

GRAY/02/325

March 13, 2002

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

1. I thank the staff and the panel of experts for their reports. The experience with safeguards assessments so far confirms the importance and usefulness of this initiative, as the exercise has identified significant vulnerabilities and deficiencies in the areas of control and governance within central banks of program countries. Although the safeguards assessment policy will not prevent deliberate and willful misreporting and misuse of Fund resources, it certainly helps reduce the possibility for such conduct and minimize the scope for unintentional misinformation. I therefore support the proposal to make the safeguards assessment policy a permanent part of the IMF's operations.

2. Of course, to accomplish the objective of this initiative, assessments have to be followed by remedial actions. The effectiveness of the safeguards assessments policy will thus ultimately have to be measured by the improvements in central bank safeguards. I fully agree with the panel of experts that the failure to follow up the recommendations resulting from safeguards assessments would raise doubts about country ownership and possibly harm the credibility of Fund lending practices. Therefore, I agree with Ms. Lundsager and Mr. Baukol that the Executive Board would have to consider the interruption or delay of disbursements if country authorities would fail to take reasonable steps to address identified deficiencies. It is my understanding, however, that this is covered under the current policy, insofar as □given the nature of the findings □the staff would incorporate proposed remedies into program conditionality.

3. I agree that the ELRIC framework should continue to be the basis for assessments. It is a good 5-pillar diagnostic tool to assess the key areas of control and governance within a central bank. At the same time, however, the safeguards assessments are rightly focused on safeguarding Fund resources and should not provide a general assessment of compliance with international best practices in these areas. For this reason, I am reluctant to expand the coverage of safeguards assessments to cases where no Fund resources are involved. Accordingly, I agree with the inclusion of augmentations to existing arrangements and Rights Accumulation Programs. More questionable would be the inclusion of Staff Monitored Programs. The same is true for voluntary assessments in the case of non-program countries. I would generally prefer not to overburden the exercise and keep its focus on the safeguarding of Fund resources.

4. Expanding the coverage of safeguards assessments will have consequences for the resources needed, though it is understood that the increase in resources should be temporary,

until all program countries will have had their first assessments. The following “update” assessments should require significantly less resources. As to the monitoring of recommendations, I support the proposal to make off-site monitoring the primary tool. It might also be cost effective to connect the monitoring of recommendations with regular program monitoring. Overall, it should thus be possible to meet additional staff requirements mainly by redeployment. The Fund should also continue to utilize external experts. If experience with external experts has been mixed, the staff should try to ascertain the reasons and find ways to improve collaboration.

5. On the timing of safeguards assessments, I agree that they should be finished preferably before the approval of a new program, and no later than the first review, in order to ensure credibility and effectiveness in safeguarding IMF resources. I also support the proposed refinements to existing procedures, i.e., the preparation of only one safeguards assessment report and the tailoring of documentation requested from the central bank to the specific country. Concerning the information to the Board on safeguarding assessments results, I can accept that normally the Board will not receive the detailed reports and will be informed only by a summary, although I find the confidentiality argument to be somehow at odds with the role of the Board. After all, it is the Board that is responsible for the granting of financial resources.

6. Finally, regarding the problem of Fund lending to entities other than central banks, it is my understanding that even in cases where the Fiscal Agent for the Fund is not the central bank, it is now common practice that Fund resources are disbursed in a central bank account. I would expect that the Fund members are requested to follow this practice. Therefore, I believe that the safeguards assessment policy achieves what it intends to achieve, and the broader case of misreporting or misuse by agencies other than central banks, have to be addressed through program conditionality and the Fund’s other transparency initiatives.