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GRAY/22/3011

December 2, 2022

**Statement by Mr. Nicholl, Mr. Becker, and Ms. Choi on Safeguards Assessments - 2022  
Review of Experience  
(Preliminary)  
Executive Board Meeting  
December 7, 2022**

We thank staff and the external expert panel for the comprehensive reports. We broadly agree with findings and proposals, and would like to limit our comments to the following:

**We welcome that the safeguards policy continues to be an effective instrument for preventing the misuse of Fund resources and misreporting of program-related monetary data, and we mostly agree with the proposals.** We acknowledge the safeguards assessments as an integral part of risk management, and we need to ensure that the framework reflects developments in the economic environment and the Fund's lending operations. While we believe the suggested refinements to be appropriate in that sense, *we would welcome further information about the additional pressure on Fund staff resources that would accompany the implementation of the proposals and any measures to mitigate the burden given that considerable streamlining measures have been already introduced since 2015.*

**We are pleased to see that a safeguards assessment plays a role in improving the governance and control frameworks of central banks, while at the same time mitigating the Fund's financial risks.** We are encouraged that the safeguards policy has been effective with broadly improved risk ratings of central banks that have undergone more than one assessment. However, we concur with the panel that capacity constraints within central banks remain a key challenge to the implementation of recommendations from these assessments. We encourage staff to continue to offer relevant capacity development opportunities such as Technical Assurances or training to the authorities as required, and to look for practical ways in which to reduce undue or unnecessary compliance burdens on small-medium sized institutions. Providing comprehensive, user friendly guidelines for safeguards assessments and outreach will also be needed to facilitate central banks' understanding of good practices and how they can most easily and effectively achieve them.

**A more flexible approach that realistically recognizes the circumstances of small states is required.** In particular, we recommend that staff reconsider the requirement for a safeguards

assessment in microstates where the member has a concurrent PCI or PSI with access to RST financing. Many microstates are at risk of climate change and would benefit from the RST. However, most cannot benefit from adopting global standards or safeguards assessments due to capacity constraints. For example, staff numbers are typically small when the financial sector comprises just one or two institutions and in several cases the member country does not even have a central bank (e.g. Kiribati, Republic of Marshall Islands, Federated States of Micronesia, Nauru, Palau, and Tuvalu in the Asia and the Pacific Constituency). For the same reasons, these states have difficulty complying with the conditionalities of an Upper Credit Tranche (UCT) program. Given that they also often do not have a balance of payments need, they tend toward non-financing/disbursing engagements such as the PCI or PSI to request access to the RST. The mandatory requirement for a safeguards assessment is highly likely to lock out small states from access to the RST due to these practical considerations. Moreover, the RST already has a risk management mechanism related to debt assessments and analysis of capacity to repay (CtR), while the potential amount lent to microstates under the RST would be commensurately small. *Staff comments are welcome, particularly any indications as to whether an exemption mechanism could be adopted for tightly limited circumstances.*