

GRAY/02/324

March 13, 2002

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

**Key Issues**

- We need to be realistic about the extent to which safeguards assessments can safeguard resources and keep the goal of the framework in perspective.
- While the framework will not prevent misuse of Fund resources or misreporting to the Fund, safeguards assessments, if followed through, could create an environment that makes misuse and misreporting less likely.
- Given the limitations of the framework and the existence of other vehicles to promote transparency and good governance, as well as taking account of the resources requirements, we suggest there is scope for a more focused approach.

**The Need for Realism**

The Fund has a responsibility to safeguard its resources. While it might be the case that the safeguards assessments approach has enhanced the Fund's reputation and credibility as a prudent lender, the key issue is whether the framework can meet its intended objectives in safeguarding resources. As staff notes, it is too early to determine the long-term effectiveness of the process. In the meantime, we must be realistic about what the safeguards assessments can achieve.

Even if the assessments were to give comfort that there would be no misuse of Fund resources once they enter the central bank's balance sheet, there is still potential for misreporting and misuse of resources □ staff outlines the limitations of extending such assessments to treasuries or finance ministries and spending departments. Furthermore, the Fund cannot control the use of fungible resources.

While safeguards assessments of central banks will not prevent misuse of Fund resources or misreporting to the Fund, if followed through, they could create an environment that makes misuse and misreporting less likely.

### **Specific Goal of SAs: A Reminder**

It is also important to keep in mind that the goal of this whole exercise is safeguarding Fund resources rather than effecting wholesale changes in central bank accounting and governance.

In our view, a more effective vehicle to promote best practice central bank accounting and governance is the voluntary Code of Good Practices on Transparency in Monetary and Financial Policies (the MFP code). The staff paper highlights that central banks have willingly embraced changes recommended in the context of the pilot safeguards assessments. We see this as an argument for better promotion of the MFP code rather than an argument for additional safeguards assessments.

We must take care not to present the framework as mitigating the risk of misuse and misreporting. To do so would run the risk of strong criticism in future cases of misuse and misreporting.

Realism is also required in respect of the time it takes to improve financial reporting and corporate governance under the ELRIC model. Changes necessary to create effective corporate governance and financial reporting models can take significant time (and, in some cases, may require significant assistance), which may imply continued risks to Fund resources in the short-term.

### **Scope for a More Focused Approach**

While we welcome staff's suggestions for refining the framework, taking a step back and taking into account the resource implications, we suggest there might be some scope for a more effective and efficient way of safeguarding resources by focusing on cases where Fund resources are most at risk. This may imply a shift from a zero-tolerance based approach to one that is based on an assessment of risks to Fund resources, the mitigation of which should be the central aim of the exercise. On a more general level, safeguarding Fund resources could be built into Fund program reviews by including an assessment of potential risks to its successful completion.

Given the potential drain on both Fund and central bank resources, we would be interested to hear staff's views on ways to more effectively target the assessments, bearing in mind the existing vehicles for promoting transparency and good governance. The scarcity of both internal and external experts with the skills required to conduct assessments, also argues for a more focused approach. It is essential that assessments be undertaken by people who have some understanding of central bank operations.

It remains to be seen whether safeguards assessment recommendations can be implemented to significantly reduce resource misuse. We recognize the importance of having measures to safeguard resources and that, while the approach had shortcomings, the assessments could foster an environment where misreporting and misuse are less likely. We reiterate that we have some concerns about the effectiveness of the approach and see merit in a more focused approach.

Finally, we find it reassuring that the staff did not endorse the adoption of the Independent Review Panel's recommendation to develop a comprehensive accounting and financial reporting framework for central banks. We do not see central banks as so unique so as to warrant a separate accounting standard.