

**IMF Panel of Experts on Safeguards Assessments
Review of Experience and Next Steps
February 2002**

I. INTRODUCTION

1. The IMF Executive Board expressed the view, when endorsing the Safeguards Assessment (S.A.) framework on March 23rd, 2000, that a review of the Fund's experience with this S.A. approach should be undertaken with the involvement of the outside Panel of Experts ("the Panel") within 12-18 months.

2. Accordingly, the Panel has carried out its review in 2 Phases. For Phase 1, a meeting of the Panel took place at the IMF offices in Washington, in November 2001, during which its members met with various participants involved in the S.A. as well as "users" of the S.A. reports (Treasurer's Department, other IMF Departments, Executive Directors)¹, in order to gather information and establish a preliminary evaluation of the S.A. After these meetings, and an analysis by the Panel of a number of S.A. reports, six central banks which had been the subject of an S.A. during the period under review were selected by the Panel for further evaluation in Phase 2. This selection was designed to provide a geographical sample as well as covering different types of SA reviews carried out. Using the same questionnaire² as for Phase 1, each member of the Panel was responsible for contacting one Central Bank Governor³ in order to discuss the Central Banks' ("CBs") experience with the S.A. exercise.

3. As a result of these contacts, in Phase 1 and Phase 2, the Panel was able to obtain 360° feedback on the S.As. carried out so far, providing detailed and useful background information in order to enable a review of the IMF Staff Paper dated February 2002 ("the Staff Paper") and to validate its content. Indeed, most of the Panel's observations made during Phase 1 have already been accepted and incorporated by the IMF staff in the Staff Paper to be presented to the Executive Board. These observations have not been repeated in this document.

4. The Panel has drafted the present report at its meeting in Paris at the end of January 2002. The report expresses (1) its general opinion on the S.A., then addresses specifically, (2) the findings and implications of the S.A., (3) the lessons learned from the S.A. process, (4) the way forward, and (5) concluding remarks to summarize the overall opinion of the Panel.

¹ See Annex 1a

² See Annex 1b

³ See Annex 2

II. GENERAL OPINION OF THE PANEL ON THE S.A.

5. The Panel considers that the Staff Paper provides a comprehensive review of the findings and main conclusions of the initial S.As. carried out so far, as well as an evaluation of the lessons learned. It also highlights the challenges of the next steps of the S.A. process, which includes the consideration, implementation (where appropriate) by the CBs of the remedies recommended and the subsequent monitoring by the IMF. The Staff Paper has adequately covered most of the issues relevant to an evaluation of the experience with S.As. to date. This is confirmed by the Panel's interviews with IMF Departments, Executive Directors and the six CBs. Although it is too early to evaluate the full impact of the S.As., the exercise has nonetheless generated many positive results, demonstrated by the fact that, after initial caution, many CBs have readily accepted the S.A. process and started to implement the recommendations. The "5 pillar" diagnostic tool, E-L-R-I-C⁴, allows a balanced assessment and a rapid identification of the main vulnerabilities in a CBs' financial and operational control framework and legal structure relevant to the safeguard of IMF funds. Recommendations of appropriate remedial steps can then be made on the basis of these findings.

6. It is evident from the interviews that the majority of the CBs welcome the ELRIC framework and recognize that it has not only proved to be a practical mechanism to identify and remedy vulnerabilities, but also an efficient and effective diagnostic tool to assess the extent to which a central bank abides by international (control, accounting, reporting and auditing) best practices. The Panel notes that the interviews with IMF staff recorded a general agreement with the principle of S.As, and a number of practical comments concerning the modalities and functioning of the S.A. process were noted.

7. All interviews have confirmed that the S.A. enhances the IMF's reputation as a prudent lender, a view with which the Panel concurs unanimously.

III. PANEL'S OPINION ON THE FINDINGS AND IMPLICATIONS OF THE S.A.

8. The Panel understands that, even prior to the S.A. process, IMF Departments were to some extent aware of specific vulnerabilities in individual program country CBs, however, this knowledge had not been aggregated. The S.As. have broadened and highlighted the recognition (in central banks and at the IMF) of the existence of vulnerabilities in a relatively large number of CBs, particularly with regard to the issues of under-developed governance oversight and transparency.

⁴ The five key-areas are summarized by ELRIC, that is (i) the External audit mechanism; (ii) the Legal structure and independence; (iii) the financial Reporting framework; (iv) the Internal audit mechanism; and (v) the internal Controls system.

9. The Panel agrees with the view that many of the deficiencies identified at a significant number of the CBs assessed are serious in nature. The Panel accepts that the initial remedies currently proposed will, once implemented, contribute positively to addressing the vulnerabilities.

10. All of the CBs acknowledge, inter alia, the importance of an internal control structure verifiable by an internal audit process, and complemented by certification of the financial statements by an independent and objective external audit.

11. More detailed CB financial statements, which should be completed, audited and published on a timely basis, will contribute to an improvement in CBs' transparency and financial reporting.

12. The Panel considers that the comments discussed with the Staff during Phase 1, related to the adequacy of the ELRIC framework; documentation set; communication and confidentiality of SA reports; and the merging of the Stage One / Stage Two into one single assessment report, have been incorporated into the Staff Paper. However, the Panel considers that the S.A. process should be appropriately adapted to apply to other government agencies where the fiscal agent is not the CB. The Fiscal Data Quality Issues identified in Box 3 of the Staff Paper highlights many of the factors involved and the steps already being taken by the IMF.

IV. PANEL'S OPINION ON THE LESSONS LEARNED FROM THE S.A. PROCESS

13. The Panel unanimously agrees that there should be continued emphasis on the enhancement of an integrated approach to the conduct of S.As., including better communication within the IMF itself and with member countries. In this context, the following concerns and suggestions were made, inter alia, during the Panel's interviews at the IMF:

1. Consultation with Area Departments during all phases of the S.A. process should be strengthened – prior to contacting CBs, in making assessments and recommendations, in drafting reports, and in proposing program conditionality / timing;
2. While S.As. should continue to be conducted in accordance with a standardized framework, due consideration should be given to specific circumstances of member countries when proposing remedies and related timing;
3. Only those issues highly relevant to safeguarding Fund's resources should be included as program conditionality. Other less serious remedies can be recommended, prioritized, and monitored by IMF staff;

4. There is an urgent need for the IMF to encourage the development, by an appropriate standard-setting body, of a comprehensive accounting and financial reporting framework for CBs, based on IAS.

The Panel considers that these comments should also be taken into consideration when fine-tuning the S.A. process. In addition, it would be helpful for the S.A. team to highlight those activities it encounters which do not fall into the nature of typical CB core functions.

14. The Panel endorses the Staff Paper comments regarding resources, but highlights the fact that the number of S.As. completed to date, with the resources available, is impressive. This achievement goes beyond what was originally planned at the outset of the S.A. process. The findings of the S.As. to date, the future monitoring requirements, and the proposed increase in coverage of S.As. noted in the Staff Paper, demonstrate the need for significant additional qualified and trained resources. In order to effectively sustain the momentum and quality of the S.A. process, the function should be properly staffed. Consideration should therefore be given to re-evaluating the projected resource implications as identified in the Staff Paper.

V. PANEL'S OPINION ON THE WAY FORWARD

15. The Panel concurs with the views of the Staff Paper for the way forward, in particular, that S.A. should be completed preferably before the Executive Board's approval of a new arrangement, but no later than the first review under the program. In order to maximize its effectiveness, the S.A. process will need to be fine-tuned, especially with regard to the incorporation of the operational requirements to the ELRIC framework (see Box 4 of the Staff Paper). This underlines in particular the importance of reconciling program data reported to the IMF to audited financial records, and the mechanism of external audit selection and rotation policies.

16. While agreeing with the Staff Paper views on the monitoring of the recommendations of S.As., the Panel notes that one of the more difficult challenges will be to establish a formal monitoring process in order to follow up on S.A. findings. This will need to be closely linked to Technical Assistance programs. In addition, the IMF will need to carefully address any cases of long-term non-implementation of S.A. recommendations at CBs, particularly those which have been made a condition of the Fund's program disbursement. It should be borne in mind that too many "exception cases" in this connection would undermine the credibility of the S.A. process and the associated monitoring.

VI. CONCLUDING REMARKS

17. The Panel unanimously supports the majority of the views expressed in the Staff Paper dated 15 February 2002. The findings of the S.As., including positive trends and areas for improvement, have demonstrated the importance of this "ex-ante" approach to

minimizing risks for misreporting of information and possible misuse of Fund resources. The Panel recognizes the volume and quality of S.As. performed, under the coordination of the Treasurer's Department, given that this is far beyond what was originally planned.

18. Importantly, in the light of the first experience, and despite concerns at the outset (expressed both by the IMF and CBs) about the intrusiveness of the S.A. process, CBs themselves have demonstrated a strong willingness to cooperate with IMF Staff in understanding and accepting recommended remedies identified. Beyond the primary objectives – to reinforce the reputation and credibility of the IMF as a prudent lender – the S.As. appear to be welcomed by the CBs, in promoting best practices in the areas of internal controls, and the adoption of international accounting, reporting and auditing standards. This also confirms the Panel's original view in February 2000, that the main by-product of the S.As. is indisputably the positive image of efficiency and good governance that will be attributed to the assessed institution and to a larger extent to the member country. This can be viewed as one of the considerations which has already triggered the request by certain non-program countries to learn and understand the S.A. requirements.

19. The Panel concurs with the view that the S.A. process should continue and become a permanent mechanism of the IMF's operations. The current modalities for S.As. should remain broadly similar to existing procedures which should be pragmatically refined as identified above, and in the Staff Paper.

20. The Panel considers that wider public disclosure of the S.A. process and its results should be encouraged by the publication of the Staff Paper and the Panel's views (excluding specific country references). Reference to the S.A. process should become a standard section in the IMF Annual Report.

21. Finally, members of the Panel would like to express their gratitude for the kind cooperation and assistance received during the Panel's review from Central Banks' Governors and Vice-Governors, IMF Executive Directors, and IMF Staff.

/s/ Ms. Michèle Caparelo, Chair

/s/ Mr. Eduardo Grinberg

/s/ Mr. Jeremy Foster

/s/ Mr. M. R. Rasheed

/s/ Mrs. Tanya Sirivedhin

/s/ Mr. Bud Martindale

The following name abbreviations have been used for this Annex:

1. Mrs. Tanya Sirivedhin **TSI**
Deputy Governor
Bank of Thailand

2. Mr. Jeremy Foster **JFO**
Head of Central Bank Services
Pricewaterhouse Coopers
Moscow

3. Mr. Eduardo Grinberg **EGR**
President of the Court of Accounts
Province of Buenos Aires, Argentina

4. Mr. Bud Martindale **BMA**
Assistant Director
Board of Governors of the
Federal Reserve System, Washington D.C.

5. Mr. M.R. Rasheed **MRA**
Deputy Governor
Central Bank of Nigeria

6. Mrs. Michèle Caparello **MCA**
Head of Internal Audit
European Central Bank

**SCHEDULE FOR THE PANEL OF EXPERTS' MEETINGS WITH EXECUTIVE DIRECTORS AND
STAFF ON MONDAY NOVEMBER 26, 2001**

Meeting with:	Time	Venue	Panel Members
Office of Internal Audit and Inspection Mr. Alain Coune, Assistant Director	5:00 p.m.	Room IS10-100	JFO TSI
Statistics Department Mr. Charles Enoch, Senior Advisor Mr. Edgar Ayales, Assistant Director Mrs. Armida San Jose, Division Chief Mr. Keith Dublin, Deputy Division Chief	5:00 p.m.	Room TBA	EGR BMA
Policy Development and Review Department Mr. Martin J. Fetherston, Assistant Director	5:00 p.m.	Room 5-100	MCA MRA
European I Department Ms. Susan Schadler, Deputy Director	6:00 p.m.	Room 9-120	MCA MRA
Middle Eastern Department Mr. Chabrier, Director Mr. Dhonte, Deputy Director Mr. Toujas-Bernate, Deputy Division Chief	6:00 p.m.	Room 7-120	EGR BMA
Offices of Executive Directors Mr. Yuriy G. Yakusha, Alternate Executive Director	6:00 p.m.	Room 13-208	JFO TSI

**SCHEDULE FOR THE PANEL OF EXPERTS' MEETINGS WITH EXECUTIVE DIRECTORS AND
STAFF ON TUESDAY NOVEMBER 27, 2001**

Meeting with:	Time	Venue	Panel Members
<p>African Department</p> <p>Mr. G.E. Gondwe, Director Mr. Josè Fajgenbaum, Deputy Director Mr. Donal Donovan, Deputy Director Mr. Hiroyuki Hino, Senior Advisor</p>	9:00 a.m.	Room 8-700	MCA MRA
<p>European II Department</p> <p>Mr. Gérard Bélanger, Deputy Director</p>	9:00 a.m.	Room 6-300	JFO TSI
<p>Legal Department</p> <p>Mr. Hector Elizalde, Assistant General Counsel Mr. Ross. B. Leckow, Assistant General Counsel</p>	9:00 a.m.	Room GS4-200	EGR BMA
<p>Asia and Pacific Department</p> <p>Ms. Chanpen Puckahtikom, Assistant Director Mr. Ajai Chopra, Assistant Director Mr. Jeremy Carter, Deputy Division Chief Mr. Peter Berezin, Economist</p>	9:45 a.m.	Room 3-304	JFO TSI
<p>Offices of Executive Directors</p> <p>Mr. Barro Chambrier, Executive Director</p>	9:45 a.m.	Room 13-538	MCA/MRA
<p>Mr. Abbas Mirakhor, Executive Director</p>	9:45 a.m.	Room 11-700	EGR/BMA
<p>Mr. Randal Quarles, Executive Director Ms. Meg Lundsager,</p>	10:30 a.m.	Room 13-318	MCA MRA

**SCHEDULE FOR THE PANEL OF EXPERTS' MEETINGS WITH EXECUTIVE DIRECTORS AND
STAFF ON TUESDAY NOVEMBER 27, 2001**

Meeting with:	Time	Venue	Panel Members
Alternate Executive Director Mr. Andrew Baukol, Advisor			
Mr. Guillermo A. Zoccali, Executive Director Mr. Guillermo Le Fort, Alternate Executive Director	10:30 a.m.	Room 11-320	EGR BMA
Western Hemisphere Department	10:30 a.m.	Room 10-110	JFO TSI
Mrs. Ana Maria Jul, Assistant Director Mr. Marcelo Figuerola, Advisor			
Monetary and Exchange Affairs Department	11:15 a.m.	Room 7-606	MCA MRA JFO
Mr. Arne Petersen, Division Chief Mr. John Dalton, Senior Economist			

IMF Staff

Mr. Eduard Brau
Treasurer of the Fund, Treasurer's Department

Mr. Thanos Catsambas
Advisor and Chief, Safeguards Assessment Unit, Treasurer's Department

Mr. Chris Hemus
Senior Accountant, Safeguards Assessment Unit, Treasurer's Department

Mr. Charles McCoy
Senior Accountant, Safeguards Assessment Unit, Treasurer's Department

Mr. Ahmad Sartip
Senior Accountant, Safeguards Assessment Unit, Treasurer's Department

Mr. Ian Goodwin
Accountant, Safeguards Assessment Unit, Treasurer's Department

Ms. Nancy Rawlings
Accountant, Safeguards Assessment Unit, Treasurer's Department

Mr. Joshua Kurtzig
External Consultant, Safeguards Assessment Unit, Treasurer's Department

Ms. Isabela Rutkowska
Research Officer, Safeguards Assessment Unit, Treasurer's Department

QUESTIONNAIRE OF THE PANEL OF EXPERTS FOR S.A.

1. **What are your overall perceptions about safeguards assessments?**
Please expand on whether you consider that safeguards assessments have met their objective, i.e. to reduce risks of misreporting and misuse of IMF resources.
Are you surprised by the findings in your countries / countries you are following?
Are safeguards assessments enhancing the IMF's reputation and credibility as a prudent lender?
2. **Were you satisfied with the outcome of safeguards assessments?**
Are the safeguards assessments perceived by central banks as adding value to their overall framework of controls and safeguards?
Please expand, as necessary.
3. **Are you aware of any problems/ inconveniences encountered during the conduct/ reporting of specific safeguards assessments?**
Please expand on the underlying concern and indicate whether it impaired the effectiveness of the process.
4. **Do you have any suggestions for improvement?**
Should changes be made to the modalities of safeguards assessments to improve their effectiveness and efficiency? Please expand on specific issues.
5. **Please provide any other general comments you may wish to make.**

In January, each member of the panel directly contacted the Governor or Vice Governor of a central bank which had been under review during the period subject to a Safeguard Assessment as follows:

Central Banks

Member of the panel performing the interview

Tajikistan¹

Mr. Jeremy Foster

Kenya¹

Mr. Mahey Rasheed

Sri Lanka¹

Ms. Tanya Sirivedhin

Peru²

Mr. Eduardo Grinberg

Nigeria¹

Mr. Bud Martindale

BEAC¹

Ms. Michèle Caparello

¹ Stage One and Stage Two

² Stage One only