



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 05/170
FOR IMMEDIATE RELEASE
December 28, 2005

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes Review of the Safeguards Assessments Policy

The Executive Board of the International Monetary Fund (IMF) concluded its review of the experience of the safeguards assessment policy on December 8, 2005. The review included a discussion of a staff paper, a report prepared by an independent panel of central bank officials,¹ and further work on a proposal to share safeguards assessment reports with other international financial institutions.

Background

The safeguards assessments policy was introduced in March 2000 and made a permanent feature of Fund operations in March 2002 to provide reasonable assurance to the IMF that central banks of member countries using IMF resources have adequate financial control systems to manage their resources and IMF purchases or disbursements. The policy's main objective is to minimize the possibility for misreporting of information to the IMF and misuse of IMF resources. Safeguards assessments, which are commenced before member countries can use IMF resources, involve an evaluation of central banks' operations in five areas: the external audit mechanism, the legal structure and independence, the financial reporting framework, the internal audit mechanism, and the system of internal controls.

Following the Board discussion in April 2005 and further consultative work, the Executive Board in December 2005 agreed on a proposal that permits transmittal of safeguards assessment reports, subject to assurances that similar reports from other international financial institutions would be shared with IMF staff and that the confidentiality of the reports would be maintained. Transmittal of reports is subject to the consent of the central bank in question and, initially, the reports will be shared only with the World Bank.

Executive Board Assessment

Executive Directors welcomed the opportunity to review the experience with the safeguards assessment policy, introduced in March 2000 to provide reasonable assurance that central banks have adequate financial control systems in place to manage their resources and Fund

¹ See the Executive Board paper, [*Safeguards Assessments—Review of Experience*](#), and the panel of central bank officials' paper, [*Report of the Independent Panel on Safeguards Assessments*](#).

disbursements. The policy involves an evaluation of central banks' operations with respect to the external and internal audit mechanisms, the legal structure and independence, the financial reporting framework, and the system of internal controls. Directors noted that the policy continues to be widely welcomed by central banks and has yielded positive results overall, with 111 safeguards assessments of 69 central banks having been completed. Directors also expressed their appreciation to the panel of central bank officials for providing an independent appraisal of the policy's effectiveness.

Directors noted that the policy has had a positive impact on central banks' operations, and in particular, that there have been considerable improvements in the governance and control frameworks at many central banks. They observed that recent safeguards assessments have found a heightened awareness at many central banks of key control issues, such as proper external audits, adherence to established accounting standards, and the oversight functions performed by internal audit staff and audit committees. Directors considered the overall rate of implementation of safeguards assessments recommendations to be commendable, but some expressed concern that there has been a decline in the rate of publication of financial statements in the central banks sampled. Some Directors underscored the contribution to more consistent implementation of recommendations when these form part of formal commitments, either in the authorities' letter of intent or as part of program conditionality. It was also suggested that key recommendations should be implemented by the second review of performance under the member's Fund-supported program. Directors also noted that the policy has led to more attention, by both central banks and Fund staff, to the quality and robustness of data provided under new Fund arrangements.

Directors welcomed the panel of central bank officials' independent appraisal of the safeguards assessment process which took into account views from a large number of central banks that have undergone a safeguards assessment. Directors noted the panel's conclusion that the safeguards policy has been a success so far, and that the conduct of safeguards assessments has been relatively efficient. At the same time, Directors supported the panel's observations that communication with central banks on safeguards issues should be improved, and that the modalities for assessing and monitoring safeguards at central banks should remain flexible.

Directors observed that the overarching objective of the safeguards policy is to safeguard Fund resources, but that the policy cannot prevent misuse of resources that may result from willful override of controls or manipulation of data. They further noted that the scope of the policy is limited to operations of the central bank and does not cover fiscal activities of the government.

Directors considered the existing framework for assessing central banks' operations to be broadly appropriate. Most Directors agreed that flexibility should continue to be exercised in the application of the policy in recognition of country specific circumstances, provided this does not undermine the essence of the safeguards policy's objectives. In this regard, Directors stressed that well-targeted and coordinated Fund technical assistance can often provide critical help in removing implementation difficulties stemming from lack of capacity.

Directors stressed that safeguards assessment reports are confidential documents. Directors discussed the suggestion that the Managing Director transmit these reports, with the authorities' consent, to other international financial institutions.

Directors concurred with the three distinct types of assessments to be conducted: new, update, and monitoring assessments, and supported the staff's intention to give greater priority to update and monitoring assessments going forward. New assessments will be conducted where a new

Fund arrangement or Rights Accumulation Program is requested by a country whose central bank has not previously been engaged in a safeguards assessment, while update assessments will be conducted in cases where a member requests a new arrangement or Rights Accumulation Program and if the central bank has already been subject to an assessment. Update assessments will generally take into account information from the previous assessment, progress in implementing earlier safeguards recommendations, and new developments in safeguards areas at the central bank. Monitoring of previous assessments will be conducted on a continuous basis, and could include on-site follow-up staff visits to central banks whenever the staff considers them necessary to provide reasonable assurance to the Fund that safeguards issues continue to be adequately addressed. A few Directors, however, were not in favor of on-site monitoring assessments.

Directors agreed that the safeguards assessment policy should be extended to include Emergency Post-Conflict Assistance (EPCA) cases, and that the modalities for the assessments in such cases would be determined on a case-by-case basis. The timing and procedures for an assessment will depend on the institutional and administrative capacity of the central bank at the time of access to EPCA. A safeguards assessment may be delayed if there is no functioning central bank, or a targeted assessment aimed at basic control functions may be undertaken in cases where a central bank exists but has limited functional capability. Full assessments will be undertaken once a functioning central bank is in place. A few Directors suggested that the safeguards assessment policy also cover central banks drawing under the Emergency Assistance for Natural Disasters and the Compensatory Financing Facility, while most Directors agreed with the view that such extension would in most cases be unfeasible.

Directors observed that, in situations where the safeguards assessment cannot be completed prior to the Executive Board's approval of a new Fund arrangement, the first review of performance under a member's Fund-supported program remains an appropriate operational deadline for completion of an assessment. In consideration of the expected smaller volume of new assessments going forward, Directors agreed that safeguards update papers, which provide the Board with a summary of safeguards assessment activities, may henceforth be prepared annually rather than semi-annually. Directors also agreed that the next review of the safeguards policy should take place in three years.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.