

GRAY/02/317

March 13, 2002

**Statement by Mr. Varela and Mr. Beauregard on Safeguard Assessments  
(Preliminary)  
Executive Board Meeting 02/26  
March 14, 2002**

At the outset, we would like to thank staff for the well-written and focused paper prepared for today's discussion. We would also like to highlight the Panel's recognition that, with limited resources, staff has done an impressive job. We commend staff for this effort.

Regarding the content of the staff's paper and the Panel's recommendations, our comments are the following:

**1. Safeguard Assessments (SA) should become a permanent mechanism of the IMF's Operations**

We agree that the Fund, as a fiduciary agent, should enhance its reputation and credibility as a prudent lender and, in this sense, the SA is a good tool towards that end. Furthermore, it certainly creates the incentives for central banks to be more transparent and vigilant in their actions.

**2. Scope of the SA**

We fully share the view expressed by the panel of experts that although in many cases the SA process could end up proposing program conditionality and timing, only those issues **highly relevant** to safeguarding Fund's resources should be included in said program conditionality. We also fully share the view that staff should take into account specific circumstances of member countries when proposing remedies and related timing and that technical assistance play a key role in this process.

**3. Coordination Among IMF Departments**

Given that the ELRIC framework is based on the IMF's Code of Good Practices on Transparency in Monetary and Financial Policies, we strongly encourage staff to pursue that in the case of those countries that have already been assessed in this area, much of the information for the SA be obtained from the relevant ROSC, leaving discussions with country authorities for those issues that need to be updated or re-confirmed.

**4. Stage One - Stage Two Distinction**

We strongly support staff's view that conducting the SA in a single stage would increase its efficiency, saving resources to both staff and member countries.

## **5. Deadline for Completion of Safeguard Assessments**

In principle, we agree that it would be better to complete the SA prior to the Board discussion on the approval of the Fund program. However, we ought to be flexible and, in this sense, the first program review provided this flexibility.

Staff will recommend to the Executive Board that a program review not be completed if one of three criteria, detailed in paragraph 66, applies. We agree with the proposal but we think that in this very serious case the voice of the authorities would also be important to be heard. Thus, we propose that a letter from the authorities of the pertaining country explaining why they were not able -or willing- to comply with remedial measures, be also included in the report to the Executive Board.

## **6. Monitoring Process**

We fully share staff's proposal to monitor the progress achieved in implementing agreed recommendations to those countries with outstanding Fund loans. For those recommendations that were not included as conditionality, staff suggests that the monitoring process could be carried on every 12-18 months. What would staff's criteria be to conduct in some cases the monitoring process every 18 months rather than in 12 months or vice versa? Wouldn't be easier and more transparent to uniform the monitoring process to a 12-month cycle?

We agree that in the monitoring process new vulnerabilities could arise. Staff proposes a reassessment of the central bank's ELRIC if the country still has a Fund supported program with the Fund. But if said program has expired, then there will be no reassessment. Although we can go along with this proposal, we think that in the latter case staff should promptly inform Management and the Executive Board of the new findings.

## **7. Budget**

Staff's concerns, supported by the panel of experts, regarding needed resources to conduct SA should be addressed, in order to provide the Treasurer's Department the qualified staff to perform this duty. However, as recognized by staff, more efforts should be done to improve information sharing among departments in the Fund.

## **8. Publication**

We agree to publish the report after deleting country references.