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March 13, 2002

Statement by Mr. Mirakhor on Safeguards Assessments
(Preliminary)
Executive Board Meeting 02/26
March 14, 2002

Key Points

- *Significant progress has been made on safeguards assessments (SAs), with very limited resources.*
- *We agree that SAs should become a permanent feature of Fund policies.*
- *Regarding the way forward, we broadly agree with staff proposal, except the following: (i) the proposed monitoring procedures should apply only during the period of the arrangement and during any post-program monitoring; (ii) SAs should not be extended to government agencies where the fiscal agent is not the central bank, and (iii) paragraph 66 needs clarification, for example:*
  - *what is the status of the proposed criteria within the overall program conditionality framework; and can the proposed criteria admit waivers;*
  - *the meaning of the sentence "staff would recommend that a program review not be completed" is not clear. Usually the request for completion of the review is not brought to the Board unless approval is recommended by staff;*
- *We support additional resources to cover the projected needs.*
- *We propose an IMF Institute course on safeguards assessments.*

We thank the staff for a well-written report and for the consultative approach used in conducting the review of experience with safeguards assessments (SAs). We thank also the members of the panel of experts for their contribution to this important work.

From the findings of the review and our Chair's own experience, it is fair to conclude that the SAs initiative has brought largely positive results. We note in particular:

- The identification of significant vulnerabilities in the way some central banks are conducting their operations, including lack of external audit, weak legal and governance structure, inadequate accounting standards, deficient internal audit, and poor control over foreign reserves;

- The highly encouraging acceptance of SAs approach by central banks and the implementation of much of their recommendations;

- The positive contribution of SAs, together with other Fund initiatives, to the emergence of a culture of transparency and accountability in central banks operations reflected in a more timely publication of audited financial statements and in the recognition of the important role of audit in strengthening governance;

- The acknowledgment by the panel of experts that SAs are contributing to enhance the credibility of the Fund as a prudent lender. This is confirmed by the staff's own findings that SAs have identified and addressed several instances of potential misreporting, thus limiting the risks of misuse of Fund resources.

The panel and the staff are proposing a number of changes and refinements. We agree with the proposal to make SAs a permanent feature of Fund policies. We agree on the extension of the SAs exercise to existing arrangements that are augmented. Regarding the case of countries following a Right Accumulation Program (RAP), and in view of the special circumstances and vulnerabilities of these countries, it could be useful to encourage these countries to voluntarily undergo a SA as part of the RAP so as to allow them to initiate, and have enough time to implement, the necessary corrective actions. The conditionality associated with SAs should, however, be applicable only when Fund resources are being committed. We also agree that no requirement for SAs be made for first credit tranche purchases, CFF purchases, or emergency assistance disbursements.

The role of monitoring the implementation of the recommendations made during the course of a safeguards assessment exercise is very important. We would expect that monitoring would be intensive during the period of the Fund-supported program and, in some cases, we can see the need for on-site monitoring. After the expiration of the arrangement, however, our preference is for a more selective and flexible policy. For example, we can support staff's proposed approach in Section V-A only for countries selected for Post-Program Monitoring. An indication from the Legal Department on whether members' obligations could be expanded as suggested in cases where no new Fund financial resources are committed would be helpful. At the expiration of the Post-Program Monitoring or when credits outstanding reach less than 100 percent of quota, the "transitional procedures" now in effect, namely that central banks publish annual financial statements that are audited by external auditors in accordance with internationally accepted standards, should provide enough assurance.

We support staff's proposals to streamline the two-stage process, to enhance awareness about SAs through periodic issuance of non-country specific reports, while keeping the SAs documents confidential. We support also the way SAs will be applied to new arrangements, including tailoring the documentation requested from central banks to the specific country. However, SAs should not be extended to government agencies where the fiscal agent is not the central bank as this would entail Fund involvement in complex and time-consuming issues and may be perceived as intrusive.

Paragraph 66 of the report needs some clarification. While staff may wish to recommend noncompletion of a review based on the proposed criteria, it is not clear how these criteria will be treated within the framework of Fund conditionality. Will, for example, waivers be allowed? Will the Board be informed of the authorities' position and reasons why anyone of the proposed criteria has not been met? Will the staff report to the Board when a member has satisfied all other program conditionalities, but has failed to meet the SAs criteria? As it appears, paragraph 66 seems to give higher status to the proposed criteria than other program conditionalities. What is the meaning of the sentence "staff would recommend that a program review not be completed?" Usually the request for completion of the review is not brought to the Board unless approval is recommended by staff.

We support the panel's proposals for stronger consultation within the Fund and with member countries in the conduct of SAs, close attention to specific conditions in member countries when proposing remedies and related timing, and limiting areas covered by Fund conditionality to highly relevant issues.

We thank the staff for the information provided in Annex IV on the resource implications of SAs. We note with satisfaction the efficiency in use of the limited resource available for this initiative, i.e. 9.8 staff years in FY 2002. We are, however, concerned by the unsustainable reliance on uncompensated overtime. We therefore support increase in resources to cover the projected needs during the next two to three years.

Finally, some non-program countries in our constituency have expressed interest in understanding the SAs process. We take this opportunity to thank the Treasurer's Department for its cooperation and for the support provided to our authorities. We suggest formalizing this assistance through development of an IMF Institute course on SAs by the Treasurer's Department.