

**EXECUTIVE
BOARD
MEETING**

SM/22/248

Correction 1

December 5, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Safeguards Assessments—2022 Review of Experience**

Board Action: The attached corrections to SM/22/248 (11/7/22) have been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Pages 11 and 32

Questions: Mr. Kabwe, FIN (ext. 37828)
Mr. Shin, FIN (ext. 35444)

- **Collaboration with the World Bank.** Staff coordinated with and contributed to six internal audit and accounting workshops organized by the World Bank's Reserve Advisory & Management Partnership (RAMP) during 2018-21. The workshop participants are officials from central banks that are members of the RAMP. The workshops focus on capacity building, and the internal audit events, in particular, serve as a good opportunity to strengthen central bank staff technical skills given the persisting challenges in this area as discussed in paragraph-2223. The events were well received, and the World Bank has requested staff's continued involvement in similar workshops going forward.

13. The period under review saw increased demand for staff's input in an advisory capacity.

Staff's contributions focused on aspects that required subject matter expertise in audit and financial reporting matters that have a bearing on program monetary data. In particular, as part of ongoing safeguards support to area departments in the context of IMF lending, safeguards staff provided technical input to the drafting of terms of reference for several special audits that were conducted by international audit firms. Staff also assisted with the review of the special audit results and integration of remedial action plans in program measures where considered necessary. Such work included: (i) three special audits of foreign exchange reserve positions; (ii) two forensic audits in connection with allegations of misappropriation of banknotes and foreign exchange, and an asset recovery process of a large commercial bank; (iii) two special audits associated with undisclosed loans in a program context, and foreign exchange transactions between the central bank and quasi government agencies; and (iv) special audits of state-owned enterprises.

14. In addition, safeguards staff participated in IMF Central Bank Transparency Code (CBT) reviews.¹⁵

The CBT updates the 1999 IMF Monetary and Financial Policies Transparency Code, and aims to provide clear guidance to central banks on their own transparency practices. The CBT reviews are voluntary; a key objective is to facilitate policy effectiveness, and to help central banks maintain public trust, through greater transparency especially in light of emerging challenges they are facing. The CBT five-pillar framework covers central bank governance, policies, operations, outcomes, and official relations. Since its adoption in July 2020, seven CBT pilot review missions have been completed.

D. Lessons Learned During the Pandemic

15. The high demand for emergency financing during the pandemic resulted in an unprecedented pipeline of safeguards assessments.¹⁶ While the pipeline of some 55 assessments has now largely been completed, this required rapid re-prioritization of work to focus on assessments and re-allocation of staff resources (internal and external). Moreover, staff overtime was also elevated to unsustainable levels (see chart on safeguards activity).

¹⁵ See *The Central Bank Transparency Code* (Policy Paper 2020/038). The work is led by the IMF's Monetary and Capital Markets Department (MCM) in collaboration with staff from FIN and LEG.

¹⁶ Requests for emergency financing require a commitment to a safeguards assessment, with the timing of the assessment being determined on a case-by-case basis, however the safeguards policy requires that the assessment normally be completed before Board approval of any subsequent arrangement.

F. Other

58. For countries that seek access to RST resources through a concurrent program under a non-financing instrument such as the PCI and PSI, such request would need to be subject to a mandatory safeguards assessment, similar to other traditional Fund financing arrangements. In addition, member countries' access to the recently introduced food shock window under the RCF and RFI, would also be subject to the safeguards assessment policy requirements under those instruments.⁵²

59. Staff proposes to introduce an exceptional event clause in the safeguards policy. The proposal builds on lessons learned from the COVID-19 pandemic where the significant increase in demand led to a heavy strain on staff to meet the deadlines, which are designed for normal steady state conditions. The clause would allow relaxation of the normal policy deadlines in the event of a global crisis that leads to significant demand on Fund resources from the membership that creates a large pipeline of safeguards assessments that need to be conducted. Staff would consult with management and seek approval that the above conditions have been met. The clause would allow relaxation of the deadlines as follows:

- Lending arrangements – shift the completion deadline from the first review of an arrangement to the second review.
- Emergency financing disbursements – shift the completion deadline from the Board approval of any subsequent [amendment arrangement](#) to the first review of any subsequent arrangement.

60. Overall, the staff proposals will have primarily transitional resource implications requiring an additional 2-3 FTEs. These transitional resources will primarily be associated with the near-term needs to develop internal guidelines for the conduct of FSRs, enhancements to the safeguards assessment approach for governance, financial risk management, CBDCs and broadening outreach, including development of operational guidelines that would be publicly available. The broad estimate is in the order of 2-3 FTEs. Separately, structural resource needs stemming from the recently established new lending facilities through the RST will need to be considered in the context of budget discussions as the demand becomes clearer in the period ahead. It should also be noted that FSRs were initially designed to provide a high-level overview of potential fiduciary risks arising from budget support at a low marginal cost using existing information. Staff experience, as described in earlier sections, has shown that these exercises require more substantial resources.⁵³ There will be a need to keep resource needs under close review as staff gains more experience with the FSRs.

⁵² See *Proposal for a Food Shock Window Under the Rapid Financing Instrument and Rapid Credit Facility* (SM/22/229, 9/29/22).

⁵³ For example, two of the FSRs conducted during the pandemic each lasted three to four weeks, mobilizing 6-9 staff.