

GRAY/02/319

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**Statement by Mr. Kiekens and Mr. Josz on Safeguard Assessments
(Preliminary)
Executive Board Meeting 02/26
March 14, 2002**

This independent review of the implementation of the new policy of assessing a country's safeguards before giving it access to Fund resources once more demonstrates the staff's ability to implement new policies quickly, and shows how urgent it is to improve the transparency of countries' central banks and the effectiveness of their control systems.

From Table 2 of the staff's main paper, and particularly from its last column, we obtain a pretty bleak pictures of the transparency and operational controls of the central banks surveyed. The many serious defects found so far confirm that prior assessments of the safeguards used by the fiscal agents of countries requesting Fund resources were long overdue. Fortunately, the review also shows that the deficient central banks have recognized their deficiencies and started to correct them. The progress of these remedies must now be adequately reflected in program conditionality and carefully monitored during program reviews.

We support all of the staff's proposals, including their request for more resources (Annex IV) to strengthen the Fund's new policy of safeguard assessment. The Board should be regularly informed about the results of safeguard assessments, perhaps as part of the quarterly financial transaction plans that it already submits for the Board's consideration.

The findings of the independent review indicate that the following proposals should also be adopted:

- In countries where the fiscal agent is an agency other than the central bank, that other agency should likewise be subject to a safeguard assessment before Fund resources are released.
- Safeguard assessments are preferably to be completed before the release of Fund resources, and in all cases before the first program review. Paragraph 12 of the staff's main paper shows that this deadline has sometimes been missed, but does not indicate how many times. Fuller information would be welcome. The number of missed deadlines must be reduced from now on, lest the credibility of our policy of prior assessments of safeguard assessment should suffer.
- Progress with the correction of serious deficiencies found during safeguard assessments should be monitored both during the program and as long as post-program monitoring continues.

- The Board should again review the new safeguard assessment policy two years from now. The staff has made a good start with its implementation, and the countries surveyed are reacting swiftly. But the Board must closely monitor the progress made in correcting the many remaining loopholes in central banks' controls revealed by this first review. Past abuses by some central banks of Fund resources have severely tarnished the Fund's reputation as a prudent lender. The utmost vigilance must be used to prevent any recurrence of these abuses.
- Our next review of safeguard assessments should again be supplemented by the expertise of independent experts. Their opinions have been extremely valuable, both during the design of the policy two years ago, and during the present review. The next time the external experts should contact not only central bank governors but also the central bank board members in charge of internal audits, when seeking information on a central bank's experience with the safeguard assessment exercise. This would make it possible to obtain the viewpoints not only of the official responsible for the central bank's overall management but also that of the person directly responsible for the transparency and the control of central bank operations.

Finally, it would be most welcome if Russia joined the group of member countries not in line for safeguard assessments but whose central banks wish to learn about the safeguard framework and to use it as a benchmark for their own practices. Russia has not made much progress with respect to publishing the central bank's financial statements, reviewing past years' reserve management practices, or reporting its international reserves and foreign currency liquidity to the Fund under the SDDS template--as is known from the staff report for its 2001 Article IV consultation and post-program monitoring discussions.¹ Russia's lack of progress casts a shadow over the headway made elsewhere through the Fund's new policy on safeguard assessment.

¹ EBS/02/26, paragraph 17, page 9, and footnote 8, page 10.