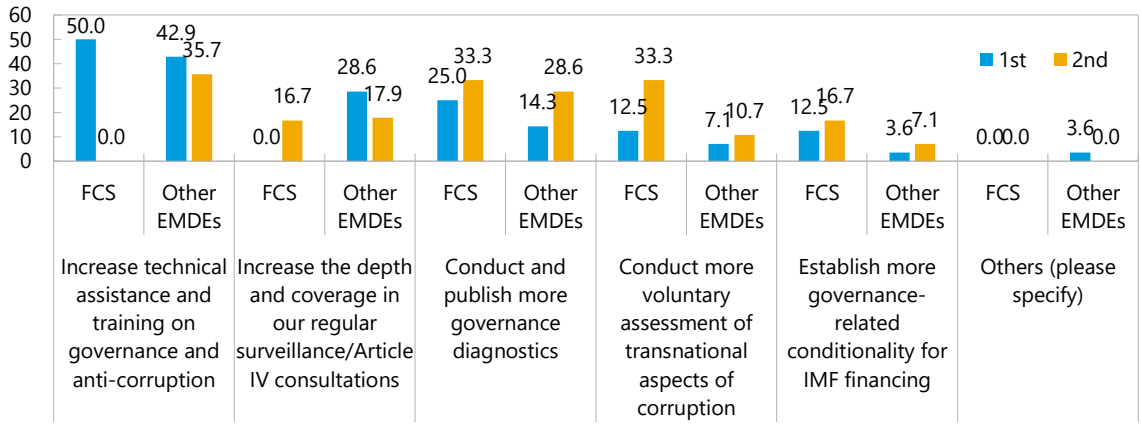
Figure 10. Question 13 Results (Continued)

By Fragility Status
(EMDE Countries in percent of total sample)



The questionnaire asked respondents to rank the items and not all respondents ranked all items. This result shows the average point weighted by ranking, ranked in 1st – 6 points, 2nd – 5 points, 3rd – 4 points, 4th – 3 points, 5th – 2 points, 6th – 1point and not ranked – 0 point.

By Fragility Status: Issues Ranked as 1st and 2 Priority



Sample size: FCS: 1st-8, 2nd-6; Other EMDEs: 1st-28, 2nd-28

SURVEY RESPONSES FROM IMF COUNTRY TEAMS[1]

This section provides detailed results from the IMF country teams' survey responses, which sought to bring out country teams' views on governance and corruption issues in relation to the Fund operations (surveillance, lending, and CD). Hundred and sixty country teams (see Appendix I) have responded to the survey. Overall, the results of the survey support that implementation of the 2018 Framework is well underway: the framework has provided more effective, candid, and evenhanded engagement with member countries on macro-critical governance and corruption vulnerabilities.

1. IMF staff have broadly provided candid and granular policy advice to address governance and corruption vulnerabilities (Q.1, 2). The survey results show strong engagement across country team workstreams (program and surveillance), various regions, and income groups, with the large majority taking place through clear and direct discussions in formal country documents (particularly in Low Income Countries (LICs) and countries with Upper Credit Tranche (UCT) arrangements).

2. Country teams' perceptions are somewhat supportive of even-handedness in addressing macro-critical governance and ~~anti-~~corruption issues across IMF member countries (Q.3). While around half of the respondents are neutral, the share of supporting even-handedness is much larger than that of negative responses. Nevertheless, some heterogeneity in views emerged across country groups. Notably, country teams of LICs, UCT arrangements, and with high perceived governance and corruption vulnerabilities expressed a more negative view on even-handedness. Further follow up with country teams regarding the negative views expressed on even-handedness highlights reasons for their negative views, including: too much emphasis being placed on governance and anti-corruption aspects compared to others, uneven recommendations/conditionality being imposed in comparable contexts, a need for further discussing governance weaknesses in Advanced Economies (AEs).

3. The effectiveness of Fund engagement has been enhanced through the provision of tailored and concrete policy advice (Q.4). Over 80 percent of the responses expressed a positive view of the impact of the Fund's involvement to members (particularly in LICs and Fragile and Conflict-affected States (FCS)), indicating enhanced traction of policy advice (Q.6).

4. Key reform recommendations provided by country teams have been anti-corruption, Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT), and Public Financial Management (PFM) (excluding State Own Enterprises (SOEs)), followed by fiscal transparency and central bank governance and operations (Q.7). These are in line with the areas where further enhanced engagement is needed (Q.9) and the top three areas in conditionality of UCT arrangements (fiscal governance, anti-corruption framework, and central bank governance and operations) (Q.5). However, there is some heterogeneity across different country groups. For

[1] Prepared by Marwa Alnasaa and Miyoko Asai (both FAD).

Appendix II. Summary of the Survey for Country Teams

Sample Collection Time: Summer 2022 (July-September), follow-up and clarification sought during October-November 2022

Definitions of Groups

- Sample includes 160 responses (out of 190), where some country teams (16) have provided only partial responses. By income levels (World Economic Outlook (WEO) basis), 33 AEs, 75 EMs, and 52 LICs. By departments, 31 from African Department (AFR), 27 from Asia & Pacific Department (APD), 42 from European Department (EUR), 31 from Middle East & Central Asia Department (MCD), and 29 from Western Hemisphere Department (WHD). The sample includes 2 cases that did not have any engagement with the Fund country teams during 2018-22. The table below suggests little bias in the sample.

	Income levels			Regions				
	AEs	EMs	LICs	AFR	APD	EUR	MCD	WHD
All (in GAT exercise)	19.4%	45.4%	35.2%	23.0%	18.9%	23.0%	16.3%	18.9%
~~Sample in this draft~~ Survey responses	20.6%	46.9%	32.5%	19.4%	16.9%	26.3%	19.4%	18.1%

- 51 of the responses had at least one UCT arrangement during the survey period (2018-summer 2022), where UCT arrangements include Extended Credit Facility (ECF), Extended Fund Facility (EFF), Flexible Credit Line (FCL), Precautionary Liquidity Line Arrangement (PLL), Stand-By Arrangement (SBA), Standby Credit Facility (SCF), Policy Coordination Instrument (PCI) and Policy Support Instrument (PSI) (not including emergency arrangements like Rapid Credit Facility (RCF), and Rapid Financing Instrument (RFI)).
- FCS (33 countries) is based on the World Bank's list of Fragile and Conflict-affected Situations. Countries listed as such in FY2019 to FY2022 are counted as FCS.
- WGI: the quartiles of countries' three-year average (2019-21) of *control of corruption* scores are used to divide the sample with the WGI score into four groups.

Question 1. *Following the 2018 Framework, macro-critical governance and anti-corruption issues have been addressed candidly, with clear and direct language (e.g., corruption vulnerabilities, governance weakness) in discussions with the authorities of the country for which you are, or have been, IMF mission chief.*

Summary

- **IMF staff have engaged in candid, open and direct dialogue with country authorities on macro-critical governance and anti-corruption issues under the 2018 framework**, as implied by the large share, over ¾, of *strongly agree* and *agree*.
- **Perceptions on candidness are aligned with country circumstances, including their perceived governance and corruption vulnerabilities**. All groups show supportive views as majority, but supportive responses tend to be high in LICs, and countries with UCT arrangements.

Main Observations:

- Over 7~~0~~5 percent civil society of respondents agree that IMF's engagement with civil society organizations on governance and anti-corruption issues has improved since implementation of the 2018 Framework. However, from these, a higher percentage considers that engagement with civil society has improved but not enough (44 percent).

- It is important to note that none of the international CSOs provided a negative response, and some offered concrete advice on how to improve civil society engagement, including calling for more efforts to protect civic space.

Key Observations from CSOs:

- CSOs noted that engagement with CSOs can be enhanced through a variety of efforts, including greater publicity and transparency of IMF's work, more channels for engagement and participation, and capacity building on anti-corruption issues.

- One international CSO working on procurement transparency offered very detailed recommendations to improve civil society engagement, including: (i) Facilitate more consistent engagement with civil society across countries, (b) build awareness and understanding of the role civil society can play in helping the IMF achieve its mission, (ii) Include civil society early when drafting governance-related conditionalities, (iii) Publish relevant documents in a timely manner so civil society can hold governments accountable, (iv) Urge governments to publish anti-corruption strategies and implementation plans that are part of programs, (v) Encourage governments to create multistakeholder consultation mechanisms to inform policy making and corruption monitoring.

- An anti-corruption CSO called for a systematic consultation process with civil society in the context of government diagnostic assessments to allow the IMF to get a more comprehensive understanding of country-specific governance and anti-corruption issues. Two CSOs recommended greater transparency of IMF's policies and procedures with regard to CSO engagement.

- One international CSO recommended the development of a clear policy to facilitate more comprehensive engagement with CSOs on anti-corruption, while also calling for more efforts to protect civic space, including by issuing statements and guidelines against reprisals and attacks. Finally, another CSO noted that engagement should be wider in scope to include collaboration on Illicit Financial Flows and improved efforts to monitor implementation of beneficial ownership transparency.

Question 4. *How should the IMF strengthen its engagement in key areas of governance and anti-corruption?*

CASE STUDIES FOR 40 COUNTRIES[1]

A. Summary of 40 Case Studies – Article IV

Sample: Same 40 countries as for the 2017 case study – See Appendix I below. 37 countries had an Article IV Consultation discussed by the Executive Board since the adoption of the enhanced governance framework in April 2018 until end-December 2022. Mali, Libya and Ukraine did not have Article IV consultation during the period. (8 AEs, 16~~4~~ EMs, 15~~3~~ LIDCs).

Key observations

- The centralized assessment identifies severe or high-level corruption for 75 percent of the countries in the sample. The percentage is 12 percent for advanced economies, 94 percent for emerging markets and 100 percent for LIDCs.
- Most of the governance weaknesses associated to corruption identified by the centralized process relate to fiscal governance, market regulation and rule of law. Governance weaknesses related to central bank governance and operations, and financial sector oversight are identified in only 14 and 22 percent of the countries in the sample, respectively.
- Revenue outcomes and procurement are the most common weaknesses by sub-areas of state function. For LIDCs, the most common weaknesses by sub-areas are contract enforcement and property rights.
- In 100 percent of the cases where severe or high levels of corruption have been identified, they have been candidly discussed in Article IV consultations.
- Overall, discussions have been most candid regarding weaknesses related to AML/CFT, central bank governance, rule of law and fiscal governance. An explicit linkage to corruption vulnerabilities was only made in 9 percent of the instances where market regulation weaknesses have been identified.
- The level of candidness for each state function varies by income level. For EMs, discussions have been most candid on AML/CFT, central bank governance, fiscal governance and the rule of law. For LIDCs, discussions have been most candid on financial sector oversight, AML/CFT and central bank governance.
- The level of candidness also varies significantly by sub-areas. Candid discussions occurred in more than 60 percent of the cases for AML (entity transparency, preventive measures, criminal justice), fiscal transparency, and procurement. There have been no candid discussions when weaknesses had been identified in relation to exchange restrictions, imports licensing, trade facilitation or public engagement in rule making.
- Overall, the implementation of the policy is very satisfactory regarding the coverage of corruption vulnerabilities, AML/CFT, and central bank governance weaknesses where candid and substantive discussions with specific policy advice take place ~~in~~ in 89, 80, and 60 percent of the cases respectively.
- Coverage is very low for market regulation (2 percent), and around 40 percent for the other state functions. At the sub-area level, beyond AML/CFT, the level of implementation of the policy is above 40 percent for fiscal transparency, property rights, PFM controls, investor protection, and procurement.
- The level of implementation of the policy is better for LIDCs (52 percent) compared to EMs and AEs, with 37 and 14 percent implementation respectively. For LIDCs, all state functions, except for market regulation have a rate of implementation above 45 percent. financial sector oversight, AML/CFT and central bank governance have an implementation rate of 100, 88 and 67 percent respectively.

[1] Prepared by Nusula Nassuna, Bonolo Namethe, Jaison Vega Laiton, Ivana Rossi (All LEG).

B. Characteristics of the Sample - Identification of Main Weaknesses

1. Based on the centralized process, main weaknesses have been identified regarding corruption, two state functions (central bank governance and operations, and financial sector oversight) and sub-areas for the four other state functions. Table 1 identifies the number of main weaknesses identified for the 37 countries with Article IV staff reports, by state function and sub-area.

Table 1. Identification of Main Weaknesses

Area of weakness	Number of weaknesses - 37 countries	Number of weaknesses 8 AEs	Number of weaknesses 17~~6~~ EMs	Number of weaknesses 12~~3~~ LIDCs
Corruption	**28**	**0**	**16**	**12**
Rule of Law	**49**	**1**	**18**	**30**
Investor Protection	13	0	6	7
Contracts	18	1	5	12
Property Rights	18	0	7	11
AML/CFT	**41**	**1**	**23**	**17**
Preventive measures	13	0	9	4
Entity transparency	13	1	7	5
Criminal justice	12	0	6	6
International Cooperation	3	0	1	2
Fiscal Governance	**101**	**4**	**51**	**46**
Revenue Outcomes	22	2	12	8
Revenue Institutions	12	1	4	7
Spending Outcomes	12	0	7	5
Procurement	19	1	9	9
Fiscal Transparency	18	0	10	8
PFM Controls	18	0	9	9
Market regulation	**57**	**1**	**30**	**26**
Ease of Doing Business	17	0	7	10
Public engagement	9	0	4	5
Product market regulation	9	1	5	3
Trade facilitation	9	0	5	4
Imports licensing	5	0	5	0
Exchange restrictions	8	0	4	4
Central Bank Governance	**5**	**0**	**2**	**3**
Financial Sector Oversight	**8**	**0**	**1**	**3**
Total Main Weaknesses	**289**	**7**	**145**	**137**

Source: Staff analysis of 37 countries Article IV staff reports

C. Candid Discussions

2. For each country in the sample, it has been analyzed if – when identified as weaknesses – corruption has been discussed and governance vulnerabilities have expressly been linked to corruption (i.e., if any of the staff report in the period over consideration discussed governance weaknesses in relation to specific weaknesses with explicit linkages to corruption vulnerabilities).

Table 2. Candid Discussions

Area of weakness Percentage of candid discussions where weakness identified	37 countries	8 AEs	1~~7~~6 EMs	1~~2~~3 LIDCs
Corruption	**100**	**-**	**100**	**100**
Rule of Law	**49**	**0**	**44**	**53**
Investor Protection	46	-	33	57
Contracts	44	0	60	42
Property Rights	56	-	43	64
AML/CFT	**85**	**0**	**83**	**94**
Preventive measures	92	-	89	100
Entity transparency	92	0	100	100
Criminal justice	83	-	67	100
International Cooperation	33	-	0	50
Fiscal Governance	**52**	**25**	**47**	**61**
Revenue Outcomes	32	0	25	50
Revenue Institutions	58	0	75	57
Spending Outcomes	50	-	57	40
Procurement	68	100	67	67
Fiscal Transparency	61	-	50	75
PFM Controls	50	-	33	67
Market regulation	**11**	**100**	**7**	**12**
Ease of Doing Business	24	-	29	20
Public engagement	0	-	0	0
Product market regulation	11	100	0	0
Trade facilitation	11	-	0	25
Imports licensing	0	-	0	-
Exchange restrictions	0	-	0	0
Central Bank Governance	**60**	**-**	**50**	**67**
Financial Sector Oversight	**38**	**-**	**27**	**100**
Total Main Weaknesses	**48**	**-**	**25**	**55**

Source: staff analysis of 37 countries Article IV staff reports.

Table 3. Candid and Substantive Discussion with Specific Policy Advice				
Area of weakness Percentage of compliance where weakness identified	37 countries	8 AEs	176 EMs	123 LIDCs
Corruption	**89**	**-**	**81**	**100**
Rule of Law	**39**	**0**	**27**	**47**
Investor Protection	38	-	16	57
Contracts	33	0	40	33
Property Rights	44	-	29	54
AML/CFT	**80**	**0**	**78**	**88**
Preventive measures	85	-	78	100
Entity transparency	92	0	100	100
Criminal justice	75	-	67	83
International Cooperation	33	-	0	50
Fiscal Governance	**41**	**25**	**31**	**52**
Revenue Outcomes	27	0	25	38
Revenue Institutions	33	0	25	42
Spending Outcomes	33	-	43	20
Procurement	47	100	33	55
Fiscal Transparency	56	-	40	75
PFM Controls	44	-	22	66
Market regulation	**2**	**0**	**0**	**4**
Ease of Doing Business	6	-	0	10
Public engagement	0	-	0	0
Product market regulation	0	0	0	0
Trade facilitation	0	-	0	0
Imports licensing	0	-	0	-
Exchange restrictions	0	-	0	0
Central Bank Governance	**60**	**0**	**50**	**67**
Financial Sector Oversight	**38**	**0**	**0**	**100**
Total Main Weaknesses	**43**	**14**	**37**	**52**

Source: Staff analysis of 37 countries Article IV staff reports

Appendix I. Country Sample

Table 1. Country Sample for Document Review [1/]

	Low-income developing countries [2/]	Emerging market economies	Advanced economies
AFR	**Cameroon, Congo, DR, Kenya, Mali,** Nigeria**, Uganda,** Zimbabwe	South Africa	
APD	Bangladesh, Cambodia, Papua New Guinea	China, Indonesia, Mongolia	Japan, Korea
EUR		Russia, Turkey, **Ukraine**	France, Greece, Italy, Portugal, Spain
MCD	**Afghanistan**, Kyrgyz Republic	**Egypt**, Georgia, Kazakhstan, Libya, Iraq, Tunisia	
WHD	Haiti, **Honduras**	Brazil, Bolivia, Mexico, Paraguay, Peru	United States

1/ Countries in bold had Fund program engagement during the period 2018-2022.
2/ The low-income developing countries (LIDCs) are a group of 40 countries based on the classification made in October 2022 in the Fiscal Monitor. Low-income developing countries have per capita income levels below a certain threshold (set at $2,700, as of 2016, as measured by the World Bank Atlas method), structural features consistent with limited development and structural transformation, and external financial relationships insufficiently open for the countries to be considered ~~d~~emerging market economies.