IEO
Independent Evaluation Office
of the International Monetary Fund

BACKGROUND PAPER

BP/24-01/08

Applying the IMF's Mandate—Governance and Corruption

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Applying the IMF's Mandate—Governance and Corruption

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May 9, 2024

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ABBREVIATIONS

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
CD	Capacity Development
CSO	Civil Society Organization
EC	European Commission
FSAP	Financial Sector Assessment Program
FSSR	Financial Sector Stability Review
G7	Group of Seven
G20	Group of Twenty
IFI	International Financial Institution
IMFC	International Monetary and Financial Committee (IMF)
ISD	Integrated Surveillance Decision
OECD	Organisation for Economic Co-operation and Development
ROSC	Report on the Observance of Standards and Codes
SOE	State-Owned Enterprise
TPI	Third-Party Indicator
UFR	Use of Fund Resources
UN	United Nations

EXECUTIVE SUMMARY

Since the early 1990s, the Fund has placed increasing emphasis on governance and corruption issues as elements of its work agenda to support sustained economic growth. As tackling corruption gained more prominence globally and staff research on the potential causes and consequences of corruption elicited interest, the Managing Director advocated for IMF engagement and the Interim Committee called for a role for the IMF in promoting good governance.

As consensus grew internally and externally on the importance of good governance for economic growth, a Guidance Note was adopted in 1997, which sought to promote greater Fund attention to governance issues. The Guidance Note also laid out aspects of governance relevant for the application of the IMF's mandate, which established that the Fund's involvement should be limited to economic aspects of governance. This focus was reiterated in the first review of the Guidance Note in 2001.

The Fund's engagement on governance and corruption continued to evolve, as the Executive Board adopted in 2018 the Framework for Enhanced Fund Engagement on Governance, and reviewed its implementation in 2023, with continued calls to adhere to the boundaries of the Fund's Mandate. The framework aimed to promote a more systematic, candid, and evenhanded engagement on governance issues, including on corruption. In the 2023 Review, Directors supported strengthening the framework's implementation while continuing to be guided by macrocriticality and mindful of operational constraints. This evolution was in response to member countries' demands, but the Board continued to emphasize the need to remain within the Fund's expertise and rely on other organizations when necessary.

The Fund operationalization of the governance and corruption work includes three main aspects that are relevant to assess how the application of the IMF's mandate evolved: Collaboration with External Partners and Use of Third-Party Indicators, Macrocriticality, and Evenhandedness. The Fund strengthened its tools to carry out corruption and governance work by relying on external partners in a number of areas, particularly the World Bank. While the need for collaboration with other organizations with necessary data and expertise was articulated in guidance to staff, challenges persist given the lack of consensus on the timing of collaboration and the need to fill data gaps. The use of Third-Party Indicators (TPIs) has been an ongoing issue, with low usage and lack of integration into staff analyses, but Directors have expressed concerns on their opacity, quality, reliability, and transparency. To address this, the IMF has developed a three-pronged approach, but there are differing views on its scope and engagement.

Macrocriticality was asserted throughout the evaluation period as the standard to be followed in the context of the Fund's work on governance and corruption. The Executive Board agreed that Fund involvement should be guided by an assessment of whether poor governance would have significant current or potential impact on macroeconomic performance in the short and medium term and on the ability of the government to credibly pursue policies aimed at external viability and sustainable growth with continued emphasis that staff should be guided by macrocriticality in carrying out this work.

The issue of evenhandedness has been raised in the IMF's approach to governance and corruption. Given the variations in the Fund's engagement concerning governance and corruption issues, Directors consistently advocated for the creation of approaches that would foster more systematic and evenhanded engagement, in order to uphold the principle of uniformity of treatment. Concerns about evenhandedness were so significant that a centralized, institutional process was established in 2018. This process aimed to ensure that countries with similar governance vulnerabilities received similar treatment. Furthermore, there was a notable shift in the language used in staff reports during the first half of the evaluation period. Initially, indirect language was predominantly used when discussing corruption. However, following the adoption of the 2018 Framework there was a transition towards more direct language.

The paper finds that the human resources, budgetary and risk implications were not clearly spelled out and considered as part of the decision to expand the IMF’s work agenda in governance and corruption. Furthermore, these elements were not presented strategically within the overall prioritization of human resources, budgetary needs, and risk profile, which ideally should have been present at the time of decision and review. Actual enterprise risks to the Fund could also potentially stem from divergent views on the interpretation and application of the application of the Fund’s mandate.

When considering and implementing an expansion of the application of the Fund’s mandate, a coordinated strategic approach is necessary. Such an approach would include ensuring that the type of human resources support that will be necessary, the additional costs as well as where the additional funds will come from, and the impact the decision will have on enterprise risk of the Fund are all considered holistically along with the IMF’s overall related strategic frameworks.

I. Introduction

1. **The background paper analyses the evolution of the application of the IMF's mandate to provide policy advice on governance and corruption to member countries**. This paper supports the IEO evaluation on the evolving application of the IMF's mandate. The assessment focuses on the evaluation period of 2012–23, but it traces back to the Fund's engagement on these matters during the 1990s, which is necessary to understand the current framework. The paper seeks to shed light on how the IMF's engagement in the area of governance and corruption came to be, how it evolved, and how the context within which it operated during the evaluation period affected the application of the IMF's mandate.

2. **Structure of the paper.** Following this introduction, Section II examines the evolution of the IMF policy framework and assesses differing views on the boundaries in applying the IMF's mandate relative to governance and corruption. Section III examines IMF operationalization and decision-making of the IMF's engagement in the area of governance and corruption, and Section IV examines IMF human resources, budgeting, and risk issues related considerations. Each section contains an assessment of the different elements and Section V provides summary conclusions. Annex I contains a timeline of the IMF's engagement in governance and corruption from 1996 to 2023. Annex II sets out the timeline of the evolution of the IMF's governance and corruption framework. Annex III provides a narrative on the origins of the IMF's engagement in the area of governance and corruption prior to the evaluation period.

3. **The paper draws on several sources of information**. This paper draws on various sources of evidence, including machine-based text analysis of IMF documents; desk review of IMF stakeholder documents and views, including from the IMF Executive Board, Group of 7 (G7), Group of 20 (G20), International Monetary and Financial Committee (IMFC); and interviews with IMF staff.

II. Evolution

4. **Governance and corruption issues in member countries and how they have been dealt with at the Fund has had a long history.** This section will discuss the evolution from before the evaluation period through end-2023. Before turning to the 2012 to 2023 period of focus for this case study, however, it is worth understanding the beginnings of how the IMF articulated these issues as of significant importance and how the IMF's initial thinking shaped its current approach.

5. **Tackling corruption became an increasing concern at the Fund and globally in the early 1990s.** At the time, there were a number of high-profile instances of member countries with significant corruption issues. This was also a period when countries were increasingly exposed to a globalized environment where sound macroeconomic policies, transparent and accountable public institutions, and protection of property and investors' rights became prerequisites for attracting foreign direct investment.

6. **In 1996, IMF staff produced a working paper which elicited further interest at the IMF and among the Interim Committee (Mauro, 1996).**[1] The paper discussed the possible causes and consequences of corruption. It also built on previous research to present results on the effects of corruption on growth and investment as well as new cross-country evidence on the link between corruption and the composition of government expenditure. Soon thereafter, the Managing Director (MD) advocated for IMF engagement and the IMF Interim Committee called for a role for the IMF in promoting good governance in member countries going forward. Mirroring the greater importance the IMF membership placed on the matter, the Interim Committee Partnership for Sustainable Global Growth Declaration identified "promoting good governance in all its aspects, including ensuring the rule of law, improving efficiency and accountability of the public sector and tackling corruption" as essential elements of a framework within which economies could prosper (IMF, 1996).

7. **In January 1997, the Executive Board began preliminary discussions on the role of the IMF on governance issues, while other international organizations also examined the issue.** The IMF discussion revealed a strong consensus among Directors on the importance of good governance for economic growth. Directors were also strongly supportive of the role the IMF had been playing in the area of governance in the prior recent years through its policy advice and technical assistance (IMF, 1997a). Later that month, the United Nations General Assembly passed a resolution articulating concerns posed by corruption and its economic impact and acknowledging that international cooperation was necessary. Member states were urged inter alia to consider these problems and to provide increased advisory services and technical assistance in the area of corruption.[2]

8. **In August 1997, the IMF Executive Board adopted a Guidance Note for staff entitled *Good Governance—The IMF's Role* (IMF, 1997b) and called for subsequent periodic review.** Prior to this, the IMF had long provided advice and technical assistance that aimed to help foster good governance in member states. This initial advice was focused on encouraging countries to correct macroeconomic imbalances, reduce inflation, and undertake key trade, exchange, and other market reforms needed to improve efficiency and support sustained economic growth.

9. **The 1997 Guidance Note sought to promote greater Fund attention to governance issues through a number of modalities.** These included more comprehensive treatment in Article IV consultations and IMF-supported programs, evenhanded treatment of governance issues in member countries, a more proactive approach in advocating for policies and the development of institutions and administrative systems that aimed to eliminate opportunities for

[1] The Interim Committee was the precursor to the International Monetary and Financial Committee. It was advisory in nature and without decision-making powers.

[2] The resolution was later reinforced by the 2003 UN Convention against Corruption, providing international and comprehensive standards on combatting corruption.

corruption, and enhanced IMF collaboration with other multilateral institutions when dealing with these issues.[3]

10. **It also laid out aspects of governance relevant for the application of the IMF's mandate.** It highlighted that the Fund's involvement in governance should be limited to economic aspects of governance, notably improving the management of economic resources as well as supporting the development and maintenance of a transparent and stable economic and regulatory environment conducive to efficient private sector activities.

11. **In 2001, the first periodic review found that the Guidance Note remained generally appropriate as the framework for the Fund's approach on governance and corruption (IMF, 2001).** Executive Directors welcomed the proactive role of the Fund in heightening attention to governance as a key factor influencing economic performance. They observed that the Fund's involvement in governance issues had evolved in line with the Guidance Note and that increased involvement had been facilitated by growing consensus in the international community about the importance of good governance. Directors reaffirmed that the Fund's involvement in governance was founded on its mandate to promote macroeconomic stability and sustained growth; and they stressed that the Fund's involvement should be limited in line with the Guidance Note to economic aspects of governance that could have a significant macroeconomic impact.

12. **The 2004 Biennial Review of Surveillance determined that the basic requirements of the Fund's policy on governance were being well met in the context of surveillance (IMF, 2004a).** It noted that the treatment of governance in surveillance was generally fulfilling the objective of identifying issues of actual and potential macroeconomic significance in areas within the IMF's mandate and expertise, when these existed. It also concluded that coverage of governance issues should remained selective, based on country-specific circumstances and the criterion of macroeconomic relevance, and focused on issues within the Fund's expertise. The review also noted that drawing on credible external information would support many of the Guidance Note's directives.

13. **Directors agreed staff should draw more systematically on Reports on Standards and Codes (ROSCs) and on material from other organizations**.[4] They also agreed that staff should explore ways to refine the coverage of governance issues in Article IV consultations, including through greater use of existing (external) governance indicators (IMF, 2004b). The review noted that

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[3] In December 1997, the Organization for Co-operation and Development (OECD) also signed a convention regarding combatting bribery of foreign officials in which it mentioned then-recent related actions by a number of international organizations including the IMF (see OECD, 1997).

[4] ROSCs are prepared and published at the request of a member country by the IMF and/or World Bank in 12 areas. Standards in the areas of data, fiscal transparency, and monetary and financial policy transparency have been developed by the Fund while others have been developed by other standard setting bodies including the World Bank, the Basel Committee on Banking Supervision, and the Financial Action Task Force. ROSCs covering financial sector standards are usually prepared in the context of the IMF-World Bank Financial Sector Assessment Program. For further discussion in the context of the application of the IMF's mandate, see Towe (2024).

drawing on credible external information would support many of the Guidance Note's directives (increased attention to governance; evenhandedness; proactiveness; a preventative approach; and enhanced collaboration with other multilateral institutions), while limiting further strains on staff resources. It was also expected that, as per the Guidance Note, Fund staff would continue to be expected to make their own independent assessment of governance issues in a given country.

14. **In 2016, IMF staff produced a Staff Discussion Note on Corruption: Costs and Mitigating Strategies (Gupta, Ogada, and others, 2016)**. This paper set the stage for further IMF engagement by defining corruption and its manifestations and outlining the social costs of corruption. The paper also discussed the IMF's experience with corruption and drew some lessons regarding mitigating strategies.

15. **In 2017, a staff paper prepared in response to a call from the IMFC found that progress had been made under the 1997 Guidance Note, albeit that there was significant scope to strengthen Fund engagement on corruption (IMF, 2017a).** It found that the coverage of corruption in Fund engagement had varied considerably across countries in both Fund surveillance and Fund-supported programs. It pointed to the need to establish a better method to assess the extent of corruption and its macroeconomic impact in member countries, develop more concrete and granular policy advice to help governments tackle corruption, provide more candid assessments of the scale and cost of corruption when it undermined macroeconomic performance, and ensure evenhanded treatment of corruption issues across member countries. The review also found that discussion of corruption issues often involved indirect language which may have clouded the clarity of reporting of staff's analysis and policy recommendations. The paper presented preliminary considerations for IMF future engagement on governance and corruption.

16. **In discussing the report, Executive Directors considered the extent to which the IMF should engage in the area of corruption in member countries and they called for a revision of the Guidance Note (IMF, 2017a)**. Most Executive Directors agreed that the Fund should continue to engage in addressing corruption where it was assessed to have a significant macroeconomic impact. However, some Directors believed that the Fund should limit its engagement to the areas where it had a clear competence and where it could have better traction in its dialogue with member countries. These Directors felt that the Fund may not have had the expertise and capacity to assess corruption generally and that reliance on external indicators that were not fully transparent risked weakening the credibility of Fund policy advice. They also agreed that the Guidance Note should be revisited in selected areas, with a view to providing more specific Board-endorsed guidance on how the Fund should handle corruption issues in country engagement to ensure an evenhanded and consistent approach.

17. **In April 2018, the Executive Board adopted the Framework for Enhanced Fund Engagement on Governance, including increased attention to corruption (IMF, 2018)**. Directors agreed that the 1997 Guidance Note remained an appropriate basis for the Fund's work in the area of governance and corruption. They also took note, however, that where corruption

had been systemic, the failure of the Fund to address these issues in surveillance and in IMF-supported programs gave rise to reputational risks and could also undermine the safeguarding of Fund resources. They therefore approved the Framework's call to promote a more systematic, candid, and evenhanded engagement on governance issues, including on corruption. Box 1 features select examples of the focus on corruption in the context of the periodic review from 2018 through the remainder of the evaluation period.

Box 1. Select Examples of the Focus on Corruption in Periodic Reviews, 2018–23

Review of 1997 Guidance Note on Governance – A Proposed Framework for Enhanced Fund Engagement (April 2018)	"Corruption would also be assessed based on the same principles, with a recognition that, given its particularly harmful impact on the economy, it is imperative that it be addressed specifically and forthrightly by the Fund when it is judged sufficiently severe to be macrocritical." "[I]rrespective of whether a member country is experiencing severe corruption, the Fund would urge the member to volunteer to have its own legal and institutional frameworks assessed in the context of bilateral surveillance for purposes of determining whether: (a) it criminalizes and prosecutes the bribery of foreign public officials; and (b) whether it has an effective AML/CFT [Anti-Money Laundering/Combating the Financing of Terrorism] system designed to prevent foreign officials from concealing the proceeds of corruption—both of which address the transnational facilitation of corruption." "Identifying and addressing vulnerabilities in market regulation is crucial to helping countries meet the dual objectives of business facilitation and avoidance of broad-based corruption as the way to achieve strong and sustainable economic growth." Box 3 focuses entirely on Corruption Indicators.
Progress in Implementing the Framework for Enhanced Fund Engagement on Governance (June 2020)	"[S]o far, 10 advanced economies have participated in the voluntary assessment of their efforts to stem transnational corruption by effectively criminalizing the bribery of foreign officials and preventing the concealment of the proceeds of corruption in their countries." "Securing additional volunteers for the assessment of transnational aspects of corruption will also be essential."
Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance (April 2023)	"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 … six state functions. This process would benefit from more regular updates to incorporate more qualitative information gathered by staff." "Effectiveness will also benefit from further integration with other Fund priorities and addressing substantive issues identified by this review. This includes … 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."

Sources: IMF (2018, 2020, 2023).

18. **The 2018 Framework covered an array of governance- and corruption-related policy issues (IMF, 2018).** It set out guidance on, among other things, how Fund staff should approach coverage in surveillance and IMF-supported arrangements. It noted the types of information on which the Fund should rely, approaches to collaboration with partners, and the approach to public disclosure of country rankings. It also provided flexibility in the timing of the inclusion of governance and corruption issues in Article IV consultations.

19. **The 2018 Framework also included a plan to adopt a centralized institutional process for the assessment of the severity and impact of governance and corruption vulnerabilities in member countries**. The intention of the process was to ensure uniformity of

treatment (meaning that similarly situated countries are to be treated similarly) in both surveillance and use of Fund resources (UFR). The proposal also called for a review of the Framework within three years of its adoption. The process, launched in 2018, provided a framework for engagement with all Fund members regarding governance and corruption vulnerabilities. Led by a cross-departmental Governance Working Group of senior IMF staff, it identified which, if any, of the six state functions warranted in-depth discussion on vulnerabilities with the authorities during Article IV consultations. In addition, capacity development (CD) efforts to support the assessment under the 2018 Framework included Governance Diagnostic Reports, comprising in-depth analyses which helped identify governance weaknesses and corruption vulnerabilities; and also provided country specific policy recommendations to address them.

20. **Due to the COVID-19 pandemic, the originally planned IMF review of the 2018 Framework was postponed to 2023.** In 2020, an interim review found that implementation of the framework was well underway and highlighted six challenges that had emerged. These included: (i) ensuring sustained engagement by the Fund; (ii) ensuring ownership and continued efforts by country authorities; (iii) supporting country teams; (iv) filling data gaps; (v) securing additional volunteers for assessment of transnational aspects of corruption; and (vi) tracking and supporting authorities' commitments under rapid financing instruments. In 2021 and 2022, staff provided updates to the Executive Board on the implementation of governance and corruption measures in COVID-19 Pandemic-related spending in member countries, where greater safeguards were demanded by the IMF in the context of emergency financing.

21. **In the context of the 2023 Review, staff committed to a number of actions to strengthen the implementation of the Fund's work on governance and anti-corruption.** As noted in the staff report (IMF, 2023), staff intended to more systematically track governance-related Article IV recommendations and their implementation status across the membership. Country teams were also encouraged to follow up on the implementation status of specific governance-related recommendations, which would be recorded in a central database. This tracking aimed to enable staff to better identify obstacles to implementation and plan future IMF policy advice and capacity development (CD) accordingly.

22. **At the April 2023 Board discussion of the Governance Review, Directors agreed on strengthening the implementation of the 2018 Framework (IMF, 2023), while mindful of operational constraints**.[5] Directors supported staff proposals to strengthen implementation while continuing to be guided by macrocriticality and core expertise of the Fund and mindful of competing demands and the tight budgetary environment.[6] They considered that the Framework

[5] An Informal Board discussion in February 2023 marked the first step in conducting the review of implementation of the 2018 Framework.

[6] For a more detailed assessment of this concept and its implications for the IMF's mandate, see Jannils and Wojnilower (2024).

had resulted in a more systematic, candid and effective approach, while room remained for improvement. Many Directors also considered that the 2018 Framework had made Fund engagement more evenhanded, while many other Directors expressed lingering concerns about evenhandedness. Directors called for further integration of governance and anti-corruption with other Fund priorities including fragile and conflict-affected states, climate change, and digitalization; they supported further developing targeted CD in response to increasing demand from authorities; and they generally supported deepening the work on rule of law and anti-corruption issues. Directors also called for implementing practical measures to enhance collaboration with international organizations and supported a final stocktaking of the implementation of governance safeguards during the COVID-19 emergency financing, noting uneven implementation of these commitments. Directors also called for an update on the implementation of the Framework within two to three years and a review within five years.

Assessment

23. **Since the early 1990s, the Fund has placed increasing emphasis on governance and corruption issues as elements of its work agenda to support sustained economic growth.** Traditionally, the IMF's focus was on encouraging countries to correct macroeconomic imbalances, reduce inflation and undertake key trade, exchange, and other market reforms needed to improve efficiency and support sustained economic growth. In supporting these objectives, the IMF also aimed since the early 1990s to promote good governance in all its aspects, including ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption, as essential elements of a framework within which economies could prosper.

24. **The release of the 1997 Guidance Note document was the culmination of a growing realization that governance and corruption issues had a significant impact on areas within the IMF's mandate.** In particular, these included economic performance in member countries, including growth, resilient economic and financial systems, and the effectiveness of private capital flows. Staff research papers demonstrated the impact that poor governance and corruption and could have on growth and investment. Statements made by the IMF Interim Committee, IMF Managing Director, President of the World Bank, and other international organizations including the United Nations (UN) in the Fall of 1996 led the charge.

25. **The focus on the boundaries of the application of the IMF's mandate in the area of governance began as soon as the first review in 2001.** In the 2001 Review, Directors stressed that the Fund's involvement should be limited, in line with the Guidance Note, to economic aspects of governance that could have a significant macroeconomic impact. The 2004 Biennial Review of the Fund's Surveillance again recognized the limits of the Fund's expertise and highlighted the need for greater use of external information from the World Bank and other organizations.

26. **By 2004, the IMF had begun to focus more on corruption, in particular anti-money laundering and combatting the financing of terrorism (AML/CFT), a shift which had been instigated by the membership.**[7] Staff began to assess the nature and severity of governance vulnerabilities on a more systematic basis, as well as provide guidance for the assessment of the economic impact of governance vulnerabilities and guidance for its policy recommendations to member countries, including when corruption was assessed as severe. As part of a more comprehensive approach, the IMF also introduced an assessment of governmental measures inter alia to prevent private actors from concealing the proceeds of corruption. Staff was also directed to be more candid in discussions with authorities, for example by using direct rather than indirect language, while also reflecting authorities' views in staff reports.

27. **A further evolution of the IMF's engagement in governance and corruption occurred after the adoption of the 2018 Framework, while Directors continued to call for adhering to boundaries.** To ensure operational consistency, this novel approach was implemented by a newly created Standing Staff Working Group on Governance comprised of representatives of all area departments and relevant functional departments. Greater emphasis was placed on filling data gaps, further developing CD, further enhancing collaboration with other international organizations and civil society, fine-tuning staff guidance on governance safeguards in emergency financing (largely due to vulnerabilities identified during COVID-19 pandemic financing) and introducing mechanisms to improve monitoring of country implementation of policy advice. As was the case prior to the evaluation period, this evolution was in response to demands from member countries. Nonetheless, Directors stressed the need for the Fund's engagement to remain within its expertise while relying on other organizations as needed. The next sub-section briefly discusses these other organizations.

III. OPERATIONALIZING THE WORK ON GOVERNANCE AND CORRUPTION

28. This section analyses three main aspects of the operationalization of the Fund's work on governance and corruption that are particularly relevant for questions addressed in the IEO evaluation on the evolving application of the IMF's mandate (IEO, 2024). These aspects include collaboration with other organizations, which here will also discuss the use of third-party indicators; macrocriticality as a criterion for IMF involvement; and evenhandedness, which here will also include the use of direct language.

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[7] The IMF began working on AML prior to 2000. The IMF expanded its AML efforts in 2000 and extended them to CFT in 2001. In 2004, the IMF Executive Board agreed to make AML/CFT assessments and capacity development a regular part of IMF work, including in Article IV staff reports through the Financial Sector Assessment Program. The IMF also cooperates with the Financial Action Task Force on assessments. The Fund's AML/CFT work is subject to a separate dedicated periodic policy review (i.e., institutional self-evaluation) beyond the Governance Framework reviews. For a companion case study on the financial sector and the evolving application of the IMF's mandate, see also Towe (2024).

A. Collaboration with Other Organizations

29. **Throughout the evolution of the IMF's governance and corruption agenda, the need for collaboration with other organizations with necessary data and expertise was articulated in guidance to staff and successively by the Executive Board.** From the start, the 1997 Guidance Note specified that the IMF should collaborate with other multilateral institutions and donors in addressing economic governance issues, while IMF staff should exercise independent judgment in formulating policy advice (IMF, 1997b). This section discusses the extent to which the IMF relied on other organizations when carrying out this work.

30. **The IMF strengthened its tools to carry out its governance and corruption work following issuance of the 1997 Guidance Note by collaborating with external partners in a number of areas.** Such tools included the development and promotion of standards and codes and of good practices through its ROSCs, as well as in the areas of transparency, accountability, public resource management, and safeguards for the UFR. These instruments (with the exception of safeguards) were developed in close collaboration with the World Bank.

31. **In particular, the World Band had relevant expertise on governance and corruption.** The World Bank Group works at the country, regional, and global levels to help build capable, transparent, and accountable institutions and design and implement anti-corruption programs that aim to rely on the latest discourse and innovations. The World Bank Group's work revolves around sustainability and changing outcomes by helping both state and non-state actors establish the competencies needed to implement policies and practices that improve results and strengthen public integrity. Furthermore, organizations such as the UN have articulated concerns regarding the seriousness of problems posed by corruption including, links between corruption and other forms of crime. These organizations realize that corruption crosses national borders and affects societies and economies and they have called for international cooperation.

32. **The 2004 Biennial Review of the Fund's Surveillance stated that staff appeared to have drawn relatively little on World Bank expertise beyond the program (i.e., lending) context (IMF, 2004a)**. According to the Review, explicit references to use of World Bank expertise or information in stand-alone Article IV surveillance reports were rare. Combined Article IV surveillance and use of fund resources (i.e., lending arrangement) reports however, noted that the Fund was coordinating well with the World Bank in a program context on governance issues where the Bank was the lead agency, such as when related to civil service and public enterprise reforms.

33. **At the time, IMF staff apparently drew on other outside information only occasionally**. The 2004 Review noted that some Article IV staff reports included governance indicators compiled by other institutions or groups (e.g., Transparency International). Other organizations with whom IMF staff worked in this area included civil society organizations (CSOs), the UN, Organisation for Economic Co-operation and Development (OECD), and the Financial Stability Board (FSB).

34. **The June 2020 staff report Progress in Implementing the Framework for Enhanced Fund Engagement on Governance outlined some progress made with respect to collaboration with other international organizations and CSOs, even while some challenges remained (IMF, 2020)**. The report mentioned that CSOs served as valuable interlocutors at the country level, providing insight on the governance and anticorruption framework, and as a key partner supporting Fund policy recommendations. The report outlined steps taken by the Fund, such as periodic meetings with the World Bank and integration of World Bank analysis, reports, and advice. It also outlined collaboration taking place with other international organizations including, the UN, the OECD, and the FSB. Notwithstanding, at the Board discussion of the 2020 Progress report, several Directors called for close cooperation with other organizations, particularly in areas where the Fund does not have in-house expertise. Others encouraged engagement with CSOs, audit institutions, and the media.[8]

35. **During the 2023 Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance, Directors supported implementing practical measures to enhance interactions and collaboration with other international organizations and civil society (IMF, 2023).** The results of the survey of country teams undertaken for the Review suggested collaboration was generally positive (or neutral), but some staff pointed 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. The Review therefore recommended strengthening collaboration with international financial institutions (IFIs) and other international and regional stakeholders. In addition, the Review recommended expanding the breadth of organizations to minimize duplication of efforts and take advantage of synergies, particularly for the implementation of reforms. The Review also suggested increased engagement with CSOs.

36. **Starting in 2018 and continuing through 2023, progress and review reports also highlighted the essential need for the availability of up-to-date information and data from other organizations.** This was viewed as essential for many aspects of the Fund’s work, including providing member countries with high-quality policy analysis and recommendations the capacity for oversight and follow-up with authorities, and results outcomes. These reports identified the filling of data gaps as a key challenge and acknowledged that data coverage and staff knowledge of governance issues varied across countries. In the context of collaboration with other organizations, such as, through the FSAP, FSSR, or AML/CFT assessments IMF staff were equipped with more data and knowledge. Beyond this, not as much information was available to staff.

[8] The Fund has also collaborated with other standard setters, including the Basel Committee on Banking Supervision, International Organization of Securities Commissions, and the International Association of Insurance Supervisors, enabling more enhanced engagement with member countries regarding governance and corruption vulnerabilities.

Use of Third-Party Indicators

37. **The issue of whether to use Third-Party Indicators (TPIs) in the IMF's work on governance and corruption is longstanding.** It has been raised in many reviews as far back as the 1997 Good Governance—The IMF's Role Guidance Note.

38. **The July 2017 Review of the Guidance Note—Preliminary Considerations background found that the analytical use of TPIs during the decade prior was sporadic, limited, and highly variable across departments (IMF, 2017a).** According to the study, TPIs had been cited in only 20 percent of country staff reports between 2005 and 2016. Moreover, their use was not well integrated into staff analyses. Mission chiefs also noted that they relied on TPIs, despite the awareness that some indicators had shortcomings. In the background report, staff also noted that the measurement of only a single corruption indicator may not accurately reflect potentially important divergences in corruption activity that warrant distinct engagement approaches. Additionally, economic circumstances and governing institutions vary across countries, which suggested potentially different transmission channels and levels of macroeconomic impact. They therefore argued that consideration could be given to using a range of TPIs, since corruption can take many forms. The report also pointed out that staff could make greater use of the indicators not just to provide standalone snapshots but to integrate them into their analysis, including by tracking indicators across time and making peer comparisons.[9] During the Board discussion, most Directors underscored the importance of clear guidance on the transparent and judicious use of TPIs and noted that these indicators could serve as an input to staff's analysis and dialogue with relevant member countries. A number of Directors, however, cautioned against using such indicators without a full understanding of their source and underlying methodology.

39. **In November 2017, Directors expressed concerns regarding the opacity, quality, reliability, and transparency of several indicators (IMF, 2017b).** During a dedicated Board meeting on the use of TPIs, Directors recognized that staff's continued practice of drawing on other institutions' expertise and estimates was consistent with the Executive Board's guidance in areas where internal expertise is lacking or limited. However, they noted that the varied qualities of TPIs used at the time by staff presented challenges and risks to the Fund's credibility.

40. **Directors agreed on the need for a dedicated guidance note as part of a three-pronged approach to the use of TPIs (IMF, 2018a).** The first element, a principles-based guidance note would address issues relating to the transparency of the use of indicators (e.g.,

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[9] As part of the study, country authorities were invited to share their views regarding the Fund's anti-corruption efforts since the adoption of the 1997 Guidance Note. Approximately 40 member countries responded. Some members saw the then-existing use of TPIs as broadly appropriate, while a larger group of countries favored expanded use, informed by more regular staff discussions with the World Bank and other sources (such as Transparency International). Only a few country respondents appeared to support the Fund developing its own corruption indicators.

being explicit about their characteristics, methodological shortcomings, and measurement uncertainties); the value of robustness checks (such as using multiple indicators or comparing with other inputs); and the importance of presenting the views of the authorities and other stakeholders, to the extent that they had a different interpretation. The second element would be an "Indicators Digest" (a database for internal use only) that would compile selected indicators' characteristics to inform staff's judgment; and the third element was to include a review process to ensure best practice in Fund reports. The framework was intended to apply to all country documents, policy documents, and multi-country documents that were subject to the Fund's Transparency Policy. Directors also agreed it would be necessary to supplement the use of TPIs with staff judgment. To guide this judgment, further analytical work would be needed to identify structural characteristics of a country that were good predictors of the incidence of significant corruption (IMF, 2018b).

41. **At the time of the discussion of the 2018 Framework, Directors underscored the need to follow Fund policy on TPIs (IMF, 2018a).** They emphasized that, whenever data gaps exist, they should be specifically acknowledged. They also stressed that the use of TPIs should be consistent with the Fund's policy in this area and should only complement—and not displace—the analysis of Fund staff and that of other international organizations, including the World Bank and regional development banks. They noted that collaboration with these organizations, and the use of information provided by them, will be consistent with Fund policy (IMF, 2018).

42. **During the July 2020 Informal Board discussion of the staff report on Progress in Implementing the Framework for Enhanced Fund Engagement on Governance, some Directors called for a judicious use of TPIs in line with Board-approved policies.** They noted that the scope and boundaries of Fund engagement could be better defined to avoid leaving it open to partiality and abuse and stressed the importance of giving due attention to other aspects of corruption, including judicial, legislative and corporate corruption. Staff noted that internal processes were in place to ensure that the use of TPIs is consistent with the guidance note. Notably, the 2023 Review of Implementation of the 2018 Framework for Enhanced Fund Engagement in Governance did not review the Fund's experience with the use of TPIs nor did the Summing Up of the Board Meeting make any mention of Directors' views regarding their use.

Assessment

43. **Some progress was made with respect to collaboration with other international organizations and CSOs during the evaluation period, even while there was scope for improvement.** Collaboration took place with other international organizations including, the UN, the OECD, and the FSB. Steps taken by the Fund, included periodic meetings with the World Bank and integration of World Bank analysis, reports, and advice. CSOs served as valuable interlocutors at the country level, providing insight on the governance and anticorruption framework, and as a key partner supporting Fund policy recommendations.

44. **Even with the guidance notes provided through the years regarding collaboration, there was not the necessary consensus with respect to when to collaborate.** Statements in guidance notes such as "difficult choices may need to be made in situations where the multilateral organization with the relevant expertise may not be in a position to provide the needed advice and assistance," or "when the Bank is unable to provide the needed input, the Fund should do so in order to ensure that the country's program does not suffer" indicate an acknowledgement that collaboration may not always be viable. In addition, the consistent articulation of the merits of collaboration, coupled with the recommendations contained in multiple reviews that collaboration needs to be improved, also suggest that there was a different view among staff, management, and the Board, of the benefits of collaboration between the Fund and other organizations. These statements also suggest a lack of buy-in at times among staff.

45. **The requirement for IMF staff to rely on the data or expertise of other organizations in the area of governance and corruption was in place well before the evaluation period and was retained throughout.** The need for this was recognized early on and reiterated in subsequent guidance to staff. However, the filling of data gaps beyond that which were provided by Fund assessments continued to be a key challenge for the institution. Experience suggests that gathering and maintaining up-to-date information and data is a significant task for which necessary resources are often underestimated.

46. **The use of TPIs was fraught throughout the evaluation period**. In November 2017, Directors expressed concerns regarding the opacity, quality, reliability, and transparency of several indicators as well as regarding risks to the Fund's credibility. They recommended that a dedicated guidance note on the use of TPIs by staff be developed. At the time, they also agreed on the development of a database for internal use only that would compile selected indicators' characteristics to inform staff's judgment. Finally, they agreed on initiating a review process to ensure best practice in Fund report, which was intended to apply to all country documents, policy documents, and multi-country documents that were subject to the Fund's Transparency Policy. Directors also agreed it would be necessary to supplement the use of TPIs with staff judgment. At the time of the discussion of the 2018 Framework, Directors again underscored the need to follow Fund policy on TPIs. In the 2023 Review of the 2018 Framework, neither the staff report nor Directors reviewed the use of TPIs.

B. Macrocriticality as a Criteria for IMF Involvement

47. **The criteria used to determine the IMF's engagement with member countries across policy issues areas in the run-up to the evaluation period was initially known as macro-relevance**. The 1997 Guidance Note included the macro-relevance standard, noting that staff should be guided by an assessment of whether poor governance would have "significant current or potential impact on macroeconomic performance in the short and medium term, and on the ability of the government to credibly pursue policies aimed at external viability and sustainable growth" (IMF, 1997). Initially known as macro-relevance, this concept has become what during

the evaluation period was referred to by the IMF as "macrocriticality."[10] The 1997 Guidance Note also highlighted that IMF staff should continue raising these issues with the authorities in cases where there is a reason to believe they could have significant macroeconomic implications, even if these effects were not precisely measurable.

48. **The 2004 Biennial Review emphasized the macro-relevance standard in carrying out governance work (IMF, 2004a).** The review stated that coverage of governance issues should remain selective, based on country-specific circumstances, and meeting the criterion of macroeconomic relevance, as well as focused on issues within the Fund's expertise. The review noted that staff could be encouraged to take into consideration governance indicators published by other institutions (e.g., the World Bank, Transparency International) more systematically.

49. **In 2012, the IMF approved the ISD, which asserted that the Fund "will focus on those policies of members that can significantly influence present or prospective balance of payments and domestic stability" (IMF, 2012).** The time horizon for assessing macro-relevance had traditionally focused on the short to medium term (up to five years). However, the reference to "prospective" stability in the ISD enabled the Fund to expand the coverage of surveillance to include issues that were of a structural nature, to the extent they were deemed by staff to be macrocritical (the updated term then used for macro-relevance). Moreover, as is specified in the ISD, a member was to be considered by the Fund to be promoting balance of payments stability when it was promoting domestic stability. Accordingly, policies that posed a significant longer-term threat were also considered to be relevant for surveillance.[11]

50. **In 2017, during discussions of the 1997 Guidance Note, Directors believed that the macrocriticality standard continued to provide the right criteria for Fund involvement.** The review noted that Fund involvement should be guided by an assessment of whether poor governance would have significant current or potential impact on macroeconomic performance in the short and medium term and on the ability of the government to credibly pursue policies aimed at external viability and sustainable growth or, in other words, by the macrocriticality standard. Directors agreed staff should be alert to the potential benefits of reforms that contribute to good governance and to the potential risks that poor governance could have on the economy.

51. **In discussing the proposed 2018 Framework, Directors articulated that the Fund should continue to engage with its members on governance and corruption issues based on the macrocriticality standard.** In the course of Informal Board Seminars in the run-up to the 2018 Review, a number of Executive Directors also noted that, while the macrocriticality standard should be the primary criterion for determining when the Fund engages in governance issues, consideration should also be given to the reputational risks that arise when the Fund does not address corruption issues in surveillance or UFR.

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[10] For a more detailed assessment of this concept and its implications for the application of the IMF's mandate, see Jannils and Wojnilower (2024).

[11] During the 2021 Comprehensive Surveillance Review, Directors formally agreed that the time horizon relative to some prospective policy issues may be of a longer-term nature (IMF, 2021).

52. **The 2023 Review reaffirmed the use of the macrocriticality standard in the context of the IMF's work on governance and corruption.** The staff report prepared for the Board meeting proposed that, going forward, staff should strengthen implementation in line with the objectives of the 2018 Framework, continuing to be guided by macrocriticality. It also called for being guided by deference to the core expertise of the Fund and being mindful of competing demands on an overstretched staff and limited resources. During the Board discussion, Directors considered the Fund's continued robust engagement on governance and corruption to be crucial whenever macrocriticality can be established. They therefore supported staff proposals to strengthen implementation in line with the objectives of the 2018 Framework, guided by macrocriticality 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 (IMF, 2023).

Assessment

53. **Throughout the evaluation period, IMF policy asserted that the macrocriticality standard was to be followed in the context of the Fund's work on governance and corruption.** Directors agreed that Fund involvement should be guided by an assessment of whether poor governance would have significant current or potential impact on macroeconomic performance in the short and medium term and on the ability of the government to credibly pursue policies aimed at external viability and sustainable growth, and they continued to stress that staff should be guided by macrocriticality in carrying out this work. However, as there is a degree of staff judgment involved in determining whether an issue is macrocritical (see Jannils and Wojnilower (2024), there may have been a lack of common understanding of how to apply this standard in the context of governance and corruption issues, which is beyond the scope of this paper.

C. Evenhandedness[12]

54. **The uneven treatment between countries of governance and corruption issues raised questions of evenhandedness and uneven information across countries.** As the 2017 review of the Fund's Guidance Note on the role of the Fund in governance issues highlighted, it is reasonable to ask whether the Fund should have engaged earlier and more proactively in some countries. In this context, CSOs argued that the Fund had been reluctant to tackle corruption in certain politically-strategic emerging market member countries (IMF, 2017a). While earlier Fund engagement could possibly have helped to mitigate crisis risks, one challenge was to identify and

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[12] Evenhandedness refers to the concept that similarly placed member countries should be treated similarly. There is however not enough clarity around this concept. It does not mean to suggest that all member countries should be treated the same in all circumstances or what is meant by similar circumstances. As stated in the 2017 Preliminary Considerations Review, the principle of uniformity of treatment does not mean that all members must be treated equally, but rather that any decision by the Fund to differentiate between members must be based on the application of criteria that are relevant to the objective of the exercise being conducted by the Fund. For a more detailed assessment of this concept and its implications for the application of the IMF's mandate, see Jannils and Wojnilower (2024).

assess the latent macroeconomic risks from corruption to justify a higher level of Fund engagement. While differing country contexts and the corresponding prioritization of the Fund's work likely explain a significant part of the variation in the Fund's engagement, significant differences between generally continuous engagement or deep dives in some countries, and more limited engagement with others. This raised questions of evenhandedness and resulted in uneven information availability across countries.

55. **To ensure adherence to the principle of uniformity of treatment, Directors consistently called for the development of approaches that would promote more systematic and evenhanded Fund engagement in terms of coverage of governance and corruption issues**. They also consistently called for robust methodologies for evaluating the link between corruption and macroeconomic outcomes. Successive reviews until the 2017 Preliminary Considerations Review stated that differences in the extent of coverage of governance issues across individual Article IV consultations could be largely explained by differences in country characteristics (e.g., whether the degree of coverage of governance issues was reasonably well correlated with a World Bank corruption indicator). The 2017 Preliminary Considerations Review also stated that the variation in treatment of corruption issues across countries with high levels of corruption was usually not clearly explained by reference to specific country circumstances. Likewise, country counterparts and CSOs saw scope for the Fund to improve on evenhandedness (IMF, 2017a).

56. **Furthermore, evenhandedness concerns were significant enough such that in the development of the 2018 Framework, a centralized, institutional process to ensure that similarly situated countries in terms of their governance vulnerabilities would be treated similarly was established.** Nevertheless, since the adoption of the 2018 Framework, the full membership was assessed only once under the interdepartmental process to identify corruption vulnerabilities and governance weaknesses linked to corruption. The 2023 Review indicated that this process would be used more regularly and updated to incorporate more qualitative information gathered by staff (as of the date of this paper, this has not been completed).

Use of Direct Language

57. **Discussion of corruption in IMF issues often involved indirect language which, while cushioning articulation in light of political sensitivities, may have clouded the clarity of issues and policy recommendations.** The 2017 Review of the Guidance Note (IMF, 2017a) highlighted that the language used in discussing corruption issues was often indirect and required some "interpretation" (see Box 2). A significant proportion of Article IV staff reports were judged to have discussed corruption-related themes without explicitly using the term "corruption." Instead, indirect language was used. Also, while some of the Fund's engagement on efficiency, accountability, and transparency issues may have been motivated in part by corruption concerns, this was not always evident from Fund documents alone.

Box 2. Describing Corruption in Article IV Staff Reports (2017)—
The Use of Indirect Language

The review of staff reports yielded additional examples of coded language used to refer to corruption: difficult or uncertain investment climate; notable weaknesses in the business climate; weak governance; pervasive governance deficiencies/challenges; vested interests; red-tape, rent-seeking; uneven administrative decisions; uneven implementation of the law; partial and discriminatory enforcement of laws; implementation bottlenecks; "pressures" under the tax system and "selective decisions" by officials; predictability of the tax regime; transparency and fairness of privatization; transparency of budgetary process; and connected lending.

Mission chiefs indicated they had often opted to use indirect language when discussing corruption challenges. Examples cited of alternative terms used included: need for a level playing field; efficiency of public spending; enhancing expenditure framework; implementation problems; governance issues; transparency and accountability; enhancing business climate/environment; and improving AML/CFT.

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Source: IMF (2017a).

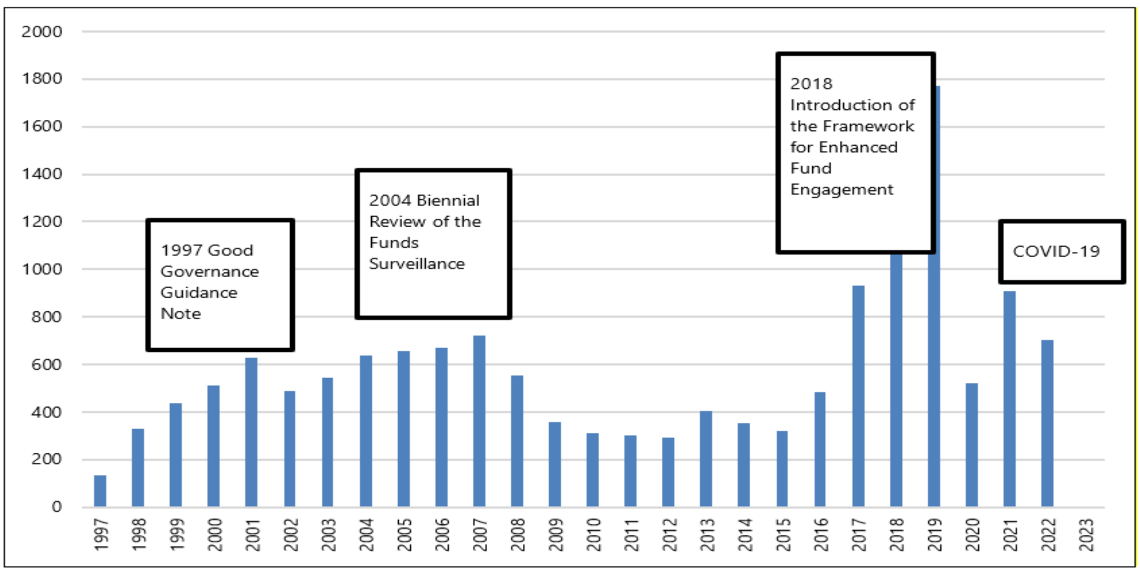
58. **In the context of the Review of the 2017 Guidance Note, mission chiefs indicated that they sometimes used indirect language in staff reports when discussing corruption and many directors called for greater clarity (IMF, 2017a) (see Box 2).** In a survey of views conducted in the context of 2017 Review of the Guidance Note, mission chiefs indicated that not all Fund engagement on corruption was documented in Article IV staff reports. While the majority of mission chiefs reported discussing corruption in consultations, only 40 percent indicated that these discussions were explicitly documented. Where corruption was not discussed, this was variously attributed to lack of information or staff expertise, political sensitivities, disinterest on the part of the authorities, or corruption issues that fell outside the Fund's macroeconomic mandate. During the Executive Board discussion of the 2017 Review of the Guidance Note, many Directors considered that greater clarity, including the use of direct language, in staff's reporting and recommendations regarding corruption-related issues would be helpful (IMF, 2017a). A few other Directors cautioned, however, that the use of direct language could have an adverse effect on Fund engagement with its members.

59. **During the discussion of the new 2018 Framework for Enhanced Fund Engagement in Governance, Directors underscored the need for candid discussions in staff reports, using clear and direct language.** The proposed Framework was designed to promote more systematic, effective, candid, and evenhanded engagement with member countries regarding those governance vulnerabilities (including corruption) that were judged to be macrocritical. In designing the Framework, staff noted that language in staff reports should be more direct, clear, and transparent than had previously been the case.

60. **By 2023, there was reportedly a marked increase in candid discussions of corruption and related governance vulnerabilities in staff reports.** According to the 2023 Review, text analysis of Article IV and program staff reports, as well as surveys of key stakeholders, pointed to the Fund's engagement on corruption as having become more candid overall, with some variation across state functions (IMF, 2023). While the response rate was low,

some 80 percent of country authority survey respondents for the 2023 Review considered that macrocritical governance and anti-corruption issues had been addressed in clear and direct language. Similarly, more than 85 percent of country teams agreed or strongly agreed that the Fund's engagement on governance issues had become more candid. Slightly more than 60 percent of CSOs agreed that the engagement had improved along these dimensions. Discussions had generally been most candid when vulnerabilities to corruption were identified in regard to AML/CFT, central bank governance, fiscal governance, and the rule of law. Conversely, country teams seldom held substantive discussions concerning market regulation governance vulnerabilities. To achieve candid and substantive discussions with specific policy advice more consistently across state functions (e.g., on market regulation), staff planned to exploit synergies with other work streams (e.g., the Fund's macrostructural work) and to strengthen collaboration with the World Bank (IMF, 2023). Figure 1 shows that the frequency of explicit references to the word "corruption" fluctuated since 1997, though generally increased over the evaluation period.

Figure 1. Mention of the word "Corruption" in IMF Documents, 1997–2023



Source: IEO.
Notes: Based on text mining of IMF and intergovernmental grouping documents, including: Article IV staff reports, Special Issues Papers, IMF Working Papers, Staff Position Notes, IMF Annual Reports, Annual Report on Exchange Arrangements and Exchange Restrictions, Selected Decisions and Selected Documents of the IMF, 2012 Bilateral Surveillance Decision, Managing Director's Global Policy Agenda (2013-23), Speeches of the Managing Director, Board Work Program, Departmental Accountability Frameworks (FY13-23), Climate Strategy, Gender Strategy, Governance Strategy, IMF budget-related documents, External Sector Report, Fiscal Monitor, Global Financial Stability Report, Regional Economic Outlook, World Economic Outlook, G7 Communiques, G20 Communiques, and IMFC Communiques.

Assessment

61. **In response to Directors' concerns, a centralized institutional process aimed at increasing evenhandedness in the IMF's governance and corruption work was established in 2018.** The 2017 review of the Fund's Guidance Note on the Role of the Fund in Governance Issues stated that the variation in treatment of corruption issues across countries with high levels

of corruption was usually not clearly explained by reference to specific country circumstances, further, the lack of consistent data and information contributed to the concerns of evenhandedness. While a centralized, institutional process established in 2018 to ensure that similarly situated countries in terms of their governance vulnerabilities would be treated similarly, the full membership was assessed only once under the interdepartmental process to identify corruption vulnerabilities and governance weaknesses linked to corruption. The 2023 Review indicated that this process would be used more regularly and updated.

62. **While there was substantial use of indirect language regarding corruption in staff reports during the first half of the evaluation period, there was a shift in practice and more use of direct language following the adoption of the 2018 Framework.** The use of indirect language helped to cushion the articulation of corruption issues in light of political sensitivities, but it may have clouded the clarity of issues and the Fund's policy recommendations. The use of more direct language in identifying and addressing poor governance and corruption issues evolved during the evaluation period, however, and candour emerged as a key goal of the 2018 Framework. In interviews for this assessment, key stakeholders broadly agreed that the Fund's engagement with its membership on governance issues had become more candid following the adoption of the 2018 Framework. As discussed above, the 2018 Framework contributed to the clarification and likely greater buy-in of governance and corruption issues. By 2023, there was reportedly a marked increase in candid discussions of corruption and related governance vulnerabilities in staff reports.

IV. Human Resources, Budget, and Risk

63. This section discusses whether the appropriate human resource and budgetary support were put into place to deliver on the application of the IMF's mandate in the area of governance and corruption during the evaluation period, as well as whether any risk implications were considered.

A. Human Resources

64. **There is little evidence that over the years human resource implications were explicitly considered when deciding to expand the Fund's work in the area of governance and corruption.** As discussed previously in this paper, there was some discussion of the Fund's capacity in the context of collaboration with other organizations and that reliance on the expertise of other institutions may help alleviate capacity demands. While no documentation of discussions regarding the need to develop additional staff capacity to assist members was found, during this assessment, staff reported that a staff training course on governance anti-corruption was introduced at the end of the evaluation period. This followed staff training organized by the Legal Department (LEG) since 2020. In addition, training in other select areas has embedded governance and anti-corruption modules. Furthermore, there was no mention of training to help staff address these difficult topics even if there was much discussion around how conversations with authorities in the area of poor governance, and in particular, corruption, required the ability to broach sensitive areas.

65. **In 2021, the LEG created a dedicated Governance and Anti-Corruption Division.** The objectives of this division are to centralize the coordination of the department's work in this area and provide intellectual leadership on anti-corruption issues. Indications from interviewees for this assessment, however, are that in certain circumstances staff felt ill prepared to take on the responsibilities associated with the analysis and provision of advice needed in respect to the expanded governance and corruption agenda. Some interviewees indicated that additional resources were put into building up legal expertise to help support the IMF's work, but it was difficult to find explicit actions to this effect in the course of this assessment. Furthermore, the increased expertise reportedly came over time and was not available upon implementation of the expanded engagement. This indicates a clear disconnect between decision making, implementation, and supporting functions.

B. Budget

66. **The financial implications of IMF work in the area of governance and corruption were discussed at various times during the evaluation period but with little detail.** For example, in the 2018 Review of the 1997 Guidance Note on Governance, financial implications were mentioned once in the entire document only to defer consideration to the FY2020 budget. The report noted that "Management intends to assess the resource implications of the application of the Framework for Enhanced Fund Engagement in the context of the consideration of Administrative Budget for FY2020. Accordingly, until then, departments would implement the Framework within their existing budgets" (IMF, 2018a).

67. **At the time of the decision to expand the governance and corruption agenda as outlined in the 2018 Framework, the financial implications were not known.** At the time of the discussion of the proposed framework, Directors raised issues around the cost of the proposed framework, the possible impact on other functions of the Fund in view of a flat budget, and the need to avoid duplication of work with other international institutions. However, no further discussion regarding these considerations transpired at the time. The decisions regarding the Framework made in this context were not made based on full information and were therefore not optimal.

68. **The 2020 Interim Review on Progress in Implementing the Framework for Enhanced Fund Engagement on Governance articulated some of the costs of implementation of the 2018 Framework ex post (see Table 1 and Annex IV)**. Interviewees noted that although it was helpful to have this information articulated in the 2020 Progress Report, the information was not available at the time of the 2018 Decision. Additionally, the 2020 Progress Report did not request or recommend any budgetary resources; it simply provided an update on implementation (IMF, 2020).

69. **The 2023 Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance also presented cost implications ex post (see Table 1 and Annex V)**. It did so in greater detail than at other times during the evaluation period and was a

clear indication of the maturing of the budget process. However, despite clearly articulating the cost of implementing the 2018 Framework and mentioning competing demands after the fact, it still did not discuss the budget trade-offs that were made, nor did it provide any decision point for Executive Directors (IMF, 2023).

Table 1. Cost Estimates for the Implementation of the Governance and Corruption Framework
(In USD millions)

Steady state implementation cost (estimated at the time of the 2020 Review)[1]	$6
Implementation cost (estimated by departments at the time of the 2023 Review)[2]	$23

Sources: IMF (2020; 2023a).
[1] The report noted that costs had been partially covered through budgetary resources to functional departments ($2.4 million in FY2020 and $1.9 million in FY2021 in gross terms), with the rest absorbed through reallocations and prioritization in functional and area departments.
[2] The report noted that departmental spending estimates were provided in Fund-wide surveys since FY2021 as part of the budget process based on further experience as well as a methodology that had been improved over time. It also noted that the bulk of the cost of proposed framework improvements would be covered by savings on pandemic-related governance safeguards and externally fund CD. The gross additional cost was estimated at 1 FTE, which was expected to be met through reprioritization within the overall budget envelope.

70. **Executive Directors argued that their role was limited by the approach to budgeting for IMF work on governance and corruption.** Management and staff argued that decisions with respect to the budget for work on some emerging policy areas would be made at the time of the approval of the overall budget. However, evidence from this assessment, including the views of Executive Directors, suggests that the discussion that took place at the time of approval of the overall budget was not sufficiently detailed to allow for clear decisions that could take into consideration of trade-offs with respect to policy decisions that had already been made earlier on. Executive Directors argued that they lacked the information to play a meaningful role, certainly at the time of strategic policy decisions. In following this approach, it was difficult to see the impact that any particular decision would have on the Fund’s traditional activities such as surveillance and lending. Staff interviewees for this assessment also indicated that given the flat real budget, workstreams in newer areas had a negative impact on the Fund’s traditional work.

71. **Overall, decisions on strategic policy directions are still taken in a piecemeal fashion and separately from budgetary decisions**. Thus, the process does not enable an integrated decision and was not ideal in the case for the Fund’s expansion of governance and corruption work during the evaluation period. Costs were calculated post-spending, rather than estimated prior and then assessed against budgeted amounts. Furthermore, when the full cost for expanding the work agenda became clear, there was still no understanding of the trade-offs (i.e., what other IMF activities had to be dropped) nor is there an assessment against forecasted costs (i.e., budgeted cost versus actual costs). Without such information, the Executive Board could not guide the prioritization process. In fact, the Executive Board had a limited role in budget matters, as most of the trade-offs were made by staff and management.

C. Risk

72. **There was no mention of the additional risk that would have been added at the time the Fund decided to formally expand its role through the 1997 Guidance Note.** Prior to the evaluation period, decisions on the evolving application of the Fund's mandate were taken with much less formal assessment and understanding of the impact on the overall profile of the Fund's risk stature. Since then, the Fund's assessment of enterprise risk has evolved over time, including the adoption of a new Enterprise Risk Management Framework in 2022.

73. **The 2018 Framework for Enhanced Fund Engagement mentioned risk only incidentally**. According to the staff report, "In the course of informal discussions, a number of Executive Directors also noted that consideration should … be given to the reputational risk that arises when the Fund does not address corruption issues in surveillance or use of Fund resources" (IMF, 2018a). The report also highlighted moreover, as noted by Executive Directors, that failing to take into account a perception of systemic corruption solely on the grounds that there is no definitive criminal evidence posed reputational risk for the Fund—especially where perceptions of corruption extended to institutions charged with criminal prosecution and conviction."

74. **The first substantive assessment of the risks associated with taking on an expanded governance and corruption mandate was not outlined until the 2023 Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance** (see Box 3). In assessing the Fund's risk arising from the expansion around governance and corruption, it would have been helpful to have had an understanding of not only the risks associated with expanding the Fund's role in governance and corruption, but also the potential risks of not doing so. A counterfactual was lacking, yet would have helped to clarify the consequences of a potential decision. Finally, a key risk often overlooked stemmed from differences in the interpretation and the application of the Fund's mandate. Actual enterprise risks to the Fund could potentially stem from divergent views on the interpretation of the mandate.

Box 3. Outline of Risks in Adopting the 2018 Framework for Enhanced Fund Engagement on Governance

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; and
(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 that could potentially impact Fund staff, as well.

Source: IMF (2023).

Assessment

75. **During most the evaluation period, the human resources, budgetary and risk implications were not clearly spelled out and considered as part of the decision to expand the IMF's work agenda on governance and corruption**. On human resources implications, this assessment found little evidence that they were explicitly considered at the time of approval, rather, costing was included ex post in later evaluation period reviews. Policy decisions on expanding the IMF's work on governance and corruption were taken separately from budgetary decisions. A comprehensive assessment of the risk implications of the expansion of the IMF's governance and corruption work was also not evident.

76. **There were some improvements at the end of the evaluation period, both on budget and risk assessment, but a coordinated strategic approach is still lacking.** Improvements included the 2021 Budget Augmentation Framework and the consideration of risks in the 2023 Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance process undertaken in the context of a flat budget. Such improvements should continue, with the aim to enable integrated policy and budgetary decisions. However, these elements were not presented strategically within a broader overall prioritization of human resources, budgetary needs and risk profile. When considering and implementing an expansion of the application the Fund's mandate, such holistic approach is necessary, and should take due account of the type of human resources support that will be necessary, the additional costs as well as where the additional funds will come from, and the impact the decision will have on enterprise risk of the Fund. Furthermore, it would help if Executive Directors are furnished with this necessary information so as to make decisions in an integrated manner and not in a piecemeal fashion.

V. CONCLUSIONS AND NEXT STEPS

77. Since the early 1990s, the IMF has placed increasing emphasis on governance and corruption issues as elements of its work agenda to support sustained economic growth in member countries. The release of the 1997 Guidance Note on Governance was the culmination of a growing realization that governance and corruption issues had a significant impact on areas within the IMF's mandate. A further evolution of the IMF's engagement in governance and corruption occurred after the adoption of a Board-approved strategy, the 2018 Framework for Enhanced Engagement on Governance, which aimed to promote more systematic, effective, candid, and evenhanded engagement with member countries regarding macrocritical dimensions of governance vulnerabilities and corruption.

78. This paper has focused on the evolution of the Fund's engagement on governance and corruption issues during the 2012–22 evaluation period, including aspects related to the decision-making processes and oversight, whether human resources and funding support were sufficiently provided and risks were appropriately considered. The assessment concludes that, overall, the Fund's governance and corruption work has evolved with the appropriate decision-

making and oversight structures but the human resources, budget, and risk implications during the evaluation period were not considered. By way of conclusion, this section summarizes the key findings by theme.

79. **Macrocriticality.** This assessment finds that the macrocriticality standard was asserted in IMF policy throughout the evaluation period as the standard to be followed in the context of the Fund's work on governance and corruption. While the paper does not assess the extent to which this practice was followed, given the degree of judgment involved in determining macrocriticality, there may not necessarily have been a common understanding of how to apply this standard in the context of governance and corruption issues.

80. **Collaboration with External Partners**. During the evaluation period, the Fund worked with the World Bank and other organizations including the UN, OECD, FSB, as well as CSOs in the area of governance and corruption. The IMF also strengthened its tools to carry out its governance and corruption work including the development and promotion of standards and codes and of good practices through its reports on standards and codes, as well as work in the areas of transparency, accountability, public resource management, and safeguards for the use of Fund resources.

81. **Third-Party Indicators.** While the need for external data on governance and corruption continued, tensions remained throughout most of the evaluation period regarding the use of TPIs related to the risks the Fund was subjected to given a lack of quality, reliability, and transparency of some indicators. A dedicated guidance note and policy review oversight on TPIs were created in 2018.

82. **Clarity and evenhandedness**. A centralized institutional process to promote more systematic and evenhanded Fund engagement in governance and corruption issues was created in 2018. Evidence was found that attempts were made by staff to be more clear and candid in country reports regarding corruption following adoption of the 2018 Framework, including through the use of direct language. This was also viewed as a way in which staff had exercised more evenhandedness.

83. **Human Resources, Budget, and Risks**. There is little evidence that over the years human resource implications were explicitly considered when deciding to expand the Fund's work in the area of governance and corruption. The financial implications of IMF work in the area of governance and corruption were discussed at various times during the evaluation period but with little detail and mostly after the work agenda had been agreed. Some improvements were made during the evaluation period to the budget approach for non-traditional workstreams such as governance and corruption, but overall decisions on strategic policy directions were and are still taken in a piecemeal fashion and separately from budgetary decisions.

84. **Next steps: a holistic approach:** the process of the Fund's involvement in governance and corruption provides an example of the importance of a holistic approach when considering and implementing an expansion of the application the Fund's mandate that takes due account of the type of human resources support that will be necessary, the additional costs as well as where the additional funds will come from, and the impact the decision will have on enterprise risk of the Fund. Executive Directors should be furnished with this necessary information so as to make decisions in an integrated manner.

ANNEX I. TIMELINE OF IMF ENGAGEMENT ON GOVERNANCE AND CORRUPTION, 1996–2023

Event/Document Title		**Mechanism**
September 26-October 31, 1996 Annual Meetings Statements by IMF Managing Director (MD) and President of the World Bank	With growing concern internationally around the issues of governance and corruption, there was wide publicity surrounding the statements at the 1996 Annual Meetings of the IMF and World Bank by the MD of the International Monetary Fund that governments must demonstrate their intolerance for corruption in all its forms and by the President of the World Bank that the "cancer of corruption" must be dealt with.	IMF Annual Meetings
September 1, 1996 The Effects of Corruption on Growth, Investment and Government Expenditure – IMF Paper	Renewed interest in the topic of corruption led several researchers to attempt to quantify the extent to which corruption permeates economic interactions. The Effects of Corruption on Growth, Investment and Government Expenditure paper analyzed several causes and consequences of corruption. It provided a synthetic review of recent studies that estimated empirically some of these links. In addition, it presented further evidence that corruption may have considerable adverse effects on economic growth, largely by reducing private investment, but also through a variety of other channels, which may include a worsening in the composition of public expenditure.	IMF Staff Report
September 29, 1996 Partnership for Sustainable Global Growth Interim Committee	Mirroring the greater importance the membership of the IMF placed on this matter, the declaration Partnership for Sustainable Global Growth that was adopted by the IMF's Interim Committee at its meeting in Washington identified "promoting good governance in all its aspects, including ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption" as an essential element of a framework within which economies could prosper.	Interim Committee
January 15, 1997 IMF Board meetings	Reflecting the increased significance that member countries attach to the promotion of good governance, the Executive Board held a preliminary discussion on the role of the IMF in governance issues. The discussions revealed a strong consensus among Executive Directors on the importance of good governance for economic efficiency and growth. It was observed that the IMF's role in these issues had been evolving pragmatically as more was learned about the contribution that greater attention to governance issues could make to macroeconomic stability and sustainable growth in member countries. Directors were strongly supportive of the role the IMF had been playing in this area in recent years through its policy advice and technical assistance.	IMF Board Meeting
January 28, 1997 UN General Assembly Resolution	The UN articulated that concerns of the seriousness of problems posed by corruption, including links between corruption and other forms of crime; the fact that corruption crosses national borders and affects societies and economies, international cooperation is necessary.[1] Eleven action items adopted, including: adoption of the International Code of Conduct for Public Officials; continued study of the problem of corruption; an urging of Member States to carefully consider the problems posed by the international aspects of corrupt practices, especially as regards international economic activities; provide increased advisory services and technical assistance to Member States.	UN Resolution
May 14, 1997 IMF Board Meeting	Further discussion by the IMF Board to discuss guidance to IMF staff.	IMF Board Meeting
August 1997 IMF Board Meeting	Good Governance – The IMF's Role	IMF Board Meeting

Event/Document Title		Mechanism
December 17, 1997, Signature of the Convention February 15, 1999, Entry into force of the Convention	OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Document also mentions work by other organizations, namely, other recent developments which further advance international understanding and cooperation in combating bribery of public officials, including actions of the United Nations, the World Bank, the International Monetary Fund, the World Trade Organization, the Organization of American States, the Council of Europe and the European Union.	OECD Resolution
March 28, 2001 Review of the Fund's Experience in Governance Issues	The Fund's 1997 Guidance Note on Governance was prepared in recognition of the importance of good governance for macroeconomic stability and growth. This paper responds to the Board's request at that time for periodic reviews of experience.	IMF Staff Report; Board-approved Guidance Note
October 31, 2003 UN General Assembly - Adoption December 14, 2005 - Entry Into Force	United Nations Convention against Corruption - The United Nations Convention against Corruption is the only legally binding universal anti-corruption instrument. The Convention's far-reaching approach and the mandatory character of many of its provisions make it a unique tool for developing a comprehensive response to a global problem. The vast majority of United Nations Member States are parties to the Convention (140 signatories).	UN Resolution
August 24, 2004 Biennial Review of the Fund's Surveillance	The Biennial Review's central question is how surveillance can be made more effective across the whole membership. The Review examined governance and corruption issues.	IMF Staff Report; Executive Board Meeting
June 2010 G20 Summit Declaration[2]	The G20 agree that corruption threatens the integrity of markets, undermines fair competition, distorts resource allocation, destroys public trust, and undermines the rule of law. The G20 call for the ratification and full implementation by all G20 members of the United Nations Convention Against Corruption (UNCAC) and encourage others to do the same. The G20 will fully implement the reviews in accordance with the provisions of UNCAC. Building on the progress made since Pittsburgh to address corruption, it was agreed to establish a Working Group to make comprehensive recommendations for consideration by Leaders in Korea on how the G20 could continue to make practical and valuable contributions to international efforts to combat corruption and lead by example in key areas that include, but are not limited to, adopting and enforcing strong and effective anti-bribery rules, fighting corruption in the public and private sectors, preventing access of corrupt persons to global financial systems, cooperation in visa denial, extradition and asset recovery, and protecting whistleblowers who stand-up against corruption.	G20 Declaration
September 2013 G20 Summit Declaration	The declaration states that corruption impedes sustainable economic growth and poverty reduction, threatening financial stability and the economy. The G20 will hold themselves to their commitment to implement the G20 Anti-Corruption Action Plan, combating domestic and foreign bribery, tackling corruption in high-risk sectors, strengthening international cooperation, and promoting public integrity and transparency in the fight against corruption.	G20 Declaration

Event/Document Title		**Mechanism**
October 2015 Annual Meetings Lima, Peru	IMF hosted a seminar on corruption in the public sector.	IMF Annual Meetings
November 2015 G20 Communique	G20 emphasized that fighting corruption can support growth and resilience.	G20 Communique
April 2016 IMFC Communique	Highlighted the importance of global cooperation in combating corruption and improving governance as critical to achieving sustainable and inclusive growth. Requested an assessment of the effectiveness of the Fund's policy on governance, including corruption.	IMFC Communique
May 2016 IMF Staff Discussion Note on Corruption (Ogada and others)	Defines corruption and its manifestations, discusses the economic and social costs of corruption considering country experience, and discusses the IMF's experience with corruption and draws some lessons regarding mitigating strategies.	IMF Staff Discussion Note
May 4, 2016 Informal Presentation to the Board	IMF Staff Discussion Note - Corruption: Costs and Mitigating Strategies	Informal Board Meeting
September 2016 G20 Leaders' Communique	The G20 Communique states that recognizing the detrimental effects of corruption and illicit finance flows on equitable allocation of public resources, sustainable economic growth, the integrity of the global financial system and the rule of law, the G20 will reinforce its efforts to enhance international cooperation against corruption, while fully respecting international law, human rights and the rule of law as well as the sovereignty of each country. The G20 endorse the High-Level Principles on Cooperation on Persons Sought for Corruption and Asset Recovery and welcome Chinese initiative to establish in China a Research Center on International Cooperation Regarding Persons Sought for Corruption and Asset Recovery in G20 Member States, which will be operated in line with international norms. The G20 call for ratification by all the G20 members of the United Nations Convention Against Corruption and welcome the launch of the second cycle of its review mechanism. The G20 ask the Anti-Corruption Working Group to develop an implementation plan before the end of 2016 as a flexible framework to carry this work forward with renewed high-level attention and urgency. The G20 also welcome outcomes of the London Anti- Corruption Summit in May 2016 and the OECD Ministerial Meeting in March 2016.	G20 Communique
April 22, 2017 IMFC Communique	The IMFC welcomes the work of the IMF, along with other international organizations, to help improve governance, fight corruption, upgrade the business environment, and promote competition. The IMFC looks forward to the forthcoming review of the Guidance Note on the Role of the Fund in Governance Issues.	IMFC Communique
June 14, 2017,	The Role of the Fund in Governance Issues - Review of the Guidance Note - Preliminary Considerations: Following the request of the IMFC, this paper represents a first step in reassessing the Fund's approach to tackling governance issues, the guidelines for which are contained in a 1997 Guidance Note. The paper examines the record of implementation of these guidelines in the period since the last such review was conducted in 2004.	IMF Staff Report; Executive Board Meeting
July 21, 2017 IMF Board Meeting		Executive Board Meeting

Event/Document Title		**Mechanism**
G20 Summit Declaration July 2017	Fighting Corruption: The G20 remain committed to fighting corruption, including through practical international cooperation and technical assistance, and will continue to fully implement the G20 Anti-Corruption Action Plan 2017-18. The G20 endorse four sets of High-Level Principles aimed at fostering integrity in the public and private sector. By endorsing the High-Level Principles on the Liability of Legal Persons, the G20 commit to ensuring that not only individual perpetrators but also companies benefitting from corruption can be held liable. The G20 commit to organizing its public administrations to be more resilient against corruption. The G20 also endorse the High-Level Principles on Countering Corruption in Customs and publish a guide on requesting international cooperation in civil and administrative proceedings. The G20 are also committed to fighting corruption in contracts, including in the natural resources sector. The G20 call for ratification and implementation by all G20 members of the UN Convention against Corruption and for a strong involvement in its review process.	G20 Declaration
October 2017 A Window of Opportunity: The Managing Director's Global Policy Agenda[3]	Strong institutions and policy frameworks are central to promoting trust and resilience. The Fund will strengthen its engagement on governance and corruption issues, including by bolstering its framework for assessing corruption and its macroeconomic impact. The Fund will develop new analytic tools to support a candid assessment of corruption where it is undermining macroeconomic performance and allow for more granular policy advice to help tackle corruption while ensuring evenhanded treatment across the membership. Key areas include enhancing public financial management, fiscal transparency, and regulation. The Fund will also assist members' efforts to strengthen regulatory and supervisory frameworks, particularly on AML/CFT, as well as fiscal frameworks to manage risks to public sector balance sheets.	IMF Managing Director's Global Policy Agenda
February 23, 2018- Informal Presentation to the Executive Board	Review of 1997 Guidance Note on Governance–Proposed Supplement Directors broadly agreed that there is scope to strengthen Fund engagement with members in corruption, while maintaining coverage of broader governance issues. They concurred on the need to develop an approach for a more systematic and evenhanded treatment of such issues, and broadly agreed with the underlying principles and the proposed framework outlined in the presentation. Directors raised several issues: Underlying principles, assessment of severity, proposed approach for surveillance activity, facilitation of corruption, engagement with authorities, use of third-party indicators and collaboration with other institutions.	Informal Board Meeting
April 2018	Review of the 1997 Guidance Note on Governance--A Proposed Framework for Enhanced Fund Engagement	IMF Staff Report; IMF Board Meeting
April 21, 2018 IMFC Communique	The IMFC welcomes the IMF's enhanced engagement on governance issues, including corruption.	IMFC Communique
October 13, 2018 IMFC Communique	The IMFC welcomes the enhanced engagement on governance, including corruption, and the operationalization of the new governance framework	IMFC Communique

Event/Document Title		**Mechanism**
July 1, 2020 Informal Session to Brief Executive Directors	Progress in Implementing the Framework for Enhanced Fund Engagement on Governance	IMF Informal Board Meeting
February/March 2020 COVID–19 Pandemic	Greater emphasis was placed on governance and corruption issues as the Fund began to provide COVID-19 support to member countries	
October 2021 G20 Summit Declaration	G20 will continue to lead by example in the global fight against corruption. In this regard, the G20 welcome the first G20 Anti-Corruption Ministerial Meeting. The G20 will continue to promote global integrity in response to the pandemic, and endorse the G20 Call to Action on Corruption and COVID-19. The G20 commits to taking and promoting a multi-stakeholder approach, including with international organizations, civil society, the media, and the private sector, to preventing and combating corruption. The G20 welcomes the Riyadh Initiative for Enhancing International Anti-Corruption Law Enforcement Cooperation. The G20 endorses the G20 Action on International Cooperation on Corruption and Economic Crimes, Offenders and the Recovery of Stolen Assets. The G20 welcome the reformed approach to the G20 Anti-corruption Accountability Report, and endorse G20 High-Level Principles for: the Development and Implementation of National Anti-Corruption Strategies; Promoting Public Sector Integrity Through the Use of Information and Communications Technologies; and Promoting Integrity in Privatization and Public- Private Partnerships. The G20 will demonstrate concrete efforts by 2021 towards criminalizing foreign bribery and enforcing foreign bribery legislation in line with article 16 of UNCAC, and with a view to possible adherence by all G20 countries to the Organization for Economic Cooperation and Development (OECD) Anti-Bribery Convention.	G20 Declaration
April 4, 2023 Executive Board Meeting	Review of the Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance	IMF Board Meeting
April 14, 2023 IMFC Communique	The IMFC welcomes the recently completed review of the Framework for Enhanced Fund Engagement on Governance, which reaffirms the criticality of IMF's policy advice to strengthen governance and address macrocritical corruption issues in domestic and transnational contexts and the importance of evenhanded engagement across members.	IMFC Communique

Source: Author.

[1] Recalling also its resolutions 45/121 of December 14, 1990 and 46/152 of December 18, 1991, and Economic and Social Council resolutions 1992/22 of July 30, 1992, 1993/32 of July 27, 1993 and 1994/19 of July 25, 1994, Recalling in particular its resolution 50/225 of April 19, 1996, adopted at its resumed session, on public administration and development, Recalling Economic and Social Council resolution 1995/14 of July 24, 1995 on action against corruption.

[2] Almost every G20 declaration mentions corruption. This chronology includes statements that go beyond the usual mention that corruption is an issue that must be dealt with.

[3] Almost every IMF Managing Director's Global Policy Agenda mentions corruption. This chronology includes statements that go beyond the usual mention that corruption is an issue that must be dealt with.

ANNEX II. EVOLUTION OF THE IMF'S GOVERNANCE AND CORRUPTION FRAMEWORK

Prior to 1997 Good Governance Guidance Note	Traditionally the IMF's focus had been: • encouraging countries to correct macroeconomic imbalances; • reduce inflation; and • undertake key trade, exchange, and other market reforms needed to improve efficiency and support sustained economic growth. The IMF also promoted good governance in all its aspects, including by ensuring: • the rule of law; • improving the efficiency and accountability of the public sector; and • tackling corruption, as an essential element of a framework within which economies can prosper.
1997 Good Governance Guidance Note	Promote greater attention by the IMF to governance issues, through: • A more comprehensive treatment in the context of both Article IV consultations and IMF-supported programs of those governance issues within the IMF's mandate and expertise. • A more proactive approach in advocating policies and the development of institutions and administrative systems that eliminate the opportunity for bribery, corruption, and fraudulent activity in the management of public resources; • An evenhanded treatment of governance issues in all member countries; and • Enhanced collaboration with other multilateral institutions, in particular the World Bank, to make better use of complementary areas of expertise. But limit involvement to where instances of corruption could have significant macroeconomic implications. In considering whether IMF involvement in governance issues is appropriate, staff should be guided by an assessment of whether poor governance would have significant current or potential impact on macroeconomic performance in the short and medium term and on the ability of the government to credibly pursue policies aimed at external viability and sustainable growth. IMF staff should continue raising governance issues with authorities in such cases, even if these effects are not precisely measurable.
Review of the Fund's Experience in Governance Issues (March 28, 2001)	The review concludes that the Fund's involvement in broad initiatives geared to strengthening economic aspects of governance has laid a firm foundation and that this emphasis on prevention should be the main plank of the Fund's governance strategy looking forward. The review indicates that the Fund has given more attention to governance issues in recent years as called for in the 1997 Guidance Note. There is a large range of possible sources of poor governance that can be viewed as having significant or potential macroeconomic impact, in the terminology of the Guidance Note and could justify Fund involvement. The question is whether it would be helpful to attempt to draw the boundaries for Fund involvement more narrowly than does the Guidance Note.
Biennial Review of the Fund's Surveillance (July 2, 2004)	Overall, implementation of the 1997 guidance note on governance in surveillance activities has been satisfactory. Governance issues continue to be raised in a significant share of surveillance reports, with coverage focused on the development of policies, institutions, and administrative systems that embody good governance. • For the membership, the primary area of coverage is the fiscal domain, with transparency of the budget and operations of public enterprises as prominent topics.

	• The second most common area of coverage is judicial reforms and broad-based anti-corruption measures. In developed countries, corporate governance was the issue most likely to be raised. Nevertheless, the review highlights a few questions: • The need for greater use of outside information and, where needed, development of new information; and • Relatively weak treatment of past and current policy recommendations. • The substance and consistency of the treatment of governance in staff reports could be strengthened, Coverage of governance issues should remain selective, based on country-specific circumstances and the criterion of macroeconomic relevance, and focused on issues within the Fund's expertise.
IMF Discussion Note Corruption: Costs and Mitigation Strategies (May 2016)	The discussion note states that addressing corruption has become increasingly urgent. There is a growing consensus that corruption is macrocritical, as it can seriously undermine inclusive economic growth. The paper outlines that corruption can undermine the state's ability to deliver inclusive economic growth in several different areas, including: macro financial stability, investment, human capital accumulation, and total factor productivity. Moreover, when systemic corruption affects virtually all state functions, distrust of government can become so pervasive that it can lead to violence, civil strife, and conflict, with devastating social and economic implications. Several elements need to be given priority. These include: • Transparency; • Rule of law; • Economic reform policies designed to eliminate excessive regulation; and • Most importantly, effective institutions including the development of a competent civil service.
The Role of the Fund in Governance Issues—Review of the Guidance Note— Preliminary Considerations (June 14, 2017)	Since the adoption of the Guidance Note, the Fund has engaged in several initiatives that, though not specifically targeted at corruption, play an important role in addressing it. In particular: • Promoting the reform of economic regulation; • Enhancing fiscal transparency and accountability; and • The Financial Sector Surveillance Program and the Standards and Codes Initiative. The coverage of corruption by the Fund has not been entirely even and, even in those cases where corruption was assessed to be systemic, the analysis of the macroeconomic impact of the corruption was not detailed. Coverage of corruption issues was more extensive in the context of Fund-supported programs than in bilateral surveillance for similarly situated countries. The assessment suggests that a more systematic - and evenhanded - coverage of corruption may require greater guidance: • Assessing the extent of corruption. It will be necessary to supplement the use of third-party indicators with staff judgment; • Assessing macroeconomic impact. A key question raised by the review is whether the time horizon that is generally considered relevant for assessing macroeconomic impact (i.e., three to five years) is appropriate; • Policy advice. The assessment also makes clear that the design of effective anti-corruption strategies will require significant analytical work; and • Collaboration with other organizations. Closer collaboration with other institutions, including with the World Bank, is needed.

	Generally, Fund involvement should be guided by an assessment of whether poor governance would have significant current or potential impact on macroeconomic performance in the short and medium term and on the ability of the government to credibly pursue policies aimed at external viability and sustainable growth. On Surveillance, staff should pay attention to areas where poor governance could impact market confidence, capital inflows, and investment; and provide policy advice that reflects cross-country experience and is based on broadly agreed international best practices.

Review of 1997 Guidance Note on Governance – A proposed Framework for Enhanced Fund Engagement
 	
(March 9, 2018)
	This paper proposes the adoption of a framework that would supplement the 1997 Guidance Note.
	The proposed Framework is designed to promote more systematic, effective, and candid engagement with member countries on governance vulnerabilities that are judged to be macroeconomically critical.
	
	The proposed Framework consists of four elements:
	• A greater ability to assess the nature and severity of governance vulnerabilities - including corruption - on a systematic basis. This is achieved through an assessment of those state functions that are most relevant to economic activity, namely: (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 Combatting the Financing of Terrorism (AML/CFT);
	• A guide for the assessment of the economic impact of governance vulnerabilities. For purposes of determining whether reforms to address governance vulnerabilities should be a condition for the use of the Fund's resources, the Fund will assess whether addressing these vulnerabilities is of critical importance for achieving the goals of the member's program;
	• A guide for the policy recommendations provided by the Fund, which will be informed by the diagnosis of the vulnerabilities, be candid and discussed with authorities, whose views should be accurately reflected in staff reports;
	  o In those areas that are outside the Fund's area of competence, the Fund will rely on the expertise of other international institutions, particularly the World Bank;
	  o Where corruption is assessed as severe, the approach would rely on a multi-pronged strategy that promotes not only specific anti-corruption measures but also broader regulatory and institutional reforms, taking into consideration the circumstances of the member; and
	• An assessment of governmental measures to prevent private actors from offering bribes or providing services that enable the proceeds of corrupt acts to be concealed. More specifically, irrespective of whether a member country is experiencing severe corruption, the Fund would urge the member to volunteer to have its own legal and institutional frameworks assessed in the context of bilateral surveillance for purposes of determining whether: (a) it criminalizes and prosecutes the bribery of foreign public officials; and (b) whether it has an effective AML/CFT system designed to prevent foreign officials from concealing the proceeds of corruption - both of which address the transnational facilitation of corruption.
	It is proposed that experience with the application of the Framework for Enhanced Fund Engagement be reviewed within three years.
	Identifying the Relevant Sources of Information :
	(i) To the extent possible and where relevant, staff would rely on information already obtained by the Fund, including from member authorities, in the context of existing activities;
	(ii) In areas that are not typically covered by the Fund, staff would rely on information provided by other institutions, especially the World Bank; and

	(iii) The assessments would be holistic, relying on both quantitative and qualitative assessments, including indicators. The Fund should engage on governance issues in surveillance and UFR when governance vulnerabilities are sufficiently severe that they become relevant under those policies. The 1997 Guidance Note established a general standard: Fund involvement should be guided by whether poor governance or corruption would have significant current or potential impact on macroeconomic performance in the short and medium term and on the ability of the government to credibly pursue policies aimed at external viability and sustainable growth. This means that governance weaknesses should be addressed when they are sufficiently severe to “significantly influence present or prospective balance of payments and domestic stability”. Implementation: Management is keenly aware that the way in which this guidance is implemented by staff will be critical. To that end, Management intends to initiate a centralized, institutional process to ensure that similarly situated countries (in terms of their governance vulnerabilities) are treated similarly in the context of both surveillance and UFR. • This centralized assessment process will be implemented by a standing Working Group on Governance, comprised of representatives of all Area Departments and the relevant Functional Departments. While assessments of governance vulnerabilities will be done on a member-by-member basis with key input from both the country desk and the relevant Functional Department, the final judgement on whether - and how - to address vulnerabilities would be made by the Working Group in the context of a review of a group of countries, thereby ensuring that similarly situated members are treated similarly.
Progress in Implementing the Framework for Enhanced Fund Engagement on Governance (June 25, 2020)	This interim update found that implementation of the Framework is well underway. Specifically: (i) A new centralized process to systematically analyze governance and corruption vulnerabilities for all Fund members has been put in place; (ii) Text mining analysis indicates that governance-related terms in staff reports have increased by more than four-fold relative to the average over 2008-17, with such references rising across all types of countries and becoming more correlated with governance weaknesses; (iii) More qualitative analysis suggests that the Framework has supported deeper discussions on governance and anti-corruption issues in Article IV reports, often in accompanying Selected Issues papers or detailed annexes on governance issues; (iv) Fund-supported programs have leveraged the Framework to design specific conditionality related to governance and anti-corruption reforms, with governance improvements now being a core objective of many programs; (v) Technical assistance and training to assist countries in strengthening governance and anti-corruption efforts is being stepped up, including governance diagnostic missions, which undertake detailed analysis of governance weaknesses and propose prioritized solutions; (vi) Much work is being done to produce analytical work, outreach to the public and civil society, and collaborate with other international organizations on governance issues; and (vii) So far, 10 advanced economies have participated in the voluntary assessment of their efforts to stem transnational corruption by effectively criminalizing the bribery of foreign officials and preventing the concealment of the proceeds of corruption in their countries. However, continued efforts are needed to support the Framework’s implementation. Key challenges include: (i) ensuring sustained engagement by the Fund;

	(ii) building further ownership and efforts by country authorities; (iii) supporting country teams in these complex discussions; and (iv) filling data gaps. Securing additional volunteers for the assessment of transnational aspects of corruption will also be essential. The progress report stated that the 2018 Framework provides for more systematic, candid, and evenhanded engagement with member countries regarding governance and corruption vulnerabilities. This stocktaking found that, while the Fund had made considerable progress in implementing the 1997 policy, there remained significant scope to strengthen Fund engagement on governance and corruption issues. The current crisis and the Fund's provision of emergency financing have further highlighted the importance of governance issues and the need for these issues to be firmly embedded in core activities.
Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance (March 9, 2023)	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. 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. This process would benefit from more regular updates to incorporate more qualitative information gathered by staff. Proposals: Going forward, staff proposes to strengthen implementation in line with the objectives of the 2018 Framework, continuing to be guided by macrocriticality and core expertise of the Fund, and mindful of competing demands on an already very stretched staff and limited resources. 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; and (iv) Establishing mechanisms to improve monitoring of the implementation of this review. This includes: (a) Further integrating and exploiting synergies with other Fund priorities (e.g., Fragile and Conflict States, climate change, and digitalization/ GovTech); (b) Deepening the work on rule of law and anti-corruption issues; and (c) Building upon the increasing role of supreme audit institutions (SAIs) in supporting anti-corruption efforts.

ANNEX III. EVOLUTION OF THE APPLICATION OF THE IMF'S MANDATE IN THE AREA OF GOVERNANCE AND CORRUPTION—EARLY 1990S TO 2004

Tackling corruption became an increasing concern in the early 1990s. There were a number of high-profile instances of countries with significant corruption issues and many developing countries were increasingly exposed to a globalized environment where sound macroeconomic policies, transparent and accountable public institutions, and protection of property and investors' rights became prerequisites for attracting foreign direct investment. During this time, the United Nations General Assembly, the Organization for Economic Co-operation, and Development (OECD), the European Commission (EC), the World Bank, and other international organizations established various policies regarding governance and corruption, including with regard to bribery in international business. Non-governmental organizations, such as Transparency International (founded in 1993), played a growing role in publicizing the issue of corruption.

Prior to the IMF's 1997 Good Governance—The IMF's Role, Guidance Note, although the IMF had long provided advice and technical assistance that helped to foster good governance in member states, its main focus had been on encouraging countries to correct macroeconomic imbalances, reduce inflation, and undertake key trade, exchange, and other market reforms needed to improve efficiency and support sustained economic growth.[1] However, the IMF had found that a much broader range of institutional reforms was need if countries were to establish and maintain private sector confidence and thereby lay the basis for sustained growth.

Although the specific catalyst is not entirely clear, prior to the release of the IMF's 1997 Guidance Note, consensus had been developing around the need to address governance and corruption issues in countries to help promote growth. The consequences of corruption were becoming more and more clear. There were several studies, including empirical studies, showing the adverse effect on economic growth of corruption and poor governance.

Wide publicity surrounding the statements at the multinational financial institutions' 1996 Annual Meetings by the Managing Director of the IMF that governments must demonstrate their intolerance for corruption in all its forms, and by the President of the World Bank that the "cancer of corruption" must be dealt with, stimulated interest in the topic. Mirroring the greater importance the membership of the IMF places on this matter, the declaration Partnership for Sustainable Global Growth[2] that was adopted by the IMF's Interim Committee at its meeting in Washington, D.C., identified "promoting good governance in all its aspects, including ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption" as an essential element of a framework within which economies can prosper.

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[1] IMF (1997b).

[2] IMF (1996).

Reflecting the increased significance that member countries attach to the promotion of good governance, the Executive Board held a preliminary discussion on the role of the IMF in governance issues in January 1997 and then again in May 1997. The discussions revealed a strong consensus among Executive Directors on the importance of good governance for economic efficiency and growth. The IMF's role in these issues had been evolving pragmatically as more was learned about the contribution that greater attention to governance issues could make to macroeconomic stability and sustainable growth in member countries. Executive Directors were strongly supportive of the role the IMF had been playing in this area in recent years through its policy advice and technical assistance.

Concerned at the seriousness of problems posed by corruption, the links between corruption and other forms of crime, the fact that corruption crosses national borders and affects societies and economies, the United Nations passed a resolution, "Action against corruption," calling on international cooperation, continued study of the problem, a call to Member States to carefully consider the problems posed by the international aspects of corrupt practices, especially regarding international economic activities, increased advisory services and technical assistance to Member States, and the adoption of an International Code of Conduct for Public Officials.[3] This was not the first UN resolution in the area.[4]

In 1997, the IMF released the Good Governance—The IMF's Role, Guidance Note which identified several channels through which the Fund contributed to good governance, including through policy advice that limited scope for ad hoc decision-making, rent-seeking and preferential treatment of individuals and organizations, through Fund technical assistance to enhance members' capacity to build effective policy-making institutions and improve public sector accountability, and in promoting transparency in financial transactions in the government budget, central bank and public sector.

The 1997 Guidance Note set out greater Fund attention to governance issues through more comprehensive treatment in Article IV consultations and Fund-supported programs of those governance issues within the Fund's mandate and expertise, a more proactive approach in advocating policies and the development of institutions and administrative systems that aimed to eliminate opportunities for rent-seeking, corruption and fraudulent activity, evenhanded treatment of governance issues in member countries, and enhanced collaboration with other multilateral institutions, in particular the World Bank, to make better use of complementary areas of expertise. The Guidance Note also set out aspects of governance relevant for the Fund, highlighting that the Fund's involvement in governance should be limited to economic aspects of

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[3] United Nations (1997).

[4] Recalling also its resolutions 45/121 of December 14, 1990 and 46/152 of December 18, 1991, and Economic and Social Council resolutions 1992/22 of July 30, 1992, 1993/32 of July 27, 1993 and 1994/19 of July 25, 1994, recalling in particular its resolution 50/225 of April 19, 1996, adopted at its resumed session, on public administration and development, recalling Economic and Social Council resolution 1995/14 of July 24, 1995 on action against corruption.

governance, notably improving the management of economic resources, and supporting the development and maintenance of a transparent and stable economic and regulatory environment conducive to efficient private sector activities.

A 2001 review of the Fund's experience with governance issues covered activities in the context of UFR, technical assistance, and surveillance. With respect to surveillance, the review found that governance issues were receiving greater prominence in Fund surveillance, which benefited from input from new initiatives such as standards, codes and safeguards assessments, and that coverage was largely in areas where the Fund had expertise, notably transparency and accountability in public resource management. More than half of Article IV consultation discussions in the period 1998–99 mentioned these issues, compared to around one-fifth in the pre-guidance-note period of 1994–95.

The 2004 Biennial Review of the Fund's Surveillance covered issues of governance and corruption. Governance issues continue to be raised in a significant share of surveillance reports, with coverage focused on the development of policies, institutions, and administrative systems that embody good governance. For the membership, the primary area of coverage was the fiscal domain, with transparency of the budget and operations of public enterprises as prominent topics. The second most common area of coverage was judicial reforms and broad-based anti-corruption measures. Nevertheless, the review highlighted two questions that deserved consideration: limited use, and on occasion, availability of relevant information; and relatively weak treatment of past and current policy recommendations. Staff appeared to draw relatively little on World Bank expertise or on other outside information. References to governance tended to be limited to descriptions of facts and of the authorities' past or current actions; they tended to stop short of assessing adequacy of these steps or needs for further action. The 2004 Biennial Review stated that staff should draw more systematically on Reports on the Observance of Standards and Codes (ROSCs) and on the wealth of other material on governance that is available externally, including from the World Bank. Drawing on credible external information would support many of the Guidance Note's directives (increased attention to governance, evenhandedness, proactiveness, a preventative approach, and enhanced collaboration with other multilateral institutions), while limiting further strains on staff resources. Fund staff would continue, per the Guidance Note, to be expected to make their own independent assessment of governance issues in a given country.

ANNEX IV. FINANCIAL IMPLICATIONS OF ADOPTING THE 2018 PROPOSED FRAMEWORK AS SET OUT IN THE 2020 PROGRESS IN IMPLEMENTING THE FRAMEWORK FOR ENHANCED FUND ENGAGEMENT ON GOVERNANCE

As implementation of the Framework was reaching steady state before the COVID-19 crisis, the increase in governance-related work was estimated at $6 million per year.

The initial phase covered the development of toolkits and analytical frameworks, as well as learning by doing for both country teams and supporting functional departments. With this work now part of the mainstream work for the full membership, costs have shifted from development toward full implementation.

- These costs have been partially covered through budgetary resources to functional departments ($2.4 million in FY2020 and $1.9 million in FY2021 in gross terms), with the rest absorbed through reallocations and prioritization in functional and area departments.
- Anti-corruption Capacity Development (CD) work is targeted to increase from 1.1 percent of total CD delivery in FY2019 to 1.8 percent of total in FY2023, or around $4.5–$5 million in total.
- The COVID-19 crisis and the Fund's provision of emergency financing have further highlighted the importance of governance issues and the need for these issues to be firmly embedded in core activities.

Source: IMF (2020).

ANNEX V. SUMMARY OF FINANCIAL IMPLICATIONS OF ADOPTING THE 2018 PROPOSED FRAMEWORK AS SET OUT IN THE 2023 REVIEW OF IMPLEMENTING OF THE 2018 FRAMEWORK FOR ENHANCED FUND ENGAGEMENT ON GOVERNANCE

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 FY2021.

- Departmental spending estimates have been provided in Fund-wide surveys since FY2021 as part of the budget process, based on further experience as well as a methodology that has been improved over time. Conceptually, this estimate comprises several elements.

Some governance-related costs will be higher in FY2024 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, 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 FY2024.

In addition, staff propose several enhancements to the toolkit, 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), 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 CD 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.

Source: (IMF, 2023).

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