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Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance

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Staff: Mauro, FAD; Mathias, LEG; Ghosh, SPR

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CEDA OGADA
Secretary

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¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Open Archives Policy.

THE CHAIR’S SUMMING UP

Executive Directors welcomed the opportunity to review the implementation of the 2018 Framework for Enhanced Fund Engagement on Governance, and broadly agreed with the staff’s proposals. They considered that the 2018 Framework has made the Fund’s engagement more candid, systematic, and effective, while acknowledging that there remain areas for improvement. While many Directors also considered that the 2018 framework has made the Fund engagement more evenhanded, many other Directors expressed lingering concerns about evenhandedness.

Directors welcomed the systematic assessment of the full membership of the Fund under a robust, centralized, interdepartmental process to identify corruption vulnerabilities and governance weaknesses linked to corruption in the six state functions most relevant to economic activity. Going forward, Directors called for further analysis on the effectiveness of the Fund’s engagement in these areas.

Directors recognized the increase in candid discussions of many identified corruption and related governance vulnerabilities in Article IV staff reports, underpinned by specific policy advice over the three-year surveillance cycle. However, they noted the limited coverage of some areas such as market regulation.

Directors acknowledged that the proportion of governance-related conditions in Fund-supported programs has increased, with conditionality aligned with programs goals. They considered compliance rates for governance-related benchmarks to be somewhat disappointing—albeit similar to those for other structural benchmarks in areas outside of governance. Directors supported a final stocktaking of the implementation of governance safeguards during the COVID-19 emergency financing, with a few Directors noting the uneven implementation of these commitments. In this context, Directors supported updating guidance on the use of governance commitments in emergency financing.

Directors called for further efforts to ensure a fully evenhanded implementation of the 2018 Framework and address concerns by many Directors regarding evenhandedness. While Directors noted that the staff’s analysis found no evidence of systematic biases, many Directors found the results insufficient to draw conclusions. Directors also noted that only 13 countries have volunteered for the Fund to assess their frameworks for combatting transnational aspects of corruption—a number still below expectations—which may contribute to perceptions that the Fund’s engagement on governance issues is not sufficiently evenhanded.

Directors welcomed the Fund’s expanded work on governance issues in capacity development (CD), including leveraging existing CD and establishing new forms of delivery, particularly governance diagnostics. They encouraged further speeding up of strategic integration and alignment of CD to country-specific policy advice.

Directors noted that achieving a lasting reduction in corruption is a challenge and that implementation is constrained by limited capacity and vested interests. As such, Directors considered the Fund's continued robust engagement on these issues to be crucial whenever macro-criticality can be established.

Directors supported staff proposals to strengthen implementation in line with the objectives of the 2018 Framework, guided by macro-criticality and core expertise of the Fund, while stressing the need for prioritization and phasing of the proposals, given competing demands under the tight budgetary environment.

Directors supported staff proposals to update more regularly the centralized assessment of the membership, allowing staff to refresh qualitative information and track improvements or backsliding in the implementation of policy advice, and to improve the consistency of coverage across the six state functions, including by exploiting synergies with other work streams. Directors encouraged other jurisdictions to volunteer for the assessment of transnational aspects of corruption and agreed that efforts should continue to sustain and deepen the coverage of this exercise.

Directors endorsed enhancing effectiveness of the engagement and addressing key obstacles identified by strengthening external interactions and internal processes, including efforts to enhance ownership and support for reforms, and particularly encouraged strengthening political economy analysis. Directors supported further developing targeted CD in response to increasing demand from authorities, leveraging governance diagnostics to inform engagements, implementing practical measures to enhance interactions and collaboration with other international organizations and civil society, fine-tuning staff guidance on governance safeguards in emergency financing, and establishing mechanisms to improve monitoring of the implementation of governance-related Article IV recommendations. In addition, Directors supported further integration of governance and anti-corruption with other Fund priorities such as Fragile and Conflict affected States (FCS), climate change, and digitalization/GovTech. Directors also generally supported deepening the work on rule of law and anti-corruption issues and building upon the increasing role of supreme audit institutions (SAIs) in supporting anti-corruption efforts. They concurred that achieving sustained mitigation of corruption requires a tailored and sequenced approach mindful of implementation capacity constraints and political economy realities.

Directors looked forward to an update from the staff on the implementation of the Framework in two to three years, and for a review by the Executive Board within five years.

EXECUTIVE BOARD ATTENDANCE ²

K. Georgieva, Chair

Executive Directors	Alternate Executive Directors
	V. Vumendlini (AE)
	R. N'Sonde (AF)
	I. Bustillo (AG), Temporary
	C. Becker (AP), Temporary
A. Bevilaqua (BR)	
	X. Bai (CC), Temporary
	P. De Ramon-Laca Clausen (CE)
P. Jennings (CO)	
D. Palotai (EC)	
A. Buissé (FF)	
	H. Koh (GR)
K. Subramanian (IN)	
	C. Quagliarini (IT), Temporary
J. Mizuguchi (JA)	
	M. El Qorchi (MD)
M. Mohieldin (MI)	
	T. Manchev (NE), Temporary
	A. Marcussen (NO)
A. Mozhin (RU)	
A. BinZarah (SA)	
R. Lim (ST)	
M. Peter (SZ)	
	W. Obeney (UK), Temporary
E. Shortino (US)	

G. Bauche, Acting Secretary

D. Kanda, Summing Up Officer

B. Zhao / A. Urbanowska / S. Vanhoucke, Board Operations Officers

M. Eddy, Verbatim Reporting Officer

Also Present

African Department: K. Christou, E. Gemayel, S. Singh, C. Verdugo Yepes. Asia and Pacific Department: A. Gulde, L. Leigh, J. Turunen. Communications Department: M. Berazategui, P. Devahasadin na Ayutaya, N. Ismail, N. Mombrial, T. Walker, I. Yackovlev Perez-Vilches.

² For countries in each constituency, please see the Constituency Codes in the annex.

European Department: R. Blavy, J. Dauphin. Fiscal Affairs Department: M. Alnasaa, M. Asai, N. Gueorguiev, J. Honda, P. Mauro, K. Moriyama, D. Rozhkov, V. Salins, B. Sarr. Finance Department: E. Chamoun, G. Kabwe, R. van Greuning. Legal Department: T. Burjaliani, C. El Khoury, O. Kroytor, Y. Liu, L. Malcherek, E. Mathias, B. Namethe, I. Rossi, R. Sykes, J. Turkewitz, L. Urrutia, S. van Hoeij Schilthouwer Pompe, J. Vega Laiton, R. Weeks-Brown. Middle East and Central Asia Department: D. Singh, R. van Rooden. Monetary and Capital Markets Department: A. Jociene, M. Moretti, M. Savastano, J. Surti, F. Xavier Dezouzart Drummond Melo. Office of Budget and Planning: L. Allain. Office of Risk Management: J. Manning. Research Department: M. Comunale, C. Okou. Strategy, Policy, and Review Department: T. Augsten, K. Chang, M. De Broeck, O. Fasalojo, A. Ghosh, M. Morgan, L. O'Sullivan, T. Orav, E. Pondi Endengle, K. Sharifzoda, A. Skinner, M. Spinella, T. Teixeira da Silva Filho, D. Zheng. World Bank Group: J. Anderson, C. Bronchi, A. Oyeyiola. Western Hemisphere Department: M. Oliva Armengol. Executive Director: A. Guerra (CE), L. Herrera (AG), R. Nicholl (AP), F. Sylla (AF), V. Vasiliauskas (NO). Alternate Executive Director: A. Alhosani (MI), M. Alrashed (SA), C. Amarasekara (IN), R. Anwar (ST), J. Betancur Mora (CE), C. Just (EC), M. Kashima (JA), M. Massourakis (IT), M. Matungulu (AF), M. Mert (EC), F. O'Brolchain (CO), O. Parkyn (AP), S. Potapov (RU), C. Roman (FF), A. Ubisse (AE). Senior Advisors to Executive Directors: K. Badsı (MD), S. Chicas Cienfuegos (CE), M. Choueiri (MI), O. Diakite (AF), M. Dueñas (ST), Patterson C. Ekeocha (AE), J. Essuvi (AE), R. Gindrat (SZ), S. Hansda (IN), H. Karhapaa (NO), A. Medearis (US), A. Nainda (AE), S. Naka (JA), J. Rojas (CE), H. Saeed (SA), C. Sassanpour (MD), B. Slettvag (NO), A. Tolstikov (RU), R. Velloso (BR). Advisors to Executive Directors: A. Abdul Raheem (MI), Z. Ahmed (CO), N. Akosah (MD), F. Al-Kohlany (MI), P. Al-Riffai (MI), T. Azlan Ariff (ST), M. Bangrim Kibassim (AF), G. Basutli (AE), S. Belhaj (MD), G. Coccozza (IT), M. Coronel (BR), M. Damane (AE), R. Fayez (MI), P. Khademi (GR), V. Lankester Campos (CE), J. Liu (CC), C. Mastrapasqua (IT), G. Meizer (EC), M. Merhi (MI), D. Milutinovic (NE), R. Moral Betere (CE), A. Mostajo Soto (AG), A. Rao (US), E. Shimada (JA), A. Tall (AF), I. Xaiyavong (ST), K. Florestal (BR), T. Hlavaty (EC), F. Lopez (CE), D. de Waziers (FF).

DISCUSSION RECORD³

The Chair:

It has been about five years since the framework came into life, on April 6, 2018. It is on a topic that matters tremendously to our members because we all know that good governance is the foundation for sound economic development. We know that when countries are able to take decisive action in that area, when they relentlessly pursue the well-being of institutions in addressing corruption, that translates into high standards of living for people. It has a tremendous role in getting economies on a sound path to growth.

We got engaged on this topic at the IMF in 1997. At that time, the Board adopted the Guidance Note on the role of the Fund in governance issues. After almost a decade, the framework that we are discussing from an implementation standpoint today became a reality.

At that time, the intention of the Board and the staff was to come for a review after three years, but we got hit by COVID-19 and the review was delayed until today. But we did have in 2020 an interim review of implementation. It did conclude that very good progress is being made, and then staff provided the Board with updates in May 2021 and May 2022.

What we are very keenly interested today, on the basis of the staff's finding, documented in the formal papers, is your reflection on the progress and what is the direction you would like to offer to us. We are particularly interested to reflect on topics that are most significant for the membership, what works best from the perspective of deploying the skills and instruments of the Fund, and what is the impact that engagement of the Fund brings to countries that can be measured, assessed, and on that basis, built upon.

My very keen interest is to hear also how you see us engaging further and how you reflect on the sensitive issue that many of you have raised about evenhandedness of the Fund's engagement on matters of governance.

The Deputy Director of the Fiscal Affairs Department (Mr. Mauro):

Thank you to Executive Directors for your support for this line of work. Thank you for the useful feedback that you gave us in the gray

³ Edited for clarity.

statements and during the informal-to-engage meeting and also in the small group meetings that the Secretary's Department arranged for us.

We hope to have addressed your feedback in the paper and in the background materials. We also circulated answers to your very comprehensive set of questions. The review shows that progress has been achieved since the adoption of the framework. It also identifies areas for strengthening, and it proposes specific actions for the way forward.

I have just a few words to put today's review in context. The 2017 review of the 1997 Governance Guidance Note Implementation found that staff had not been consistently candid and not sufficiently evenhanded, particularly in surveillance. The 2018 Framework was a response to address the issues identified in the 2017 review. That is where we were coming from.

We now have a systematic and structured process to identify weaknesses, which is widely owned by staff. It leverages functional expertise and area department knowledge of member countries. We have made progress through brainstorming sessions, through the review process, in capacity development (CD), with new tools, such as governance diagnostics. There is a lot of emphasis on this line of work in programs. In particular, we have made progress in surveillance. We speak candidly. We treat similarly-situated countries similarly, and we provide operational advice. All of this is documented in the paper.

In your gray statements and in the previous meeting, you had two broad areas of feedback. First, we have heard lingering concerns by some of you about evenhandedness, and clearly you have emphasized the importance to ensure that any discussions on these sensitive topics are conducted with humility, especially on topics that are somewhat novel for us. We are learning. We are building expertise. As we explained in the paper, we are going to continue making progress. We respectfully request your support to help us do even better.

The second area where you expressed a lot of interest is on traction and impact. On traction in programs, we found that after 2018, there were more benchmarks on governance. The implementation was about the same as in other areas. It was not great but let us remember that it is easy to meet easy targets, so one has to take into account that some of these targets were hard to meet. We also showed that compliance rises if one considers benchmarks that are met with a delay and if one considers prior actions.

Regarding traction in surveillance, particularly looking at implementation of recommendations that are made in Article IV consultations, some but not all teams have been following good practice of including a table in the Article IV that reports past recommendations and implementation to date. Our proposal is to set up a central database that will capture this information systemically. This database will allow us to assess whether recommendations are implemented, and it will also be a tool for us to enforce good practice.

Turning to a somewhat more ambitious level in terms of traction, what about tracking changes in the quality of state functions? The quality of state functions may improve or back slide depending on many factors that are beyond what IMF staff can influence. But country authorities can certainly influence progress in state functions. If we measure the quality of state functions with a distance of a few years, we will be able to learn more. To track this, we must periodically update the governance assessments for the membership, and we plan to start again with a fresh round this summer.

The final and most ambitious concept in terms of traction and impact is, are we having an impact on corruption itself? This is the cutting edge of research. Academic studies in recent years have taken a more robust approach to establishing causality by focusing on specific interventions and specific outcomes often for one country or a small region or sometimes for a sector of the economy. We hope to do more such projects at the Fund, but these will not cover the whole membership.

These are just some initial reactions on the broad themes that you raised, and I am happy to come back after hearing from you.

Mr. Subramanian:

We issued a comprehensive gray statement on the subject and, therefore, I would like to explain and elaborate on one particular point. The point on evenhandedness, you already mentioned in your comments, so I will not talk about that, even though I had that in my written script.

In our gray statement, we have referred to a chapter on process reforms in the government of India's economic survey 2021, which I had the privilege of authoring. I want to elaborate on the idea which has been developed there, that corruption and noncompliance often result from over-regulation, which results from the emphasis on having regulations as

“complete contracts” that account for every possible outcome. When I talk about complete contracts, I am speaking in the economic sense.

As the Nobel Prize-winning work by Oliver Hart and others demonstrates, real world contracts are actually not complete, as they cannot take care of all the different contingencies. As a result, regulations—which are but one regulator to many regulated contracts, and policy is one policymaker to many citizens contracts—cannot be complete either. In other words, they cannot account for every possible outcome, and real-world regulation and policy, therefore, is inevitably incomplete because of the combination of bounded rationality due to unknown unknowns, and all this complexity involved in framing complete contracts that can cover all possible contingencies, and the difficulty for the third party to verify decisions ex-post. This makes some discretion unavoidable in decision making, and staff may benefit from referring to the evidence that we show that over-regulation, not simple regulation, leads to opaque decision making and thereby opportunities for corruption.

This problem also stems from policymakers by default tending to favor prescriptive over-regulation over careful supervision. Unlike supervision, regulation can be easily measured. After all, regulations provide criteria, checklists, making it easier for regulators to follow and reduce their own accountability when an adverse outcome manifests.

In contrast, it is difficult to quantify the amount and quality of supervision. The optimal solution is, therefore, to have simple regulations combined with a transfer and decision-making process. Understanding these ideas that have been developed in the chapter can also lead to innovative solutions to the problems of governance and corruption. Therefore, I wanted to highlight that and elaborate this concept in my intervention.

The Chair:

It is indeed a very important point that policymakers can create more avenues for corruption on purpose or by not paying close attention by over-regulating.

Mr. N’Sonde:

I would like to speak to the Fund’s core mandate. It is not only critical to addressing macroeconomic imbalances and promoting inclusive growth but also in safeguarding IMF resources. We, therefore, welcome the

implementation of the 2018 Framework, including during the COVID-19 pandemic. The 2018 Framework continues to remain appropriate, given the pertinence of the retained six state functions and the focus on macrocriticality of governance practices.

I will pass on the issue of evenhandedness, as this ground has been already covered by staff.

We have issued a joint gray statement with Ms. Vumendlini, Ms. Basutli, and Mr. Tall and broadly support staff's proposal to further enhance the Fund's engagement on governance along the lines outlined in the report, and we would like to add the following comments.

On the effectiveness of Fund engagement, we support setting up a centralized system for tracking governance-related recommendations and their implementation. We also take positive note of staff's commitment to assess the effectiveness of a Fund-supported program in bringing the desired outcomes in governance. The findings and recommendation of such an evaluation would be helpful and should hopefully raise the rate of compliance for governance-related structural benchmarks in Fund-supported programs, which remain quite low.

On capacity building, we note that 70 percent of IMF country teams but only 33 percent of national authorities identify capacity constraints as the main obstacle to the effective implementation of governance and anticorruption measures. There is obviously room to increase the authorities' buy-in of the importance of capacity development (CD) in governance.

CD should be a priority, especially in low-income countries (LICs) with strong national ownership of reforms. More broadly, we encourage a systematic assessment and tracking of the capacity building needs of the membership in areas pertaining to the retained six state functions.

Finally, on transnational corruption and the supply-side aspect of corruption, we commend the authorities that volunteered for an assessment exercise and call for Fund action to secure more participation by member countries with support from Directors' offices, and to follow up on remedial measures for the identified vulnerabilities. This is a critical area for LICs and most acutely for sub-Saharan African countries, where recent economic literature has highlighted considerable budgetary resources foregone through illicit financial issues.

Mr. Jennings:

We continue to view good governance and combatting corruption as macrocritical issues and essential to the Fund's work on surveillance, lending, and CD. In this context, it is encouraging to see that material progress is being made. That said, we agree that there is scope to further strengthen implementation of the framework.

As we have issued a comprehensive gray statement with several other chairs, I will keep my remarks focused on four areas that we would like to see prioritized to improve implementation. The first is collaboration. As many others have noted in their gray statements, greater and more systematic engagement with external stakeholders, including the World Bank, civil society organizations (CSOs), and other international partners is needed to help better inform country strategies and support more successful policy recommendations on governance. Collaboration in this area is also essential to minimize duplication and leverage each other's unique strengths.

Second, fostering greater country ownership to address governance vulnerabilities is key. To this end, we underscore the importance of targeted CD and also encourage the Fund to strengthen its political economy analysis to generate structural benchmarks that are more aligned with political realities and, therefore, more likely to succeed. Governance diagnostics and country engagement strategies are also critical to better understand country context and generate meaningful measures.

Third, improving transparency and accountability safeguards is critical to ensure that the Fund's financing is used appropriately and to protect against reputational risk. Like others, we therefore stress the importance of the stocktaking on governance commitments in emerging financing and encourage staff to develop updated guidance on governance safeguards based on the stocktaking, considering lessons learned.

Finally, given links between governance, vulnerabilities, and illicit flows, we also look forward to reviewing the Fund's strategy on anti-money laundering and combating the financing of terrorism (AML/CFT). As part of this upcoming review, we call upon the Fund to strengthen its support of the work of the Financial Action Task Force to help promote financial integrity across the international financing system.

Mr. Bevilaqua:

We have issued a comprehensive gray statement, which provides some insights into the stocktaking exercise leading up to today's formal Board meeting to review the implementation of the 2018 Governance Framework. I will focus my intervention on four points.

First, seeking and receiving frequent feedback is a key component for the 2018 Governance Framework to mature while improving over time. We encourage staff to listen more. While the occasional surveys deployed by staff on governance are helpful, they are insufficient to provide timely and accurate feedback from country authorities, given the still low response rate, particularly among low- and middle-income countries.

We, therefore, see considerable room for improvement in this area, both in terms of the number and quality of surveys as well as other forms of seeking timely feedback, as suggested by Mr. Jennings.

We also believe that the Independent Evaluation Office (IEO) can and should play a more active role in this regard, gathering additional input for a more thorough and independent assessment of the implementation of the 2018 Governance Framework.

Second, we see a clear need to strengthen evenhandedness in the application of the 2018 Governance Framework, a point that the Chair discussed in your opening remarks, and was also stressed by Mr. Mozhin in his written statement.

There is a significant risk to the Fund's credibility if it is perceived to be enforcing the 2018 Governance Framework primarily in our smaller and weaker members, rather than seeking to provide candid assessments and recommendations to our more influential members, which are in many cases known to be sources of bribes and kickbacks, as well as safe havens for stashing away the proceeds of corruption.

In addition, like Mr. Subramanian and Mr. Hansda in their gray statements and Mr. N'Sonde in his recent intervention, we encourage staff to take another look at the supply side of corruption.

Third, we cannot overemphasize the importance of proper staff training so that engagement in this sensitive area is respectful and promotes ownership. We also encourage staff to work closely with institutions that have

more expertise in this area than the Fund. As noted in the written statement by Mr. BinZarah, Mr. Mohieldin, and their colleagues, it is crucial that country authorities perceive the Fund's enhanced engagement in governance as a value-added activity provided by the Fund rather than a way of discrediting their reputation, or even an excuse to unduly block their access to critical IMF financial assistance.

Finally, while the authorities generally welcome staff's inputs on governance and transparency issues when such issues are clearly macro-critical and closely related to the Fund's traditional core mandate, they have noted that the scope of central banks in these matters can be limited and sometimes even inconsistent with their core mandate, independence, and autonomy. We therefore encourage staff to pay closer attention to this issue going forward.

Ms. Shortino:

It is clear that the framework has become even more central to the Fund's work over these last few years, whether it is the context of emergency lending during the COVID-19 crisis, the new Food Shock Window, the Fund's engagement with fragile states, or even just through regular surveillance. I would also agree that there has been strong progress made since 2018.

I can say pretty safely that we agree with all of the recommendations in the staff report. My one concern is that it feels a little bit like this review is less of a review and more of a plan for a future, more robust review once the centralized database is in place and the membership updates are completed. I hope that once these tools are available, staff will be able to even more fully assess the Fund's traction and effectiveness on these topics.

For this reason, I would join several other Directors in calling for a meaningful interim update in two to three years that hopefully integrates the findings from the new round of assessments. I understand from the staff responses these will not be shared with the Board, but I hope they are robustly and consistently integrated into Article IV surveillance and programs.

We will also be interested to see whether the new centralized database can help shed light on how the Fund can improve the take-up of governance-related recommendations and advice. We very much look forward to even more information in a couple of years.

With regards to take-up on that note, CD does remain critical. We should consider having the CD strategy review include consideration of whether there needs to be a more sustainable funding model for governance-related CD. With regard to collaboration with other international financing institutions and CSOs, my one question would be to staff. Would a more systematic approach to collaboration—here I am thinking of about what we have in place for climate—be helpful for facilitating greater collaboration?

Finally, I just want to note that I really look forward to the stocktaking on the implementation of emergency financing governance commitments. I mentioned in my gray statement that the IEO recommended a broader review of emergency financing, and this just underscores that it could be a part of that review and be very helpful.

Mr. Manchev:

We welcome the comprehensive papers and staff's informative outreach for this review. In our joint gray statement with several other Directors, we underscore our continued strong support for this workstream, expressed our satisfaction with progress to date, and made a number of suggestions to improve the effectiveness of the Governance Framework going forward. I will use our overall remarks to emphasize three points.

First, on the importance of the newly created database, we believe that staff's plan to introduce a database and track the implementation of the Governance Framework in all areas of Fund activities will be critical for the progress going forward. Better integration of the governance stream with other elements of the Fund's work is another key element to increase effectiveness. Thus, we agree with Ms. Shortino that the database should be designed in a way that facilitates understanding of the rationale behind shortfalls in the implementation of the Fund's governance-related policy advice.

Second, on the role of governance diagnostic tools, we support the continued rollout of the governance diagnostic assessments. It is a useful tool, especially to inform program conditionality, and should be further strengthened through increased benchmarking. This is particularly important in countries with weak governance standards where the Fund uses the conditionality attached to lending decisions to ensure program success.

Finally, on the role of risk self-assessment, to address reputational risks for the Fund, we encourage management to consider an internal audit

and evaluation of the newly established centralized inter-departmental process and document risk self-assessments ahead of the proposed interim review. These steps will also support the systematic and evenhanded objectives of the Governance Framework.

Mr. Mizuguchi:

We are encouraged to see robust progress in the Fund engagement on governance and welcome that the paper has incorporated the informal Board discussions. As we issued a joint gray statement broadly supporting the staff's proposal, we will focus on four points today.

First, we strongly support enhancing measures to ensure the authorities' implementation of Fund advice and committed reforms. The envisaged database of Article IV recommendations and subsequent tracking of the implementation would allow a systematic assessment and could feed into effective future engagement in each country.

In the context of emergency financing, we encourage staff to accelerate stocktaking of implementation of governance commitments on pandemic spending and to work on a necessary update on the 2020 guidance on governance safeguards.

Second, we see a compelling case to deepen country-specific analysis by leveraging governance diagnostics. We agree to further expanding the use of diagnostics for the broader membership with more transparency in report publication and with more focus on the nature and mechanism of corruption, utilizing the political economy analysis. This could cultivate political ownership and further sharpen recommendations. Given its demand-driven characteristics, promotional efforts would also be needed.

Third, adequate considerations should be given to capacity constraints. We reiterate that stronger engagement on governance issues should be accompanied by sufficient CD, and to this end, leveraging the presence of long-term experts in the field is welcome. We also stress that it is critical to carefully segment and tailor relevant policy advice based on the capacity and circumstances of each member.

Finally, we support having an interim review in two to three years and encourage staff to continue compiling critical data and providing a clear assessment of how Fund engagement has been effectively stepped up.

Mr. Peter:

We agree that sound governance is a key factor for economic success. As such, good governance deserves particular attention from the Fund. Like Mr. Palotai in his gray statement, we consider that for Fund engagement on governance to gain the intended traction, it needs to be kept close to the Fund's core mandate and be grounded in close cooperation with the national authorities. The Fund's work on governance is also essential to ensure the effectiveness of its financing, as well as its integrity and reputation.

In addition to these more general points, I also have two more specific comments for emphasis.

First, we are convinced that country ownership remains a key factor of success for Fund engagement on governance issues. Given the often sensitive nature of governance issues, establishing a constructive dialogue with country authorities, mindful of political realities, should be a guiding principle of our engagement.

We stress the need to avoid an overly mechanical engagement with country authorities, to prioritize engagement on those macrocritical reform elements that are the most feasible, and to gradually build on the progress made.

Second, we encourage members to volunteer for an assessment of the transnational aspects of corruption. In our constituency, Switzerland has undergone this, and our experience has been good, so we can only encourage others to follow on that. This assessment is also an important pillar of the work undertaken under the Governance Framework.

The Chair:

I echo your call for others to volunteer. I am very pleased to hear that Switzerland's experience was good.

Mr. de Ramon-Laca:

We fully support the Fund's continued commitment, when considered macrocritical, to governance, and anticorruption issues are a priority for surveillance, financing, and CD objectives.

We see that good progress has been achieved since 2018 in engaging in a systematic, candid, effective, and evenhanded way. We wrote a gray statement so I would like to make two points for emphasis.

First, we appreciate Mr. Mauro's comments and staff's efforts to find tractable approaches to assess the traction of policy advice on governance—i.e., when the authorities incorporate the advice into their policy agenda and to evaluate its effectiveness, or whether the resulting reforms successfully improve outcomes. This effort is worthwhile, as measurement of impact enables prioritization and tailoring of advice. When governance indicators are included in program conditionality, prioritization will help prevent standardized box-ticking exercises from crowding out the macroeconomic policy discussion.

Secondly, encouraging voluntary participation and publication of governance diagnostics is an important challenge for the implementation of the 2018 Framework. Political economy concerns may give the impression that there is only downside risk involved in such exercises. As an incentive to participate, there could be space for staff, particularly mission chiefs, to tailor specific CD and technical assistance designed to address the diagnostic findings.

Mr. Obeney:

We issued a comprehensive gray statement with seven other chairs, welcoming this work, so I will focus on responding to some of the issues raised by Directors in staff's responses.

First, on evenhandedness, there are some varied views about the extent to which this is an issue of substance versus an issue of perception, and the key thing looking forward is we should continue to aim for evenhandedness. In that regard, I was pleased to hear from Mr. Mauro that this will continue to be prioritized because it needs to remain at the front of mind or else we will end up engaging in a less evenhanded manner.

In that regard, I reiterate Mr. Peter's and this chair's support for the transnational corruption assessments and encourage more take-up of that, especially amongst G20 and advanced economy countries. The United Kingdom found its assessment also to be very useful and the follow-up associated with that. It does not escape my attention that in a few days' time we will have all the key people we need to ask for permission to do these

assessments in our countries right here, so perhaps our members of the Board can gently raise the idea of a transnational assessment with our visitors.

Secondly, on political economy analysis, we strongly welcome that staff plans to strengthen the use of this over the next few years. Along with Mr. Jennings and Mr. Mizuguchi, I stress the importance attached to it by this chair. A better understanding of political economy in a country should improve political ownership, make staff recommendations more effective, and improve compliance with governance-related benchmarks. The most cutting-edge ideas in political economy analysis embrace creativity, flexibility, and proportionality, which aligns well with the need to avoid a one-size-fits-all approach to how Fund country teams engage on governance. We look forward to continuing this discussion with staff.

Finally, I note the substantial interest from the Board in the final review of governance safeguards and the planned update on staff guidance. In their gray statements, Directors have raised some interesting questions about tradeoffs that have not been covered either in the IEO review or in these papers, such as the use of ex ante tools versus ex-post tools; and taking a blanket approach to safeguards versus country-specific approaches; and the connection this has to evenhandedness and its perception of evenhandedness. These are all pretty important questions, so we would be grateful if staff can keep the Board's interest in mind on this topic and ensure we are updated on it in a proportionate way.

Mr. Palotai:

Good governance is clearly critical to economic success and hence requires the Fund's special attention, but governance is a broad concept. The Fund's engagement should be sufficiently focused on those areas where the Fund can add value. Let me touch upon a few key issues here.

Survey results on evenhandedness are concerning, both regarding inputs from national authorities and country teams. Evenhandedness is a core principle of the Fund and, thus, more attention needs to be paid to ensure that the same cases are treated much the same way equally. To build greater trust in the Fund's governance-related issues, more transparency would be needed on how qualitative information received, for example, from CSOs is captured in respective assessments and policy advice.

Second, the Fund's engagement across the six state functions should be state dependent instead of setting out standalone goals. The Fund's role is

to engage in those macrocritical governance areas that are closely related to economic policymaking rather than trying to become experts in judicial systems, for example, or the assessment of the rule of law.

Third, as other Directors pointed out, tackling impediments related to the lack of political ownership and capacity constraints is key to advancing the governance agenda. Engaging in constructive and candid dialogue seems pivotal to ensure buy-in, especially when designing program conditionality.

Lastly, let me also reiterate the importance of having a clear communication of the changes to the current framework, both internally and externally.

Mr. Bai:

We issued a gray statement to broadly agree with staff's appraisal, and I would like to add three points for emphasis.

First, like many other Directors, the issue of evenhandedness remains a concern for us. When handling sensitive issues, such as governance and corruption, the Fund should be especially cautious and strictly follow the principle of evenhandedness. As the Chair's and Mr. Mauro's opening remarks have already touched upon this issue, we think this is very encouraging, and I will not reiterate my points in the gray statement.

Second, given the complex nature of the governance problem, addressing governance-related issues and achieving lasting improvements requires a strong commitment from the authorities. Therefore, it is critical for the Fund to realize that governance reform driven by the authorities' own initiative will have a better chance to succeed.

Third, governance issues are sensitive and extend well beyond the economic realm and the Fund should leverage its power to focus on areas where it has traditional advantage, such as macroeconomic policies. In particular, the Fund should avoid deep involvement in anticorruption-related issues and avoid setting anticorruption-related conditions for its programs. At the same time, a mechanism should be established to safeguard the Fund resources and to ensure the Fund's crisis-addressing financial support will not be illegally appropriated.

Ms. Marcussen:

Like others, I would just comment that we also issued a gray statement for this meeting with seven other chairs, strongly supporting the Fund's enhanced engagement on governance and broadly welcoming the proposals for further strengthening the implementation of the framework. Today I will focus on points related to synergies with other workstreams, ownership, evenhandedness, and Fund lending.

The first point is we do see value in exploiting synergies with other Fund workstreams. In this regard, we welcome the emphasis on corruption and governance challenges as key drivers of fragility in the recent Fragile and Conflict-Affected State (FCS) Staff Guidance Note.

My second point is on ownership. As governance reforms often do face strong opposition from vested interests, measures to strengthen ownership and capacity to implement reforms are essential. To this end, we see merit in using country-specific strategies, a point others have also made, and to pursue political economy work.

The third point is on evenhandedness. We continue to emphasize the macrocritical impact of good governance, transparency, and strong public institutions in all countries. However, it is also important to recognize that uneven coverage of governance issues does not necessarily reflect a lack of evenhandedness in the application of the framework. Staff has also further commented on this today and we also note that some of these issues were also reflected in the recent IEO report on the COVID-19 response.

That said, we do see value in further work on the assessment of governance vulnerabilities across the membership, and we also fully support staff's work to assess supply-side issues of corruption, welcoming an increasing number of voluntary assessments on frameworks to combat transnational aspects of corruption.

The final point on lending, we emphasize that adequate governance safeguards should also accompany Fund lending, and we believe that strong ex ante conditionality should be used when appropriate to ensure ownership and mitigate reputational risks to the Fund. We see a particular need to better balance rapid financing with measures that promote good governance and sustainable policies over the longer term. In this regard, we agree with the point from Ms. Shortino's gray statement on the need to develop more specific guidance on the use of governance safeguards in emergency

financing. We would also just continue to stress the importance of following up on commitments in subsequent program requests.

Finally, like Ms. Koh in her gray statement, we see particular scope for improved follow-up on audit findings and recommendations to ensure tangible progress on the ground.

Ms. Koh:

First, we agree with others on the evenhanded application of Fund policy and in this context, we welcome attempts to make outcomes and progress more comparable through a database and by tracking progress throughout Fund surveillance, lending, and CD.

Second, on effectiveness, in light of the unprecedented lending in the past years, we reiterate our concerns about directing Fund financing to state budgets without adequately strong safeguards.

Irrespective of the absolute amounts, lending in the context of high governance risks might bear potentially large reputational risks to the Fund, and we believe that a review could have been more ambitious and the Fund should consider potentially expanding financial safeguards assessment to the Poverty Reduction and Growth Trust and emergency financing cases so as to capture risks that go beyond mere financial exposure. The current triggers of exceptional access in at least 25 percent for budget financing do not capture the buildup of risks throughout the past years.

With less ambition in applying fiscal safeguards assessments, there is an even greater value to governance diagnostic assessments. These assessments should remain integral to the Fund's long-term engagement, especially when it comes to program design and safeguards through prior actions.

We welcome staff's proposal to expand the use of CD and Germany will continue to support the Fund's CD activities on governance-related issues, such as work AML/CFT, as well as independent audits in collaboration with supreme audit institutions.

On the latter, we look forward to continued work by the Fund, including raising awareness among staff and the wider membership, also in view of new challenges related to climate finance.

On communication, I agree with Mr. Palotai on the need for clear communication to the public and also internally, given the wide interest of this review. I encourage staff to streamline the press release so that it clearly lays out the main messages rather than the history of the Fund's work on governance.

Let me conclude with one question. The staff's responses touched a lot on AML/CFT and financial integrity, and we wonder how this strategy will feed into the work on reviewing the Fund's strategy on AML/CFT, which will happen later this year.

Ms. Quaglierini:

We cosigned a comprehensive gray statement with seven other chairs, strongly supporting the announced Fund engagement on governance and endorsing the proposed strategy. I will therefore be brief today and focus on just a few areas.

First, we reiterate that we like the staff's centralized assessment of governance vulnerabilities across the membership and its systematic nature. This approach can also be instrumental to addressing perceptions of a lack of evenhandedness, and we also appreciate that a fresh round of membership-wide assessments will soon be conducted this year.

Like others, we strongly appreciated the governance diagnostic assessments that provide in-depth analysis of governance weaknesses. We would encourage staff to conduct outreach to undertake more of these exercises, conditional on countries' requests for CD. We note in the background paper that in 2023, there is an increase in these diagnostic assessments and, therefore, we are pleased to note that CD is already ongoing.

Third, we emphasize the importance of building sound institutions among the six core governance functions, starting from the area closer to the Fund's expertise—fiscal, but not only debt—to ensure better management of resources and provide the context for private-sector development.

We acknowledge that creating a strong institution is a process and the Fund's CD is crucial, particularly in vulnerable countries that have capacity constraints. It is also important to track the evolution of these institutions over time. Therefore, we appreciate the comments made by staff today about the periodic assessment that staff plans to make.

Also, we invite staff to leverage the opportunities offered by digitalization and innovative tools in the area of corruption, also to measure effectiveness, and highlight that the availability of economic and financial statistics and follow up with statistical institutions are important to ensure sound policymaking and contribute to standards of transparency and accountability.

Lastly, we also support the broadening of the analysis on transnational aspects of corruption.

Mr. Mozhin:

I have issued a written statement where I was very critical of both the formulation and implementation of the policy on governance and anticorruption. I must say that my criticism has not changed at all since 2018 when this policy was discussed, formulated, and approved. How can one discuss corruption issues when leaving the analysis of the supply side of corruption completely out of the picture? How can one discuss anticorruption without even mentioning such key topics as organized crime and corporate lobbyism? I am not an expert in organized crime. I believe nobody is, but experts are saying that organized crime can only flourish when they are able to corrupt local authorities and the police and put them under their firm control. Corporate lobbyism is all about misspending budgetary funds and wasteful use of budgetary resources, so what can be more macrocritical than that?

The current formulation is deficient, and implementation is even more so because, under the current formulation, implementation is very open to abuse, to bias, and even to dishonest practices.

This policy is also an example of the ideological bias of this institution. As usual, public sector is all bad. Private sector is all good, the same song we hear everywhere in each and every Fund policy.

I vote against the completion of this review, but I would want to underline that I am not opposed to the Fund's engagement in governance and anticorruption issues. I am very strongly in favor. It is simply, I believe, that this has to be done very differently.

Finally, I have a question to staff. I wonder if they could expand a bit on what they call the political economy analysis. What is really meant by this concept?

Ms. Lim:

We support the Fund's engagement on governance and welcome staff's proposal to further strengthen implementation of the 2018 Framework. I have two points to add to our gray statement. First, on policy traction, we encourage staff to deepen engagement with the authorities for a more structured assessment, resulting in sound and realistic policy advice on governance reforms. Further improving candor in discussions with the authorities, understanding nuances on the political economy, and identifying capacity constraints will lead to better Fund policy advice and ownership on the part of the authorities and can also speak to the perception of unevenness raised by some colleagues.

Second, on effectiveness and measuring progress, we echo the observation in the joint gray statement by Mr. Buissé and other Directors that there lacks a clear link between IMF engagement and strengthening of governance frameworks. We support the proposals to maximize the use of qualitative information to reduce gaps in coverage across state functions and to establish a database to closely track governance issues, policy advice, and progress of implementation. However, we ask staff to be mindful that this database is not used for peer reviews and each country would be unique in their needs and approaches.

Ms. Vumendlini:

We issued a supportive gray statement with Mr. N'Sonde and would like to raise the following points for emphasis, as many of the views have been shared by some Directors today.

First, we share the view that CD is an important mechanism for strengthening governance across the membership to fill the data gaps, sustain country ownership, and overcome the voluntary nature of supply-side coverage of corruption. We agree that in terms of modalities of engagement, topical technical assistance and training is overall more effective, and particularly for LICs, it is better than program conditionality.

Second, we welcome staff's suggestion on how to strengthen the implementation of the 2018 Framework. We believe that establishing mechanisms to improve monitoring of the implementation of the governance-related Article IV consultation recommendations would help to

support consistency and evenhandedness. In that regard, like other Directors, we find a database that tracks this recommendation to be a plausible solution.

Third, we see value in enhanced collaboration with the World Bank and other international organizations. Not only will this allow the Fund to operate in its area of core expertise, but it will ease the strain on resources. Further, like other Directors, we view effective collaboration on governance and corruption issues as important to enhance the Fund's capabilities to establish a clearer picture of the country's vulnerabilities, to develop consistent policy recommendations, and avoid duplication of work or diverging advice.

Lastly, we have called for an interim update in two to three years' time to allow for any needed midstream course correction, amongst other things.

Mr. El Qorchi:

We issued a comprehensive gray statement to support the proposals to strengthen the 2018 implementation framework in line with its objectives, and I would like to provide a few remarks for emphasis.

We welcome staff's finding on the review of implementation of the 2018 Framework for enhanced Fund engagement of the 2018 Governance Framework, particularly by making the Fund's engagement more systematic, candid, effective, and evenhanded. In this regard, it might be useful for the IEO to take a look at the status of evenhandedness within the Fund's policies and practices, as this theme has become recurrent in the discussion of this Board.

We take positively the increased focus geared towards governance and governance vulnerabilities within bilateral surveillance and Fund-supported programs. We also see merit in the voluntary assessment of transnational aspects of corruption in the context of Article IV Consultations.

We concur with staff's proposal to conduct the next review in five years. We are also inclined to consider that an interim update in two to three years would be beneficial. We welcome the tailored Fund CD work, which has been instrumental in assisting countries to address governance vulnerabilities, especially in fiscal governance, central bank governance, financial sector oversight, and AML/CFT.

Finally, we support staff's proposal on the need to implement practical measures to enhance collaborations with other international organizations and civil society.

Ms. Bustillo:

We appreciate the Chair's initial comments, highlighting the importance of good governance translating into a higher standard of living. We are encouraged by the findings of the review, and we welcome the Fund's continued efforts to improve engagement in line with the objectives of the 2018 Framework. We broadly agree with the thrust of the proposals and would like to make the following three points for emphasis.

We welcome the relaunching of updated governance assessments for the whole membership. We believe that this fresh round will allow better understanding of challenges in state functions and guide Fund efforts to further improve engagement. Fund analysis and advice should remain focused on the most pressing macrocritical vulnerabilities and the Fund's area of expertise. Where the Fund does not have a comparative advantage, continued efforts should be made to leverage the expertise of international organizations, including the World Bank, the United Nations, and regional development institutions, as this will definitely improve effective engagement. Moreover, like Mr. Guerra, we underscore that engagement should not crowd out discussions on the core economic policy agenda.

Second, sound engagement and constructive dialogue with country authorities, mindful of political and institutional realities, remains essential to adequately address complex governance issues, as was mentioned earlier by Mr. Peter and others. In addition, we believe that careful consideration and prioritization of reforms will contribute to enhancing country ownership.

Third, as noted by the previous speakers and in the gray statements, continued efforts are needed to improve evenhandedness, which is critical to the Fund's reputation as a trusted advisor. We appreciate earlier comments by the Chair and by Mr. Mauro. We encourage staff to engage more countries to volunteer for assessment of their transnational aspects of corruption. We commend the countries that have volunteered for assessments so far.

Finally, we agree with an interim update in two to three years. We believe that this update would take stock of the experience with a new round of assessments and help with prioritization of the measures proposed by the review.

Mr. Mohieldin:

We issued a joint gray statement with Mr. BinZarah and I will emphasize a point we raised. While monitoring the progress and the implementation of the 2018 Governance Framework, we noticed, as per staff, that it is well underway. The results from staff's assessment indicate the framework's main objectives have been implemented and also point to some challenges that persist, including those identified in the 2020 interim update. I would like to highlight three things.

One is the point raised earlier and reflected in our joint gray statement and highlighted earlier by Mr. Bevilaqua and others. We agree that evenhandedness in the implementation of the Governance Framework should be strengthened to ensure sustained engagement and to build further ownership efforts by country authorities. It is critical that this should be expanded to contribute to the value of direct engagement by the authorities when they realize there are proven benefits from the Fund's engagement.

Related to that, I was surprised not to see a strong reference to Sustainable Development Goal 16 by the United Nations (UN). They are monitoring important indicators. In a recent report based on their own data initiative published and discussed in December, their report concludes that progress in governance is arguably very weak. In all seven targets that the report assessed—areas like promoting the rule of law at the national and international levels and ensuring equal access to justice for all—there are a great deal of issues to be further addressed, such as significantly reducing illicit financial and arms flows, strengthening the recovery and return of stolen assets, and combatting all forms of organized crime. The report goes on in areas of interest to the Fund, and it could be useful to coordinate and time the surveys, because while authorities like to participate in surveys and respond to questionnaires positively, sometimes there is an issue of fatigue, given the demanding requirements on the time of qualified staff to respond to questionnaires.

My final point is on the sensitivities related to the special case of the fragile and post-conflict states. To strengthen the Fund's engagement with member countries during critical times, we appreciate more coverage of FCS, and to my knowledge, the collection sample only includes eight FCS countries. I wonder if staff has plans to add more FCS and in what way they are strengthening the partnership in this area.

The staff representative from the Strategy, Policy, and Review Department (Mr. Ghosh):

Let me thank Directors for all the feedback they have given to us during this process. I would start with one issue and my colleague will pick up on it, which is evenhandedness. Of course, evenhandedness is a core principle of the Fund and perceptions of evenhandedness are crucial for effective engagement on governance issues, which are often politically sensitive. Staff very much recognizes that, and we strive to be evenhanded in our engagement on governance issues, as in other Fund policies.

But we also have to recognize that it is very difficult to establish evenhandedness in an area such as governance where no two countries are in exactly the same position, nor is it necessarily easy to compare the situations. When it comes to macro variables, we can measure the fiscal deficit in percent of GDP and compare them. When it comes to governance vulnerabilities, it is a much more nuanced assessment that has to be made.

The focus of the framework and the Fund's engagement is to help identify those state functions where there are governance vulnerabilities that make that state function vulnerable to corruption. We focus on the six state functions most closely related to economic policymaking.

In the review, we tried to take a look systemically at whether the engagement has been evenhanded. One thing to mention is that the inter-departmental centralized assessment process is done for the entire membership and following this review, we will do a fresh round for the entire membership.

In the context of lending, the conditionality guidelines require that conditionality be limited to those measures critical to the success of the authorities' program that the Fund is supporting, but that conditionality covers all those measures. In the paper, we show that there is, in fact, a very close alignment between the use of governance-related conditionality and the specific program goals as recorded in the modern database.

In the surveillance context under the Integrated Surveillance Decision, the Article IV consultation in addition to the usual policies, such as exchange rate, monetary, fiscal, and financial sector policies, should also discuss policies where they are assessed to significantly influence present or prospective balance of payments or domestic stability.

I would note that we have a formal mechanism for the authorities or Executive Directors to raise concerns about evenhandedness in surveillance and no such complaints have been raised under the 2017 mechanism.

Finally, one or two Directors remarked that a large proportion of the authorities underreported their diagnostic about whether we have been evenhanded in our engagement. In some sense that is not very surprising because the authorities are obviously familiar with their own situation but not necessarily of other countries. In terms of perceptions, there is an improvement in how the authorities perceive evenhandedness of our engagement. We did a survey in 2017. We do a survey in the current review, and that shows a marked improvement in that perception. In sum, I would say we still have some ways to go, but I think it would be fair to say that the movement in terms of perceptions of evenhandedness has been in the correct direction.

Mr. Subramanian:

In the initial observations that were made by Mr. Mauro and the observations that I just heard from Mr. Ghosh, both of them referred to the fact that countries are not identical. That is a given. All I would request humbly is that that prism to think can potentially be a carte blanche for rationalizing any differences that are then perceived as lack of evenhandedness. I urge staff to think harder about this aspect. These are things that several Directors have raised. In general, this prism wherein only if two countries are identical can there be a comparison to then opine about evenhandedness or lack of it is a very worrying angle from which to look at this perception of lack of evenhandedness.

Just to give one example, it could be instances of corruption or otherwise, and the way in which they interpret it as systemic or systematic in a particular country but sporadic in another is equally important. That does not require the countries to be identical for an apples-to-apples comparison to be made. I heard this with significant concern, and that is why I thought I would bring this and humbly request staff to not actually use this angle because if I were to use a word, that would be a cop out.

Mr. Bevilaqua:

I would like to support the point just made by Mr. Subramanian. I was a bit puzzled by the responses. It looks like we have two largely different views by many of the Directors that are reporting the perception of a lack of

evenhandedness and the responses that we got from staff is that things are OK, they do not believe that there is a problem.

Mr. N'Sonde:

We also support Mr. Subramanian's remark.

Mr. Palotai:

I want to support the remark by Mr. Subramanian. Thank you.

Mr. Mozhin:

I also support the remarks by Mr. Subramanian. One question I have with regard to evenhandedness is, are there any differences in terms of policy applied to program and non-program countries? Because that is perhaps one big opportunity for the lack of evenhandedness when program countries are investigated much more strictly while non-program countries are not. Is there any formulated difference between addressing program and non-program countries in the context of governance policy?

Ms. Vumendlini:

We too would like to support Mr. Subramanian. In our last engagement, the informal discussion, we asked the same questions as Mr. Mozhin. To say that evenhandedness means one must be consistent—what is consistent, whether you are a program country or not or a G20 country or not?

Mr. El Qorchi:

I also want to support what Mr. Subramanian and Mr. Bevilaqua said and reiterate the importance of an independent view as staff have a hesitation about the issue of evenhandedness. The IEO should look at it as an independent office.

The Chair:

I will turn back to staff, but before I do that, clearly there is truth in the fact that countries are different, so I would take it that we agree that countries are different. Therefore, how we engage with countries is going to have some differences, but that is not the point you are framing for us. The point you are

framing is that it is not about the countries. It is about our work, whether, when we work with countries, we apply the same measures. In other words, we use a meter everywhere, not feet versus meters versus liters versus kilograms; that the measurement that staff applies is objective and the analysis is evenhanded. This is how I heard your comments, and I do not think that staff would have a disagreement with that point.

I do not think that the issue Mr. El Qorchi raised in terms of having the IEO involved is only with regard to the discussion we have today. My understanding of your comment is that there are topics about which there are concerns. We know that evenhandedness is a reality and also a perception. Regardless of whether it is reality or a perception, unless we take it seriously, we take it to heart and we work to make sure that we have everybody's confidence, then it may affect the very fabric on which our work is based. I recognize that. I do not think anybody in this room would object to us working together to make sure that as a collective we are unified with a common understanding of our policies, the application of these policies, the interpretation of the policies, so we can have an institution in which the fabric of the institution, which is mutual respect and trust, is strong.

The Deputy Director of the Fiscal Affairs Department (Mr. Mauro):

Let me try a couple of observations on evenhandedness. Just to repeat, similarly-situated countries should be treated similarly. That is what guides our work. The way I interpreted Mr. Subramanian's comment was exactly that. Even though countries are not identical, they can be similar, and we should treat similarly-situated countries in a similar manner. If two countries are being looked at from the perspective of fiscal transparency, we look at the same criteria for fiscal transparency, so on and so forth.

I will add that, we have tried to be as transparent as possible. In the annexes, you have all the gory details, in the surveys we provided to country authorities, to staff, to non-governmental organizations, et cetera. That is something that we can all look at.

The last point I will make is that when we looked at whether we are candid, for example, in surveillance, we checked whether we are equally candid in small countries, big countries, countries that have had programs or not. Our finding was that we are candid appropriately controlling for the situation of these countries. That is as much as I am going to be able to say on this. It is all here. We are being transparent.

The staff representative from the Strategy, Policy, and Review Department (Mr. Ghosh):

Just on this topic, I want to clarify one point by Mr. Mozhin and others. We do not treat surveillance countries and program countries differently. However, in the program context, it is the conditionality guidelines that apply. In the surveillance context, it is the Integrated Surveillance Decision that applies.

The Chair:

My experience here has been that staff is pretty good at applying these same standards to all countries, and there have been some recent experiences that really demonstrated that staff is not differentiating countries by size or strength but defining recommendations as objectively as possible. I am standing here for staff because I have been observing the rigor with which staff does its work.

The staff representative from the Legal Department (Mr. Mathias):

I will continue with some other questions. There was a question if the more systematic approach to collaboration with CSOs would facilitate greater collaboration. There were particularly questions there on climate.

For climate, as for governance, staff is guided by the 2015 guidelines of engagement with CSOs, and the consultations with CSOs during this governance review process were also aimed at establishing a more frequent exchange and collaboration with them. We fully agree that a more systematic engagement with CSOs will be beneficial to the implementation of the policy. The policy paper provides specific proposals to strengthen collaboration. First, to engage more frequently with civil society at headquarters and in the field by identifying governance and corruption-focused events, by exploiting synergies with IMF meetings, like the Spring and Annual Meetings, and by using opportunities afforded by country missions.

Second, to expand the base of CSOs engaged by identifying local counterparts and internal counterparts and conducting outreach to explore how CSOs can complement and amplify the effectiveness of the Fund's work on governance and corruption.

There was also a question on the relationship between this review and the review of the AML/CFT strategy. The discussion of the review of the

AML/CFT strategy, which is envisaged for Board discussion in November 2023, will report on the progress in implementing the Fund's AML/CFT and broader financial integration issues since 2018. The review will focus on AML/CFT issues and the coverage across different workstreams. The review will also discuss synergies between AML/CFT and the governance policy, among other policies, in the areas of fintech, in the areas of correspondent banking relationships.

Finally, the review will discuss the effectiveness of the engagement with the IMF's membership.

There were questions and comments on organized crime and lobbying. The Fund's governance policy does not exclude discussing lobbying where this issue is macrocritical for any particular country. Box 8 of the policy review paper specifically notes that some behaviors that are qualified as lobbying in some jurisdictions would fit within the definition of acts of corruption that is criminalized, consistent with the UN convention against corruption, like bribery or trading influence. Where macrocritical, the issue would be discussed in bilateral surveillance.

The Fund's governance policy does not similarly exclude discussing organized crime where relevant. The 2018 Framework acknowledges that, at the domestic level, organized crime can be a major source of bribery. The nexus between organized crime and corruption is exposed in Box 5 of the 2018 policy paper. In this context, Box 9 of this policy review paper recognizes that the dynamics of corruption can be tenacious and complex, including in the presence of powerful oligarchs of organized criminal organizations.

To reflect to another set of questions, this is actually among the reasons why staff has been increasingly implementing a tailored and sequenced approach, mindful of political economy realities, including in the context of governance diagnostics and country engagement strategy for FCS. That is part of staff's humility of seeking to understand the country context and advances given how critical that understanding is. Political economy analysis examines the interactions between economic and political systems. The Fund's evolving approach to political economy analysis is viewed as essential to understanding the dynamics and mechanisms of corruption and the relationship between corruption and governance. The Fund's engagement on political economy makes extensive use of work done by the World Bank and others and can be a critical input for understanding the incentives of key parties and tailoring reform to local conditions and resources.

There was also a question on FCS, and the FCS strategy identifies poor governance and corruption as a potential driver of fragility and institutional weakness. Where governance and corruption vulnerabilities are identified as macrocritical, country teams should discuss ways to address them in country engagement strategies, for example, by building on governance diagnostics, exploring the application of corruption filters, and making greater use of technology to support improvement in governance and public-sector effectiveness.

Mr. Mohieldin:

We appreciate the answers to questions. There was one related to partnerships and coordination that could be of value going forward, especially with the UN system. I know there are more surveys coming, given that many are panicking about the progress of the 2030 agenda, including the areas related to SDG 16. We see the value of possible collaboration there, especially with the similarities of the findings, and to avoid as much as possible what many surveys could cause in terms of cost and fatigue to the respondents.

The staff representative from the Legal Department (Mr. Mathias):

We do collaborate with other UN bodies on these issues, with the UN Office on Drugs and Crime, but also in relation to SDGs, staff regularly provides updates on these issues of illicit financial flows to the relevant task force. As indicated in the policy papers, we are looking forward to increasing synergies with the different organizations.

The Chair:

As I mentioned in commenting on what we heard from Mr. Jennings, Mr. Mohieldin, we recognize that only by working with those who have skills in this area in a systematic manner, can we achieve a good coverage of these issues, so thank you for bringing up the UN system.

The Chair adjourned the discussion.

ANNEX

- Gray Statements
- Staff's Responses to Executive Directors' Technical Questions
- Constituency Codes

**Statement by Mr. Bevilaqua, Mr. Velloso, and Mr. Coronel on Review of the
Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance
Executive Board Meeting 23/26
April 4, 2023**

We thank staff for the set of papers and welcome the 2018 Governance Framework (GF) implementation review. Based on the experience gathered from the Fund's engagement with the countries in our constituency, which vary in size, economic structure, income classification, and geographic location, we have the following comments.

We welcome staff's efforts to obtain feedback from a wide group of stakeholders on the 2018 GF implementation. This review is a great opportunity to assess whether implementation has so far been consistent with the goals of the 2018 GF and whether the framework may need to be finetuned and strengthened. In this regard, it is not only important that the policies underpinning the 2018 GF are well designed, but also that staff engagement in this highly sensitive area is carried out in a respectful and evenhanded manner to foster ownership. The occasional surveys deployed by staff on governance are helpful, but as evidenced by a still low response rate, particularly among low- and middle- income countries, we see considerable room for improvement in this area, both in terms of the number and quality of surveys as well as other forms of seeking timely feedback.

Evenhandedness in the implementation of the 2018 GF should be strengthened. We recognize that the Fund seems to be more systematic in assessing the nature and severity of governance weaknesses and corruption vulnerabilities. In addition, the Fund has been providing broadly adequate recommendations in this area, including in surveillance, financial support operations, and capacity development activities. At the same time, we see considerable room for improvement in applying the 2018 GF in a more evenhanded manner. The staff report states that a "majority of national authorities [among those who responded] agree – or are agnostic – that Fund engagement on governance issues is evenhanded." However, we must consider that uneven treatment often affects minority groups. There is a need, in our view, for improvements in this area. The Fund is still perceived to be enforcing the 2018 GF mostly in our smaller and weaker members. Further, management and staff must do a better and more forceful job at implementing the 2018 GF in member countries that are known for being sources of bribes and safe havens for stashing away corruption proceeds.

While our country authorities generally welcome staff's inputs on governance and transparency, they have noted that the scope of central banks in these matters may be limited and, at times, inconsistent with their mandate and independence. Some country authorities have also noted that staff's advice on governance issues is sometimes directed towards independent agencies and branches of government. These independent institutions are making progress towards improving their governance and anticorruption frameworks on their own or as part of other international fora specifically purposed to discuss governance issues, provide advice, and follow up on them. We therefore see room for the Fund to be more selective and focused on clearly established macro-critical issues that are in line with our mandate and core expertise.

Finally, staff country teams' capacity on governance issues should be strengthened.

Our country authorities very much welcome the dedication and professionalism of staff.

This recognition has been earned over decades of hard and high-quality work in the Fund's traditional core areas. However, staff does not seem to be quite there yet when it comes to the highly sensitive area of governance and anticorruption. In this regard, we stress the importance of providing proper training to staff and for staff to work closely with institutions that have experience in this area.

**Statement by Mr. Subramanian and Mr. Hansda on Review of the Implementation of the
2018 Framework for Enhanced Fund Engagement on Governance
Executive Board Meeting 23/26
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://mpira.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.

Statement by Mr. Herrera and Ms. Bustillo on Review of the Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance
Executive Board Meeting 23/26
April 4, 2023

We thank staff for the comprehensive report, annexes, and background papers, as well as the outreach to our Office. We welcome the Review of the Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance and reiterate our support to the objectives of the Framework. The in-depth stocktaking shows the Framework has promoted more systematic, candid, effective, and evenhanded Fund engagement with member countries on governance vulnerabilities, including corruption. We broadly agree with the thrust of the proposals identifying opportunities for strengthening implementation in line with the objectives of the 2018 Framework and would like to offer the following comments.

We welcome the systematic assessment of governance weaknesses and corruption vulnerabilities across all Fund members. The centralized process, involving all area and various functional departments, remains key to assessing the nature and severity of governance weaknesses and corruption vulnerabilities across all state functions. We welcome the relaunching of updated governance assessments for the whole membership as it will allow a better understanding of challenges and guide Fund efforts to better assist member countries in addressing vulnerabilities.

Analysis and advice should remain focused on the most pressing macro critical vulnerabilities and in the Fund's areas of expertise. Moreover, where the Fund does not have a comparative advantage, continued efforts at leveraging the expertise of international organizations, including the World Bank, the United Nations, and regional development are needed to improve the adequacy of policy advice and recommendations.

On evenhandedness. Staff states that a majority of national authorities consider Fund engagement to be evenhanded, though with uneven recommendations on governance and treatment across the membership. To this end, we call on staff for continued efforts at improving evenhandedness in surveillance, financial support, and capacity development.

Securing country ownership remains key to the effectiveness of Fund engagement. Staff identifies lack of ownership and vested interests as key obstacles to implementing the Framework. Given the inherent complexity of these issues, prioritizing reforms and increased efforts at fostering country-owned reforms are needed. This will require sound engagement and constructive dialogue with country authorities mindful of political realities.

We welcome the Fund's capacity building efforts. As the survey notes, capacity development has been delivered in many areas to help strengthen governance across the six state functions. It is encouraging that authorities acknowledge CD to be timely and useful. We encourage staff to continue strengthening this aspect of the Framework as it is important in enhancing traction on governance and corruption issues. *We would appreciate staff's comments on proposals to expand CD support through enhanced field presence.*

Finally, we support the idea of an interim update in two to three years.

Statement by Ms. Koh and Ms. Khademi on Review of the Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance
Executive Board Meeting 23/26
April 4, 2023

We thank staff for the informative set of reports and strongly support the Fund's enhanced engagement on governance issues considering their macro-criticality as well as their relevance for the effective use of Fund resources and the Fund's reputation. We welcome that implementing the 2018 framework has contributed to making the Fund's engagement more candid, systematic, effective, and even-handed. Noting the scope for further improvements in all key areas, we broadly agree with staff's proposed measures to strengthen the framework, including an interim update in 2-3 years. We also underscore the importance of prudent prioritization and phasing of the proposals, given the competing pressures for resources. Further, as corruption constitutes a global challenge, we encourage more Fund members to undergo an assessment of their frameworks to combat transnational aspects of corruption.

We welcome the increased focus on governance vulnerabilities within Article IV consultations and Fund-supported programs. We underscore the nexus between favourable economic outcomes regarding areas like development, growth or social cohesion and low levels of corruption. Further, improvements in governance such as stronger anti-corruption frameworks and fiscal transparency are generally macro-critical for member countries. Thus, we reconfirm our support for stronger efforts towards including measures to improve governance and (fiscal) transparency, tailored to country-specific needs, when considering requests for Fund resources. Moreover, we reiterate the importance of timely and thorough safeguards assessments, including our call for a broader applicability of Fiscal Safeguards Reviews when IMF funds are used for budget support.

A consistent implementation of reforms addressing governance vulnerabilities is paramount. Thus, we agree with staff that implementation risks, inter alia due to a lack of political ownership and capacity constraints, merit greater attention. Noting the rather weak compliance rate of governance-related structural benchmarks in Fund-supported programs, we highlight the importance of credible and front-loaded conditionality to effectively address corruption issues, where indicated, also with a view to support the effective use of Fund resources and the reputation of the Fund. Further, we are supportive of establishing a database to track governance-related Article IV recommendations and monitor their implementation to improve consistency and follow-up work. In addition, we see merit in staff's proposal to make use of political economy work, tailoring policy advice to the political economy's characteristics to help secure the authorities' ownership, which however should not compromise anti-corruption ambition and progress. We also welcome the Fund's work on governance issues in capacity development (CD). However, staff's proposal to enhance field presence of experts in relevant areas should be mindful of the associated costs. Moreover, a

monitoring of the implementation of CD advice in the following Article IV consultation or requests for Fund resources appears crucial.

On Covid-19 emergency financing, we welcome that staff recognized the importance of governance commitments to limit the scope for corruption, but the implementation of the associated measures remains below expectations. As discussed during the informal session we are concerned about the modest progress on beneficial ownership transparency in procurement and audits as well as their publication. We strongly encourage the respective authorities to implement their outstanding commitments. In this regard, we positively note staff's proposal to complete a stocktaking of the implementation of pandemic-era emergency financing governance commitments. In particular, we strongly encourage staff to follow-up on findings from audits. To make a difference, publication of audit reports must be followed by addressing the identified governance gaps and weaknesses. We see significant scope for improvement in this area, incl. for staff by integrating follow-up measures in successor programs. *Staff comments would be welcome.*

We agree with staff on the importance of independent Courts of Audit to strengthen accountability and transparency. As staff rightly argues, independent audits – inter alia from supreme audit institutions (SAIs) – have proven particularly useful in the case Covid-19 emergency financing, as unexpected, short-term spending needs are likely to be particularly prone to corruption risks. We see merit in staff's proposal to build upon SAIs, given “[...] *their presence in all member countries, the existence of international principles on their independence and authority, and their mandate covering all government spending [...]*”. For instance, we would see merit in considering to leverage SAIs' for audits of climate-related spending, i.a. the use of RST-funds given the longer-term nature of this financial assistance by the Fund. *Staff comments would be welcome.* At the same time, we also note that some SAIs exhibit legal mandate weaknesses and recall that a recent IMF staff publication on Good Governance in Sub-Saharan Africa sees greater scope for conditionality aimed at strengthening institutional frameworks for SAIs.¹ *Staff comments would be welcome.*

We welcome the increased exchange of views and information with international organizations, civil society organizations as well as between the Fund's departments. Effective collaboration enhances the Fund's capabilities to establish a clear picture of a country's vulnerabilities, to develop consistent policy recommendations and avoid duplication of work or diverging advice. In this regard, we support staff's plan to continue strengthening collaboration on governance and corruption issues.

¹ “While the vast majority of [structural] benchmarks aim to ensure that an audit is conducted, a modest number of SBs focus on the institutional framework. This includes benchmarks to strengthen the SAI statutory framework (Capo Verde), to ensure publication of the SAI report (Burundi, Uganda), or to ensure that recommendations made in the SAI's audit reports are implemented (Sierra Leone). These SBs seek to directly address some of the constraints identified in this paragraph and thus strengthen the domestic system of accountability.” (“The Role of Supreme Audit Institutions in Addressing Corruption, Including in Emergency Settings” in Newiak, M. M. (2022). Good Governance in Sub-Saharan Africa: Opportunities and Lessons. International Monetary Fund.)

We see merit in staff's proposal for further integrating the Fund's engagement of governance with other priorities, such as fragile and conflict-affected states, climate change, and digitalization. Improving governance and addressing corruption vulnerabilities would help increase the effectiveness of the design and implementation of associated policy measures. In this regard, we are looking forward to the forthcoming paper on the potential benefits and risks of the digital transformation in relation to corruption. On fragile and conflict-affected states, we welcome that the recently published Staff Guidance Note places a strong emphasis on addressing corruption challenges and promoting good governance in terms of policy advice as well as support on capacity development, as these weaknesses are key drivers of fragility. We hope that this will translate into candid discussions, effective support, and ultimately tangible improvements going forward.

**Statement by Ms. Lim, Ms. Duenas, Mr. Azlan Ariff, and Ms. Xaiyavong on Review of
the Implementation of the 2018 Framework for Enhanced Fund Engagement on
Governance
Executive Board Meeting 23/26
April 4, 2023**

We welcome staff's findings on the Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance (2018 Framework) and support the proposals to strengthen implementation of the 2018 Framework in line with its objectives. While the next review will be conducted in five years' time, we see merit in an interim review at the two- to three-year mark for stocktaking purposes and possible improvements in the conduct of the review. We encourage to continue the practice of conducting surveys of country teams, country authorities and CSOs as part of the reviews, and for staff to find ways to further improve the response rates by country authorities.

We positively note that the 2018 Framework enhanced Fund engagement on governance in accordance with its intended goals — systematic, candid, effective, and evenhanded.

- On systematic engagement, we find value in the assessments of corruption and governance vulnerabilities, which serve as benchmark for departmental collaboration and help sharpen staff's advice in this area during Article IV consultation or program review. Following the initial round of assessments in 2018-19, we welcome the proposal to conduct a fresh round of membership-wide assessment which can provide a more systematic update on and facilitate tracking of changes in the quality of governance and corruption vulnerabilities over time.
- On candid engagement, we welcome the increased candor in discussing and reporting governance shortfalls in program and staff reports. *We note the finding that no discussion linking vulnerabilities to corruption was held about exchange restrictions, import licensing, trade facilitation or public engagement in rule making (paragraph 10). Could staff elaborate on the reasons behind this?*
- On effective engagement, we encourage country teams to redouble their efforts in holding substantive discussions on vulnerabilities related to central bank operations, market regulation, and the rule of law, and apply, as appropriate, program conditionality on governance-related vulnerabilities in the areas of financial sector oversight and AML/CFT. We note low implementation rate of some recommendations to address governance issues and encourage staff to explore ways to increase policy traction by sharing impact assessment of governance-related measures, among others.
- On evenhanded engagement, we note that there is no evidence of systematic biases in the treatment of members. That said and given its importance in upkeeping the reputation of the Fund as trusted advisor, we strongly suggest for staff to find

alternative and better measures of evenhandedness. We also welcome staff's initiative to conduct voluntary assessment on transnational corruption and consider further promoting this service for higher member take-up.

We support staff's proposal to enhance the Fund's interactions and collaboration with other IOs and CSOs, to augment growing Fund expertise in the area and take advantage of synergies. Nevertheless, expanding the Fund's network of partners should be done strategically, bearing in mind that a proliferation of partners could also increase coordination efforts and possibly delay the Fund's priorities in the delivery of capacity development to the membership. This calls for a considered approach in determining the appropriate number of CSO partners and designing selection criteria to ensure that the Fund's CD priorities are well-aligned with the potential partners.

Joint Statement by Mr. Buissé, Mr. Giammusso, Mr. Jennings, Mr. Mizuguchi, Mr. Nicholl, Ms. Riach, Mr. Vasilias, 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
Executive Board Meeting 23/26
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.

**Statement by Ms. Shortino and Ms. Medearis on Review of the Implementation of the
2018 Framework for Enhanced Fund Engagement on Governance
Executive Board Meeting 23/26
April 4, 2023**

We thank staff for this report. IMF engagement on governance and anti-corruption issues remains critical for promoting growth and stability, both of which are core to the Fund's mandate, and is essential for safeguarding Fund resources. The review affirms that governance and corruption issues are macro-critical for many countries and that the Fund should continue to prioritize this area of work, particularly as the Fund has increased lending to fragile states amid growing demand for financing. **We support staff's proposals to strengthen implementation of the 2018 Framework and reiterate the importance of more robust analysis on the effectiveness of the Fund's engagement on governance and anti-corruption.** We welcome the proposals to conduct a fresh round of assessments on corruption and governance vulnerabilities for all members and more systematically track implementation of Article IV recommendations. We urge staff to use this information to establish a framework for more regularly assessing the outcomes and effectiveness of Fund engagement on these issues, ideally by the next review. We also stress the importance of the stocktaking of governance commitments in emergency financing, which should feed into a broader review of Emergency Financing as recommended by the IEO in its recent report on the IMF's Emergency Response to COVID-19. Finally, we welcome the proposal for an interim review in 2–3 years to gauge progress on this work.

We welcome staff's analysis of the implementation of the 2018 Framework across the four elements and note staff's conclusions that implementation was broadly effective; however, for future reviews we urge staff to incorporate more indicators on the quality of staff analysis to supplement text analysis and survey data. We also note some disappointing results with regards to the survey responses on evenhandedness and the compliance with governance-related benchmarks, which stands at just 45 percent (in line with non-governance benchmarks). We encourage staff to delve deeper into the reasons behind these results. We agree that Governance Diagnostics and Country Engagement Strategies will be critical to understanding country contexts and identifying measures that are meaningful. For the interim review, we call on staff to delve deeper into these issues so that the Fund can improve implementation of governance-related conditionality and outcomes across its membership.

We welcome staff's proposal to conduct a fresh round of assessments to identify corruption vulnerabilities across the membership in an evenhanded manner. It will be important to leverage these assessments to better target Fund engagement; *will the outcome of these assessments be shared with the Board and incorporated directly into Article IV staff reports, along with the macro-critical implications of these findings?* This work will serve as a good foundation to track governance-related vulnerabilities over time. We look forward to

further details on the centralized assessment process and the outcome of these assessments at the interim review.

We strongly support staff's plan to implement a database to track Article IV recommendations and implementation, which will also help to strengthen links between Governance Diagnostics (GDs), recommendations/benchmarks, and CD support. We encourage staff to design the database in such a way that facilitates an understanding of the rationale behind shortfalls in implementation of the Fund's governance-related policy advice and report back to the Board on initial findings at the interim review. We also encourage staff to incorporate progress on recommendations from GDs into the database. We agree with staff's proposal to expand the use of GDs and capacity development to inform program design and country engagement strategies.

We welcome the proposal for a stocktaking of governance commitments in pandemic-related emergency financing but encourage staff to go further by developing more specific guidance on the use of governance safeguards in emergency financing based on the outcome of this stocktaking, taking into account the Fund's FCS strategy. We continue to note that the implementation of safeguards under COVID-19 emergency lending has been quite weak, raising reputational risks for the Fund. We urge staff to undertake a full review of the Fund's Emergency Financing, as recommended by the IEO, and call for clearer guidance on how the Fund can assess and mitigate the risks associated with the potential for misuse of IMF resources in emergency programs. We encourage staff to consider the effectiveness of ex ante tools to mitigate risks of the misuse of funds versus ex post tools to improve accountability and transparency.

We urge staff to continue efforts to strengthen collaboration with other IFIs and Civil Society Organizations (CSOs). We appreciate the additional detail provided in the report regarding how staff plan to engage with partners to enhance implementation of governance-related recommendations, including increased engagement with CSOs. We note from the report that staff continue to face some challenges in collaborating effectively with other international organizations; *do staff have proposals for how to address those challenges ahead of the next review?*

Finally, we support staff's call for members to step up to volunteer for coverage of transnational aspects of corruption in Article IV assessments. To date, only 13 countries have volunteered for such assessments, including the United States. We urge broader participation.

Statement by Mr. Guerra, Mr. Betancur Mora, Mr. De Ramon-Laca Clausen, Ms. Lankester Campos, and Mr. Lopez on Review of the Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance
Executive Board Meeting 23/26
April 4, 2023

We thank staff for their reports on the Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance (“the Framework”). Regrettably, this important Review was delayed for long, so we welcome that the Board can finally discuss its main findings and proposals. We concur with staff on the need to further improve and deepen the Framework and support staff’s proposal to conduct the next Review in a 5-year cycle while undertaking an interim update in two years. Broadly, we welcome staff’s proposals, although we would like to offer some general comments on the Review and specific comments on some of them.

General comments

We reiterate our support for the Fund’s engagement on governance and corruption when macrocritical, adapted to country-specific circumstances, and in core areas of the Fund’s mandate and expertise. The Framework should continue to target a systematic, candid, effective, and evenhanded engagement with the membership. In this regard, we welcome the good progress in implementation and the increasing treatment of governance and corruption issues—within the perimeter of the six state functions—in surveillance, financing, and capacity development. We welcome the information on the frequency with which the six state functions have appeared in the data analysis and reiterate the usefulness of the text mining exercise, but we would like to urge staff to find an approach to assessing the traction or effectiveness of the policy advice.

In our view, the Framework would benefit from a stronger top-down perspective. Developing feasible strategies to tackle governance weaknesses and corruption is a complex task. We must ensure that the current centralized process used by staff does not end up in a simple *box-ticking* exercise in which the focus is a long list of governance reforms that, although needed, turn our attention away from a feasible plan of action with meaningful results to improve economic performance. In fact, the impediments to implementing governance and anti-corruption measures enumerated by staff in Box 7 are considered by the literature to be the main underlying drivers of governance vulnerabilities and not just mere obstacles to improving governance. For this reason, we believe that an early and systematic collaboration with expert institutions, especially the World Bank, would be essential to distinguish, at the very first step of the process, the most damaging types of corruption and

governance vulnerabilities for each country. With this assessment, the goal should then be to define and prioritize feasible national-institutional reforms to ensure governance capacities are developed. In an ideal world, only after this main diagnostic is agreed upon would the Framework set a credible action plan to improve the six state functions identified as the closest to the Fund's core expertise.

In applying the current Framework, however, we should build upon the ongoing engagement to ensure reform ownership. In this regard, one of the main challenges is prioritizing reform. Understanding the multiple constraints facing countries to address governance vulnerabilities—such as political economy circumstances, a lack of expertise, and other technical capacity constraints—is critical to designing a feasible and successful strategy. We would like to emphasize the importance of providing both an ex-ante and an ex-post CD for the successful implementation of the Framework. Moreover, effective engagement with the membership should not crowd out discussions on the core economic policy agenda. We have seen how country teams, in their efforts to advance the governance agenda, have had to relegate other important economic policy discussions. Mission teams should be given sufficient flexibility to advance the governance agenda according to specific country circumstances.

On the Review's findings, we agree with staff that the Framework has helped the Fund's engagement to be more candid, systematic, effective, and evenhanded. However, we find that the tone of the Review is somewhat indulgent. The reading of the results should be nuanced due to the limitations of the surveys conducted with key stakeholders, given the small sample size and the low response rate. We would also like to highlight some concerning results in program compliance with governance-related benchmarks and in the authorities' perception of evenhandedness.

We miss in the report a special assessment by country authorities participating in Governance Diagnostics exercises. In our view, this assessment would have been critical to reinforce the Framework's four pillars since these countries have been actively involved in a comprehensive exercise in governance. *Staff's comments are welcome.*

Specific comments

We consider the proposed systematic track record of staff's policy advice quite relevant. The proposed data base, which should be comprehensive to include any relevant structural issue, should feed the process of centralized country-specific assessments. More importantly, it should feed into the design of a well-focused technical assistance strategy, ensuring the Fund's engagement is focused on its core mandate and expertise. **However, we do not see merit in a continuous policy tracking system in Article IV consultations.**

Governance structural reforms are a lengthy and bumpy process, the implementation of which is difficult to assess; moreover, this systematic tracking could become a binding exercise with potential negative signaling effects for investors.

The number of countries undertaking voluntary assessments of transnational aspects of corruption is very low, and the results point to remaining gaps in many countries. We understand the difficulty involved in presenting stronger proposals to encourage countries' participation, although we think this topic requires further refinements in the next Interim Review. *Are participating countries considered systemic in these types of activities? Does staff think that they provide good coverage of ongoing developments on this matter?*

We must analyze how to incentivize Governance Diagnostics, although participation and publication should remain voluntary. These exercises could be very useful to identify prominent institutional vulnerabilities and define feasible and effective national strategies.

Looking forward, staff should leverage the ongoing analytical work on macro-structural issues, governance, and anti-corruption. We agree with staff that there are significant synergies between different Fund workstreams on structural issues, such as the FCS strategy or GovTech/digitalization. Other areas that should be included, given their direct relation to the “key obstacles to implementing the Framework”, are the capacity of governments to provide basic services and infrastructure, revenue mobilization to develop social safety nets and ensure political stability, or regulations to protect and incentivize investments in productive sectors.

**Joint Statement by Mr. Matungulu, Ms. Vumendlini, Ms. Basutli, and Mr. Tall on
Review of the Implementation of the 2018 Framework for Enhanced Fund Engagement
on Governance
Executive Board Meeting 23/26
April 4, 2023**

1. We thank staff for the comprehensive reports on the Review of implementation of the 2018 Framework for Enhanced Fund Engagement on Governance (the “2018 Framework”). Good governance is a critical determinant of economic performance, and the 2018 Framework has been an important milestone in the Fund’s engagement with member countries on macro-critical aspects of corruption and governance vulnerabilities. We broadly agree with staff’s assessment and would like to make the following additional points on ways to further enhance the IMF’s engagement in this key and sensitive area.
2. We concur with Staff that the 2018 Framework remains appropriate given the pertinence of the retained six state functions and focus on the macro criticality of governance practices. We also support the limitation of Fund’s governance agenda to areas within its core expertise. This underscores the need for the IMF to partner with other IFIs, civil society organizations, and bilateral development partners in deploying the institution’s governance interventions in member countries.
3. **On the effectiveness of Fund engagement**, we take positive note of the efforts to produce candid assessments of country governance profiles and include proposed governance reforms in Article IV consultation discussions as well as in UFR program conditionality.
4. **We positively note that governance-related conditionality has increased in the aftermath of the adoption of the 2018 Framework but regret the low compliance rates.** While compliance rates for governance-related structural benchmarks are not significantly different from those for other benchmarks, they are disappointingly low. In that regard, we support the proposed measures, particularly fine-tuning staff guidance on governance safeguards in emergency financing and establishing mechanisms to improve monitoring of the implementation of governance-related Article IV consultations’ recommendations. We would like to emphasize the need to factor in the political economy when designing program conditionality to secure country ownership and traction. We also see merit in having an interim update in two to three years.
5. We agree that fragmented political environments may hamper the authorities’ capacity to implement meaningful and sustainable governance and anti-corruption reforms. This will have to be borne in mind when dealing with certain contexts, including those prevailing in **fragile and conflict-affected states** and in **situations of exceptionally high**

uncertainty. Under such conditions, steps should be taken to ensure early engagement and a constructive dialogue with the authorities, which are essential to building strong ownership and enhancing the chances for effective and successful implementation.

6. **Evenhandedness and uniformity of treatment in the enforcement of the governance framework in surveillance reports should be strictly observed, for the Fund to maintain its credibility in this area and minimize related reputational risks.** We agree that couched and vague references to weaknesses do not serve the purpose, and would welcome evidence of more pointed discussions. Also, we emphasize the importance of candid discussions across income group countries, and across state functions. *Does the limited candor in the report on market regulation relative to other state functions signal worsening vulnerabilities in that regard? Staff comments are welcome.* We also note somewhat surprisingly that for smaller and vulnerable member countries, there appears to be stronger enforcement of governance-related conditionality. It should finally be emphasized that in some cases program progress is hampered by stringent Fund demands and program prior actions, sometimes much beyond the authorities' capacity to deliver.
7. **The pandemic context has amplified the need for enhanced focus and continued vigilance on governance issues.** We have to ensure that the Fund's governance and anti-corruption framework is able to evolve in line with the lessons and recommendations from the recent rollouts of emergency financing. As Fund lending shifts towards multi-year UCT-quality programs, governance issues will likely gain more prominence in program conditionality a welcome development.
8. It is imperative to sustain focus on the **transnational aspects of corruption**, including concealment. In this regard, we commend the countries that have volunteered for assessment. It is disappointing though, that the uptake of the voluntary assessment continues to be slow, especially in addressing the identified vulnerabilities. We encourage staff to engage more countries to volunteer for this important undertaking.
9. **Limited human and institutional capacities contribute to the impediments to better implementation of recommendations.** We agree that increasing technical assistance and training would be important to surmount this challenge. Given the complexity of governance reforms especially in contexts of fragility, capacity development should be given its due priority status, particularly in LICs. We also note staff's efforts to continue delivering assistance to the authorities through governance diagnostic assessments and view this as helpful in providing tailored recommendations to address governance and corruption vulnerabilities. We support exploring innovative ways to facilitate increasing the uptake by the authorities, including deeper engagement with non-governmental stakeholders, such as CSOs.
10. **We welcome the recognition of the positive role of accountability institutions, including Supreme Audit Institutions or Courts of Accounts, in the process of managing emergency spending.** However, to reinforce these institutions and leverage

on their expertise well beyond emergency spending, the Fund should provide them with well targeted capacity building.

11. **Finally, given the extent of financial and human resources needed for strengthened implementation of the Fund's governance framework, careful balance should be sought among the competing demands facing the institution.** Concerted efforts to realize synchronized efficiency gains across the four key objectives of the framework will be needed. In that respect, we support further integrating and exploiting synergies with other Fund priorities, including the Fragile and Conflict States Strategy, climate change, and digitalization.

Joint Statement by Mr. BinZarah, Mr. Mohieldin, Mr. Alhosani, Mr. Saeed, and Ms. Hamzah on Review of the Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance
Executive Board Meeting 23/26
April 4, 2023

We thank staff for the comprehensive set of reports based on a variety of analytical inputs. We welcome the fund's engagement on governance and are pleased by the progress made in achieving milestones since the adoption of the framework. We also find staff's assessment useful, and broadly agree with the thrust of the proposals outlined in the paper. We therefore wish to make the following remarks:

We acknowledge that the underlying principles guiding staff's work and the key objectives behind the 2018 Framework remain appropriate. We support efforts to make the Fund's engagement with member countries more systematic, effective, candid, and evenhanded on governance vulnerabilities, including corruption where it is deemed macro-critical. To realize these objectives, the Fund should continue to focus on its core areas of expertise, leverage on the expertise of other IFIs on areas outside its domain and work closely with the country authorities to promote ownership of the proposed reforms. This would allow for careful consideration of country-specific needs particularly for FCS, political economy, capacity constraints, and proper sequencing of reforms. *Could staff elaborate on the collaboration with the WB and other IFIs on governance issues specifically in the context of FCS?*

We believe that the framework focus on the six state functions remains appropriate. We support the additional focus on transnational aspects of corruption, call for increasing the sample size to allow for more granular analysis, and look forward to other countries to volunteer. In December 2022, the ministers of the Organization of Islamic Cooperation (OIC) member states endorsed the Makkah Al-Mukarramah Convention on anti-corruption law-enforcement cooperation to enhance international and regional cooperation in the fight against cross-border corruption crimes. In the same vein, we welcome the Fund's innovations, including the Anti-Corruption Innovation Challenge and diagnostic tools that will strengthen the adoption of the framework.

It is crucial that the authorities perceive this expanded engagement as a value-adding activity and not as means to discredit their reputation or impede their access to Fund financial assistance. It is, therefore, encouraging to note that a significant number of national authorities, country teams, and CSOs agree that the Fund's engagement on governance has been enhanced since the adoption of the 2018 framework. Notwithstanding this positive development, we notice that only about one-third of members responded to the national authorities' survey, calling for greater participation by members in the future, particularly among developing and low-income countries.

The implementation seems promising, but further improvements are needed. Regarding systematic implementation issues, we note a relatively low coverage of financial sector oversight and the rule of law in Article IV and program conditionalities. *Could staff elaborate on how these issues could be effectively addressed in a timely manner considering the recent developments?* On candid engagement, we are pleased that the frequency of governance-related terms in staff reports has increased in the past two years, and that it correlates with perceived corruption more strongly than in the past. It is important to determine whether it is more appropriate to incorporate governance in an article IV consultation, a Fund program, or both. On effective engagement, we take note that compliance with governance-related benchmarks averages a somewhat disappointing 45 percent. *Staff comments are welcome on how the quality and traction of fund's advice can be strengthened.* Furthermore, we noted a slight decline in the percentage of governance structural benchmarks that were fully met post 2018 Enhanced Framework. On evenhanded engagement, we encourage staff to gauge why a significant segment did not agree or disagree that governance and anticorruption issues are covered evenhandedly across membership. *Staff comments are welcome.* Furthermore, we take note that there is insufficient coverage of Central Bank Governance and corruption issues in advanced economies that should be addressed.

We underscore the importance of integrating targeted and timely Capacity Development (CD) activities in the governance reform agenda to facilitate implementation of the framework. We positively note that many national authorities and country teams, particularly those for Emerging Markets (EMs) and Low-Income Countries (LICs), find CD support helpful. However, there may be some unmet demand or dissatisfaction. *Can staff elaborate on the areas where unmet demand or dissatisfaction were most prominent? Could staff elaborate on how the*

challenges highlighted in staff's assessment related to CD delivery while collaborating with international organizations can be addressed?

We are reassured that the existing governance framework is appropriate for addressing corruption and governance risks arising in future emergencies, considering the lessons learned from the COVID-19 pandemic. While the design of a set of measures that provided a menu of potential safeguards that could be implemented during the COVID-19 pandemic allowed for both agility and evenhandedness, we agree with staff that the inconsistent implementation of the COVID-19 governance safeguards merits further analysis.

Finally, we welcome staff's intention to report resourcing on an annual basis and would ask staff to provide more specific details on financial resources implications based on the final stocktaking planned for early FY24.

Statement by Mr. El Qorchi and Mr. Badsì on Review of the Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance
Executive Board Meeting 23/26
April 4, 2023

We thank staff for the comprehensive set of reports on the review of the implementation of the 2018 Framework for enhanced Fund engagement on governance, aimed at promoting more systematic, effective, candid, and evenhanded engagement with member countries in terms of corruption of macro critical dimensions and governance vulnerabilities that allow room of corruption. This review is critical and timely, as the global economy is still navigating through the scarring of the COVID-19 and other significant shocks, compounded by high uncertainty. We welcome the progress achieved so far under the 2018 Framework and **support the staff proposals on the need to further improve the implementation of the Framework. Improvements should particularly aim at supporting systematic and evenhandedness objectives, achieving candid and substantive discussions, and enhancing the effectiveness of the engagement.**

The newly established approach, geared towards achieving a credible systematic assessment of governance and corruption vulnerabilities through a centralized process is a key accomplishment. We note positively that both stakeholders and Staff have agreed on the fact that the Fund engagement has become more candid as pictured in Box 1, notably on vulnerabilities related to the corruption, the rule of law, and the regulatory framework and governance. We also note with satisfaction that Fund engagement has gained more effectiveness and **support the staff's proposals aimed at closely monitoring the implementation of specific recommendations made in the context of bilateral surveillance.** We recognize that the task ahead remains daunting. Implementing the 2018 Framework is arduous considering the importance of the existing impediments, including the lack of ownership, vested interests, and capacity constraints. We are of the view that staff advice and recommendations should be adequately tailored to country circumstances to enable them to gain traction. *As Fund engagement has become more effective, will Fund staff continue to rely on third-party indicators to assess concepts such as quality of governance?*

We believe that the outcomes achieved following the adoption of the 2018 Framework with regard to conditionality in Fund-supported Programs have been mixed. We welcome Fund CD efforts, which have helped in addressing governance weaknesses, especially in fiscal governance, central bank governance, financial sector oversight, and AML/CFT. However, much still needs to be done in these areas, including responding positively to **the authorities' request for more Fund technical assistance.** To buttress the 2018 Framework and support its effectiveness, it is highly recommended to draw on the experiences of other organizations along with the contribution of the CSO.

Although the Fund's engagement has been assessed as broadly evenhanded by staff, we would have liked to see more enthusiasm by volunteering countries for an assessment of transnational aspects of corruption in the context of Article IV consultation.

Considering the broad scope of risks related to a potential failure to engage on the governance process, ensuring sustained progress towards Fund engagement on governance under the 2018 Framework is paramount. Lastly, we support the Staff's proposed measures aimed at strengthening the implementation of the Framework.

Statement by Mr. Peter and Mr. Gindrat on Review of the Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance
Executive Board Meeting 23/26
April 4, 2023

Fund engagement on governance is critical, and we welcome the progress made so far.

The experience with crisis-related spending during the pandemic demonstrates the importance of a process for systematically assessing governance and corruption vulnerabilities. Identifying and addressing such vulnerabilities is essential for the Fund to ensure the effectiveness of its financing as well as its integrity and reputation. Against this background, we welcome the progress made in implementing the 2018 Framework and take positive note of staff's assessment that engagement on governance and corruption vulnerabilities has become more effective, systematic, and candid. We notably welcome that governance-related program conditionality increased following the adoption of the 2018 Framework.

We agree that implementation needs to be further strengthened. We are supportive of enhancing the systematic approach, specifically by updating the centralized process to maximize the use of qualitative information gathered by staff. We also support proposals to enhance effectiveness, in particular, by strengthening the link between Fund activities, especially governance diagnostics, program conditionality, and CD. In this context, we concur that macro-criticality and core expertise of the Fund should continue to be the guiding principles of Fund engagement on governance.

An effective assessment of the implementation of pandemic-related governance commitments is still needed. The extraordinary scale of, and frequent recourse to, emergency lending presented a big challenge to the Fund's governance efforts, in particular ensuring that emergency financing is used for the intended purpose. We thus look forward to the forthcoming stocktaking of the implementation of emergency financing governance commitments by mid-2023. This stocktaking will also be particularly relevant and timely given the newly introduced Food Shock Window.

Fostering ownership as well as country-led efforts to fight corruption and address governance vulnerabilities remains key. Sound engagement with country authorities helps promote ownership and traction. It is important that mission chiefs and country teams continue to support the authorities through frank, constructive, and tailored dialogue on governance vulnerabilities, prioritizing reforms, and providing specific recommendations. To this end, the ability of staff to motivate recommendations based on country-specific arguments is crucial given the potentially sensitive nature of the issues raised. There should also be consistency in following up on governance-related matters in subsequent Article IV consultations by monitoring progress and achievements in this field. In this context, we see merit in tracking progress on Article IV recommendations in a systematic way through the compilation of a centralized database. We also consider that information from this database should feed into the next interim update on, and review of, the 2018 Framework. In addition, CD in governance-related areas, such as fiscal transparency, public financial management,

and AML/CFT, remains necessary. On CD, we missed a result-based assessment of CD activities to understand the effectiveness and usefulness of the CD provided in the areas related to the covered state functions. *In analogy to the proposed database tracking Art. IV recommendations, we wonder whether the existing CD monitoring tools could be leveraged to provide result-based insights on CD activities in governance-related areas.*

Cooperation with other organizations should be further strengthened. We welcome staff's proposal to strengthen cooperation with the World Bank, particularly in areas where the Fund does not have a comparative advantage. In this vein, we also take positive note that staff has been working closely with the UN, OECD, FATF and the G20, though it provides little information on the collaboration. Also, the report refers to some challenges that staff is facing. *Could staff elaborate on this collaboration and especially on the challenges?* Finally, we underscore the importance of ensuring an effective coordination of CD activities among the involved institutions in the face of sustained CD demand in governance-related areas.

The benefits of the proposals to strengthen the implementation of the 2018 Framework should be weighed against the related costs. Many of the proposals for strengthening implementation, such as closing data gaps and higher update frequency, come with resource implications, both for the Fund as well as for country authorities. Thorough cost-benefit analyses should thus substantiate the respective cases for these proposals.

We see merit in the voluntary assessments of transnational aspects of corruption in the context of Article IV consultations and encourage broader participation. Staff should primarily rely on the relevant FATF and OECD reports when conducting these assessments, not least given the resource constraints mentioned above.

We agree with staff's proposal to conduct the next review in 5 years. We also deem useful an interim update in two to three years. This update should (i) focus on the latest experience with the new round of assessments, (ii) take stock of the implementation of emergency financing governance commitments, and (iii) help prioritize and improve the measures proposed by staff.

Finally, we regret that the Board discussion of this important—but not urgent—topic has been scheduled in the extremely busy period before the Spring Meetings. This issue prevented us from devoting the amount of attention that the importance of the subject would have deserved.

**Statement by Mr. Mozhin on Review of the Implementation of the 2018 Framework for
Enhanced Fund Engagement on Governance
Executive Board Meeting 23/26
April 4, 2023**

We continue to have serious issues with the Fund's policy on governance and anti-corruption on both the formulation and implementation sides.

On the formulation side we continue to object to the very definition of corruption applied by the Fund. This definition is that "*corruption is the abuse of public office for private gain*". We know that this is the definition applied by the United Nations, but it does not make it less erroneous. This is, obviously, a very one-sided definition, which places the whole responsibility for corruption exclusively on the demand side of corruption, on bribe-takers, while completely disregarding the responsibility of the supply-side of corruption, the bribe-givers. In many cases bribery is initiated by rich and powerful oligarchs or organized crime bosses rather than weak and poorly paid civil servants.

It is this erroneous one-sided definition of corruption that may be the reason for completely excluding such important topics from the Fund's governance framework as corporate lobbying and organized crime. There are many country cases where the role of corporate lobbying and organized crime is extremely macro-critical.

On the implementation side, the Fund has never made any efforts even to pretend that its governance framework is applied evenhandedly. There are serious issues on both the surveillance front and on the program front of the Fund's work. On the surveillance front, I have never seen any serious discussion on corruption issues in any Article IV reports on the rich countries, as if corruption simply does not exist in the rich world. And this is at the time when there are serious corruption allegations and even investigations at the most senior decision-making levels in both the European Union and the United States.

On the program front, we have seen the Fund imposing on members structural conditionality in the law enforcement area, which goes far beyond the mandate and competency of the Fund. For example, one of the structural conditions in the current Moldovan program requires "*amending the Criminal Procedure Code to add clear criteria and procedures for the application of plea bargaining and other sentence reduction or mitigation provisions and to prohibit the reduction of the term of imprisonment in corruption cases below the statutory minimum*". I wonder if anybody in the Board can understand anything in this sentence. And, by the way, the plea-bargaining system is highly controversial and open to an abuse by the investigation.

There were even more far-reaching structural conditions in the 2017-2018 Ukrainian program. These conditions effectively implied the establishment of the full foreign control

over the whole law enforcement system of Ukraine. On top of that Ukraine was required to report on the quarterly basis on the number of persons indicted, the number of persons convicted and acquitted on corruption cases, on how many were fined and how many were jailed. All this was required to be reported by the category of civil servants: members of the government, members of parliament, judges, prosecutors, category A civil servants, managers of state-owned enterprises, and others. And, of course, nothing at all on bribe-givers.

Any Fund program is about, at least, partial surrender of sovereignty in economic policy matters. This is increasingly difficult to accept by many members, but, at least, this has always been seen as a part of the rules of the game. Now the Fund requires to surrender sovereignty in law enforcement matters. We should not be surprised that members are becoming more and more reluctant to apply for the Fund's financial assistance, that the notorious stigma has become so strong.

Finally, there is a more general question: How can the Fund dare to lecture its members on governance when its own governance system is so deeply deficient?

**Statement by Mr. Zhang, Mr. Bai, and Mr. Liu on Review of the Implementation of the
2018 Framework for Enhanced Fund Engagement on Governance
Executive Board Meeting 23/26
April 4, 2023**

We thank staff for the comprehensive report and welcome staff's findings that Fund engagement with member countries on governance and corruption has been broadly systematic, candid, effective, and evenhanded. The stocktaking has demonstrated the positive impact that the adoption of the "2018 Framework" has made on the Fund's efforts to promote sound governance. The review has also identified areas for further improvement. We broadly agree with staff's proposal for strengthening the implementation of the "2018 Framework" and would like to offer the following points for emphasis.

First, the issue of evenhandedness remains a concern for us. Despite the statement that much of the analysis suggests, and most stakeholders agree, that the Fund's engagement on governance has been broadly evenhanded, some Directors have observed that the Fund has unproportionately paid more attention to governance issues in low-income and emerging members than in advanced members. Additionally, we have also noted with concern that governance has been cited as the primary reason to delay or block some members' program requests, while programs of some other members with similar governance issues have proceeded with unprecedented speed. We caution that evenhandedness is the key for maintaining member countries' trust in the Fund and crucial for the Fund to deliver its mandate as the core of the global financial safety-net. When handling delicate issues such as governance and corruption, the Fund should be especially cautious and strictly follow the principle of evenhandedness.

Second, we believe that country ownership is crucial to achieving sustained improvements in governance. Governance problems have strong economic implications, yet the causes of governance problems seldom dwell only in the economic realm and more than likely have roots related to political and social factors. Given the complex nature of the governance problem, addressing governance related issues and achieving lasting improvements require a strong commitment from the authorities. Therefore, we echo staff in stressing that building up country ownership will play a critical role to make a tangible impact on the members' governance. It is crucial for the Fund to recognize that governance reforms driven by the authorities' own initiative will have the best chance to succeed.

Third, we encourage the Fund to focus on its main areas of expertise. As stated above, governance issues extend well beyond the economic realm, and the Fund should refrain from carrying out comprehensive analysis, but instead, leverage its intellectual power to focus on areas where it has traditional advantages, such as monetary, fiscal, and financial supervisory policies. In particular, it deserves to point out that as anti-corruption is not the area in which the Fund has strong expertise or clear mandates, the Fund should avoid deep involvement in

anti-corruption related issues and should not set anti-corruption related conditions for its programs.

Last but not the least, we support the Fund to further enhance its collaborations with other international organizations to enhance member countries' governance. Synergy should be established among international organizations to forge joint force to assist members in improving governance in a comprehensive manner. At the same time, each organization should contribute by leveraging its unique strengths and advantages and avoid duplication of efforts. The Fund should ensure its resources are used for its intended purposes.

To conclude, we support the completion of this review and anticipate that the implementation of the “2018 Framework” will be further strengthened at the next stage.

**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
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.**

Review of the Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance

Responses to Technical Questions Posed by Executive Directors in Advance of
EBM/23/26—April 4, 2023

Staff's responses to technical and factual questions are below. Broader policy questions in the areas of the 2018 Framework for Enhanced Engagement on Governance will be addressed in staff's oral intervention at the Board meeting.

Systematic

1. *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.*

The reasons for coverage differences vary across state functions.

The pandemic generally pivoted members' policy priorities and Fund advice towards tackling the pandemic and protecting the vulnerable from its economic fallout and efforts at strengthening governance were focused on those state functions generally most vulnerable to corrupt activities such as fiscal governance or AML/CFT. Regarding market regulation specifically, the review proposes to leverage ongoing analytical work on macro-structural issues to advise country teams on market regulation-related governance weaknesses and policy advice going forward.

As for financial sector oversight, initial identification of governance weaknesses rested mainly on analysis from FSAP assessments. Still, country teams held substantive Article IV discussions of identified governance vulnerabilities and provided policy recommendations, also in non FSAP countries. Likewise, program conditionality addressing governance vulnerabilities in financial sector oversight increased.

Since 2018, stepped-up efforts have been made to identify financial sector governance vulnerabilities, with consideration of additional IMF staff analysis. Examples include Financial Sector Stability Reviews (>20 since 2018), and governance diagnostic assessments (7 out of 10 published reports, including LICs, covered financial sector governance), and governance brainstorming sessions (> 60 since 2018). Also, a significant number of CD missions have been delivered to help strengthen governance and institutional-set-up of supervisory authorities and financial institutions' corporate governance.

2. *Regarding systematic implementation issues, we note a relatively low coverage of financial sector oversight and the rule of law in Article IV and program conditionalities. Could staff elaborate on how these issues could be effectively addressed in a timely manner considering the recent developments?*

Initial identifications of financial sector governance weaknesses rested mainly on FSAP analysis. Since 2018, staff analysis in this regard has been bolstered with systematic consideration of information from Financial Sector Stability Reviews, Governance Diagnostic (GD) Assessments, and governance brainstorming sessions. Also, a significant number of CD missions have been delivered to help strengthen governance and institutional-set-up of supervisory authorities and financial institutions' corporate governance. Country teams held substantive Article IV discussions of identified governance vulnerabilities and provided policy recommendations, also in non-FSAP countries.

Likewise, program conditionality addressing governance vulnerabilities in financial sector oversight increased, while maintaining consistency with the Guidelines on Conditionality, which stipulate that conditions should be included on those measures that are critical to achieving the goals of the member's program.

The policy review paper shows evidence of an increased coverage of rule of law issues after the adoption of the Framework. The new round of the centralized assessments and further leveraging of CD and GD, will enhance this coverage, when relevant. In addition, staff has been strengthening its expertise in rule of law in recent years, which will also contribute to the better coverage.

3. We welcome staff's proposal to conduct a fresh round of assessments to identify corruption vulnerabilities across the membership in an evenhanded manner. It will be important to leverage these assessments to better target Fund engagement; will the outcome of these assessments be shared with the Board and incorporated directly into Article IV staff reports, along with the macro-critical implications of these findings?

The governance framework seeks to facilitate evenhandedness through the centralized process to assess governance vulnerabilities, which applies the same methodology across all members. Likewise, the expectation to cover all key weaknesses within a medium-term surveillance cycle applies to all members.

Within the 2018 Framework, effective engagement on governance is understood to mean (i) candid discussion of corruption vulnerabilities and governance vulnerabilities associated with corruption identified through the centralized process; and (ii) substantive discussion over the three-year surveillance cycle of identified vulnerabilities. Consequently, indeed Article IV reports will feature identified vulnerabilities when macro-critical and related policy advice, and as such will be shared with the Board.

Staff will embark on a fresh round of membership-wide assessments of corruption and governance vulnerabilities this year. With updated information, this would help identify priority areas for reforms to address key governance weaknesses. Based on this analysis, country teams establish the contours of governance and corruption topics to be covered in each member's Article IV consultations and, Article IV staff reports will feature identified vulnerabilities.

Candid

4. On candid engagement, we welcome the increased candor in discussing and reporting governance shortfalls in program and staff reports. We note the finding that no discussion linking vulnerabilities to corruption was held about exchange restrictions, import licensing, trade facilitation or public engagement in rule making (paragraph 10). Could staff elaborate on the reasons behind this?

Does the limited candor in the report on market regulation relative to other state functions signal worsening vulnerabilities in that regard? Staff comments are welcome.

In ¶10 of the paper, we note that ‘where market regulation weaknesses were identified, the discussion seldom linked them to corruption.’ We attribute this to the pandemic pivoting members’ policy priorities and Fund advice towards tackling the pandemic and protecting the vulnerable from its economic fallout, and efforts at strengthening governance focusing on those state functions generally most vulnerable to corrupt activities such as fiscal governance or AML/CFT. To further strengthen the substance of Fund’s Engagement on Governance and Anti-Corruption, the paper therefore proposes to leverage ongoing analytical work on macro-structural issues to advise country teams on market regulation-related governance weaknesses and policy advice going forward. Conducting a fresh round of membership-wide assessments of corruption and governance vulnerabilities will allow staff to gauge how governance vulnerabilities in each state function have developed, and the upcoming interim update in 2-3 years will provide an opportunity to brief Directors on those findings.

Effective

5. 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. (...) Staff may offer their views on the foregoing.

Staff agrees that the dynamics and causes behind corruption and governance vulnerabilities linked to corruption are complex and merit careful consideration. Studies on the sources of corruption and the 1997 guidelines recognize that excessive regulation can be a source of economic rents and, thus, rent-seeking behavior. Where government regulations are pervasive and government officials have discretion in applying them, individuals are often willing to offer bribes to officials to circumvent the rules and, sad to relate, officials are occasionally tempted to accept these bribes.

More generally, enhancing integration of political economy analysis into the operationalization of the 2018 Framework can support the identification of the drivers of vulnerabilities, as is expected to be the case in Country Engagement Strategies (CES) initiated in the FCS Strategy.

Box 9 in the main review paper discusses how achieving sustained mitigation of corruption, especially where corruption is systematic, requires a tailored and sequenced approach mindful of political economy realities. Leveraging ongoing analytical work on macro-structural issues would shed light on reform options to address the problem of over-regulation, which directly relates to the market regulation state function.

6. On effective engagement, we take note that compliance with governance-related benchmarks averages a somewhat disappointing 45 percent. Staff comments are welcome on how the quality and traction of fund's advice can be strengthened.

While compliance with governance-related benchmarks averages a somewhat disappointing 45 percent, it is useful to note this is comparable to structural benchmarks in areas outside of governance. Separately, and to put this statistic in a broader context, it is worth noting that beyond the "fully met" benchmarks, many measures were either partially met or met with some delay, hence ultimately implemented in the latter case. For example, a detailed analysis of anti-corruption-related benchmarks included in Fund-supported programs after the adoption of the 2018 Framework reveals that this conditionality was implemented in 66.7 percent of the cases when the analysis jointly considered both benchmarks met within the test-date and those met with delay. In addition, some measures were partially met (22.2 percent of the not met corruption-related SBs).

To further promote traction of Fund conditionality, we refer to staff's proposed strengthening of implementation by addressing impediments to implementing governance and anti-corruption measures (Box 7) and promoting ownership of reforms (Box 9).

7. 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?

Staff supports strengthening of the use of political economy analyses. As outlined in Box 9 of the policy review paper, staff aims to strengthen and increasingly integrate political economy analysis into the operationalization of the 2018 Framework to consolidate reform efforts along multiple dimensions and actors. In this sense, staff has already started incorporating insight from political economy experts into Governance Diagnostics Assessments, such as in the recent case of Zambia, and plans to continue building on these efforts to enhance ownership, feasibility and sustainability of reforms.

8. As Fund engagement has become more effective, will Fund staff continue to rely on third-party indicators to assess concepts such as quality of governance?

The use of Third-Party Indicators (TPIs) is guided by the Fund's policy on use of third-party indicators. As such, in the centralized assessment of governance weaknesses, TPIs only complement the analysis of Fund staff from functional and area departments. The next round of centralized

assessments will benefit from information gathered in previous Article IV consultations with the authorities, and as staff gain more familiarity with these issues, the relative importance of TPIs, already limited, will further decline.

Evenhanded

9. *Evenhandedness in the implementation of the 2018 GF should be strengthened (...) We must consider that uneven treatment often affects minority groups. There is a need, in our view, for improvements in this area. The Fund is still perceived to be enforcing the 2018 GF mostly in our smaller and weaker members.*

According to our analysis, using the admittedly crude indicator of the frequency of the word ‘corruption’ in staff reports, there is no evidence of systematic biases in the treatment of members (e.g., ¶41 and figure 8 in the main report). National authorities have never raised concerns related to a lack of evenhandedness in the Fund’s engagement on corruption or governance issues through the Fund’s official ‘evenhandedness mechanism’ (in place since 2017). Moreover, the 2017 paper (“The Role of the Fund in Governance Issues—Preliminary Considerations—Background Notes”) included a survey question on evenhandedness to country teams. While not perfectly comparable to the 2023 survey, the 2017 survey shows: (i) a sharp change in perception on evenhandedness, from being skewed towards a negative view (35 percent negative perception and only 10 percent positive in the 2017 survey) to being slanted toward a positive view (13 percent negative, 38 percent positive in the 2023 survey), and (ii) over 40 percent of neither agree nor disagree (50 percent in the 2023 survey).

The governance framework seeks to facilitate evenhandedness through the centralized process to assess governance vulnerabilities, which applies the same methodology across all members. In addition, the coverage of transnational aspects of corruption focuses on advanced economies and financial centers and is a further means to assess how the frameworks in these advanced economies/financial centers can contribute to governance deficiencies and corruption in other countries, even if these frameworks are not macro-critical for the economy of the advanced economy/financial center itself. In this regard, securing more volunteers for the assessment of transnational aspects of corruption should help further improve perceptions on evenhandedness.

10. *On evenhanded engagement, we encourage staff to gauge why a significant segment did not agree or disagree that governance and anticorruption issues are covered evenhandedly across membership. Staff comments are welcome.*

The Fund is ensuring uniformity of treatment of members, as discussions of governance are in the Article IV report for all countries for which there are severe (and therefore macro-critical) governance weaknesses, which is what is contemplated under the 2018 framework. Macro-criticality for this purpose is as defined in the 2012 ISD, which makes clear that exchange rate, monetary, fiscal and financial sector policies must always be discussed in Article IV consultations, as well as other policies where these are assessed to significantly influence present or prospective balance of

payments or domestic stability. As the 2018 framework ensures that GAC issues are addressed in Article IV reports in all cases where this standard are met, evenhandedness is ensured in this aspect. With respect to use of the Fund's resources, the issue is addressed in the Guidelines on Conditionality.

In addition, in an effort to go beyond the demand side and address the separate issue of transactional implications of corruption, the 2018 framework calls for countries to volunteer to have their frameworks examined to ensure that they [adequately address bribery and concealment (AML)]. These supply side and concealment issues are usually not macro-critical as defined in the ISD for the countries that have deficiencies in this area, and therefore it is not mandatory to have those issues discussed in the Article IV reports of those countries. However, discussion of these issues is important still (even if not macro-critical for that member) because addressing bribery and concealment is critical to positive results on the demand side, and also because the coverage of these issues shows that the Fund recognizes the role that members can play in facilitating corruption even when the issue is not macro-critical for that member.

The perception of "neither agree nor disagree" is relatively stable over the last six years. The 2017 paper (*"The Role of the Fund in Governance Issues—Preliminary Considerations—Background Notes"*) included a survey question on evenhandedness to country teams. While it may not be perfectly comparable to the 2023 survey, the 2017 survey shows over 40 percent of respondents chose "neither agree nor disagree" (50 percent in the 2023 survey).

As the survey is seeks input from individual country authorities and country teams, the large percentage of "neither agree nor disagree" responses may reflect that they do not have strong views on even-handedness across countries, or that they do not have enough information to assess it. Notably, the share of "neither agree nor disagree" view tends to be larger among Advanced economies (AEs), non-UCT program countries, and countries with less perceived governance and corruption vulnerabilities.

11. The number of countries undertaking voluntary assessments of transnational aspects of corruption is very low, and the results point to remaining gaps in many countries. We understand the difficulty involved in presenting stronger proposals to encourage countries' participation, although we think this topic requires further refinements in the next Interim Review. Are participating countries considered systemic in these types of activities? Does staff think that they provide good coverage of ongoing developments on this matter?

While the participating countries are relevant for facilitation and concealment issues, the issue of transnational corruption extends well beyond current set of volunteer countries (e.g., remaining G20 members and members with large financial centers) and the 2018 Framework calls for all members to volunteer. Staff has consistently used different channels to strongly encourage additional members to volunteer for the coverage of transnational aspects of corruption, including engagement with Offices of Executive Directors. In addition to the regular outreach to the delegations to G20 Anti-

Corruption Working Group and OECD -Working Group on Bribery, staff regularly engaged with mission chiefs and country authorities through staff visits and Article IV consultations and encourage them to volunteer.

Audits and Supreme Audit Institutions (SAIs)

12. (W)e are concerned about the modest progress on beneficial ownership transparency in procurement and audits as well as their publication (...) In particular, we strongly encourage staff to follow-up on findings from audits. To make a difference, publication of audit reports must be followed by addressing the identified governance gaps and weaknesses. We see significant scope for improvement in this area, incl. for staff by integrating follow-up measures in successor programs. Staff comments would be welcome.

Audit findings can become an input into the centralized assessment of governance weaknesses for all members, consequently underpinning Fund policy advice and conditionality. This will promote the addressing of governance gaps in surveillance and program context.

Staff agrees that follow-up of audit findings is critical to strengthening the link between auditing and accountability. The importance of publication of audits should not be underestimated, as these reports can encourage modification of financial management practices that are seen to be wanting, and also lead to demands to hold individuals to account. Staff have devoted considerable attention to monitoring the production and publication of COVID audits, and the results are encouraging. The latest evidence shows that the rate of by SAIs to the RCF/RFI Lol commitments on conducting and publishing audits of emergency finance is high – exceeding 90% of member countries with such commitments (this includes LICs and FCS). This compliance rate also covers a sizeable number of countries where publication of SAI audit reports had not previously been routine, suggesting that RCF/RFI commitments were a step towards strengthening the transparency and accountability of public finance in those countries. Both through surveillance and UFR, and where macro-critical for these functions, staff aims to secure follow-up of the audit reports through the formal accountability system, which in most member countries covers both the institutional process and legal enforcement. Where the audit reports identify structural vulnerabilities, these notably can be addressed through program measures in UFR and through Fund CD.

13. (W)e would see merit in considering to leverage SAIs' for audits of climate-related spending, i.e. the use of RST-funds given the longer-term nature of this financial assistance by the Fund. Staff comments would be welcome.

As noted in the paper, staff proposes to build upon the increasing role of accountability institutions and to operationalize the 2018 Framework in the Fund's approach to emerging issues, such as climate. In addition—and while such audits need not be limited to those done by SAIs—we are aware that a great deal of work has already been undertaken by leading SAIs on developing risk frameworks relating to climate change and the risks involved in responding to climate change. In the

RST context, these and other measures to mitigate governance risks associated with climate change, where relevant, would be taken up in the design of the relevant reform measures under the relevant RSF arrangement.

14. (W) we also note that some SAIs exhibit legal mandate weaknesses and recall that a recent IMF staff publication on Good Governance in Sub-Saharan Africa sees greater scope for conditionality aimed at strengthening institutional frameworks for SAIs. Staff comments would be welcome.

The 2018 Framework, in line with the Conditionality Guidelines, establishes that to determine whether reforms to address corruption and related governance vulnerabilities should be a condition for the use of the Fund's resources, the Fund will assess the severity of the vulnerabilities, and whether addressing the identified vulnerabilities is of critical importance for achieving the goals of the member's program or for monitoring implementation of the program.

As mentioned in the policy review paper, staff proposes to build upon the increasing role of accountability institutions, such as Supreme Audit Institutions. The IMF has long-standing engagements with SAIs as an element of its support to improve fiscal governance and public financial management. As the role of SAIs has continued to evolve towards greater flexibility in aligning auditing practices and resources based on the nature of risks, Fund staff have broadened the work with SAIs to include components relating to identifying corruption and contributing to the anticorruption ecosystem. Throughout, the fundamental importance of SAI independence has continued to be the bedrock of staff engagement. Recent work demonstrates that many SAIs do not have the independence required to fulfill their function, and the situation is not improving. Increasing appreciation for the role of SAIs in accountability strengthens the envisaged focus on highlighting issues around SAI independence. The IMF is partnering with the International Organization of Supreme Audit Institutions (INTOSAI) and currently also has a CD program to support SAIs in meeting audit commitments made in emergency financing. Staff also supported post-emergency finance program conditionality on audits in 15 countries. This has been principally directed to publication of audit reports, often in member countries where such publication has been skeletal.

Capacity Development (CD)

15. We would appreciate staff's comments on proposals to expand CD support through enhanced field presence.

Some functional departments (like FAD, MCM) have long history of hiring LTXs in the fields who work closely with the country authorities, other stakeholders, and local people. Their work, combined with CD from HQ, have made policy recommendations (e.g., PFM, revenue administration, etc.) more tailored and reflective of country circumstances, including local political economy dynamics.

In response to growing demands for technical assistance in areas relating to on anti-corruption and the rule of law, as agreed in the context of the implementation of the FCS strategy, and to help more closely align Fund's capacity development to the 2018 Framework, LEG's Governance and Anti-Corruption Unit has posted the first field-based long-term anti-corruption expert in AFRITAC South in FY23 and another similar LTX is being considered for MENA. Continuous presence of an LTX, collaborating with those in the areas of other state functions (e.g., fiscal, financial sector etc.), will facilitate more tailored governance and anti-corruption advice, and offer more systematic support countries. Expansion of the field-presence will be done parsimoniously and with a focus on locations where the value-added of such a presence is most evident.

16. (W)e 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 must analyze how to incentivize Governance Diagnostics, although participation and publication should remain voluntary. These exercises could be very useful to identify prominent institutional vulnerabilities and define feasible and effective national strategies.

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?

A governance diagnostic assessment is a CD activity, therefore, staff could only act upon a specific request made by a country authority. As of now, in addition to the countries identified in the Board paper, staff is assessing requests from several additional member countries. This volume is consistent with the general increase in members' interest in diagnostics after the pandemic.

At the same time, it bears emphasizing that there are inherent limits to the resources that can be freed up and re-allocated to governance diagnostics work through re-prioritization, and this may well prove to be a constraint to meet increased demand for this product.

Subject to the resource constraints already noted, staff is enhancing both in reach (e.g.; through presentations on Governance Diagnostic Assessments with several area departments) and outreach to raise awareness of GDs in member countries (e.g., providing additional information on how the exercise is undertaken, expectations and deliverables, as well as resource/time implications for the member). The ongoing Governance Diagnostic in Sri Lanka is the first exercise undertaken in APD, and staff expects it may encourage more requests from the region. The FCS Strategy and Guidance Note is also expected to support demand. In addition, courses provided by staff to country authorities (such as those held at the Africa Training Institute and CEF Kuwait) are a further way of disseminating information regarding the Fund's work on governance, including governance diagnostics, and may help mobilize additional interest.

For a discussion of considerations related to collaboration with IFIs, please see answer to question 21.

17. We miss in the report a special assessment by country authorities participating in Governance Diagnostics exercises. In our view, this assessment would have been critical to reinforce the Framework's four pillars since these countries have been actively involved in comprehensive exercise in governance. Staff's comments are welcome.

The Governance Diagnostic Assessments provide concrete and priority reform recommendations to address governance vulnerabilities. Selected case studies (e.g., Equatorial Guinea, Moldova) highlight that key recommendations have been reflected in program conditionality to support the implementation of key governance reforms. We are also aware that generally recipient country authorities appreciated Governance Diagnostic Assessments.

Country authorities were not surveyed about their experiences with Governance Diagnostics given the limited number of completed reports. At this stage, the exercises have been completed for 15 countries, many of which were done recently, and all these reform efforts (to address governance vulnerabilities) take time to bear fruit.

We agree that these countries (requesting and receiving governance diagnostic assessments) are a group of countries for which we should keep monitoring the progress. It would be important to track the views and perspectives of government counterparts relating to Diagnostic work in order to ensure that the countries derive the greatest benefits from this effort.

18. We positively note that many national authorities and country teams, particularly those for Emerging Markets (EMs) and Low-Income Countries (LICs), find CD support helpful. However, there may be some unmet demand or dissatisfaction. Can staff elaborate on the areas where unmet demand or dissatisfaction were most prominent? Could staff elaborate on how the challenges highlighted in staff's assessment related to CD delivery while collaborating with international organizations can be addressed?

The surveys to country authorities and country teams show that IMF CD and other support from functional departments are timely and useful. But at the same time, country teams expressed interest in receiving even more support from functional departments, especially in the areas of fiscal governance, anti-corruption, and AML/CFT.

As noted in the review paper, direct anti-corruption CD work has been picking up with the implementation of the 2018 Framework but remains below expectations and insufficient to meet demand. Responding to increased demand, including in the context of GD findings and to support synergies with surveillance and lending work, staff has been developing CD on anti-corruption frameworks and the rule of law. Donor support has been increasing to finance this line of work, and

ongoing discussions indicate a high probability that available financial resources will rise to help meet the growing demand.

Staff views collaboration with international organizations, including through sharing information and perspectives and leveraging each-other's comparative advantage, as important to avoid overlap, establish new methods, and increase effectiveness in CD delivery. In Zambia, as a follow-up of the Governance Diagnostic, staff is engaged with international organizations (e.g. WB, EU) and donors (e.g. GIZ, USAID, Irish Rule of Law International, SIDA) working on anti-corruption and rule of law issues to support implementation of GD recommendations by complementing the Fund-supported CD.

19. On CD, we missed a result-based assessment of CD activities to understand the effectiveness and usefulness of the CD provided in the areas related to the covered state functions. In analogy to the proposed database tracking Art. IV recommendations, we wonder whether the existing CD monitoring tools could be leveraged to provide result-based insights on CD activities in governance-related areas?

Staff agrees that it is important to track the effectiveness of CD provided to support improved governance and anticorruption. Staff relies on an existing tool – CDMAP- that enables staff to track the effectiveness of CD provided to support improved governance and anticorruption. As more projects in these areas are completed and assessed in the system, we will have access to results-based insights on the impact of the CD that is driven, in part, by surveillance recommendations.

Collaboration with other IOs

20. Could staff elaborate on the collaboration with the WB and other IFIs on governance issues specifically in the context of FCS?

Under the FCS strategy, Country Engagement Strategies (CES) should address political economy and capacity constraints, explicitly discussing governance vulnerabilities at the country level. Governance and anti-corruption issues are integrated throughout the recently approved Staff Guidance Note on the implementation of the FCS Strategy with detailed guidance for staff on addressing governance challenges in FCS in a dedicated Annex. Collaboration with other IFIs, including the WB, allows for comprehensive support to FCS authorities to address governance vulnerabilities through leveraging on the expertise of these other IFIs. To further enhance the effectiveness of collaboration, keeping flexible and dynamic modalities of collaboration, sharing information and analytics more systematically, and enhanced coordination at the country-level would be very important. [Staff will be guided by the [Guidance Note on Information Sharing Between IMF and World Bank Staff](#) (Annex V).]

21. (W)e also take positive note that staff has been working closely with the UN, OECD, FATF and the G20, though it provides little information on the collaboration. Also, the report

refers to some challenges that staff is facing. Could staff elaborate on this collaboration and especially on the challenges?

We note from the report that staff continue to face some challenges in collaborating effectively with other international organizations; do staff have proposals for how to address those challenges ahead of the next review?

Staff will continue to complement the expertise of Fund staff with that of existing partners, to minimize duplication of efforts and take advantage of synergies, particularly for the implementation of reforms.

At the institutional level, UNODC's United Nations Convention Against Corruption (UNCAC), the OECD Anti-Bribery Convention, the FATF AML/CFT standard and mutual evaluation reports, and FSB's principles for Banks and for Effective banking Supervision, provide a fundamental baseline [combined with] embedded follow up mechanisms which provide useful input for Fund staff work in countries. A partnership with INTOSAI has contributed to the work on Supreme Audit Institutions. Fund staff also regularly attend and contribute to the G20 Anti-Corruption Working Group, the OECD-Development Assistance Committee's Anti-Corruption Task Team meetings, and the World Economic Forum Partnering Against Corruption Initiative (PACI) events.

At the operational level, the implementation of the Framework has expanded the breadth of organizations and the range of areas for collaboration. For instance, in the case of Ukraine's 2020—to 2021— Fund-supported Program (Stand-by Arrangement), staff collaborated with the European Commission and the World Bank to advance complex anti-corruption and judicial reforms. In Ecuador's EFF staff coordinated with UNDP on anti-corruption legal reforms and with the IADB on AML/CFT. In the case of Zambia's governance diagnostic, staff coordinated with the World Bank, European Union and GIZ, to build upon work they were already delivering in the country on public funding of the judiciary and public financial management. Also, multiple meetings were held with the larger donor community in Zambia to share information, benefit from their field-based experience and coordinate on supporting the authorities to implement diagnostic recommendations. Fund staff coordinated with the ADB for the Kazakhstan AIV, and with the EU and UNDP for the AIV and ECF of Papua New Guinea. In Guinea Bissau, Fund's work on a blockchain project resulted in additional support and funding from UNDP to finance its development.

Building upon good practices of operational collaboration at the country level, we could further strengthen institutional collaboration. A routine of soliciting inputs from WB experts for some aspects of centralized assessment and brainstorming is well established and staff intend to enhance it for even better effectiveness and evenhandedness. In the case of the WB, efforts would be guided by the Guidance Note on Information Sharing Between IMF and World Bank Staff (Annex V). In addition, for example, Fund staff (e.g., FAD, LEG) regularly reaches out to the WB in areas in which they have comparative advantage, such as procurement and asset recovery of corruption proceeds. The aim is to help reduce overlap and the cost of collaboration at functional department expert levels.

Other Questions

22. 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://mpira.ub.uni-muenchen.de/50335/>). Staff may offer their views on the foregoing.

Staff thanks OEDIN for sharing this paper explaining the proposed approach to "harassment" bribes. The Fund's engagement on governance aims to limit opportunities for corruption (in line with UNCAC), for instance, by strengthening institutions, streamlining process, ensuring proper controls, and the inclusion of digitalization, which may limit the kind of interactions described. In addition, the Fund has also engaged with members in the strengthening of anti-corruption legal frameworks in line with the UNCAC, including on whistleblower protections, which aim to provide for the safe reporting of corruption acts such as the request of "harassment bribes.

23. Could staff provide an expected timeline for updating the guidance on governance safeguards?

Staff guidance updates on emergency-financing related governance safeguards will, in the first instance, follow the final stock-taking of the pandemic-related governance commitments (slated for early FY24) together with any further reviews of Emergency Financing.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDec

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, Somalia, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States