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GRAY/05/1304

April 25, 2005

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

1. We thank the staff and the members of the Independent Panel for their reports. We gladly note the positive impact of the safeguards policy on all parties involved. Further progress has been made in meeting the policy's objective, i.e., the protection of Fund resources. As the Independent Panel concludes, the assurances on the fit and proper use of Fund credit are probably higher than ever before. This is encouraging. But implementing the recommendations of the Panel should serve to further strengthen the policy moving forward.
2. An indicator of the effectiveness of safeguards assessments is the high implementation rate of staff's recommendations. By this measure, the policy has made a notable difference. Central banks have improved their regimes of financial control and reporting, which are in any case critical in deterring the misuse of resources. Also, certain Fund-supported programs were interrupted when key recommendations were not implemented. This can be taken as a further indication of the policy's effectiveness. Lastly, safeguards assessments have proven effective in detecting the misreporting of data under Fund arrangements.
3. The incidences of misreporting cited in the staff paper underline that the misuse of Fund resources can never be fully ruled out. But this does not put the safeguards policy itself into question. In fact, a closer look at the misreporting cases seems to suggest that two of the three incidences can be interpreted as transitory cases. The non-complying disbursements were made under arrangements that were already in place when the policy was introduced, so that the central banks in question were only partially assessed.
4. This said, we share the concern of Mr. Meissner and Ms. Wolff on the significantly lower implementation rate for recommendations that are not subject some form of Fund conditionality. This suggests that the effectiveness of the safeguards policy would benefit from a broader coverage of recommendations by benchmarks and/or performance criteria. The staff's thoughts on this would be welcome. We are also concerned with the high share of central banks that have deficiencies in the five areas subject to the assessments. For instance, it is astounding that more than half of the central banks assessed since 2003 had inadequate internal audit provisions. Progress in these areas can be gauged as the focus of the safeguards

policy shifts from initial assessments to updates. We agree with the modalities that staff suggest for these updates, and for the monitoring.

5. We also support the proposed modalities for extending the safeguards policy to the Fund's emergency assistance to post-conflict countries. This extension is well warranted, for the reasons given by the staff and other Directors. In applying the policy, the difficulties associated with limited institutional capacity will have to be taken into account.

6. We note that the safeguards policy will, in concurrence with what most Directors felt at the time of the last review, continue to be limited to central banks. The recipient of disbursements under Fund arrangements is indeed normally a central bank. But, as mentioned in footnote 10, there are many member countries that have designated government ministries as the fiscal agent. If disbursements are in these cases made directly to the fiscal agent, as in Turkey's last program, this should be clearly indicated in the UFR document.

7. We also take note of the recommendations of the Independent Panel on how to further strengthen the safeguards policy. In particular, these related to improving communication between staff and the central bank officials, and to the 'tracking matrix' for off-site assessments. Could the staff elaborate on if and how they intend to implement these recommendations?

8. Finally, we agree with the sharing of information of safeguards assessments with other IFIs, as suggested. We also agree that update papers on safeguards assessments henceforth be circulated to the Board on an annual basis from now on, and that the policy next be reviewed in three years.