IMF POLICY PAPER

REVIEW OF IMPLEMENTATION OF THE 2018 FRAMEWORK FOR ENHANCED FUND ENGAGEMENT ON GOVERNANCE

April 2023

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 4, 2023 consideration of the staff report.

- The **Staff Report**, prepared by IMF staff and completed on March 09, 2023 for the Executive Board's consideration on April 4, 2023.

- An **Annexes Paper** providing additional information to support the review, including survey results and additional areas of analysis.

- A **Background Notes Paper**, providing a set of short papers with additional information to support the discussion and analysis in the review.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes Review of the Implementation of the Framework for Enhanced Engagement on Governance

FOR IMMEDIATE RELEASE

- This Review provides an in-depth stocktaking of the Fund's engagement on governance and corruption since the adoption of the Fund's 'Framework for Enhanced Engagement on Governance' adopted by the Executive Board in April 2018 ('the 2018 Framework').
- The Review papers find that Fund engagement with member countries on governance and corruption has been broadly systematic, candid, effective, and evenhanded, in line with the objectives of the 2018 Framework.
- The Review papers also provide concrete proposals to strengthen engagement in these areas, guided by macro-criticality and core expertise of the Fund.

Washington, DC – **[April 11, 2023]:** The Executive Board of the International Monetary Fund (IMF) concluded the Review of the Implementation of the Framework for Enhanced Engagement on Governance.

On April 4, 2023, the Executive Board of the International Monetary Fund (IMF) discussed the staff papers on the "Review of the Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance". The review covers implementation of the policies on governance detailed in "Framework for Enhanced Engagement on Governance" (the "2018 Framework") and in "The Role of the IMF in Governance Issues: Guidance Note," adopted by the Executive Board in 1997 (1997 Governance Policy).

In April 2018, the IMF Executive Board adopted a "Framework for Enhanced Engagement on Governance" (the "2018 Framework") to promote more systematic, effective, candid, and evenhanded engagement with member countries regarding corruption of macro critical dimensions and governance vulnerabilities linked to corruption. The 2018 Framework comprises four elements: (i) a systematic assessment of the nature and severity of governance vulnerabilities and of corruption with respect to all members; (ii) an assessment of the economic impact of the governance weaknesses that have been identified; (iii) the provision of policy advice in circumstances where IMF's engagement is justified; and (iv) an assessment of governmental measures to prevent private actors from offering bribes to foreign officials or providing services that enable such officials to conceal proceeds of their corrupt acts.

At the time of the adoption of the Framework in 2018, the Executive Board called for a formal review of the implementation. An Interim Update conducted in July 2020 found that implementation of the 2018 Framework was well underway. In addition, in May 2021 and May 2022, updates on the implementation status of governance measures committed

under COVID-19 Emergency Financing were published. This Review of the Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance finds that Fund engagement on governance and corruption issues has been broadly systematic, candid, effective, and evenhanded and, based on its findings, makes proposals to further improve implementation of the 2018 Framework. The Review papers also discuss some challenges and obstacles and provide concrete proposals to strengthen engagement in these areas in line with the objectives of the 2018 Framework, continuing to be guided by macro-criticality and core expertise of the Fund.

Executive Board Assessment[1]

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.

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[1] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors. . An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

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.

The Chair's Summing Up
Review of Implementation of the 2018 Framework for Enhanced
Fund Engagement on Governance
Executive Board Meeting 23/26
April 4, 2023

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.

REVIEW OF IMPLEMENTATION OF THE 2018 FRAMEWORK FOR ENHANCED FUND ENGAGEMENT ON GOVERNANCE

EXECUTIVE SUMMARY

The 2018 Framework comprises four elements: (i) a systematic assessment of the nature and severity of corruption and governance vulnerabilities for all members; (ii) the assessment of the economic impact of the identified vulnerabilities; (iii) the provision of policy advice in circumstances where Fund engagement is justified, and (iv) an assessment of measures designed to prevent transnational aspects of corruption. This 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 under the 2018 Framework, while also identifying areas for improvement.

Systematic: Since the adoption of the 2018 Framework, the full membership has been assessed at least once under a robust, centralized, interdepartmental process to identify corruption vulnerabilities and governance weaknesses linked to corruption concerning the six state functions.[1] This process would benefit from more regular updates to incorporate more qualitative information gathered by staff.

Candid: There has been a marked increase in *candid* discussions of corruption and related governance vulnerabilities in staff reports; majorities of stakeholders (national authorities, country teams, and civil society organizations) acknowledge this progress. Discussions have generally been most candid when vulnerabilities to corruption were identified in regard to Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), central bank governance, fiscal governance, and the rule of law; conversely, country teams seldom held substantive discussions concerning market regulation governance vulnerabilities.

Effective: Country teams held substantive discussions and provided specific policy advice over the three-year surveillance cycle for many identified vulnerabilities; the proportion of governance-related conditions in Fund-supported programs has increased, with conditionality aligned with programs goals, and compliance rates for governance-related benchmarks are similar to those for other structural benchmarks; COVID-related emergency spending governance commitments provide a concrete example of effective engagement; Capacity development (CD) has been stepped up, leveraging existing CD

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[1] (i) Fiscal governance; (ii) financial sector oversight; (iii) central bank governance and operations; (iv) market regulation; (v) rule of law; and (vi) AML/CFT.

and establishing new forms of delivery (e.g., governance diagnostics (GD)); a majority of national authorities, especially in emerging market and
low-income countries consider the Fund's CD to be timely and useful; and collaboration with other organizations, such as the World Bank, and civil society has increased. Challenges include the limited coverage of some state functions (e.g., market regulation) and implementation constraints related to limited capacity and vested interests. Further integration of the governance and anti-corruption dimension with other Fund priorities, such as Fragile and Conflict-Affected States (FCS), climate change, and digitalization/GovTech, is encouraged.

Evenhanded. Majorities of national authorities agree - or are agnostic - that Fund engagement on governance issues is *evenhanded;* country teams address identified vulnerabilities at overall comparable rates across similarly situated member countries, but more systematically with lower income countries; 13 countries have volunteered for the Fund to assess their frameworks for combatting transnational aspects of corruption—a number still below expectations.

Proposals

Going forward, staff proposes to strengthen implementation in line with the objectives of the 2018 Framework, continuing to be guided by macro-criticality and core expertise of the Fund, and mindful of competing demands on an already very stretched staff and limited resources.

To support *systematic* and *evenhandedness* objectives, the centralized assessment of the membership will be regularly updated, maximizing the use of qualitative information collected by staff. Such updates will enable tracking improvements or backsliding in the quality of relevant state functions and the severity of corruption. Efforts should continue to secure more volunteers for the assessment of the transnational aspects of corruption and to deepen that coverage.

To achieve *candid* and substantive discussions with specific policy advice more consistently across state functions (e.g., on market regulation), staff plans to exploit synergies with other work streams (e.g., the Fund's macro-structural work) and to strengthen collaboration with the World Bank.

To enhance the *effectiveness* of the engagement, external interactions and internal processes will be strengthened, including by (i) further developing targeted CD in response to increasing demand from authorities; (ii) implementing practical measures to enhance interactions and collaboration with other international organizations and civil society; (iii) fine-tuning staff guidance on governance safeguards in emergency financing; (iv) establishing mechanisms to improve monitoring of the implementation of governance-related AIV recommendations. Effectiveness will also benefit from further integration with other Fund priorities and addressing substantive issues identified by

this review. This includes, (i) further integrating and exploiting synergies with other Fund priorities (e.g., Fragile and Conflict States, climate change, and digitalization/ GovTech), (ii) deepening the work on rule of law and anti-corruption issues, and (iii) building upon the increasing role of supreme audit institutions (SAIs) in supporting anti-corruption efforts.

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FIGURES

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Glossary

AE	Advanced Economies
AML	Anti-Money Laundering
CD	Capacity Development
CFT	Combating the Financing of Terrorism
CSOs	Civil Society Organizations
EMs	Emerging Markets
ECF	Extended Credit Facilities
EFF	Extended Fund Facility
FATF	Financial Action Task Force
FCS	Fragile and Conflict-affected States
GD	Governance Diagnostics
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
LIC	Low-Income Countries
MONA	Monitoring of Fund Arrangements
OECD	Organization for Economic Co-operation and Development
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
SAIs	Supreme Audit Institutions
SOEs	State Own Enterprises
UCT	Upper Credit Tranche
UNCAC	United Nations Convention Against Corruption
WEO	World Economic Outlook
WGI	World Governance Indicator

INTRODUCTION

1.   **In 1997, the International Monetary Fund (IMF) Executive Board adopted a [Policy on Good Governance](#) to enhance the Fund's involvement in the economic aspects of governance.** It recognized that "the promotion of good governance in all its aspects, including ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption," is essential for economies to prosper. This policy calls for a more comprehensive treatment of governance issues in Article IV consultations and, in those areas within the Fund's mandate, in Fund-supported programs. The policy further calls for evenhanded treatment across the membership; more proactive advocacy of measures that eliminate the opportunity for bribery, corruption, and fraudulent activity in managing public resources; and enhanced collaboration on governance issues with other multilateral institutions, in particular the World Bank.

2.   **A 2017 review of the implementation of the 1997 governance policy pointed to areas for improvement.**[2] In general, the review found considerable progress in the implementation of the governance policy but pointed to areas where Fund engagement could be improved, such as (i) establishing a better method to assess the extent of corruption and its macroeconomic impact; (ii) developing more concrete and granular policy advice to help governments tackle corruption; (iii) providing more candid assessments of the scale and cost of corruption when it undermines macroeconomic performance; and (iv) ensuring evenhanded treatment of corruption issues across countries.

3.   **In April 2018, the Board adopted a Framework for Enhanced Engagement on Governance (the "2018 Framework") to promote more systematic, effective, candid, and evenhanded engagement with member countries regarding corruption of macro critical dimensions and governance vulnerabilities that allow corruption**. The 2018 Framework comprises four elements:[3] (i) a systematic assessment of the nature and severity of governance vulnerabilities and of corruption with respect to all members; (ii) an assessment of the economic impact of the governance weaknesses that have been identified; (iii) the provision of policy advice in circumstances where Fund engagement is justified; (iv) an assessment of governmental measures to prevent private actors from offering bribes to foreign officials or providing services that enable such officials to conceal proceeds of their corrupt acts.

4.   **An Interim Update conducted in 2020 found that implementation of the 2018 Framework was well underway**. It concluded that, across the membership, there had been a marked increase in the inclusion of governance-related terms in staff reports, with such references

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[2] See *The Role of the Fund in Governance Issues—Review of the Guidance Note: Preliminary Considerations* (SM/17/156).

[3] The 2018 Framework applies to both surveillance and programs. In bilateral surveillance, "macro-critical" is interpreted as governance vulnerabilities that significantly affect the member's prospective or present balance of payments or domestic stability, in which case the issues are expected to be substantively discussed within a medium-term (3-year) consultation cycle. In a program context, the standard is whether addressing the identified vulnerabilities is critical to achieving the program goals; See *Addressing Governance Vulnerabilities—A Framework for Enhanced Fund Engagement* (SM/18/55), Annex 1.

becoming more correlated with perceptions of corruption.[4] This finding was bolstered by more qualitative judgments that the 2018 Framework is supporting deeper Article IV engagement on governance and corruption issues. The Interim Update also found that program design was leveraging the 2018 Framework to specify conditionality related to governance and anti-corruption reforms. These efforts were underpinned by the stepped-up provision of technical assistance (including governance diagnostic missions), analytical work, public and civil society outreach, and collaboration with other international organizations. The update identified challenges—notably to ensure sustained engagement by the Fund and to ensure ownership and country-led efforts.

5.   This Review builds on—but goes beyond—the Interim Update in seeking to assess whether Fund engagement on governance and corruption issues has been systematic, candid, effective, and evenhanded and, based on its findings, makes proposals to further improve implementation of the 2018 Framework. At the time of the adoption of the Framework in 2018, the Executive Board called for a formal review of the implementation in three years. The formal review was delayed because of competing priorities arising from the pandemic and other shocks. With the global architecture under stress, rising perceptions of inequality, and the need to restore trust domestically as the public continues to face a variety of challenges, the role of good governance is perhaps even more salient than before. This Review uses various sources of information, including (i) machine-based text analysis of Article IV and program staff reports; (ii) the Monitoring of Fund Arrangements (MONA) database of program conditionality; (iii) information furnished by country teams and staff reports; (iv) surveys of national authorities; (v) surveys of mission chiefs; (vi) consultation with civil society organizations; (vii) review of experience of GD, and (viii) in-depth case studies of 40 countries. Details are provided in the Background Papers.[5]

IMPLEMENTATION OF THE 2018 FRAMEWORK

A.   Systematic Engagement

Since the adoption of the 2018 Framework, a systematic assessment of the full membership has been conducted at least once under a robust, centralized, interdepartmental *process* to identify corruption vulnerabilities and governance weaknesses linked to corruption.

6.   As noted in the 2020 Interim Update, a centralized process has been established for the systematic assessment of governance and corruption vulnerabilities for all Fund members. Under this Framework, an interdepartmental group of senior staff gauges the extent of corruption

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[4] See *Progress in Implementing the Framework for Enhanced Fund Engagement on Governance* (available at: https://www.imf.org/en/Publications/Policy-Papers/Issues/2020/07/15/Progress-In-Implementing-The-Framework-For-Enhanced-Fund-Engagement-On-Governance-49576.

[5] Background papers (BP): BP I refers to the Annex, and BP II to the background papers to this document. See Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance–Annexes (2023), and Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance–Background Papers (2023).

and the degree to which six state functions most relevant to economic activity[6]—(i) *fiscal governance*; (ii) *financial sector oversight*; (iii) *central bank governance and operations*; (iv) *market regulation*; (v) *rule of law*; and (vi) *anti-money laundering and combating the financing of terrorism* (AML/CFT)—are undermined by corruption vulnerabilities and how governance vulnerabilities in these state functions (and their subcomponents) create opportunities for corruption (Box 1).

7.   The centralized assessments rely on both quantitative and qualitative inputs and are used to determine the need for further discussion with the authorities. The interdepartmental group, which comprises area departments and relevant functional departments, relies to the extent possible on information that the staff already obtain in the conduct of Fund activities. This is complemented by information provided by other institutions (notably the World Bank) and, where necessary, the use of third-party indicators, following Fund policy governing their use. Based on these assessments, the interdepartmental group identifies which (if any) specific weaknesses within the six state functions warrant in-depth discussion with the authorities, including explicit linkage with corruption vulnerabilities. The process also determines whether the anti-corruption framework warrants discussion. These assessments have been undertaken for every member at least once since the adoption of the 2018 Framework, with updates as necessary in several cases. A fresh round for the entire membership will be initiated after the present Review.

8.   **Based on these assessments, departments collaborate to sharpen the staff's advice on governance and corruption issues for a member's Article IV consultation or program.** This usually involves interdepartmental "brainstorming" sessions to help country teams delve deeper into possible advice and measures, considering country circumstances and Fund policies. Area departments have also established their own tailored processes to assist country teams. 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, taking account of competing priorities, the broad timing of such coverage within a three-year time span. Missions often benefit from functional department staff, remotely or in-person.

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[6] These six state functions were identified as appropriate given the Fund's mandate regarding economic activity in the paper establishing the 2018 framework for enhanced engagement on governance, available at: https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/04/20/pp030918-review-of-1997-guidance-note-on-governance.

Box 1. Governance Weaknesses Associated with Corruption Across the Membership

High corruption vulnerabilities are found in about 60 percent of the membership, with governance vulnerabilities associated with corruption found in several state functions, leading with fiscal governance. 73 percent of members show deficiencies in one or more fiscal governance sub-functions. Moreover, *fiscal governance* accounts for more than a quarter of identified vulnerabilities across the six state functions. This is unsurprising since public spending and procurement provide the most obvious opportunities for malfeasance, and any shortcomings in the institutions or safeguards are likely to be exploited for corrupt purposes.

Next—applying to approximately 60 percent of the membership—are vulnerabilities pertaining to the *rule of law* and the *regulatory framework*. Vulnerabilities stemming from weak *financial sector oversight* or *AML/CFT* are identified in about 25–35 percent of the membership. Finally, weaknesses in *central bank* governance and operations are identified in only 10 percent of the membership. However, this may also reflect the relatively few detailed assessments that have been made to date.[1]

Governance weaknesses creating vulnerabilities to corruption are not distributed evenly across various income groups. For instance, vulnerabilities in *fiscal governance, regulatory frameworks, and* the *rule of law* are identified in some 85–95 percent of low-income countries and in around 60–80 of emerging markets.

	State Functions					
	1	*2*	*3*	*4*	*5*	*6*
	Fiscal	Financial	Central Bank	Regulatory	Rule of Law	AML/CFT
Full Sample						
In percent of sample	73.1	23.3	10.4	59.6	62.2	35.8
in percent of all state functions	27.6	8.8	3.9	22.5	23.5	13.5
By Income Level						
Advanced Economies						
In percent of sample	24.3	35.1	0.0	5.4	13.5	10.8
in percent of all state functions	27.3	39.4	0.0	6.1	15.2	12.1
Emerging Markets						
In percent of sample	81.7	21.7	7.0	67.8	67.8	41.7
in percent of all state functions	28.4	7.6	2.4	23.6	23.6	14.5
Low-Income Countries						
In percent of sample	92.7	17.1	29.3	85.4	90.2	41.5
in percent of all state functions	26.0	4.8	8.2	24.0	25.3	11.6

[1] A safeguards assessment is a diagnostic review of a central bank's governance and control framework. Safeguards assessments have had an increased focus on governance at central banks since 2010.

Notes: In the initial round of governance vulnerabilities assessments, FSAPs were the main source of information for identifying governance vulnerabilities in financial sector oversight, hence more governance vulnerabilities were identified in Advanced Economies (AE) vs. Emerging Markets (EM) or Low-Income Countries (LIC). Country Income Groups defined as follows: AE per World Economic Outlook (WEO) list; Low Income Countries (LIC)- PRGT-eligible countries; EM – remaining countries.

Source: Staff estimates.

B. Candid Engagement

Against these identified vulnerabilities, text analysis of Article IV and program staff reports, as *well* as surveys of key stakeholders, point to the Fund's engagement on corruption—and on governance shortcomings more generally—as having become more candid overall, with some variation across state functions.

Staff Reports

9.   **The 2018 Framework has proven to be a milestone in terms of country teams covering governance and corruption issues explicitly in staff reports.** Candor emerged a key goal of the 2018 Framework because staff's analysis leading to adoption of the Framework noted that staff reports avoided the word "corruption" and instead couched discussions in euphemisms that failed to identify (and therefore to address) the underlying corruption issue. Across the membership, explicit use of the word "corruption" in program and surveillance staff reports had increased appreciably following the issuance of the 1997 Guidance Note (Figure 1). Comparing the three years following the adoption of the 2018 Framework (2019–21) to the three years (2015–17) preceding it however, shows a significant doubling of such references in program reports and a tripling in surveillance documents.[7] (There was also a dip in 2021 following the onset of the pandemic but this appears to be an artifact of the data).[8]

10.   **Moreover, the extent to which staff reports explicitly link the identified vulnerability to corruption varies by the state function (and sub-function)**.[9] Broadly, discussions have been most candid regarding *AML/CFT*, *central bank governance*, *fiscal governance,* and *rule of law* vulnerabilities. Conversely, where *market regulation* weaknesses were identified, the discussion seldom linked them to corruption. Candor also varied by sub-functions with *AML entity transparency (beneficial ownership)*, *preventive measures and criminal justice*, and *fiscal transparency* and *procurement,* standing out for candid discussions. No discussions linking vulnerabilities to corruption were held about *exchange restrictions*, *import licensing*, *trade facilitation,* or *public engagement in rule making*.

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[7] Unlike in the late-1990s, surveillance documents now typically include more references to governance-related terms than program documents. This is fully consistent with Fund policy: under the 2018 Framework, Article IV missions are expected to discuss identified governance vulnerabilities—and make specific recommendations to address them—at least once over a three-year surveillance cycle. By contrast, per the Conditionality Guidelines, Fund-supported programs should include conditionality on only those measures considered to be of critical importance for achieving the program's goals or for monitoring program implementation.

[8] The apparent sharp dip in 2021, relative to 2020, is likely an artifact of the data. With the onset of the Covid-19 pandemic, regular Article IV consultations were suspended, so the 2020 observation is based on only three months' publication of staff reports, which happened to include several Selected Issues Papers devoted to governance issues undertaken following the adoption of the 2018 Framework (see BPI-2), skewing the average for 2020. In 2021, the citations returned to the post-2018 average.

[9] The findings in this paragraph are based on a detailed reading of the Article IV staff reports for a sample of 40 case studies (BPI-6). In 100 percent of the cases where high levels of corruption have been identified, they have been candidly discussed in Article IV consultations.

Figure 1. Frequency of Governance-Related Terms Staff Reports

Use of the Term 'Corruption'

(average number of references by country)

Use of the Term 'Governance'

(average number of references by country)
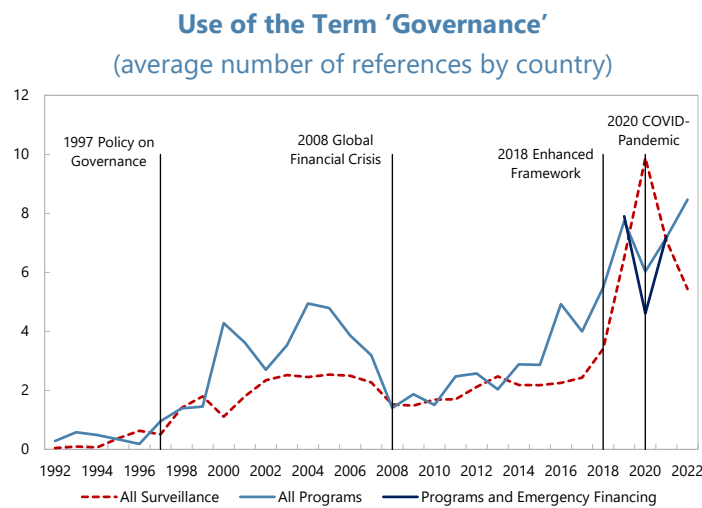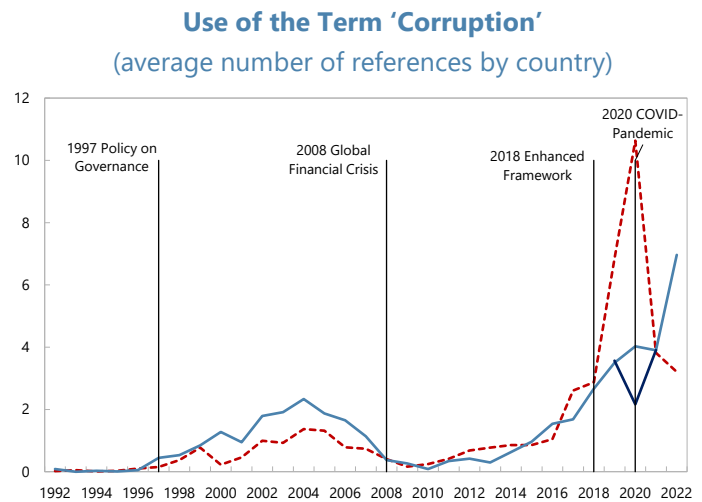
Frequency of the Term 'Corruption' by Income Group

(average number of references per country)
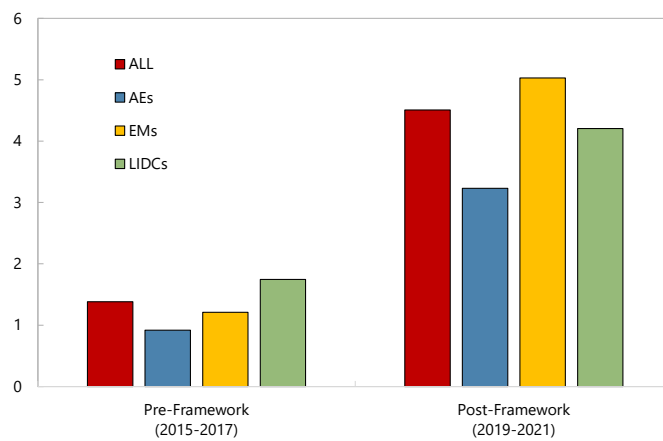
Sources: IMF Text Analytics Database; and staff estimates.

Stakeholders' Views

11.   Key stakeholders broadly agree that the Fund's engagement with its membership on governance issues has become more candid following the adoption of the 2018 Framework:

- Although the response rate by country authorities was low, some 80 percent of those who responded to the survey consider that macro-critical governance and anti-corruption issues have been addressed in clear and direct language, with strong endorsement coming from across the membership, including the authorities of FCS (see Figure 2; BP I-3).[10]

- Similarly, more than 85 percent of country teams agree or strongly agree that the Fund's engagement on governance issues has become more candid (see BP I-4).

- Responding a question covering the candor, effectiveness, and evenhandedness of Fund engagement, slightly more than 60 percent of Civil Society Organizations (CSOs) agreed that the engagement had improved along these dimensions, with a further 17.6 percent agreeing that it had improved but not sufficiently. (see BP I-5).

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[10] As noted in BPI-3, only one-third of national authorities responded (with an especially low response rate by low-income countries). Accordingly, caution is required in interpreting the results from the survey of national authorities, particularly the breakdown by income groups.

Figure 2. Stakeholders' Views

National Authorities

Country Teams

CSOs*

Candor

Effectiveness

Evenhanded-ness

CSO Legend:
- ■ Yes
- ■ Yes, but not enough
- ■ No
- ■ Not applicable

Main Legend:
- ■ Strongly Agree
- ■ Agree
- ■ Neither agree nor disagree
- ■ Disagree
- ■ Strongly disagree
- ■ No response provided
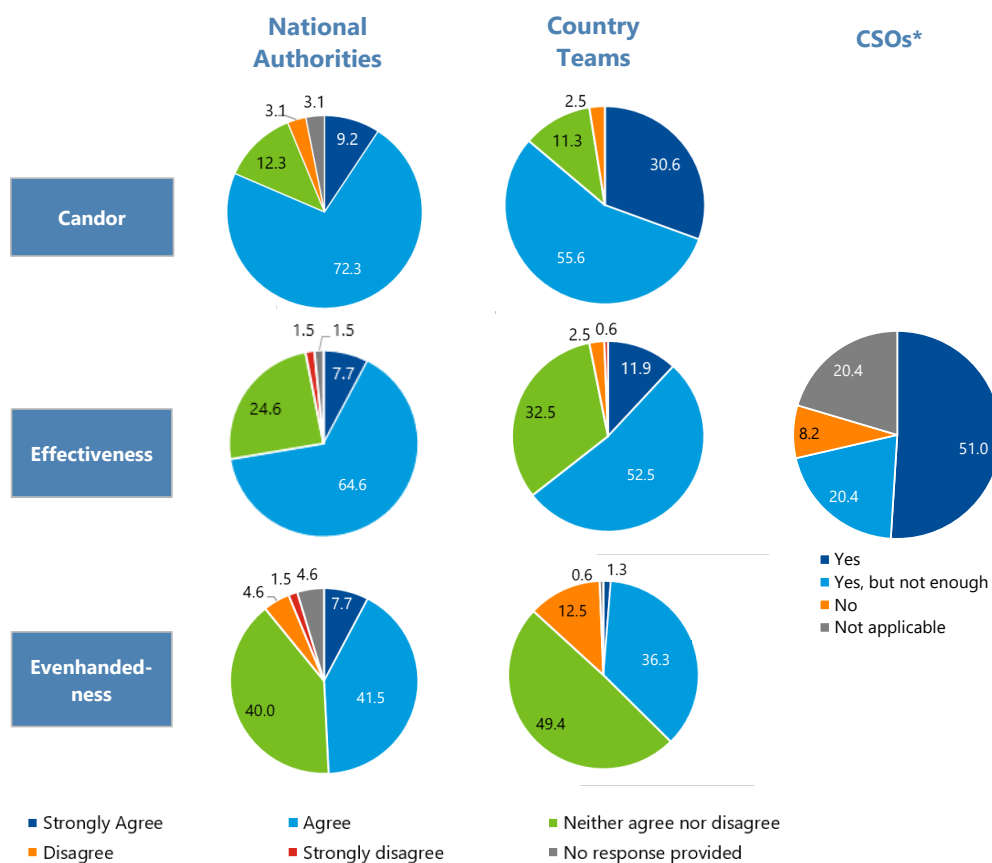
Sources: National authorities survey; and country team survey.

*CSOs were surveyed on all three aspects in a single question in the on-line consultation: Since adoption of the 2018 Governance Framework, has the IMF engagement with member countries on governance and anti-corruption issues been enhanced with respect to its candidness, effectiveness, and evenhandedness?

Note: 65 out of 190 members responded to the national authorities' survey, 160 out of 190 country teams responded to the country teams survey and 49 civil society organization (CSOs) responded to the CSO survey. Question on candor: Following the 2018 Framework, macro-critical governance and anti-corruption issues have been addressed candidly, with clear and direct language in discussions between country authorities and the IMF. Question on effectiveness: Do you think that the IMF's involvement in governance and anti-corruption issues has a positive impact on the country? Question on evenhandedness: Following the 2018 Framework, based on what you know about coverage in your and other countries, macro-critical governance and anti-corruptions issues have been addressed across IMF member countries in an even-handed manner.

C.   Effective Engagement

Fund engagement on governance under the 2018 Framework has been more effective, with country teams holding substantive discussions on identified governance vulnerabilities, making specific recommendations, applying conditionality when critical to program success, and eliciting governance commitments in the context of pandemic-related emergency financing. Effective implementation has been supported by stepped-up capacity building (CB) and collaboration with external partners, while main obstacles continue to be vested interests, lack of ownership and capacity constraints. Areas for improvement exist in relation to limited coverage of some state functions, enhanced monitoring of impact, and developing synergies with other Fund priorities.

Concepts of Effectiveness

12.   Within the 2018 Framework, effective engagement is understood to mean (i) candid discussion of corruption vulnerabilities and governance vulnerabilities associated with corruption identified through the centralized process; (ii) substantive discussion over the three-year surveillance cycle of identified vulnerabilities; and (iii) where relevant, specific recommendations to address these vulnerabilities and conditionality when critical to program success. This Review makes proposals that will improve tracking of the implementation of specific recommendations made in the context of bilateral surveillance. As for the effectiveness in reducing corruption vulnerabilities, systematically assessing the impact of specific reforms on corruption would be challenging in light of corruption's hidden nature and diverse manifestations (Fiscal Monitor, April 2019), but staff will continue to analyze and discuss progress made in selected country cases.

Article IV Consultations

13.   Country teams generally held substantive Article IV discussions of identified vulnerabilities, as required by the 2018 Framework. The 2018 Framework mandates substantive discussions on specific governance vulnerabilities over the course of the surveillance cycle. Figure 3 shows a high degree of compliance: across the membership, on average, teams held at least one substantive discussion in about 70 percent of cases where that state function is identified as vulnerable. In practice, when country teams are involved in program negotiations, they may discuss governance measures as part of program design rather than the Article IV process. Coverage ratios reach 80–90 percent when Article IV discussions or program conditionality are considered (Figure 3).

14.   The rate of compliance is not fully uniform across state functions, however. Country teams report holding substantive Article IV discussions on vulnerabilities related to *corruption*, *fiscal governance*, and *AML/CFT* in some 70–80 percent of cases where these were identified as vulnerable, and they do so in a somewhat lower 55–70 percent of cases where the vulnerabilities relate to *central bank operations*, *market regulation*, or the *rule of law*.[11] Similarly, country teams often discuss weaknesses in state functions even when they do not rise to the level of being the most vulnerable— with the notable exceptions of *market regulation* and the *rule of law*.

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[11] The statistics on central bank operations are likely skewed by the relatively few cases assessed as deficient.

Figure 3. Substantive Article IV Discussion and Program Conditionality by State Function

Article IV Discussion in Countries with Identified Vulnerabilities
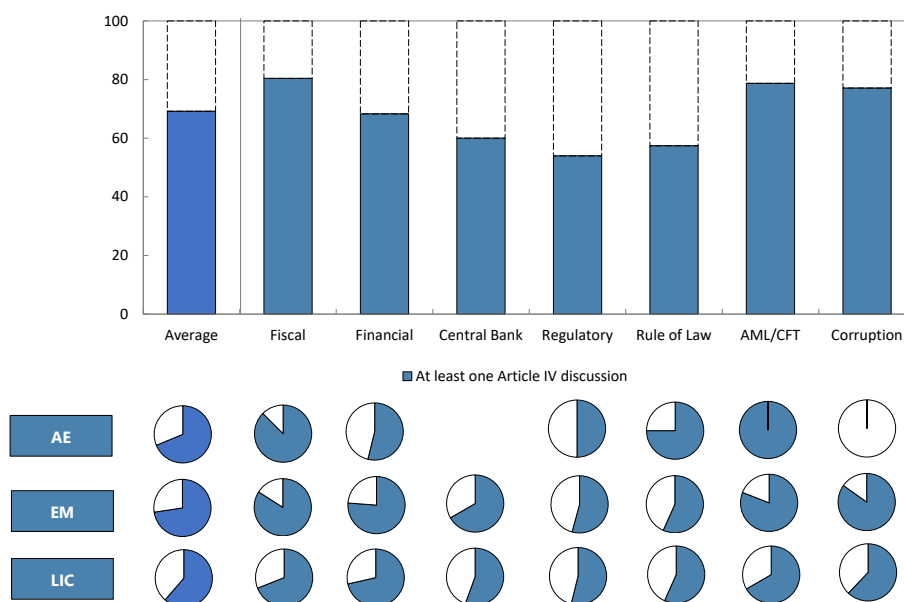
(percent)

■ At least one Article IV discussion

Article IV Discussion or Program Conditionality in Countries with Identified Vulnerabilities

(percent)

■ Discussion or Conditionality
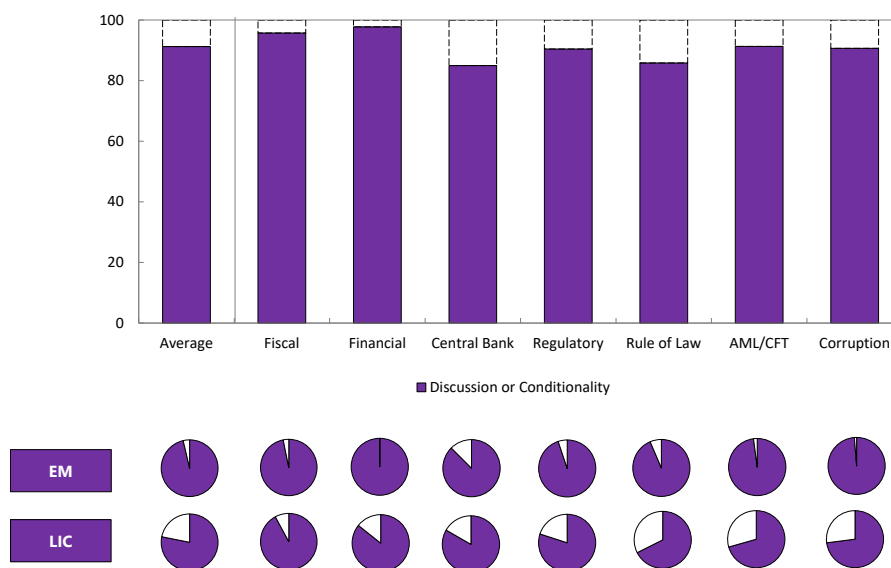
Sources: Country team governance survey; MONA database; and IMF staff estimates.

Bar chart and pie charts reports the share of membership with identified governance vulnerabilities by state function which had at least one Article IV discussion (or program conditionality) during 2019-2021 on the weakness, as reported by country teams. Missing pie charts indicate no observations.

15.   Country teams often make specific recommendations on how to address the identified vulnerabilities. Country teams' survey responses identified specific recommendations (that they consider to be among their "top three recommendations"), particularly when the identified weaknesses pertain to *fiscal governance*, *AML/CFT*, or *anti-corruption frameworks* but much less

frequently for *market regulation* or *rule of law* (Figure 4; Box 2). For further insight into the discussions and recommendations provided by country teams in the context of Surveillance and their traction, please see the examples of Cambodia and the United States (Box 3).

16.   Analysis of a sample of 40 countries likewise finds significant variations in discussions across state functions.[12] The analysis of this sample (BP I-6) suggests satisfactory implementation of the policy regarding corruption and AML/CFT. Substantive discussions of corruption vulnerabilities took place for almost 90 percent of the countries where high-level corruption was identified. Where *AML/CFT* weaknesses were identified, teams held substantive discussions with explicit linkages to corruption and provided specific policy advice in 80 percent of cases. The level of implementation was 60 percent for *central bank governance* and around 40 percent for the other state functions, except for *market regulation* (only in 2 percent of cases where vulnerabilities were identified). At the sub-area level, beyond AML/CFT (generally over 75 percent), implementation of over 40 percent for *fiscal transparency*, *property rights*, *public financial management (PFM) controls*, *investor protection*, and *procurement*. Implementation is significantly higher for low-income countries.

Figure 4. Top Three Recommendations and Program Conditionality by State Function

Article IV Top Three Recommendation in Countries with Identified Vulnerabilities
(percent)

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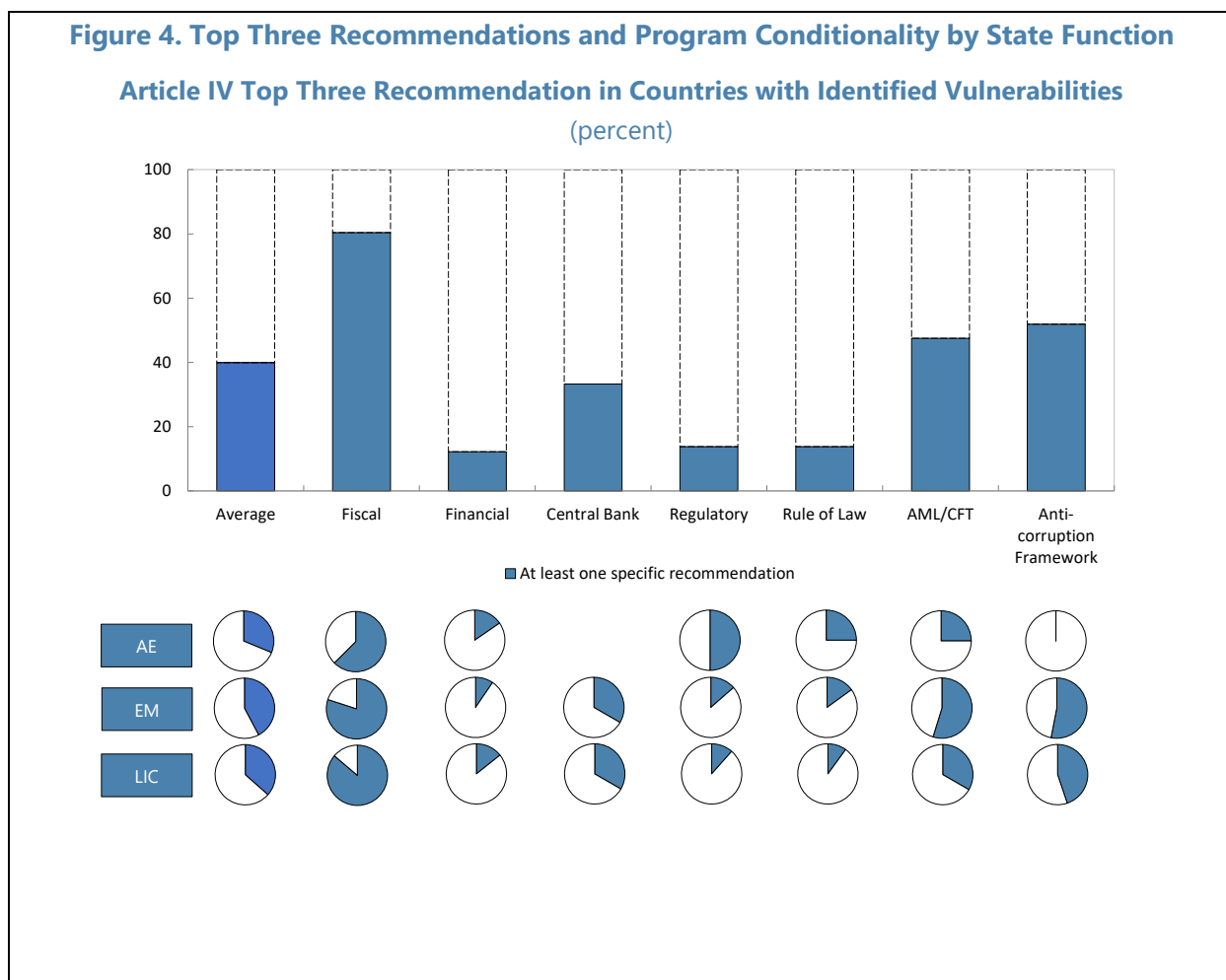
[12] To avoid bias in the analysis, this sample of 40 countries is the same as in the 2017 review. Of these, 37 have had an Article IV consultation since 2018.

Figure 4. Top Three Recommendations and Program Conditionality by State Function (Concluded)

Program Conditionality in Countries with Identified Vulnerabilities

(percent)
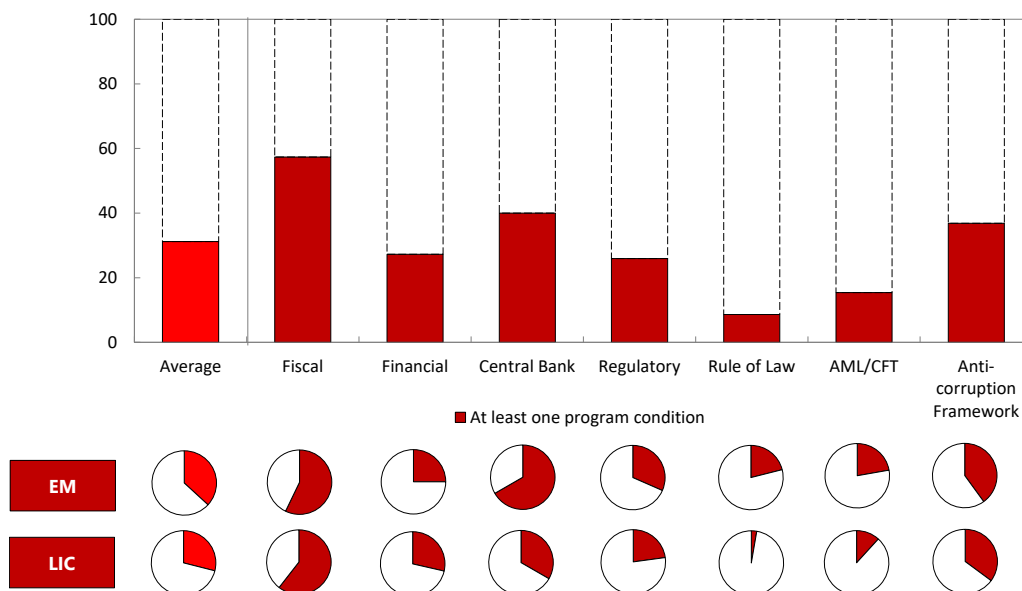
Source: Country team governance survey; MONA database and IMF staff estimates.

Box 2. Sample of Recommendations for Addressing Governance Vulnerabilities

Country teams report making specific recommendations tailored to country circumstances for addressing identified vulnerabilities. Fiscal governance, anti-corruption, and AML/CFT feature prominently among the three most important recommendations identified as most important. Specific examples in these three areas include:

Fiscal Governance

- Enhance overall PFM, including by establishing a Treasury Single Account (TSA).
- Enhance fiscal transparency through budget execution reports (including in-year) and information on public investment projects and off-budget operations.

Anti-Corruption

- Publish assets declaration of high-ranking public officials.
- Introduce whistleblower protection.

AML/CFT

- Enhance AML/CFT compliance with measures for Politically Exposed Persons
- Increase transparency and accuracy of beneficial owner information.
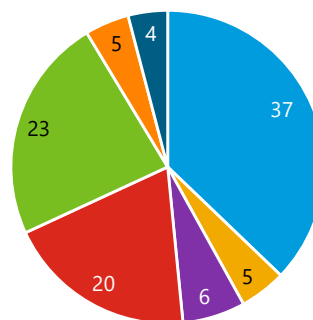
- Fiscal governance
- Financial sector oversight
- Central bank governance and operations
- Anti corruption
- AML/CFT
- Market regulation
- Rule of law

Box 3. Outcomes in Bilateral Surveillance – Cambodia and the United States[1]

For Cambodia,[2] consistent with the framework, corruption risks and related governance weaknesses have been discussed over the medium-term surveillance cycle. While corruption risks have been extensively discussed in most Article IV staff reports following the adoption of the framework (2018, 2019, 2022), candid and substantive discussions with specific policy advice particularly happened in 2018 for fiscal governance, and in 2022 for anti-corruption, the rule of law, and anti-money laundering measures to support anti-corruption efforts.

Recent Article IV staff reports for Cambodia noted progress made by the authorities in implementing past staff advice. The 2019 staff report appendix on the implementation of past Fund advice reported notably adopting a regulation abolishing some expenses previously considered informal payments to customs officers and the acceleration of land registration processes. A similar appendix in the 2022 staff report indicated progress made in improving fiscal governance with the introduction of medium-term budget framework, and PFM reform including drafting the new law on Public Finance System. Annex VIII to the 2022 staff report includes a clear set of recommendations on anti-corruption and the rule of law, which will facilitate future follow-up by staff.

In the context of the US Article IV consultations,[3] as part of voluntary policy advice, staff has been discussing key issues related to the transparency of legal entities starting in 2013. Information from prosecutions and from leaks of corporate documents have identified the widespread use of corporate entities and trusts to conceal corrupt practices and other financial crimes. From 2013, and regularly in subsequent Article IV consultations in 2014, 2016, 2019 and 2020, staff consistently raised the need to improve access to information about who ultimately owns and controls companies and trusts.

Since 2021, advances have been made by the US authorities in the transparency of legal entities. The Corporate Transparency Act, passed in January 2021, requires companies operating in the United States to provide beneficial ownership information to the U.S. Department of Treasury's Financial Crimes Enforcement Network (FinCEN), the U.S. financial intelligence unit. In September 2022, FinCEN issued implementing regulations providing for the procedures for reporting beneficial ownership information and for its disclosure to authorized agencies and financial institutions. Progress, as well as pending items, have been reported in the 2021 and 2022 Article IV staff reports.

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[1] These two examples are included for illustrative purposes, among several other cases.

[2] To access Cambodia's surveillance documents please see: https://www.imf.org/en/Countries/KHM

[3] To access the United States surveillance documents, please see: https://www.imf.org/en/Countries/USA

Program Conditionality

17.   Since the adoption of the 2018 Framework, the proportion of Fund-supported programs with governance-related goals has increased. While the proportion of programs whose stated program goals (as recorded in the MONA database) were related to fiscal management (including *fiscal revenue or expenditure goals)* fell slightly from 98 to 88 percent pre- and post-Framework, and those with *financial sector* reform goals fell from 91 percent to 83 percent, programs

whose goals included *central bank reforms* rose from 44 to 50 percent while programs whose goals included *governance reforms*, more than doubled, from 33 to 76 percent (Table 1).[13]

18.   **Conditionality in Fund-supported programs has become more focused on governance-related measures following the adoption of the 2018 Framework.** Comparing the three years before- and after the 2018 Framework's adoption shows that governance-related prior actions rose from 22 to 31 percent of all prior actions (Figure 5). Likewise, governance-related benchmarks rose from 31 to 38 percent of all structural benchmarks.

19.   **The alignment of governance-related conditionality with explicit program goals— already high—increased further with the adoption of the 2018 Framework**. Specifically, both before and after the adoption of the 2018 Framework, all *fiscal* and *financial sector* governance conditions were in programs with *fiscal* and *financial sector reform* objectives, respectively. For *central bank* governance and *governance* conditionality, the proportions prior to the adoption of the 2018 Framework were 93 and 91 percent, respectively, and both increased to 100 percent (Figure 5).

20.   **Fund-supported programs have included conditions to address corruption vulnerabilities or governance weaknesses when they are essential for achieving the program's goals.** Across the various state functions, prior actions were established in about 10 percent of cases where the country is assessed as having a vulnerability in a state function and had a Fund-supported program over the period 2019–21. That percentage rises to roughly 30 percent of such cases when considering both prior actions and structural benchmarks (Figure 5).

21.   **Again, however, there is considerable variation across the state functions**. Whereas conditionality is applied in about 40–60 percent of cases where *fiscal governance, central bank governance,* or the *anti-corruption* framework is identified as being deficient, it is applied in fewer than 10-25 percent of cases where governance-related vulnerabilities pertain to *financial sector oversight*, *rule of law*, or *AML/CFT*, and about 25 percent of cases of market regulation vulnerabilities.[14] This is unsurprising since fiscal adjustment, including improved tax administration, reducing room for tax avoidance, and greater efficiency in public spending and procurement, is often central and critical to achieving the goals of Fund-supported programs, and thus required to be established as conditions under the Guidelines on Conditionality.

22.   **Compliance with governance-related benchmarks averages a somewhat disappointing 45 percent, comparable to other structural benchmarks.** Across Fund-supported programs, the compliance rate for all structural benchmarks (both governance and non-governance) during the same period (2019–21) was essentially the same (Figure 5; BP I-1). Across state functions, compliance rates ranged from 10 percent for *rule of law* benchmarks to 50 percent for *fiscal governance* benchmarks—though too much should not be made of the disaggregated statistics given the small number of benchmarks for some state functions and the impact of the COVID-19 pandemic (the statistics here exclude pandemic-related governance commitments). Moreover, MONA statistics refer

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[13] For the purpose of this analysis, program goals specified as: (i) fiscal revenue or expenditure; (ii) financial sector reforms; (iii) central bank reforms; and (iv) governance reforms are classified here as "governance-related" reforms.

[14] Of the 40 case studies, seven of the nine countries with programs had conditionality on anti-corruption and fiscal governance measures. Fiscal governance measures were mostly on transparency, procurement, and PFM controls.

to structural benchmarks that were "fully met" on time (i.e., on the test date established for the measure). For further insight into the outcomes of Fund-supported programs, please see the examples of Ecuador and the Republic of Congo (Box 4).

23. **Beyond the "fully met" benchmarks, many measures were either partially met or met with some delay**. 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 jointly considering benchmarks met within the test-date and those met with delay. [15] In addition, some measures were partially met (22.2 percent of the not met corruption-related SBs). These cases imply some progress in the implementation of the measure, yet not enough to be considered as fully met. A typical example is legislation that enhances the framework but falls short of incorporating all the items specified in the structural benchmark.

24. **The analysis also provides some insight into the outputs in structural benchmarks**. The analysis of corruption-related benchmarks shows that prior to the adoption of the 2018 Framework, there was a focus on measures aimed at implementation (72 percent), such as the operationalization of an anti-corruption commission or the publication of asset declarations by high-level public officials. After the adoption of the 2018 Framework, implementation-oriented measures remain prominent but more balanced with measures oriented at strengthening the legal framework, such as the ratification of the UNCAC (59.5 percent and 40.5 percent, respectively). Traction seems balanced, with implementation-oriented conditionality having slightly greater compliance than those oriented to legal reforms (53.6 percent and 46.4 percent respectively). [16]

Figure 5. Governance-Related Conditionality

Proportion of Governance-Related Conditions (percent)

Conditionality Compliance ('Fully Met' Structural Benchmarks) (percent)

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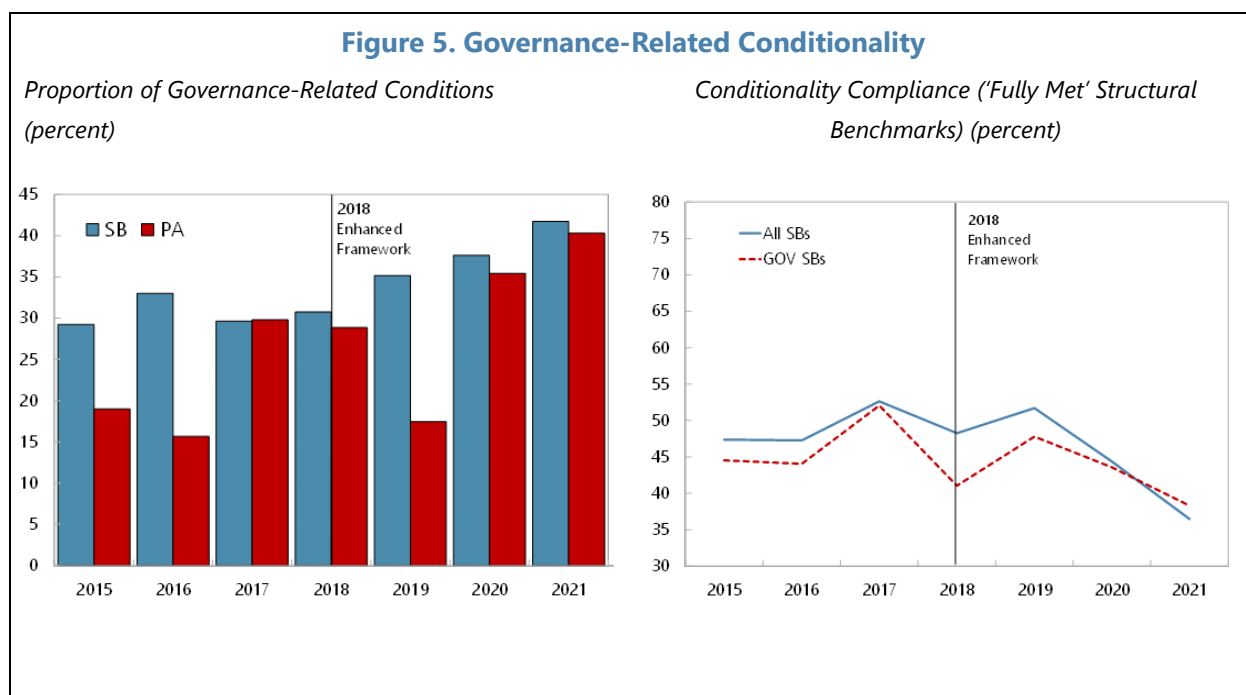
[15] Based on staff analysis of Fund-supported program documents (staff reports).

[16] Understood for the purposes of this exercise as the combination of structural benchmarks met and met with delay.

Figure 5. Governance-Related Conditionality (Concluded)

Governance-related Conditionality and Compliance by State Function (2019-2021)

	Average	Fiscal	Financial	Central Bank	Regulatory	Rule of Law	AML/CFT	Anti-corruption
Structural Benchmark (number/percent of total structural benchmarks)	392 (34)	252 (22)	32 (3)	41 (4)	32 (3)	14 (1)	21 (2)	42 (4)
Compliance rate (percent of total governance structural benchmarks)	46	50	40	46	42	10	35	22

Note: PA – Prior Action, and SB – Structural Benchmark.

Source: MONA Database.

Table 1. Program Goals and Governance-Related Conditionality

	Before Framework (2015-17)	After Framework (2019-21)
Programs with Objectives in Specified Area (share of all programs)		
Fiscal	98	88
Financial Sector	91	83
Central Bank	44	50
Governance	33	76
Structural Benchmarks in Programs with Specified Objectives (share of all governance conditionality in respective area)		
Fiscal	100	100
Financial Sector	100	100
Central Bank	93	100
Governance	91	100

Source: MONA database; and staff estimates.

Box 4. Outcomes of Fund Supported Programs –Ecuador and Republic of Congo[1]

Advancing the transparency and anti-corruption agenda was one of the key objectives of the 27-month Extended Fund Facility (EFF) for Ecuador.[2] This focus was the result of centralized interdepartmental assessment process of Ecuador's corruption vulnerabilities, and the anti-corruption reforms' criticality for helping promote a level-playing field, raise trust in public institutions, and create a healthier business environment.

During the EFF arrangement, the authorities implemented significant transparency and anti-corruption reforms to both prevent misuse of COVID-19 spending and mitigate structural corruption vulnerabilities. Transparency and accountability in pandemic-related spending was enhanced by (i) the Comptroller General's Office conducting and publishing audits of COVID-19-related expenditure; (ii) publishing procurement contracts; (iii) revising the legal framework to collect and publish beneficial ownership information of companies involved in public procurement; (iv) publishing that information for the 100 largest procurement contracts awarded from October 2020 through December 2021; and (v) establishing the National Control Subsystem (SNC), which allows for information sharing and a risk-based monitoring of public procurement activities. At the structural level, and supported by Fund technical assistance, Ecuador's anti-corruption legal framework was amended to ensure the criminalization of corruption is in line with international standards; the online publication of asset declarations by high-level public officials and/or politically exposed persons was expanded; and new legislations to prevent and detect conflict of interest in the public sector and to strengthen the AML/CFT legal framework were submitted to the National Assembly.

The design of a 3-year Extended Credit Facility (ECF) for the Republic of Congo[3] approved in January 2022, has been informed by the findings of the 2018 diagnostic on governance and corruption. Published by both the IMF and the Government of the RoC, it identified corruption vulnerabilities and governance weaknesses across all of the core state functions. The pillars of the ECF maintain the focus on continued progress in structural reforms relating to reducing corruption, improving governance, and protecting public resources. Capacity development is aligned with program objectives, prioritizing: (i) tax policy and administration, PFM reforms, and debt management; (ii) statistics—in national accounts, monetary, fiscal, external sector, debt and high-frequency statistics; and (iii) the anti-corruption framework and its operationalization.

The authorities have already implemented a significant number of the reforms prioritized in the diagnostic to reduce exposure to corruption. In particular, they adopted improved anti-corruption, asset declaration, and conflict of interest laws that reflect international standards and good practices, increased transparency in the oil sector, and operationalized the Transparency Code. In consultation with IMF staff, the authorities plan to undertake an analysis of the implementation of measures committed in the 2018 diagnostic report, to identify priorities going forward that reflect continued structural weaknesses and emerging issues.

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[1] These two examples are included for illustrative purposes, among several other cases.

[2] For Ecuador's Fund-supported program documents please see https://www.imf.org/en/Countries/ECU

[3] For Republic of Congo's Fund-supported program documents please see https://www.imf.org/en/Countries/COG

Governance Commitments in Pandemic Emergency Financing

25.   Experience with COVID-19 emergency financing provides a concrete example of effective Fund engagement on governance and illustrates the 2018 Framework's flexibility to encompass major shocks. At the outbreak of the pandemic, staff recognized that governments' urgent response to the dual social and health crisis, including the need to secure vital supplies rapidly, would increase the risk of fraud and corruption in procurement and public spending, especially where regular budgeting and financial management processes and controls were suspended. Accordingly, working under the umbrella of the 2018 Framework, staff quickly coordinated a Fund-wide approach to encouraging governance commitments (e.g., safeguard assessments, audits, procurement transparency, including publication of beneficial ownership of awarded companies) that would help limit the scope for corruption.[17] The approach was summarized in the October 2020 staff guidance on addressing governance safeguards for emergency financing.[18] These measures were designed to allow rapid disbursements while promoting accountability and were tailored to individual countries' circumstances, corruption risks, and legal and institutional frameworks.[19] For instance, in some cases third parties (reputable private firms) audited the emergency spending, whereas in others the country's Supreme Audit Institution performed this task.

26.   The experience with governance commitments in pandemic-related emergency financing suggests the following takeaways: (i) publicly tracking implementation raises the visibility and accountability of the measures, (ii) measures continuing or building on existing practices have a higher implementation rate, (iii) civil society and other stakeholders can play a useful role in supporting implementation and follow-up, (iv) specific CD to support the measures can be instrumental in facilitating implementation. The experience also affords lessons beyond emergency spending (e.g., on the potential of SAIs to support anti-corruption efforts, see below and BP II).

Capacity Development

27.   The CD has been increased by leveraging long-standing support to state functions and developing new initiatives. Governance and Anti-Corruption is one of the six-CD priority areas. Existing programs on fiscal governance, financial sector oversight, and AML/CFT assisted in addressing governance vulnerabilities linked to corruption in key state functions. The adoption of the 2018 Framework also stimulated the development of new CD activities, including country diagnostics and regional training on governance and anti-corruption, topical CD to respond to needs related to corruption risks during the pandemic, and direct anti-corruption and rule of law CD.

28.   Enhanced CD activities in fiscal governance, central bank governance, financial sector oversight, and AML/CFT have helped address governance weaknesses. CD on fiscal governance has been deployed to enhance fiscal transparency, improve public financial management, strengthen

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[17] Please see IEO report "The IMF's Emergency Response to the COVID-19 Pandemic" for a comprehensive evaluation of the Fund's response.

[18] https://www.imf.org/-/media/Files/Publications/PP/2020/English/PPEA2020044.ashx (Box 2).

[19] https://www.imf.org/en/Topics/imf-and-covid19/-/media/Files/Topics/COVID/tracker-pdf/governance-commitments-in-covid-19-rapid-instruments-as-of-10-18-2021.ashx

revenue administration, and promote digitalization of the government.[20] Central bank CD has focused on strengthening central bank independence, decision-making, internal organization, and internal controls for operations. Financial Sector Stability Reviews (FSSRs), covering many LICs/FCS, have helped identify financial sector oversight weaknesses in various countries, and follow-up targeted technical assistance has been provided, including on related-party lending. Statistics CD has promoted transparency by improving the quality of data. The AML/CFT CD program has helped mitigate the risks related to the concealment of the proceeds of corruption.

29.   Diagnostics and specialized regional training on governance and corruption have been key innovations. GD help assess the severity and nature of corruption holistically, identify governance weaknesses and corruption vulnerabilities, and map out a sequenced, prioritized, and time-bound set of recommendations for strengthening governance, integrity, and the rule of law. Thus far, 15 diagnostics have been completed, and six others are ongoing (see Box 5 and background paper on diagnostics). In conjunction with RCDCs, staff also developed and offered a course on Building Institutions to Fight Corruption which has been delivered in training centers in Africa and the Middle East and enhancing corporate governance in Africa and CCA. The 2022 High-Level Conference on the Promotion of Good Governance and Fight Against Corruption, held in Botswana, also highlighted the interconnection between corruption, governance, and macroeconomic stability.

30.   Staff has also offered a tailored CD to assist the member countries in implementing governance safeguards related to emergency spending. During the COVID-19 pandemic, CD also supported the implementation of measures such as the publication of beneficial ownership of procurement contracts and ex-post audit of COVID-related spending, which have been provided to more than two dozen countries.

31.   Finally, 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.[21] 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, which includes drafting anti-corruption laws and regulations, with attention to design and implementation of asset declaration and conflict of interest systems, and supporting governance and effectiveness of anti-corruption institutions. A first long-term expert will be posted in AFRITAC South, and another one is considered for the MENA region. They will benefit from coordination and partnership with existing long-term experts on fiscal governance and AML. Donor support has been increasing to finance this line of work, and ongoing discussions indicate a high probability that available financial resources will rise toward meeting demand.

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[20] Examples include public investment management assessments (PIMA) aimed at improving the management of capital projects, and CD on frameworks for SOE Ownership (these were recently provided, for instance, to Sierra Leone).

[21] At the time of the 2020 Board update the projected increase for this line of CD from 1.1 percent of total CD delivery in FY19 to 1.8 percent of total in FY23, or $4½-5 million in total. The expected amount for FY23 is around $2 million.

Box 5. Governance Diagnostics

- GD examine the severity of corruption in a country and identify the governance weaknesses and corruption vulnerabilities across the 2018 Framework's six state functions.

- All GD sought close engagement with other stakeholders, such as civil society and international partners

- Findings of the diagnostics have been featured in subsequent Fund engagement with member countries, have informed the country teams in program design, and have been used by country authorities to plan and enact reforms. The majority of GDs were undertaken in the context of discussions for a new program or during an ongoing program.

- Out of the 21 countries for which diagnostics have been or are being delivered, 10 are FCS. Ten reports were published, out of the 15 finalized.

- All diagnostic reports consistently provide coverage of corruption vulnerabilities. Some recent exercises have included political scientists to provide greater depth and background to the analysis of corruption patterns and networks.

- Diagnostic reports provide candid but uneven discussions of corruption vulnerabilities. All diagnostic reports provide time-bound policy recommendations tailored to the country's needs and capacity, with varying degrees of prioritization.

Early lessons include:
o   Better balance between tailoring GD to the specific country circumstances and consistency.

o   Utilization of GD on a more systematic basis to inform and sequence reform priorities.

o   Corruption risks in the six state functions closely guide the scope of analysis and formulation of recommendations, particularly in FCS.

o   Prioritized and sequenced reforms, fully considering each country's circumstances and capacities.

o   Importance of consistent follow-up and integration of diagnostic recommendations in CD delivery.

Governance Diagnostic Assessments Since 2018

Year	EM (excl. FCS)	LIC (excl. FCS)	FCS
2018			Republic of Congo (published)
2019	Equatorial Guinea (published) Peru		Mozambique (published)
2020		Honduras	Dem. Rep. of Congo (published) Guinea-Bissau (published) Zimbabwe
2021		Moldova (published)	Central African Rep. (published) Mali Sudan
2022	Paraguay (published)	Zambia (published)	
2023	Sri Lanka (planned) Tunisia (ongoing)	Benin (published) Mauritania (near completion) The Gambia (ongoing)	Lebanon (ongoing) Cameroon (planned)

Source: IMF staff, as of February 15, 2023.

Collaboration with International Institutions

32.   Staff has been leveraging the expertise of other organizations to support key elements of the 2018 Framework at the institutional and operational levels. While the World Bank has been a primary contact, as indicated in the 2020 update, staff has been closely working with standard setters in governance and corruption-related areas, particularly the United Nations Office on Drugs and Crimes (UNODC), the Organization for Economic Co-operation and Development (OECD) - working group on bribery in international business transactions, and the Financial Action Task Force (FATF). Fund staff also regularly attend and contribute to the G20 Anti-Corruption Working Group, and recent engagement with the International Organization of Supreme Audit Institutions (INTOSAI) has supported the Fund's work on SAIs.[22]

33.   The World Bank's input is gathered at multiple stages and is crucial, particularly in areas where the Fund does not have a comparative advantage. Fund staff integrates the relevant analysis, reports, and advice of Bank staff (e.g., country policy and institutional assessment (CPIA), expertise on procurement) into the centralized process and to inform surveillance, lending, and capacity development. World Bank staff routinely support the prioritization of areas of engagement in specific countries, participate in brainstorming meetings on governance or support GD (e.g., Sudan). World Bank collaboration has been particularly helpful on public procurement and, for many countries, in key State Own Enterprises (SOEs). In the context of IMF emergency financing, World Bank procurement experts and IMF AML experts often partnered to assist authorities in implementing their commitments on transparency of beneficial ownership of companies awarded public contracts. While Fund staff has strengthened its expertise on anti-corruption and rule of law areas, it continues to benefit from coordination and collaboration where the World Bank has a comparative advantage, particularly asset recovery, with the World Bank/UNODC Stolen Asset Recovery Initiative (StAR).

34.   At the operational level, staff has expanded the breadth of organizations and areas for collaboration with regional multilateral development banks and other development partners. Such collaboration has leveraged opportunities at both central level and, perhaps even more impactfully, country level—in information-sharing, coordination of CD efforts, inputs for diagnostics and AIV, and operationalizing reforms. A few examples of staff collaboration illustrate the range of activities, countries, and counterparts: Ukraine's Fund-supported Programs since 2014, with European Commission and USAID on anti-corruption and judicial reforms; Ecuador's EFF, with UNDP on anti-corruption legal reforms and IADB on AML/CFT; Zambia's governance diagnostic, with World Bank, European Union, and GIZ, building upon their ongoing work on public funding of the judiciary and public financial management; Paraguay's governance diagnostic, with IADB participation; Papua New Guinea's ECF and AIV, with EU and UNDP. Meetings are often held to gather or share information for diagnostics or implementation of their recommendations (e.g., Zambia and Mauritania, with the larger donor community; Democratic Republic of Congo, local staff from IBRD and UK's Foreign, Commonwealth, and Development Office.).

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[22] Staff also engages with international bodies that develop standards on governance in the financial sector (e.g., FSB, BCBS, IAIS, IOSCO).

35.   Some challenges remain in the collaboration with international organizations. The survey to country teams suggests that collaboration with other international organizations has been particularly effective in LICs, FCS, and countries with UCT programs and/or high perceived governance and corruption vulnerabilities. Assessments are generally positive (or neutral), but some staff point to challenges related to time spent on coordination, non-timely responses from counterparts, and non-alignment with Fund priorities in the delivery of CD by other organizations.

Collaboration with Civil Society Organizations

36.   Collaborating with CSOs has been critical to support the effectiveness of the 2018 Framework. CSOs[23] have provided Fund staff with input and expertise on country-specific and global governance and anti-corruption issues, which has been valuable across all Fund workstreams. Through their local knowledge, CSOs serve as important interlocutors supporting surveillance, program, and governance diagnostic missions. Most country teams report interactions with CSOs, particularly in LICs, FCS, and countries with UCT programs or high perceived governance vulnerabilities. Examples of successful collaboration include Ecuador, Brazil, and Ukraine, where there was extensive engagement with CSOs, providing input on vulnerabilities and following up on the implementation of policy advice and Fund-supported program conditionality. The survey of country teams highlighted, however, that interaction is hampered in some cases by a lack of free and independent press or CSOs. Fund staff also engages with CSOs at the central level, inviting them to provide input on draft publications, participate in international conferences, facilitate periodic consultations, and organize the Anti-Corruption Innovation Challenge (Box 6). Moreover, management and staff have maintained an active dialogue with several CSOs during the COVID-19 crisis with regard to governance challenges and the Fund's emergency financing. Staff also regularly contributes to the International Anti-Corruption Conference (IACC).

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[23] Civil Society Organizations include nongovernmental organizations, business forums, social movements, academics, research centers, and think tanks.

Box 6. IMF Anti-Corruption Innovation Challenge

IMF staff sourced proposals from country authorities, other international organizations, and civil society organizations to spotlight governance vulnerabilities and severity of corruption, create behavioral change using digital solutions, and increase transparency and accountability in the public sector. The challenge, launched during the 2019 IMF Annual Meetings with funding from SECO, received more than 120 proposals from more than 30 countries, from which four winning proposals were chosen:

1. Joining the Dots with Public Officials: Cross Matching Beneficial Ownership and Financial Disclosures Data to Identify Red Flags. A dynamic tool applying machine learning to different data sets (e.g., asset declaration of public officials and beneficial ownership of companies) was piloted in Colombia and is now implemented in Nigeria. The system generates red flags regarding risks of corruption associated with politically exposed persons.

2. Public Procurement Corruption Risks: Harnessing Big Data for Better Fiscal Governance and Growth. A dashboard assessing risks of corruption in procurement was developed to assess related governance vulnerabilities and design reforms as appropriate. The team published an IMF working paper and Technical Note and Manual on methodology and results.

3. Enhancing Transparency in Wage Bill Practices: Leveraging Blockchain. The project, led by the Guinea-Bissau's authorities, is being implemented with the technical assistance of the IMF and Ernst and Young and the financial assistance of developmental partners. It aims at accessing reliable information on personnel and salaries to track effective outcomes and help address inefficiencies and prevent leakages in the wage bill management.[1]

4. Optimizing the Detection of Beneficial Ownership of High-risk Firms in Brazil. A tool has been piloted for automating and optimizing the detection of shell companies bidding in public procedures and of their potential beneficial owners. It identified red flags related to many companies, including those the government procured from under emergency spending.

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[1] Box 3 in _Guinea-Bissau: 2022 Article IV Consultation and Third Review under the Staff-Monitored Program; Press Release; and Statement by the Executive Director for Guinea-Bissau (imf.org)_

Stakeholders' Views

37.   A majority of stakeholders (national authorities, country teams, CSOs) agree that the Fund's engagement on governance has become more effective since the adoption of the 2018 Framework:

- Over 70 percent of national authorities who responded to the survey agree or strongly agree that the Fund's involvement in governance and anti-corruption issues have positively impacted their country, and that the Fund has provided tailored, concrete, and granular policy advice in this area (Figure 2).

- Correspondingly, around 65 percent of country teams agree or strongly agree that the Fund's engagement on governance issues has become more effective. Although this feedback is similar across countries from different regions and income levels, the share of 'strongly agree' tends to be larger in FCS, LICs, and countries with UCT programs (Figure 2).

- This finding is in line with survey responses from CSOs, of which more than two-thirds indicated that the Fund provided more specific, concrete, and actionable policy advice to member countries (Figure 2). The majority of CSOs consulted recognized that Fund engagement with member countries has been more candid, effective, and evenhanded since implementation of the 2018 Framework. Regarding engagement with CSOs on governance and, especially, anti-

corruption, they noted more should be done to further promote civil society participation in the design and implementation of Fund policies. Recommendations included expanding the breadth of CSOs consulted at the national level, facilitating regular consultations, and increasing opportunities for dialogue during in-country missions. CSOs also recommended more outreach regarding the Fund's mandate and work on governance and anti-corruption to allow CSOs to monitor implementation of policy advice more effectively. Similarly, they encouraged the development of specific policies to protect CSOs operating in a shrinking civic space context. Finally, CSOs called for greater publicity and transparency of Fund work related to governance and anti-corruption and called for the greater use of conditionality in these areas. They highlighted the importance and value of the Fund's efforts around beneficial ownership transparency and COVID-19 audits.

38.   National authorities—especially those of emerging markets and low-income countries—welcome the Fund's capacity building efforts and generally call for more assistance. This reflects their view that lack of capacity is one of the main obstacles to improving governance (Box 7):

- A clear majority of national authorities (in EMs and LICs) acknowledge the Fund's CD in support of governance and anti-corruption measures to be timely and useful (Figure 6).

- In terms of modalities of Fund engagement, authorities of emerging markets and especially low-income countries rank topical technical assistance and training somewhat higher than overall GD, followed by in-depth Article IV discussions and recommendations, with program conditionality being the least popular (Figure 7).

- Country teams working on these countries echo the national authorities' responses.

Figure 6. Survey Responses on Technical Assistance (From National Authorities)
(percent)

IMF staff provided timely and useful technical assistance to support the implementation of governance and anti-corruption policy advice?

Source: National authorities survey.
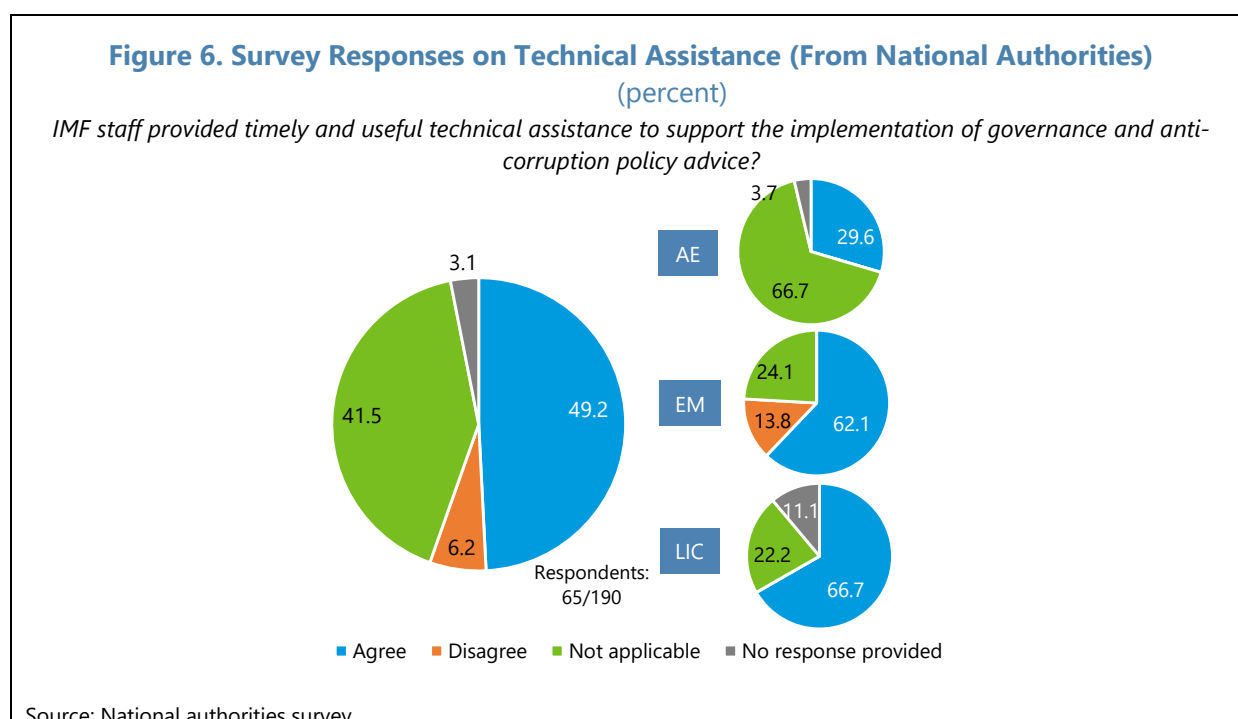
Figure 7. Survey Responses on Areas of Further Enhanced Engagement

(In terms of the possible modalities of further enhanced engagement, please rank the following areas where the Fund could further engage with member countries in governance and anti-corruption issues)

National Authorities

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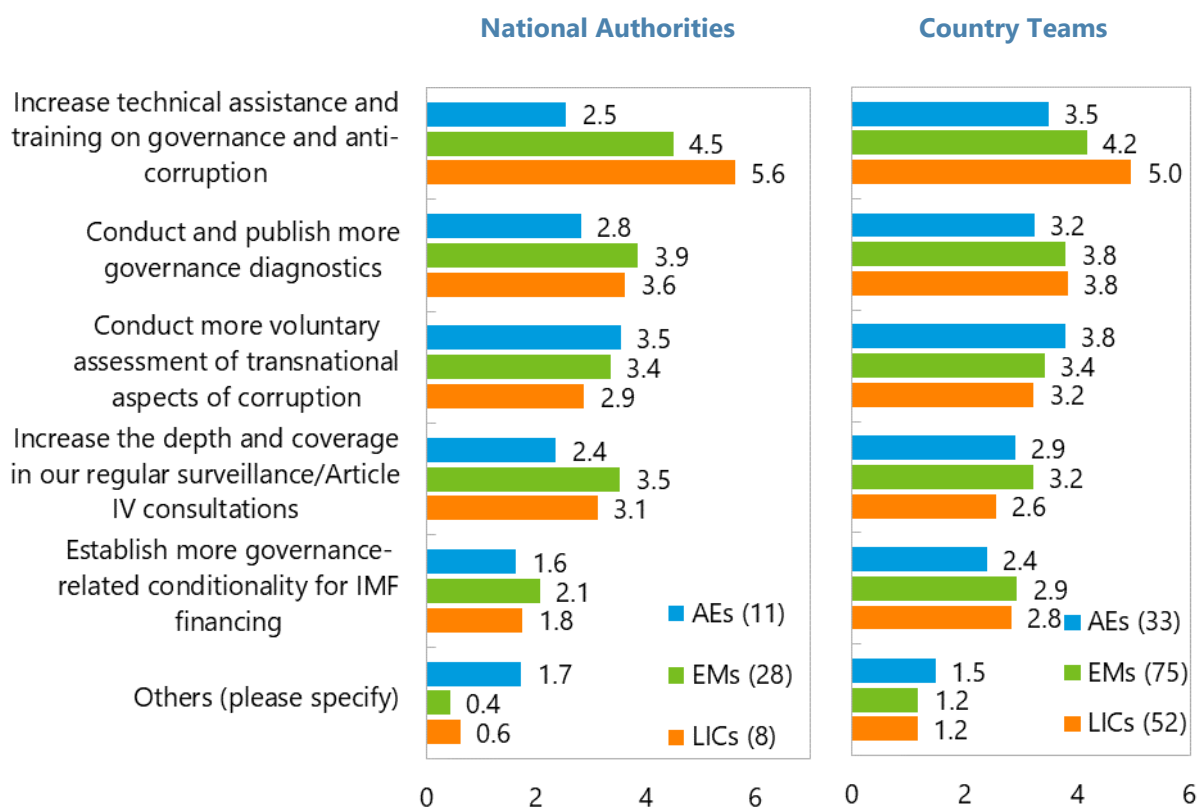
Note: The questionnaire asked respondents to rank the items and not all respondents ranked all items. This result shows the average point weighted by ranking, ranked in 1st – 6 points, 2nd – 5 points, 3rd – 4 points, 4th – 3 points, 5th – 2 points, 6th – 1point and not ranked – 0 point.

Implementation Challenges

39.   Staff recommendations are typically well received, but there are often constraints on their implementation. It naturally takes time to implement these measures, and currently, their implementation status is not tracked fully systematically. Nonetheless, a tabulation of the reasons why implementation has been difficult is revealing: national authorities identify a lack of political ownership and capacity constraints as the most important impediments. Country teams likewise report capacity constraints and vested interests as major obstacles (Box 7).

Box 7. Impediments to Implementing Governance and Anti-Corruption Measures

As part of the consultation for this Review and benefitting from the surveys of national authorities, country teams, and civil society, staff identified key obstacles to implementing the 2018 Framework, grouped in three areas.

Lack of ownership: Fragility, conflict, political instability, postponed elections, or fragmented political environments may hamper the determination of government officials and leaders to implement meaningful and sustainable governance and anti-corruption reforms. Particularly in these circumstances, support and buy-in from other stakeholders and members of society, which is crucial for the success of anti-corruption efforts, may also be limited or actively suppressed. Lack of "political will" may also shackle attempts to address transnational aspects of corruption.

Vested interests: Instances of entrenched resistance to reform by bureaucratic or economic elites can be triggered by interests in sustaining economic rents for private gain. They may materialize through capture of the state, branch of the state (e.g., judiciary, parliament), agencies, or systemically important SOEs—for example, in the financial or energy sectors. They may also occur through pressures on civic space or limitations on freedom of access to information.

Capacity constraints faced by member countries and Fund staff: These issues are common in the membership in areas of Fund engagement but can be aggravated where ownership is weak and vested interests are strong, as corruption infiltrates and seeks to widen gaps left open by insufficient capacity. Fund staff may also face capacity constraints when unable to properly match authorities' capacity development needs with existing resources lacking necessary expertise in-house on state functions or elements of state functions (e.g., *market regulation*, *procurement*) or experiencing difficulties in leveraging other international organizations and stakeholders. In situations of competing priorities, capacity constraints also affect prioritization and resource allocation, particularly in areas of staff expertise where country teams demand more support (e.g., *fiscal governance, AML/CFT, anti-corruption*).

Capacity Constraints Identified by Stakeholders (percent)

Country Teams

Capacity constraints	71
Vested interests	71
Lack of ownership/commitment	47
Other (please specify)	20
Capture of the judiciary	27
Capture of the legislature	27
Lack of international cooperation/transnational weaknesses	13

National Authorities

Lack of ownership	50
Capacity constraints	33
Conflict / Instability	25
Other	8
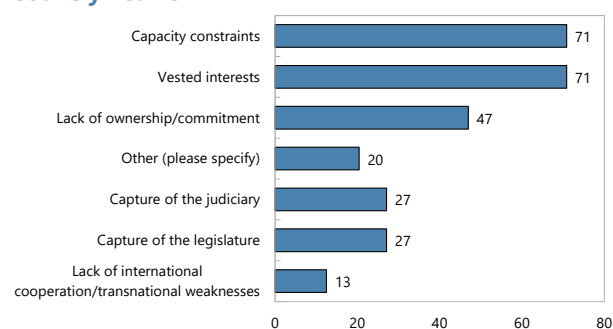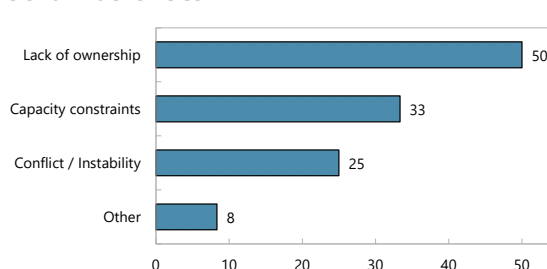
Sources: National authorities survey; and country team survey.

D. Evenhanded Engagement

Evenhandedness, a core principle of the Fund, is especially important for effective engagement on governance issues, which are often politically sensitive. Much of the analysis suggests—and most stakeholders agree—that the Fund's engagement on governance has been broadly evenhanded. Nonetheless, the number of countries (13 thus far) that have volunteered for an assessment of transnational aspects of corruption in the context of Article IV is still below expectations.

Staff Reports

40.   The identification of governance and corruption vulnerabilities is undertaken for the entire membership by an interdepartmental working group, and staff relies on best practices and, where available, international standards as part of its policy advice. Moreover, there is broadly even coverage across the membership in terms of substantive Article IV discussions and specific recommendations, conditional on identified vulnerabilities (Figures 3, 4). Coverage of governance issues is uneven by state function (e.g., *fiscal governance* versus *market regulation*), but not by income group or region, for similarly situated countries with respect to a given weakness. Evenhandedness in the context of policy advice is also achieved by relying on internationally recognized standards and good practices. For example, when providing advice on criminal law framework issues, Fund staff draw from international norms and good practices (see Box 8). Likewise, in other areas such as *fiscal transparency* or *public investment management*, staff draw on existing codes and assessment tools that, while providing broad benefits in terms of value-for-money and accountability, also reduce vulnerabilities to corruption.

41.   There is no evidence of systematic biases in the treatment of members, by an admittedly crude indicator of evenhandedness—the frequency of the use word "corruption" in the texts of staff reports. By this metric, no biases are found, *controlling for* the perceived degree of corruption in the country (measured by an index—the Worldwide Governance Indicators—that is compiled independently of Fund staff). Specifically: (i) the frequency of the use of the word "corruption" is strongly correlated with perceived prevalence of corruption (Figure 8), and (ii) this correlation becomes (statistically significantly) stronger following the adoption of the 2018 Framework. Conditional on the World Governance Indicator (WGI) corruption index, the income level- and regional- dummy variables are all statistically *in*significant, implying that there are no systematic biases (BP I-2). In support of these findings, national authorities have never raised concerns related to the Fund's engagement on corruption or governance issues through the 'evenhandedness mechanism' of the Fund, in existence since 2017 and the official mechanism for raising evenhandedness concerns in surveillance.

Figure 8. Correlation Between Use of the Terms 'Corruption' and Perceived Corruption

Pre-Framework

y=-0.1428+0.0124*CorruptionIndex
R^2=0.0556

Post-Framework

y=0.0546+0.0238*CorruptionIndex
R^2=0.2476
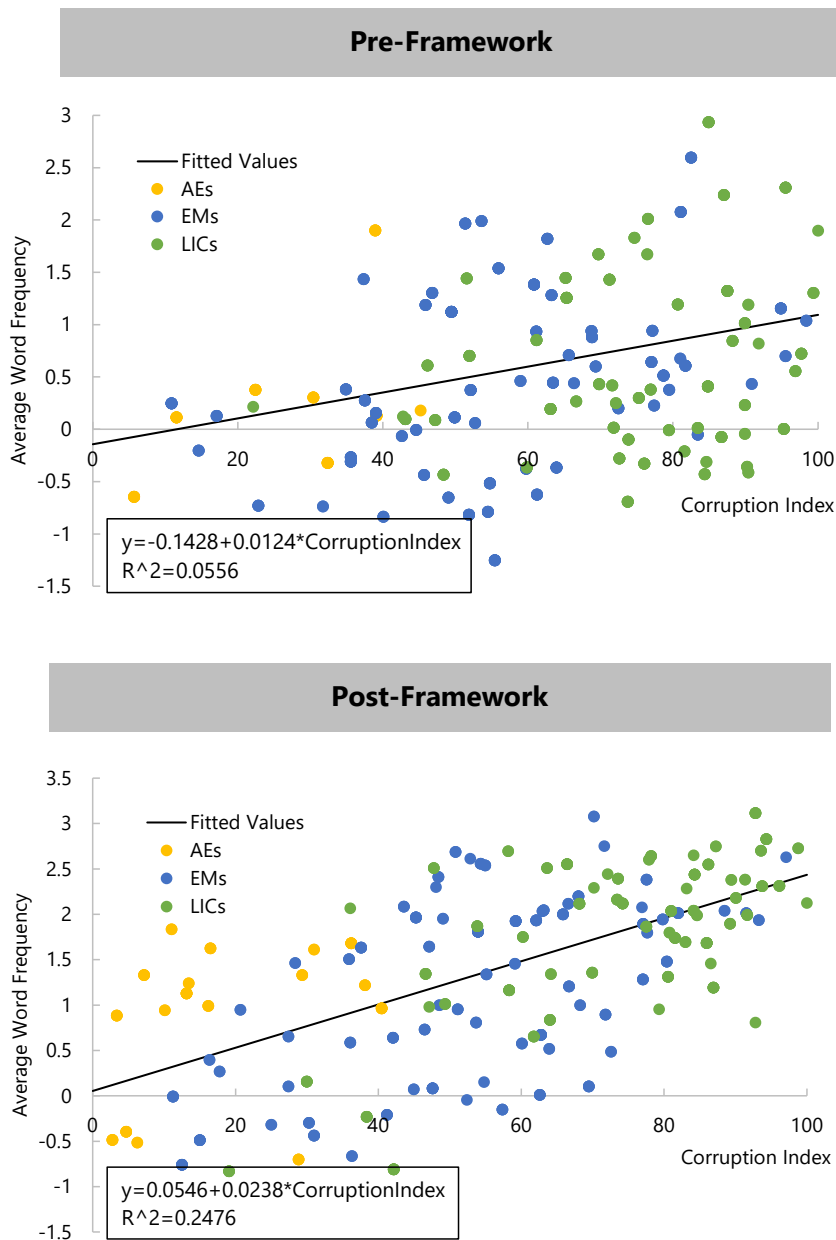
Source: IMF Text Analytics Database; and staff estimates.
Note: Charts show correlation between the log (word frequency) and the WGI Control of Corruption Index.

Box 8. 2018 International Standards and Criminal Law Reforms in Fund-Supported Programs

Criminal law enforcement is recognized by the 2018 Framework as central to any effective anti-corruption strategy. Reforms promoting good governance need robust criminal enforcement frameworks to be effective. To effectively bring perpetrators of corruption to justice, recover corrupt proceeds, and safeguard the judicial process from abuse, a country's criminal law framework must adequately lay out substantive corruption offenses and applicable penalties, and establish procedures for criminal law proceedings. Some behaviors qualified as lobbying in some jurisdictions, would fit within the definition of acts of corruption that is criminalized consistent with the UNCAC (e.g., bribery or trading in influence). Where macro-critical, the issue would be discussed in bilateral surveillance.

When providing advice on these issues, Fund staff draws from international norms and good practices. International norms include **the United Nations Convention Against Corruption (UNCAC)**, which covers the main areas of anti-corruption, including criminalization, law enforcement and international cooperation and asset recovery, and the **Financial Action Task Force (FATF)** standard—the global standard for AML/CFT, which includes recommendations relating to investigation, prosecution, and sanctioning of money laundering offenses and related predicate offenses (including corruption), and asset recovery. Evaluations of compliance against these standards provide useful information to staff.

Criminal law reforms have constituted important aspects of Fund-supported programs, including in **Afghanistan, Equatorial Guinea,** and **Suriname** (amendments to the Penal Code to ensure adequate criminalization of corruption offenses), **Moldova** (amendments to the Penal and Criminal Procedure Codes to support effective prosecution and adjudication of corruption cases), **Serbia** (requiring amendments to the Tax Procedure and Penal Codes to broaden the investigative powers of tax authorities), and **Ukraine** (amendments to AML/CFT Law and Penal Code to ensure effective use of AML/CFT tools to support anti-corruption efforts).

Transnational Corruption: Supply-Side and Concealment

42.   An increasing but limited number of members have agreed to a voluntary assessment in the context of surveillance of their efforts to prevent transnational corruption.[24] Recognizing that corruption is a global problem with transnational ramifications and to support the evenhandedness of its engagement, the Fund has urged members—regardless of their domestic incidence of corruption—to voluntarily agree to such assessments. These encompass a member's framework against bribery of foreign public officials in international business transactions, and those aspects of the member's AML/CFT frameworks that seek to curb concealment of the proceeds of corruption by foreign officials. Over the five years since the adoption of the 2018 Framework, 13 countries have volunteered to be assessed, with coverage of eleven already included in Article IV Staff Reports and the remainder scheduled for 2023.[25]

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[24] In the context of surveillance, a country that, although it does not experience systemic corruption itself, hosts firms that might engage in bribery of foreign officials or which facilitate the concealment of proceeds of corrupt practices, could not be required to have these issues addressed in its Article IV discussions unless: (a) it could be demonstrated that its failure to address these weaknesses would, in and of itself, undermine its own domestic or balance of payments stability; or (b) these weaknesses give rise to systemic spillovers within the meaning of the Integrated Surveillance Decision. In practice, therefore, these assessments are undertaken as an Article V, Section 2 technical service, which is voluntary for both the Fund and the member.

[25] G7, Austria, Czech Republic, Switzerland, The Netherlands, Norway, and Saudi Arabia (with coverage for the latter two expected in 2023).

43.   Discussion of these issues is conducted in coordination with the Organization for OECD and the FATF. Where possible, staff relied on reports of implementation of: (i) the FATF AML/CFT standards relevant to facilitation of corruption and concealment of its proceeds, and (ii) the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. For non-signatories of that convention, Fund staff assessment would be based on the peer review under the UNCAC.

44.   The assessments noted the overall strengths of the systems and identified shortcomings that should be addressed to enhance the fight against transnational corruption. In relation to supply-side issues, the assessed countries have criminalized the bribery of foreign officials and are implementing policies to prevent their multinationals from doing so, but significant weaknesses remain in many assessed countries. The assessed countries also strengthened or issued corporate liability laws and explicitly prohibit tax deductibility of bribes. Whereas some have introduced whistleblower protection laws, recent OECD Anti-Bribery reports indicate that this is still a weakness for many countries.[26] Staff Reports also revealed a continued decline in enforcement relating to foreign bribery, including in countries that used to enforce actively. In relation to facilitation, Article IV staff reports highlighted the strengths in the legal frameworks and overall enforcement against money laundering resulting from foreign proceeds of corruption. However, many of the assessed countries need to deepen analysis of transnational corruption risks, enhance entity transparency by making beneficial ownership publicly available and strengthen the implementation of preventive measures related to foreign politically exposed persons. They also need to strengthen efforts to trace, confiscate, and repatriate foreign proceeds of corruption.

Stakeholders' Views

45.   Most respondents agree (or are agnostic) that the Fund has addressed governance and corruption issues evenhandedly, though a few raise concerns (Figure 2):

- About half of national authorities responded that they agree or strongly agree that engagement has been evenhanded, while a further 40 percent are agnostic.[27] Most authorities that disagreed are from countries with high perceived governance and corruption vulnerabilities and who feel that the Fund does not engage sufficiently on governance issues when it comes to advanced economies.[28]

- Likewise, while most country teams consider the Fund's engagement to be evenhanded, a small proportion (mostly covering low-income members or those with UCT programs or high

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[26] The 2021 Anti-Bribery Recommendation contains an extensive section on whistleblower protection (Section XXI – XXII).

[27] Since most national authorities are unlikely to be familiar with the governance weaknesses—and the Fund's engagement—in *other* countries, such agnosticism is perhaps to be expected. However, the results should be interpreted with care, in view of the low response rate (1/3) and responses skewed to AEs.

[28] Three emerging market countries and one low-income country responded as "disagree."

perceived corruption vulnerabilities) disagree, citing an overemphasis on governance issues in these countries relative to other countries.[29]

RESOURCES AND RISKS

A.   Resource Costs

46.   The Fund's engagement on governance and anti-corruption efforts have been estimated by departments to be relatively stable at about US$23 million annually since FY21. Departmental spending estimates have been provided in Fund-wide surveys since FY21 as part of the budget process, based on further experience as well as a methodology that has been improved over time[30]. *Conceptually*, this estimate comprises several elements:

(i)   Review of the 2018 Framework

(ii)   The Interdepartmental Working Group's centralized assessment of governance vulnerabilities for the whole membership

(iii)   Brainstorming sessions and other functional department support to set priorities and plan governance-related discussions

(iv)   Staff engagement with national authorities on governance issues in surveillance or program contexts

(v)   Functional departments' review of surveillance and program documents, support for developing policy advice and specific recommendations, and following up on related conditionality

(vi)   Capacity development (GD; topical technical assistance and training)

(vii) Implementation, review, and reporting on Emergency Financing governance commitments

(viii) Enhancement of the toolkit for engagement on governance issues

(ix)   Implementation of the FCS strategy

Not all activities are performed every year—in particular, (i) policy reviews are not conducted annually, and (ii) the centralized assessment has not been undertaken (except for ad hoc updates) since FY20. Also, country work per (iii), (iv) and (v) above is typically recorded as general surveillance or program work, and estimates are therefore not included under the 'governance' rubric.

47.   Some governance-related costs will be higher in FY24 than in recent years as a fresh round of assessments is undertaken, and surveillance and demand for CD picks up post-pandemic but may be partially compensated by less pandemic-related work and the end of the first mid-term surveillance cycle. Following the completion of this Review, a fresh round of assessments of governance vulnerabilities will be undertaken for the entire membership. Also,

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[29] 5 EMs and 14 LICs country teams responded as "disagree" or "strongly disagree."

[30] The enhanced methodology supersedes the estimates provided in the 2020 Interim Update, which concluded to an increase in governance-related work of $6 million per year as a result of the implementation of the enhanced governance framework.

governance-related activities in surveillance will pick up again in FY24, when country teams will start discussing with authorities the findings of the new round of assessments. These costs will be partially offset by the reduced workload on pandemic-related governance safeguards with the final stocktaking slated for early in FY24. In addition, staff propose several enhancements to the toolkit (see below), with an estimated gross additional resource need of 1.0 FTE for the more systematic monitoring of the provision of governance-related policy advice and its implementation. Overall resourcing will continue to be reported on an annual basis as part of regular budget reporting. The net additional costs will need to be weighed against other competing pressures for resources in an already very stretched budgetary environment and, in the context of a flat real budget, absorbed through re-prioritization of activities. At the same time, it bears emphasizing that, due to the specialized nature of some of the governance-related work (notably-though by no means exclusively-in functional departments such as FAD, FIN, LEG and MCM), there are inherent limits to the resources that can be freed and re-allocated to governance work through re-prioritization, and this may well prove to be a binding constraint. Moreover, demand for Capacity Development in the form of governance diagnostics and technical assistance is expected to pick up post-pandemic but is difficult to predict precisely. These costs would also have to be absorbed or met through external funding.

B. Risks

48.   A failure to engage on governance issues in accordance with the 2018 Framework would expose the Fund to: (i) reputational risk related to the Fund's objectivity and credibility vis-à-vis civil society and the public at large; (ii) engagement risk with the membership affecting traction of policy advice and conditionality, and related risks to the performance of the Fund-supported programs; (iii) potential credit risk if corruption and poor governance undermine members' capacity to repay the Fund. At the same time, implementing the recommendations would have enterprise operational risks by exacerbating strain on already stretched staff resources, which also increases well-being and safety risks. More generally, tackling corruption exposes national authorities and civil society to safety and security risks; risks could potentially impact Fund staff as well.

STRENGTHENING IMPLEMENTATION

*To strengthen the **implementation** of the Framework even further, staff suggest the measures outlined below. Resource costs—including staff time—would be modest for most of these proposals, but for the others, their merits would need to be weighed against competing demands. In all cases, the implementation of the Framework would continue to be guided by macro-criticality and the core expertise of the Fund.*

49.   Implementation of the systematic, candid, and evenhanded approach could be strengthened in the following ways:

- *Conduct a fresh round of membership-wide assessments of corruption and governance vulnerabilities.* An initial round of assessments was conducted in 2018–19 with the understanding

that country teams would address them in Article IV consultations over the following three years. Although there have been ad hoc updates for many individual countries since then, it is now time for a fresh round for the whole membership. Regular updates for the membership will facilitate tracking changes over time in the quality of the various state functions, using a consistent approach at the central level.

- *Maximize the use of qualitative information collected by staff.* Based on experience since the adoption of the 2018 Framework, the centralized assessment process should incorporate more systematically information from Article IV consultations and programs, GD, FSAPs, FSSRs, Central Bank Transparency Code, or capacity building to help fill any gaps in coverage across the state functions.

- *Track more systematically Article IV recommendations and their implementation.* Establish a standardized process to enable country teams to better track governance-related policy advice and its implementation. This information, collected at the time of the Article IV mission, will be compiled in a database to also allow staff to better identify obstacles to implementation and plan further policy advice and technical assistance accordingly (for further details, see Annex).

- *Sustain and deepen the voluntary coverage of transnational aspects of corruption in the context of bilateral surveillance and step-up calls and awareness raising to encourage more members to volunteer for such assessments.* Based on enhanced understanding of risk and severity of transnational aspects of corruption, staff will sustain the coverage of these issues for volunteer countries and deepen the discussions on key vulnerabilities such as (i) understanding of transnational risks of bribery of foreign public officials and laundering of proceeds of corruption of foreign public officials, (ii) the role of potential enablers such as lawyers and accountants, (iii) enforcement, (iv) entity transparency and beneficial ownership, and (v) international cooperation and asset recovery.

50.   Addressing the key obstacles identified in implementing the 2018 Framework (Box 7) would further assist in strengthening effectiveness. The effectiveness of the 2018 Framework would notably benefit from better leveraging processes and collaboration with stakeholders, including efforts to secure ownership (Box 9) and authorities' support for reforms at the highest levels (e.g., president, prime minister) and from all key ministries/agencies, and strengthening the substance of Fund engagement in governance and corruption.

Strengthening Processes and Collaboration

- *Expand publication and utilization of GD, especially in high-risk environments, and further leverage GD to inform Article IV recommendations, program design, capacity building, and country engagement strategies.* GD, which provide unique holistic coverage of corruption vulnerabilities and governance weaknesses, can be leveraged further, particularly where corruption is pervasive, by considering political economy and analyzing networks of corruption. Also, GD can be improved by enhancing the consistency of reports and monitoring the recommendations, while tailoring them to the specific country circumstances, building on the lessons learned from the experiences thus far. Given the importance of transparency of these recommendations for their

effective implementation, in prioritizing GD requests, one factor that will be considered is the willingness of the authorities to publish the GD report.

- *Expand CD support through enhanced field presence of experts in relevant areas (e.g., AC/ROL) in coordination with IMF regional centers.* Enhancing capacity building to support countries' efforts to address governance and corruption vulnerabilities, with strategic integration and alignment of CD to surveillance and program engagement, is critical. To better incorporate local context and tailor recommendations to country circumstances and address authorities' demand, leverage the presence of long-term experts in coordination with RCDCs to complement HQ-based policy advice.

- *Strengthen collaboration with IFIs and other international and regional stakeholders.* Continue to complement the growing expertise of Fund staff with those of existing partners. In addition, expand the breadth of organizations to minimize duplication of efforts and take advantage of synergies, particularly for the implementation of reforms. Further analysis of lessons from the IMF-Word Bank collaboration on governance and corruption could help shape and define an effective strategy for broader collaboration among institutions.

- *Increase engagement with CSOs:*[31]

  o Engage more frequently on governance and corruption issues with civil society at HQ and in the field by identifying governance and corruption focused events (e.g., IACC, EITI), exploiting synergies with IMF events (e.g., Spring and Annual Meetings), and using opportunities afforded by missions.

  o Expand the base of CSOs engaged by identifying local counterparts and interlocutors (including those suggested by global CSOs) and conduct outreach (local/regional workshops; digital contacts) to explore how CSOs can complement and amplify the effectiveness of the Fund's work on governance and corruption.

- *Complete stock-taking of, and draw lessons from, implementation of governance commitments in pandemic-related emergency financing.* Building on the pandemic-response experience and, when possible, the more recent Food Shock Window (FSW) emergency financing instrument, (which specifies that member countries accessing the FSW would also be expected to commit to measures ensuring transparency and accountability in the spending of emergency resources, tailored to the specific circumstances of each country), governance safeguards could be strengthened by (i) complementing the 2020 guidance to consider safeguards to mitigate corruption risks arising in different types of emergencies beyond those identified in relation to COVID-19 spending, (ii) further tailoring governance safeguards to country circumstances; (iii) enhancing the ability to support implementation with timely and targeted CD, identifying specific capacity gaps and needs; (iv) leveraging country ownership and external stakeholders such as CSOs; and (v) support country efforts to strengthen governance measures, particularly transparency and accountability related to crisis related spending, and preparedness of their anti-corruption and governance frameworks for climate-related challenges and exogenous shocks.

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[31] Following the 2015 Guidelines on the IMF Staff Engagement with Civil Society Organizations.

Box 9. Political Economy Analysis and the Ownership of Anti-Corruption Reforms

Achieving a lasting reduction in corruption is a large challenge. The dynamics of corruption can be pernicious and complex (e.g., in fragile and conflict states, in presence of powerful oligarchs or organized criminal organizations, interwoven with political patronage, etc.). Addressing corruption where policy making has been captured by elite interests can pose special challenges. Hard-won gains achieved by individual reform champions can be undermined and rolled back by systemic resistance and opposition.

Effective strategies to confront corruption and enhance the rule of law is founded on analysis of the nature, severity, and risks of corruption. Such analysis must consider the mechanisms by which corruption takes place and the incentives that exist to change prevailing practices. Confronting capture of policy making processes calls for different strategies and skills than those required in fighting corruption at the institutional or transactional level.

Achieving sustained mitigation of corruption, especially where corruption is systematic, requires a tailored and sequenced approach mindful of political economy realities. Overcoming resistance by entrenched interests requires extended efforts over time and from multiple entry points, while building reform coalitions across government, the private sector, and citizens. For Fund staff, work on this agenda often requires ownership and support from the highest level (e.g., President, Prime Minister) and engaging with non-traditional counterparts, such as Ministries of Justice. It involves supporting the coordination of reform where authority is fragmented, or policy coordination competencies are limited. It also involves careful sequencing of reforms, notably in relation to capacities and feasibility, which are critical to building and enhancing ownership. It requires considering vested interests, the patterns and distribution of corruption networks, the extent of elite capture of institutions, behavioral and institutional incentives, and the nature of civic space. This would aim to consolidate reform efforts along multiple dimensions and actors; incorporate into reform design the anticipation of active resistance and/or an evolution in power structures (e.g., a change of leadership, or discovery of natural resources.); and facilitate, in line with the international standards, investigation and prosecution of the laundering of proceeds of domestic corruption in transit and destination countries, complementing domestic efforts.

IMF staff is increasingly integrating political economy work into aspects of its operationalization of the 2018 Framework. For example, making best use of the insights of political scientists has helped consider local conditions, incentives, and sequencing in recent Governance Diagnostic Assessments, including for Zambia. Political economy of governance and corruption is also central to the drivers of fragility analysis that underpin the Country Engagements Strategies initiated in the FCS Strategy. Such analyses can help enhance staff's work with authorities to foster country-owned reforms and their implementation.

Strengthen the Substance of Fund's Engagement on Governance and Anti-Corruption

- *Leverage ongoing analytical work on macro-structural issues to advise country teams on market regulation-related governance weaknesses and policy advice.* [32]The goal is to enhance the effectiveness of the IMF governance work by strengthening the existing framework and

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[32] As illustrated by analysis in this paper, *market regulation* is an area that could benefit from greater coverage.

identifying reform options that help reduce the scope for rent-seeking, level the playing field, and facilitate a more efficient, inclusive, and business friendly functioning of economies.

- *Operationalize the 2018 Policy in the Fund's approach to emerging issues (e.g., Fragile States, Climate Change)*:

  o *Leverage the FCS Strategy*. The FCS Strategy identifies poor governance and corruption as a potential driver of fragility and institutional weakness. [33] Where governance and corruption vulnerabilities are identified as macro-critical, FCS teams can discuss ways to address them in the Country Engagement Strategies,[34] for example by building on GD, exploring the application of "corruption-filters",[35] making greater use of technology to support improvements in governance and public sector effectiveness, and providing continuous capacity development support tailored to the FCS-context to build institutional competencies and individual skills. The 2022 FCS Strategy covers the role of governance and corruption challenges in FCS and guidance for staff is provided in the 2023 Staff Guidance Note on the Implementation of the FCS Strategy.

  o *Further explore the potential for GovTech/digitalization to close opportunities for corruption*. A few early reflections will be included in the forthcoming paper on GovTech for the Executive Board (FY24), which will discuss how rapidly evolving digitalization—which accelerated during the pandemic—is transforming government fiscal operations and policies. The paper will analyze the benefits (including lower leakages and better revenue collection) and risks of this digital transformation and elaborate on the components of a strategy to make it successful. It will touch on capacity development and recent innovations in this activity.

  o *Climate change.* The rising macro-economic importance of climate change and public policies for mitigation and adaptation will also need to be reflected in the Fund's engagement on corruption and governance issues. Attempts to unduly influence the design and implementation of climate policies (such as regulations, public investments, subsidies, tax incentives or carbon-offset mechanisms) for private gain could endanger the effectiveness of the response and potentially derail national authorities' entire policy agenda. The Fund's work in this area will increasingly need to be informed by analysis of opportunities for corruption, existing power structures and vested interests, and threats to reform traction. Such approach would assist in identifying and mitigating corruption risks in the introduction of sustainable policies and utilization of funds for mitigating, and increasing resilience to, climate change.

- Going forward, where macro-critical, advice would be provided to country teams on governance issues in the design, adoption, and implementation of climate-related reforms,

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[33] See The IMF Strategy for Fragile and Conflict-Affected States (2022).

[34] Paragraph 40 in "IMF Strategy for Fragile and Conflict Affected States (FCS)" provides more detailed information on the country engagement strategies.

[35] Applying a "corruption filter" means to consider corruption-related impediments to reform by utilizing information on the distribution of vested interests and the degree of elite capture, institutional competency, transparency, and civil society participation.

with special focus on risks in countries with weak governance and sectors that have been associated with corruption vulnerabilities (which are the contexts in which macro-criticality would be most significant). Various tools (e.g., GDs, Climate-PIMA, etc.) will be used to inform surveillance and Fund-supported programs in this area. In addition, staff will explore ways in which Fund engagement could help authorities address the corruption and governance challenges that impede private investment in climate change adaptation and mitigation infrastructure and technologies on a scale commensurate with the need. This may include using the Fund's convening power to facilitate a shared understanding between country authorities and investors of anti-corruption measures needed to mitigate investors' risks (including operational and reputational).

- *Build upon the increasing role of accountability institutions (e.g., SAIs).* Although the Fund has long supported audits and the independence of audit agencies, implementation of the 2018 Framework would benefit from more systematic use of audit reports, and enhanced attention to ensure that SAIs can fulfill their function in liaison with other accountability and enforcement agencies. The recent experience with auditing and SAIs during the response to COVID-19 has shown their growing potential to hold institutions and individuals to account, including for corrupt activities. The importance of a robust accountability infrastructure, that includes access to public information, space for civic dialogue and participation, and strong, independent institutions with authority to examine and act when policies and behaviors diverge from the law, has been demonstrated repeatedly. The SAIs can have special value given their presence in all member countries, the existence of international principles on their independence and authority, and their mandate covering all government spending, an opportunity that may be leveraged well beyond emergency spending.

- *Strengthen the implementation of the framework regarding judicial reform, with greater emphasis on institutional reforms to address judicial independence and integrity.* Experience with the implementation of the 2018 Framework points to the criticality of the quality of the judiciary for the effectiveness of the enforcement of anti-corruption policies and other elements of the governance framework, (e.g., in relation to the appeal of administrative decisions from financial supervisors or revenue agencies). As discussed in the 2018 policy paper, where corruption is systemic, courts may themselves be corrupt. Creating a foundation for a strong judiciary is critical to support domestic anti-corruption efforts, state functions effectiveness, and the protection of economic rights. Going forward, within the 2018 Framework, staff will continue strengthening its focus on the quality of the judiciary as a key pillar of governance reforms. This includes frameworks to ensure the independence and integrity of judicial officers and the functioning of the judiciary, mindful of domestic realities and constraints including in the FCS context, and collaborating with specialized organizations, leveraging on their experience and comparative advantages.

- *Explore further synergies with Fund work on other salient topics including:* (i) misuse of digital money/crypto currency; (ii) Illicit Financial Flows generated by corruption; (iii) related Fund initiatives (e.g., Central Bank Transparency Code); (iv) the use of GovTech to reduce rent-seeking behavior; and (v) inequality, where exacerbated by corruption.

ISSUES FOR DISCUSSION

51.　　Staff proposes that the next Review be conducted in **5 years**. An Interim Update could be considered in **2–3 years** once experience has been gained with the new round of assessments and the staff's proposed enhancements.

In their discussions, Executive Directors may wish to touch upon the following questions:

- Do the findings resonate with Directors and their authorities? Do Directors consider that the 2018 Framework has helped the Fund's engagement on governance issues to be candid, systematic, effective, and evenhanded?

- What opportunities and challenges do Directors see for maintaining and deepening the Fund's engagement on governance issues, against the backdrop of competing pressures for staff resources and authorities' bandwidth?

- Do Directors agree with the proposed steps above to strengthen the implementation of the 2018 Framework?

- Do Executive Directors support the idea of an interim update in 2–3 years?

- Do Executive Directors have further suggestions?

Appendix I. Follow-up on Previous Article IV Recommendations on Governance

1.   Follow-up on the status of previous Article IV recommendations on governance is encouraged but is done in different formats.[1] Country teams are following up with authorities on key policy advice on a selective basis, and this follow-up does not follow a standardized format. A sampling of 20 staff reports (from among the 40 case-study countries), shows that nine country teams reported the status of governance-related recommendations in a matrix table, describing the authorities' responses to the recommendations.

2.   Among them, the recent staff report by Cambodia has included granular follow-up on the status of governance-related recommendations. The staff report for Cambodia (2022 Article IV consultation) presented a detailed status of previous governance-related recommendations, as part of the annex to the Article IV report (Table). The annex represents examples of good practice which would promote the ability to better assess effectiveness of policy advice, especially if this information were to be captured in a central location to enable cross-cutting analytics.

3.   In future, staff plans to capture more systematically governance-related Article IV recommendations and their implementation status for across the membership. Country teams will be encouraged to follow up on the implementation status of specific governance-related recommendations, and this will be recorded in a central database. This tracking will allow staff to better identify obstacles to implementation and plan future policy advice and capacity development accordingly.

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[1] See the Guidance Note for Surveillance under Article IV Consultations (May 31, 2022). https://www.imf.org/en/Publications/Policy-Papers/Issues/2022/06/23/Guidance-Note-for-Surveillance-Under-Article-IV-Consultations-519916.

Table 1. Examples of Implementation Status of Governance-Related Article IV Recommendations			
		Past recommendations (2021 Article IV)	Status (2022 Article IV)
Cambodia	Fiscal governance	The extensive range of measures (e.g., social assistance, below-the-line support) necessitates attention to safeguards	The authorities have made progress in improving fiscal governance with the introduction of, medium-term budget framework (MTBF), and PFM reform including drafting the new law on Public Finance System (PFS). There are ongoing efforts to modernize and harmonize public financial systems and practices, including the Financial Management Information System (FMIS) rollout, public procurement system reform 2019–25, budget system reform strategy for sub-national administration 2019-25, and public investment management system reform 2019–25. Some specific safeguarding measures include: • The authorities have been closely monitoring the new cash transfer system, the results of which suggest that reassessing ID Poor cardholders' financial situations could ensure that monies are allocated more in line with needs. • Regarding concerns about the authorities' capacity to quantify risks from government guarantees and other contingent liabilities, the authorities are working with private financial institutions to assess applicants' credit risks. The authorities intend that support is extended only to viable businesses in the most affected sectors.
	Corruption	Addressing Corruption	To lower transportation costs, improve trade facilitation, and reduce "informal customs charges", the authorities dissolved CAMCONTROL (Cambodia Import-Export Inspection and Fraud Repression Directorate-General of the Ministry of Commerce) and KAMSAB (Kampuchea Shipping Agency and Brokers) from all border checkpoints and ports. The authorities also simplified the process for setting up a business, including the launch of the Cambodia Data Exchange Platform (CamDX) and the online business registration platform. The Anti-Corruption Unit (ACU) has been focusing on raising awareness, managing assets and liabilities declarations, and investigating corruption cases. Draft legislation on whistleblower protection has been submitted to the Ministry of Justice for review.

INTERNATIONAL MONETARY FUND

REVIEW OF IMPLEMENTATION OF THE 2018 FRAMEWORK FOR ENHANCED FUND ENGAGEMENT ON GOVERNANCE– ANNEXES

EXECUTIVE SUMMARY

This background note provides additional information to support the Review of the Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance (the "main paper"). It presents survey results and additional areas of analysis.

- *Section I: Governance-Related Conditionality in Fund-Supported Programs.* Provides more detail about governance-related conditionality in Fund-supported programs.

- *Section II: Coverage of Governance and Corruption Issues in IMF Staff Reports – A Text Analysis Approach.* Summarizes results from text analysis of governance and corruption coverage in IMF staff reports.

- *Section III: Survey Responses from National Authorities*. Discusses the results of the survey of country authorities of IMF membership to shed light on their views on governance and corruption issues in relation to the Fund operations (surveillance, lending, and capacity development (CD)).

- *Section IV: Survey Responses from IMF Country Teams.* Discusses the results of the survey of IMF country teams to shed light on their views on governance and corruption issues in relation to the Fund operations (surveillance, lending, and CD).

- *Section V: Consultations with Civil Society Organizations.* Discusses the results of the public consultation that the IMF has conducted with stakeholders to share their views on the implementation of the Framework.

- *Section VI: Case Studies for 40 Countries.* Highlights main findings of case studies of 40 countries (same countries as for the 2017 case study).

Approved By **Rex Ghosh (SPR), Emmanuel Mathias (LEG), Paolo Mauro (FAD)**	Prepared by Thomas Augsten, Khamza Sharifzoda, Diva Singh and Dan Zheng (all SPR), Hassan Adan, Marwa Alnasaa, and Miyoko Asai (all FAD), Bonolo Namethe, Nusula Nassuna, Ivana Rossi, Jaison Vega Laiton, and Paula Zarazinski (all LEG), and Emilia Berazategui (COM), with administrative assistance from Destiny Johnson and Danea Trejo Carcamo (both FAD).

CONTENTS

Glossary

AEs	Advanced Economies
AFR	African Department
AML	Anti-Money Laundering
APD	Asia & Pacific Department
CD	Capacity Development
CFT	Combating the Financing of Terrorism
CSOs	Civil Society Organizations
EMs	Emerging Markets
EMDEs	Emerging Markets and Development Economies
EUR	European Department
FAD	Fiscal Affairs Department
FATF	Financial Action Task Force
FCS	Fragile and Conflict-affected States
FDs	Functional Departments
GAC	Governance and Anti-Corruption
IDA	International Development Association
IFIs	International Financial Institutes
IMF	International Monetary Fund
LICs	Low Income Countries
LIDCs	Low Income Developing Countries
LOI	Letter of Intent
MCD	Middle East & Central Asia Department
MONA	Monitoring of Fund Arrangements
ML	Money Laundering
PIMA	Public Investment Management Assessment
PFM	Public Financial Management
PRGT	Poverty Reduction and Growth Trust
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
SOEs	State Own Enterprises

UCT	Upper Credit Tranche
UNCAC	United Nations Convention Against Corruption
WB	The World Bank
WEO	World Economic Outlook
WGI	World Governance Indicator
WHD	Western Hemisphere Department

GOVERNANCE-RELATED CONDITIONALITY IN FUND-SUPPORTED PROGRAMS[1]

This section provides more detail about governance-related conditionality in Fund-supported programs. Data are drawn from the Fund's Monitoring of Fund Arrangements (MONA) database of program conditionality, which is publicly available.[2]

A. Methodology

1.   The MONA database was searched for governance-related structural conditionality (prior actions and structural benchmarks) in Fund-supported programs over the three years before the 2018 Framework (2015–17) and the three years following its adoption (2019–21). These conditions were then classified into the six state functions (and anti-corruption frameworks), and the average compliance rate ("fully met" structural benchmarks) for each state function was calculated. Information on each Fund-supported program's specific goals was also retrieved.[3] Program goals of improving fiscal revenue and expenditure policy or public expenditure management (including measures related to expenditure control) were mapped to fiscal governance; financial sector reform to financial sector governance; central bank reform to central bank governance; and governance (anti-corruption laws, excl. public expenditure control) to anti-corruption frameworks.

B. Findings

2.   Program Goals. Comparing pre- and post-Framework periods, there was a small decrease in the share of programs whose specific goals included fiscal and financial sector reforms but substantial increases in programs whose goals included central bank reforms and improving anti-corruption frameworks (Table 1).

3.   Conditionality. In aggregate, following the adoption of the 2018 Framework, governance-related prior actions (in proportion to all prior actions) and governance-related structural benchmarks (in proportion to all structural benchmarks) rose from 21.2 to 29.0 percent, and from 30.6 to 37.8 percent, respectively (Table 2). The bulk of governance-related conditionality pertains to

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[1] Prepared by Thomas Augsten, drawing on analysis undertaken by Diva Singh and Khamza Sharifzoda (all SPR).

[2] See https://www.imf.org/external/np/pdr/mona/index.aspx.

[3] Programs typically have several goals from the following list: (i) macroeconomic stability; (ii) external stability; (iii) economic growth; (iv) poverty reduction; (v) fiscal revenue and expenditure policy; (vi) public expenditure management, including measures related to expenditure control; (vii) monetary policy; (viii) exchange rate policy; (ix) central bank reform; (x) financial sector reform; (xi) trade policy; (xii) pro-growth policies; (xiii) social sectors; (xiv) enterprise restructuring and privatization; (xv) governance (anti-corruption laws, excl. public expenditure control); see *MONA Report—Labels and Descriptions*, available at https://www.imf.org/external/np/pdr/mona/Arrangements.aspx.

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

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

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

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

Table 1. Number of Programs and Share of Program Objectives

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

Sources: MONA database; and staff estimates.

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

Sources: MONA database; and staff estimates.

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

Table 3. Structural Benchmarks in Programs with Specified Objectives – Before (2015-17) and After (2019-21) the Framework Introduction

(Share of all governance conditionality in respective area)

	Before Framework (2015-17)	After Framework (2019-21)
Fiscal	100	100
Financial Sector	100	100
Central Bank	93	100
Governance	91	100

Sources: MONA database; and staff estimates.

Table 4. 'Fully Met' Structural Benchmarks by State Function – Before (2015-17) and After (2019-21) the Framework Introduction

	Compliance Rates	
	1st Period (2015-2017)	2nd Period (2019-21)
Fiscal Governance	52%	50%
Central Bank Governance and Operations	48%	46%
Financial Sector Oversight	41%	40%
Regulatory Framework	35%	42%
Corruption	36%	22%
AML/CFT	29%	35%
Rule of Law	18%	10%
Average Across Governance SBs	47%	44%
Average Across All SBs	49%	47%

Sources: MONA database; and staff estimates.

Figure 1. Program Conditionality in Countries with Identified Vulnerabilities, 2019-21
(in percent)

■ At least one program condition
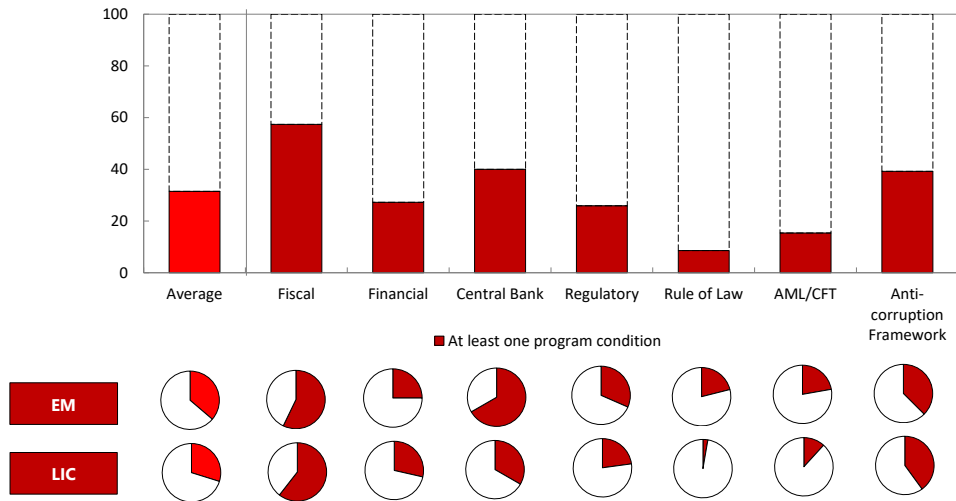
Sources: MONA database; and staff estimates.

Figure 2. 'Fully Met' Structural Benchmarks, 2015-21
(in percent)
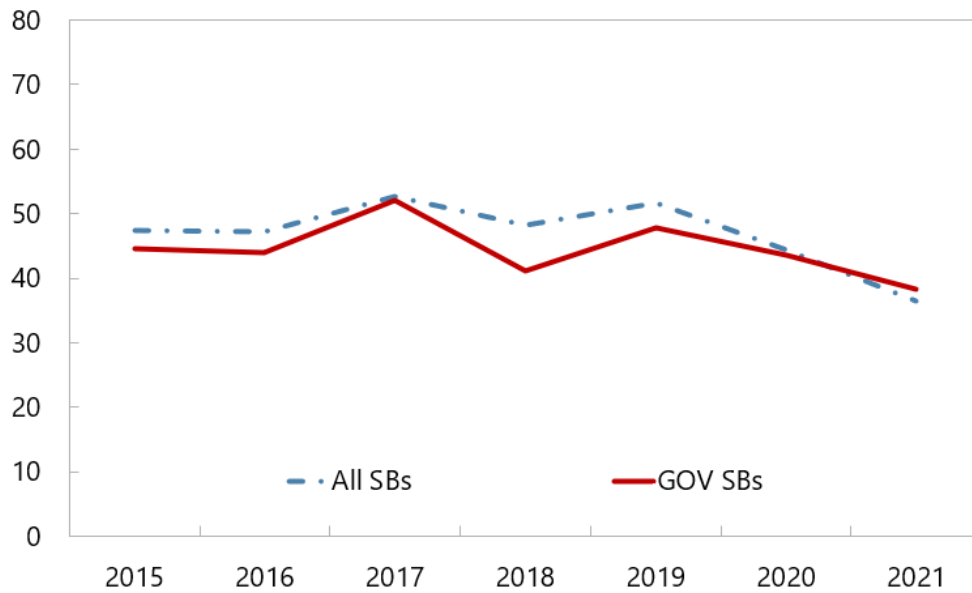
Sources: MONA database; and staff estimates.

COVERAGE OF GOVERNANCE AND CORRUPTION ISSUES IN IMF STAFF REPORTS – A TEXT ANALYSIS APPROACH[1]

This section summarizes results from text analysis of governance and corruption coverage in IMF staff reports. Data are drawn from the IMF's institutional Text Analytics Database covering staff reports from 1979 to present. Correlations are using information from the Worldwide Governance Indicators.[2]

A.   Methodology

1.   Text analysis was performed across more than 9,000 staff reports from 1979 through August 2022. Documents cover bilateral surveillance (Article IV and Selected Issues Papers) and lending (Fund arrangement requests and reviews, including emergency financing reports) (Figure 1).

Figure 1. Staff Reports Analyzed – by Year and Type

Sources: IMF Text Analytics database; and staff estimates.
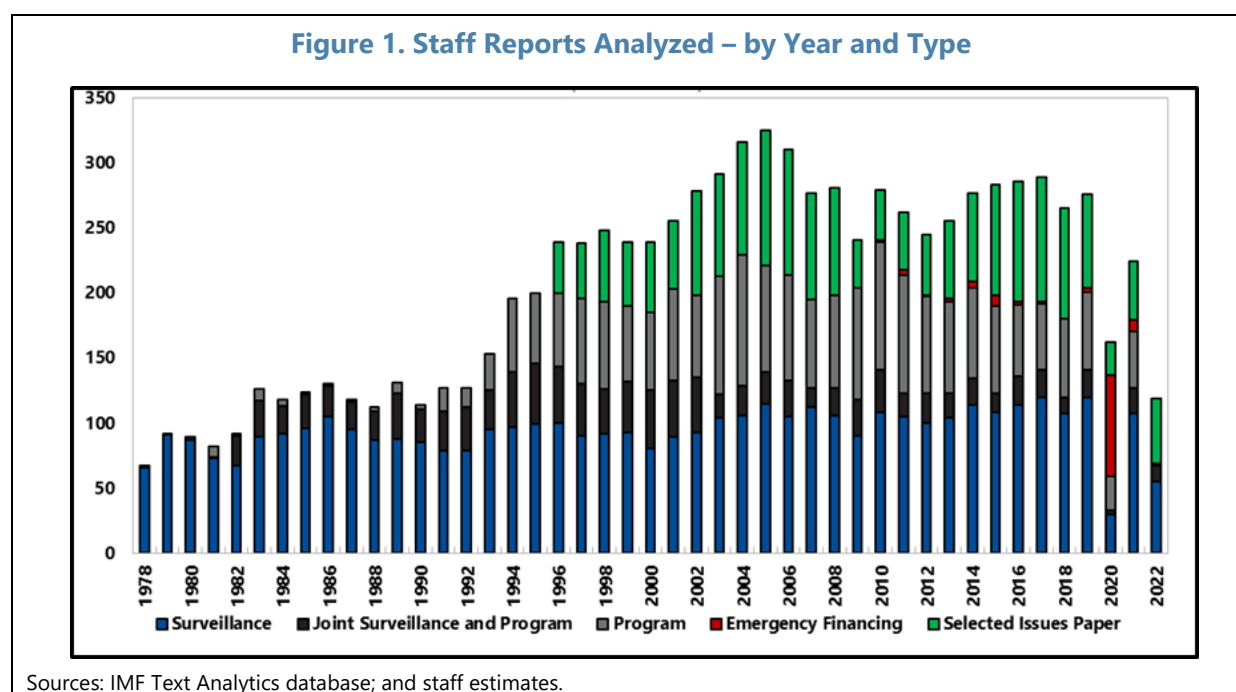
- The text of the staff reports was mined for the terms "governance" and "corruption." Search terms specific to any of the six state functions were not queried. Where relevant, the analysis distinguishes between the three years (2015–17) prior to and the three years (2019–2021)

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[1] Prepared by Thomas Augsten, drawing on analysis undertaken by Dan Zheng (all SPR).

[2] D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank), available at: https://info.worldbank.org/governance/wgi/.

following the 2018 Framework; the transition year, 2018, was excluded (Table 1). The raw word count (the number of times the word appears in the main body, the staff appraisal, or the annexes) was normalized by assuming a standard document length of 10,000 words.

Table 1. Staff Reports Analyzed						
	2015	2016	2017	2019	2020	2021
By Document Type						
Total	282	285	288	276	162	223
Surveillance	207	228	236	213	58	171
Article IV	108	114	120	120	30	106
SIP	84	92	95	72	25	45
Joint	15	22	21	21	3	20
Lending	75	57	52	63	104	52
GRA	22	16	14	14	3	14
PRGT	45	39	37	46	23	29
EF	8	2	1	3	78	9
By Income Level						
Total	282	285	288	276	162	223
Advanced Economies	62	60	68	56	17	54
Emerging Markets	125	138	136	115	60	103
Low Income Countries	95	87	84	105	85	66

Sources: IMF Text Analytics database; and staff estimates.

- Machine-based text analysis cannot be as granular as an in-depth human reading of documents but has the key advantage of efficiently processing large numbers of documents, allowing analysis of longer-term trends. By the same token, it is important not to overinterpret year-to-year variations in the data but to focus on the larger trends.

B. Findings

2.   **Frequency:** Usage of governance-related terms ('governance' and 'corruption') increased in both surveillance and program documents following the adoption of the 1997 policy, then declined before rising sharply (especially in surveillance documents) following the introduction of the 2018 Framework (Figure 2).

3.   **Type of Documents and Income Groups:** Increased usage of governance-related terms was both in surveillance and programs and across the membership, with little difference across income groups (Figure 3).

4.   **Correlation with Perceived Corruption:** The frequency of governance-related terms in staff reports correlated more closely with perceived level of corruption after the introduction of the 2018 Framework - both in surveillance and programs. (Figure 4). Relatedly, the *change* (increase) in the use of the word 'corruption' in staff reports following the adoption of the Framework is strongly correlated with the country's perceived level of corruption. (Figure 5).

5. **No Systematic Bias:** Controlling for perceived corruption, dummy variables for income groups and geographical region (proxied by area departments) are statistically insignificant in the post-Framework period, indicating the absence of any systematic income-level or geographical region biases (Table 2).

Figure 2. Average Frequency of Either 'Corruption' or 'Governance'
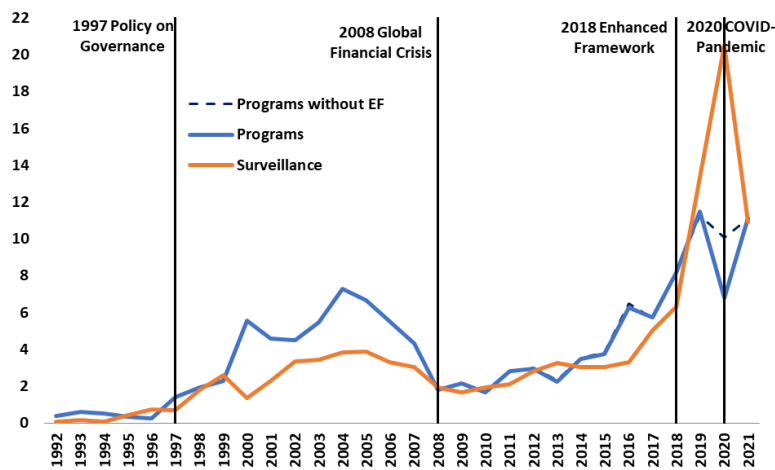
Sources: IMF Text Analytics database; and staff estimates.

Notes: Frequency normalized to hypothetical document length of 10,000 words. Programs include emergency financing. The average number of references each year is calculated as average of each country's annual average references across country documents.

Figure 3. Average Frequency of Governance-Related Terms by Income Group and Report Category
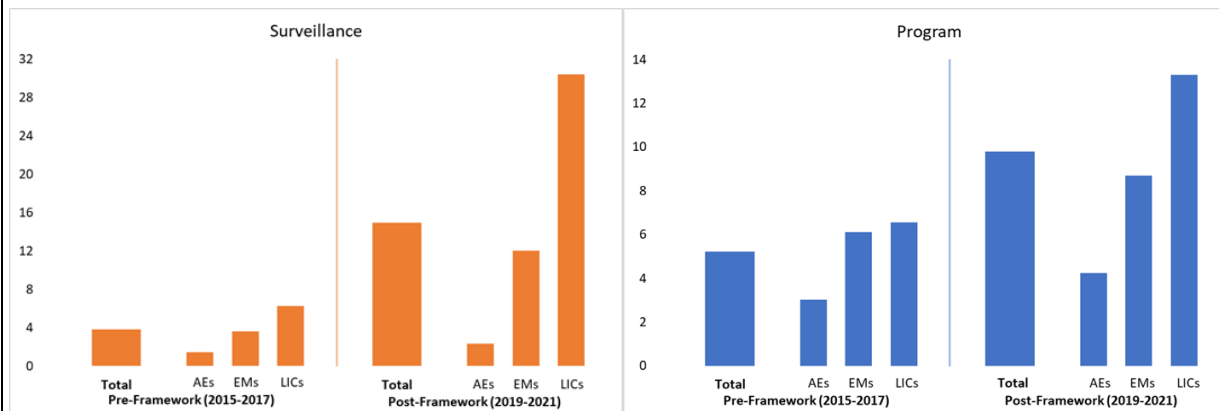
Sources: IMF Text Analytics database; and staff estimates.

Notes: Frequency normalized to hypothetical document length of 10,000 words. Programs include emergency financing. The average number of references each year is calculated as average of each country's annual average references across country documents.

Figure 4. Correlation Between Perceived Corruption and Governance-Related Terms in Staff Reports by Report Type (Correlation Coefficient)
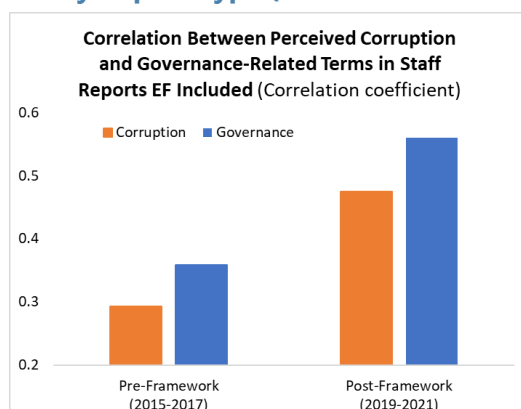
Correlation Between Perceived Corruption and Governance-Related Terms in Staff Reports EF Included (Correlation coefficient)

Sources: IMF Text Analytics database; and staff estimates.

Notes: Frequency normalized to hypothetical document length of 10,000 words. Programs include emergency financing. Correlations are calculated over the 3-year period and based on two variables, a reversed version of the WGI's Control of Corruption Indicator, with 0 (100) indicating the weakest (strongest) level perceived corruption, and the logarithm of countries' normalized frequency of count of specific term(s).

Figure 5. Frequency Change of the Term 'Corruption' after Framework Introduction, in Correlation with the Perceived Level of Corruption

All Staff Reports

	Full Sample delta	AE only delta	EM only delta	LIC only delta
corruption index	0.852***	0.856***	0.893***	0.843***
	(25.64)	(10.20)	(19.91)	(11.59)
_cons	-0.579*	-0.0994	-0.882*	-0.688
	(-2.09)	(-0.87)	(-2.35)	(-0.90)
N	179	37	79	63
rss	1454.133	12.759	512.759	911.564
r2	0.788	0.748	0.837	0.688

Surveillance Staff Report

	Full Sample delta	AE only delta	EM only delta	LIC only delta
corruption index	0.886***	0.853***	0.918***	0.919***
	(23.03)	(10.18)	(30.72)	(10.48)
_cons	-0.850*	-0.0971	-0.831**	-1.877
	(-2.20)	(-0.85)	(-3.19)	(-1.52)
N	173	37	77	59
rss	2935.152	12.720	244.624	2615.839
r2	0.756	0.748	0.926	0.658

Program Staff Reports

	Full Sample delta	EM only delta	LIC only delta
corruption index	0.456***	0.613*	0.392**
	(4.18)	(2.67)	(2.87)
_cons	0.548	-0.301	1.051
	(0.86)	(-0.28)	(1.17)
N	41	15	25
rss	257.890	77.317	174.138
r2	0.310	0.353	0.264

Sources: IMF Text Analytics database; and staff estimates.

Notes: Delta frequency = beta0 + beta1*Corruption Index, where delta frequency is the difference between pre-framework (2015-17) and post-framework (2019-21) period average frequency of the keyword 'corruption' by country. 'Corruption Index' is defined as (1-three-year average of a country's WGI Control of Corruption Index between 2019 and 2021); inversion of the original WGI CoC Index yields values between 0 (perception of low level of corruption) and 1 (perception of high level of corruption). For regressions with program document data only, there are not enough advanced economies that received a program and hence the variable was omitted.; t-statistics in parentheses; * p<0.05 ** p<0.01 *** p<0.001.

Table 2. Word Frequency Based on Perceived Level of Corruption

	All Period Itotal	Pre-Frame work Itotal	Post-Frame work Itotal	Pre-Frame work Itotal	Post-Frame work Itotal	Pre-Frame work Itotal	Post-Frame work Itotal	Pre-Frame work Itotal	Post-Frame work Itotal	Pre-Frame work Itotal	Post-Frame work Itotal	Pre-Frame work Itotal	Post-Frame work Itotal	Pre-Frame work Itotal	Post-Frame work Itotal	Pre-Frame work Itotal	Post-Frame work Itotal	Pre-Frame work Itotal	Post-Frame work Itotal	Pre-Frame work Itotal	Post-Frame work Itotal	Pre-Frame work Itotal	Post-Frame work Itotal
Corruption Index	0.0205*** (19.57)	0.0158*** (11.21)	0.0259*** (17.57)	0.0159*** (10.72)	0.0264*** (17.07)	0.0156*** (11.18)	0.0258*** (17.39)	0.0182*** (12.07)	0.0264*** (16.57)	0.0149*** (10.50)	0.0253*** (17.09)	0.0151*** (10.90)	0.0259*** (17.52)	0.0150*** (10.56)	0.0259*** (17.50)	0.0157*** (9.98)	0.0254*** (15.42)	0.0154*** (8.74)	0.0245*** (13.37)	0.0158*** (11.20)	0.0259*** (17.55)	0.0158*** (11.23)	0.0261*** (17.66)
AFR				-0.0162 (-0.18)	-0.0961 (-1.08)																		
APD						-0.326** (-3.10)	-0.129 (-1.17)																
EUR								0.380*** (4.15)	0.0760 (0.73)														
MCD										0.312*** (3.37)	0.293** (2.82)												
WHD												-0.478*** (-4.89)	-0.157 (-1.47)										
Surveillance														-0.250** (-2.91)	0.0814 (0.90)								
PRGT																0.00350 (0.04)	0.0710 (0.79)						
AE																		-0.0493 (-0.39)	-0.177 (-1.30)				
EM																				0.0137 (0.19)	0.00379 (0.05)		
Internal																						-0.169 (-1.22)	-0.267 (-1.55)
_cons	0.471*** (7.48)	0.317*** (3.72)	0.703*** (7.94)	0.317*** (3.71)	0.705*** (7.96)	0.369*** (4.28)	0.731*** (7.97)	0.0943 (0.94)	0.664*** (6.41)	0.303*** (3.58)	0.685*** (7.77)	0.430*** (4.96)	0.732*** (8.08)	0.545*** (4.73)	0.631*** (5.29)	0.317*** (3.71)	0.706*** (7.96)	0.347*** (3.02)	0.806*** (6.79)	0.310*** (3.36)	0.701*** (7.32)	0.329*** (3.84)	0.708*** (8.00)
N	1348	642	493	642	493	642	493	642	493	642	493	642	493	642	493	642	493	642	493	642	493	642	493
rss	1380.4	551.477	370.384	551.448	369.506	543.320	369.359	537.034	369.978	541.862	364.485	531.574	368.760	544.244	369.777	551.476	369.907	551.349	369.115	551.447	370.382	550.189	368.571
r2	0.222	0.164	0.386	0.164	0.387	0.176	0.388	0.186	0.387	0.179	0.396	0.194	0.389	0.175	0.387	0.164	0.387	0.164	0.388	0.164	0.386	0.166	0.389

Sources: IMF Text Analytics database; and staff estimates.

Notes: Regression: log(Normalized Governance Related Terms) = beta0 + beta1*Corruption Index + beta2*control variable. Regressions are fun with one control variable each time. The dependent variable is the logarithm of frequency of government-related terms, both "governance" and "corruption." The independent variable is the reversed scale of WGI's Control of Corruption Indicator. Control variables include regional variables, document types, income group and classification type. Each regression only includes one control variable. Each experiment is conducted twice using countries' annual data over the pre- and post-framework period to determine the effects of the introduction of the framework.

SURVEY RESPONSES FROM NATIONAL AUTHORITIES[1]

This section provides detailed results from the country authorities' survey responses, which sought to bring out authorities' views on governance and corruption issues in relation to the Fund operations (surveillance, lending, and capacity development). Sixty-five countries—slightly more than one-third of the Fund membership—have responded to the survey.

While the interpretation of the results should be very cautious because of the limited number of samples and their distribution across groups, on average, the responses from the survey are in line with the ones from the IMF Country Teams (see Section IV in this Background note): Fund engagement on governance issues is more candid, effective, and even-handed under the 2018 framework.

1.   **As one of the major inputs to assess the progress of the implementation of the 2018 governance framework, IMF staff conducted a survey to country authorities.** Slightly more than 1/3 of Fund membership have submitted the survey responses (see Appendix I for the list of countries that have responded to the survey). While the submission rate is much lower than that of the country team, it is higher than the survey conducted in the context of the 2017 paper, 20 percent.[2] Nevertheless, caution is required in interpreting the results from the survey of country authorities, particularly the breakdown by income groups, since the submitted responses are skewed to AEs and European countries, with only a handful of submissions from LICs.

2.   **Country authorities have seen candid, open, and direct dialogue with the IMF on macro-critical governance and anti-corruption issues under the 2018 framework (Q1).** Country authorities' perceptions on candor are aligned with country circumstances, including their perceived governance and corruption vulnerabilities, measured by World Governance Indicator (WGI) score. Discussions with IMF staff on governance and corruption issues were mostly presented in formal country documents and were deemed by the authorities to have adequately reflected their views (Q2, Q3).

3.   **Country authorities' perceptions are somewhat supportive of even-handedness in addressing macro-critical governance and anti-corruption issues across IMF member countries (Q5).** About half of the responses support even-handedness, while about 40 percent of responses are neutral, and 6 percent are negative on even-handedness. Since most national authorities are unlikely to be familiar with the governance weaknesses—and the Fund's engagement—in other countries, such agnosticism is perhaps to be expected. Nevertheless, the share of supportive views in countries with high perceived governance and corruption vulnerabilities looks smaller than other groups (well below 50 percent).

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[1] Prepared by Hassan Adan and Miyoko Asai (both FAD).

[2] *"The Role of the Fund in Governance Issues - Review of the Guidance Note – Preliminary Considerations – Background Notes."*

4.   **Country authorities assess that the engagement has been effective under the 2018 framework (Q6).** The authorities see that IMF staff provided tailored, concrete, and granular policy advice and guidance on governance and corruption issues, in line with country circumstances. The majority is also of the view that the IMF's involvement in governance and corruption issues has a positive impact on their countries (Q8). This may suggest enhanced traction of IMF staff policy advice under the framework.

5.   **Country authorities view IMF CD provisions as timely and useful (Q7).** Especially, LICs countries with Fund UCT arrangements or high perceived governance and corruption vulnerabilities appreciated Fund's CD.

6.   **Country authorities identified the Anti-corruption framework and AML/CFT, followed by PFM (excluding SOEs), financial sector oversight, and the rule of law as the most important reform recommendations (Q9).** In general, authorities point to a lack of political ownership or consensus and capacity constraints as key factors preventing effective implementation, although its interpretation should be very careful because of the very small number of samples (Q10). Especially, some responses pointed out that even when relevant laws were passed, necessary political prioritization or commitment for implementation was often inadequate.

7.   **Country authorities see financial sector oversight, AML/CFT, and fiscal governance as areas where further enhanced engagement is needed (Q12).** In addition, governance diagnostics and anti-corruption show relatively higher need of enhanced engagement, especially in EMs and LICs, and countries with UCT arrangements or high perceived governance and corruption vulnerabilities.

8.   **Considering the possible modalities of further enhanced engagement, country authorities rank increasing CD and training on governance and anti-corruption framework favorably (Q13).** They are followed by further conduct and publication of governance diagnostics. While many countries did not respond, responses on how to facilitate volunteering to the assessment of transnational aspects of corruption indicate the importance of increasing awareness of the assessment (Q11).

9.   **Going forward, the Fund policy advice should be guided by the diagnosis of wide-ranging governance vulnerabilities while being specific and tailored to member countries' circumstances and implementation capacity (Q14).** Specific suggestions for the IMF to improve the quality and impact of its engagement on governance and corruption issues were fragmented but can be summarized into two broad categories: providing more expertise and guidance to mainstream governance and corruption issues in the Fund's core activities when macro-critical; and expanding the scope of the governance and corruption framework.

10.   **Appendix II provides more detailed information on the survey responses.**

Appendix I. List of Countries that Submitted Survey Responses

AFR (8)	Botswana		Lithuania
	Cabo Verde		Malta
	Eswatini		Moldova
	Namibia		North Macedonia
	Nigeria		Norway
	South Africa		Portugal
	Zambia		Russian Federation
	Zimbabwe		San Marino
APD (9)	Australia		Slovenia
	Fiji		Sweden
	India		Switzerland
	Japan		Ukraine
	Korea		United Kingdom
	New Zealand	MCD (9)	Azerbaijan
	Philippines		Georgia
	Solomon Islands		Iraq
	Timor-Leste		Kyrgyz Republic
EUR (29)	Albania		Lebanon
	Andorra		Morocco
	Austria		Oman
	Belarus		Somalia
	Belgium		United Arab Emirates
	Bosnia and Herzegovina	WHD (10)	Bolivia
	Croatia		Brazil
	Czech Republic		Canada
	Estonia		Dominican Republic
	France		Ecuador
	Germany		Nicaragua
	Iceland		Panama
	Ireland		Peru
	Israel		Suriname
	Italy		United States
	Latvia		

Appendix II. Summary of the Survey for Country Authorities

Sample Collection Time: August-December 2022

Definition of Groups

- **Sample includes 65 responses (out of 190 membership).** By income levels (AEs are WEO basis, LICs are based on PRGT eligible countries and EMs are the rest), 27 AEs, 29 EMs, and 9 LICs. By departments, 8 from AFR, 9 from APD, 29 from EUR, 9 from MCD, and 10 from WHD. In the 2017 survey, the shares of AEs and EUR were 42 percent and 45 percent, respectively.

- **13 of the responses had at least one UCT arrangement during the survey period (2018-summer 2022)**, where UCT arrangements include ECF, EFF, FCL, PLL, SBA, SCF, PCI and PSI (not including emergency arrangements like RCF, RFI).

- **FCS (8 countries) is based on the World Bank's list of Fragile and Conflict-affected Situations**. Countries listed as such in FY2019 to FY2022 are counted as FCS.

- **World Governance Indicator (WGI):** This is used for a proxy of perceived vulnerabilities of governance and corruption. The quartiles of countries' three-year average (2019-21) of **control of corruption scores** are used to divide the sample into four groups.

Question 1. *Following the 2018 Framework, macro-critical governance and anti-corruption issues have been addressed candidly, with clear and direct language (e.g., corruption vulnerabilities, governance weakness) in discussions between your country authorities and the IMF.*

Summary

- **Country authorities have seen candid, open and direct dialogue with IMF staff on macro-critical governance and anti-corruption issues as envisaged under the 2018 framework**. This is implied by the large share, over 80 percent, of supportive responses.

- **Country authorities' perceptions on candidness seem to be aligned with country circumstances, including their perceived governance and corruption vulnerabilities, proxied by WGI score.** Supportive views show more than 2/3 shares in most of the groups. It is noteworthy that "strongly agree" responses show relatively large shares in FCS, countries with UCT programs or with high perceived governance and corruption vulnerabilities.

Figure 1. Question 1 Results

Overall
(in percent of total sample)

Respondents: 65/190

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree
- No response provided

By Region
(in percent of total sample)

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree
- No response provided

By Income Level
(in percent of total sample)

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree
- No response provided

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

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree
- No response provided

By Countries with UCT Arrangements
(in percent of total sample)

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree
- No response provided

By WGI Score
(in percent of total sample)

1st is the best quartile and 4th is the worst quartile.

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree
- No response provided

Source: Country authorities survey.

Question 2. *In what form, if any, have you had direct discussions with the IMF on governance and corruption issues?*

Summary
- **Country authorities' discussions with IMF staff on governance and corruption issues were mostly presented in formal country documents** (e.g., Article IV staff reports).
- **Shares of candid discussions included in formal mission reports were broadly similar across groups**, though FCS had a higher share. About 1/5 of AEs and LICs had no direct discussions, while EMs and those with UCT arrangement had a higher share of discussions outside of country documents.

Figure 2. Question 2 Results

Overall
(in percent of total sample)

Respondents: 65/190

- Yes, in staff reports or in other formal mission reports
- No direct discussion
- Yes, in oral (or other private) communications
- No response provided

By Region
(in percent of total sample)

By Income Level
(in percent of total sample)

- Yes, in staff reports or in other formal mission reports
- No direct discussion

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

- Yes, in oral (or other private) communications
- No response provided

By Countries with UCT Arrangements
(in percent of total sample)

- Yes, in staff reports or in other formal mission reports
- No direct discussion

By WGI Score
(in percent of total sample)

1st is the best quartile and 4th is the worst quartile.

- Yes, in oral (or other private) communications
- No response provided

Source: Country authorities survey.

Question 3. *Has the coverage of governance and anti-corruption in the IMF staff report been appropriate and adequately reflected your (your authorities') views?*

Summary
- **Over ¾ of responses see that the coverage of governance and anti-corruption in the IMF staff report has been appropriate and adequately reflected views of country authorities.**

Figure 3. Question 3 Results

Overall
(in percent of total sample)

Respondents: 65/190

■ Strongly Agree ■ Agree ■ Neither agree nor disagree ■ Disagree ■ No response provided

By Region
(in percent of total sample)

By Income Level
(in percent of total sample)

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

■ Strongly Agree ■ Agree ■ Neither agree nor disagree ■ Disagree ■ No response provided

By Countries with UCT Arrangements
(in percent of total sample)

By WGI Score
(in percent of total sample)

1st is the best quartile and 4th is the worst quartile.

■ Strongly Agree ■ Agree ■ Neither agree nor disagree ■ Disagree ■ No response provided

Source: Country authorities survey.

Question 4. *Discussions with IMF staff on governance and anti-corruption allowed your country authorities to share their views on the issues raised?*

Summary

- **Country authorities supported that their views have been shared with IMF staff.** No country authorities have responded as "disagree."

- **FCS and countries with UCT program show large shares of "strongly agree,"** implying intensive two-way discussions between IMF staff and country authorities in these groups.

Figure 4. Question 4 Results
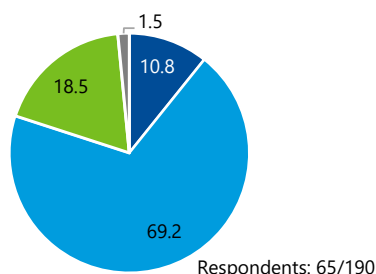
Overall
(in percent of total sample)

Respondents: 65/190

■ Strongly Agree ■ Agree ■ Neither agree nor disagree ■ No response provided

By Region
(in percent of total sample)

By Income Level
(in percent of total sample)

■ Strongly Agree ■ Agree ■ Neither agree nor disagree ■ No response provided

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

By Countries with UCT Arrangements
(in percent of total sample)

By WGI Score
(in percent of total sample)

1st is the best quartile and 4th is the worst quartile.
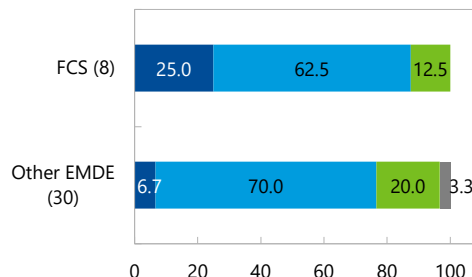
■ Strongly Agree ■ Agree ■ Neither agree nor disagree ■ No response provided
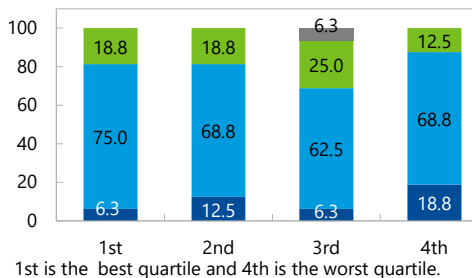
Source: Country authorities survey.

Question 5. *Following the 2018 Framework, based on what you know about coverage in your and other countries, macro-critical governance and anti-corruptions issues have been addressed across IMF member countries in an even-handed manner. (Even-handedness means treating similarly situated countries in a similar manner.)*

Summary

- **About half of responses support even-handedness, while about 40 percent of responses are neutral and 6 percent are negative on even-handedness.**

- **Supportive view in countries with high perceived governance and corruption vulnerabilities looks smaller than other groups**—only 1/3 of the responses supported even-handedness.

Figure 5. Question 5 Results
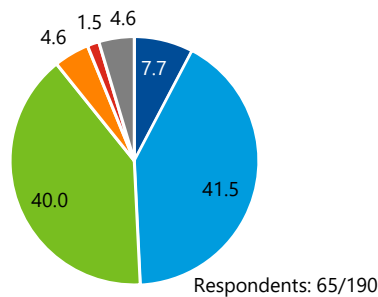
Overall
(in percent of total sample)

Respondents: 65/190

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree
- No response provided

By Region
(in percent of total sample)

By Income Level
(in percent of total sample)

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

By Countries with UCT Arrangements
(in percent of total sample)

By WGI Score
(in percent of total sample)

1st is the best quartile and 4th is the worst quartile.
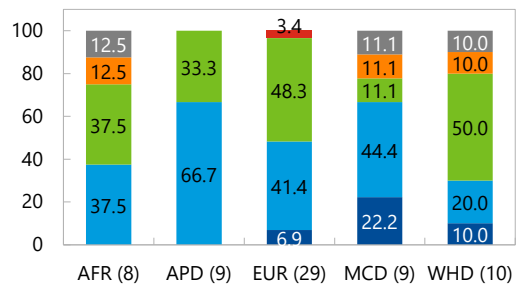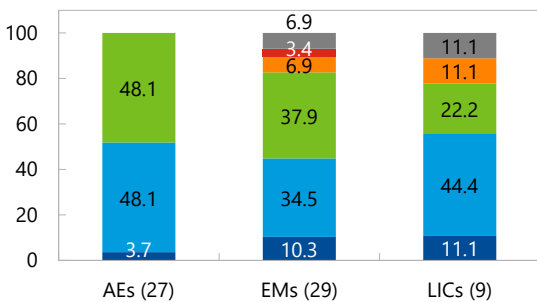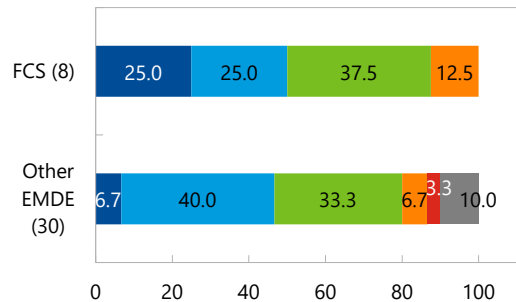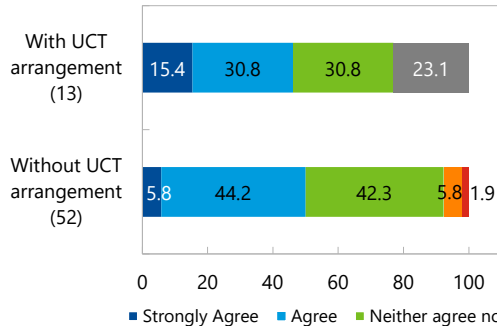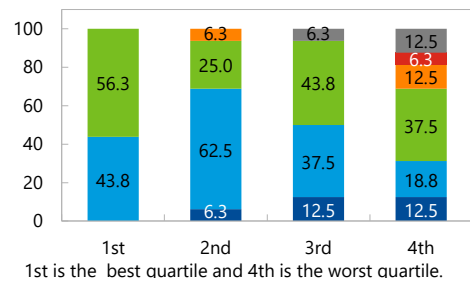
Source: Country authorities survey.

Question 6. *Following the 2018 Framework, the IMF (country team and/or capacity development) has provided tailored, concrete, and granular policy advice and guidance on governance and anti-corruption issues.*

Summary

- **Country authorities assess that IMF staff provided tailored, concrete, and granular policy advice and guidance on governance and anti-corruption issues, reflecting country circumstances**. Overall, about ¾ of responses support this view, with similar shares across groups, though the shares of "strongly agree" somewhat tends to be larger in FCS and countries with high perceived governance and corruption vulnerabilities.

Figure 6. Question 6 Results

Overall (in percent of total sample)

Respondents: 65/190

Strongly Agree 10.8 · Agree 63.1 · Neither agree nor disagree 18.5 · Disagree 4.6 · No response provided 3.1

By Region (in percent of total sample)

	AFR (8)	APD (9)	EUR (29)	MCD (9)	WHD (10)
Strongly Agree	12.5	11.1	6.9	22.2	10.0
Agree	62.5	66.7	58.6	55.6	80.0
Neither agree nor disagree			31.0		
Disagree	12.5	11.1		11.1	
No response provided	12.5		3.4		10.0

By Income Level (in percent of total sample)

	AEs (27)	EMs (29)	LICs (9)
Strongly Agree	7.4	13.8	11.1
Agree	59.3	65.5	66.7
Neither agree nor disagree	29.6	13.8	
Disagree		6.9	11.1
No response provided	3.7		11.1

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

	Strongly Agree	Agree	Neither agree nor disagree	Disagree	No response provided
FCS (8)	37.5	25.0	12.5	25.0	
Other EMDE (30)	6.7	76.7	10.0	3.3	3.3

By Countries with UCT Arrangements (in percent of total sample)

	Strongly Agree	Agree	Neither agree nor disagree	Disagree	No response provided
With UCT arrangement (13)	15.4	69.2		7.7	7.7
Without UCT arrangement (52)	9.6	61.5	23.1	3.8	1.9

By WGI Score (in percent of total sample)

	1st	2nd	3rd	4th
Strongly Agree	12.5		12.5	18.8
Agree	56.3	75.0	75.0	50.0
Neither agree nor disagree	25.0	18.8	6.3	18.8
Disagree		6.3	6.3	6.3
No response provided	6.3		6.3	6.3

1st is the best quartile and 4th is the worst quartile.

Source: Country authorities survey.

Question 7. *IMF staff provided timely and useful CD to support the implementation of governance and anti-corruption policy advice?*

Summary

- **On average, country authorities view IMF CD provisions as timely and useful.** Especially, LICs, countries with UCT arrangements or high perceived governance and corruption vulnerabilities appreciated Fund staff's policy advice. Large share of "not applicable" responses mainly reflects responses from AEs.

Figure 7. Question 7 Results

Overall
(in percent of total sample)

3.1
49.2
6.2
41.5

Respondents: 65/190

■ Agree ■ Disagree ■ Not applicable ■ No response provided

By Region
(in percent of total sample)

	AFR (8)	APD (9)	EUR (29)	MCD (9)	WHD (10)
No response provided	12.5		3.4		
Not applicable	12.5	55.6	55.2	22.2	30.0
Disagree	12.5			22.2	10.0
Agree	62.5	44.4	41.4	55.6	60.0

By Income Level
(in percent of total sample)

	AEs (27)	EMs (29)	LICs (9)
No response provided	3.7		11.1
Not applicable	66.7	24.1	22.2
Disagree		13.8	
Agree	29.6	62.1	66.7

■ Agree ■ Disagree ■ Not applicable ■ No response provided

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

	Agree	Disagree	Not applicable	No response provided
FCS (8)	62.5	12.5	25.0	
Other EMDE (30)	63.3	10.0	23.3	3.3

■ Agree ■ Disagree ■ Not applicable ■ No response provided

By Countries with UCT Arrangements
(in percent of total sample)

	Agree	Disagree	Not applicable	No response provided
With UCT arrangement (13)	69.2	15.4	7.7	7.7
Without UCT arrangement (52)	44.2	3.8	50.0	1.9

■ Agree ■ Disagree ■ Not applicable ■ No response provided

By WGI Score
(in percent of total sample)

	1st	2nd	3rd	4th
No response provided	6.3			6.3
Not applicable	56.3	50.0	43.8	12.5
Disagree		6.3	6.3	12.5
Agree	37.5	43.8	50.0	68.8

1st is the best quartile and 4th is the worst quartile.

Source: Country authorities survey.

Question 8. *Do you think that the IMF's involvement in governance and anti-corruption issues has a positive impact on your country? (Contributed to discussions in your country, promoted reforms, provided valuable input to your agenda, etc.)*

Summary

- **70 percent of responses show favorable views on the impact of IMF's involvement in governance and anti-corruption issues.** This may suggest enhanced traction of IMF staff's policy advice under the framework.

- **The responses do not show substantial difference across groups, except higher supportive share in UCT arrangement cases.** This may indicate more policy traction under Fund's program.

Figure 8. Question 8 Results

Figure 8. Question 8 Results (Concluded)

*By Countries with UCT Arrangements
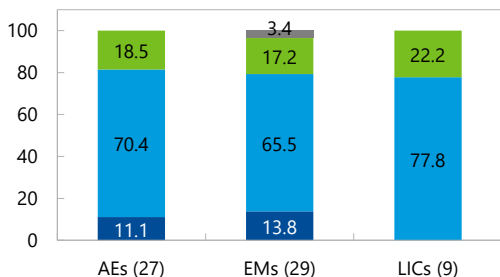(in percent of total sample)*

*By WGI Score
(in percent of total sample)*
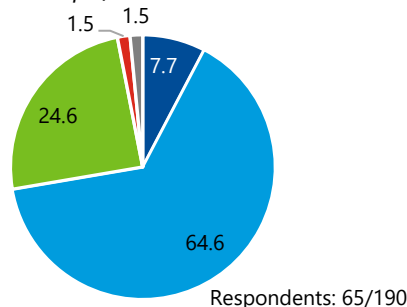
■ Strongly Agree ■ Agree ■ Neither agree nor disagree ■ Strongly disagree ■ No response provided
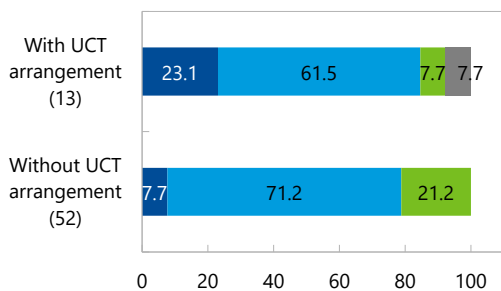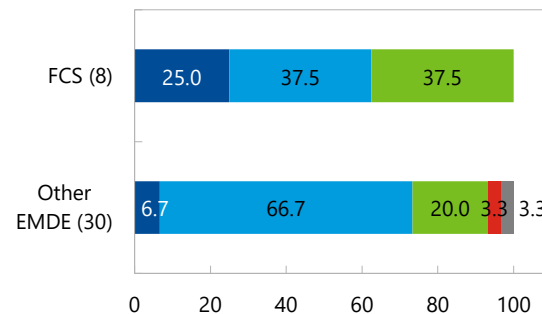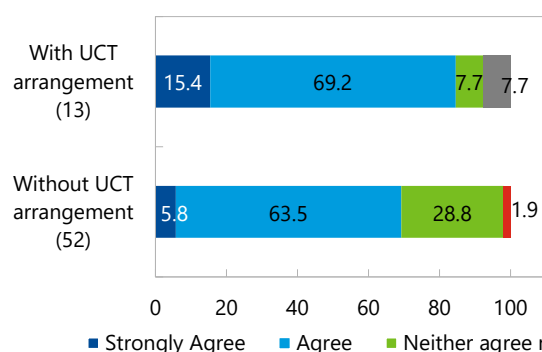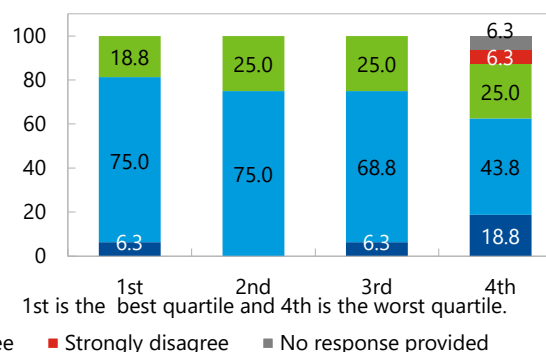
Source: Country authorities survey.

Question 9. *Please list what you consider to be the most important reform recommendations (up to three reforms) that the IMF country team has provided to your authorities with regard to governance and anti-corruption issues during the past four years. Please explain why you deem they were important (traction, ownership, outcome, etc.). If no recommendations were provided, please write "None".*

	Overall	Income level			Fragile status		UCT arrangement		WGI score			
		AEs	EMs	LICs	FCS	Other EMDEs	With UCT arrangement	Without UCT arrangement	1st quartile	2nd quartile	3rd quartile	4th quartile
Fiscal governance	**33.6%**	**25.7%**	**34.2%**	**47.1%**	**33.3%**	**37.7%**	**19.2%**	**37.4%**	**25.0%**	**31.6%**	**47.2%**	**22.9%**
PFM (excluding SOEs)	11.0%	5.7%	11.8%	17.1%	13.3%	12.6%	4.8%	12.8%	5.0%	11.8%	14.2%	10.4%
Revenue administration	6.2%	8.6%	3.5%	12.8%	10.0%	3.8%	4.8%	6.4%	5.0%	11.8%	9.4%	6.2%
Procurement	4.1%	8.6%	2.4%	4.3%	3.3%	2.5%	2.4%	4.6%	10.0%	3.9%	7.1%	2.1%
Fiscal transparency	2.7%	2.9%	2.4%	4.3%	3.3%	2.5%	2.4%	2.7%	5.0%	0.0%	4.7%	2.1%
SOEs	4.1%	0.0%	7.1%	0.0%	0.0%	7.5%	0.0%	5.5%	0.0%	3.9%	4.7%	2.1%
Other fiscal governance	5.5%	0.0%	7.1%	8.6%	3.3%	8.8%	4.8%	5.5%	0.0%	0.0%	7.1%	0.0%
Financial sector oversight	**9.6%**	**20.0%**	**6.8%**	**0.0%**	**0.0%**	**7.2%**	**0.0%**	**12.1%**	**25.0%**	**10.5%**	**8.3%**	**2.9%**
Central bank governance and operations	**8.8%**	**11.4%**	**8.2%**	**5.9%**	**4.8%**	**8.7%**	**23.1%**	**5.1%**	**5.0%**	**10.5%**	**5.6%**	**8.6%**
Anti corruption	**20.8%**	**14.3%**	**23.3%**	**23.5%**	**33.3%**	**20.3%**	**30.8%**	**18.2%**	**20.0%**	**15.8%**	**16.7%**	**34.3%**
AML/CFT	**17.6%**	**22.9%**	**17.8%**	**5.9%**	**14.3%**	**15.9%**	**11.5%**	**19.2%**	**20.0%**	**15.8%**	**16.7%**	**20.0%**
Market regulation	**1.6%**	**2.9%**	**0.0%**	**5.9%**	**0.0%**	**1.4%**	**3.8%**	**1.0%**	**0.0%**	**5.3%**	**2.8%**	**0.0%**
Rule of law	**4.0%**	**0.0%**	**4.1%**	**11.8%**	**9.5%**	**4.3%**	**3.8%**	**4.0%**	**0.0%**	**0.0%**	**2.8%**	**5.7%**
Other	**4.0%**	**2.9%**	**5.5%**	**0.0%**	**4.8%**	**4.3%**	**7.7%**	**3.0%**	**5.0%**	**10.5%**	**0.0%**	**5.7%**

Summary

- **Over 40 country authorities provided specific responses.**
- **The most important reform recommendations include anti-corruption and AML/CFT**, followed by PFM (excluding SOEs), financial sector oversight, and central bank governance and operations, although the sum of fiscal governance shows the largest shares in most groups.
- **LICs, FCS and countries with high perceived governance and corruption vulnerabilities ranked anti-corruption relatively high**, while AEs had a higher share of responses of financial sector oversight.

Examples of Specific Recommendations

Anti-Corruption

- Strengthening the anti-corruption framework by implementing existing legislation, including by the appointment of an independent, sufficiently empowered and resourced anti-corruption commission.
- Enactment of the anti-corruption legislation, approved by the National Assembly, including measures to ensure that acts of corruption are criminalized in line with Articles of the United Nations Convention Against Corruption.

Strengthening the identification and verification of beneficial ownership requirements for actors and politically exposed persons.

- Maintaining prevention and transparency efforts to mitigate corruption risks, including further strengthening the frameworks for asset disclosures, lobbying and whistleblower protection.

AML/CFT

- Enhancing the effectiveness of AML/CFT Framework in line with Financial Action Task Force standards.

- Enhancing AML/CFT risk management and compliance by strengthening supervision, ensuring accurate beneficial ownership information, improving preventive measures, reporting, and enhancing enforcement.

- Enhancing AML/CFT supervision by increasing the frequency of targeted and thematic inspections and improving the risk-based approach and tools for AML/CFT risk assessments.

- Ensuring inter-agency coordination on AML/CFT with adequate resources for all agencies involved.

- Enhancing and leveraging AML measures and enforcement efforts to detect and disrupt foreign proceeds of corruption from entering and/or being laundered in the respective country.

Fiscal Governance

- Strengthening the fiscal framework and transparency.

- Extending the coverage of government operations to public corporations that pose a significant risk to public finances and publishing public financial assets and their evolution.

- Implementing Public Investment Management (PIMA) recommendations.

- Tackling tax evasion and committing (and attaching high priority) to tax expenditure reduction.

- Improving governance of SOEs.

- Streamlining project approvals and assurances and regularly publishing reports on project procurement processes and on contracts for major public investments.

- Reviewing the duties of the public procurement agency.

Question 10. *Please indicate whether these recommendations were implemented, mentioning the factors that made this possible, or explaining the constraints on implementation (for example, recommendation not actionable, lack of political will, lack of traction, lack of capacity, etc.)*

Summary

- **About 10 responses elaborated on specific constraints on implementation of IMF's governance and anti-corruption recommendations.** They referred to a lack of political ownership or consensus and capacity constraints as key impeding factors. Also, some responses pointed out that even when relevant laws were passed, necessary political prioritization or commitment for implementation were often inadequate.

Examples of Constraints on Implementation

Lack of Political Ownership or Consensus

- Most of the recommendations were either implemented or duly addressed in the updates to the Anti-corruption Plan. Some of them are subject to legislative changes, which require further debate in Congress and political will to push forward the bills of law that were submitted.

- Some of the recommendations were aligned with program conditionalities and other recommendations have been addressed and added to the National Anti-Corruption Strategy. Yet, recommendations regarding legislations are yet to be implemented due to political instability and election delays.

- The AML/CFT and the conflict-of-Interest draft laws are under revision of the National Assembly. The revision period is extended due to the political situation in the National Assembly.

- Most of the laws adopted in recent years to address governance and anti-corruption issues have not been implemented yet. Political integrity and political will are needed to enforce these legislations.

Capacity Constraints

- The implementation of identified governance recommendations is undergoing, though capacity constraints and other priorities may impact progress.

- Recommendations in the field of internal public financial control and auditing could not move forward due to low staffing.

Question 11. *To strengthen the global fight against corruption, the 2018 Framework includes the voluntary assessment of transnational aspects of corruption (supply and/or facilitation) in Surveillance. If your country has not yet volunteered, what considerations would facilitate your country's volunteering to the assessment of transnational aspects of corruption in Surveillance?"*

Summary
- **A small handful of country authorities provided specific responses** on considerations that would facilitate volunteering to the assessment of transnational aspects of corruption in Surveillance.

- **Some responses show unawareness of the assessment.** Some others indicated that governance diagnostic tools and instruments for the prevention of risks in addition to adequate resources and capacity building would further facilitate such assessments.

Question 12. *Please indicate the areas of governance where further enhanced engagement with the IMF is needed in your country (select "Yes" if an area applies and add text if needed).*

Summary
- **Authorities identified financial sector oversight, AML/CFT and fiscal governance as areas of governance where further enhanced engagement is needed.** This largely reflects appetite from EMs, LICs, FCS, countries with UCT arrangements or high governance and corruption vulnerabilities.

- In addition, **governance diagnostics and anti-corruption show relatively higher need of enhanced engagement**, especially in EMs and LICs, and countries with UCT program or high perceived governance and corruption vulnerabilities. **Market regulation** was also identified as an area in which engagement should be enhanced by LIC with UCT program or high perceived governance and corruption vulnerabilities.

Figure 9. Question 12 Results

Overall
(in percent of total sample)

Category	Yes	No	No response provided
Financial sector oversight	44.6	41.5	13.8
Anti-money laundering and combatting the financing of terrorism (AML/CFT)	44.6	46.2	9.2
Fiscal governance	43.1	43.1	13.8
Anticorruption	38.5	53.8	7.7
Governance diagnostic	38.5	50.8	10.8
Central bank governance and operations	32.3	55.4	12.3
Market regulation	32.3	52.3	15.4
Rule of law	24.6	64.6	10.8
Others (please specify)	6.2	56.9	36.9

■ Yes ■ No ■ No reponse provided

Respondents: 65/190

By Income Group
(in percent of total simple)

■ Yes ■ No ■ No response provided

Total sample: AEs-27, EMs-29, LICs-9

Figure 9. Question 12 Results (Continued)

By Region
(in percent of total sample)

Category	Region	Yes	No	No response provided
Financial sector oversight	AFR	87.5	0.0	12.5
	APD	44.4	55.6	0.0
	EUR	24.1	62.1	13.8
	MCD	55.6	22.2	22.2
	WHD	60.0	20.0	20.0
Anti-money laundering and combatting the financing of terrorism (AML/CFT)	AFR	87.5	0.0	12.5
	APD	44.4	55.6	0.0
	EUR	27.6	62.1	10.3
	MCD	55.6	33.3	11.1
	WHD	50.0	40.0	10.0
Fiscal governance	AFR	62.5	12.5	25.0
	APD	55.6	44.4	0.0
	EUR	27.6	62.1	10.3
	MCD	55.6	22.2	22.2
	WHD	50.0	30.0	20.0
Anticorruption	AFR	75.0	12.5	12.5
	APD	44.4	55.6	0.0
	EUR	24.1	65.5	10.3
	MCD	55.6	44.4	0.0
	WHD	30.0	60.0	10.0
Governance diagnostic	AFR	75.0	12.5	12.5
	APD	55.6	44.4	0.0
	EUR	17.2	69.0	13.8
	MCD	55.6	44.4	0.0
	WHD	40.0	40.0	20.0
Central bank governance and operations	AFR	75.0	12.5	12.5
	APD	44.4	55.6	0.0
	EUR	10.3	79.3	10.3
	MCD	44.4	33.3	22.2
	WHD	40.0	40.0	20.0
Market regulation	AFR	50.0	37.5	12.5
	APD	44.4	55.6	0.0
	EUR	13.8	69.0	17.2
	MCD	66.7	22.2	11.1
	WHD	30.0	40.0	30.0
Rule of law	AFR	12.5	62.5	25.0
	APD	44.4	55.6	0.0
	EUR	13.8	75.9	10.3
	MCD	44.4	44.4	11.1
	WHD	30.0	60.0	10.0
Others (please specify)	AFR	12.5	37.5	50.0
	APD	11.1	55.6	33.3
	EUR	3.4	69.0	27.6
	MCD	0.0	44.4	55.6
	WHD	10.0	50.0	40.0

■ Yes ■ No ■ No response provided

Total sample: AFR-8, APD-9, EUR-29, MCD-9, WHD-10

Figure 9. Question 12 Results (Continued)

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

Total sample: FCS-8
Other EMDE-30

■ Yes ■ No ■ No response provided

By Countries with UCT Arrangements
(in percent of total sample)

Total saple: With UCT (13)
Without UCT (52)

■ Yes ■ No ■ No response provided

Figure 9. Question 12 Results (Concluded)

By WGI Score
(in percent of total sample)

Category	Quartile	Yes	No	No response provided
Financial sector oversight	1st	12.5	75.0	12.5
	2nd	31.3	68.8	0.0
	3rd	68.8	18.8	12.5
	4th	68.8	0.0	31.3
Anti-money laundering and combatting the financing of terrorism	1st	25.0	62.5	12.5
	2nd	37.5	62.5	0.0
	3rd	56.3	31.3	12.5
	4th	62.5	25.0	12.5
Fiscal governance	1st	6.3	81.3	12.5
	2nd	37.5	62.5	0.0
	3rd	68.8	18.8	12.5
	4th	62.5	6.3	31.3
Anticorruption	1st	6.3	81.3	12.5
	2nd	25.0	75.0	0.0
	3rd	75.0	25.0	0.0
	4th	50.0	31.3	18.8
Governance diagnostic	1st	0.0	87.5	12.5
	2nd	31.3	68.8	0.0
	3rd	75.0	18.8	6.3
	4th	50.0	25.0	25.0
Central bank governance and operations	1st	0.0	87.5	12.5
	2nd	18.8	81.3	0.0
	3rd	62.5	25.0	12.5
	4th	43.8	31.3	25.0
Market regulation	1st	6.3	81.3	12.5
	2nd	25.0	75.0	0.0
	3rd	56.3	25.0	18.8
	4th	43.8	25.0	31.3
Rule of law	1st	0.0	87.5	12.5
	2nd	12.5	87.5	0.0
	3rd	50.0	43.8	6.3
	4th	37.5	37.5	25.0
Others (please specify)	1st	0.0	75.0	25.0
	2nd	0.0	68.8	31.3
	3rd	18.8	43.8	37.5
	4th	6.3	37.5	56.3

■ Yes   ■ No   ■ No response provided

1st is the best quartile and 4th is the worst quartile.

Source: Country authority survey.

Question 13. *In terms of the possible modalities of further enhanced engagement, please rank the following areas where the IMF could further engage with your authorities in governance and anti-corruption issues.*

Summary

- **Authorities ranked increasing technical assistance and training on governance and anti-corruption by IMF favorably.** This was followed by further conduct and publication of governance diagnostics and conduct of more voluntary assessment of transnational aspects of corruption.

Figure 10. Question 13 Results

Overall Ranking
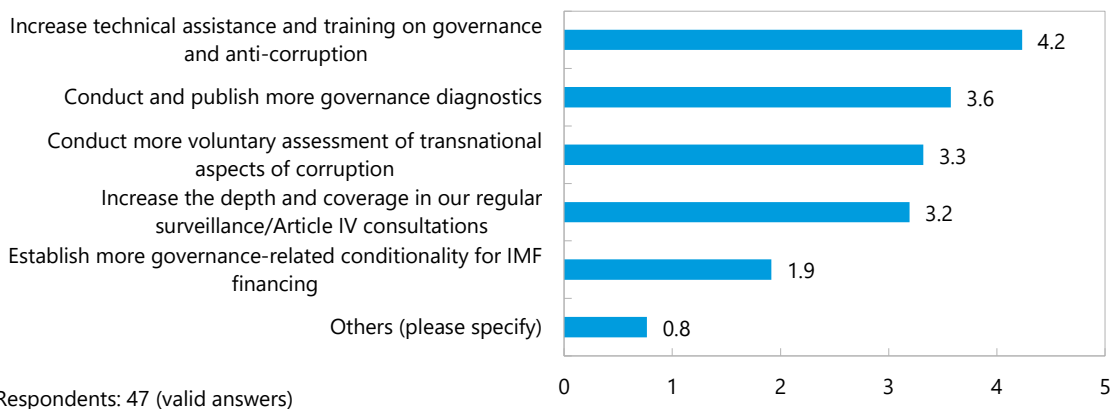
Increase technical assistance and training on governance and anti-corruption	4.2
Conduct and publish more governance diagnostics	3.6
Conduct more voluntary assessment of transnational aspects of corruption	3.3
Increase the depth and coverage in our regular surveillance/Article IV consultations	3.2
Establish more governance-related conditionality for IMF financing	1.9
Others (please specify)	0.8

Respondents: 47 (valid answers)

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

Overall: Issues Ranked as 1st and 2nd Priority

(in percent of total sample)

	1st (47)	2nd (42)
Increase technical assistance and training on governance and anti-corruption	36.2	26.2
Increase the depth and coverage in our regular surveillance/Article IV consultations	21.3	19.0
Conduct and publish more governance diagnostics	17.0	26.2
Conduct more voluntary assessment of transnational aspects of corruption	10.6	21.4
Establish more governance-related conditionality for IMF financing	8.5	7.1
Others (please specify)	6.4	0.0

Based on valid answeres.

Figure 10. Question 13 Results (Continued)

Ranking by Regions

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

*By Regions: Issues Ranked as 1st and 2nd Priority
(in percent of total sample)*
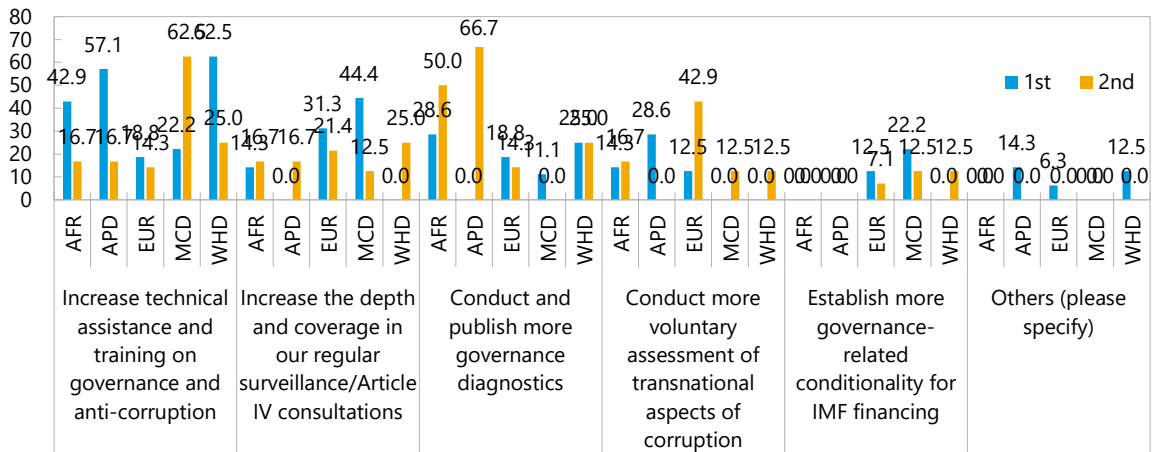
Sample size: AFR: 1st-7, 2nd-6; APD: 1st-7, 2nd-6; EUR: 1st-16, 2nd-14; MCD: 1st-9, 2nd-8; WHD: 1st-8, 2nd-8

Figure 10. Question 13 Results (Continued)
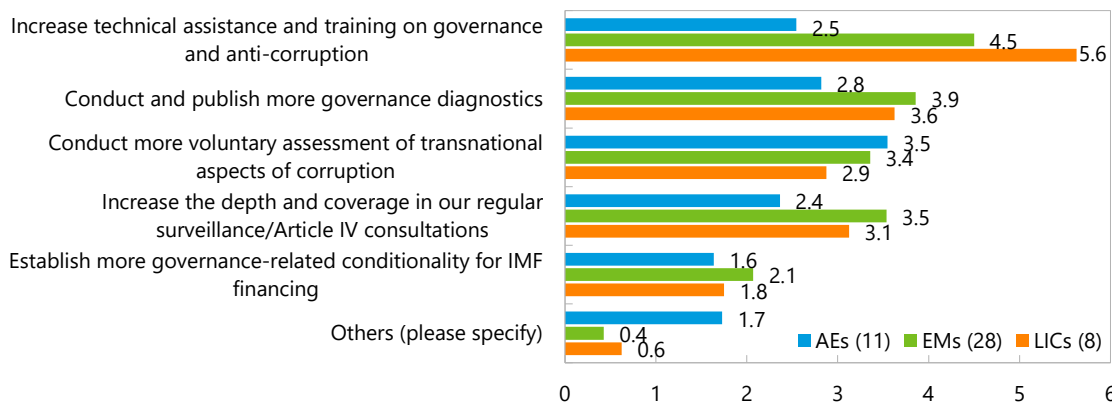
By Income Level
(in percent of total sample)

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

By Income Level: Issues Ranked as 1st and 2nd Priority
(in percent of total sample)
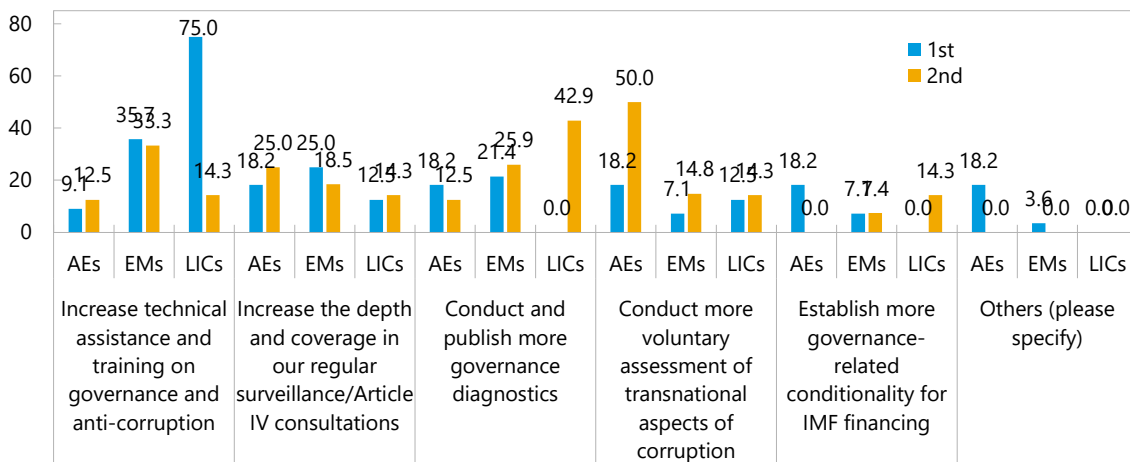
Sample size: AEs, 1st-11; 2nd-8; EMs, 1st-28; 2nd-27; LICDs, 1st-8; 2nd-7

Figure 10. Question 13 Results (Continued)

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

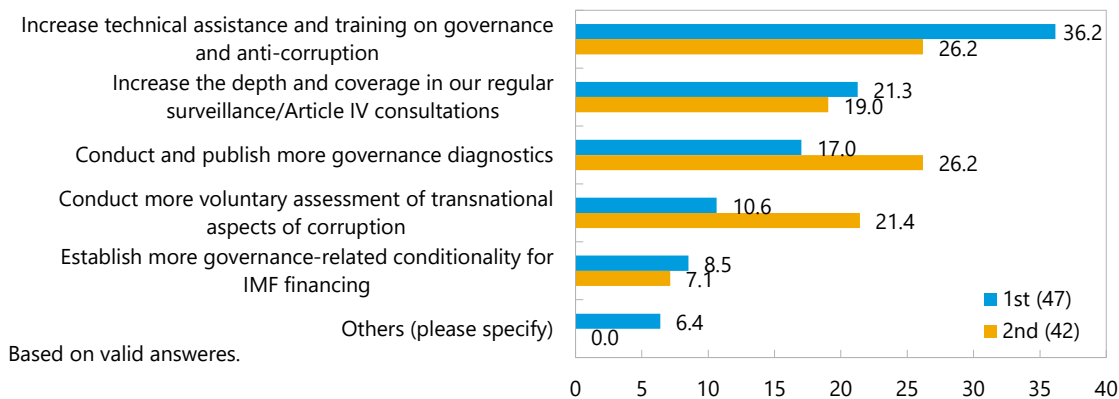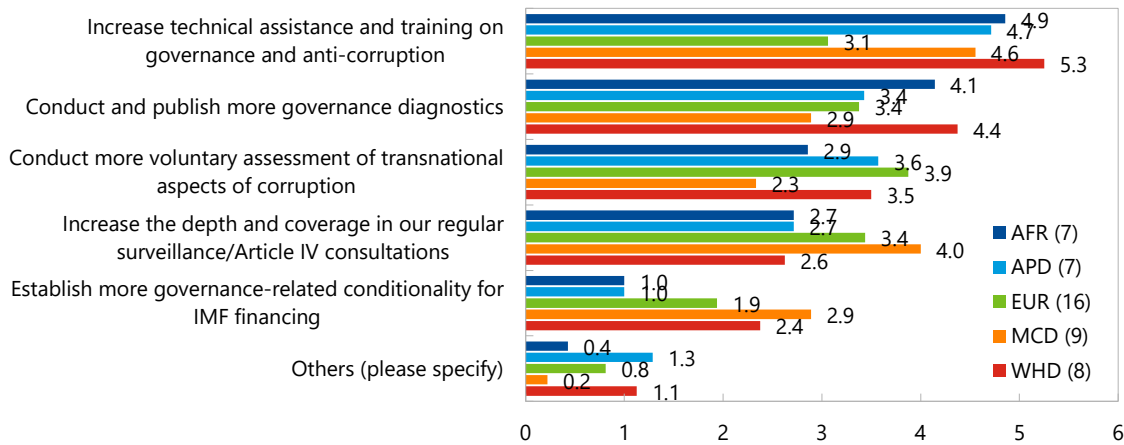|	FCS (8)	Other EMDEs (28)
Increase technical assistance and training on governance and anti-corruption	4.9	4.4
Conduct and publish more governance diagnostics	3.9	3.5
Conduct more voluntary assessment of transnational aspects of corruption	3.4	2.8
Increase the depth and coverage in our regular surveillance/Article IV consultations	3.7	2.5
Establish more governance-related conditionality for IMF financing	1.9	2.3
Others (please specify)	0.4	0.8

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

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

		1st	2nd
Increase technical assistance and training on governance and anti-corruption	FCS	50.0	0.0
	Other EMDEs	42.9	35.7
Increase the depth and coverage in our regular surveillance/Article IV consultations	FCS	0.0	16.7
	Other EMDEs	28.6	17.9
Conduct and publish more governance diagnostics	FCS	25.0	33.3
	Other EMDEs	14.3	28.6
Conduct more voluntary assessment of transnational aspects of corruption	FCS	12.5	33.3
	Other EMDEs	7.1	10.7
Establish more governance-related conditionality for IMF financing	FCS	12.5	16.7
	Other EMDEs	3.6	7.1
Others (please specify)	FCS	0.0	0.0
	Other EMDEs	3.6	0.0

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

Figure 10. Question 13 Results (Continued)

By Countries with UCT Arrangements
(in percent of total sample)
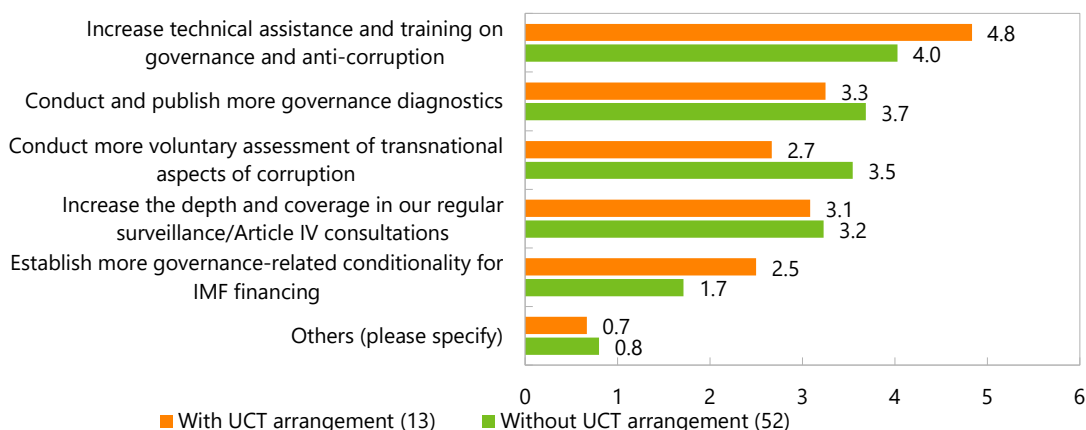
■ With UCT arrangement (13) ■ Without UCT arrangement (52)

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

By Countries with UCT Arrangements: Issues Ranked as 1st and 2nd Priority
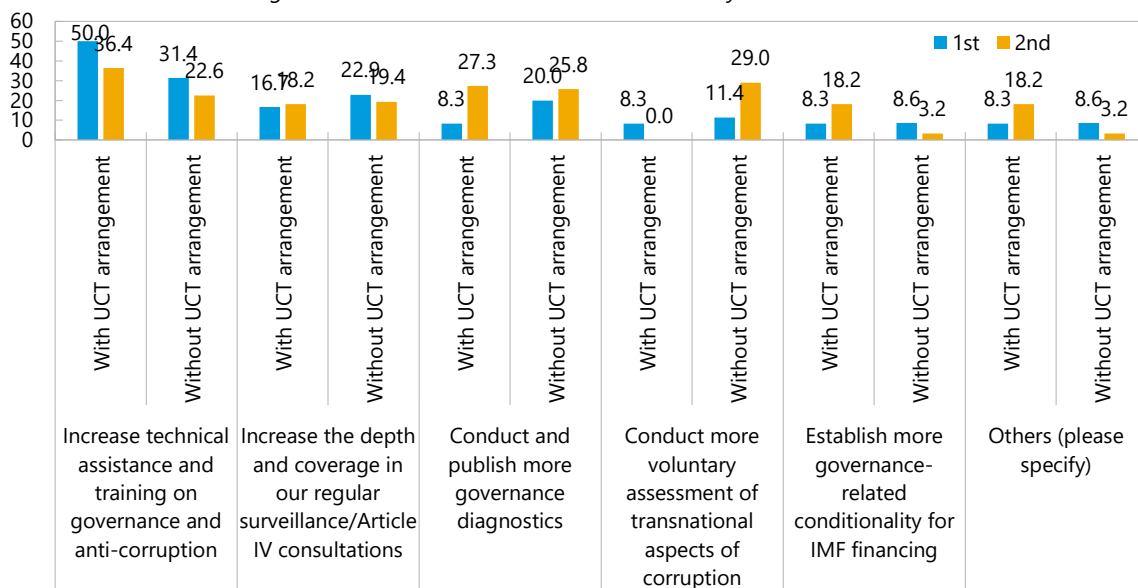
Sample size: With UCT arrangement 1st-12, 2nd-11; Without UCT arrangement 1st-35, 2nd-31

Figure 10. Question 13 Results (Concluded)

By WGI Score
(EMDE Countries in percent of total sample)
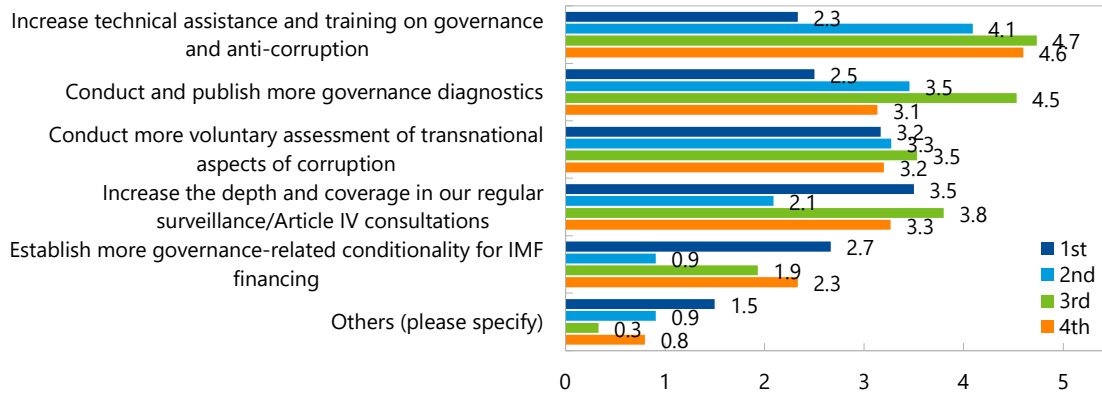
The questionnaire asked respondents to rank the items and not all respondents ranked all items. This result shows the average point weighted by ranking, ranked in 1st – 6 points, 2nd – 5 points, 3rd – 4 points, 4th – 3 points, 5th – 2 points, 6th – 1point and not ranked – 0 point.

By WGI Score: Issues Ranked as 1st and 2nd Priority
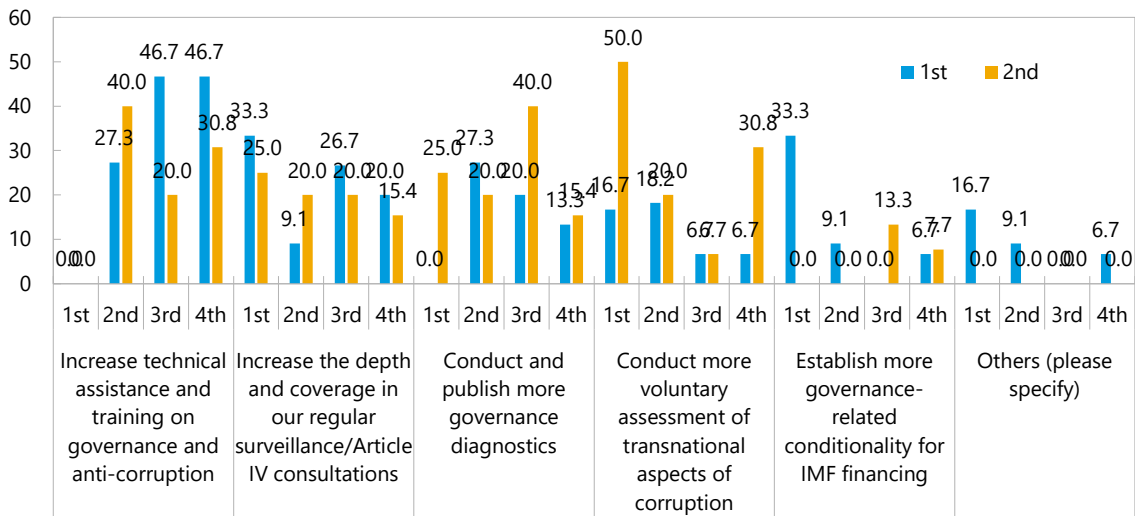
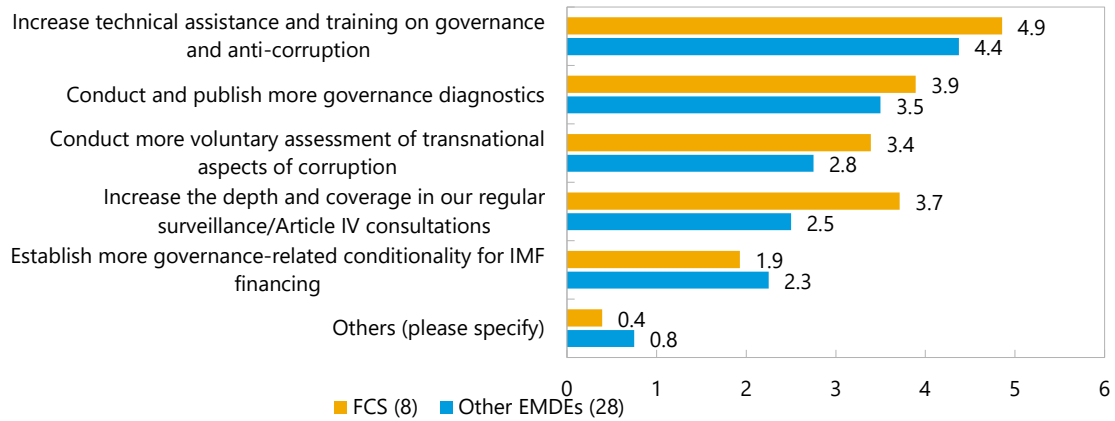Sample size: 1st 1st-6, 2nd-4; 2nd 1st-11, 2nd-10; 3rd 1st-15, 2nd-15; 4th 1st-15, 2nd-13

Source: Country authority survey.

Question 14. *Is there anything you would recommend for the IMF to improve the quality and impact of its engagement on governance and anti-corruption issues?*

Summary

- **16 responses provided suggestions on the general implementation of the framework.**

- **Providing a tailored approach accounting for country specific circumstances, providing more expertise and guidance to mainstream governance and anti-corruption issues in the IMF's core activities when macro-critical** and expanding the scope of the governance and anti-corruption framework to include emerging issues are top 3 responses.

Specific Recommendations

Even-handedness and Tailoring/Country Specific Engagement

- The most important aspect of the IMF's engagement with countries on governance and anti-corruption issues is even-handedness. The main challenge for the Fund is overcoming the predominant views on a particular country's governance assessment as per the board's geopolitical balance.

- The engagement should be tailored to country-specific circumstances and institutions.

Mainstreaming of Governance and Anti-Corruption Issues in the Fund's Core Activities when Macro-Critical, Including:

- Enhanced coverage of governance and anti-corruption issues during regular surveillance/program missions. This could include creation of instruments to measure and to evaluate corruption and its impacts in several dimensions (economic, social, political etc.) and additional guidance for mission teams regarding when it may/may not be appropriate for staff to issue waivers for governance-related conditionality to bring this practice in line with that of other macro-fiscal program targets.

- Country Engagement Strategies in FCS should candidly discuss governance vulnerabilities and how to best address them. This could involve close collaboration with other institutions to exploit synergies and to avoid duplication.

- Stronger focus on technical assistance provisions and wider training on governance and anti-corruption issues. This could include increased technical assistance training to financial sector supervising authorities on governance and anti-corruption and AML/CFT effectiveness as well as coverage of fiscal transparency evaluations (FTEs) and public investment management assessments (PIMAs). While wider training and outreach in the form of face-to-face workshops, corruption risks information sharing sessions and study visits could be used to build institutional capacity.

Expansion of the Scope of the Governance and Anti-Corruption Framework to Include:

- Governance reforms supporting climate adaptation and mitigation.

- Gender issues, for example, how the framework can incorporate the IMF's new gender strategy.

- Comprehensive analysis of offshore financial centers and tax havens, including risks to financial integrity.

- Analysis of political barriers and incentives for reform, for example, how corruption fits into the political settlement of the country, and short- and long-term risks to macro-stability.

- Deeper engagement with authorities and political leaders in addition to direct engagement with anti-corruption agencies, for example on issues such as regulatory capture and lobbying activities that have substantial impact on the legislative, regulatory, and supervisory environment.

SURVEY RESPONSES FROM IMF COUNTRY TEAMS[1]

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

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

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

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

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

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

example, we observe a higher share of PFM and anti-corruption driven by LICs, FCS, and countries with UCT programs or high perceived governance and corruption vulnerabilities, while the higher share of AML/CFT is driven by AEs, Emerging Markets (EMs) and LICs without UCT arrangements, and countries with low perceived governance and corruption vulnerabilities.

5. **Capacity constraints and vested interests were dominant impeding factors for members to implement the recommendations, followed by lack of ownership/commitment (Q.8).** However, these factors become less relevant in the context of UCT arrangements compared to surveillance, which could indicate more traction of policy advice in Fund programs.

6. **Given the above, country teams expressed that increasing technical assistance and training has been identified as the most preferred modality of further enhanced engagement,** followed by more governance diagnostics, increasing the depth and coverage of surveillance, transnational aspects, and more governance related conditionality (Q.15).

7. **Country teams have received appropriate support from functional departments (FDs) in a timely manner (Q.16,17).** Country teams for AEs and EMs benefited from traditional types of support from functional departments (e.g., review process, bilateral consultation), while a majority of country teams for LICs also acknowledged a new modality of enhanced support, including interdepartmental brainstorming sessions and governance diagnostic missions.

8. **Country teams indicated the need for further support from functional departments (Q.18,19).** Overall, fiscal governance, AML/CFT, and anti-corruption are the top three areas where further functional department support is needed. More specific requests from some country teams (41 responses) would be actionable without any changes in the Fund's policies or framework; many of them revolved around allocating/prioritizing more resources and providing more governance and anti-corruption related expertise and guidance.

9. **Under the framework, interaction and collaboration with other stakeholders has been enhanced (Q.11-14).** For collaboration with other International Financial Institutions (IFIs) (including the World Bank (WB)) and donors, more than a half of LICs and countries with UCT programs or high perceived governance and corruption vulnerabilities supported enhanced cooperation. Most EMs (eligible for WB lending) and LICs have some interaction with the WB. However, some country teams raised concerns on collaboration with IFIs and the WB, including a lack of coordination on related CD in the field, and delayed response times for feedback on Governance and Anti-corruption (GAC) areas. With regards to interaction with civil society (CSOs), the majority of LICs, FCS, and countries with UCT programs or high perceived governance vulnerabilities indicated some interaction (Q.10). However, a lack of free and independent press and CSOs seemed to undermine the effectiveness of interaction (Q.11).

10. **Appendix II provides more detailed information on the survey responses.**

Appendix I. List of Country Teams that Submitted Survey Responses

Region	Country Name	Region	Country Name
AFR 31	Angola	APD	Lao P.D.R.
	Botswana		Macao
	Burkina Faso		Malaysia
	Cabo Verde		Maldives
	Cameroon		Marshall Islands
	Chad		Mongolia
	Côte d'Ivoire		Nauru
	Democratic Republic of the Congo		Nepal
	Equatorial Guinea		New Zealand
	Eswatini		Philippines
	Ethiopia		Samoa
	Guinea		Singapore
	Guinea-Bissau		Solomon Islands
	Kenya		Sri Lanka
	Lesotho		Thailand
	Liberia		Timor-Leste
	Madagascar		Tonga
	Malawi		Tuvalu
	Mauritius		Vanuatu
	Niger	EUR 42	Albania
	Nigeria		Andorra
	Republic of Congo		Austria
	Senegal		Belarus
	Sierra Leone		Belgium
	South Africa		Bosnia and Herzegovina
	South Sudan		Bulgaria
	The Gambia		Croatia
	Togo		Czech Republic
	Uganda		Denmark
	Zambia		Estonia
	Zimbabwe		Finland
APD 27	Australia		Germany
	Bangladesh		Greece
	Cambodia		Hungary
	China		Ireland
	Fiji		Israel
	Hong Kong SAR		Italy
	Indonesia		Kosovo
	Korea		Latvia

Region	Country Name	Region	Country Name
EUR	Lithuania		Qatar
	Luxembourg		Saudi Arabia
	Malta		Somalia
	Moldova		Sudan
	Montenegro		Tajikistan
	North Macedonia		Tunisia
	Norway		Turkmenistan
	Poland		United Arab Emirates
	Portugal		Uzbekistan
	Romania		West Bank & Gaza
	Russian Federation		Yemen
	San Marino	WHD	Antigua and Barbuda
	Serbia	29	Aruba
	Slovak Republic		Barbados
	Slovenia		Belize
	Spain		Bolivia
	Sweden		Brazil
	Switzerland		Canada
	The Netherlands		Colombia
	Turkey		Costa Rica
	Ukraine		Curacao
	United Kingdom		Dominica
MCD	Afghanistan		Dominican Republic
31	Algeria		El Salvador
	Armenia		Grenada
	Azerbaijan		Guatemala
	Bahrain		Guyana
	Djibouti		Haiti
	Egypt		Honduras
	Georgia		Jamaica
	Iran		Mexico
	Iraq		Nicaragua
	Jordan		Panama
	Kazakhstan		Paraguay
	Kuwait		Peru
	Kyrgyz Republic		St. Maarten
	Lebanon		St. Vincent and the Grenadines
	Libya		The Bahamas
	Mauritania		Trinidad and Tobago
	Morocco		Uruguay
	Oman		
	Pakistan		

Appendix II. Summary of the Survey for Country Teams

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

Definitions of Groups

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

	Income levels			Regions				
	AEs	EMs	LICs	AFR	APD	EUR	MCD	WHD
All	19.4%	45.4%	35.2%	23.0%	18.9%	23.0%	16.3%	18.9%
Survey responses	20.6%	46.9%	32.5%	19.4%	16.9%	26.3%	19.4%	18.1%

- 51 of the responses had at least one UCT arrangement during the survey period (2018-summer 2022), where UCT arrangements include Extended Credit Facility (ECF), Extended Fund Facility (EFF), Flexible Credit Line (FCL), Precautionary Liquidity Line Arrangement (PLL), Stand-By Arrangement (SBA), Standby Credit Facility (SCF), Policy Coordination Instrument (PCI) and Policy Support Instrument (PSI) (not including emergency arrangements like Rapid Credit Facility (RCF), and Rapid Financing Instrument (RFI)).

- FCS (33 countries) is based on the World Bank's list of Fragile and Conflict-affected Situations. Countries listed as such in FY2019 to FY2022 are counted as FCS.

- WGI: the quartiles of countries' three-year average (2019-21) of *control of corruption* scores are used to divide the sample with the WGI score into four groups.

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

Summary

- **IMF staff have engaged in candid, open and direct dialogue with country authorities on macro-critical governance and anti-corruption issues under the 2018 framework**, as implied by the large share, over ¾, of *strongly agree* and *agree*.

- **Perceptions on candidness are aligned with country circumstances, including their perceived governance and corruption vulnerabilities**. All groups show supportive views as majority, but supportive responses tend to be high in LICs, and countries with UCT arrangements.

Figure 1. Question 1 Results

Overall
(in percent of total sample)

Respondents: 160/190

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree

By region
(in percent of total sample)

AFR (31): 29.0, 67.7, 3.2
APD (27): 22.2, 55.6, 11.1, 11.1
EUR (42): 14.3, 69.0, 16.7
MCD (31): 38.7, 38.7, 19.4, 3.2
WHD (29): 55.2, 41.4, 3.4

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree

By income level
(in percent of total sample)

AEs (33): 12.1, 60.6, 24.2, 3.0
EMs (75): 37.3, 52.0, 8.0, 2.7
LICs (52): 32.7, 57.7, 7.7, 1.9

By fragility status
(EMED Countries in percent of total sample)

FCS (33): 30.3, 57.6, 12.1
Other EMDE (94): 37.2, 53.2, 6.4, 3.2

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree

By countries with UCT arrangements
(in percent of total sample)

With UCT arrangement (51): 39.2, 56.9, 3.9
Without UCT arrangement (109): 26.6, 55.0, 14.7, 3.7

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree

By WGI score
(in percent of total sample)

1st: 17.9, 51.3, 25.6, 5.1
2nd: 33.3, 61.5, 5.1
3rd: 30.8, 61.5, 7.7
4th: 37.5, 52.5, 10.0

1st is the best quartile and 4th is the worst quartile.
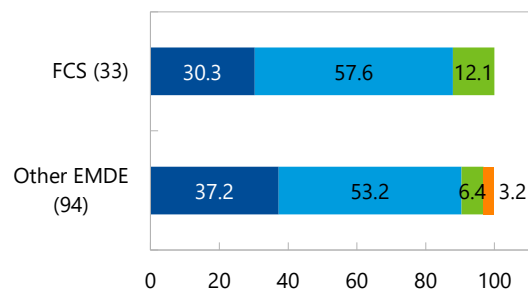
Source: Country team survey.

Question 2. *In what form, if any, have you had direct discussions with the authorities on corruption issues?*

Summary

- **The majority of the candid discussions were included in formal documents.** This implies a written record of those discussions and, in the cases where the documents are published, the possibility of domestic and international stakeholders to be aware of these discussions. A small share of holding discussions privately reinforces candidness and transparency in these discussions.

- **Direct discussions seem to be less prevalent in AEs, non-UCT, and low perceived governance and corruption vulnerabilities** (the share of no direct discussion in FCS, very similar to non-FCS EMDEs, is mainly driven by countries with no or very little interaction with the Fund).

Figure 2. Question 2 Results
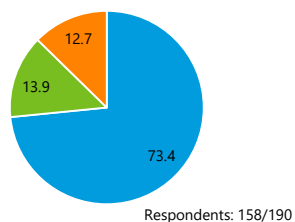
Overall
(in percent of total sample)

Respondents: 158/190
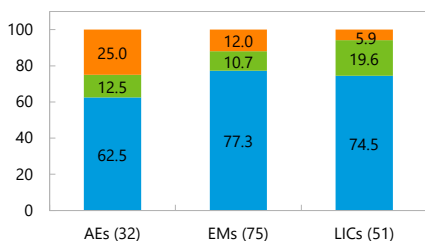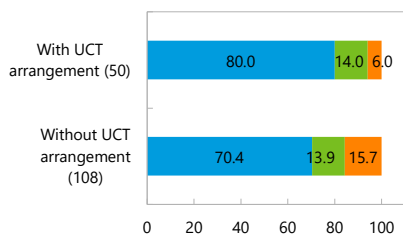
- Yes, in staff reports or in other formal mission reports
- No direct discussion

By region
(in percent of total sample)
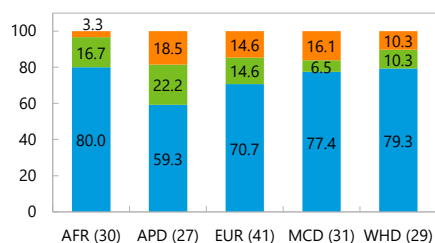
AFR (30) APD (27) EUR (41) MCD (31) WHD (29)

- Yes, in oral (or other private) communications

By Income Level
(in percent of total sample)

AEs (32)   EMs (75)   LICs (51)

- Yes, in staff reports or in other formal mission reports
- No direct discussion

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

- Yes, in oral (or other private) communications

By Countries with UCT Arrangements
(in percent of total sample)

- Yes, in staff reports or in other formal mission reports
- No direct discussion

By WGI Score
(in percent of total sample

1st   2nd   3rd   4th
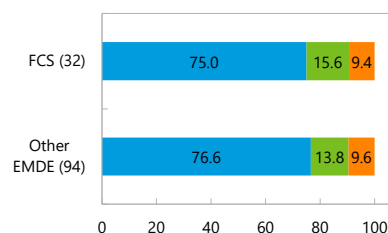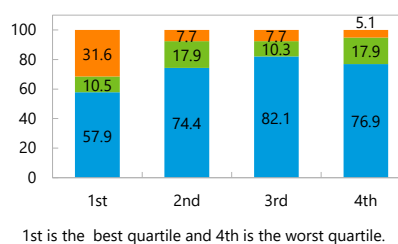
1st is the best quartile and 4th is the worst quartile.

- Yes, in oral (or other private) communications

Source: Country team survey.

Question 3. *Following the 2018 Framework, based on what you know about coverage in your and other countries, macro-critical governance and anti-corruptions issues have been addressed across IMF member countries in an <u>even-handed manner</u>. (Even-handedness means treating similarly situated countries in a similar manner.)*

Summary

- On average, while neutral responses (half) prevent a supportive view on even-handedness from becoming a majority, **the share of supportive views (about 36 percent) surpasses that of negative views (about 13 percent) by a wide margin** (The large percentage of neutral responses may suggest that country teams do not have strong views on even-handedness, or that they do not have enough information to assess it).

- **Aggregated numbers may mask heterogeneity in views**. Notably, a negative view on even-handedness tends to be relatively large in LICs, UCT programs and high perceived governance and corruption vulnerabilities.

- **Some country teams that responded as "Disagree/Strongly disagree" have highlighted reasons for the negative views.** First, their responses largely reflect the teams' views. Key issues raised by teams include too much emphasis being placed on governance and anti-corruption aspects compared to others, uneven recommendations and conditionality being imposed in comparable contexts, and a need to further discuss governance weaknesses in advanced economies.

Figure 3. Question 3 Results
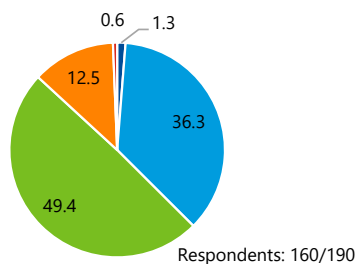
Overall
(in percent of total sample)

Respondents: 160/190

■ Strongly Agree ■ Agree ■ Neither agree nor disagree ■ Disagree ■ Strongly disagree

By Region
(in percent of total sample)

By Income Level
(in percent of total sample)

■ Strongly Agree ■ Agree ■ Neither agree nor disagree ■ Disagree ■ Strongly disagree
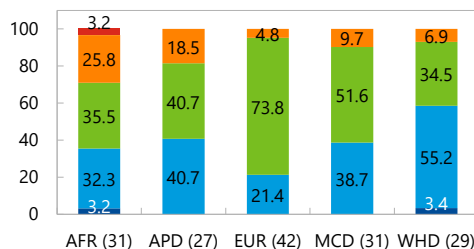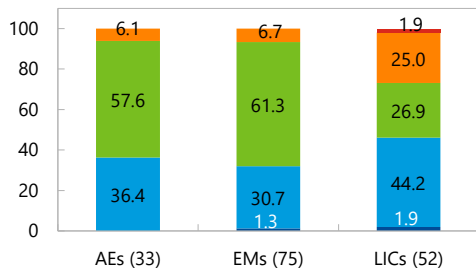
By Fragility Status
(EMED Countries in percent of total sample)
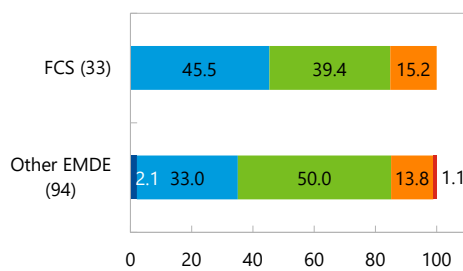
Figure 3. Question 3 Results (Concluded)

By Countries with UCT Arrangements
(in percent of total sample)

By WGI Score
(in percent of total sample)

1st is the best quartile and 4th is the worst quartile.

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree
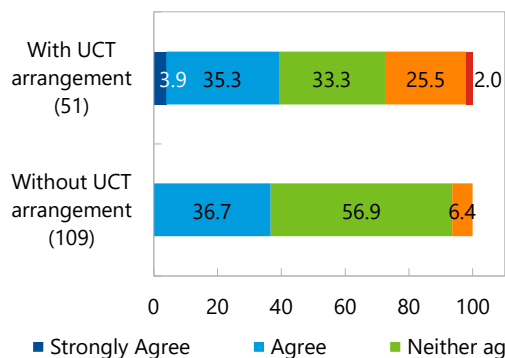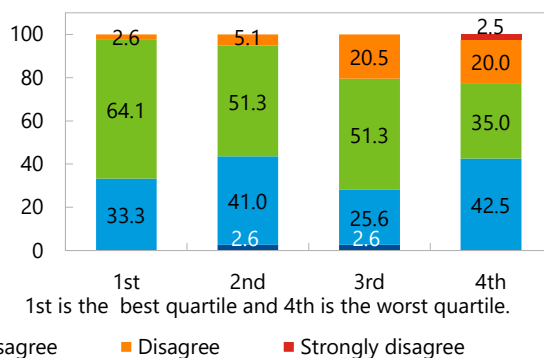
Source: Country team survey.

Question 4. *Following the 2018 Framework, your (area department, country) team (and its predecessors since 2018) has provided <u>tailored, concrete, and granular</u> policy advice and guidance on governance and anti-corruption issues.*

Summary

- **IMF staff have provided tailored, concrete, and granular policy advice and guidance on governance and anti-corruption issues, reflecting country circumstances**. Over 80 percent responses support this view, with similar patterns across groups.

- **This trend is particularly clear for LICs, and FCS**: they show *stronger* agreement with tailored, concrete, and granular policy advice than other groups.

Figure 4. Question 4 Results
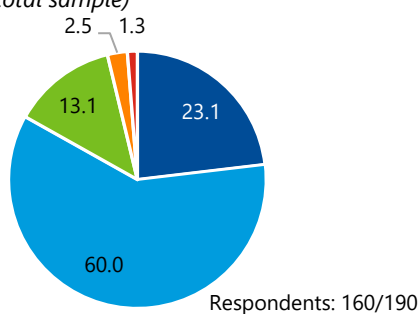
Overall
(in percent of total sample)

Respondents: 160/190

By Region
(in percent of total sample)
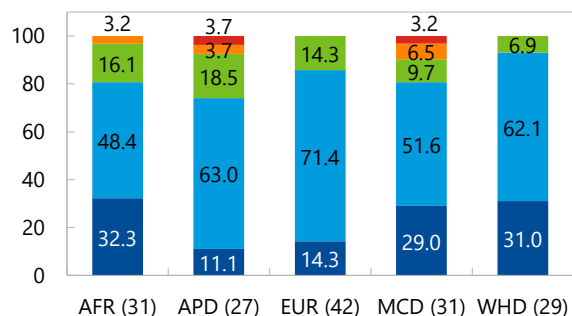
- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

Figure 4. Question 4 Results (Concluded)
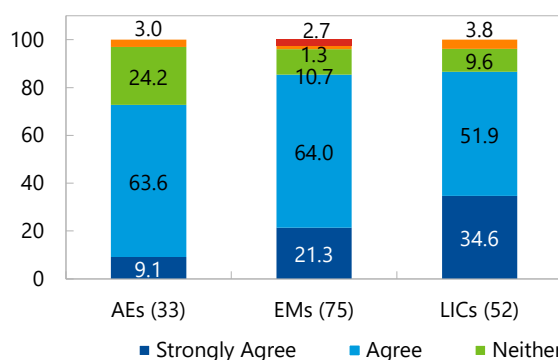
By Income Level
(in percent of total sample)

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

■ Strongly Agree   ■ Agree   ■ Neither agree nor disagree   ■ Disagree   ■ Strongly disagree

By Countries with UCT Arrangements
(in percent of total sample)

By WGI Score
(in percent of total sample)

1st is the best quartile and 4th is the worst quartile.

■ Strongly Agree   ■ Agree   ■ Neither agree nor disagree   ■ Disagree   ■ Strongly disagree
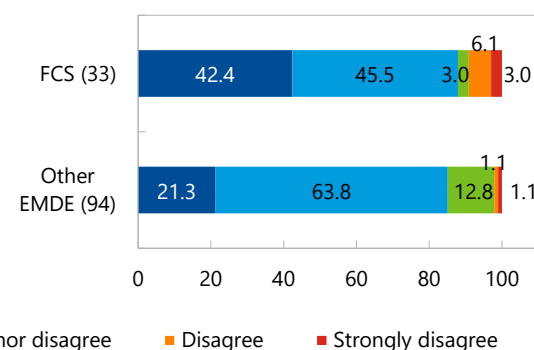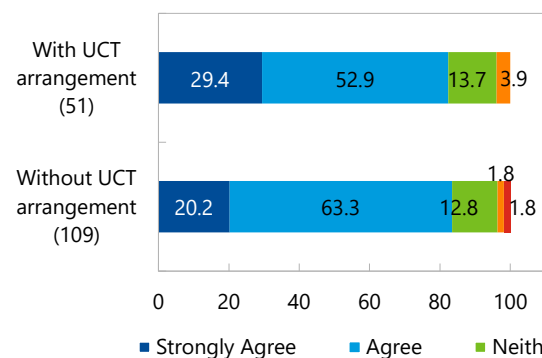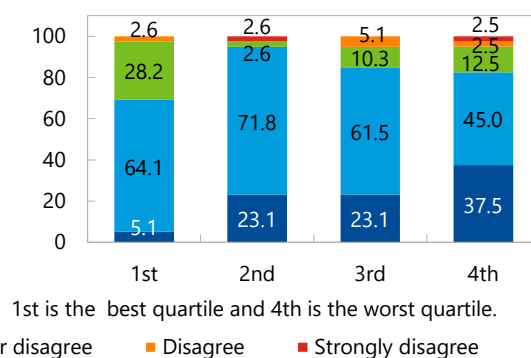
Source: Country team survey.

Question 5. *Please indicate the areas, if any, where program conditionality (prior actions and structural benchmarks) has been set to address governance weaknesses and/or corruption risks since the adoption of the Framework in mid-2018. (Please note this question is not intended to cover emergency lending commitments in LOIs)*

Summary

- **Fiscal governance, anti-corruption, central bank governance and operations, and financial sector oversight are areas in which majority of UCT programs have imposed conditionality overall**.

- **However, we see some heterogeneity across groups.** The majority of programs for LICs, FCS, and countries with high perceived governance and corruption vulnerabilities had conditionality on AML/CFT and rule of law too, where their shares are higher than or much closer to that of financial sector oversight and central bank governance and operations.

Figure 5. Question 5 Results

Overall
(in percent of total sample)

Category	Value
Fiscal governance	88
Anticorruption framework	58
Central bank governance and operations	58
Financial sector oversight	54
Anti-money laundering and combatting the financing of terrorism (AML/CFT)	44
Rule of law	34
Market regulation	24
Others (please specify)	20

Respondents: 50

By Income Level
(in percent of total sample)

Category	EMs (21)	LICs (28)
Fiscal governance	81.0	96.4
Anticorruption framework	42.9	71.4
Central bank governance and operations	52.4	64.3
Financial sector oversight	57.1	53.6
Anti-money laundering and combatting the financing of terrorism (AML/CFT)	42.9	46.4
Rule of law	23.8	42.9
Market regulation	23.8	25.0
Others (please specify)	28.6	14.3

By Region
(in percent of total sample)

Category	AFR (23)	APD (3)	EUR (5)	MCD (12)	WHD (7)
Fiscal governance	95.7	100.0	80.0	91.7	57.1
Anticorruption framework	65.2	33.3	60.0	75.0	14.3
Central bank governance and operations	52.2	66.7	40.0	83.3	42.9
Financial sector oversight	43.5	100.0	60.0	66.7	42.9
Anti-money laundering and combatting the financing of terrorism (AML/CFT)	43.5	66.7	20.0	58.3	28.6
Rule of law	39.1	33.3	40.0	25.0	28.6
Market regulation	21.7	0.0	20.0	41.7	14.3
Others (please specify)	21.7	0.0	40.0	25.0	0.0

Figure 5. Question 5 Results (Concluded)
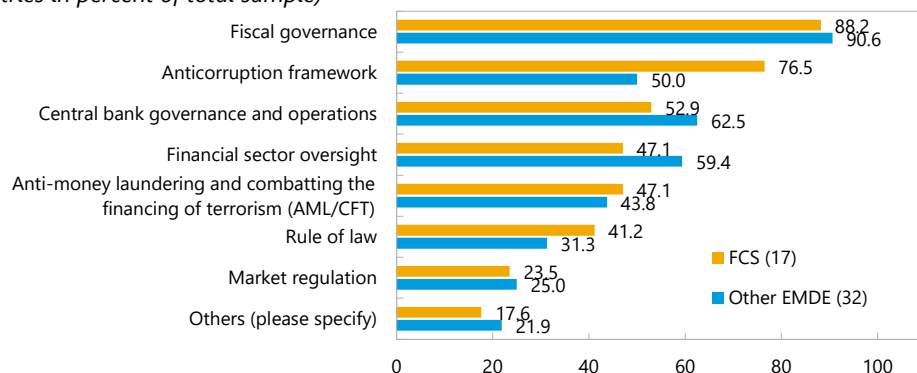
By Fragility Status
(EMED Countries in percent of total sample)

By WGI Score
(in percent of total sample)
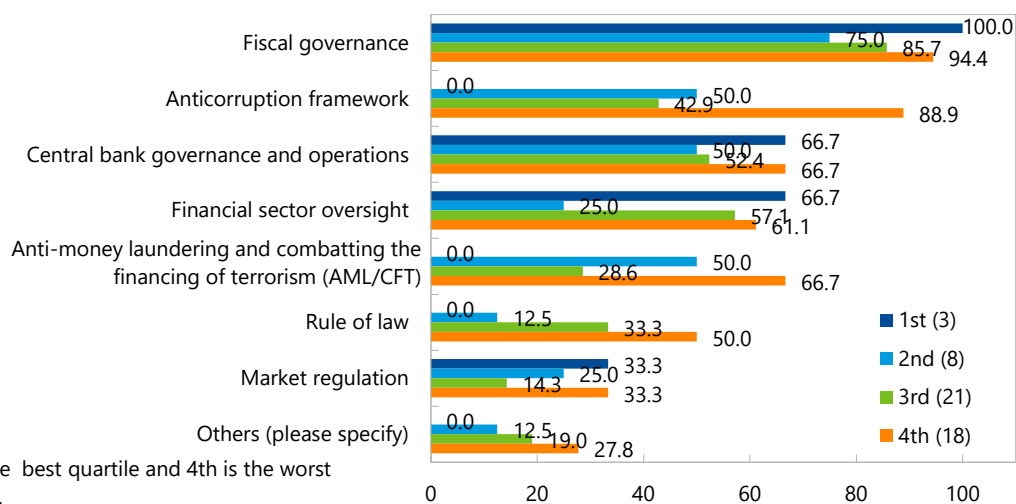
1st is the best quartile and 4th is the worst quartile.

Source: Country team survey.

Question 6. *Do you think that the Fund's involvement in governance and anti-corruption issues has a positive impact on your country?*

Summary

- **Favorable responses on the impact (and thus traction of policy advice)**. 2/3 of responses showed a positive view on the impact of the Fund's involvement in governance and anti-corruption issues, while only few express disagreements.

- **Traction of policy advice from IMF staff looks stronger for LICs and UCT arrangements.**

Figure 6. Question 6 Results

Overall
(in percent of total sample)

2.5 0.6
11.9
32.5
52.5

Respondents: 160/190

■ Strongly Agree ■ Agree ■ Neither agree nor disagree ■ Disagree ■ Strongly disagree

By Income Level
(in percent of total sample)
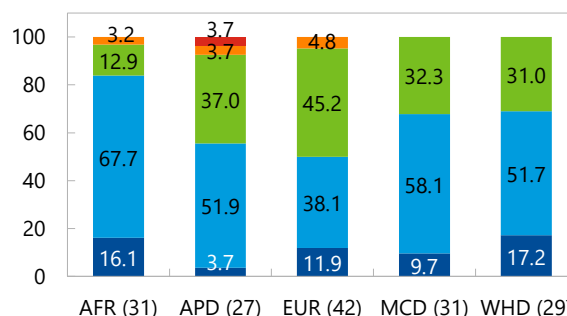
	AFR (31)	APD (27)	EUR (42)	MCD (31)	WHD (29)
	3.2	3.7	4.8		
Neither agree nor disagree	12.9	3.7		32.3	31.0
		37.0	45.2		
Agree	67.7	51.9	38.1	58.1	51.7
Strongly Agree	16.1	3.7	11.9	9.7	17.2

By Income Level
(in percent of total sample)

	AEs (33)	EMs (75)	LICs (52)
	6.1	1.3	3.8
Neither agree nor disagree	54.5	33.3	17.3
Agree	30.3	54.7	63.5
Strongly Agree	9.1	10.7	15.4

■ Strongly Agree ■ Agree ■ Neither agree nor disagree ■ Disagree ■ Strongly disagree

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

	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
FCS (33)	18.2	57.6	21.2	3.0	
Other EMDE (94)	10.6	58.5	28.7	1.1	1.1

■ Strongly Agree ■ Agree ■ Neither agree nor disagree ■ Disagree ■ Strongly disagree

By Countries with UCT Arrangements
(in percent of total sample)

	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
With UCT arrangement (51)	13.7	68.6	15.7	2.0	
Without UCT arrangement (109)	11.0	45.0	40.4	2.8	0.9

■ Strongly Agree ■ Agree ■ Neither agree nor disagree ■ Disagree ■ Strongly disagree

By WGI Score
(in percent of total sample)

	1st	2nd	3rd	4th
	2.6	2.6	2.6	2.5
Neither agree nor disagree	56.4	23.1	25.6	27.5
Agree	33.3	64.1	59.0	57.5
Strongly Agree	7.7	10.3	12.8	12.5
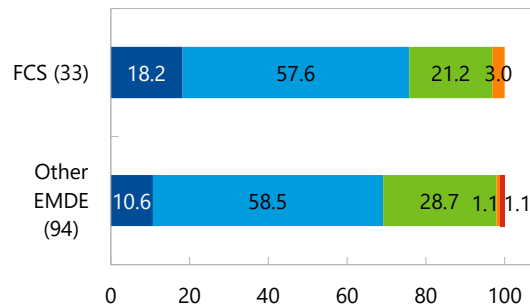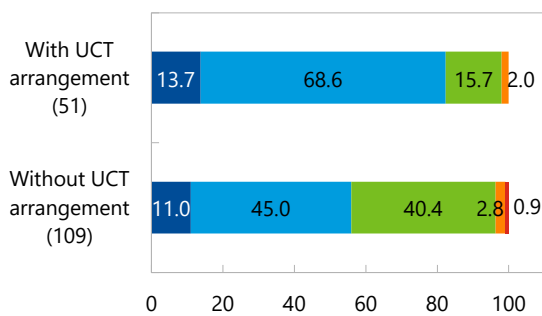
1st is the best quartile and 4th is the worst quartile.

Source: Country team survey.

Question 7. *Please list what you consider to be the most important reform recommendations (up to three reforms) that the team has provided to the authorities with regard to governance and anti-corruption issues during the past four years. Please explain why you deem they were important (traction, ownership, outcome, etc.).*

Summary

- The most important reform recommendations included **AML/CFT, Anti-corruption, and PFM (excluding SOEs), followed by fiscal transparency and central bank governance and operations**.

- **The higher shares of anti-corruption and PFM were driven by LICs and countries with UCT programs**. In contrast, the higher share of AML/CFT was driven by AEs and countries with surveillance and low perceived governance and corruption vulnerabilities.

	Overall	Income level			Fragile status		UCT arrangement		WGI score			
		AEs	EMs	LICs	FCS	Other EMDEs	With UCT arrangement	Without UCT arrangement	1st quartile	2nd quartile	3rd quartile	4th quartile
Fiscal governance	**37.0%**	**20.0%**	**38.0%**	**42.4%**	**37.0%**	**41.0%**	**37.4%**	**36.7%**	**33.3%**	**37.9%**	**38.0%**	**38.4%**
PFM (excluding SOEs)	*10.5%*	*7.1%*	*9.0%*	*14.1%*	*13.8%*	*9.9%*	*15.0%*	*8.2%*	*9.2%*	*11.4%*	*9.7%*	*11.1%*
Revenue administration	*4.1%*	*3.5%*	*4.5%*	*3.5%*	*3.4%*	*4.5%*	*1.7%*	*5.3%*	*3.4%*	*2.9%*	*6.5%*	*3.9%*
Procurement	*6.0%*	*3.5%*	*7.1%*	*5.3%*	*5.2%*	*7.0%*	*4.6%*	*6.8%*	*2.3%*	*7.1%*	*8.1%*	*5.9%*
Fiscal transparency	*9.0%*	*2.4%*	*7.9%*	*13.5%*	*10.3%*	*10.2%*	*10.4%*	*8.2%*	*6.9%*	*7.1%*	*10.5%*	*11.1%*
SOEs	*4.9%*	*3.5%*	*6.4%*	*2.9%*	*2.6%*	*6.1%*	*3.5%*	*5.6%*	*9.2%*	*6.4%*	*2.4%*	*3.3%*
Other fiscal governance	*2.5%*	*0.0%*	*3.0%*	*2.9%*	*1.7%*	*3.2%*	*2.3%*	*2.6%*	*2.3%*	*2.9%*	*0.8%*	*3.3%*
Financial sector oversight	**4.8%**	**8.3%**	**3.8%**	**4.6%**	**4.3%**	**3.8%**	**5.2%**	**4.5%**	**6.7%**	**2.9%**	**3.7%**	**4.8%**
Central bank governance and operations	**6.4%**	**1.7%**	**5.8%**	**9.3%**	**7.6%**	**7.3%**	**9.0%**	**4.9%**	**6.7%**	**3.9%**	**8.3%**	**7.2%**
Anti corruption	**19.6%**	**15.0%**	**20.7%**	**19.9%**	**28.3%**	**17.2%**	**23.2%**	**17.4%**	**9.3%**	**17.5%**	**20.4%**	**26.4%**
AML/CFT	**23.2%**	**46.7%**	**21.2%**	**16.6%**	**17.4%**	**19.9%**	**18.1%**	**26.1%**	**37.3%**	**26.2%**	**18.5%**	**16.0%**
Market regulation	**4.5%**	**6.7%**	**4.8%**	**3.3%**	**3.3%**	**4.6%**	**3.2%**	**5.3%**	**2.7%**	**7.8%**	**5.6%**	**2.4%**
Rule of law	**4.1%**	**1.7%**	**5.3%**	**3.3%**	**1.1%**	**5.7%**	**3.2%**	**4.5%**	**4.0%**	**2.9%**	**4.6%**	**4.8%**
Other	**0.5%**	**0.0%**	**0.5%**	**0.7%**	**1.1%**	**0.4%**	**0.6%**	**0.4%**	**0.0%**	**1.0%**	**0.9%**	**0.0%**

- **Specific reform measures are presented below.**

Specific Measures Recommended by Country Teams

Fiscal Governance
Public Financial Management (excluding SOEs)
• Improve fiscal governance (spending outcomes, procurement system) through the forthcoming fiscal responsibility act (FRA).
• Improve fiscal governance: 1) in revenue and spending outcomes through improvements in tax administration efficiency and public procurement, and 2) strengthening SOE oversight, including by establishing a specialized unit to strengthen financial oversight of major SOEs.
• Improve fiscal transparency, including reporting the Government's obligations under PPPs.
• Improving fiscal transparency and mitigating fiscal risks (e.g., creation of database of sovereign guarantees, placing a ceiling on PPPs contracted, transitioning to TSA).
• Improve public financial management, expenditure efficiency, and fiscal transparency, including expediting the publication of audited financial statements of the public sector, conducting public investment management assessment, and amending the fiscal responsibility framework.
• Strengthen the public procurement and tax incentives transparency legal frameworks.
• Strengthening Budgetary Framework and expenditure controls.

- Addressing weaknesses in public procurement and SOE operations, including approving a new procurement legislation to reduce widespread corruption and promoting public investment efficiency.

- Enhance fiscal governance including public procurement and enhance overall PFM including establishing a Treasury Single Account (TSA).

- Strengthen public investment management methodology to improve project appraisal, selection and management as well as introducing stronger oversight and reporting requirements by the Ministry of Finance.

- The completion and publication of an ex-post compliance audit of COVID-19 expenses by a reputable international auditing firm.

- Continuation of audits (including special audits on COVID-related spending) by the Auditor General.

- Modernization efforts in the General Direction of Revenues and Customs (important for fiscal transparency and discipline and tightened control over public accounts).

- Reinforce government oversight and control capacities, especially by investing in IT and digital solutions (revenue, expenditure, public investment, procurement) to enable faster controls and limit human intervention.

- Further improve public investment framework and spending procedures based on the 2017 PIMA recommendations.

- Strengthen the fiscal framework to broaden institutional coverage and develop a Medium-Term Fiscal Framework (MTFF)

- Strengthen control of budget execution and improve the effectiveness of public investment.

- Establishing strong oversight of pandemic-related assistance programs.

- Comprehensive monitoring of the financial situation and performance of SOEs.

- Improving fiscal governance in the areas: monitoring of the use of public funds; procurement; stronger management of core tax functions, better oversight of tax administration.

- Enhance internal controls and audits of COVID spending, both at the level of the Ministry of Finance, through a high-level inter-ministerial committee, and through a dedicated audit by the court of auditors.

- The implementation of the PIMA recommendations to further enhance long-term planning and project implementation. Further enhancing transparency, better defining priorities, and improving the management of fiscal risks.

- Improve project appraisal, selection and implementation as well as medium-term capital budget allocation. Implementation of PIMA recommendations.

- Strengthen fiscal governance including by enhancing transparency in procurement process and SOEs, while taking steps to enhance government efficiency.

- Continued fiscal governance reforms: Strengthening expenditure control and domestic revenue mobilization.

- Introducing effective and transparent systems for procurement, project management and oversight, and ex-post assessments would reduce costs and waste and improve investment quality and governance.

- Preparation and adoption of the manual for the selection and appraisal of public investment projects to improve public investment efficiency and transparency.

- Ensure ministries, provinces, and spending agencies register all purchase orders and other financial commitments in the IFMIS.

- Incorporating trust funds into budgetary processes.

- New budget law to strengthen public financial management and facilitate fiscal sustainability via better budget planning and enhanced transparency.

- Identify all bank accounts of public entities with own revenues in order to determine the accounts to be closed to strengthen the single treasury account approach to public spending.

- Introducing regulations to sanction unauthorized spending commitments.

Revenue Administration

- Improve fiscal governance: 1) in revenue and spending outcomes through improvements in tax administration efficiency and public procurement, and 2) strengthening SOE oversight, including by establishing a specialized unit to strengthen financial oversight of major SOEs.

- Reduce smuggling and informality through better customs enforcement and tax reforms.

- Modernizing tax and customs administration, including the establishment of a large taxpayer unit, strengthening petroleum import control, and the introduction of e-tax filing.

- Strengthen tax administration to reduce tax evasion and potential corruption.

- Governance reforms in tax administration and compliance, government procurement, and product market regulation to reduce corruption risks.

- Improving fiscal governance in the areas: monitoring of the use of public funds; procurement; stronger management of core tax functions, better oversight of tax administration.

- A new customs law streamlining customs procedures. Its implementation is allowing a major reduction in time-to-release imports and is expected to facilitate trade and reduce opportunities for corruption.

- Strengthen internal controls of services offered by the revenue authority.

- Address weaknesses in tax administration reform (e.g., tax dispute resolution and ease of paying tax)

- Strengthening the governance of oil receipts.

Procurement

- Council of Ministers to adopt legislation on public procurement in line with EU recommendations.

- Implement a new centralized system for public procurement, to reduce fiscal waste and counter vulnerabilities to corruption.

- On procurement: to publish the list of beneficial owners.

- Strengthen the public procurement and tax incentives transparency legal frameworks.

- Strengthening public procurement system and introducing electronic bidding system.

- Enhance fiscal governance including public procurement and enhance overall PFM including establishing a Treasury Single Account (TSA).

- Strengthen procurement by limiting direct contracting outside the normal procedures and strictly define the scope for relaxing standard procurement under emergency situation.

- Publish all procurement contracts, winning bids, and the names of the beneficial owners of companies chosen.

- Improving transparency of procurement process.

- Procurement reform. It included the launch of an e-procurement website and enactment of executive regulations to the new procurement law.

- Efforts should be made to include beneficial owner information of companies awarded public contracts and limit arbitrary direct contracting.

- Implement the Procurement Administration Act.

- Publication of public procurement and the upcoming publication of beneficial owners.

- Publication of Financial Statements and Procurement Contracts of the National Covid Response Center.

- Improvements to the procurement framework.

- Transparent procurement policies (publish on external webpage, make documents available).

- Introducing effective and transparent systems for procurement, project management and oversight, and ex-post assessments would reduce costs and waste and improve investment quality and governance.

- Improve the procurement system (e.g., implement e-procurement) and further strengthen fiscal transparency.

- Advance the reform of the public procurement framework and publish beneficial ownership information.

- Strengthening centralized procurement to promote cost savings and transparency, while tackling conflicts of interest and abuse.

Fiscal Transparency

- Enhance fiscal transparency across the public sector, through timely publication of draft budget laws, budget execution reports (including in-year) and information on public investment projects and off-budget operations.

- Improve fiscal transparency, including reporting the Government's obligations under PPPs.

- Increase transparency of fiscal accounts, including by publishing more detailed budget documents.

- Publish information on COVID-related procurement contracts and COVID-related government spending.

- Institutional and Financial Independence of the Audit Service.

- Fiscal transparency including in extractive industries.

- Recommendations to improve fiscal governance have focused on COVID-19 spending transparency, beneficial ownership reporting, and SOE transparency. Publication of 3 non-financial SOE's financial statement under IFRS standards. Commitments to enhance fiscal transparency and accountability (e.g., a sound framework for managing public purchases, collection/publication of beneficial ownership information for awarded contracts and a COVID-19 spending portal).

- Further enhancing transparency around fiscal actions, including land sales, to support anti-corruption efforts.

- Actions to improve transparency in extractive industries.

- Publish summary information on all procurement contracts related to the Program to support farmers.

- Strengthen fiscal governance standards: - Ensure careful monitoring and transparency of COVID-related transactions and reduce efficiency gaps in the public expenditure process.

- Improvements in fiscal governance (revenue mobilization and spending efficiency, timely publication of budget documents, increased financial transparency and monitoring of parastatals).

- Publish findings and recommendations of the audit of the spending of the CF disbursement.

- Publish all awarded procurement contracts for COVID-19 spending and complete and publish their full ex-post audit.

- Publishing the reports on the use of COVID-19 public funds with information.

- Publication of audit on COVID-related spending.

- Reforms to improve fiscal governance of SOEs, particularly better management and transparency of key SOEs.

- A website with complete, searchable list of all PEs including comprehensive financial statements, audits and organizational information in line with IMF staff recommendations.

- Introducing effective and transparent systems for procurement, project management and oversight, and ex-post assessments would reduce costs and waste and improve investment quality and governance.

State Owned Enterprises

- Strengthening SOE governance in line with international best practice. This entails, among other things, a clear separation of ownership and supervisory functions, specification of financial and policy objectives and performance criteria, greater autonomy in operational decisions while minimizing fiscal risks, introduction of legal requirements for independent audit, and publication of key financial and other information.

- Improve SOE Governance and Oversight.

- Publication of an SOE report providing details on financial statements and governance arrangements at state-owned companies (including military-owned companies).

- Enhanced monitoring of performance of public enterprises.

- Adopting a new SOE governance strategy.

- Abandoning the non-constrained aspect of budget management of the SOE.

- Minimize the opportunities for misuse of valuable public resources by SOEs, which are inefficient and poorly managed.

- Enforce effectively the SOE governance framework.

- Create a website with complete, searchable list of all PEs including comprehensive financial statements, audits and organizational information.

- Formulate and implement a comprehensive SOE reform strategy that aligns SOE governance with best international practices.

Other Fiscal Governance

- Aligning new mining contracts with the Mining Code to limit discretion in mining contracts.

- The elimination of price controls on retail fuels.

- Implement national digital ID.

- Improve systems for pension and public wage determination.

- Undertake a systemic reform of the civil service system, to reduce overlaps and fragmentation between separate branches of the government, clarify the career path of civil servants, enable more systematic workforce planning, and reduce the potential for patronage and clientelism in the public sector.

- Incorporating governance-related measures in climate investment programs.

- Accountability of expenditures given to district level officials.

Financial Sector Oversight

- Privatization of the state-owned banks that have been used for quasi-fiscal spending.

- Strengthening the structure of financial sector oversight.

- Adopt an instruction on administrative sanctions applicable to banks.

- Strengthening the autonomy and governance of financial sector authorities.

- Amend the bank secrecy laws to reduce vulnerability to corruption.

- Give the central bank oversight over credit bureaus and introduce regulation to strengthen bank corporate governance in line with Basel principles.

- Enhance oversight of central bank audit functions.

- The central bank should be granted legal powers of direction to facilitate fulfilment of its financial stability mandate.

- Incorporating the Bank Resolution Framework into the Banking Law.

- Modernize the insolvency framework.

- Continue to enhance risk-based supervision of banks.

- Improving transparency of key state-owned banks.

- Reform Banking Acts to Strengthen Governance of the Financial System and Corporate Governance of State own Banks.

- Develop effective prudential regulation and supervision of the financial system to promote health of the financial institutions and improve financial intermediation.

- Enhance financial sector governance, including strengthening supervision/resolution systems and implementing specific measures related to central bank governance.

- Strengthening AML implementation within banking sector supervision.

Central Bank Governance

- Prepare and publish pro forma central bank financial statements for 2019 in accordance with IFRS international accounting standards.

- The central bank act should be overhauled to enhance central bank independence.

- Amend the central bank Law, the Law on Banks' Activity, and procedural codes to strengthen: (i) the bank shareholder removal framework; (ii) monetary compensation regime; and (iii) safeguards to the bank's autonomy and accountability.

- The State Bank Act, which improved the governance and independence of the central bank through ensuring stronger capital, more secure tenure and explicit qualification criteria for senior officials, and greater clarity of the Bank's mandate.

- Enhance the Central Bank's operational independence.

- Central bank act: Board structure; Financial Policy Remit; functional, institutional, and personal autonomy.

- Strengthen central bank independence, by reinforcing the legal framework to prevent monetary financing, and reserving any public communication on its policies and instruments exclusively to the central bank.

- Amend central bank law to establish independent oversight process and enhance transparency and accountability mechanisms.

- Audit and publish financial statements of the central bank from FY2022/23 and onwards.

- Preparing a medium-term exit strategy to phase out the central bank involvement in non-core central bank activities (i.e., development lending and subsidiaries).

- Reforms to CB law to safeguard the central bank's autonomy and provide for independent oversight.

- Strengthen central bank governance by follow up with Safeguard Assessment recommendations.

- Improvements to central bank governance and autonomy in line with recommendations of Safeguards Assessment.

Anti-Corruption

- Enhance asset declaration system for high level public officials.

- Ensuring the accuracy of ownership information in the public registry (i) authorities should prioritize efforts to pursue foreign bribery cases; (ii) ensure the availability of adequate analytical resources to investigate foreign bribery and strengthen the independence of the prosecution and enhance whistleblower protections; (iii) make better use of AML/CFT framework to detect incidences of foreign bribery.

- Submit the Anti-Corruption Bill to parliament.

- The anti-corruption legal and institutional framework needs to be upgraded and the implementation enhanced in line with international standards and best practices.

- Introduction of whistleblower protection.

- Complete systematic digitalization of all current year asset declarations in machine-readable format and publish the declarations of government officials on the website.

- Establishment of the Commissions on Anti-Corruption and Transparency.

- Strengthening anti-foreign bribery legal framework and ensure its effective implementation.

- Supporting the authorities' development of anti-corruption strategy and strengthening anti-corruption framework based on their annual business surveys.

- Full and consistent implementation of anti-corruption law.

- Passage of a new Anti-corruption Committee Act that gives prosecutorial power to the agency.

- Amending the procurement law for vaccines to ensure that immunity for public health related issues is not granted to people that have abused public funds.

- Congressional approval of an anti-corruption law in line with international obligations under the UNCAC.

- Continue to strengthen the anti-money laundering and anti-corruption frameworks (e.g., beneficial ownership regime, compliance to AML/CFT preventive measures).

- Strengthening asset declaration regime for senior officials.

- Transition to a universal asset declaration regime.

- Publication of the assets declaration of high-ranking public officials.

- Incorporating recommendations made by the Council of Europe's Group of States against corruption (GRECO).

- Online publication of asset declaration by members of the parliament and government.

- Efforts should be made to include beneficial owner information of companies awarded public contracts and limit arbitrary direct contracting.

- Establish a robust anti-corruption framework by (a) improving the understanding of corruption risks among public officials and the private sector, (b) updating related policies and strategies, and (c) enhancing dialogue and institutional coordination for increased prevention, investigation, and prosecution of cases would help to fight corruption.

- The establishment of an independent anti-corruption commission and appointment of commissioners.

- Ratify the United Nations Convention Against Corruption and develop and anti-corruption strategy.

- Regulations ensuring the collection and publication of information on the beneficial owners related to large procurement contracts. This began with a measure around COVID-related procurement and has now been generalized. The increased transparency incentivizes the awarding of procurement contracts on an independent basis.

- Regulation allowing the government to: (i) collect beneficial ownership information of legal persons bidding on central government procurement contracts; and (ii) publish on the website of the Ministry of Finance and Budget the full text of these contracts along with the names and nationalities of the beneficial owners of the awarded legal persons.

- Enhance enforcements against corruption offenses, for example by introducing criminal liability of legal entities for acts of corruption.

- Introducing a system to detect and prevent conflict of interests for public officials in line with international best practices, as well as implementing a strong institutional framework and good practices and processes.

- Comprehensive review of the anti-corruption framework, including the National Accountability Bureau and reform of the asset declaration system for high-level public officials.

- Ensure adequate resources for broader anti-corruption efforts, including the National Risk Assessment.

- Protect the independence of, and ensure a stable operating framework for, anti-corruption and AML/CFT institutions.

- Publish the IMF Governance Diagnostic Assessment and use the recommendations to inform the governance and anti-corruption strategy going forward.

AML/CFT

- Complete the FATF action plan.

- Strengthen risk-based AML-CFT supervision.

- Strengthen the regulatory and supervisor framework of AML/CFT.

- The authorities are encouraged to take additional steps with respect to the analysis and dissemination of financial intelligence, terrorist financing investigations, and implementation of effective targeted financial sanctions regime.

- Continue to strengthen and reform the AML-CFT framework through legislative and supervisory actions including to limit the risks in the Fintech sector. Enhance capacity of AML/CFT supervisors in line with the ML/TF risks.

- Mobilizing the AML/CFT framework to fight tax evasion.

- Completion of the AML/CFT national risk assessment.

- Authorities should monitor risks associated with the real estate sector. Strengthening the AML/CFT framework can help address laundering of proceeds of foreign acts of corruption.

- Strengthen the AML/CFT regulatory and supervisory framework for the gaming industry.

- Continue to enhance the effectiveness of the AML/CFT framework by focusing on addressing high risks areas identified in the National Risk Assessment including beneficial owners and domestically politically exposed persons.

- Maintain AML/CFT frameworks up to date to keep up with evolving financial sector.

- Strengthen AML/CFT related to financial sector, including on tax transparency and exchange of information.

- Improving the AML/CFT framework for combating corruption, including with respect to politically exposed persons, beneficial ownership, and the criminal justice system.

- Protect the independence of, and ensure a stable operating framework for, anti-corruption and AML/CFT institutions

Rule of Law

- Raising the effectiveness of Judiciary and strengthening protection of property rights.

- Staff encouraged the authorities to ensure that laws are easily accessible and consistent and that their enforcement transparent, equitable, and efficient. Staff also underscored that the reliability and predictability in the substance of the law, the process used to apply the law, and the behavior of officials entrusted with responsibility for applying the law are important to attract FDI.

- To strengthen regulatory management practices through improving the transparency of rulemaking, increasing public consultation, and conducting impact assessments of proposed regulations alongside an ex-post review of regulations to assess whether they achieved their policy objectives.

- Improve property rights.

- Improve the efficiency of judicial system.

- Improve the system for protection of property rights, including with legislative and institutional reforms.

Market Regulation

- Further strengthening governance, especially in SOEs, and moving to more market-based and transparent frameworks will reduce vulnerabilities to corruption.

- Product market reforms.

- Overall Management State-Owned Enterprises.

- Bring GREs within the scope of competition laws.

- Improve the business environment for investors, including to reduce barriers for foreign investors. The authorities removed restrictions on foreign ownership of public companies.

- Introduction of the rules-based FX intervention policy to limit discretion in interventions and increase foreign exchange market transparency.

- Improve market neutrality and competition (including by implementing a reform of SOEs).

- Improve incentives for private investment.

- Ease the process to register property and businesses using digital technologies, which would enhance growth.

Question 8. *Please note whether these recommendations were implemented, noting the factors that made this possible, or explaining the constraints on implementation (for example, recommendation not actionable, lack of political will, lack of traction, lack of capacity, etc.)*

Summary
- **Capacity constraints and vested interests have dominated the impeding factors in implementing governance recommendations, followed by lack of ownership/commitment**. This trend is mainly driven by EMs and LICs (but it is interesting 22 percent of AEs answered capacity as one of the constraints).

- **Sizeable LICs, FCS and countries with high perceived governance and corruption vulnerabilities pointed to capture of legislature and judiciary too**.

- **Responses with UCT programs tend to show a lower percentage than non-UCT**, suggesting Fund programs have somewhat helped members implement reforms to address governance and corruption vulnerabilities.

- For meaningful (optional) written comments (15 responses), **half (8) indicate political instability and fragility as the reason**, followed by capacity/technical constraints (2), and political will/police capture (2).

Figure 7. Question 8 Results

Overall
(in percent of total sample)

Respondents: 155/190

Figure 7. Question 8 Results (Continued)

By Region
(in percent of total sample)

	AFR (29)	APD (25)	EUR (41)	MCD (31)	WHD (29)
Capacity constraints	75.9	44.0	31.7	71.0	64.3
Vested interests	65.5	40.0	36.6	67.7	35.7
Lack of ownership/commitment	48.3	40.0	26.8	51.6	27.6
Other (please specify)	36.7	24.0	29.3	9.7	10.7
Capture of the judiciary	20.7	16.0	19.5	32.3	14.3
Capture of the legislature	24.1	16.0	17.1	22.6	25.0
Lack of international cooperation/transnational weaknesses	17.2	0.0	9.8	6.5	7.1

By Income Level
(in percent of total sample)

	AEs (32)	EMs (74)	LICs (49)
Capacity constraints	21.9	52.1	83.7
Vested interests	9.4	52.1	69.4
Lack of ownership/commitment	6.3	44.6	49.0
Other (please specify)	28.1	16.4	28.0
Capture of the judiciary	3.1	21.9	30.6
Capture of the legislature	6.3	23.3	26.5
Lack of international cooperation/transnational weaknesses	6.3	4.1	16.3

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

	FSC (30)	Other EMDE (93)
Capacity constraints	76.7	60.9
Vested interests	70.0	55.4
Lack of ownership/commitment	50.0	45.2
Other (please specify)	22.6	20.7
Capture of the judiciary	33.3	23.1
Capture of the legislature	36.7	20.9
Lack of international cooperation/transnational weaknesses	16.7	6.5

Figure 7. Question 8 Results (Concluded)

By Countries with UCT Arrangements
(in percent of total sample)

	With UCT arrangement (49)	Without UCT arrangement (106)
Capacity constraints	49.1	70.8
Vested interests	38.7	70.8
Lack of ownership/commitment	34.0	46.9
Other (please specify)	23.6	20.4
Capture of the judiciary	18.1	27.1
Capture of the legislature	18.1	27.1
Lack of international cooperation/transnational weaknesses	6.6	12.5

By WGI Score
(in percent of total sample)

	1st	2nd	3rd	4th
Capacity constraints	31.6	63.2	43.2	81.6
Vested interests	5.3	44.7	67.6	78.9
Lack of ownership/commitment	10.5	34.2	54.1	56.4
Other (please specify)	26.3	26.3	23.7	15.8
Capture of the judiciary	2.6	13.2	31.6	38.9
Capture of the legislature	7.9	15.8	27.8	34.2
Lack of international cooperation/transnational weaknesses	5.3	0.0	13.5	15.8

1st is the best quartile and 4th is the worst quartile.

Source: Country team survey.

Question 9. *Please indicate the areas of governance where further enhanced engagement is needed in the country for which you are the mission chief.*

Summary

- **The majority of mission chiefs saw more enhanced engagement is needed on fiscal governance and AML/CFT, followed by anti-corruption and financial sector oversight**. This seems to be a departure from the backward-looking perspective on conditionality set so far (Q.5) that shows high shares of financial sector oversight and central bank governance, but quite in line with Q.7 that assesses the most important recommendations.

- In addition, **LICs, FCS, and countries with high perceived governance and corruption vulnerabilities show stronger demand for rule of law, and financial sector oversight**.

- The responses suggest **the need to continue reallocating resources** to these areas to meet increasing demand.

Figure 8. Question 9 Results

Overall
(in percent of total sample)

Category	Value
Fiscal governance	79.2
Anti-money laundering and combatting the financing of terrorism (AML/CFT)	75.9
Anticorruption	60.8
Financial sector oversight	54.8
Rule of law	45.9
Market regulation	40.8
Governance diagnostic	40.5
Central bank governance and operations	37.6
Others (please specify)	10.8

Respondents: 159/190

By Region
(in percent of total sample)

Fiscal governance — 96.8 / 74.1 / 48.8 / 96.8 / 89.7

Anti-money laundering and combatting the financing of terrorism (AML/CFT) — 76.7 / 66.7 / 65.9 / 87.1 / 86.2

Anticorruption — 80.0 / 48.1 / 36.6 / 83.9 / 62.1

Financial sector oversight — 53.3 / 50.0 / 48.8 / 64.5 / 58.6

Rule of law — 50.0 / 30.8 / 24.4 / 80.6 / 48.3

Market regulation — 46.7 / 26.9 / 14.6 / 67.7 / 55.2

Governance diagnostic — 51.6 / 46.2 / 12.2 / 61.3 / 41.4

Central bank governance and operations — 50.0 / 30.8 / 19.5 / 54.8 / 37.9

Others (please specify) — 3.3 / 3.8 / 21.4 / 19.4 / 0.0

■ AFR (31) ■ APD (27) ■ EUR (41) ■ MCD (31) ■ WHD (29)

Figure 8. Question 9 Results (Continued)

By Income Level
(in percent of total sample)

Category	AEs (32)	EMs (75)	LICs (52)
Fiscal governance	34.4	86.7	96.2
Anti-money laundering and combatting the financing of terrorism (AML/CFT)	68.8	76.0	80.4
Anticorruption	21.9	66.7	76.5
Financial sector oversight	31.3	57.3	66.0
Rule of law	9.4	49.3	64.0
Market regulation	12.5	49.3	46.0
Governance diagnostic	6.3	45.3	54.9
Central bank governance and operations	9.4	34.7	60.0
Others (please specify)	15.2	9.3	10.0

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

Category	FCS (33)	Other EMDE (94)
Fiscal governance	93.9	89.4
Anti-money laundering and combatting the financing of terrorism (AML/CFT)	84.4	75.5
Anticorruption	84.4	66.0
Financial sector oversight	74.2	56.4
Rule of law	74.2	48.9
Market regulation	58.1	61.3
Governance diagnostic	62.5	44.7
Central bank governance and operations	61.3	39.4
Others (please specify)	12.9	8.5

By Countries with UCT Arrangements
(in percent of total sample)

Category	With UCT (51)	Without UCT (108)
Fiscal governance	94.1	72.2
Anti-money laundering and combatting the financing of terrorism (AML/CFT)	82.0	73.1
Anticorruption	82.0	50.9
Financial sector oversight	60.0	52.3
Rule of law	56.0	41.1
Market regulation	48.0	37.4
Governance diagnostic	49.0	36.4
Central bank governance and operations	48.0	32.7
Others (please specify)	12.0	10.2

Figure 8. Question 9 Results (Concluded)

By WGI Score
(in percent of total sample)

1st is the best quartile and 4th is the worst quartile.

Legend: 1st, 2nd, 3rd, 4th

Source: Country team survey.

Question 10. *The country team has engaged with civil society in the areas of governance and anti-corruption reforms.*

Summary

- **Overall, country teams have had some engagement, even if it is small, with civil society:** with 43 percent of the sample answering some or extensive interaction (but extensive engagement is only 9 percent), and 30 percent "a little."

- Nevertheless, **some groups (LICs, countries with UCT programs and high perceived governance and corruption vulnerabilities) show more engagement than others**. They appear to overlap with groups that show positive responses on more candid and tailored approach.

Figure 9. Question 10 Results

Overall
(in percent of total sample)

By Region
(in percent of total sample)

Respondents: 159/190

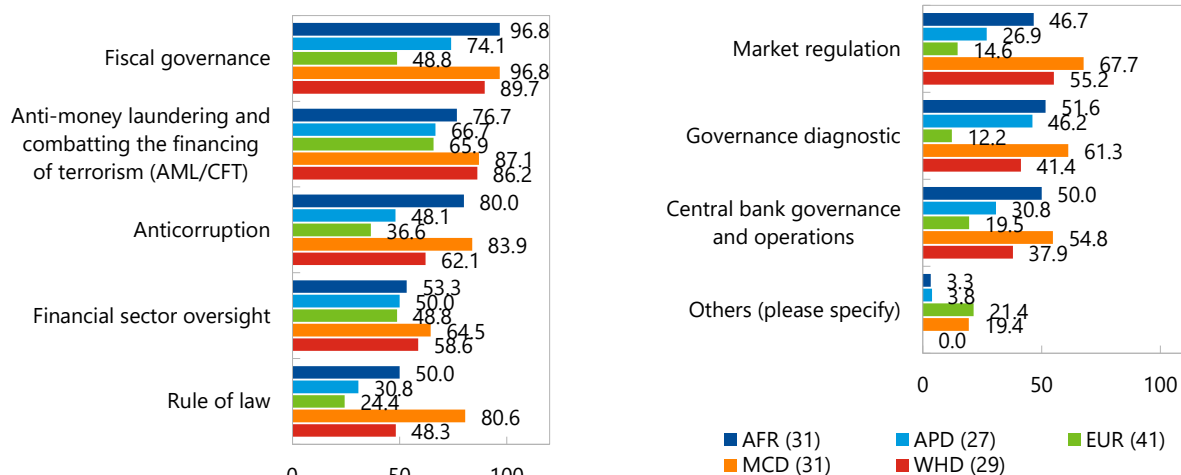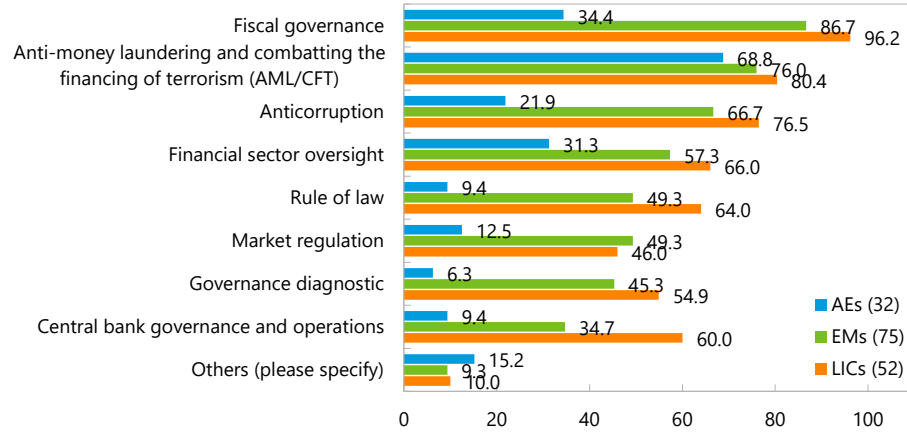Legend: Extensively, Some, A little, Not at all
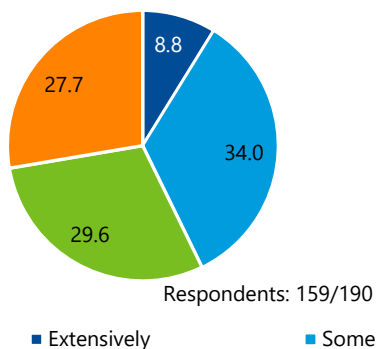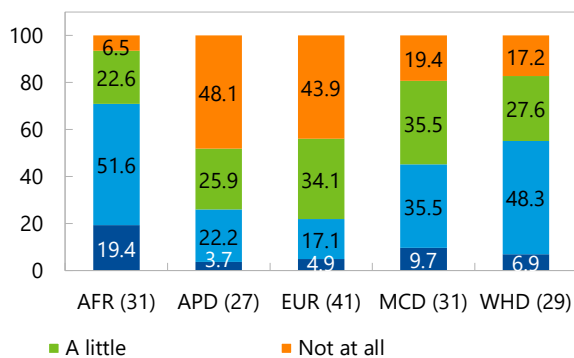
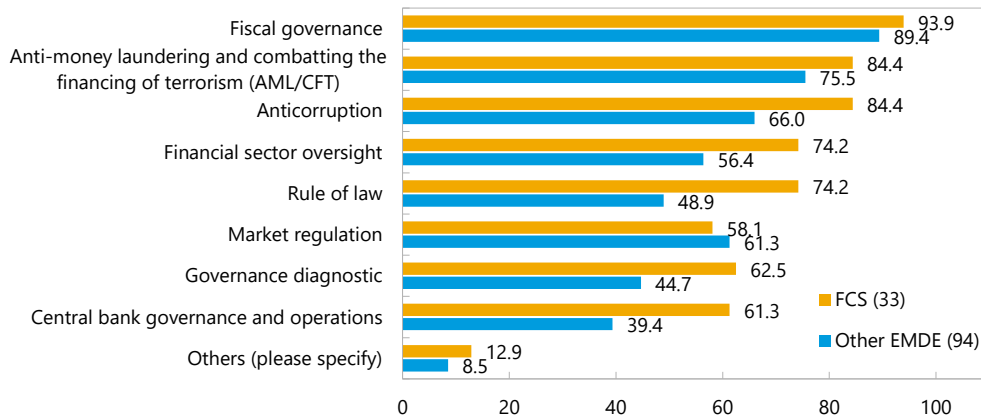**Figure 9. Question 10 Results (Concluded)**

By Income Level
(in percent of total sample)

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

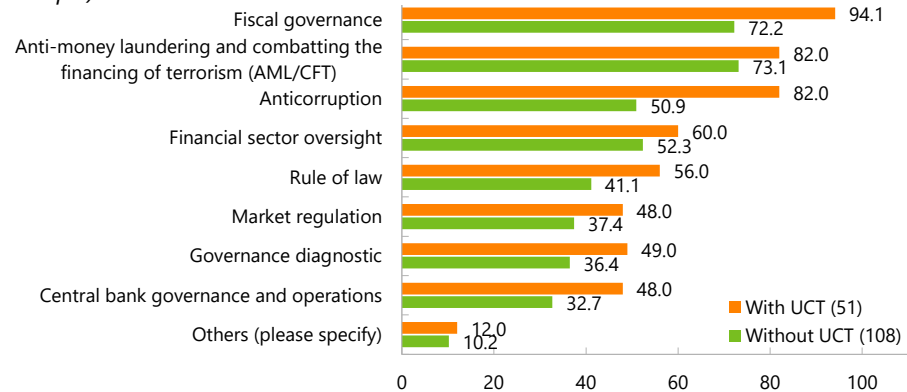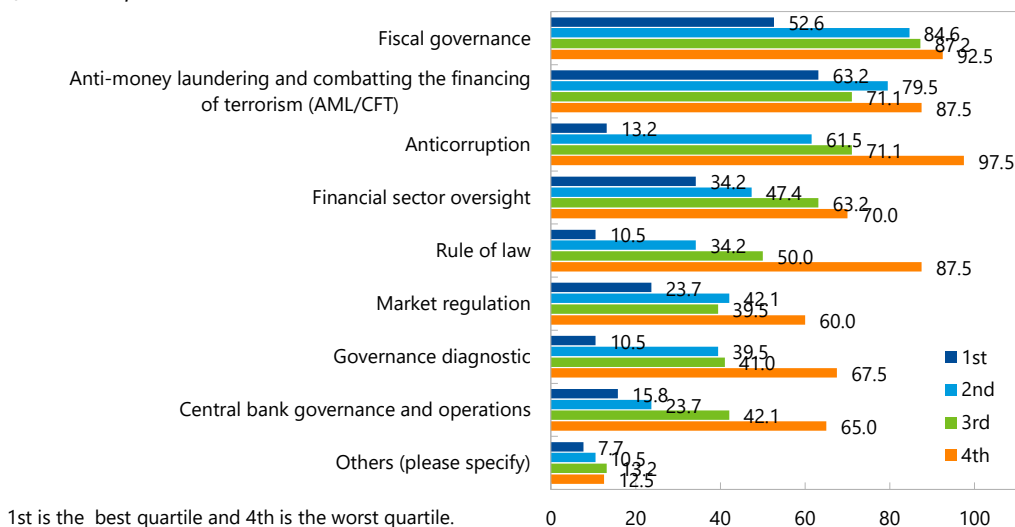*By Countries with UCT Arrangements*
(in percent of total sample)

By WGI Score
(in percent of total sample)

1st is the best quartile and 4th is the worst quartile.
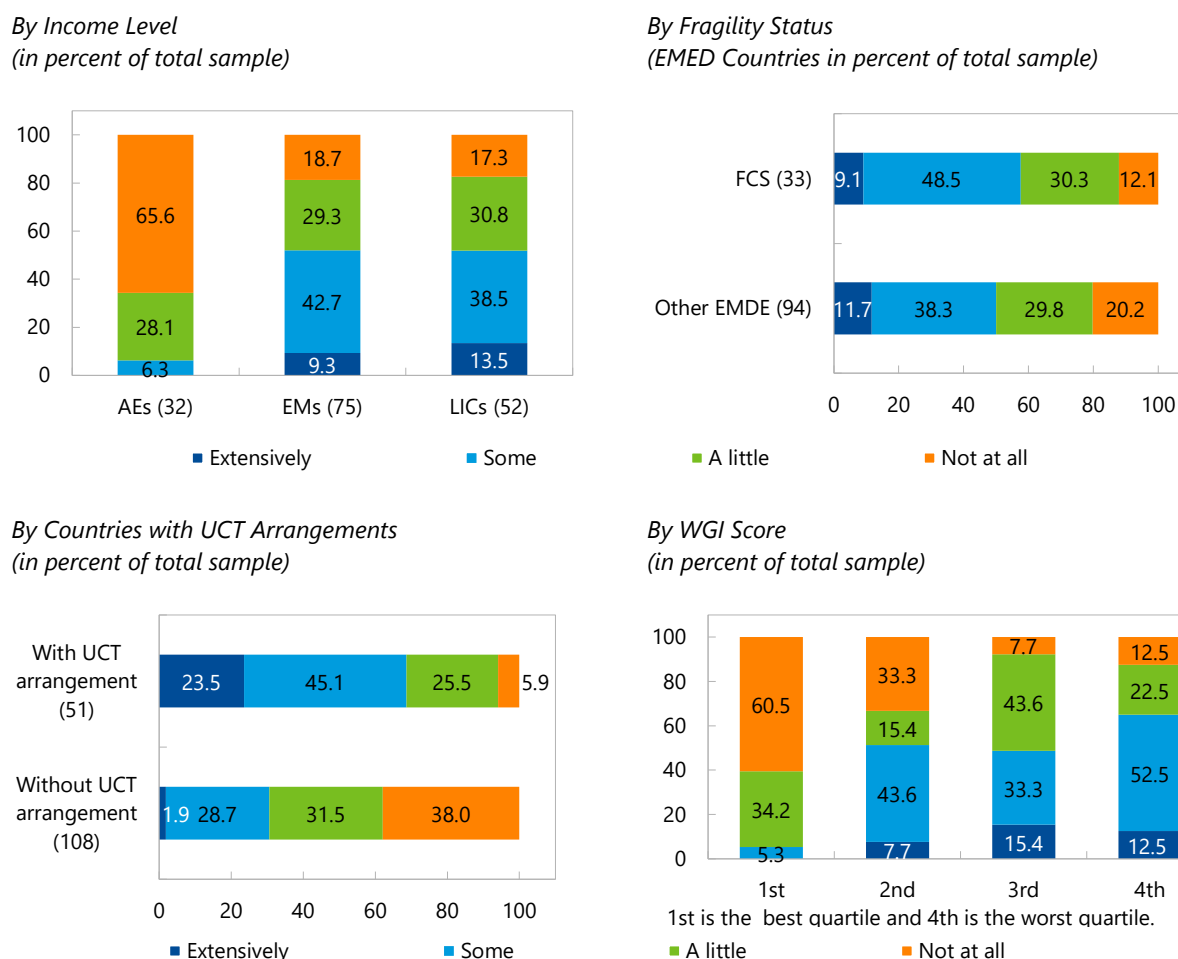
Source: Country team survey.

Question 11 (Optional). *Please add any comments you deem relevant. For example, please note if civil society and the media can work freely in the country for which you are the mission chief. Do any local or global civil society organizations provide value added to your team, for example, by providing information or monitoring the implementation of IMF recommended reforms in the area of governance and anti-corruption.*

Summary (based on 51 responses)

- **While caution is needed in interpretation, the responses seem to confirm challenges in getting useful information and insights from CSOs in a country with limited freedom of the press and CSO activities**.

- About 65 percent of meaningful responses are from countries with free and independent press and CSOs, while about 35 percent are from no free or underdeveloped/limited capacity press and CSOs.

- 27 responses (of which, 24 is from EMs and LICs) explicitly refer to their useful discussions and exchanges of views with CSOs.

Question 12. *Under the 2018 Framework, cooperation with other multilateral organizations and/or donors on governance/corruption issues has been enhanced.*

Summary

- Overall, while neutral responses (52 percent) prevent a supportive view on enhancing cooperation with multilateral organizations and donors under the framework, **the share of supportive view (43 percent) well surpasses that of a negative view (6 percent)**.

- However, like other questions, there is wide heterogeneity across groups. For example, in **FCS, and countries with UCT programs and/or high perceived governance and corruption vulnerabilities, the majority supported the view that cooperation was enhanced under the framework**.

- Relatively large share of neutral view seems to reflect responses from AEs.

Figure 10. Question 12 Results
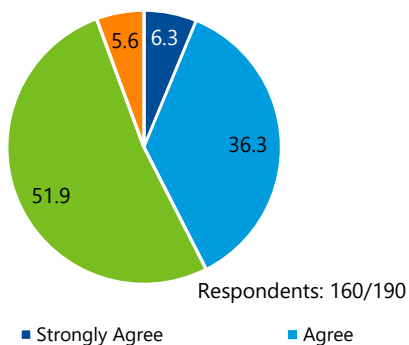
Overall
(in percent of total sample)

Respondents: 160/190

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree

By Region
(in percent of total sample)
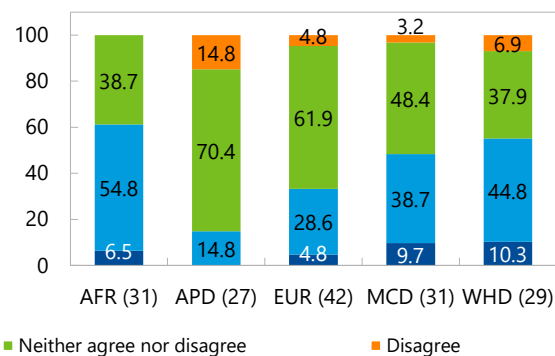
By Income Level
(in percent of total sample)
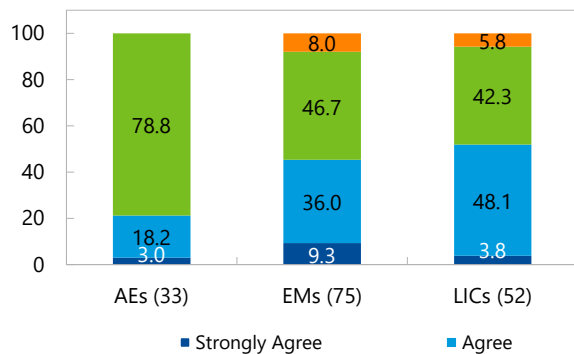
By Fragility Status
(EMED Countries in percent of total sample)

Figure 10. Question 12 Results (Concluded)

By Countries with UCT Arrangements
(in percent of total sample)

By WGI Score
(in percent of total sample)

1st is the best quartile and 4th is the worst quartile.

■ Strongly Agree ■ Agree ■ Neither agree nor disagree ■ Disagree

Source: Country team survey.

Question 13 (Optional). *Please add any comments you deem relevant. For example, are there any particular topics where collaboration with other IFIs has been useful to, or problematic for, your team.*

Summary (based on 48 responses)

- **While interpretation should be cautious, favorable assessment on the effectiveness of collaboration well surpassed negative assessment.**

- Out of the responses, 47 percent (**22 responses) explicitly mentioned useful and good collaboration with IFIs, while about 11 percent (5 responses) expressed negative views**—they referred to costs and challenges to coordinate with IFIs and non-timely responses from IFIs (see below).
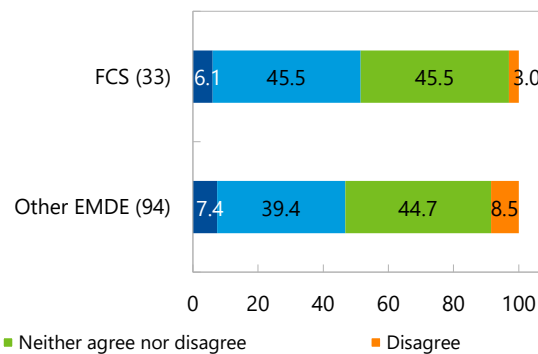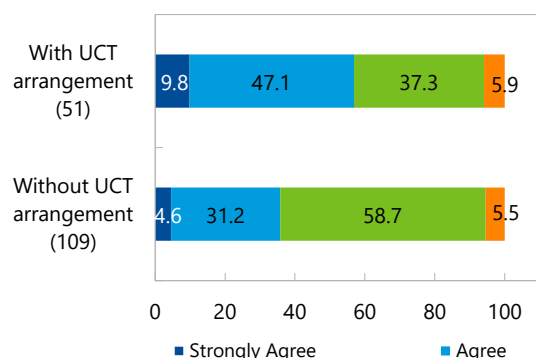
- 25 responses provided specific areas of collaboration. Nearly a 52 percent of them related to **fiscal (of which, nearly a third cases were on procurement)**, followed by **corruption** (21 percent) and **AML/CFT** (14 percent).

- Country teams flagged the need for: (i) better aligning understanding and expectations around cooperation/coordination with other IFIs in Governance and Anti-Corruption (GAC) issues, (ii) coordinating better in terms of CD/TA on GAC issues, and (iii) acknowledging that it may remain difficult to ensure effective cooperation on GAC issues due to potential differing priorities/interests among IFIs and international stakeholders.

Negative Views on Collaboration (total 5 responses)

- The disconnect between the Board's expectations, internal guidance, and the situation on the ground makes much of the work on governance in the surveillance context clumsy and lessens traction. Similarly, it's fine for the Board to opine about collaboration, but the cost of collaboration is so high as to be prohibitive in many country cases.

- While all-important IFIs agree on main vulnerabilities to corruption, there is a high degree of overlapping in terms of CD on fiscal governance and lack of coordination of governance related CD delivery in the field.

- While engagement and information sharing has been enhanced, it continues to prove very difficult to reach common ground on governance issues given the interests of different international stakeholders.

Question 14. *How frequently do you consult with the World Bank on governance and anti-corruption issues? (With countries classified as IDA, IBRD and Blend lending categories by World Bank Group)*

Summary
- **This assessment uses only responses from IDA, IBRD and Blend lending categories countries** (based on the WB Country and Lending Groups: http://databank.worldbank.org/data/download/site-content/CLASS.xlsx)**.**

- **Almost all (94 percent) country teams have some form of consultation with the WB.**

- **Majority of LICs, FCS, and countries high perceived governance and corruption vulnerabilities have frequent consultation with the WB**, while slightly less than a half of UCT program countries have frequent consultation too.

Figure 11. Question 14 Results

Overall
(in percent of total sample)
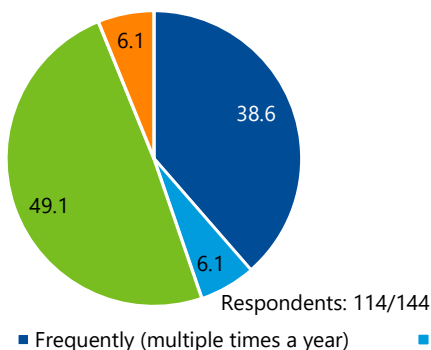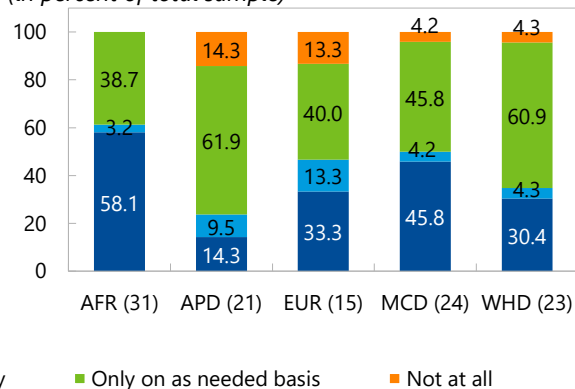
Respondents: 114/144

■ Frequently (multiple times a year)   ■ Annually   ■ Only on as needed basis   ■ Not at all

By Region
(in percent of total sample)

By Income Level
(in percent of total sample)

By Fragility Status
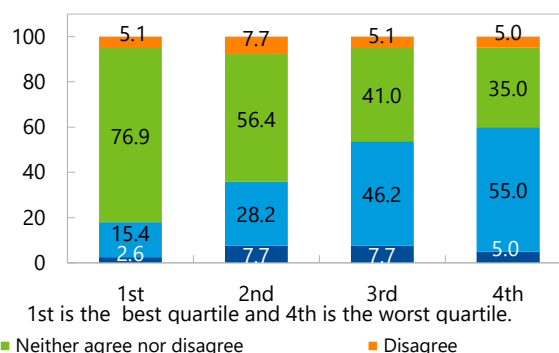*(EMED Countries in percent of total sample)*

■ Frequently (multiple times a year)   ■ Annually   ■ Only on as needed basis   ■ Not at all
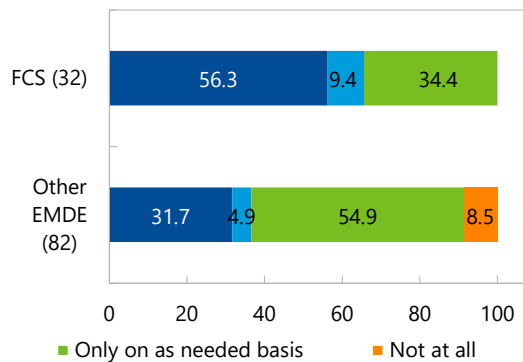
Figure 11. Question 14 Results (Concluded)

By Countries with UCT Arrangements
(in percent of total sample)

	Frequently	Annually	Only on as needed basis	Not at all
With UCT arrangement (49)	46.9	4.1	46.9	2.0
Without UCT arrangement (65)	32.3	7.7	50.8	9.2

By WGI Score
(in percent of total sample)

	1st (7)	2nd (29)	3rd (38)	4th (40)
Not at all	14.3	6.9	7.9	2.5
Only on as needed basis	85.7	58.6	47.4	37.5
Annually		10.3	7.9	2.5
Frequently	0.0	24.1	36.8	57.5

1st is the best quartile and 4th is the worst quartile.

■ Frequently (multiple times a year) ■ Annually ■ Only on as needed basis ■ Not at all
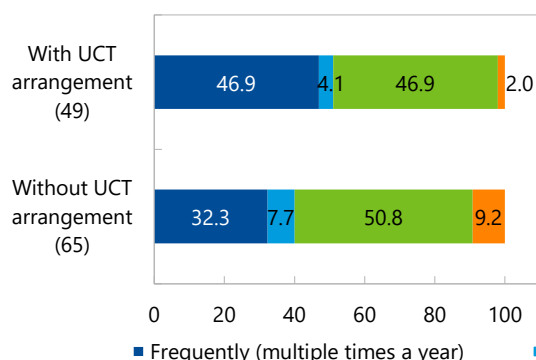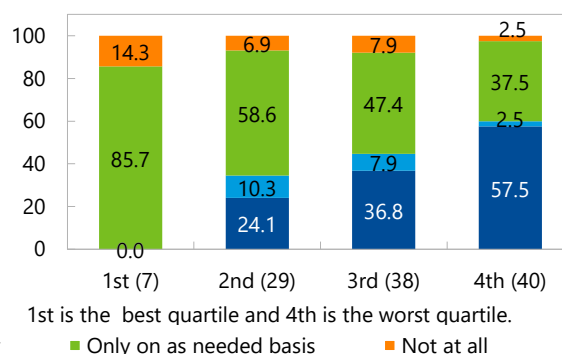
Source: Country team survey.

Note: The samples are countries eligible for the World Bank's IDA, Blend, and IBRD lending.

Question 15. *In terms of the possible modalities of further enhanced engagement, please rank the following areas where the Fund could further engage with member countries in governance and anti-corruption issues.*

Summary

- **Increasing technical assistance and training has been identified as the most preferred modality,** followed by more governance diagnostics, increasing the depth and coverage of surveillance, transnational aspects, and more governance related conditionality. "Others" pointed to enhancing collaboration with other institutions (IFIs, UN and civil society), and increasing in-house expertise on governance and anti-corruption issues (including more resources and wider knowledge sharing).

- The observations are consistent with responses in other questions (especially Q. 8) —**capacity is one of the key constraints in implementing Fund recommendations on governance**. Relatively low score of program conditionality (except FCS and the worst perceived governance and corruption vulnerabilities) may imply that the Fund has already effectively engaged in this area.
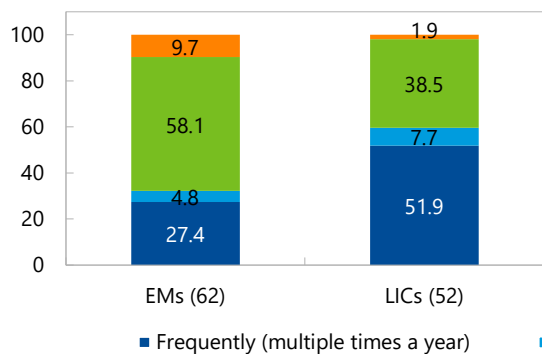

Figure 12. Question 15 Results

Overall Ranking

Increase technical assistance and training on governance and anti-corruption	4.3
Conduct and publish more governance diagnostics	3.7
Increase the depth and coverage in our regular surveillance/Article IV consultations	3.4
Conduct more voluntary assessment of transnational aspects of corruption	2.9
Establish more governance-related conditionality for IMF financing	2.8
Others (please specify)	1.2

Respondents: 160/190

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

Figure 12. Question 15 Results (Continued)

Overall: Issues Ranked as 1st and 2nd Priority
(in percent of total sample)
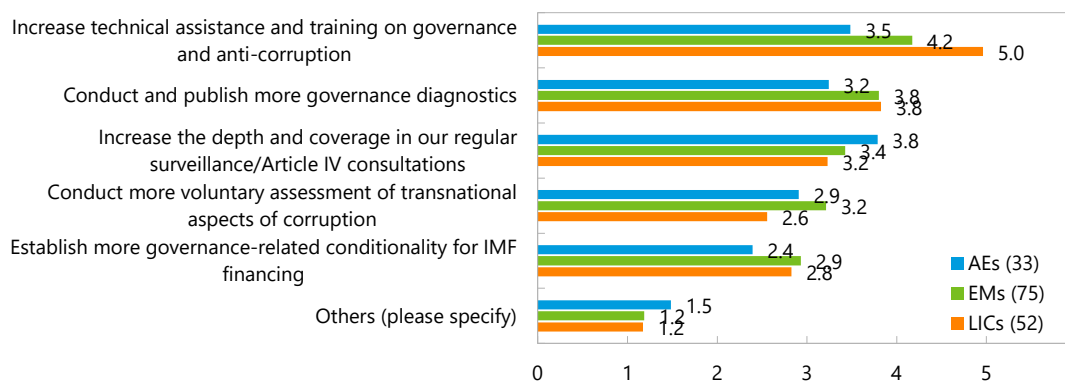
The questionnaire asked respondents to rank the items and not all respondents ranked all items. This result shows the average point weighted by ranking, ranked in 1st – 6 points, 2nd – 5 points, 3rd – 4 points, 4th – 3 points, 5th – 2 points, 6th – 1point and not ranked – 0 point.

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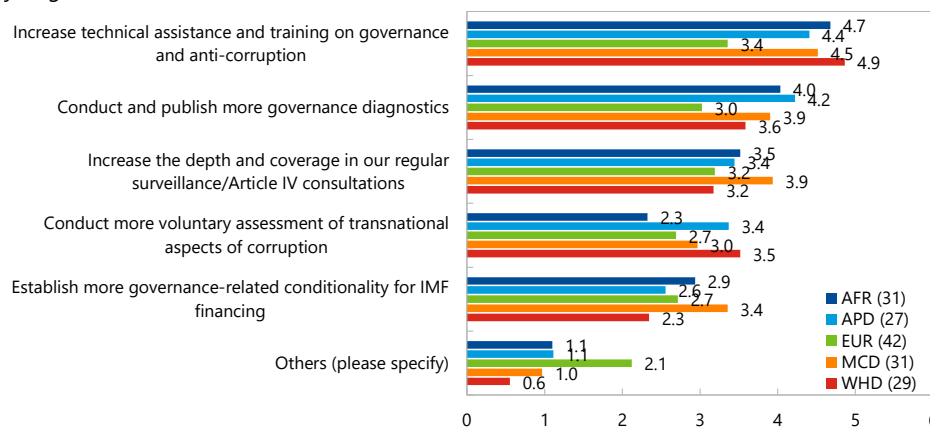
The questionnaire asked respondents to rank the items and not all respondents ranked all items. This result shows the average point weighted by ranking, ranked in 1st – 6 points, 2nd – 5 points, 3rd – 4 points, 4th – 3 points, 5th – 2 points, 6th – 1point and not ranked – 0 point.

Figure 12. Question 15 Results (Concluded)

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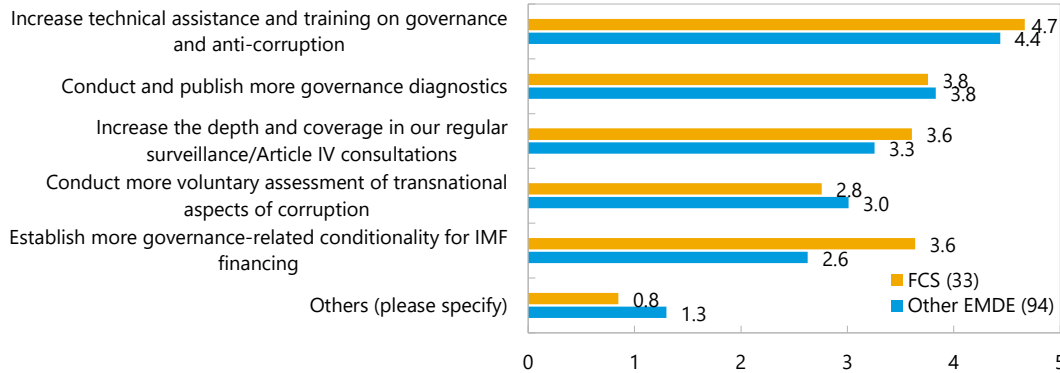
The questionnaire asked respondents to rank the items and not all respondents ranked all items. This result shows the average point weighted by ranking, ranked in 1st – 6 points, 2nd – 5 points, 3rd – 4 points, 4th – 3 points, 5th – 2 points, 6th – 1point and not ranked – 0 point.

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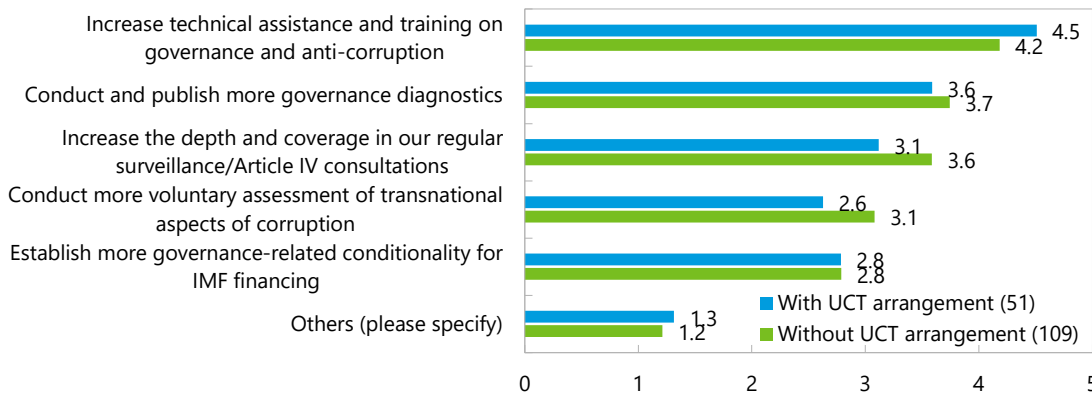
The questionnaire asked respondents to rank the items and not all respondents ranked all items. This result shows the average point weighted by ranking, ranked in 1st – 6 points, 2nd – 5 points, 3rd – 4 points, 4th – 3 points, 5th – 2 points, 6th – 1point and not ranked – 0 point.

Ranking by WGI Scores (Quartiles)
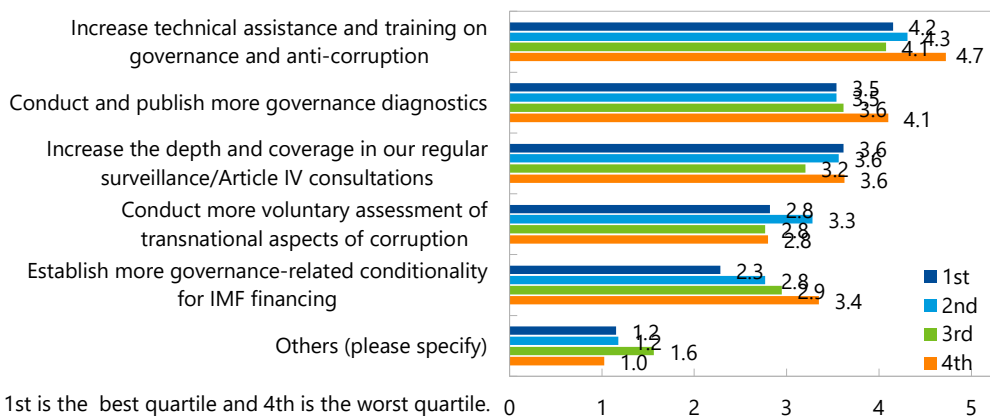
1st is the best quartile and 4th is the worst quartile.
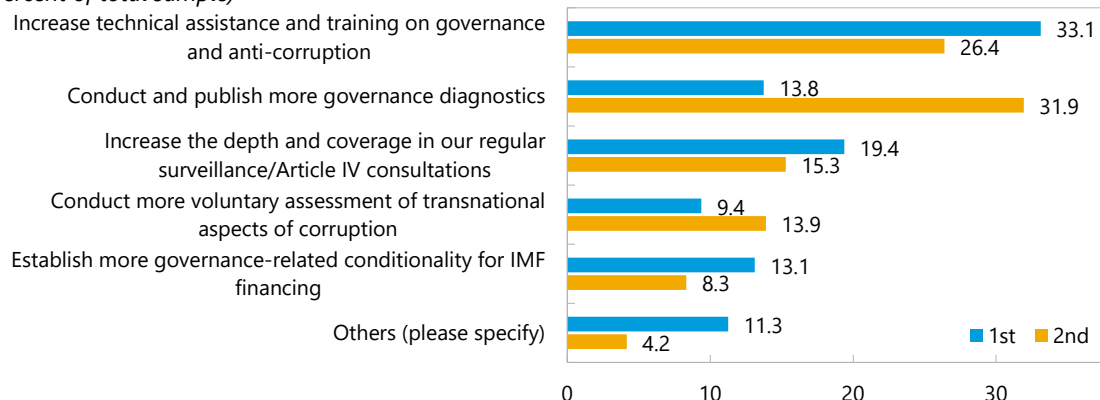
The questionnaire asked respondents to rank the items and not all respondents ranked all items. This result shows the average point weighted by ranking, ranked in 1st – 6 points, 2nd – 5 points, 3rd – 4 points, 4th – 3 points, 5th – 2 points, 6th – 1point and not ranked – 0 point.

Source: Country team survey.

Question 16. *The country team received appropriate support from functional departments when needed/requested.*

Summary

- **Overall, country teams have received support from functional departments in a timely manner**.

Figure 13. Question 16 Results

Overall
(in percent of total sample)

2.5
16.9
31.3
49.4

Respondents: 160/190

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree

By Region
(in percent of total sample)

	AFR (31)	APD (27)	EUR (42)	MCD (31)	WHD (29)
Disagree	3.2		4.8	3.2	
Neither agree nor disagree	22.6	25.9	9.5	16.1	13.8
Agree	32.3	48.1	54.8	54.8	55.2
Strongly Agree	41.9	25.9	31.0	25.8	31.0

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree

By Income Level
(in percent of total sample)

	AEs (33)	EMs (75)	LICs (52)
Disagree	0.0	4.0	1.9
Neither agree nor disagree	18.2	17.3	15.4
Agree	45.5	53.3	46.2
Strongly Agree	36.4	25.3	36.5

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree

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

	Strongly Agree	Agree	Neither agree nor disagree	Disagree
FCS (33)	36.4	51.5	12.1	
Other EMDE (94)	27.7	50.0	18.1	4.3

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree

By Countries with UCT Arrangements
(in percent of total sample)

	Strongly Agree	Agree	Neither agree nor disagree	Disagree
With UCT arrangement (51)	33.3	45.1	15.7	5.9
Without UCT arrangement (109)	30.3	51.4	17.4	0.9

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree

By WGI Score
(in percent of total sample)

	1st	2nd	3rd	4th
Disagree		2.6	7.7	
Neither agree nor disagree	28.2	12.8	7.7	20.0
Agree	48.7	53.8	46.2	45.0
Strongly Agree	23.1	30.8	38.5	35.0

1st is the best quartile and 4th is the worst quartile.

- Strongly Agree
- Agree
- Neither agree nor disagree
- Disagree

Source: Country team survey.

Question 17. *Please indicate the modality or modalities of engagement with FDs through which you received helpful support.*

Summary

- Functional department support took various forms, the top three modes appreciated by IMF country teams were **reviews, bilateral consultations, and (full or part-time) participation in country teams**. On the other hand, support for governance diagnostic missions and interdepartmental brain storming sessions are far less appreciated (a low share of "Yes" for governance diagnostics may reflect the small number of governance diagnostics so far relative to the number of responses).

- **LICs, FCS, and countries with UCT programs and/or high perceived governance and corruption vulnerabilities also appreciated more deeply involved and tailored support from functional departments**, including CD, governance diagnostics and interdepartmental brain storming meetings.

Figure 14. Question 17 Results

Overall
(in percent of total sample)

Category	Percent
Review process (departmental comments and PCM)	88.7
Bilateral consultation with relevant functional department	82.4
Staff from functional department (incl. assigned partly or fully to support country team, or to join country team missions(s))	69.2
Capacity development	56.0
Governance diagnostic assessments	26.6
Interdepartmental governance brainstorming sessions	22.3
Any other vehicles of support that you found helpful (please describe)	7.6

Respondents: 159/190

By Region
(in percent of total sample)

Legend:
- AFR (31)
- APD (27)
- EUR (41)
- MCD (31)
- WHD (29)

Review process (departmental comments and PCM): 87.1, 77.8, 92.7, 87.1, 96.6

Bilateral consultation with relevant functional department: 96.8, 77.8, 78.0, 77.4, 82.8

Staff from functional department (incl. assigned partly or fully to support country team, or to join country team missions(s)): 76.7, 51.9, 73.8, 74.2, 65.5

Capacity development: 80.6, 44.4, 34.1, 64.5, 62.1

Governance diagnostic assessments: 43.3, 22.2, 22.4, 25.8, 17.2

Interdepartmental governance brainstorming sessions: 46.7, 15.4, 12.2, 25.8, 13.8

Any other vehicles of support that you found helpful (please describe): 16.1, 0.0, 4.9, 6.5, 10.3

Figure 14. Question 17 Results (Continued)

By Income Level
(in percent of total sample)

Review process (departmental comments and PCM): 78.1 / 89.3 / 94.2
Bilateral consultation with relevant functional department: 62.5 / 85.3 / 90.4
Staff from functional department (incl. assigned partly or fully to support country team, or to join country team missions(s)): 63.6 / 62.7 / 82.4
Capacity development: 15.6 / 56.0 / 80.8
Governance diagnostic assessments: 18.8 / 21.3 / 39.2
Interdepartmental governance brainstorming sessions: 6.3 / 12.0 / 48.0
Any other vehicles of support that you found helpful (please describe): 3.1 / 5.3 / 13.7

AEs (32)
EMs (75)
LICs (52)

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

Review process (departmental comments and PCM): 93.9 / 90.4
Bilateral consultation with relevant functional department: 93.9 / 85.1
Staff from functional department (incl. assigned partly or fully to support country team, or to join country team missions(s)): 84.4 / 66.0
Capacity development: 81.8 / 60.6
Governance diagnostic assessments: 53.1 / 20.2
Interdepartmental governance brainstorming sessions: 48.4 / 19.1
Any other vehicles of support that you found helpful (please describe): 18.8 / 5.3

FCS (33)
Other EMDE (94)

By Countries with UCT Arrangements
(in percent of total sample)

Review process (departmental comments and PCM): 94.1 / 86.1
Bilateral consultation with relevant functional department: 96.1 / 75.9
Staff from functional department (incl. assigned partly or fully to support country team, or to join country team missions(s)): 86.0 / 61.5
Capacity development: 76.5 / 46.3
Governance diagnostic assessments: 42.0 / 19.4
Interdepartmental governance brainstorming sessions: 38.0 / 15.0
Any other vehicles of support that you found helpful (please describe): 5.9 / 8.4

With UCT arrangement (51)
Without UCT arrangement (108)

Figure 14. Question 17 Results (Concluded)

By WGI Score
(in percent of total sample)

1st is the best quartile and 4th is the worst quartile.

Source: Country team survey.

Question 18. *Please let us know in which areas you would deem useful to have more engagement of functional department staff?*

Summary

- **The responses align with Q.9** (areas where further enhanced engagement is needed).

- **Only 5 percent of responses said engagement is appropriate**, confirming demand for more.

Figure 15. Question 18 Results

Overall
(in percent of total sample)

Respondents: 158/190

Figure 15. Question 18 Results (Continued)

By Region
(in percent of total sample)

Legend:
- AFR (30)
- APD (27)
- EUR (41)
- MCD (31)
- WHD (29)

Category	Values
Fiscal governance	55.6, 73.3, 43.9, 71.0, 69.0
Anti-money laundering and combatting the financing of terrorism (AML/CFT)	62.1, 50.0, 53.7, 61.2, 65.5
Anticorruption	66.7, 42.3, 24.4, 51.7, 58.1
Financial sector oversight	48.3, 32.0, 24.4, 45.2, 55.2
Rule of law	46.7, 32.0, 24.4, 45.2, 37.9
Other (please specify)	37.9, 24.0, 35.7, 32.3, 37.9
Market regulation	48.3, 20.0, 12.2, 35.5, 37.9
Central bank governance and operations	41.4, 24.0, 9.8, 29.0, 27.6
Engagement is useful and appropriate, no need for more	6.9, 12.0, 0.0, 3.4, 3.4

By Income Level
(in percent of total sample)

Legend:
- AEs (32)
- EMs (75)
- LICs (51)

Category	Values
Fiscal governance	37.5, 70.7, 62.7
Anti-money laundering and combatting the financing of terrorism (AML/CFT)	56.3, 62.2, 54.0
Anticorruption	12.5, 56.8, 54.9
Financial sector oversight	25.0, 43.2, 44.9
Rule of law	12.5, 41.9, 44.0
Other (please specify)	36.4, 29.7, 38.8
Market regulation	9.4, 36.5, 32.7
Central bank governance and operations	9.4, 23.0, 38.8
Engagement is useful and appropriate, no need for more	0.0, 5.4, 6.1

Figure 15. Question 18 Results (Concluded)

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

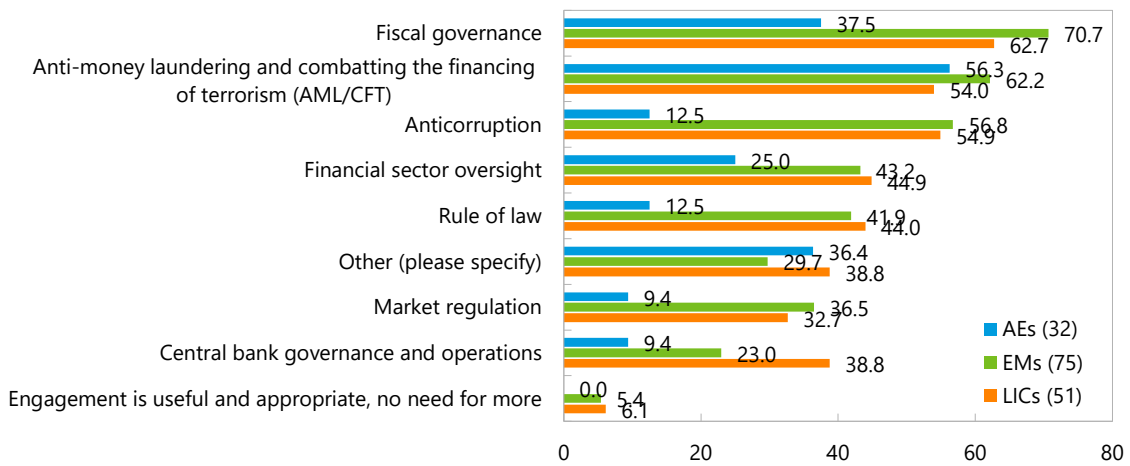| Category	FCS (32)	Other EMDE (94)
Fiscal governance	75.0	64.9
Anti-money laundering and combatting the financing of terrorism (AML/CFT)	64.5	57.0
Anticorruption	65.6	52.7
Financial sector oversight	53.3	40.9
Rule of law	51.6	39.8
Other (please specify)	30.0	34.4
Market regulation	40.0	33.3
Central bank governance and operations	40.0	25.8
Engagement is useful and appropriate, no need for more	3.3	6.5

By Countries with UCT Arrangements
(in percent of total sample)

Category	With UCT arrangement (50)	Without UCT arrangement (108)
Fiscal governance	64.0	60.2
Anti-money laundering and combatting the financing of terrorism (AML/CFT)	57.1	58.9
Anticorruption	56.0	43.0
Financial sector oversight	38.8	40.6
Rule of law	40.0	34.9
Other (please specify)	38.8	31.8
Market regulation	36.7	26.4
Central bank governance and operations	24.5	25.5
Engagement is useful and appropriate, no need for more	6.1	3.8

By WGI Score
(in percent of total sample)

Category	1st	2nd	3rd	4th
Fiscal governance	47.4	76.9	61.5	59.0
Anti-money laundering and combatting the financing of terrorism (AML/CFT)	57.9	64.1	54.1	50.4
Anticorruption	10.5	51.4	59.0	65.0
Financial sector oversight	26.3	42.1	43.1	46.2
Rule of law	13.2	39.5	35.1	60.0
Other (please specify)	38.5	34.2	24.3	41.0
Market regulation	13.2	36.8	27.0	43.6
Central bank governance and operations	13.2	26.3	27.0	33.3
Engagement is useful and appropriate, no need for more	0.0	5.3	2.6	10.8

1st is the best quartile and 4th is the worst quartile.

Source: Country team survey.

Question 19. *Please let us know in which areas you would deem useful to have more engagement of functional department staff?*

Summary (based on 50 meaningful responses, allowing responses to fall in multiple categories)

- While interpretation of the results should be very cautious, responses show large demand for **more advice/guidance based on functional departments' (FD) expertise** (24 percent), **more resources and prioritization** (25 percent), and **more tailored and country specific advice** (19 percent), followed by others (16 percent), more focus on Fund core expertise (7 percent), and consistent policy advice to keep even-handedness (9 percent).

- **Notwithstanding the caveat on interpretation of results, ¾ of the responses could be addressed without a change to the Fund's policies or frameworks**, while 6 percent can be implemented with some change to Fund policies or frameworks, and 6 percent are likely to require actions beyond that.

- There are a several interesting comments, which are provided below.

Categories that Responses are Classified (allowing falling in multiple categories) and specific responses to be mentioned)

- *More resources and prioritization* (both ADs and FDs).

- *Provide more advice/guidance based on FD's expertise*: for example, providing good practices, good coordination with WB/IFIs, delivering more CD (missions and LTXs) and training etc.

- *More tailored and country specific advice*: for example, systematic application of the framework to each member, discuss and work through strategies to help countries address comprehensive corruption etc.

- *Focus on Fund core expertise.*

- *More use of governance diagnostic assessment.*

- *Keep consistency in policy advice to keep even-handedness*: for example, a systematic review of governance issues together with FAD/MCM/LEG ahead of missions, discussing governance weaknesses in AEs to avoid perceptions of lack of even-handedness, and systematic application of the framework etc.

- *Acknowledge limitations*: for example, (i) Crafting comprehensive strategies to address corruption goes beyond laws and institutions and gets to the big societal decision that must be made: where to draw the line between amnesty and enforcement in order to be both credible and politically acceptable. (ii) It is hard to reduce corruption without accountability, strong and free medias, and the effective and appropriately working judiciary. (iii) The ability for the Fund to have an impact on governance and anti-corruption is very much dependent on the government's appetite for reform. (iv) The Fund needs to take stock of its engagement on governance and develop lessons on how to engage more effectively with members on critical issues, including better understanding on the scope of the Fund's authority, how to engage with domestic stakeholders, clarity on what is macro-critical, and improved training of staff involved on these issues.

- *Others*: for example, (i) More use of the Regional CD Centers in the Fund's governance work including outreach. (ii) Need of reflecting on whether our most immediate counterparts, officials at the MoF and the central bank, are the interlocutors with whom to discuss issues of governance and whether the Article IV is the appropriate vehicle of this advice (e.g., country teams have no visibility, interaction, or traction with the authorities in the agencies that oversee critical governance and anti-corruption issues). (iii) Greater focus on implementation rather than just framework improvements. (iv) Need of taking stock of its engagement on governance and develop lessons on how to engage more effectively with members on critical issues, including better understanding on the scope of the Fund's authority.

- ***Policy or framework change needed examples include***: (i) making governance diagnostics mandatory like safeguards assessments for programs, (ii) having dedicated staff for governance issues (on full time

basis) as area department/country teams are stretched, (iii) update/improve governance framework to better measure/diagnose it.

- ***Examples likely need actions beyond the above*** include: (i) reflect on/reconsider main authority counterparts with whom the Fund should discuss governance and anti-corruption issues (e.g., MOF and CBs may not be appropriate interlocuters); (ii) Discuss and work through strategies to help countries address comprehensive corruption, going beyond laws and institutions (e.g., where to draw the line between amnesty and enforcement), (iii) greater focus on implementation aspects (beyond framework improvements).

CONSULTATIONS WITH CIVIL SOCIETY ORGANIZATIONS[1]

A. Introduction

1.   The IMF is reviewing the implementation of the 2018 Framework for Enhanced Engagement on Governance. The Framework is designed to promote more systematic, effective, and candid engagement with member countries regarding governance vulnerabilities, including corruption. The review aims to assess the implementation of the Governance Framework over the past five years, based on the candidness, effectiveness and evenhandedness of IMF engagement and policy advice. It also provides an opportunity to improve implementation.

2.   In advance of this formal review, the IMF published an Interim Update in 2020. This interim report recognized that civil society organizations (CSOs)[2] play a key role, providing insight on country-specific governance and anti-corruption policies, and as a key partner supporting IMF policy advice in the context of surveillance and Fund-supported programs. The interim update also highlighted that engagement with CSOs has been enhanced through more active and periodic consultations for surveillance and program missions, including in governance diagnostic assessments and during the COVID-19 crisis to help respond to governance challenges associated with IMF's emergency financing.

3.   As part of the ongoing review, the IMF invited stakeholders to share their views on the implementation of the Framework through a two-phase consultation process. Phase I consisted of an online public consultation[3] that took place from July 26 to October 19, 2022. Phase II took place in December 2022 and consisted of in-person and virtual follow up meetings with CSOs (December 5th and 19th respectively). These meetings focused on sharing key inputs received through the online consultation, discussing the preliminary findings, and seeking further insights on some of the issues raised and recommendations proposed.

4.   This report offers an overview of the findings from the consultation process. It is divided in two main sections: one focused on the findings from the Phase I public consultation and the second focused on the findings from the Phase II in-person and virtual follow up meetings.

5.   Below is a summary of the main take-aways from the overall consultation.

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[1] Prepared by Ivana Rossi, Paula Zarazinski, Bonolo Namethe, Jaison Vega Laiton (all LEG), Emilia Berazategui (COM).

[2] For the IMF definition of CSO, please see 2015 Guidelines on the IMF Staff Engagement with Civil Society Organizations: 2015 Guidelines on the IMF Staff Engagement with Civil Society Organizations

[3] The consultation as well as its background note are available at: https://www.imf.org/en/Topics/governance-and-anti-corruption/governance-framework-consultation.

> **Key Takeaways from Public Consultation**
>
> - Overall, CSOs had a positive view on the implementation of the 2018 Framework, while encouraging more engagement with civil society.
>
> - A majority of CSOs recognized the IMF engagement has been more candid, effective, and evenhanded since the implementation of the 2018 Framework.
>
> - CSOs believe the IMF provided more specific, concrete, and actionable policy advice to member countries since implementation of the 2018 Framework.
>
> - CSOs called for more channels of engagement and participation, particularly at the national level.
>
> - Further engagement could include expanding the breadth of civil society organizations consulted, ensuring more regular/periodic consultations, and increased opportunities for dialogue during IMF missions to countries.
>
> - CSOs shared that further engagement with the IMF should also include coverage of IMF's mandate and work on governance and anti-corruption, to allow CSOs to better partner in monitoring implementation of policy advice and conditionalities. Similarly, they encouraged the development of specific policies to protect CSOs operating in a shrinking civic space context.
>
> - CSOs also called for greater publicity and transparency of IMF's work related to governance and anti-corruption, including on implementation of the Framework, and urged the IMF to use more conditionalities in these areas. IMF's efforts around beneficial ownership transparency and COVID-19 audits were highlighted as successes.

B. Phase I: Public Consultation

Surveys Received and Type of Respondents

6.   **A total of 59 responses to the online public consultation[4] were received, 10 of which were found to be unrelated to the 2018 Governance Framework or irrelevant to review its implementation.** The analysis below focuses on 49 responses comprising the following types of respondents:

- Eight responses from international CSOs working on governance, anti-corruption, environmental and human rights issues.

- Twenty-six responses from domestic CSOs from 20 countries, representing five different regions. 11 of these organizations (approximately 42 percent of the domestic respondents) have

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[4] The public consultation was available on-line between July 26 and October 19, 2022. The consultation was disseminated using IMF media (e.g., twitter) and outreach to organizations. The consultation followed the same methodology as past consultations and open exchanges on this area of work. (See 2016 public consultations) and on other topics (e.g., Fragile and Conflict-Affected States (FCS) Strategy Consultation; A Proposed Strategy for Mainstreaming Gender at the IMF). The governance public consultation in 2016 received 8 responses, showing an important increase in participation in 2022.

objectives directly related to governance and anti-corruption. The rest of the domestic CSOs specialize in different topics such as: human rights, inequality, social, economic, and environmental justice, HIV/AIDS, development, trade unions, energy security, legislative advocacy, education, peace, and youth.

- Fifteen responses received from individuals, ranging from academics, officials at financial institutions, lawyers, journalists, and other persons, from a total of 13 countries representing five regions.

Main Findings From Online Public Consultation

- **For more than two thirds of respondents, IMF engagement has been more candid, effective, and evenhanded since the implementation of the 2018 Framework.** There were no negative responses from CSOs to this question, only from some individual respondents.

- **More than two thirds of respondents agree that the IMF provided more specific, concrete, and actionable policy advice to member countries since implementation of the 2018 Framework.** The level of positive response raised above three quarters for CSOs. Positive examples mention IMF's work on beneficial ownership, including in the context of COVID-19 financing, AML/CFT, anti-corruption, judicial reform, and anti-corruption courts. Additionally, there is a trend across negative and positive responses highlighting the need for monitoring and effective implementation of policy advice, which some respondents indicate can be facilitated by CSOs.

- **Views on IMF's engagement with civil society organizations on governance and anti-corruption are more mixed.** Two thirds of respondents agree that it has improved since implementation of the 2018 Framework, but almost half of the respondents consider that it did not improve enough or did not improve. There is an overarching request to enhance CSOs engagement including through greater publicity and transparency of IMF's work, more channels for engagement and participation, and capacity building on anti-corruption issues. Some CSOs called for being more closely involved at the time of scoping for governance diagnostics, and of drafting and monitoring governance related-conditionalities. They also called for greater transparency of IMF's policies and procedures regarding CSO engagement (including to safeguard against reprisal).

- **CSOs provided feedback on how to improve IMF's work on governance and anti-corruption moving forward.** Notably, they suggested:

  - Expanding work to additional topical areas and/or deepening engagement in issues such as political capture, rule of law, the judiciary, beneficial ownership, AML/CFT, audits, market regulation, natural resources governance, and transparency - including in relation to debt and procurement.

  - More use of conditions on governance-related measures in the context of lending. Some also recommended further monitoring and assessing implementation of governance and

anti-corruption measures and studying the impact of IMF's overall conditionality on governance and corruption.

- A number of CSOs noted the importance of training countries officials and leveraging technology.

- One CSO provided recommendations of measures to be implemented by member countries across the six state functions and on anti-corruption.

7.   Appendix I provides detailed findings on the Public Online Consultation.

C.   Phase II: In-Person and Virtual Follow Up Meetings

Detailed Findings – In-Person and Virtual Follow Up Meetings

8.   With the objective of sharing key inputs received during the first phase of the consultation and seek further insights, the IMF organized follow up meetings with CSOs in December 2022. On December 4th, an in-person meeting took place at the IMF headquarters with participation from seven CSOs. On December 19th, a virtual meeting took place with participation from eight CSOs. Fund staff opened both meetings with an overview of the public consultation process and preliminary findings, followed by a discussion on the IMF''s engagement with CSOs on governance and anti-corruption and on the implementation of the 2018 Framework for Enhanced Engagement on Governance. Below is a summary of main points captured in both meetings by topic.

IMF's Engagement with CSOs

9.   CSOs expressed the need for the IMF to work towards promoting:

- More channels of engagement and participation for CSOs, in particular at the national level and in the design of policies. CSOs urged the IMF to facilitate regular engagement with a broader pool of CSOs at the international, national, and local level and some also suggested engagement with the private sector. To facilitate the engagement, CSOs suggested for the IMF to update more regularly the implementation of governance measures in COVID-19-related spending and publish said information in open data format. Other suggestions include publication of technical assistance reports and engagement with CSOs in audit processes, including in real time audits and to ensure more timely publication of audit results.

- Enhanced discussions on IMF's mandate and its work on anti-corruption and anti-corruption issues in general, so that CSOs can be better equipped to monitor the implementation of policy advice and anti-corruption conditionality.

- Mechanisms for protection of CSOs the IMF consults with and speak up against corruption, particularly for those located in countries with a shrinking civic space. CSOs encouraged anti-retaliation policies and the creation of an ombudsman office or independent accountability mechanism.

10.   In addition, CSOs welcomed the two-phase consultation approach and encouraged the IMF to replicate it in future consultations.
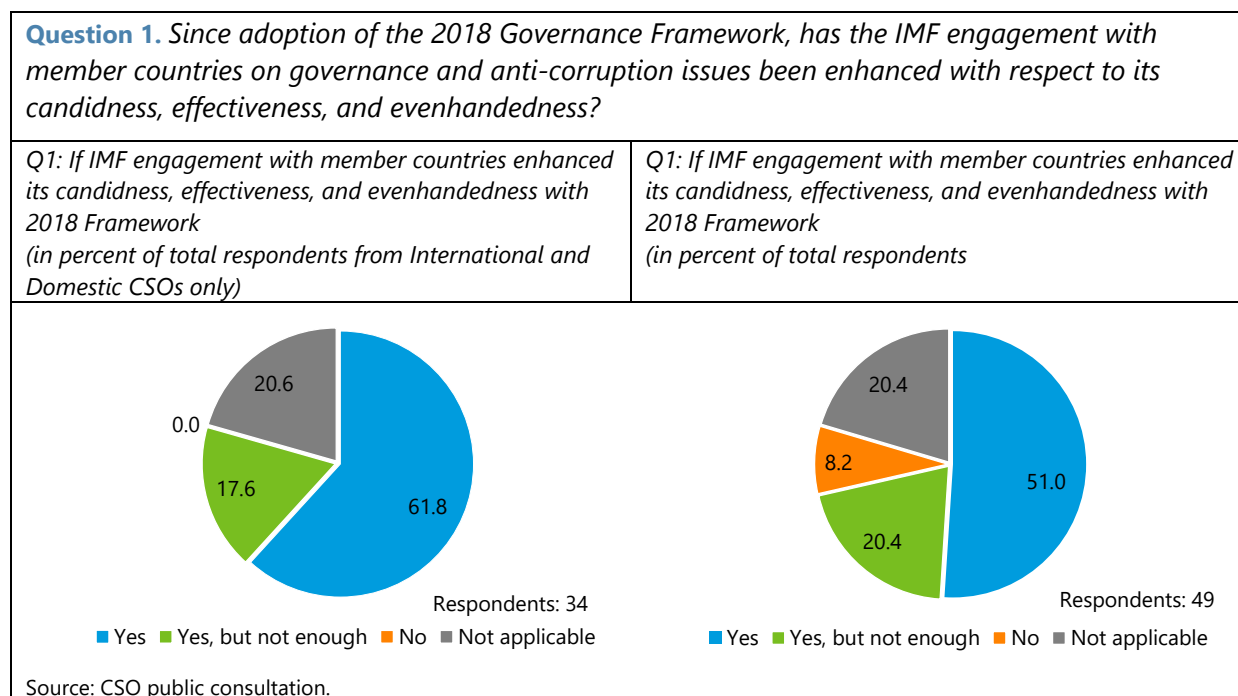
Implementation of the 2018 Framework for Enhanced Engagement on Governance

11.   The main feedback received by CSOs can be summarized as follows:

- CSOs welcomed IMF's efforts, particularly on COVID-19 audits and beneficial ownership transparency and encouraged greater publicity and transparency of IMF's work related to governance and anti-corruption.

- Some CSOs, in particular those working at the national level, urged the IMF to increase the number of governance and anti-corruption related conditionality in Fund-supported programs, including publication of beneficial ownership information on key risk areas such as public procurement, extractives, forestry, and fishing.

- A call for the IMF to include lobbying and integrity among the areas of policy advice considered in its country work.

Appendix I. Detailed Findings – Public Online Consultation

The findings below are based on the analysis of the 49 valid responses received for each question in the public consultation. For open-ended questions, we summarized all responses, identified common themes and trends and, when possible, grouped responses to facilitate visualization. In addition to the aggregate responses, key input received is also highlighted.
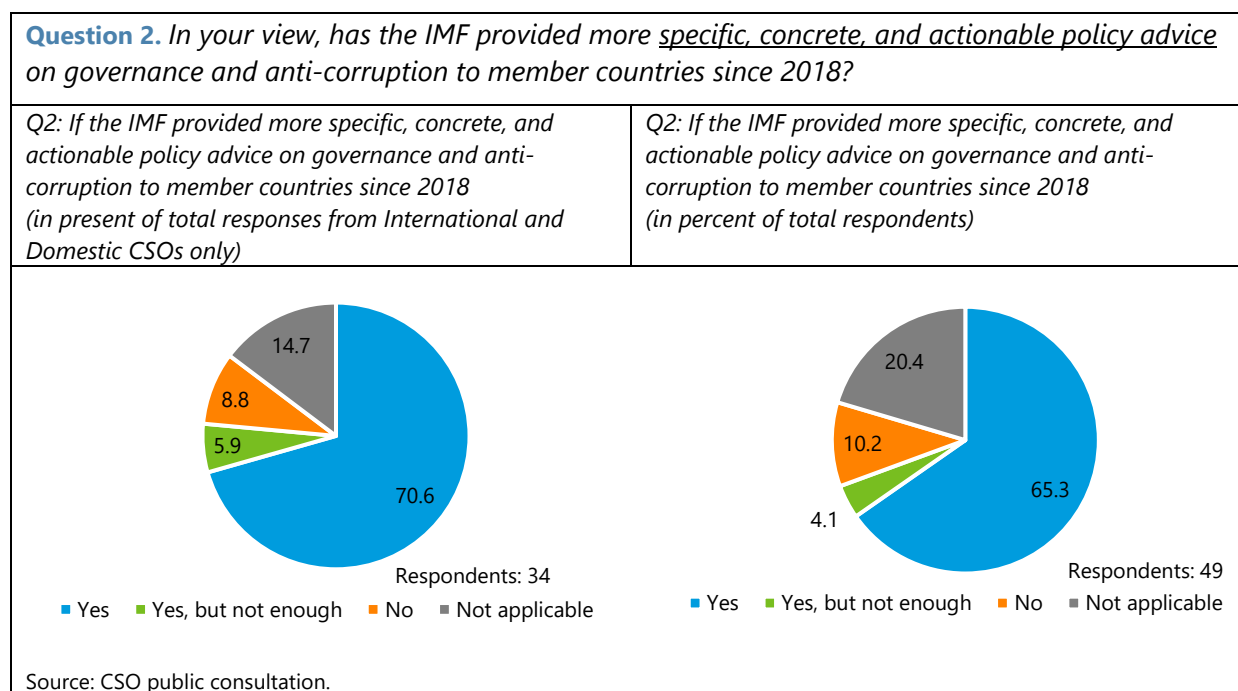

Question 1. *Since adoption of the 2018 Governance Framework, has the IMF engagement with member countries on governance and anti-corruption issues been enhanced with respect to its candidness, effectiveness, and evenhandedness?*

Q1: If IMF engagement with member countries enhanced its candidness, effectiveness, and evenhandedness with 2018 Framework *(in percent of total respondents from International and Domestic CSOs only)*	Q1: If IMF engagement with member countries enhanced its candidness, effectiveness, and evenhandedness with 2018 Framework *(in percent of total respondents*

Respondents: 34 — Yes 61.8, Yes, but not enough 17.6, No 0.0, Not applicable 20.6
Respondents: 49 — Yes 51.0, Yes, but not enough 20.4, No 8.2, Not applicable 20.4

■ Yes   ■ Yes, but not enough   ■ No   ■ Not applicable

Source: CSO public consultation.

Main Observations:

- Over 71 percent of respondents agree that the IMF engagement with member countries on governance and anti-corruption issues has been enhanced with respect to its candidness, effectiveness, and evenhandedness since the implementation of the 2018 Framework. From these, 20 percent agrees but considers that more is still needed. The positive trend is reaffirmed by the fact that CSOs had no negative responses.

- While the answers received were overall positive, very few explicitly referred to candidness, effectiveness, and evenhandedness in their written comments (open ended portion of the question), with the exception of four CSO respondents. In a few instances, responses shared frustration with regards to the current level of corruption in their respective countries.

Key Observations Received from CSOs Include:

- A number CSOs note that governance diagnostic assessments and general technical assistance on key state functions are useful tools to help identify specific governance reforms and improve effectiveness. They also noted that more governance and transparency related conditionalities are needed.

- CSOs of two countries with IMF-supported programs expressed satisfaction on the coverage and outcomes. One respondent provided a detailed response based on analysis of Article IV reports stating that treatment of countries is impartial (evenhanded), but effectiveness is more difficult to assess.

- One domestic CSO respondent highlighted that increasing communication with civil society will help improve candidness.

- One international CSO questioned the consistency in the engagement and recommended a systematic and coherent methodology to assess and engage with countries on governance and anti-corruption issues. Another international CSO also questioned the "real-life" impact of Fund-supported governance and anti-corruption reforms and calls for more transparency of IMF's policies and procedures and discussions with countries in order to form an opinion about candidness, effectiveness, and evenhandedness. (e.g., on beneficial ownership and on illicit financial flows).
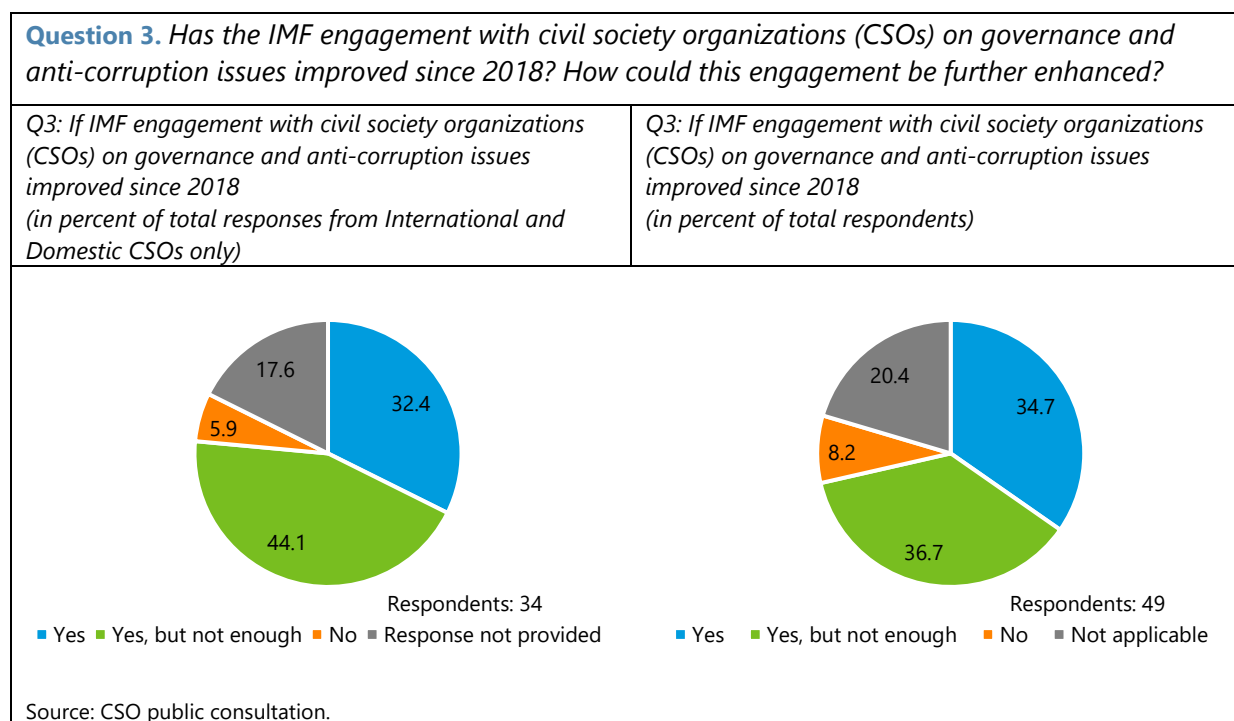

Question 2. *In your view, has the IMF provided more <u>specific, concrete, and actionable policy advice</u> on governance and anti-corruption to member countries since 2018?*

Q2: If the IMF provided more specific, concrete, and actionable policy advice on governance and anti-corruption to member countries since 2018 (in present of total responses from International and Domestic CSOs only)	*Q2: If the IMF provided more specific, concrete, and actionable policy advice on governance and anti-corruption to member countries since 2018 (in percent of total respondents)*

Respondents: 34
■ Yes ■ Yes, but not enough ■ No ■ Not applicable

14.7
8.8
5.9
70.6

Respondents: 49
■ Yes ■ Yes, but not enough ■ No ■ Not applicable

20.4
10.2
4.1
65.3

Source: CSO public consultation.

Main Observations:

- Sixty-nine percent of respondents agree that the IMF provided more specific, concrete, and actionable policy advice on governance and anti-corruption to member countries since implementation of the 2018 Governance Framework. Seventy-six percent of CSOs responded positively, showing an overall positive trend. Positive feedback on specific advice was given in areas such as AML/CFT, anti-corruption, judicial reform, and anti-corruption court.

- Regarding negative responses, five respondents (three CSOs and two individuals) answered that the IMF has not provided more specific, concrete, and actionable policy advice. There is a trend

across negative and some positive responses highlighting the need for monitoring and effective implementation of policy advice, which some respondents indicate can be facilitated by CSOs.

Key Observations Received from CSOs Include:

- Three CSOs noted IMF's work positively on beneficial ownership including in the context of COVID-19 financing. One of them sharing specific research conducted on the lessons learned from IMF's engagement in IMF financing and another calling for monitoring of implementation of commitments.

- One domestic CSO provided a comprehensive answer asking for: (a) more concrete advice regarding the rule of law, (b) a standardized analysis model to allow the governance and anti-corruption coverage in Article IV reports to be contrasted in a clear and organized manners across countries, (c) inclusion of corruption as an independent element in Risk Assessment Matrixes, (d) more uniformity in the coverage of governance and anti-corruption topics across reports, and (d) a clear general evaluation protocol under each of the key state functions that is used consistently to inform recommendations made by IMF. "Without a general framework, we cannot evaluate the effectiveness of recommendations because we do not have parameters to compare."

- Another domestic CSO highlighted the importance of greater data transparency, audits, and addressing monopolies.

- As mentioned above, several respondents highlighted the importance of follow up to ensure implementation of anti-corruption measures.

Question 3. *Has the IMF engagement with civil society organizations (CSOs) on governance and anti-corruption issues improved since 2018? How could this engagement be further enhanced?*

Q3: If IMF engagement with civil society organizations (CSOs) on governance and anti-corruption issues improved since 2018 (in percent of total responses from International and Domestic CSOs only)	Q3: If IMF engagement with civil society organizations (CSOs) on governance and anti-corruption issues improved since 2018 (in percent of total respondents)

Source: CSO public consultation.

Main Observations:

- Over 75 percent of civil society respondents agree that IMF's engagement with civil society organizations on governance and anti-corruption issues has improved since implementation of the 2018 Framework. However, from these, a higher percentage considers that engagement with civil society has improved but not enough (44 percent).

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

Key Observations from CSOs:

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

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

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

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

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

Key Observations from CSOs:

- International CSOs noted the importance of increasing transparency of discussions between the IMF and member states and participation of non-state actors in IMF's policies and work and recommended using current international standards and frameworks, for example from FATF, UNCAC, and UNSDG to identify priority areas and inform recommendations that are provided to countries.

- Some CSOs stressed the need for more engagement with domestic CSOs, including to monitor and assess implementation of governance and anti-corruption measures. A respondent also suggested capacity building of government officials to provide open and accessible data.

- Some CSOs also highlighted rule of law in their responses, recommending a broader scope of IMF's rule of law work to include judicial reform. Other CSOs highlighted the need for a more structured and participatory process to engage with CSOs, which is also another key element noted across survey answers, and the importance of actively monitoring financial sector oversight and fiscal governance.

- One international CSO suggested that progress on governance-related measures should be treated as a condition for further loans and financial support. Similarly, one CSO focused on taxation noted transparency commitments such as beneficial ownership and publication of contracts should be treated as a condition for financing and asked the IMF to play a more significant role in sharing data for research. Another CSO focused on procurement transparency recommended targeting public procurement vulnerabilities more systematically.

- A humanitarian CSO recommended considering political capture more directly in policy making to ensure IMF is not inadvertently deepening inequality and contributing to political capture. They also recommend the implementation of social impact assessments of IMF interventions and referred to the framework they developed for that purpose. A CSO expressed positive views on program conditionality, particularly related to budget transparency, social accountability, fiscal justice, and civic space.

- One CSO called for the establishment of an accountability mechanism to receive complaints and mitigate and address impact of IMF's interventions. Other individual responses include recommendations to (i) support AML/CFT Committees and implementation of national anti-corruption strategies, (ii) use governance and anti-corruption commitments more firmly as a condition for IMF financing, (iii) promote greater publicity of governance and anti-corruption measures and use of quantitative metrics by countries and IMF assessment teams, and (iv) establish a governance and anti-corruption network with members of civil society and other experts who can contribute to these questions.

> **Question 5.** *Do you have any other views or suggestions on the IMF's work on governance and anti-corruption issues that you would like to share?*

- Domestic CSOs shared several suggestions on IMF's work on governance and anti-corruption. They mostly focused on engagement with civil society, including (i) build capacity of and provide

CSOs with pool of experts to answer specific questions on governance and anti-corruption, (ii) have more frequent meetings and establish formal channels of communication and a clear methodology to engage with CSOs, (iii) engage CSOs in the accountability process, including by supporting them to monitor implementation of policy advice, and finally (iv) consider CSOs as partners to advance IMF recommendations.

- An accountability mechanism or Ombudsperson's office to receive complaints and queries about IMF's work was recommended across all answers by both domestic and international CSOs. They also recommend improving internal policies related to lobbying integrity to tackle the issue of revolving door from officials moving from the IMF to the private sector.

- One CSO recommended the adoption of clear and effective policies to guide staff in negotiations related to governance and anti-corruption.

- One international CSO asked for promotion of responsible PFM through lending and engaging with civil society in establishing and monitoring implementation of governance commitments. Another international CSO also called for more efficient AML and beneficial ownership policies, while offering to test them in pilot countries.

- An international humanitarian CSO stressed the importance of debt transparency and recommended focus on parliamentary oversight and approval of loans, including capacity building of legislators to play their oversight role effectively. They also called for the promotion of transparency tools, particularly in the context of natural resources governance, including publication of country-by-country reporting of profits, taxes, and related party payments by multinational companies, extractive industry payments-to-government reporting, beneficial ownership and extractive industry contract disclosures, public financial modes, and transparency around audits.

- One domestic CSO highlighted the importance of creating incentives for countries to improve the rule of law and the development and adoption of a rule of law rank.

- One domestic CSO also asked for more conditionalities on open contracts and open data indicating they are the main drivers of reform.

CASE STUDIES FOR 40 COUNTRIES[1]

A. Summary of 40 Case Studies – Article IV

Sample: Same 40 countries as for the 2017 case study – See Appendix I below. 37 countries had an Article IV Consultation discussed by the Executive Board since the adoption of the enhanced governance framework in April 2018 until end-December 2022. Mali, Libya and Ukraine did not have Article IV consultation during the period. (8 AEs, 16 EMs, 13 LIDCs).

Key observations

- The centralized assessment identifies severe or high-level corruption for 75 percent of the countries in the sample. The percentage is 12 percent for advanced economies, 94 percent for emerging markets and 100 percent for LIDCs.

- Most of the governance weaknesses associated to corruption identified by the centralized process relate to fiscal governance, market regulation and rule of law. Governance weaknesses related to central bank governance and operations, and financial sector oversight are identified in only 14 and 22 percent of the countries in the sample, respectively.

- Revenue outcomes and procurement are the most common weaknesses by sub-areas of state function. For LIDCs, the most common weaknesses by sub-areas are contract enforcement and property rights.

- In 100 percent of the cases where severe or high levels of corruption have been identified, they have been candidly discussed in Article IV consultations.

- Overall, discussions have been most candid regarding weaknesses related to AML/CFT, central bank governance, rule of law and fiscal governance. An explicit linkage to corruption vulnerabilities was only made in 9 percent of the instances where market regulation weaknesses have been identified.

- The level of candidness for each state function varies by income level. For EMs, discussions have been most candid on AML/CFT, central bank governance, fiscal governance and the rule of law. For LIDCs, discussions have been most candid on financial sector oversight, AML/CFT and central bank governance.

- The level of candidness also varies significantly by sub-areas. Candid discussions occurred in more than 60 percent of the cases for AML (entity transparency, preventive measures, criminal justice), fiscal transparency, and procurement. There have been no candid discussions when weaknesses had been identified in relation to exchange restrictions, imports licensing, trade facilitation or public engagement in rule making.

- Overall, the implementation of the policy is very satisfactory regarding the coverage of corruption vulnerabilities, AML/CFT, and central bank governance weaknesses where candid and substantive discussions with specific policy advice take place in 89, 80, and 60 percent of the cases respectively.

- Coverage is very low for market regulation (2 percent), and around 40 percent for the other state functions. At the sub-area level, beyond AML/CFT, the level of implementation of the policy is above 40 percent for fiscal transparency, property rights, PFM controls, investor protection, and procurement.

- The level of implementation of the policy is better for LIDCs (52 percent) compared to EMs and AEs, with 37 and 14 percent implementation respectively. For LIDCs, all state functions, except for market regulation have a rate of implementation above 45 percent. financial sector oversight, AML/CFT and central bank governance have an implementation rate of 100, 88 and 67 percent respectively.

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

B. Characteristics of the Sample - Identification of Main Weaknesses

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

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

Figure 1. Weaknesses

Share of Main Weaknesses

Share of Main Weaknesses

- Central Bank Governance
- Financial Sector Oversight
- AML/CFT
- Rule of Law
- Market Regulation
- Fiscal Governance
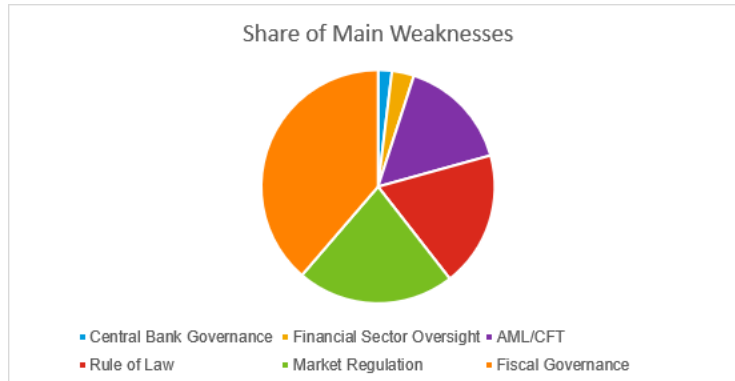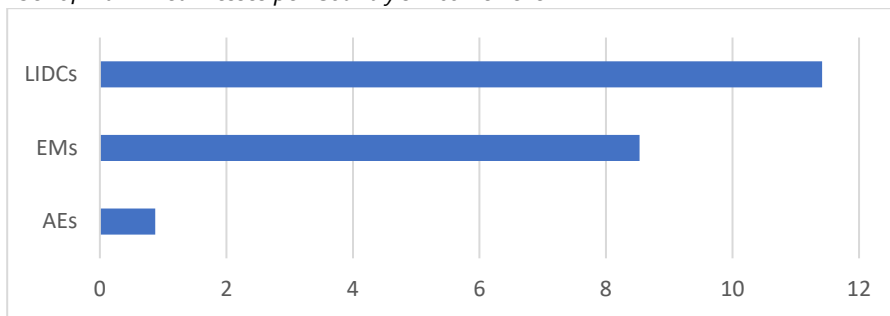
Main Weaknesses by Sub-Area

Average Number of Main Weaknesses per Country's Income Level

Sources: Staff analysis of 37 countries Article IV staff reports.
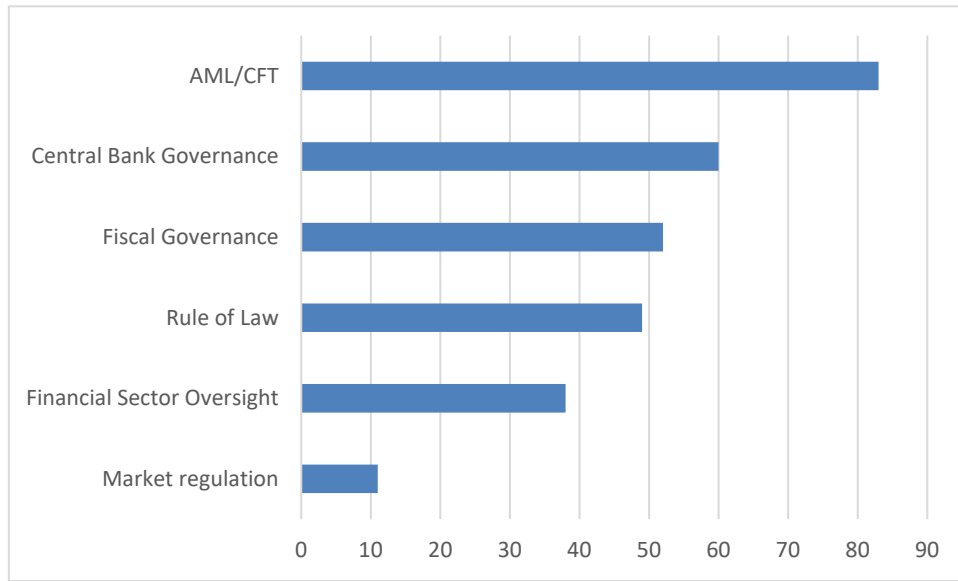
C.   Candid Discussions

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

Table 2. Candid Discussions				
Area of weakness Percentage of candid discussions where weakness identified	37 countries	8 AEs	16 EMs	13 LIDCs
Corruption	**100**	**-**	**100**	**100**
Rule of Law	**49**	**0**	**44**	**53**
Investor Protection	46	-	33	57
Contracts	44	0	60	42
Property Rights	56	-	43	64
AML/CFT	**85**	**0**	**83**	**94**
Preventive measures	92	-	89	100
Entity transparency	92	0	100	100
Criminal justice	83	-	67	100
International Cooperation	33	-	0	50
Fiscal Governance	**52**	**25**	**47**	**61**
Revenue Outcomes	32	0	25	50
Revenue Institutions	58	0	75	57
Spending Outcomes	50	-	57	40
Procurement	68	100	67	67
Fiscal Transparency	61	-	50	75
PFM Controls	50	-	33	67
Market regulation	**11**	**100**	**7**	**12**
Ease of Doing Business	24	-	29	20
Public engagement	0	-	0	0
Product market regulation	11	100	0	0
Trade facilitation	11	-	0	25
Imports licensing	0	-	0	-
Exchange restrictions	0	-	0	0
Central Bank Governance	**60**	**-**	**50**	**67**
Financial Sector Oversight	**38**	**-**	**27**	**100**
Total Main Weaknesses	**48**	**-**	**25**	**55**
Source: staff analysis of 37 countries Article IV staff reports.				

Figure 2. Candid Discussions

Candid Discussion by State Function all Countries (in percent)

Candid Discussions by Income Level

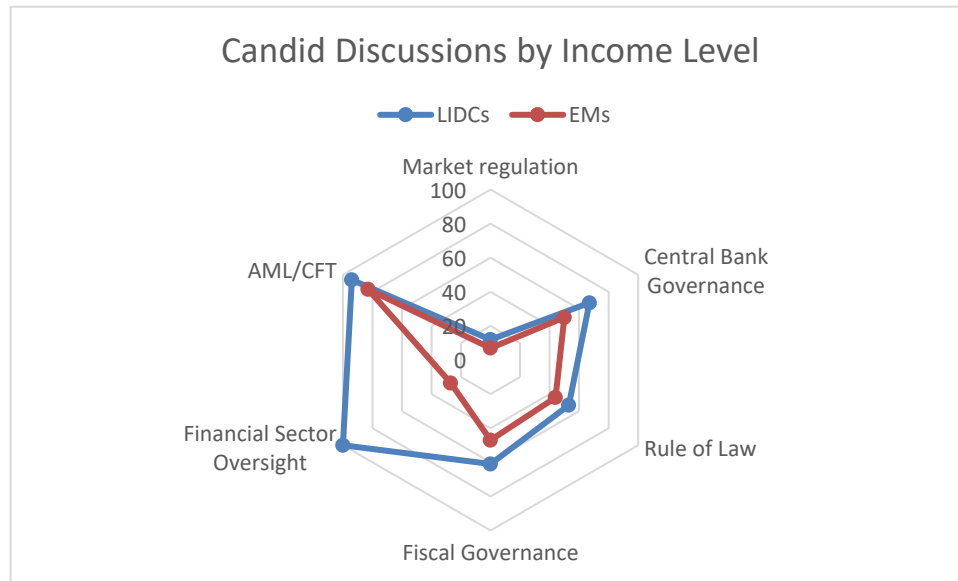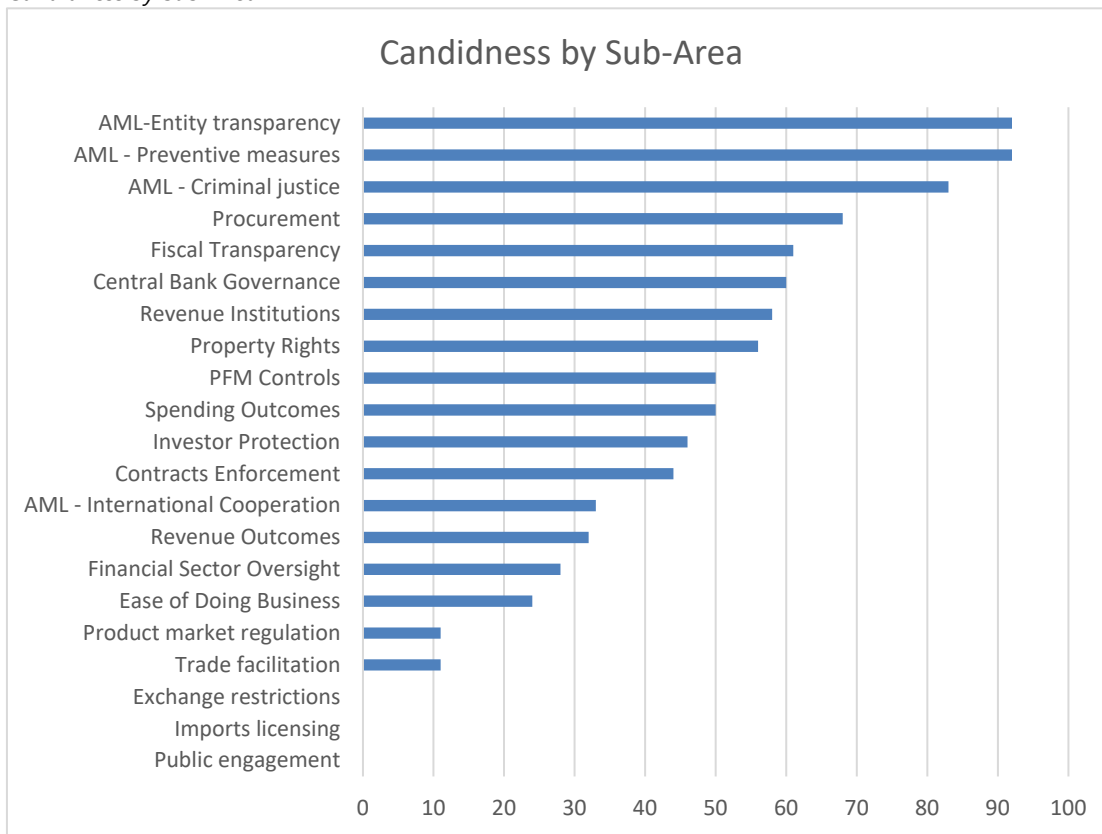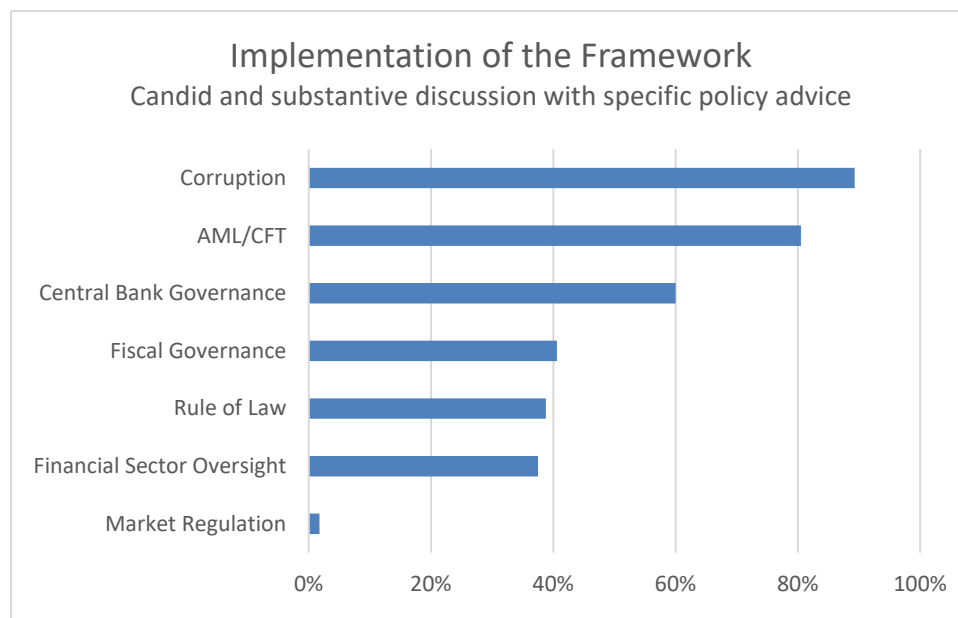**Figure 2. Candid Discussions (Continued)**

Candidness by Sub-Area

Candidness by Sub-Area

Sub-Area	Value
AML-Entity transparency	92
AML - Preventive measures	92
AML - Criminal justice	83
Procurement	68
Fiscal Transparency	61
Central Bank Governance	60
Revenue Institutions	58
Property Rights	56
PFM Controls	50
Spending Outcomes	50
Investor Protection	46
Contracts Enforcement	44
AML - International Cooperation	33
Revenue Outcomes	32
Financial Sector Oversight	28
Ease of Doing Business	24
Product market regulation	11
Trade facilitation	11
Exchange restrictions	
Imports licensing	
Public engagement	

Source: Staff analysis of 37 countries Article IV staff report.

Table 3. Candid and Substantive Discussion with Specific Policy Advice				
Area of weakness Percentage of compliance where weakness identified	37 countries	8 AEs	16 EMs	13 LIDCs
Corruption	**89**	**-**	**81**	**100**
Rule of Law	**39**	**0**	**27**	**47**
Investor Protection	38	-	16	57
Contracts	33	0	40	33
Property Rights	44	-	29	54
AML/CFT	**80**	**0**	**78**	**88**
Preventive measures	85	-	78	100
Entity transparency	92	0	100	100
Criminal justice	75	-	67	83
International Cooperation	33	-	0	50
Fiscal Governance	**41**	**25**	**31**	**52**
Revenue Outcomes	27	0	25	38
Revenue Institutions	33	0	25	42
Spending Outcomes	33	-	43	20
Procurement	47	100	33	55
Fiscal Transparency	56	-	40	75
PFM Controls	44	-	22	66
Market regulation	**2**	**0**	**0**	**4**
Ease of Doing Business	6	-	0	10
Public engagement	0	-	0	0
Product market regulation	0	0	0	0
Trade facilitation	0	-	0	0
Imports licensing	0	-	0	-
Exchange restrictions	0	-	0	0
Central Bank Governance	**60**	**0**	**50**	**67**
Financial Sector Oversight	**38**	**0**	**0**	**100**
Total Main Weaknesses	**43**	**14**	**37**	**52**
Source: Staff analysis of 37 countries Article IV staff reports				

Figure 3. Implementation of the Framework

Candid and Substantive Discussion with Specific Policy Advice

Implementation of the Framework
Candid and substantive discussion with specific policy advice

Category	Value
Corruption	~90%
AML/CFT	~81%
Central Bank Governance	~60%
Fiscal Governance	~41%
Rule of Law	~39%
Financial Sector Oversight	~37%
Market Regulation	~2%

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

Appendix I. Country Sample

	Table 1. Country Sample for Document Review [1]		
	Low-income developing countries [2]	Emerging market economies	Advanced economies
AFR	**Cameroon, Congo, DR, Kenya, Mali,** Nigeria**, Uganda,** Zimbabwe	South Africa	
APD	Bangladesh, Cambodia, Papua New Guinea	China, Indonesia, Mongolia	Japan, Korea
EUR		Russia, Turkey, **Ukraine**	France, Greece, Italy, Portugal, Spain
MCD	**Afghanistan**, Kyrgyz Republic	**Egypt**, Georgia, Kazakhstan, Libya, Iraq, Tunisia	
WHD	Haiti, **Honduras**	Brazil, Bolivia, Mexico, Paraguay, Peru	United States

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

INTERNATIONAL MONETARY FUND

REVIEW OF IMPLEMENTATION OF THE 2018 FRAMEWORK FOR ENHANCED FUND ENGAGEMENT ON GOVERNANCE–BACKGROUND PAPERS

EXECUTIVE SUMMARY

This background note provides a set of short papers with additional information to support the discussion and analysis in the Review of the Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance (the "main paper"). It presents additional analysis on the following topics:

- ***Section I: Experiences with Governance Diagnostic Assessments.*** Takes stock of the experiences with governance diagnostic assessments since 2018 highlighting their scope, functions, and engagement with the authorities and other stakeholders.

- ***Section II: Mitigating Corruption Risks in Emergency Spending: Lessons Learned from the IMF's Experience During the COVID-19 Pandemic.*** Reflects on the IMF approach to governance safeguards in emergency financing during the COVID-19 pandemic and identifies preliminary lessons learnt, including to inform future emergency financing response.

- ***Section III: Role of Supreme Audit Institutions to Address Corruption Risk.*** Reviews Supreme Audit Institutions' increased focus on issues relating to corruption, before providing an overview of experience in the Fund's engagement with SAIs, and elaborating three core principles to inform IMF staff work going forward.

- ***Section IV: Transnational Aspects of Corruption.*** Briefs about the existing framework for combating the transnational aspects of corruption, takes stock of the coverage in IMF Article IV Staff Reports since April 2018 and discusses lessons learnt, and proposes sustaining and deepening the coverage in Staff Reports going forward.

| Approved By
Emmanuel Mathias (LEG) | Prepared by a team led by Joel Turkewitz, and comprising Tina Burjaliani, Alice French, Luisa Malcherek, Alexander Malden, Kristina Miggiani, Jonathan Pampolina, Sebastiaan Pompe, Ivana Rossi, Ron Snipeliski, Robin Sykes, Santiago Texidor, and Indulekha Thomas (all LEG), and Veronique Salins and Olivier Basdevant (FAD), with administrative assistance from Alexandra Rajs and Regan Abner (both LEG). |

CONTENTS

Glossary

AEs	Advanced Economies
AFR	African Department
AML	Anti-Money Laundering
APD	Asia & Pacific Department
BOP	Balance-of-Payments
CD	Capacity Development
CFT	Combating the Financing of Terrorism
CSOs	Civil Society Organizations
EMs	Emerging Markets
EMDEs	Emerging Markets and Development Economies
ESG	Environmental, Social and Governance
EUR	European Department
FAD	Fiscal Affairs Department
FATF	Financial Action Task Force
FCS	Fragile and Conflict-affected States
FDs	Functional Departments
GAC	Governance and Anti-Corruption
IDB	Inter-American Development Bank
IFIs	International Financial Institutes
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
LICs	Low Income Countries
LOI	Letter of Intent
MCD	Middle East & Central Asia Department
MONA	Monitoring of Fund Arrangements
ML	Money Laundering
NGOs	Non-Governmental Organizations
OCCRP	The Organized Crime and Corruption Reporting Project
OECD	Organization for Economic Co-operation and Development
PIMA	Public Investment Management Assessment

PFM	Public Financial Management
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
RST	Resilience and Sustainability Trust
SAIs	Supreme Audit Institutions
SOEs	State Owned Enterprises
TI	Transparency International
UCT	Upper Credit Tranche
UNCAC	United Nations Convention Against Corruption
UNDP	United Nations Development Programme
UNODC	United Nations Office on Drugs and Crime
WB	The World Bank
WGB	Working Group on Bribery
WEO	World Economic Outlook
WGI	World Governance Indicator
WHD	Western Hemisphere Department

EXPERIENCES WITH GOVERNANCE DIAGNOSTIC ASSESSMENTS[1]

This background paper takes stock of the experiences with governance diagnostic assessments since 2018. In response to requests by country authorities, teams consisting of staff from relevant functional departments[2] have completed 15 diagnostic assessments, for the most part in a Fund-supported program context. In close collaboration with government counterparts, these diagnostics are designed to assess the severity of corruption and identify the governance weaknesses and corruption vulnerabilities across six core state functions provided by the 2018 Framework. As a forward-looking exercise, they recommend concrete structural reform measures to advance governance, integrity, and the rule of law, and produce a public report. Depending on the circumstances, each diagnostic takes up to twelve months. As an evolving tool, assessments have reflected strong commonality in coverage, as well as substantial variation in structure, size, number of recommendations, and follow-up. Findings of the diagnostics have regularly informed Fund-supported programs, including through conditionality, surveillance in the context of Article IV missions, capacity development work, and authorities' reforms efforts.

A.   Overview of Governance Diagnostic Assessments

1.   Since the adoption of the Framework for Enhanced Fund Engagement on Governance in 2018, 15 governance diagnostics have been completed, with six more assessments underway.[3] The diagnostics are undertaken in response to requests from the authorities. While the number of requests decreased during the COVID-19 pandemic, some diagnostics have been conducted during the COVID-19 travel ban. The Sudan and Mali diagnostics were undertaken in a full remote mode, while the exercises in Zambia and Mauritania were hybrid. Governance diagnostics are designed to provide a holistic analysis and strategic recommendations for improving integrity and governance in a member country. The assessments examine the severity of corruption in a country, which informs the identification and analysis of governance weaknesses associated with corruption vulnerabilities across the six core state functions covered by the 2018 Framework: (i) fiscal governance; (ii) rule of law (contract enforcement and protection of property rights); (iii) market regulation; (iv) central bank governance and operation; (v) financial sector oversight; and (vi) AML/CFT. They also assess the effectiveness of anti-corruption legal and institutional frameworks. The governance diagnostic report that is produced is part of a longer process of engagement on

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[1] Prepared by Tina Burjaliani, Ron Snipeliski and Joel Turkewitz (all LEG), Veronique Salins and Olivier Basdevant (both FAD).

[2] Governance diagnostic missions are a cross-department exercise (co-led by LEG and FAD), with participation of MCM and FIN in most missions. Other international institutions have also participated in some missions.

[3] The first comprehensive diagnostic assessment of governance and corruption took place in 2014 for Ukraine, prior to the adoption of 2018 Framework. See "Government of Ukraine Report on Diagnostic Study of Governance Issues Pertaining to Corruption, the Business Climate and the Effectiveness of the Judiciary", July 11, 2014.

governance and anticorruption reform that is shaped by the issues present in a particular jurisdiction and tailored to the country program. To ensure effective implementation of recommendations, country teams need to appropriately follow up, including incorporate key recommendations in program or surveillance work, monitor an action plan included in Government reform programs, and if needed, arrange for follow up TA requested by authorities.

2.   **The majority of countries which requested a governance diagnostic were LIC and FCS** (Table 1). Out of the 21 countries for which diagnostics have been or are being delivered, 10 are FCS. As mentioned in the IMF Strategy for FCS (adopted in March 2022), these diagnostics will inform more in-depth analysis on corruption and governance issues in surveillance, where needed. Governance diagnostics have been concentrated in countries with severe and systematic corruption issues. The participating countries are spread across different income levels (covering both low-income and middle-income countries) and generally perform poorly on control of corruption indicators.

3.   **Ten out of the 15 completed reports have been published, with the approval of participating authorities** (Table 1). Publication of the report is encouraged, as transparency on the findings and recommendations is an important contribution to good governance. Authorities have published the report on their own web sites in number of cases, demonstrating strong ownership of the report and their active engagement defining future actions. As a good practice of ownership, some diagnostic reports were published as the authorities' report prepared in collaboration with IMF.

Table 1. Governance Diagnostic Assessments Since 2018			
Year	EM (excl. FCS)	LIC (excl. FCS)	FCS
2018			Republic of Congo (published)
2019	Equatorial Guinea (published) Peru		Mozambique (published)
2020		Honduras	Dem. Rep. of Congo (published) Guinea-Bissau (published) Zimbabwe
2021		Moldova (published)	Central African Rep. (published) Mali Sudan
2022	Paraguay (published)	Zambia (published)	
2023	Sri Lanka (planned) Tunisia (ongoing)	Benin (published) Mauritania (near completion) The Gambia (ongoing)	Lebanon (ongoing) Cameroon (ongoing)

Source: IMF staff, as of March 1, 2023.

4.   The severity of corruption has been assessed based on candid analysis of relevant sectors, combined with information obtained through third-party indicators. 13 out of 15 completed diagnostics used third-party indicators in assessing severity of corruption. Some recent exercises, including Zambia, included an external political scientist in the team to provide a deeper and broader understanding of the nature of corruption, changes in corruption patterns and trends, and experience with past efforts to address corruption and improve governance.

5.   Diagnostics consistently assess corruption risks as part of analyzing the effectiveness of AML, rule of law (especially in relation to the integrity of the judiciary), fiscal governance and financial sector oversight frameworks. Diagnostics also consider the soundness and alignment of the legal and organizational arrangements for fighting corruption with international standards and good practice, and the appropriateness of the anti-corruption strategy in light of the corruption risks that are present.

6.   All diagnostic reports provide time-bound policy recommendations to mitigate governance weaknesses and corruption vulnerabilities. Corresponding with the breadth of coverage of key state functions in the diagnostics, 57 percent of recommendations focused on fiscal governance, followed by recommendations on strengthening the overall anti-corruption frameworks (14 percent), rule of law (including effectiveness and integrity of the justice sector– 10 percent), AML (8 percent), financial sector oversight (4 percent) and market regulation and central bank governance and operations (3 percent each). The small number of recommendations relating to market regulation reflect somewhat inconsistent coverage of this element of the framework. Also, financial sector oversight and central bank governance and operations were not covered in earlier diagnostics.

7.   Recommendations are generally tailored to recipient countries' specificities and capacity (See Table 2 for some examples). The number of recommendations varies, largely depending on the scope of the diagnostic (i.e., extent of coverage of key state functions) as well as the context and capacity of the state to implement comprehensive reforms. Given the close association with corruption vulnerabilities, fiscal governance sections of diagnostics, for instance, typically include fiscal transparency, public financial management (in some cases with specific discussions on public procurement, PPP framework and/or public investment management), SOE oversight, revenue administration, and/or natural resource management. When relevant, they also discuss fiscal decentralization or overarching issues such as digitization or human resources management. While all recommendations are time-bound, most reports provide sequencing by identifying a limited number of priority measures in each area.

Table 2. Reform Recommendations from Governance Diagnostic Assessments	
Area	Specific reform recommendations (selective)
Anti-Corruption framework	• Adoption of anti-corruption law in line with UNCAC standards (short-term RoC; high-priority Equatorial Guinea) • Introduce transparent and participatory appointment rules for key anti-corruption officials (medium-term, Zambia) • Strengthen asset declarations legal framework (short-term, CAR, short/medium-term Zambia)
Fiscal Governance (public financial management, tax administration and customs operation)	• Undertake a comprehensive inventory of extrabudgetary operations (short-term, Guinea-Bissau). • Extend the coverage of the General Treasury Account to all central government operations (medium-term, DRC). • Publish quarterly an online list of names of all de jure or de facto exemptions with the revenue losses they generate in the government coffers (short-term, CAR)
Rule of law	• Clarify powers and responsibilities of the judicial inspectorate and improve operating procedures (short-term, Moldova) • Establish a publicly accessible central repository of updated laws and regulation (immediate, DRC) • Develop detailed procedures and fair and uniform criteria for alienation of State land, with clearly defined roles and responsibilities of central and local authorities. Provide capacity building and resources to local authorities to ensure proper implementation of land alienation rules (short-term, Zambia)
Market regulation	• Post all legislation, decrees, and regulations online (short-term, Guinea-Bissau). • Ensure full operationalization and sustainability of the one-stop shop and for bureaus to become financially autonomous (short-term, DRC). • Unify licensing for economic activity under a single entity (high-priority, Mozambique)
Central bank governance and operations	• Strengthen the NBM's governance and independence, including the operational independence of its prudential supervisory function through amendment to the NBM Law (medium-term, Moldova).
Financial sector oversight	• Enhance the governance of the Bank of Zambia in its role as banking supervisor (medium-term, Zambia) • Set out detailed requirements to avoid conflicts of interest for members of the Management or Executive Boards and all staff members of the National Bank of Moldova. Equity ownership of any supervised institution must be prohibited (short-term, Moldova) • Implement upgraded regulations on banks' governance, internal controls and risk management (immediate, DRC).
AML/CFT	• Strengthen supervision of preventive AML/CFT measures related to politically exposed persons (short-term, Guinea-Bissau) • Amend the AML/CFT Law and related regulations to ensure compliance with the FATF standard (immediate, DRC) • Enhance the use of financial intelligence related to corruption in investigation (Equatorial Guinea, CAR)
Sources: Governance Diagnostic Reports for Moldova, Guinea-Bissau, DRC, CAR, RoC, Mozambique, Equatorial Guinea Zambia and Mali	

B.   Impact of Governance Diagnostics

8.   Governance diagnostics have informed IMF engagement with the membership.
Recommendations that derive from the governance diagnostics have regularly featured in subsequent surveillance and Fund-supported programs. Recommendations have been reflected in program conditionality to support the implementation of key governance reforms (most often on fiscal governance and anti-corruption framework), in a transparent and accountable manner, and have informed the dialogue with country officials on strategic directions for improving governance, integrity, and the rule of law during the program period. For instance,

- In Equatorial Guinea, the diagnostic recommendations were basis for 3 Prior Actions, 5 Structural Benchmarks and 28 MEFP commitments undertaken by the authorities.

- In Guinea Bissau, the diagnostic recommendations resulted in 11 Structural Benchmarks in the ECF and continue to be reflected in the IMF's dialogue with country officials.

- In Moldova, diagnostic recommendations on rule of law and anti-corruption institutions were prominently featured in the subsequent program.

In some cases, however, such engagement was interrupted when a program went off track, or due to an abrupt change in government (e.g., military coups in Sudan and Mali). Overall, governance diagnostics inform longer term engagement on governance and corruption with country authorities. To illustrate this long term impact of diagnostic reports, it is useful to refer to the first governance diagnostic supported by IMF staff and published by Ukraine's authorities in 2014, which has been a precursor for the diagnostic reports discussed in this paper. Box 1 below summarizes the experience with the implementation of anti-corruption recommendations over many years after the publication of the report.

Box 1. Outcomes of Ukraine's 2014 Governance and Corruption Diagnostic

In 2014, with staff support, Ukraine's authorities published a diagnostic report analyzing key corruption vulnerabilities and outlining a roadmap for anti-corruption reforms. Following the "Maidan" Revolution, the new government had identified governance and anti-corruption as a top priority. The report, published as a policy commitment under the IMF-supported program, highlighted the pervasiveness and oppressive nature of corruption in the country. Powerful blocks of political and economic elites were seen as entrenched throughout public institutions and the economy (i.e., state capture). The state agencies responsible for enforcing anti-corruption frameworks (e.g., police, prosecutor general's office, and judiciary) were viewed as the most corrupt public institutions, which had abused their powers to benefit the elites. The report notably concluded that, while formal frameworks were overall aligned with international standards, their implementation to high-level corrupt officials was lacking. A credible threat of consequences for corrupt acts had to be enforced, particularly by establishing independent enforcement agencies to hold public officials accountable and prevent them to benefit from the proceeds of corruption.

Informed by the diagnostic report, Ukraine has achieved significant progress in operationalizing a robust anti-corruption infrastructure. Under the IMF-supported programs and with support from capacity development providers, the pillars of the new anti-corruption infrastructure were established in succession: investigation (the National Anti-Corruption Bureau in 2015); prosecution (the Specialized Anti-Corruption Prosecutor's Office in 2017), and adjudication (the High Anti-Corruption Court in 2019). Members of parliament, ministers and judges have since been subject to corruption investigations, prosecutions, and convictions, including by relying on the implementation of other reforms contemplated in the diagnostic report such as asset declarations, the criminalization of illicit enrichment, and AML tools. These agencies have continued to operate despite the war demonstrating sustainability of the reform efforts. With time, judicial corruption became a critical issue, as vested interests were seen as misusing the judicial system to reverse reforms. The authorities subsequently engaged, in the context of the Fund-supported program, in targeted reforms to strengthen the rule of law and enhance the independence, integrity and accountability of judges, specifically by improving procedures for competitive selection for the members of the judicial self-governance body.

9. **Diagnostic recommendations have informed the Fund's CD, but the integration can be improved.** The follow-up on the diagnostic for the Republic of Congo is among the good practices, as the authorities adopted a new comprehensive anti-corruption law and implementing regulations on conflict of interest, along with the law on asset declarations for public officials with IMF's technical assistance. CD on anti-corruption law and AML systems were provided to Equatorial Guinea and Paraguay respectively.

C. Engagement with Stakeholders

10. **Governance diagnostic missions have been a catalyst of governance-related actions by various stakeholders.** All diagnostic exercises sought close engagement with other stakeholders, such as civil society and international partners, to collaborate on governance reforms. IMF teams usually meet with bilateral and multilateral donors, and other development partners (UNODC, UNDP, EU, FCDO, GIZ, USAID, SIDA) during or before the missions to seek their perspectives. In some cases, experts from the World Bank (Peru, Sudan, Zimbabwe) or the IDB (Paraguay) participated in the assessments, which helped ensure fuller collaboration. Further, representatives of civil society (e.g., NGOs, academics, association of lawyers, business associations) were also consulted.

11. **In some countries, governance diagnostic reports were used by the authorities and donors to prepare a comprehensive governance strategy**. In the Central African Republic (CAR), for instance, the IMF, the World Bank and the United Nations Office on Drugs and Crime supported the authorities in developing an action plan to combat corruption and improve governance. Mission teams found the engagement with other international organizations and civil society as essential to refine the scope of the diagnostics and benefited from these stakeholders' experience and expertise. Conducting governance diagnostic was helpful to both donors and authorities as it raised awareness on some critical governance challenges at the government level.

D. Lessons Learned from the Experiences with Governance Diagnostic Assessments

12. **Governance Diagnostic Assessments have guided subsequent IMF actions, including surveillance, and governance-related program conditions.** The exercise has regularly helped to shape the core of the Fund's engagement, influencing the substance, sequencing, and prioritization of the Fund's program of work. They are an important part of the long-term engagement on governance and anti-corruption. Country-tailored recommendations from many assessments have influenced government actions and have been reflected in the adoption and implementation of reform measures. Continued follow-up on the diagnostic recommendations, including through targeted CD, would strengthen the implementation.

13. **Continued focus is needed to tailor each exercise to country circumstances, while establishing greater structural and analytical consistency.** A single template for all diagnostic

assessments would not appear appropriate in light of the specific risks and vulnerabilities faced by each assessed country, but there exists space for greater consistency in the content, approach to analysis of governance weaknesses and corruption vulnerabilities in key state functions, processes, reports, and the manner in which they are integrated into follow-on actions. Drawn from good practices in most recent diagnostic assessments, the value of the effort and the follow-up would be enhanced by (i) consistent in-depth discussion of the severity of corruption, including analysis of corrupt practices and networks, (ii) increased focus on governance weaknesses that create corruption risks, (iii) dedicated section on anti-corruption reforms, and (iv) identification of limited number of actionable priority recommendations.

14.   In line with the 2022 Fund policy on engagement with Fragile and Conflict-Affected States, a careful balance needs to be sought between fragility/political economy constraints and the need for tackling governance weaknesses and corruption vulnerabilities. Fragile states are often associated with systemic corruption, which creates and exacerbates governance weaknesses. Governance diagnostics in such jurisdictions require careful consideration of the stability of the local environment, adjusting reform timelines in line with operative conditions, while ensuring adequate leverage from development partners to amplify the impact. At the same time, governance diagnostics can prove to be particularly useful in informing the Fund's engagement in FCS context.

15.   Analysis of the severity of corruption, and corruption risks in the six state functions should more closely guide the formulation of recommendations, to effectively inform subsequent work by Area departments. Where corruption risks are deemed high and widespread, a deeper understanding of the nature and severity of corruption and identifying the most macro-critically relevant corruption vulnerabilities should facilitate the selection of issues to be addressed and the adoption of a holistic and integrated approach to the analysis. In this regard, having an in-depth discussion of corruption networks and the political economy helps set the stage of the analysis and recommendations for each state function.

16.   Requests for governance diagnostics should be carefully sequenced with other CD activities. One way to foster synergy between traditional CD and governance diagnostics, is to use diagnostic reports as a strategic basis for CD engagement with member countries on key state functions.

MITIGATING CORRUPTION RISKS IN EMERGENCY SPENDING: LESSONS LEARNED FROM THE IMF'S EXPERIENCE DURING THE COVID-19 PANDEMIC[1]

This paper analyzes the IMF's approach to mitigating corruption risks related to emergency financing, building upon the experience during the COVID-19 pandemic.[2] The COVID-19 emergency response, like most other emergency financing, was to an exogenous shock. During such crises, corruption threats and vulnerabilities change either in nature or severity, calling for tailored mitigating measures.[3] The paper reflects on the IMF's approach to governance safeguards in emergency financing and identifies lessons learnt, including to prepare for future emergency financing.

This paper is divided into four sections. The first section discusses the specificity of corruption risks in the context of exogeneous shocks. The second section covers the IMF approach to governance safeguards in emergency financing. The third section focuses on preliminary lessons and good practices from the Fund's approach to governance safeguards during the COVID-19 pandemic. The fourth and final section discusses the way forward.

A.   Exogenous Shocks and Corruption Risks

1.   During emergencies, governments are urged to quickly respond to unexpected circumstances and corruption can undermine the effectiveness of the response. Governments are pressed to act quickly to respond to emergencies and increase public expenditures, which creates rent-seeking opportunities. Existing rules, such as procurement regulations and oversight processes, are often circumvented or suspended to speed-up the spending and delivery of good and services to save lives and livelihood. In some cases, obscurity of government procurement processes owing to the pressing needs also make it difficult to detect or uncover corrupt activities. The large sums of money required to deal with emergencies, the quick disbursement of aid or economic stimulus packages and the risks for fraudulent activities and undue influence over policy responses can increase corruption opportunities, while weakening the mechanisms in place to prevent it. Emergency procedures can overwhelm control agencies.

2.   Emergencies usually alter the corruption risk analysis equation, requiring a reassessment of corruption risks under the new context and adjusting strategies and resources to mitigate them. Risks analysis is generally based on the nature and severity of

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[1] Prepared by Ivana Rossi, Jonathan Pampolina and Luisa Malcherek (all LEG).

[2] This paper is a preliminary exercise analyzing the experience during the COVID-19 pandemic. It is important to note that it was drafted prior to the finalization of the Independent Evaluation Office report on "The IMF's Emergency Response to the COVID-19 Pandemic".

[3] For the purposes of this paper, the term "measures" is used indistinctively to refer to the authorities' commitments in the letter of intent and prior actions under emergency financing.

corruption threats and vulnerabilities found in a country. A risk-based approach allows the tailoring of governance and anti-corruption recommendations to member's specific circumstances. During emergencies, the threats change either in nature or severity. Different types of exogenous shocks may alter the corruption risk equation differently. For example, during the pandemic, the scarcity of products exponentially increased the threat of fraud in procurement for all countries. Vulnerabilities may also shift during an emergency, creating new ones or deepening existing ones. For instance, during the pandemic, regular procurement processes were lifted, leaving procurement systems more vulnerable to wrongdoing. Extra-budgetary Funds (EBF) also increased during the pandemic.[4] The changes in threats and vulnerabilities result in corruption risks that were not necessarily present or a priority before the emergency, but still merit immediate attention.

3.   **Existing corruption risks exacerbate and new opportunities for corruption appear during emergencies.** Emergency crisis and corruption create a vicious cycle, the weaker the existing infrastructure to prevent, investigate and sanction corruption, the more chances for a crisis to exacerbate corruption risks. During the COVID-19 pandemic, this was further aggravated by the need to shift to remote work, social distancing, and other measures that weakened the existing control capacity, in particular for those countries that did not have the appropriate technology to operate remotely. In this case, the emergency also magnified any governance weaknesses and vulnerabilities in the existing anticorruption infrastructure. Scarce supplies of medical equipment and vaccines and disruption of distribution chains also contributed to rent-seeking behaviors (e.g., purchases from illegitimate suppliers, selling of falsified vaccines, line-cutting by wealthy individuals, overpricing, expansion of black markets). The provision of direct support to persons and business, with lowered capacity for control, also provided new opportunities for fraud and misuse of state resources.

4.   **To ensure a good response to an emergency, it is important for governments to take appropriate transparency and accountability measures**. While an emergency generally requires quick government action in areas such as public health, economic activity or public safety, anti-corruption measures are not a competing priority and should not be relegated. Trust in the integrity of the processes to respond to the emergency is fundamental for the affected population, and to secure support from donors and international organizations. The misuse of resources undermines the effectiveness of a government's relief efforts, which in turn can reduce trust in public institutions, hinder post-emergency economic recovery and disproportionally impact vulnerable populations. . Transparency and accountability measures during an emergency contribute to an effective response and a sustainable recovery.

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[4] The proliferation of EBFs during the pandemic may have benefits and risks. While not covered in this paper, good practices and the Fund's general advice on how to set up, manage, control and audit EBF merit further analysis.

B. IMF's Approach to Governance Safeguards in Emergency Financing

5.   Emergency financing is not new to the Fund and is designed to provide rapid assistance for urgent balance of payments needs. Prior to the establishment of the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF)[5,] the Fund had predecessor instruments devoted to this end. The RCF and the RFI were established in 2009 and 2011 respectively, to establish flexible instruments for urgent balance of payment needs from almost any source and avoiding the compartmentalization of instruments. The RFI and RCF were the emergency financing instruments used during the COVID-19 pandemic.[6] Emergency financing supports a broad range of urgent balance of payments needs, including those arising from exogenous shocks (e.g., natural disasters), post-conflict and other fragile situations, or from other disruptive situations, such as the pandemic.[7] Since such emergency financing is either an outright purchase or disbursement, there are no ex-post conditionality or reviews, although prior actions are possible.[8]

6.   While the Fund had experience with emergency financing, the COVID-19 pandemic represented a combination of factors unlike previous emergencies. Emergencies, such as those produced by a climate phenomenon, can produce a domestically contained crisis, for example, related to the destruction of infrastructure or health and sanitary emergencies in the affected populations. The COVID-19 pandemic created challenges at the domestic level but also at the international level, since all countries were confronted with the same problem, and were seeking urgent solutions, often competing for scarce resources, such as vaccines or medical supplies. In addition, the pandemic deeply impacted economies, disrupted trade, and created an unprecedented international crisis.

7.   The COVID-19 pandemic represented an important change in the scale and scope of emergency. Prior to it, the Fund had disbursed emergency financing for 34 member countries' requests since 2010. These requests related predominantly to health emergencies, such as the Ebola emergencies in Guinea (2014 and 2015) and Liberia (2015), and natural disasters in the Caribbean, including Saint Lucia (2010), St. Vincent & the Grenadines (2011), and Haiti (2016). These were emergencies of country-specific and regional nature, and the Fund's emergency financing included relatively fewer governance measures, which were context-specific and not systematically coordinated. The COVID-19 pandemic triggered an unparalleled global public health and economic

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[5] https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/08/Rapid-Credit-Facility and https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/19/55/Rapid-Financing-Instrument

[6] The Fund has several instruments to support countries during crisis and emergencies. This paper focuses exclusively on the experience with governance safeguards in emergency financing, specifically, under the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF) during the COVID-19 pandemic. It is important to note that this paper does not discuss other issues related to emergency financing during the COVID-19 pandemic, such as member's access to financing.

[7] https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn11152

[8] A request for emergency financing requires a commitment to undergo a safeguards assessment and authorization for IMF staff to have access to the recent external audit reports and hold discussions with external auditors.

crisis leading to a significant increase in the volume of requests for emergency financing. Between March 2020 and December 2021, the IMF approved 90 requests for RCF/RFI financing to 78 members, for more than $110 billion.

8.   The 2018 Enhanced Governance Framework provided the foundation for IMF staff's approach to governance and anti-corruption safeguards during the COVID-19 emergency financing response. The 2018 Framework requires the Fund to assess the nature and severity of corruption and governance vulnerabilities on a systematic basis. Recognizing that the emergency changed and increased opportunities for corruption, the IMF called for enhanced transparency and accountability measures in its emergency financing during COVID-19. The IMF sought specific commitments on governance measures for members receiving emergency financing. These measures included commitments to publish COVID-19 spending reports and audit results, as well as crisis-related procurement contracts, including the companies awarded the contracts and their beneficial owners. This information is key to preventing conflicts of interest and tax evasion and allowing the public to track who benefits from public contracts. In addition, members receiving assistance committed to undertaking a Safeguards Assessment: a diagnostic review of a central bank's governance and control framework, as generally required for emergency financing.

9.   Since March 2020, governance measures were included in the commitments of the majority of members receiving IMF emergency assistance. Between March 2020 to the end of 2021, the Fund received 90 RCF/RFI requests from 78 member countries. 76% of these requests contain one or several governance commitments specific to the COVID-19 emergency response. The most frequent commitment is the targeted audit of emergency spending in 76% of requests, followed by a commitment to publish beneficial ownership information in 60% of all emergency financing requests. Four members have also fulfilled prior actions specifically related to ensuring beneficial ownership transparency in procurement.

10.   Focusing on a set of measures allowed for the agility required in emergency financing while addressing prominent risks arising from the COVID-19 pandemic. The Fund's advice in surveillance and conditionality in Fund financing are tailored to each member country's vulnerabilities, risks, and context. However, the COVID-19 pandemic altered the governance and corruption risks landscape and demanded fast responses. The set of measures tied to emergency financing (safeguards assessment, audits, procurement transparency, BO, etc.) were tailored to the risks arising from the specific emergency and allowed for an agile way to implement the 2018 Governance Framework when the usual risk analysis is altered. These commitments were designed to avoid slowing down the financing, while providing for accountability thereafter ("spend what you need, but keep the receipts" as was noted by the Managing Director).

11.   Having a set of measures targeting COVID-19 emergency-related specific corruption risks, allowed for some tailoring to the country context, as not all members committed to the same measures or in the same way. As the matrix of governance commitments in emergency

instruments[9] suggests, each member adopted commitments that were relevant to its country context and worded them accordingly. In addition, a similar commitment could take different forms in different members. For example, subject to the country's legal framework and capacity of domestic institutions, in some cases the authorities would commit to third-party audits of emergency spending (e.g., made by reputable and competent private auditing firms), while in others, the audits were performed by the Supreme Audit Institutions.

C.   Preliminary Lessons and Good Practices from the Fund's Approach to Governance Safeguards During the COVID-19 Pandemic

12.   Publicly tracking members' implementation of governance commitments in emergency financing and following up on these measures in Fund-supported programs strengthened accountability and commitment to reform. While emergency financing is a one-off exercise, the Fund's follow up on the implementation of governance safeguards signaled its long-term commitment to the implementation of these measures. The publication of implementation information recognizes members' efforts, helps identify on-going challenges to implementation and provides input for the way forward. Fund staff have tracked members' implementation of the commitments and published a country-by-country status in 2021[10] and 2022[11]. As of May 2022, commitments on publication of procurement contract information had been met in about two-thirds of the members. About two-thirds of members had also fully implemented their commitments to report pandemic-related spending. Approximately half of the commitments to audit pandemic-related spending and publish the results online had been implemented so far. About twenty percent of members had fully implemented their commitments to provide beneficial ownership transparency in procurement, but another fifty percent had taken important steps in this direction, such as drafting and/or adopting legal changes to allow this reform.

13.   Collaboration with other stakeholders reinforced the importance of governance safeguards and strengthened implementation. The fact that the G7, G20, other international organizations and civil society organization supported similar measures and messages, showed consensus around the corruption risks during the pandemic, and reinforced its implementation across members.[12] In addition, accountability is being supported by CSOs follow-up through social media and advocacy on the publication of audits of emergency spending committed in LOIs for many countries.

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[9] https://www.imf.org/en/Topics/imf-and-covid19/-/media/Files/Topics/COVID/tracker-pdf/governance-commitments-in-covid-19-rapid-instruments-as-of-10-18-2021.ashx

[10] https://imf.org/-/media/Files/Topics/governance-and-anti-corruption/implementation-status-of-governance-commitments-on-crisis-related-spending-may-2021.ashx

[11] https://www.imf.org/en/Topics/governance-and-anti-corruption/implementation-of-governance-measures-in-pandemic-related-spending-may-2022

[12] For further information on other stakeholders' initiatives, please see Annex II.

14.   Staff's timely technical assistance to support LOI commitments has been instrumental to their implementation. The Fund's targeted technical assistance provided important support to those members that lacked the capacity and/or faced challenges in the implementation of the governance safeguards. IMF capacity building following the emergency financing support was helpful in several instances where further clarification and implementation of the governance measures were called for (e.g., understanding the concept of beneficial owner and exploring modalities for collecting and publishing beneficial ownership information). For instance, 13 members (mostly fragile and conflict-affected states or small developing states) received targeted legal drafting technical assistance for the implementation of their commitments to implement transparency of beneficial ownership information of companies involved in public procurement. Another four members received assistance in the context of audits of COVID-19 spending by their SAIs. Three countries received assistance for the publication of procurement contracts and others attended on-line training on this topic. Webinars on COVID expenditure, transparency and/or PFM systems were provided for countries in Africa, Europe, Latin America, the Middle East, and Lusophone countries.

15.   In many cases, governance and anti-corruption commitments from emergency financing are followed up with conditionality and MEFP commitments in successor Fund-supported programs, when critical to achieve the goals of these programs (as required under the Guidelines on Conditionality). From June 2020 to September 2022, 30 new financing arrangements were approved; 22 out of them for members that had previously accessed emergency financing to cope with COVID-19-related urgent BOP needs. 18 of them include at least one measure (structural benchmark or prior action) and 7 include MEFP commitments related to the areas covered under the COVID-19 governance safeguards in emergency financing[13].

16.   Lessons from the implementation of the governance safeguards have been learnt beyond emergency financing. For instance, the implementation of the commitments highlighted the value-added of SAIs, (e.g., on the potential of SAIs while considering their skills, independence and relationships with anticorruption enforcement agencies), and on the shortcomings in procurement frameworks and the transparency of their operation.

17.   The Fund's governance approach in the emergency situation also influenced the broader anti-corruption agenda at the domestic and international levels. The Fund's approach influenced other responses, for instance, the G20 Anti-Corruption Ministerial Communiqué and attached G20 Call to Action on Corruption and COVID-19 issued in October 2020.[14] Together with other international organizations and donors, IMF staff engagement on governance safeguards in emergency spending was also leveraged to advance key anti-corruption reforms throughout the membership. For example, the call for beneficial ownership transparency in emergency procurement was extended by some members to cover all public procurement. The Financial Action Task Force,

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[13] The Pakistan 2019 EFF (which was ongoing at the time of the COVID pandemic) had measures on COVID-19 audits and beneficial ownership transparency in procurement incorporated in the reviews in March 2021 and February 2022.

[14] https://www.unodc.org/documents/corruption/G20-Anti-Corruption-Resources/Leaders-Communiques/2020_G20_Anti-Corruption_Ministers_Meeting_Ministerial_Communique.pdf

the international AML/CFT standard setter, revised its standards in February 2022 and now requires countries to ensure that public procurement authorities also have access to beneficial ownership information. Publication of beneficial ownership information also jumpstarted discussions and efforts on wider digitalization and public access for public procurement as well as strengthening of measures to collect and verify beneficial ownership information of companies registered in the jurisdiction. Targeted audits of COVID-19 emergency financing and spending uncovered broader deficiencies, which are being addressed through legislative reforms. These also underscored the need for greater resources, agility, and capacity building for some of the supreme audit institutions (especially given the challenges of conducting audits in virtual settings and under lockdown restrictions).

D.   The Way Forward

18.   Going forward, the 2018 Governance Framework should continue to guide the approach to corruption and governance risks in future emergencies. The IMF's experience with governance safeguards in emergency financing during the COVID-19 pandemic suggest that the existing Governance Framework is appropriate to address corruption and governance risks arising in future emergencies. The 2018 Governance Framework was implemented in the context of the existing emergency financing instruments, and the October 2020 staff guidance on governance safeguards in emergency financing consolidated efforts.

19.   The effectiveness of the Fund's response can be further strengthened by complementing the guidance to consider different corruption risks than the ones identified in relation to COVID-19 spending. In line with the COVID-19 experience, consideration of governance safeguards in future emergency financing should always respond to the specific risks arising from the emergency. Each emergency will require the identification of the specific corruption risks arising and the design of a set of measures to mitigate them. For example, in some instances, cash transfers, subsidies or loan guarantees may be primary means of addressing the crisis, and procurement may be less relevant. In the context of the Food Shock Window, staff continues to implement governance measures to mitigate risks from the authorities' policies to address the food shock and the severity of assessed corruption risks. For example, where authorities' policies aim at addressing urgent BOP needs from acute food insecurity or increases in food/fertilizer costs, the LOI may include tailored measures related to food crisis-related spending (e.g., just-in-time or performance audits of food subsidies program, transparency of procurement – incl. beneficial owners). Where authorities' policies aim at addressing urgent BOP needs from cereal export shortfalls, measures could contribute to structural anti-corruption reforms (e.g., could include, depending on a member's specific circumstances and needs, a commitment to undergo a governance diagnostic, publication of an audit report that is ready for publication or of a decree that is ready for signature).

20.   It is particularly important to further ensure tailoring of measures to members' circumstances. The design of a set of measures that provided a "menu" of potential safeguards that could be implemented in the COVID-19 context allowed for both agility and evenhandedness in the

response. The inconsistent implementation of the COVID-19 governance safeguards merits further analysis, to ensure any future measures not only respond to specific risks but are also designed appropriately and to ensure governance safeguards in emergency financing are approached in an evenhanded manner.

21.   **The availability of targeted and timely CD is critical to support implementation.** Many beneficiaries of RCF/RFI financing have limited capacity and the crisis context may not be conducive to mobilize the necessary resources to effectively implement governance safeguards. The support of donors is critical, and Fund CD would be particularly relevant in its areas of expertise.

22.   **Tracking the implementation of governance safeguards is helpful in a crisis environment.** The signal that follow-up is expected on these commitments creates incentives for implementation and supports authorities and civil society engagement on these issues.

23.   **Finally, it is important to help members to have their anti-corruption frameworks prepared for future exogenous shocks, including in the context of UCT-quality programs.** In addition to relevant policy advice in surveillance, where critical to achieve the goals of a Fund-supported program, conditionality should focus on structural governance and anti-corruption reforms to strengthen transparency and accountability frameworks and to ensure crisis preparedness and emergency plans. This appears particularly relevant with regard to climate crisis, as the likelihood of natural disasters is increasing.

Appendix I. Overview of Salient Stakeholders' Pandemic-Related Governance and Anti-Corruption Measures and Initiatives

A. Governments

1.   G7. In September 2021, the G7 Interior and Security Ministers issued a '[statement against corruption and kleptocracies](#)', in support of greater transparency in public procurement to reduce corruption. The G7 positively notes the Fund's approach to emergency financing during the pandemic, in particular the safeguard measures related to the publication of beneficial ownership information for awarded procurement contracts. The G7 also "encourage the IMF to […] support[t] the implementation of procurement reform commitments countries have made […], incorporate[e] similar requirements in regular, non-emergency IMF lending programmes; and engage with civil society to receive feedback on implementation of commitments."

2.   G20. In 2020, the G20 issued a '[G20 Call to Action on Corruption and COVID-19](#)' containing several commitments to promote transparency in the COVID-19 response. These include strengthening state audit mechanisms to monitor COVID-19 expenses and the allocation of public resources, promoting the development of corruption risk assessments, and including anti-corruption checks in public procurement processes to identify red flags of corruption in procurement. The statement also underlines the importance of the effective implementation of the Financial Action Task Force (FATF) standards related to transparency of beneficial ownership of legal persons and arrangements.

B. International Organizations

3.   The World Bank. The World Bank published a dedicated resource webpage on the '[Group's Response to the COVID-19 (coronavirus) Pandemic](#)'. The page includes an overview of all projects under the World Bank's dedicated COVID-19 Fast-Track Facility (support for COVID vaccine acquisition and/or deployment) and a vaccine deployment tracker. In a November 2020 [brief](#), the World Bank underlined the importance of ensuring integrity in its COVID-19 emergency financial assistance under up to $160 billion in financing planned for disbursement. This includes the online publication and post-review of all new contracts financed by the Bank, as well as publishing project procurement plans, contract notices and awards.

4.   United Nations Office on Drugs and Crime (UNODC). UNODC published a dedicated webpage on "[Corruption and COVID-19](#)", which includes references to the UNCAC legal framework, analyses of governmental COVID-19 emergency packages, and policy papers on the prevention of corruption in COVID fiscal responses and [vaccine distribution](#).

5. **Organisation for Economic Co-operation and Development (OECD)**. The OECD published a dedicated webpage on "Anti-Bribery Responses to COVID-19" to support "a coordinated policy response across countries". Reference materials include a policy brief with several policy measures to "ensure that the global response to the crisis is not undermined by corruption and bribery", including addressing risks in emergency procurement.

6. **Asian Development Bank (ADB).** As part of its COVID-19 response, the ADB issued a 2021 governance brief on 'Engaging Civil Society Organizations to Enhance the Effectiveness of COVID-19 Response Programs in Asia and the Pacific'. The brief outlines a framework with several programmatic areas for CSO engagement, including enhancing "inclusion, accountability, and control of corruption in public services delivery" and "integrity of public procurement and distribution".

7. **The Financial Action Task Force (FATF).** On March 4, 2022, the Financial Action Task Force (the international AML/CFT standard setter) adopted amendments to Recommendation 24, which require countries to prevent the misuse of legal persons for money laundering or terrorist financing and ensure that there is adequate, accurate and up-to-date information on the beneficial ownership and control of legal persons. One of the additional requirements in the revisions is for countries to ensure that public authorities have access to beneficial ownership information of legal persons in the course of public procurement.

C. Civil Society Organizations

8. **Transparency International (TI).** In 2020, TI set up an IMF COVID-19 Anti-Corruption Tracker. In a spreadsheet and an interactive country map, TI started to analyze which disbursements to countries that were receiving COVID-19 financial assistance and debt relief from the IMF contained specific anti-corruption measures. In April 2020, TI together with Human Rights Watch and Global Witness, submitted an open letter to the Managing Director regarding the "urgent need for anti-corruption measures in IMF response to COVID-19 crisis", expressing concern about the lack of governance and anti-corruption safeguards in early emergency financing disbursements. In addition, TI also launched a blog series 'Tracking the Trillions' on the IMF's anti-corruption work and the role of CSOs in preventing misuse of funds. TI issued several recommendations, such as including governance and anti-corruption safeguards in all emergency financing instruments and into the Fund's 2011 policy on liquidity and emergency assistance for all countries.

9. **Human Rights Watch (HRW).** HRW and TI published a joint analysis of the effectiveness of the IMF's approach to anti-corruption measures in emergency funding. They assessed how the governments of Cameroon, Ecuador, Egypt and Nigeria acted upon the governance safeguards included in their emergency financing between January and March 2021, drawing on published governmental documents and Letters of Intent. The published results concluded that "despite overall progress in its anti-corruption efforts, the IMF has not ensured sufficient oversight of its COVID-19 emergency loans."

10. In May 2020, a **consortium of 99 civil society organizations**, including Human Rights Watch, Global Witness and Oxfam, published an open letter to the Managing Director on "anti-corruption and the role of civil society in monitoring IMF emergency funding", urging the Fund "to consistently and formally include anti-corruption measures in its COVID-19 pandemic-related emergency funding and take concrete steps to help protect and empower civil society groups to monitor these funds."

11. **Open Contracting Partnership and Open Ownership.** In 2021, Open Contracting Partnership and Open Ownership contracted consultancy firm Oxford Insights to conduct research on how countries that received IMF COVID-19 emergency financing implemented their commitments related to beneficial ownership transparency in public procurement. The published report in April 2021 includes recommendations such as the need for stronger and more specific wording of countries' commitments beyond emergency financing and the importance of sustained advocacy by civil society groups.

Open Contracting Partnership also published a 2020 "Guide to collect, publish & visualize COVID-19 procurement data", including best-practice country examples from Ecuador, Moldova, Paraguay and Ukraine.

12. **The Organized Crime and Corruption Reporting Project (OCCRP).** The Organized Crime and Corruption Reporting Project launched a dedicated page "Crime, Corruption and Coronavirus" to expose how organized criminal groups and corrupt government officials exploit the pandemic for illicit purposes. Coverage includes country-specific stories on irregular COVID-related procurement contracts or fraudulent provision of substandard goods. With regards to IMF emergency financing, OCCRP published responses from TI and Human Rights Watch, including calls to make disbursements to certain member countries contingent on anti-corruption commitments.

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ENGAGING WITH SUPREME AUDIT AGENCIES TO SUPPORT GOVERNANCE AND ANTI-CORRUPTION EFFORTS[1]

The Fund has long recognized the importance of Supreme Audit Institutions ("SAIs") given the traditional role of these institutions in providing an external review and judgement on the legality and probity of the Government's financial statements. While the primary role of SAIs remains to attest to the regularity and integrity of government financial accounts, in recent years SAIs have evolved and diversified their work to reflect increasing comprehensive risk analysis, in ways that have grown to focus and highlight issues relating to corruption and maladministration. The Fund has recognized the changing function of auditing and began to reshape its interactions with these institutions during the COVID emergency. This new attention to SAIs as a dimension of public accountability complements the existing work of the Fiscal Affairs Department in support of fiscal transparency (FTEs), control public investment management (PIMA/C-PIMA) and safeguards for public financial management (FSRs). The experience with SAIs around public audits of emergency spending demonstrated the value of such exercises in public accountability and in holding individuals and institutions to account for their actions. Going forward, it will be important for Fund staff to deepen the engagement with these often constitutionally established institutions as a critical tool in identifying corruption vulnerabilities, underlying governance weaknesses, and potential instances of fraud or corruption.

This paper first reviews the changes that have been taken place in auditing and Supreme Audit Institutions, before providing an overview of experience in the Fund's engagement with SAIs. The final section concludes by elaborating 3 core principles to guide work going forward.

A.   Supreme Audit Institutions' Increasing Role in Anti-Corruption

1.   Historically, SAIs are the auditors of public finances with a limited role in detecting corruption.[2] The core role of the SAIs to the present day continues to be to audit public finances. Over the years however, this role has expanded as SAIs aimed to address emerging new issues in public finance as well as meet changing social expectations. Notably, corruption became a more prominent issue in public finance, and public expectations in countries increasingly called for auditors to play a more active role in combating it. Consequently, and while the overall focus

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[1] Prepared by Sebastiaan Pompe and Alice French (both LEG)..

[2] "Supreme Audit Institutions (SAIs) are public bodies responsible for the audit of government revenue and expenditure. By scrutinizing public financial management and reporting they provide assurance that resources are used as prescribed. Most SAIs derive their mandate from the constitution and/or legislation. SAIs undertake financial audits of organizations' accounting procedures and financial statements, and compliance audits reviewing the legality of transactions made by the audited body. They also conduct performance audits to scrutinize the efficiency, effectiveness or economy of government's undertakings.", IDI SAI Independence Resource Centre, at https://sirc.idi.no/about/what-are-sais.

remains on prevention and deterrence in public finance, there has been an emerging international trend among SAIs to engage more actively in identifying and following up on fraud and corruption, both to address realities on the ground and to bridge the expectation gap.[3]

2. **SAIs are increasingly focusing on sectors of particular risk and vulnerability.** Risk-based auditing has resulted in SAIs becoming more focused on addressing fraud and corruption vulnerabilities, and the underlying statutory weaknesses and institutional vulnerabilities. SAIs have a broad pallet of different audit instruments at their disposal, including audits which verify financial statements (financial audits), audits which verify institutional compliance to regulations (compliance audits) and the efficiency and effectiveness of government programs (performance audits – also called value for money audits). Compliance and notably performance audits are particularly effective in identifying corruption cases. Some SAIs also increasingly engage in forensic audits.[4]

3. **As part of this broader development, SAIs have sought to respond to emergencies with audits marked by a significantly shorter turnaround.** The role of SAIs is no longer just limited to annual budget audits ("ex post"). SAIs instead developed more short-term instruments to speedily respond to sudden and extraordinary budgets shifts resulting from externalities, such as a pandemic. These instruments serve as early warning systems aiming to identify and address the increased vulnerabilities generated by rapid budget adjustments – a typical objective of such audits is to ensure that receipts are kept from the onset. Also, these instruments reflect an awareness that waiting for the completion of the budget year often will be too late to address those vulnerabilities. One example is the so-called "real-time audits", which typically is a type of performance audit covering a quarter of the calendar year. They were conducted by a number of RCF/RFI recipient countries during the COVID Pandemic (e.g., Mongolia, Sierra Leone, South Africa). Also, some SAIs have the power to conduct "investigations", which are rapid reaction fact finding reports to "live events", as were in fact conducted on the COVID emergency finance.[5] Both instruments have been critical in identifying early system weaknesses with the objective of correction going forward, including notably to combat fraud and corruption.

4. **The risk-based approach and greater role of SAIs in supporting anti-corruption efforts has also impacted on the accountability framework**. Notably, the emerging international trend is that in settings where the SAI identifies instances of possible corruption, such cases can be directly transferred to the legal enforcement agencies. The SAI does not need to process such cases through the institutional reporting channel of Parliament. While the linkage between the SAI and

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[3] M. Aldcroft & S. Pompe, *The Role of Supreme Audit Institutions in Auditing the Domestic Budget Support of IMF Emergency Financing* (IDI 2021), p.11

[4] See e.g., J. Mazur, *A new type of audit? Investigations of the UK NAO* (2020).

[5] https://www.nao.org.uk/uploads/2020/09/Investigation-into-how-government-increased-the-number-of-ventilators.pdf

enforcement agencies historically was close in the Francophone and Lusitanian models, this has now become an increasing practice also in the Westminster model. [6]

5.   The role of SAIs on corruption is reflected in international norms and country practices. Internationally, the contribution of SAIs in addressing corruption is explicitly emphasized by international fora such as the Conference of States Parties to UNCAC,[7] the G20, whose Anti-Corruption Working Group has called for promoting the role of audit institutions and their collaboration with anti-corruption bodies,[8] and international Guidelines.[9] As regards country practices, cross country experience shows SAIs expanding their mandates to specifically address corruption (e.g., Norway, Zambia), adding explicit powers to refer suspicions of corruption to law enforcement agencies (e.g., Germany, Hungary), recruiting specialist staff such as forensic auditors to support investigations (e.g., Sweden, Uganda), and making use of sanctioning powers (e.g., disallowance of expenditure and surcharge of public officials through salary forfeiture) (e.g., Ghana, South Africa). SAIs sit at the heart of identifying risks across government functions becoming an essential part of the accountability and anticorruption ecosystem.

B.   Overview of Experience in the Fund's Engagement with SAIs

6.   The 1997 Guidance Note on Governance mentions audits, specifically in the context of addressing corruption concerns. This is not reiterated or further developed in the 2018 Policy Paper, and applies equally for SAIs, which remain unmentioned as well. It is however important to recognize SAIs, given the universal presence of SAIs in member countries, their emerging role in identifying governance weaknesses and their status as both part of the formal institutional structure while independent of government. Moreover, the function of SAIs in identifying and addressing corruption has changed significantly over the past twenty years. SAIs are a cornerstone of the public transparency and accountability process, where public financial management and anti-corruption institutionally intersect.

7.   Following the 1997 Policy, there has been steady and far-reaching Fund engagement on audits in UFR. Over the period from 2002 up to COVID (February 2020), the Fund programs included 773 conditionality measures on audits (including 532 Structural Benchmarks), covering 72 members in all regions, ranging from advanced economies to fragile states, and from G20 members to small island economies. These audit measures cover a highly disparate range of topics. These include such diverse matters as complicated budgetary issues and tracking ongoing processes (e.g. measures calling for audits in arrears, SOEs, tax processes, the distribution of vaccines or the

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[6] See e.g., M. Aldcroft & S. Pompe (2021), p.12, examples as diverse as France, Germany, Hungary, Montenegro, Uganda and Zambia.

[7] Resolution 8/13 – The Abu Dhabi declaration on enhancing collaboration between the SAI and anti-corruption bodies to more effectively prevent and fight corruption.

[8] https://anticor.hse.ru/en/main/news_page/g20_summit_summary_of_anticorruption_outcomes

[9] See notably INTOSAI ISSAI 5700 *Guideline for the Audit of Corruption Prevention*, reissued as INTOSAI GUID 5270 , which includes reporting hotlines, whistle-blower support and protection, and cooperating with other institutions in the fight against corruption.

allocation of subsidized business loans), specific fraud or corruption cases (e.g. audits on ghost workers, off-budget aircraft purchases) as well as a modest number of measures on audit institutional processes (e.g. strengthening the SAI, publication/distribution of audit reports or submission to Parliament of an audit report).

8.   **The IMF COVID emergency financing changed the IMF engagement with SAIs.** As a result of the emergency finance, the IMF engagement with SAIs has significantly increased. Fund engagement in the previous two decades was almost exclusively directed towards having an audit realized, and generally did not extend to whom should do it or the follow-up through the accountability framework. The COVID Emergency financing changed that: the commitments in the RCF/RFI Letters of Intent targeted the institution tasked to conduct that audit. That new engagement was the logical outcome of the subject matter of the audit: this being a broad-based budget stream (emergency finance), which SAIs are uniquely placed and able to realize. Letters of Intent (LOI) signed by 75 out of 92 member countries for emergency financing included commitments on audit, of which 63 called for audits by the SAI. Currently close to 60% of the SAI audit reports have been issued. This IMF engagement withSAIs is further bolstered by an externally-funded special CD program to supportSAIs in meeting their audit commitments. The IMF staff currently monitors progress in SAI audits in 63 countries.

9.   **SAIs have demonstrated their ability to deliver on commitments made in borrowing countries' Letters of Intent.** Close to 60% of the countries issued audits of emergency finance, with a number of countries issuing multiple audits (Kenya, Jamaica, Honduras). Several countries issued real time audits (Sierra Leone, Mongolia, South Africa). These audits are currently being analysed, with the interim conclusion being that these resulted in a significant structural enhancement of public accountability in many member countries. The audits reflect the risk-based approach of SAIs, and an acute sensitivity to budget seepages due to fraud and corruption. The RCF/RFI commitments also served as an empowering tool for SAIs in many member countries. SAIs in several countries applied advanced systems to enhance accountability, such as using modern information technology in accessing information, and active outreach to government and non-governmental groups. Importantly also, the RCF/RFI commitments gave SAIs an explicit mandate and called for the publication of the reports. The IMF interim assessment found that in more than 50% of the RCF/RFI recipient countries which published the audits of emergency finance, the SAI had not published an audit in the three prior years.

10.   **Many audit reports are of highquality, including from extremely fragile member countries.** Even as countries continue to struggle with capacity constraints as well as challenges on data access and institutional compliance generally, many audit reports are clear and forthright, including about fraud and corruption, and the regulatory and institutional vulnerabilities which caused these. Terms such as "Corruption", "Fraud" or outright "Theft", are recurring themes in the reports next to ubiquitous references to budget loss (e.g., Burkina Faso, Cameroon, Jamaica, Kenya, Pakistan, Sierra Leone, South Africa, South Sudan, Uganda). Publication of the reports was sometimes achieved notwithstanding challenges (Pakistan, Madagascar). While this points at challenges, it also suggests that the audits touched upon pertinent matters and that hence, the

RCF/RFI commitments on audits enhanced domestic accountability systems. In some countries however, the strong post-COVID push-back against audits and Supreme Audit Institutions reduced the effectiveness of the PFM and anti-corruption framework. The implementation of the commitments on the SAIs audits of IMF COVID emergency finance are very promising in terms of identifying individual instances of corruption and fraud, understanding broader PFM system weaknesses and setting out a roadmap for follow-up engagement. Staff will need to pay closer attention to situations where the capacity of the SAI is limited or where domestic law enforcement has been captured and SAI findings do not lead to holding individuals to account.

11.   Fund engagement with the audit function and audit institutions supports enabling SAI audit reports to have a broader impact, notably by strengthening PFM systems and creating legal disincentives to fraud and corruption. This engagement recognizes the emergency finance as a stress test to the PFM system, including in settings of pervasive corruption and institutional capture, where oversight mechanisms (such as internal audits) often are ineffective. In this approach, SAI audit reports can serve as useful diagnostic instruments on the main vulnerabilities and weaknesses of that PFM system. Staff are currently assessing the broader impact of reports along two dimensions. The first is the institutional accountability process in member countries. This notably covers how parliament and the government have responded to the statutory gaps and implementation deficiencies identified in the audit reports, and which constitute vulnerabilities to fraud and corruption. An example is that the Department of Labor of South Africa has tightened the system of emergency-related unemployment benefits, including by reviewing all recipients of unemployment benefits from the emergency finance, prioritizing those recipients identified as problematic by the SAI audit. The second is how individual cases of fraud and corruption identified in the audit reports are followed up upon through the legal accountability process (i.e., judicial enforcement).

12.   However, SAIs in many countries face challenges due to weaknesses in their legal mandate and constraints placed on their ability to fulfil their function. The SAI Global Stocktaking Report 2020 flags that only 52 percent of SAI worldwide report sufficient financial resources to fulfil their mandate to the expected extent and quality, with the SAIs from LICs being disproportionally affected. As regards independence, there is a backslide in the levels of SAI independence since the 2017 report on all key indicators, including appointment, termination and discretion to discharge the mandate (i.e., target audits). This is confirmed in the World Bank Supreme Audit Institutions Independence Index (2021), which inter alia finds that SAI independence fails to be expressly secured in a disproportionate large number of constitutional and legal frameworks. Similarly, budget independence equally remains subject to central government approval in most countries covered in the survey, while guaranteed tenure of the head of the SAI remains mostly unsecured.[10] Currently, 56 percent of the SAIs do not enjoy full and unrestricted access to the necessary documents and information, 40 percent experienced interference in the

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[10] World Bank, Supreme Audit Institutions Independence Index 2021 Global Synthesis Report (2021).

execution of their budgets – these are worldwide figures with the figures for LICs and EMs being generally worse that AEs.

13.   The impact of the IMF's governance and anticorruption work going forward will be substantially driven by the Fund ability to support complementary engagements that confront corruption and address risks across the state functions. SAIs are a cornerstone of the public transparency and accountability process, where public financial management and anti-corruption institutionally intersect. Reflecting on the new role of SAIs as both audit and anti-corruption agencies, engaging with these institutions serves to enhance both the PFM framework and the anti-corruption ecosystem.

14.   This role has particular pertinence in long-term reform policies and programs, such as on climate change. Long term reform policies and programs present challenges on securing compliance against distant objectives (which call for institutionalized tracking and monitoring mechanisms) and in ensuring value-for-money engagement towards such objectives (which call for the analysis to extend to performance). INTOSAI has developed a toolkit on how to address such challenges. In several countries[11] SAIs are already conducting long-term climate change performance audits.[12] Finally, the international SAI Working Group on climate change did specific work on corruption in such long-term programs, and its 2022 workplan carries an explicit reference to combatting corruption.[13]

15.   Additionally, SAIs exist in all member countries and universally are part of the formal transparency and accountability system, which is often constitutionally enshrined. These are not institutions or accountability processes which need to be set up anew (e.g., such as would often be the case for an anti-corruption agency). The engagement with SAIs generally is a matter of holding member countries to their own laws or international commitments. What this means is that audit reports are embedded in a statutory follow up process, most often by Parliament and the enforcement agencies.

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[11] See the INTOSAI Working Group on Environmental Auditing (WGEA) https://wgea.org/about/background/ The WGEA issued an early paper on the role of SAI in addressing corruption in environment/climate change (WGEA (2013) *Addressing Fraud and Corruption Issues when Auditing Environmental and Natural Resource Management: Guidance for Supreme Audit Institutions*), which it proposes to update currently (see the Workplan 2022 in the above URL reference). https://www.wgea.org/media/2945/2013_wgea_fraudcorruption_view.pdf

[12] As examples, the UK National Audit Office have a specialist fraud centre including on environment and climate change. The SAI Canada in its 2023-2025 workplan focuses on interlinkages between climate and biodiversity, which will include coverage of fraud and corruption. The European Court of Auditors (ECA) issued a range of audits on environmental programs, for example on the Green Deal Program (which included audits of Environmental Accounts and Greenhouse Gas Emissions) or the EU Zero Pollution ambition (which included audits on air pollution and pesticides, as well as an audit on making the polluter pay).

[13] See e.g. IEEP (2021), *Review of approaches to tracking climate expenditure* (https://ieep.eu/publications/review-of-approaches-to-tracking-climate-expenditure); INTOSAI/WGEA, *Auditing Climate Finance: Research and Audit Criteria for Supreme Audit Institutions (wgea.org)* (https://wgea.org/media/oqvpaaya/wgea-wp3_climatefinance_2022.pdf); Also World Bank, *Making sure the money for climate action in MENA is being spent efficiently (blog)* https://blogs.worldbank.org/arabvoices/making-sure-money-climate-action-mena-being-spent-efficiently.

16.   Overall, implementation of the 2018 Framework would benefit from more systematic engagement with SAIs. Going forward, staff can be encouraged to utilize SAI reports in monitoring the state of governance and accountability, and pay enhanced attention to ensuring that SAIs have the legal and operational competency to carry out their function. This aligns with the 1997 Guidance Note on Governance (the explicit linkages between audits as instruments to address corruption) and with long standing Fund engagement on audits and audit institutions. It also aligns with the new Fund engagement with SAIs in the COVID emergency finance. Importantly also, the evolution of the Fund's approach on SAIs reflects the reality that the position of SAIs has changed, and that it has become embedded within the anti-corruption institutional ecosystem, according to international standards and country best practices.

C.   Going Forward–Elements of Sustained Engagement with SAIs in the Context of the Governance and Anti-Corruption Policy

17.   Leverage and support SAI reports in the context of IMF workstreams. Audit reports are a cross cutting instrument, which can identify regulatory, implementational and oversight issues and challenges across all six core state functions. Staff engagement with these reports might commence with a routine consultation of SAI and of SAI audit reports during surveillance, and a more active engagement with the SAI in UFR, particularly if critical to achieve program goals. This interaction could extend to advice on strengthened public accountability by ensuring follow up of audit reports, such as by submission to Parliament and by the legal enforcement agencies and financial intelligence units.[14] Finally, SAI and audits can be more closely integrated in IMF governance work and instruments, such as the CES (Fragile States) and Governance Diagnostics.

18.   Provide support to SAI's anti-corruption efforts. Staff can be encouraged to more proactively engage and supported SAIs as part of the public accountability framework, through all Fund mandates, but notably including CD. This would encompass supporting their independence, competency, authority as well as transparency (publication of audits). The publication of audit reports is an essential accountability mechanism, and an important contributing factor for audits to be followed by corrective action. Support for SAIs could extend to improve mechanisms for information sharing to audit agencies and greater sharing of audit findings and observations with accountability/anticorruption agencies, and greater attention to follow-up of audit recommendations. Fund efforts to support institutional development of SAIs will need to tailored be

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[14] As an example, the Tunisian Supreme Audit Institution for many years prior to the Arab Spring effected highly critical audits of public finance, but was not permitted to publish those, and could only issue bland excerpts. After the Arab Spring, all audits of the five years prior were posted on its website. These reports proved to be a major resource for the reforms which followed. When Tunisia subsequently established the Commission of the Fight against Corruption (CFC), this Commission heavily relied on these audits for its anti-corruption work. Also, some of the Tunisian Supreme Audit Institution auditors transferred to the CFC to support the work. Close tracking of these audit reports as part of surveillance would have given the Fund insight of the tensions in the political economy of that country prior to the Arab Spring.

local circumstances in order to is reflect that SAIs and law enforcement may be ineffective or even captured in some countries. Even in such cases, the IMF CD engagement can be directed at a continuous strengthening of this institution. This CD engagement should be closely coordinated and aligned with other international organizations active in this field, notably INTOSAI and the World Bank, taking into consideration different levels of capacity among SAIs.

19. **Tailor support to different environments.** Support to SAIs should be calibrated for the specific organizational and institutional competencies of the SAI and complementary institutions. Appreciating and reflecting this element of good practice is particularly important in FCS. The 2022 FCS Policy and the Guidance Note recognize that governance is a cross cutting priority in fragile states in which the imperative need for strengthening the legal and organizational basis for fighting corruption and enhancing transparency including through SAIs, which are specifically mentioned.

TRANSNATIONAL ASPECTS OF CORRUPTION[1]

This note briefs about the existing framework for combating transnational aspects of corruption under the Framework for Enhanced Engagement on Governance, takes stock of the coverage of in IMF Article IV Staff Reports since April 2018 and discusses lessons learnt, and proposes sustaining and deepening the coverage in Staff Reports going forward. As explained in the 2018 Framework, the Fund can only address corruption effectively if it also addresses the factors that facilitate corrupt practices - extensive bribery of public officials by private actors and enabling the concealment of the proceeds of corruption. Confronting transnational corruption has only grown in importance in the succeeding years, as its role as a driver of domestic corruption, and a destabilization factor at the local level and in the international financial architecture.

A. Background

1.   The 2018 Framework for Enhanced Fund Engagement ("the Framework") focuses on measures to prevent private actors from offering bribes or providing services that facilitate of the laundering of corruption proceeds. More specifically, irrespective of whether a member country is experiencing severe corruption, members have been encouraged under the 2018 Framework to volunteer to have their own legal and institutional frameworks assessed in the context of Article IV consultations[2] for purposes of determining whether these frameworks: (i) criminalize and prosecute the bribery of foreign public officials;[3] and (ii) have an effective anti-money laundering/combating the financing of terrorism (AML/CFT) system designed to prevent foreign officials from concealing the proceeds of corruption.[4]

2.   Given the transnational dimension of corruption, the voluntary assessments in the context of AIV consultations highlight the ongoing efforts made by member countries to prevent the supply and facilitation side of corruption. The exercise is being implemented in a manner that ensures consistency and avoids duplication of efforts with other relevant organizations (here the OECD, Working Group on Bribery (WGB), and Financial Action Task Force (FATF)). It also considers the effectiveness of implementation. The exercise— conducted in coordination with the OECD WGB and with input from the FATF reports—provides an excellent opportunity to highlight— through a discussion focused on macroeconomic issues—country's efforts to reduce the risks of

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[1] Prepared by Robin Sykes, Indulekha Thomas, Kristina Miggiani, Alexander Malden, Santiago Texidor with administrative support from Rafaela Calomeni (all LEG).

[2] Policies that do not meet the standard for mandatory coverage of either bilateral or multilateral surveillance under the Integrated Surveillance Decision may be covered on a voluntary basis. The IMF's policy advice on these issues is technical assistance under Article V, Sction 2(b), but can be included in the member's Article IV consultation report.

[3] For this aspect of the assessment, staff rely on the OECD Phase IV reports and the UNCAC Monitoring Reports and their evaluation of the country's efforts to prosecute transnational bribery.

[4] Countries have different options when the information in the reports is considered outdated. These include a distillation of the most recent report with no update, an update based on the Fund staff assessment (consistent with the Financial Sector Assessment Program (FSAP) policy related to AML/CFT) or delaying the inclusion to the Article IV which immediately follows the fourth-round assessment.

private sector actors bribing foreign public officials and facilitating the laundering of their corrupt proceeds, and to share experiences and best practices in these areas.

3.   The voluntary approach implemented under the 2018 Framework is consistent with the IMF's Integrated Surveillance Decision (ISD). In the context of surveillance, "a country that, although it does not experience systemic corruption itself, [...], could only be required to have these issues addressed in its AIV discussions unless: (i) it could be demonstrated that its failure to address these weaknesses would, in and of itself, undermine its own domestic or balance of payments stability; or (ii) these weaknesses give rise to systemic spillovers within the meaning of the ISD".[5] In the case of the transnational aspects of corruption, these criteria have not been met for any given member.

4.   Discussing the supply-side and facilitation of corruption are particularly relevant in the transnational context:

- **"Supply" side**, concerns the extent to which systemic corruption involves extensive bribery of public officials by private actors taking advantage of lax regulatory environments, and where mitigation requires identification of ways to reduce the incentives for private actors to engage in these acts. With respect to the "supply-side" issues and the criminalization and prosecution of bribery of foreign officials, staff rely on the OECD reports and their evaluation of the country's efforts to prosecute transnational bribery[6] or—when the Fund member is not signatory of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions—based on the United Nations Convention Against Corruption (UNCAC). In such cases, Fund staff would rely on selected provisions of the UNCAC to ensure that the country is preventing and enforcing against foreign bribery.

- "**Facilitation**" is the ability of public officials to engage in corrupt practices (whether in the form of bribery or misappropriation of public funds) is facilitated by certain weaknesses in the AML/CFT framework (e.g., the availability of non-transparent corporate vehicles and entities provided by lawyers, accountants, and company service providers) that enable the foreign public official to hide the proceeds of corrupt practices. In the case of "facilitation" or the assessment of elements of the AML framework to tackle proceeds of foreign corruption, staff rely on the FATF Mutual Evaluation reports and findings that relate to effectiveness of preventative measures applicable to the financial and non-financial sectors (including those relating to politically exposed persons and suspicious transaction reporting), transparency of legal persons and

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[5] See paragraph 51 of the 2018 Framework., and paragraphs 6 and 12 of the Integrated Surveillance Decision.

[6] Where the information contained in these reports is outdated, countries have different options, including summarizing the most report (for example the Phase 3 or Phase 4 report) with no updates, or an update based on information provided by the OECD Working Group on Bribery or a "factual update" of developments provided by national authorities (with an explicit disclaimer included in the staff report that it was not subject to an assessment by the OECD).

arrangements, enforcement against money laundering, and international co-operation and asset recovery.

B. Stocktaking the Coverage of Transnational Aspects of Corruption in Article IV Staff Reports

5.   **An assessment of the framework to prevent supply-side corruption and cross-border facilitation has been covered in the AIV consultations of advanced economies that volunteered for the assessment**. Table 1 below summarizes coverage since the adoption of the policy in 2018.

Table 1. Coverage of Supply-Side and Facilitation of Transnational Corruption in Staff Reports[1]					
Key	**Both Supply & Facilitation[2]**	**Facilitation only**	**Supply only**	**No Supply or Facilitation**	**Staff Report not available**
Country / **Volunteer since**	**2018**	**2019**	**2020**	**2021**	**2022**
Austria / 2018	N/A	No SR	No SR	Facilitation	None
Canada / 2018	N/A	Both	No SR	None	Facilitation
Czech Republic / 2018	N/A	Both	No SR	Both	Facilitation
France / 2018	N/A	Both	None	Facilitation	No SR
Germany / 2018	N/A	Supply	Facilitation	Supply	Facilitation
Italy / 2018	N/A	No SR	Facilitation	None	Both
Japan / 2018	Supply	Supply	No SR	No SR	Facilitation
Switzerland / 2019	N/A	Both	No SR	None	Both
United Kingdom / 2018	Supply	No SR	Facilitation	Facilitation	No SR
United States / 2018	N/A	Facilitation	Facilitation	Supply	Facilitation

[1] The Netherlands volunteered in 2022 and will have coverage of both issues in the 2023 Staff Reports. Norway and Saudi Arabia volunteered in 2022 for coverage in upcoming 2023 Staff Reports.

[2] Only Japan and U.K Article IVs were conducted after the governance policy approval in April 2018.

6.   **The discussion of these issues has been prioritized based on resources constraints and on availability of reports and in close consultation with the OECD and the FATF.** In the event that many members volunteered or had coverage in the same year, staff prioritized the coverage taking into consideration, *inter alia*, resources constraints, the availability of recent assessment reports by the OECD and the FATF, and the relevant significance of the jurisdiction in question with respect to these issues, including, *inter alia*, the magnitude of financial flows (relevant for bribery)

and the size of its financial sector (relevant for facilitation). In 2020, due to the streamlined AIV process, several AIVs did not include such coverage.

C.   Key Takeaways and Lessons Learned from the Coverage of Transnational Aspects of Corruption

Voluntary Nature of the Exercise

7.   **As a result of the voluntary nature of the exercise, staff had to continuously engage with Fund members to encourage them to volunteer.** Although nine countries volunteered during the adoption of the Framework in April 2018 (the Group of 7 (G-7), Austria, and the Czech Republic) followed by Switzerland in 2019, and three other countries in 2022 (Netherlands, Saudi Arabia, and Norway), staff sustained the engagement with many other countries through different channels (e.g., staff visits and AIV consultations, the Group of 20 (G-20) Anti-Corruption Working Group, and OECD WGB meetings) to continue to strongly encourage them to volunteer. The expansion of countries volunteering for this exercise is critical going forward given the significant issues identified in transnational aspects of corruption.

Key Vulnerabilities Related to Transnational Aspects of Corruption

8.   **The assessment highlighted the overall strengths of the systems but also identified shortcomings that should be addressed to enhance the fight against transnational aspects of corruption:**

- **In relation to facilitation, Staff Reports highlighted strengths in the legal frameworks and overall enforcement against ML**. However, many assessed countries need to deepen the understanding of transnational corruption risks and improve efforts to mitigate these risks including in relation to beneficial ownership and implementation of preventive measures related to foreign politically exposed persons. Moreover, efforts to trace, confiscate, and repatriate foreign proceeds of corruption are still not effective.

Box 1. Key Findings from Coverage of Facilitation Issues

The coverage of facilitation issues in AIV Staff Reports highlighted the need to deepen the understanding of transnational corruption risks and improve efforts to mitigate these risks.

The coverage in Staff Reports highlighted that a large majority of volunteer countries have serious weaknesses in the application of preventive measures by professional gatekeepers (lawyers, accountants, Trust and Company Service Providers, and real estate agents). Gaps highlighted in the AIVs include a lack of coverage of one or more non-financial sectors in the AML/CFT regime, weak compliance with measures related to foreign politically exposed persons, limited understanding of ML risks including those related to transnational financial flows, low compliance with AML/CFT obligations by the designated non-financial sectors, and weak sanctioning of non-compliance by these entities.[1]

Box 1. Key Findings from Coverage of Facilitation Issues (Concluded)

Furthermore, entity transparency was a key focus of coverage of facilitation issues in the volunteer countries and results showed serious shortcomings overall. There is significant risk for the misuse of companies and trusts to launder foreign proceeds of crimes including from corruption.[2] Notably, recent coverage has also highlighted positive reform efforts, as some countries advance in the establishment of beneficial ownership registries in line with the strengthening of international standards on entity transparency. This is a welcome trend, but continued efforts are required to improve the accuracy and accessibility of collected beneficial ownership information. Given the recent court decision of the European Union Court of Justice[3] limiting the access to public beneficial ownership information, this is an issue that must be consistently monitored, and efforts sustained to prevent the misuse of legal entities and arrangements, including through public access to beneficial ownership information.

Volunteer countries are generally stronger in the area of international cooperation.[4] However, as the coverage in AIV Staff Reports highlights, while international cooperation channels exist, recovery of transnational proceeds of corruption is still not effective among most volunteer countries.

Finally, the assessments have also highlighted specific weaknesses related to enforcement related to money laundering generated by corruption including limited resourcing for complex investigations and prosecutions, a lack of prioritization of ML investigation in foreign bribery cases, as well as the need to enhance suspicious reporting frameworks, among others.[5]

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[1] More broadly for preventive measures, the 13 volunteer countries all scored moderate effectiveness in their most recent FATF Mutual Evaluation Reports (MERs). This result is in line with the effectiveness for most countries assessed under the FATF Standard to date, with 97 percent of countries failing to score a high or substantial level of effectiveness.

[2] While 3 countries scored substantial effectiveness in FATF evaluations, 10 countries scored either moderate or low-level effectiveness for this Immediate Outcome.

[3] See the press release from the EU court of justice here.

[4] 85 percent of volunteered countries scored either highly or substantial effectiveness on FATF Immediate Outcome 2 under FATF reports.

[5] The criminalization of ML has seen more mixed effectiveness in FATF evaluations, with 45 percent of the volunteer countries scoring low or moderate effectiveness and 55 percent scoring substantial or highly effective in FATF reports.

- **In relation to supply-side issues, assessed countries have criminalized bribery and have systems in place to prevent their multinationals from paying bribes to foreign officials, but significant weaknesses remain.** Assessed countries also strengthened or created corporate liability laws and explicitly prohibit tax deductibility of bribes. While some have also introduced whistleblower protection laws, recent OECD Anti-Bribery reports indicate that this is still a weakness for many countries.[7] Many Staff reports also indicate overall weak preventive mechanisms to detect and prevent foreign bribery by multinationals and a continued decline in enforcement relating to foreign bribery, including countries that used to be more active in enforcement.

9.   **Overall, the assessments highlighted the need for sustained and in-depth analysis of transnational aspects of corruption**. The FATF and OECD reports continue to present a valuable source of information to drive the assessment process, particularly with respect to the robustness of

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[7] The 2021 Anti-Bribery Recommendation contains an extensive section on whistleblower protection (Section XXI–XXII).

preventive systems. Staff will continue relying on these reports while deepening the discussions on some identified vulnerabilities that are particularly important to highlight and take stock of progress (or lack of) going forward.

Box 2. Key Findings from Coverage of Supply Side Issues

Parties to the OECD Anti-Bribery Convention are in different phases of the monitoring process.[1] The monitoring of the implementation and enforcement of the OECD Anti-Bribery Convention by the WGB occurs in four successive phases. Phase 1 evaluates the adequacy of a country's legal framework to fight foreign bribery and implement the Convention. Phase 2 assesses whether a country is applying this legislation in practice. Phase 3 focuses on enforcement and cross-cutting issues, including unimplemented recommendations from Phase 2. Phase 4 take a more country-specific approach, focusing on three key cross-cutting issues—enforcement (member countries' enforcement authorities to bring enforcement actions pursuant to their respective foreign bribery laws), detection of foreign bribery and corporate liability. Unlike Phase 4, the first three phases do not provide tailored insight into a country's unique context and challenges. Therefore, any voluntary assessments that rely on reports from these phases will not be as tailored to a country's transnational bribery risks as OECD Phase 4 evaluations, which in addition to taking a more tailor-based approach also reflect a country's positive achievements.

Data issues hinder the full transnational picture. The WGB collects statistics on the enforcement efforts (e.g., convictions, sanctions or acquittals) of its member countries and has published enforcement data since 2010. However, the Phase 4 reports[2] reveal several hindrances to data collection such as data protection,[3] definitional issues (e.g., not differentiating between domestic and foreign bribery), and an insufficient publication of statistics on mutual legal assistance requests, which would otherwise be helpful in getting a better picture of transnational challenges and international cooperation.

Further, the OECD is focused on parties to the OECD Anti-Bribery Convention and could benefit from analyzing bribery as a transnational money flow. The introduction of demand-side recommendations in the 2021 Anti-Bribery Recommendation may allow the WGB to get a better picture of the transnational landscape.

Recommendations are not updated frequently enough to reflect emerging risks and trends in anti-bribery. For example, the 2009 Anti-Bribery Recommendation had not been updated for 12 years, until the recent 2021 Anti-Bribery Recommendation was adopted. Under the 2009 Recommendation, WGB member countries engaged in regular reporting on steps taken to implement the Anti-Bribery Convention, but these reports may not have focused on emerging trends, best practices, and challenges that were not included in the 2009 Recommendation.

With some of the above shortcomings in mind, in 2021 the OECD Council adopted the Recommendation of the Council for Further Combating Bribery of Foreign Public Officials in International Business Transactions ("2021 Anti-Bribery Recommendation"), which superseded the 2009 Recommendation of the Council for Further Combating Bribery. This Recommendation reflects good practices, trends and challenges that have emerged in foreign bribery since 2009. Future WGB reports will reflect this 2021 Anti-Bribery Recommendation, which would give the Fund an opportunity to look at new aspects of transnational corruption[4] such as:

- Non-trial resolutions for companies and individuals, Sanctions that are "transparent" in addition to "effective, proportionate, and dissuasive".

Box 2. Key Findings from Coverage of Supply Side Issues (Concluded)

- "Proactive" investigations and prosecutions, Demand side. Recommendations XII and XIII direct member countries to raise awareness of bribe solicitation risks, and
- Expanding the liability of legal persons, which includes state-owned enterprises.

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[1] For example, Canada has not yet undergone its Phase 4 evaluation yet. Countries that joined the Convention at a later date, however, may be at an earlier phase of monitoring.

[2] OECD Phase 4 evaluations began in 2016 and focus on three key cross-cutting issues—enforcement (whether enforcement actions are brought pursuant to the respective foreign bribery laws), detection, and corporate liability. They also address the implementation of outstanding recommendations from previous phases and changes to domestic legislation or the institutional framework. Phase 4 is tailored to each of the 44 Member States' unique situation and challenges, while also taking note of positive achievements.

[3] The 2021 Anti-Bribery Recommendation includes a section on data protection. Data protection sometimes impedes a country's ability to effectively implement and enforce the Anti-Bribery Convention.

[4] The 2021 Recommendation seeks to increase the effectiveness of activities relating to: (i) the criminalization and enforcement of the offense of bribery of foreign public officials; (ii) sanctions and confiscation; (iii) international cooperation; (iv) tax deductibility; (v) accounting requirements, external audit, and internal controls, ethics and compliance; (vi) public procurement and other public advantages; (vii) officially supported export credits; and (viii) cooperation with non-members. New sections include: the Demand Side of Foreign Bribery Cases; Non-Trial Resolutions; Protection of Reporting Persons; Incentives for Compliance; and Data Protection.

D. Way Forward

10.   Overall, the assessments of transnational aspects of corruption were valuable and identified the areas of strengths and vulnerabilities of assessed countries. Going forward, staff will focus on:

- **Expanding the coverage of countries outside of current set of volunteer countries.** The issue of transnational corruption extends well beyond current set of volunteer countries. Staff will continue engaging with other countries that could be at significant risk of transnational corruption, whether by virtue of the scope and nature of cross-border investments and flows or by way of a country's role as an international financial center. In these latter cases, these sectors can be used to facilitate transactions relating to the proceeds of corruption. Staff will develop a methodology to identify potential countries for targeted discussions on volunteering for this initiative, leveraging on international flows data, as well as a methodology that also takes into account trade and investment linkages between vulnerable countries.

- **Sustaining and deepening the discussions on identified vulnerabilities.** Staff will deepen the analysis of identified vulnerabilities as well as take into account, in all cases, recent developments that impact a member's fight against transnational corruption. The discussions will continue relying on FATF and OECD reports and will focus further on the risk and context of the country (e.g., extractive companies paying bribes abroad). Staff also proposes in all cases to ensure that the analysis covers measures to address deficiencies highlighted in previous staff reports. The analysis will also cover in a more systematic way the status of implementation of OECD WGB recommendations including progress towards the 2021 OECD Anti-Bribery Recommendation. In relation to facilitation, staff will continue focusing on beneficial ownership

issues while deepening the discussions on enforcement, confiscation and international co-operation with an intensified focus on asset recovery efforts.

Annex I. Selected Cases of Coverage of Transnational Corruption in Article IV Consultations

A. Switzerland Staff Report[1], Page 17-18, May 25, 2022

Governance

1.   **The authorities place high priority on ensuring efficiency, transparency, and accountability in Covid-19 response.** In addition to providing information on support measures and auditing use, the government (Federal Office for Public Health, Federal Chancellery, SECO) and SNB have completed and are conducting crisis-management reviews. The Federal Audit Office and Parliament have completed and are conducting evaluations on how the pandemic was handled, including procurement (which should include publication of beneficial-ownership information).

2.   **Efforts to strengthen the AML/CFT framework continue.** After a 2020 FATF report, three packages were adopted in 2021 by parliament: (i) revision of the AML/CFT Act and other acts in March; (ii) other measures to strengthen the fight against terrorism and organized crime in July; and (iii) changes in the AML/CFT ordinance on crypto assets in August. Since a 2015 national assessment report, the authorities have published sectoral risk assessments for non-profits, legal persons, crypto assets, crowdfunding, cash-usage, corruption, fraud, and phishing. An update of the national report was issued last October. FINMA's AML/CFT supervision (on-site and off-site) should be reinforced, and further efforts are needed to strengthen the role of financial intermediaries, in line with a risk-based approach.

3.   **While Switzerland is an active enforcer of the OECD Anti-Bribery Convention, further efforts are needed.** A 2020 OECD Working Group report noted a high number of discontinued cases and a decrease in newly-investigated and ongoing cases in 2018–20. Progress has been made in other areas, including resources for the Money-Laundering Reporting Office (MROS), revision of the Law on Public Procurement, and efforts to raise awareness of bribery issues. The authorities should further strengthen the framework, including on maximum fines, whistleblower protection, conditions governing appeals, and extension of the AML law to lawyers, notaries, and fiduciaries providing non-financial services (see Annex X).

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[1] https://www.imf.org/en/Publications/CR/Issues/2022/06/15/Switzerland-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-519648

B. Germany Staff Report[2], Pages 26-27, June 30, 2022

Governance and Transparency

4.   FATF indicated in 2010 and 2014 that Germany's anti-money laundering and countering the financing of terrorism (AML/CFT) measures are generally sound, but implementation needs strengthening in some areas. Preventive measures relevant for helping prevent foreign officials from laundering the proceeds of corruption largely comply with the AML/CFT standards and are well implemented by most, especially larger, financial institutions but some smaller non-financial businesses find such implementation challenging. Information on beneficial ownership of companies and trusts is available (through a Transparency Register) for use by the private sector and by the authorities in investigations, and to provide to foreign partners but some gaps exist. Germany provides good assistance to other countries in foreign corruption cases and prosecutes and obtains convictions for ML related to corruption, as well as freezes and confiscates proceeds of foreign corruption. The authorities should continue to strengthen the AML/CFT system, by: (i) continuing to focus, in AML/CFT supervision, on enhancing compliance with customer due diligence requirements and reporting of suspicious transactions as well as using more remedial actions and sanctions to deal with non-compliance; (ii) strengthening AML/CFT supervision of sectors favored by foreign corrupt actors such as lawyers and trust and company service providers; (iii) continuing to improve the availability of beneficial ownership information in the Transparency Register; and (iv) putting more emphasis during criminal investigation on pursuing money laundering independently of the underlying crime.

5.   The government has taken measures to reduce fraud cases related to the COVID relief measures, which would also be useful for future firm subsidy programs, including envisaged energy subsidies. The implementation of COVID-related firm support programs and associated criminal proceedings are carried out by Länder governments. Through March 2022, Länder reported about 24,000 cases in which investigation proceedings were open, with the majority pertaining to the first Immediate Assistance Programme in 2020. To reduce misuse in the assistance programs, the government has refined the approval process and enhanced screening criteria within the process (e.g., applications for companies were required to be made by tax consultants, auditors, or lawyers in order to guarantee an additional assessment of admissibility). Furthermore, it also introduced an automated comparison of application data with the data of tax authorities.

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[2] https://www.imf.org/en/Publications/CR/Issues/2022/07/19/Germany-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-521018#:~:text=IMF%20Staff%20Country%20Reports&text=Summary%3A,supply%20disruptions%2C%20and%20weaker%20confidence.