

GRAY/02/322

March 13, 2002

**Statement by Mr. Lushin and Ms. Vtyurina on Safeguards Assessments
(Preliminary)
Executive Board Meeting 02/26
March 14, 2002**

We are pleased to see that the overall experience with the pilot program on strengthening safeguards of central banks has been positive in view of both the staff and the panel of external experts. This program has been an important part of enhancing the operational procedures of central banks while improving the Fund's reputation and credibility as a prudent lender. Yet, as the staff rightly notes, these assessments should not be seen as a panacea for preventing the misuse and misreporting under Fund arrangements since even good controls can be overridden. In addition, it would be essential to monitor the implementation of the recommendations given to central banks since the true effectiveness of this assessment exercise could only be seen if and when these recommendations are actually implemented. We thank the staff for a very comprehensive report, which makes it difficult for us to add any substantial comments. Therefore, we would limit ourselves to the following points:

- While commending the staff for designing a useful and broad ELRIC framework, we also appreciate their attempts to give due consideration to countries' varying levels of economic development and complexities of central banks' operations and also to recommend corrective actions that range from technical assistance to prior actions. In this context, the difference between the available options has to be carefully identified. We note that so far this distinction has been made fairly well (a good example would be the case of Pakistan where both TA and prior actions have been applied). This said, however, we expect that corrective actions will be applied in an equal manner in countries sharing similar assessment outcomes. In general, though, we agree with continuing to use the ELRIC framework as a basis for assessing safeguards and concur with the staff's proposals for its operational refinements, such as streamlining of the documentation requested from central banks and converging off-site and on-site assessment reports.

- In regards to the time required to complete a safeguards assessment, we note good progress made in staying on schedule. However, there have been instances when the deadline was missed because of various difficulties elaborated on by the staff in footnote 5. Since generally review times for the Fund's arrangements range from 3 to 6 months while the safeguards assessments may take up to eight months, delays in presenting assessments to the Board should be expected. We agree with the staff proposal to make the best effort to keep the deadline intact, but, in turn, would appreciate a more comprehensive explanation than at present in the Board papers on the reasons for delays so that to avoid additional elaboration from the staff on this issue during the Board meetings. Otherwise, we are satisfied with the staff proposals on the communication to the Board as stipulated in paras 65-67.

- While it is important to single out the positive aspects found in some central banks' safeguards frameworks, unfortunately many deficiencies still exist in many of them. Indeed, the staff's findings of safeguards assessments presented in Table 2 communicate quite serious problems in various areas of banks' ELRICs. In regards to the staff question to the Directors if the existence of the safeguards process provides an incentive for a central bank to be more aware and vigilant in its actions, we see it is rather obvious that if the country is under the Fund arrangement, the corresponding central bank will have no choice but to improve its ELRIC framework. However, we are not so sure that many other central banks are particularly keen on this issue. Therefore, we are pleased to note, that in the staff's view the assessments have raised the awareness of safeguard related issues in central banks. We were also pleasantly surprised that several central banks not subject to safeguards assessments have proactively sought staff's informal assistance in understanding the assessment process and ELRIC framework.

- This brings us to the issues of promoting safeguards awareness and resource implications. While the aforementioned banks' interest in safeguard assessments is a most welcome development, we are concerned that given the limits of available resources (see below) the staff's involvement in the dissemination of information to interested parties and participation in external fora will take them away from the current work in countries that need to undergo such assessments. Therefore, while recognizing the importance of increasing awareness in this area, we will have difficulty in supporting this type of involvement by the staff unless staff resources are increased. Our stance on this issue is also supported by the discussion in paras 50-51 and Annex IV on resource implications from which it is apparent that there are not enough trained staff within the Fund to participate in the needed assessments while "the experience with external experts has been mixed". In regards to the latter, we would ask the staff to elaborate on this statement (it would also have been helpful if the external experts who participated in such assessments had expressed their opinion about their experience).

- We are troubled by the fact that in FY 2002 the annualized resource utilization is expected to be four staff years in excess of the budget allocation (especially when this results in non-compensation of overtime for a small number of staff conducting assessments). This is not the first time this Chair expressed its dissatisfaction with the way the new initiatives are being undertaken at the Fund, specifically in the area of resource management. This said, we expect those Chairs who are going to be supportive of the activities listed on page 51 also to support the equivalent increase in the FY2003 budget appropriations. If the Fund is trying to ensure an appropriate use of its financial resources by its members, it should lead by example in its own sound allocation of resources across activities.

- To get the most out of the assessments exercise adequate monitoring of previous recommendations is essential. We see the staff proposals in this area as adequate. We also suggest conducting another evaluation of the Fund's experience in this area no later than 24 months from now in order to examine the end results of the implementation of recommendations. We also concur with expanding the safeguards assessments program to cover the augmented arrangements and RAPs, and making it a permanent part of the Fund's operations. We do not, however, agree with the proposals of the US Chair on the extension

of assessments to other cases and arrangements, not least because the Fund resources are limited. And, as previously, neither do we support conducting assessments in any agency (a fiscal agent) other than a central bank.

Finally, without singling out any particular country since it would be inappropriate at the discussion of a policy paper, we would like to emphasize that in the context of the Fund programs special attention should be paid to high quota users of the Fund resources. Operations of these countries' central banks should be put under the highest degree of scrutiny so that to ensure the full protection of the Fund resources.