GRAY/02/326

March 13, 2002

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

1. We welcome this opportunity to review the experimental procedures for central bank safeguards assessments eighteen months after their introduction. The papers before us are quite comprehensive and provide a good basis to evaluate that experience, and to decide where to go from here with the assessments policy. Let me say from the outset that we attach great importance to the Board's responsibility in safeguarding Fund resources, including the effort to reduce the risk that resources are provided to members on the basis of erroneous information. We are under no illusion that safeguards assessments of central banks will eliminate misreporting or misuse of Fund resources altogether. This is so for many reasons, including the fact that in some instances, potential misreporting by other government agencies may be just as relevant as misreporting by central banks. More broadly, erroneous data is only one of many factors, including program design and policy implementation, that determine the extent to which Fund resources are being safeguarded. In our view, the significance of the procedures being reviewed today should not be minimized, but neither should it be exaggerated.

2. While we understand the distinction between the objectives of safeguards assessments and those of technical assistance, we do not see the two as completely separate. An important purpose of the diagnosis is to make possible the formulation of informed and effective advice on how to correct weaknesses and vulnerabilities in central bank data and control systems. One assumes that assessments reports submitted to central banks include clear and specific steps to be undertaken. Obviously, in many instances central banks may need technical assistance in the implementation of corrective measures, and that is obviously a different undertaking from the diagnostic assessment. But we would not draw too sharp a line between diagnosis and advice, as the staff paper seems to do. In fact, we view—and would encourage the staff and the countries subject to assessments to also view—the policy as part of the broader Fund role in assisting member countries to correct vulnerabilities in their informational and institutional capacities. This does not conflict with the fact that the policy is also motivated by the obligation to protect Fund resources, which is an obligation on our part after all.

3. The safeguards assessments are pre-emptive in nature, and their impact therefore may not be easy to gauge. To the extent that assessments produce better transparency and more effective control systems, some misreporting may be pre-empted, which otherwise would go unnoticed without safeguards assessments, or without the corrective actions produced by such assessments. Therefore, an outcomes-based yardstick would not be meaningful, and one

has to rely on information regarding implementation of assessments-related remedial steps on the part of central banks over the past 18 months. On that basis, we are encouraged by the improvements in the reporting quality and practices of many of the central banks involved, although some of that may be related to the increased general awareness in most countries of the importance of accounting, auditing and other similar procedures and standards, which cannot be attributed solely or mainly to the safeguards assessments procedures of the Fund.

4. In addition to effectiveness of the policy, resource implications are another factor that needs to be taken into account in deciding to make the policy a permanent one. On the basis of the information provided by the staff, while the resource implications are not negligible, they are not particularly excessive either. We also understand that the use of outside experts has been very limited. While the training needs associated with assessments may be somewhat specialized, they fall in areas where the Fund is increasingly involved; and thus should have the added benefit of improving the staff's overall capabilities in these areas.

5. **We are prepared to go along with the staff's main recommendation of making safeguards assessments a regular Fund policy, and wish to offer a number of additional observations and questions.**

6. While safeguard assessments are more limited than the reports on central bank adherence to the code of best practices under the ROSC exercise, the assessments framework is anchored on, and derives from, the principles that constitute that code. However, one advantage of the safeguards assessments is that it permits greater leeway in tailoring the assessment and the associated recommendations to the circumstances of different countries. We welcome, in this connection, the staff's emphasis on the need to take country circumstances and institutional capabilities into account in undertaking assessments and making specific recommendations.

7. Among the suggestions for the period ahead is to encourage central banks to undergo assessments in cases of Staff Monitored Programs (para 53). We have no difficulty with encouraging central banks, including in SMP cases, electing to undergo assessments of the quality of their reporting. But the suggested extension does seem to blur the rationale of a policy, which aims at safeguarding Fund resources and not combating misreporting generally. Applying it to SMPs, which are often—but not always—preludes to arrangements, may be seen as pushing the policy somewhat in the latter direction.

8. Among the factors that will determine the nature and periodicity of safeguards monitoring is the extent of Fund credit outstanding (para 58.) It is not clear whether the staff is referring to credit in absolute terms or relative to quotas. From a cost-effectiveness or prudential standpoint the former is clearly more relevant. But it could also be argued that the credibility of information provided to the Fund (including for flows from other sources to the country concerned), and therefore the payoff of assessments, may be at least as important in the case of smaller countries where the absolute exposure of the Fund is small in absolute terms. Staff comment on this would be useful.

9. Two other questions for clarification by staff relate to the use of on-site monitoring. In para 59, the staff indicates that no such monitoring would be undertaken after the end of program, and that only off-site monitoring will be used in the post-program period as long as there is Fund credit outstanding. First, the schematic on page 52 seems to suggest the possibility of on-site monitoring throughout the period of outstanding Fund credit, and not only during the program period. Perhaps the schematic should be revised to make it consistent with the policy being proposed in para 59. Second, it is not clear what the follow up would be in those cases where off-site monitoring indicates the presence of significant problems. It is possible that the country itself may want to deal with those problem and not simply have them flagged, for example in staff reports, without a complete diagnosis or a plan to undertake the needed corrections. We need to insure that such follow-up and technical support are adequately provided.

10. Regarding the paper summarizing the views of the Panel of Experts. We have two remarks. First, we have noted the Panel's view that there is an urgent need for the IMF to encourage the development of specific standards or a framework for central bank accounting and financial reporting. The paper does not explain why the Panel felt that such a special set of standards would be needed for central banks. A clarification of the rationale behind this suggestion would be useful. Second, the Panel also suggests that safeguards assessments be adapted to apply to agencies that may serve as government fiscal agents instead of central banks. While recognizing the problem, the staff clearly does not agree with the Panel's recommendation as indicated in para 13 of the main paper. Staff elaboration on this issue would be useful, including on whether central bank assessments would still be undertaken in such cases even though the central bank is not the fiscal agent.