

The contents of this document are preliminary and subject to change.

GRAY/05/1298

April 22, 2005

**Statement by Mr. Ondo Mañe on Safeguards Assessments
(Preliminary)
Executive Board Meeting 05/38
April 25, 2005**

We welcome the present review of the safeguards assessments and note that the implementation of the policy has been highly successful in achieving its objectives, namely the implementation by central banks of countries with Fund programs, of adequate control, accounting, reporting, and auditing systems, to manage their resources, including Fund disbursements. We also note that the report of the independent panel has indicated that the reputation of the IMF as a prudent lender has been enhanced following the implementation of the safeguards policy.

We particularly welcome the very high implementation rate of the recommendations to address the identified vulnerabilities –whether these recommendations were under program conditionality or *not*. For serious vulnerabilities in a central bank’s control framework and governance, we note the inclusion of recommendations in program conditionality due to the risk of misuse of Fund resources. Nonetheless, we believe that such recommendations should be used judiciously and within the framework of conditionality guidelines to avoid, as much as possible, overloading new arrangements with additional conditionality *after* the approval of the arrangement, especially since the implementation rate of recommendations that are *not* under program conditionality is commendable (76 percent), suggesting a strong acceptance by the authorities of the usefulness of the policy.

Flexibility in the application of the policy should also be encouraged –lack of flexibility is cited as a major concern by surveyed central banks in the independent panel report–, and we commend staff for taking into account, on several occasions, country specific circumstances when formulating recommendations. We fully support this approach.

Going forward, we believe that the three types of assessments are broadly appropriate, and since fewer *new* assessments are expected in the future, we support the idea of updating the Board on an annual basis rather than the current semi-annual basis. However, the review of the assessments should continue to be performed every three years.

We will make a few remarks on the results of the assessments.

1) The Impact on Operations and Governance Structures of Central Banks

In general, central banks have accepted the findings of the safeguards policy and have taken the necessary steps to address key deficiencies in operations, often improving both operations and governance structures. In particular, we note that staff has found heightened awareness among central banks of the importance of proper external audits, the adherence to an established set of accounting standards, and the control and oversight functions performed by internal audit staff and audit committees. As a result, central banks have strengthened external audit mechanisms, accounting standards and internal audit functions. We note that the panel mentions « more effective external audit mechanism », as the most cited improvement in central bank operations by the surveyed banks.

2) Misreporting Cases

One of the main objectives of the safeguards policy, is to minimize the likelihood of misreporting cases. We note that the policy has been successful in contributing to detect a few cases of misreporting. Going forward, we agree that the policy will have a deterrent effect because of outside scrutiny.

3) Possible Misuse of Fund Resources

Another key objective of the safeguards policy is to minimize the possibility of misuse of Fund resources. In this regard, we also note that the safeguards assessments have contributed to reveal the existence of unusual activities at a few central banks. We welcome the necessary steps taken by the concerned authorities to replace senior management where misuses had taken place and to strengthen controls at their central banks. Such measures should reduce future possibilities of misuse of resources.

We support the extension of the policy to EPCA cases, once functioning monetary and financial systems have been re-established. In addition, in countries where safeguards assessments are not conducted because no formal arrangements are in place with the Fund but where safeguards assessments are considered necessary, we believe that member countries should be informed –in the context of an Article IV, for example– of the main lessons drawn and recommendations implemented under the policy in order to encourage countries to implement these recommendations on their own. However, confidentiality of information of countries that have undergone the assessments should be preserved. The need to enhance communication has been cited as one of the main areas for improvement by the independent panel.

As for confidentiality and the issue of sharing individual country reports with other international organizations, we believe that these reports could be shared only after the countries have given their consent.

We would also like to ask staff whether they had previously raised the issue of sharing the reports with the surveyed countries or with the independent panel ? Staff comments are welcome.

4) Enhanced Awareness of the Quality and Reliability of Data Provided to the Fund

Finally, on two key critical monetary data provided to the Fund, i.e., net international reserves and net domestic assets, we note that the establishment of independent oversight roles undertaken by external auditors and audit committees has been instrumental in the improvement of the reliability and robustness of these data.

We thank staff for the quality of the report.