SAFEGUARDS ASSESSMENTS POLICY

EXTERNAL EXPERT PANEL'S ADVISORY REPORT
TO
THE EXECUTIVE BOARD OF THE IMF

REVIEW PERIOD: APRIL 2010 TO JUNE 2015

SEPTEMBER 11, 2015

External Expert Panel Members:

Mr. Thomas O'Neill, Chair
Ms. Caroline Abel
Mr. Archil Mestvirishvili

Contents

LISTING OF ABBREVIATIONS AND GLOSSARY OF TERMS

AFR	IMF African Department
APD	IMF Asia and Pacific Department
BoP	Balance of Payments
ED	IMF Executive Director
ELRIC	The framework used by the IMF to conduct safeguards assessments at member central banks. ELRIC stands for (i) the **E**xternal audit mechanism; (ii) the **L**egal structure and autonomy of the central bank; (iii) the financial **R**eporting framework; (iv) the **I**nternal audit mechanism; and (v) the internal **C**ontrols system
FAD	IMF Fiscal Affairs Department
FCL	Flexible Credit Line
FIN	IMF Finance Department
GRA	General Resources Account: The principal account of the IMF from which the regular lending operations of the IMF are financed.
LETIFA	The framework proposed to be used by the IMF to conduct fiscal assessment procedures. LETIFA stands for (i) **Le**gal framework for budgetary appropriations; (ii) Government banking arrangements through the **T**reasury; (iii) **I**nternal controls of public expenditure; (iv) Reporting of **F**inancial data; and (v) Independent **A**udit of government financial statements.
LEG	IMF Legal Department
MCD	IMF Middle East and Central Asia Department
MCM	IMF Monetary and Capital Markets Department
OECD	Organization for Economic Co-operation and Development
OED	Office of the Executive Director
PLL	Precautionary and Liquidity Line
PRGT	Poverty Reduction and Growth Trust
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
RMU	IMF Risk Management Unit
Safeguards	For purposes of this report: Include the measures referred to in Section 1, which constitute elements of what is referred to more generally as the legal framework, corporate governance, risk management, internal controls, compliance, internal audit, external audit, and transparency and disclosure.
SPR	IMF Strategy, Policy and Review Department
TA	Technical assistance, in terms of which member countries' institutional and capacity development is supported.
WHD	IMF Western Hemisphere Department

Executive Summary

This report by the external expert panel ("the panel") examines the effectiveness and appropriateness of the safeguards assessments policy in the five years since its last review in 2010. In addition to expressing an opinion on the effectiveness and appropriateness of the safeguards assessment policy, the panel also makes recommendations to the Executive Board for its consideration to improve and optimize the benefits to be garnered from the safeguards assessment policy. The panel's opinion is based on (i) consultations with key stakeholders, including central bank authorities, IMF Executive Directors' offices, Fund and World Bank staff; (ii) examination of safeguards assessment and other Fund-specific documents; and (iii) study of international reference materials.

In the panel's opinion, the safeguards assessment policy has been effective in achieving its objective to mitigate potential risks of misuse of Fund resources and misreporting of monetary program data. There have been no serious cases of misreporting on monetary program data or misuse of Fund resources during the policy review period. Key stakeholders in the safeguards process voiced their approval of and support for the policy. The staff who conduct the safeguards assessments and monitoring activities implements the policy with high competence and has adapted it to developments in central banks. The improvement within central banks in the areas covered by the ELRIC framework, and progress in central banks toward adopting international standards and best practices, are important collateral benefits of the safeguards assessment policy. Consequently, central banks become stronger institutions, supporting financial stability, economic development and growth.

This review covers the period April 2010 to June 2015, immediately following the global economic crisis, in late 2008 into 2009. During this period, the Fund's lending activity and members' credit outstanding increased dramatically through 2012 to almost SDR 100 billion, with a decline since then to approximately SDR 60 billion. This activity put a strain on the entire IMF apparatus with first-time and update safeguards assessments reaching peak heights in 2010 and 2011. Another significant change in the credit risk profile of the IMF was the increased use of funds by member countries for budgetary financing, which included arrangements representing over 80 percent of the total credit outstanding balances at end-June 2015. This unprecedented level of resources for budget financing constituted a learning exercise from a safeguard assessment point of view.

Against this backdrop, the panel reached the following conclusions with regard to the five year review period:

Safeguards assessments

- The ELRIC framework, application and execution was fully operational and appropriately followed the safeguards assessment policy;

- The content, coverage, risk evaluation, recommendations and follow up were appropriate to the individual circumstances; and
- The confidential safeguards assessment reports provide adequate documentary evidence for assurance to the IMF as an important part of the credit approval function.

Monitoring assessments
As with the safeguards assessment procedures noted above, the monitoring activity followed the approved framework, procedures and time frequency (determined on a risk basis). This includes the follow-up procedures on recommendations from prior safeguards assessments.

Refinements to the risk-based approach
The safeguards staff in FIN continue to use the risk-based approach through the period and adapted where necessary to changing circumstances.

In summary, within the scope of our work, we found that during the review period the safeguards assessment policy was applied in an effective manner that allowed its objectives to be met, and safeguards staff applied the safeguards assessment policy appropriately and effectively.

What follows
In looking forward, we have read the draft staff report which will be submitted to the Executive Board in conjunction and simultaneously with this report. We are in overall agreement that its contents are consistent with what the panel observed in its work.

The panel has some observations and recommendations. These are meant to be refinements to an already strong base. Our major comments relate to:

- Expansion of the ELRIC framework
- Risk-based allocation of resources
- Transparency / confidentiality of safeguards assessments
- Safeguards in budget financing

In conclusion: Spending money on safeguards assessments not only prevents losses, but constitutes an investment in a better future with reduced risks at central banks. As central banks improve their governance and control environments, it may also lead to reduced future costs of safeguards assessment and monitoring.

I. CONTEXT

1. **The IMF, as a member-based organization, has a fiduciary duty towards its members to protect their interests**. The legal basis for the Fund's safeguards assessment policy lies in the Articles of Agreement of the IMF.

a. Article I provides that the general resources of the Fund are made available temporarily to Fund member countries (members) under <u>adequate safeguards</u>.

b. Article V, Section 3, provides that the Fund shall adopt policies on the use of its general resources that will establish <u>adequate safeguards</u> for the temporary use of the general resources of the Fund.

2. **The term "adequate safeguards" is not defined in the Articles.** Adequate safeguards have come to be understood to include, in the first instance, measures taken by the Fund and <u>internal</u> to the Fund. These include pre-conditions to access to financing (access policy); uniform treatment of members; program conditions and design, including phasing of drawdowns; measures to deal with misreporting or arrears; and post-program monitoring. A country's capacity to repay is taken into account, inter alia, by way of a formal debt sustainability analysis. Internal safeguards also include the Fund's governance arrangements, the recently established Risk Management Unit (RMU), internal controls, internal audit function, the external audit of the Fund, and financial reporting.

3. **Through the adoption of the safeguards assessment policy, reasonable assurance is sought that Fund resources will be adequately safeguarded by parties <u>external</u> to the Fund.** The safeguards assessment policy focuses on central banks of members borrowing Fund resources.[1] Central banks typically manage, on behalf of the government, the resources from Fund lending arrangements. As a result, it is in the Fund's and the government's interest that the central bank is well run, with reliable and robust financial reporting, including for IMF program data purposes.

---

[1] These measures include conducting safeguards assessments and performing post-safeguards assessment monitoring of the counterparty central bank's safeguards framework.

4. **High quality and timely information under Fund programs is necessary to preserve the institution's reputation as a careful and prudent provider of financial assistance to members.** Relevant, reliable and timely information is particularly important in ensuring that the Fund's resources are applied for their intended purpose and remain well-safeguarded. Misreporting would undermine these benefits.

Box 1: Safeguards Assessment Cycle

The safeguards assessment policy applies whenever a member country requests financial assistance from the Fund. A new or update safeguards assessment is triggered by a member's request for a program. This work culminates in a comprehensive safeguards assessment report, which in principle may be concluded prior to the Executive Board's approval of a new arrangement, but in any case by the first review of the program. Off-site work entails review of information and conference calls to counterparts at the central bank. On-site work involves in-country verification of compliance with key requirements by way of original documentary evidence and meetings with key stakeholders.

Safeguards assessment work, based on both off-site and on-site diagnostic reviews, covers all five ELRIC areas of member central banks. Staff evaluates the central banks' operations in the external audit mechanism, the legal structure and autonomy, the financial reporting framework, the internal audit mechanism and the system of internal controls. A cornerstone of the policy is the requirement for the publication of financial statements that have been independently audited by high-quality external auditors in accordance with international standards.

The safeguards policy provides for some exceptions. Members' requests for emergency assistance, i.e., Rapid Credit Facility and Rapid Financing Instruments, require a commitment to undergo an assessment. In principle, the related assessment must be completed before the Executive Board is requested to approve any subsequent arrangement with the member country. Limited safeguards procedures are conducted for members with Flexible Credit Line (FCL) arrangements. The FCL has stringent eligibility criteria, including a presumption of strong institutional arrangements. Safeguards procedures therefore only cover a review of the central bank's audited financial statements and confidential discussions with the central bank's external auditors concerning audit findings and the internal control environment. Regional central banks are subject to update safeguards assessments every four years.

Following a safeguards assessment, risk-based monitoring is performed for as long as Fund credit is outstanding. Implementation of recommendations is monitored and emerging issues are identified. To this end, central banks are required to submit to the Fund, on a periodic basis, updates on progress towards the implementation of recommendations. The length of monitoring cycles and intensity of monitoring are a function of vulnerabilities identified, interim progress on recommendations, and developments relating to emerging issues. Mostly, monitoring is an off-site activity. However, where considered justified, on-site monitoring visits may be undertaken, even as frequently as annually.

Members are entitled to request a safeguards assessment. Members may volunteer to undergo safeguards assessments, and are particularly encouraged to do so if they have a Policy Support Instrument (PSI) in place or a Staff Monitored Program.

II. Panel's Review of the Safeguards Assessment Policy

A. Rationale and Mandate for the External Expert Panel Review

5. **Safeguards assessment reports are considered confidential documents and are not published.** The reports are made available to the central bank and the Executive Director in whose constituency the borrowing member country belongs. The rationale for the confidentiality and restricted circulation of the reports derives from the due diligence nature of safeguards and the confidential institution-specific information in the reports, which can be highly sensitive.

6. **The Executive Board receives a summary of key safeguards findings and recommendations in program country staff reports.** In addition to the summary of findings and recommendations arising from individual safeguards assessments, on an ongoing basis, staff reports specify outstanding vulnerabilities in a central bank's ELRIC and the history of safeguards assessments and monitoring thereof. Annually, a summary update paper is submitted to the Executive Board on safeguards assessments activities.

7. **Since the Executive Board has access to limited information on safeguards assessments, it needs to have an independent source of advice**. Accordingly, for the purpose of discharging its oversight responsibilities on the safeguards assessment policy, the Executive Board places reliance on the work done by an external expert panel in the periodic policy reviews. The panel's review of the nature, coverage and quality of safeguards assessments and reports therefore constitutes a key input into the policy review.

8. **The panel's terms of reference are provided in Annexure 2.** The panel's principal objective is to provide the IMF Executive Board with advice on the conduct and focus of safeguards assessments and the operation of the risk-based monitoring framework. The panel is also expected to provide advice on the effectiveness of the safeguards assessment policy and the continued appropriateness of the ELRIC framework, taking into account the application of the framework and evolving governance and control practices. In addition, the panel assessed the current safeguards modalities and scope for efficiencies and streamlining, using a risk-based approach, in light of the improvements in central bank control frameworks since the policy was adopted.

B. Panel's Review Approach and Methodology

9. **The panel conducted its independent role within the above mandate and no limitation was placed on the panel in the performance of its review.** Accordingly, the panel obtained all such information and was given access to all such documents, persons and institutions as it considered necessary for discharging its mandate.

10. **The panel's method of inquiry involved the following activities:** , (i) consulting offices of Fund Executive Directors (EDs), key staff at the Fund and the World Bank, and

interviewing selected central banks and drawing on their experience; (ii) examining safeguards assessment reports of central banks and other relevant materials; (iii) researching applicable literature from other international and professional organizations.[2] The panel scrutinized 25 of the 82 safeguards assessments reports generated during the review period as well as other relevant Fund documentation going back to 2000, but with particular emphasis on the review period.[3]

11. **The panel gathered information through interviews with key stakeholders.** The panel conducted video conferences with four central banks. The panel's intention was to ensure that it engaged with a representative sample, based on criteria such as size of financing arrangement and geographic distribution. The panel held meetings with the area departments, functional departments (Finance; Fiscal Affairs; Legal; Monetary and Capital Markets; and Strategy, Policy and Review Department); the Office of Budget and Planning; Risk Management Unit; Offices of Executive Directors; and staff from the World Bank.

12. **The panel performed the review during June and July 2015.** The panel twice visited Fund headquarters. During the initial visit, June 16-18, the panel consulted with staff, including area department mission chiefs, and Executive Directors offices. The panel finalized the substance of the report during the second visit (July 8-10).

13. **The panel's decision on which four central banks to invite for teleconference interviews was based on the following considerations:** (i) arrangement included budget financing; (ii) representative size of arrangements; and (iii) representative geographic spread. Countries selected were Ukraine (large arrangement, Europe); Ireland (large arrangement, Europe); Jamaica (medium-size arrangement, Caribbean); Sierra Leone (small arrangement, Africa); all the arrangements included budget financing. In addition, two of the panel members are connected, respectively, to the central banks of Georgia and Seychelles. These arrangements equate to 20 percent of the monetary value of all arrangements approved during the review period.

14. **The panel also reviewed a sample of the safeguards assessment reports completed during the review period.** The panel studied 25 of the 82 safeguards assessment reports produced during the period since the 2010 review.

C. Status of Implementation of 2010 Panel Recommendations

15. **Substantial progress has been made in addressing the 2010 panel recommendations**. Box 2 below summarizes steps, as reported to us by the staff, to implement the recommendations from the 2010 safeguards assessment policy review.

---

[2] A list of documents reviewed and attendees at these meetings are provided in Annexure 4. Summaries of the topics discussed are provided in Annexure 5.

[3] The panel's review covered the period from April 2010 – June 2015. The staff report covers the period to August 2015. One safeguards assessment was completed in the interim period; the staff report covers 83 reports.

Box 2 – Status of Implementation of 2010 External Expert Panel Recommendations

Sharper focus on governance	• Safeguards assessment reports now include a governance chapeau that provides a high level staff appraisal. The work includes a more explicit focus on governance attributes (transparency, autonomy, accountability, responsibility) across the ELRIC framework. • Greater focus on the composition, capacity, competence and role of oversight bodies such as the board and audit committee. • Staff meets with audit committee members to gain further insight into issues or difficulties that may signal governance gaps or weaknesses.
Risk management	• Safeguards assessments currently only take stock of the extent to which a bank has developed an integrated risk management function. • Risk management continues to be technically demanding and consequently its breadth and maturity depends on capacity at the bank. • Central banks are at different stages of maturity in adopting enterprise-wide risk management operations. There is no "one size fits all" and implementation challenges abound.
Budget finance	• A pilot exercise of five budget financing cases was completed in 2013 by staff to assess the effectiveness and usefulness of different approaches to identifying fiscal safeguards risks at the state treasury level. • The exercise recommended a risk-based approach to identifying fiscal safeguards risks going forward (see Section III, Part E).
Collaboration and outreach	• Staff continued the regional safeguards assessments seminars series, with events in Austria, Brazil, Kuwait, Singapore, South Africa and Tunisia. • Presentations were made at conferences organized by the World Bank, European Central Bank, the Federal Reserve Bank of New York, and the Central Banking International Operational Risk Working Group. • Staff coordinated visits with senior officials from the International Accounting Standards Board and the International Auditing and Assurance Standards Board (IAASB). • From 2011, an IMF representative was appointed as an observer at the Consultative Advisory Group of the IAASB, which provides input on audit standard setting. • Staff has established contacts with senior representatives of international audit firms to discuss audit quality issues. • In 2013 and 2014, the IMF partnered with the Hawkamah Institute for Corporate Governance (Dubai) to host high-level fora on central bank governance. More than 80 senior bank officials and external auditors participated at each of these events, which provided an opportunity to exchange cross-regional experiences and challenges.
Self-assessments	• A tool for central banks' self-assessment was developed and disseminated at recent regional safeguards seminars in Vienna, Singapore and Pretoria.

16. **The topics of central bank governance and central bank risk management are crucial from a Fund risk management and risk mitigation perspective.** The panel

recommends that additional initiatives be investigated to enhance the potential positive impact of these dimensions of the safeguards assessment policy (see Section III).

D. Panel's Observations drawn from Stakeholder Engagements

17. **Interviewed central banks were in unanimous support of the safeguards assessment policy.** They had an appreciation for the rationale of the policy, and the due diligence work conducted in connection with Fund programs given the Fund's resulting exposure to credit risk. These central banks stressed the valuable contribution of the policy and confirmed that necessary changes were being effected at their respective institutions.

18. **The safeguards process has facilitated change at central banks.** Though some of the changes brought about or facilitated by the policy may already have been contemplated or were in progress, the assessments appear to give strong impetus to reform processes. The Fund's involvement and persuasive influence appear to have provided central banks with additional leverage in their negotiations with the government, state ministries and other state entities in such cases. That being said, safeguards assessment recommendations to amend elements of the legal framework which are not exclusively within the regulatory jurisdiction of the central bank, are often a sticking point, especially where it is necessary to amend the national constitution and/or the central bank legislation.

19. **Interviewed central banks were also unanimous in declaring their commitment to and pursuit of sound safeguards standards and practices.** They were appreciative of the contribution by the safeguards assessment policy in this regard, and strongly supported further enhancement of the policy**.** The banks indicated that in most instances, they were fully supportive of the recommendations contained in the safeguards assessment reports, which bodes well for substantive buy-in and implementation. In a limited number of cases, especially where structural reforms are required to bring about greater central bank autonomy, political-economy challenges may disrupt the process.

20. **The central banks were keen for additional substantive input in certain areas.** Interviewed central banks considered that the policy needs to be extended beyond the current ELRIC framework. Governance and risk management were the two key areas identified. There are some aspects where more clarity and customized guidance would be useful, such as autonomy of a central bank, central bank accountability, and fit and proper requirements of central bank executive management (including the governor and deputies). This would have an important impact by bringing some certainty to a range of important but unsettled issues. The panel recognizes the work which safeguards staff already does in the governance area, but believes that staff needs to be more assertive and address this topic more comprehensively.[4]

---

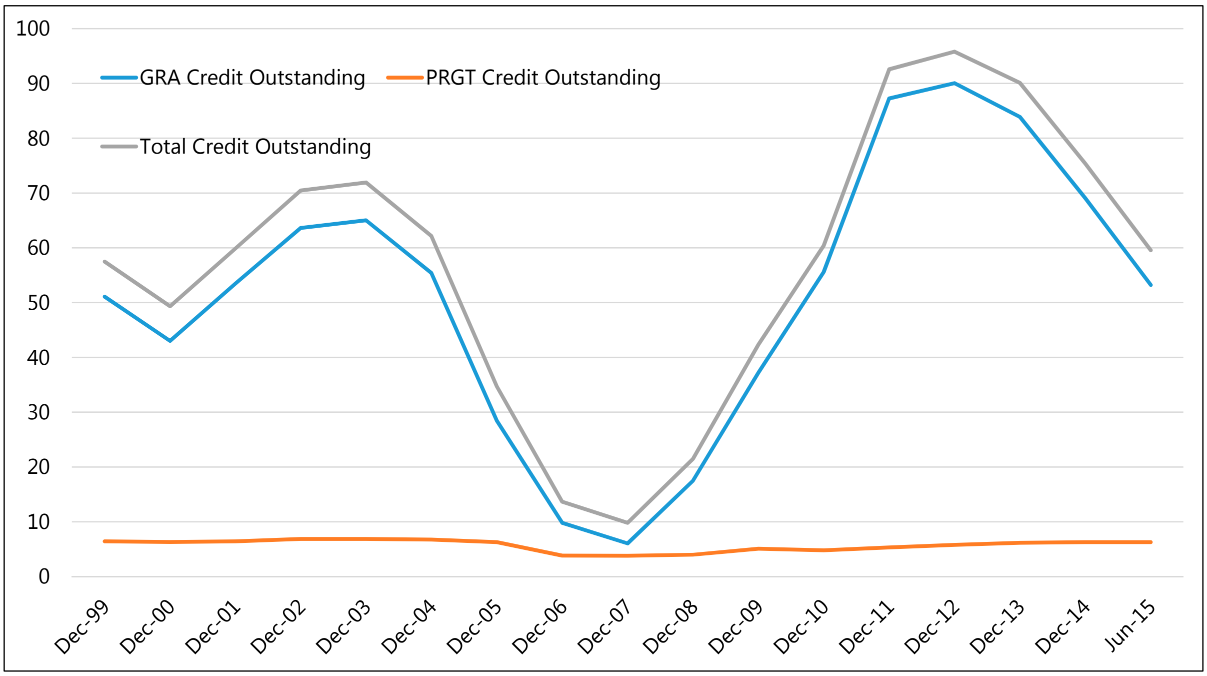
[4] The panel agrees that monetary policy falls outside the ambit of the safeguards policy.

21. Central banks were impressed with the professionalism, knowledge, expertise and attitude of the FIN safeguards staff.

E. Panel's Statistical Review of the Period April 2010 to June 2015

22. **During the review period, the Fund committed SDR 156 billion through new approved arrangements (excluding FCLs) that required safeguards assessments.** A total of 82 safeguards assessments, of which 15 were first time assessments, were performed.[5] During this period, no serious cases of misreporting or misuse arose at central banks of member countries that borrowed from the Fund.[6]

Graph 1 – Total Credit Outstanding during the Period 2000 to June-2015



23. **Total credit outstanding reached an all-time peak of SDR 99.7 billion in April 2012, the highest amount in the history of the Fund.** Graph 1, illustrates the highly cyclical nature of the Fund's credit risk exposures in the General Resources Account (GRA). Concessional lending from the Poverty Reduction and Growth Trust (PRGT) resources remained relatively stable. As at end-June 2015, the Fund had a total of 39 active

[5] Of the total 82 assessments completed, 12 do not relate to approved arrangements, but rather were assessments in connection with Rapid Credit Facility disbursements and one voluntary assessment.

[6] The companion staff reports highlights technical misreporting issues that arose during this period.

programs with member countries, i.e., arrangements that had not reached the expiration date, while credit was outstanding in relation to 79 member countries.[7]

24. **Total credit outstanding amounted to SDR 59.5 billion at end-June 2015.** Total credit outstanding comprises GRA lending (SDR 53.2 billion) and concessional lending from the PRGT resources (SDR 6.3 billion). Concentration risk is high in the Fund's lending portfolio, with the cumulative total of the six largest exposures representing 81 percent of total GRA and PRGT credit outstanding at June 30, 2015. The four largest exposures: Portugal, Greece, Ukraine and Ireland constituted 83 percent of GRA credit outstanding at end-June 2015.

25. **Arrears to the Fund at end-June 2015 amounted to SDR 1.3 billion (excluding Greece), which is substantially the same figure as at end-April 2010**. The arrears are 2.2 percent of total credit outstanding. The arrears are, and were in 2010, attributable to Somalia, Sudan and Zimbabwe. These arrears arose prior to 2000 before the adoption of the safeguards assessment policy. In June and July 2015, Greece defaulted on payments due of SDR 1.2 billion and SDR 0.4 billion, respectively, but these amounts were subsequently repaid on 20 July 2015. The safeguards staff informed the panel that amounts in arrears are not considered to fall within the scope of misreporting or misuse of Fund resources.

26. **The number of safeguards assessment recommendations per safeguards assessment has averaged eight per report.** This suggests that the safeguards findings persist warranting meaningful recommendations notwithstanding higher penetration of sound standards and practices in central banks, or improvements in the quality of safeguards management by central banks. If the foregoing is correct, it appears that safeguards staff continues to challenge central banks effectively and thereby to add value to the process.

27. **The safeguards assessment policy was a catalyst for a considerable number of improvements in the relevant central banks' controls in all the ELRIC areas.** As indicated in the staff's report, the overall implementation rate of safeguards recommendations during the period under review remained high at 72 percent overall, and 94 percent for recommendations under program conditionality. As the recommendations aim to address safeguard vulnerabilities, and given the very nature of the ELRIC framework, i.e., it is based on control frameworks, adoption by a central bank of any of the recommendations should result in an improvement in the central bank's control framework.

F. Panel's Review Opinion

28. **In the panel's opinion, the safeguards assessment policy is an indispensable element of the Fund's overarching risk mitigation framework and, accordingly, must remain in place for as long as the Fund is engaged in financing activities.** History has

[7] Of the 79 member countries with credit outstanding, 18 are associated with regional central banks (BEAC, BCEAO, and ECCB)

many examples illustrating that it is not prudent merely to rely on trust in a lending transaction, and that it is always necessary to perform verification of the material facts. As behooves a prudent safeguards assessment policy, first-hand verification underlies the Fund's work in safeguards assessments.

29. **Safeguards assessments must remain an obligatory ex ante requirement for all countries with new arrangements approved by the Fund's Executive Board.** Though the implications of the counterfactual, i.e., no safeguards assessment policy or assessments, are impossible to know with any kind of certainty or precision, the panel has little doubt that the risk profile of the Fund, which after all is a lender of last resort, would be of materially weaker quality in the absence of this work.

30. **The panel's opinion is based on the finding that, during the period under review, the policy met its objectives.** The application of the safeguards assessment policy, by way of conducting safeguards assessments and performance of post-assessment monitoring for the whole period that Fund credit remains outstanding, appears to have provided reasonable assurance of the soundness of central bank operational and control frameworks and standard reporting mechanisms within counterparty central banks.

31. **The panel notes that the safeguards assessment policy was applied without exception throughout the review period, and that it was applied in substance and not merely in form.** Fund staff applied the safeguards assessment policy consistently through effective challenge of their central bank counterparts. The panel confirms that the counterparty to assessments was a central bank—consequently, the application of the safeguards assessment policy does not give any assurance relating to other agencies. The safeguards assessment policy currently does not cover the fiscal area.

32. **The panel notes that the policy does not provide <u>absolute</u> assurance of sound central bank operations and control frameworks and standard reporting mechanisms.** No policy can protect against every potential eventuality, especially not against fraud and misrepresentation. Accordingly, safeguards assessment may not prevent misuse of resources by a willful override of controls or manipulation of data.

33. **In the panel's opinion, the fundamental justification for the Fund's safeguards assessment policy remains relevant.** In pursuit of the best interests of the Fund's membership, the policy contributes to the sound management of risks (including credit, operational and reputation risk). These risks arise from the Fund's discharging its mandate and performing its role of lender (of last resort) to members experiencing balance of payments difficulties.

34. **The continuing relevance of the safeguards assessment policy is well-illustrated by the persisting prevalence of significant issues identified in the safeguards reports.** The FIN safeguards staff generated 681 recommendations in the course of conducting the 82

safeguards assessments during the review period in the past five years.[8] Significant yet avoidable risks to Fund resources may be prevalent in many of these cases. Accordingly, some of the findings warranted remedial measures under program conditionality, ranging from prior actions to structural benchmarks, and policy commitments in letters of intent. This reflects the constructive contribution of, and constitutes compelling motivation for, the continuation of the safeguards assessment policy.

35. **The panel notes that the safeguards assessment policy reflects well on the Fund, which is perceived as managing its risk profile proactively and prudently**, by requiring its counterparties to apply sound international standards and practices while it validates and monitors compliance throughout the term of such exposures.

36. **The panel is of the opinion that the intended benefits which the Fund and its membership gains from the safeguards assessment policy well-exceed the costs.** The collateral benefits to the membership and central bank stakeholders are as substantial, and go well beyond the primary policy objective for the Fund.

37. **The panel has been impressed by the professionalism and dedication of the individuals in staff in the FIN safeguards division and the constructive rapport which they establish with the counterpart central banks.** As noted earlier, this was confirmed during the central bank interviews and from two panel members.

38. **The panel determined that the FIN safeguards division strictly maintained its focus on assessments and did not offer technical assistance as a separate product.** The panel supports a clear separation between assessment work and technical assistance, to maintain the integrity of both activities by avoiding the appearance of, or potential, conflicts of interest. The panel notes that safeguards assessments can, and did, have an educative impact as well, as evidenced by the interviewed central banks.

39. **The panel notes that the data suggest that safeguards monitoring practices have deterred misreporting cases.** The vast majority of central banks are properly reporting and managing Fund resources now that safeguards measures are in place. Although there is no data to compare results before and after the policy was implemented, the data analyzed since the application of the safeguards assessment policy suggest that the probability of occurrence of a misuse or misreporting event such as those that triggered the safeguards assessment policy 15 years ago are now less likely to occur or go undetected.

40. **The panel is comfortable with the proposals for change set out in the staff report.** The panel has taken cognizance of the staff's proposals for change, which relate to

[8] The 681 recommendations reflect all those issued during the review period. In contrast, the 536 recommendations noted in the staff report, exclude those: (i) with implementation dates that are not yet due; or (ii) superseded by subsequent assessments.

safeguards modalities, i.e., a risk-based approach for augmentations, successor arrangements and central banks with strong track records; modifications to the monitoring framework that align with the institution-wide criteria for post-program monitoring; enhanced focus on internal audit coverage; and fiscal safeguards reviews.

G. Collateral Benefits

41. **In its review, the panel noted that many collateral benefits flow from the safeguards assessment policy process.** The safeguards assessment policy has helped the IMF's counterparties make progress in applying sound standards and practices. In this process the Fund's risk profile is de-risked. The panel is mindful that developing and building an effective assurance framework is a dynamic process that requires time, resources and the constructive engagement of and contribution by key stakeholders. The Fund's commitment to necessary reform and sound standards and practices must be enduring and unwavering. The collateral benefits include the following:

- The safeguards analytical framework facilitates establishing a roadmap for required reforms. Central bank capacity, in terms of understanding and proficiency, is enhanced.

- The safeguards framework increasingly is viewed as a useful and aspirational benchmarking instrument by member country authorities. The central banks interviewed expressed appreciation for the facilitative enabling role which the policy played towards the introduction of sound standards and practices. Central bankers are keenly receptive of impetus that raises the standards of their safeguards.

- The institution-building impact of the policy typically has a lasting effect. Safeguards assessments enable and facilitate improvements and reforms. In some cases, central bank autonomy and accountability are enhanced. The value and importance of sound international standards and practices are better appreciated.

- In view of the centrality and strategic nature of a central bank, "all domestic boats are lifted" in the event that the quality of a central bank's safeguards, and its expectations relating to the quality of its counterparties' safeguards, rises. Over the longer term, the Fund's risk profile is lowered in view of the improved safeguards.

- The Fund's reputation as a responsible international financial institution, and its credibility as a prudent lending institution has been enhanced through the safeguards assessment policy.

42. **The Fund should pay particular attention to the issue of capacity development in relation to central bank safeguards**. Over the longer term, capacity development could be one of the more effective investments to improve the Fund's credit risk profile. The Fund may be able to leverage the self-assessment template prepared by safeguards staff, as a tool

to bring more detail to the attention of central bankers and to inform other key stakeholders, including parliamentarians and the ministries of finance. A self-assessment, useful as it may be, can never replace an independent assessment. The Fund may consider developing a website with applicable resources aimed at capacity development.

III. Panel Recommendations

43. **The panel offers the following recommendations based on its review of safeguards activity, framework, policy and experience.** The panel recognizes fully the current strong base of safeguards work as highlighted in earlier sections of this report. The recommendations thus aim at ensuring that the policy remains relevant and is sufficiently flexible to adapt to changing global and financial conditions.

A. Governance

44. **The panel recommends that the safeguards work continue to emphasize governance either as the apex concept (the prism through which all safeguards are viewed) which pulls all the other aspects together or at the same level as the existing five components thereof.** As a visual manifestation of this change, the panel recommends that the ELRIC acronym either be expanded or governance continue to be emphasized as an overarching principle across the framework. The acronym has provided a useful basis for common understanding between safeguards teams and the central banks.

B. Risk Management

45. **The panel recommends that the safeguards staff incorporate risk management as a key component of its safeguards framework at the same level as the existing five components.** This could be done either by expanding the ELRIC acronym or integrating this aspect in the core safeguards framework. The panel recognizes the work which safeguards staff already does in the risk management arena, but believes that the staff needs to take further steps in this area.

46. **Central banks should be encouraged to develop an integrated risk management framework and apply enterprise-wide risk management as soon as is reasonably possible.** The panel considers that an integrated risk management framework or enterprise-wide risk management could be set as a minimum requirement for central banks. The dissonance between being responsible for financial sector stability and not having a sound risk management framework is difficult to reconcile.[9] The panel recognizes that central banks are at different stages of maturity in this area. However, the process can start with simple but effective modular building blocks, and it need not even be automated initially, thus accommodating capacity constraints and country specific circumstances. There was

[9] An IRMF should also help identify, detect and mitigate risk events of relevance to safeguards assessments.

strong support for more emphasis on risk management among the central banks interviewed by the panel. A central bank which manages its risks soundly constitutes a better quality risk exposure for the Fund and its membership.

C. Transparency and Disclosure, and Accountability

47. **Enhancing Fund transparency on its safeguards activities requires careful consideration, taking into account the inhibiting impact this may have on central bank candor.** While transparency has many benefits, these would have to be weighed against the drawbacks in view of the due diligence nature of safeguards work. Safeguards assessment reports are confidential documents available only to IMF management and staff, and to relevant country authorities and Executive Directors. Wider dissemination of safeguards reports could create disincentives for central banks, external auditors and perhaps others to cooperate with and provide information to Fund staff.

48. **Against this background, the panel recommends that a more consistent content be maintained for the summary paragraph on safeguards in staff reports for program countries**. At a minimum, the summary paragraph should include the following information: any instances of misuse of Fund resources and misreporting of related monetary program data; significant recommendations for legislative amendments which fall outside the powers of the central bank to effect, and are not included as structural benchmark/s in the program; problems with obtaining access to data; and deviations from commitments in relation to safeguards recommendations. The paragraph should be featured in the main body of the staff report.

49. **Safeguards work should also include an ongoing program of engagement with key stakeholders to ensure a fuller understanding of the purpose, nature and impact of the policy.** In addition to the typical outreach initiatives, it would be useful to make use of examples and develop case studies based on actual experience, to more effectively convey the nature and impact of safeguards assessments and the collateral benefits. The sharing of lessons learned would help in the education process under the ELRIC framework.

50. **Through outreach to relevant stakeholders, the Fund informs and facilitates**. Outreach is a powerful tool to ensure proper understanding of the motivation for the safeguards work. A key message to be conveyed is that the application of sound standards, inter alia, is a “rule of the game”, promotes confidence and reduces risk, thereby adding economic value-add, though it may take time.

D. Legal Framework

51. **Safeguards assessment recommendations often require amendments to the legal frameworks of countries.** Such recommendations typically relate to the autonomy of the central bank, government financing by the central bank and governance of the central bank. In many cases, the central bank is not legally empowered to effect such amendments. In

some cases, the constitution of the country may need to be amended, which typically falls within the jurisdiction of the highest legislative authority. Vulnerabilities in central bank autonomy, governance and government financing can expose the Fund and its members to increased and, possibly, unacceptable risks. The panel noted that structural reforms may not always be encapsulated in the legal framework and in such cases the necessary changes are dependent upon incumbents, and their ability and willingness to apply them. Given the transitory nature of people holding positions, the benefits of the reforms may only be reaped temporarily under such circumstances.

52. **The panel recommends that the Fund be proactive and assertive in engaging key role players in country.** This would inform them of the motivation for, and objectives and implications of, proposed amendments to the legal framework which emanate from safeguards assessment recommendations. The Fund's involvement, and sharing of information, with key stakeholders appears to have provided a number of central banks with constructive leverage in negotiations with the government, state ministries and other state entities, for purposes of facilitating the recommended amendments to the legal framework.

E. Budget Financing and Fiscal Safeguards Reviews

53. **The number of arrangements involving direct budget financing has declined.** Twenty five arrangements approved during the review period involved budget financing. Recently, the number of GRA arrangements involving direct financing decreased to three per year, in 2013 and 2014, after peaking in 2010 at seven. PRGT arrangements with budget financing have smaller access and are rare (not exceeding two cases per year).

54. **In monetary terms, arrangements involving budget support dominate.** Arrangements which involve budget financing exceed 80 percent of total Fund credit outstanding at end-June 2015**.** GRA arrangements involving budget support represent a significant share of total Fund credit outstanding, because they include the largest Fund arrangements (i.e., the four members within the Eurosystem, and Ukraine).

55. **In 2010, the Executive Board endorsed a requirement in the form of a framework between the central bank and government to ensure timely servicing of the member's financial obligations to the Fund.** The issue of fiscal safeguards has been a continuing theme since the adoption of the safeguards assessment policy. At the time of the last policy review, there was an upsurge in the number of arrangements which involved the use of Fund resources for budgetary financing. While the 2010 panel recommended the Fund conduct safeguards assessments that target state treasuries, the Executive Board recognized that replicating safeguards assessments across the whole of government in instances of Fund lending for budget financing would be extremely challenging.

56. **A fiscal safeguards pilot exercise was conducted by the Fiscal Affairs Department (FAD) during FY2013**, in response to guidance from the 2010 review when many Executive Directors encouraged staff to highlight fiscal safeguards risks in cases

involving budget financing. The 2013 board paper on the fiscal pilot exercise proposed that, where possible, existing diagnostic tools should be used to carry out the fiscal safeguards review.

57. **The panel notes that the Fund takes on materially higher level of risk in transactions where its resources are applied for budgetary financing than Balance of Payments (BoP).** The nature of the risk to which the Fund is exposed in cases where its resources are applied for budgetary support purposes differs materially from the risk exposure emanating from cases where its resources are applied for BoP purposes. Typically, the resources remain liquid in the hands of the central bank using it to augment international reserves, while such resources typically are dissipated when they are applied for budgetary support by a ministry of finance.

58. **Fiscal safeguard reviews do not necessarily give the same level of assurance as safeguards assessments**. To achieve the same level of assurance would be extremely costly and challenging. It would be difficult to provide assurances on the integrity of the country's Public Financial Management (PFM) system as a whole.

59. **While remaining cognizant of the challenges to any attempt at replicating the safeguards framework in the fiscal area, the panel wishes to raise the question how much value is added by the high-level exercise and whether this approach is optimal from the Fund's perspective.** Since the pilot study, only one member met the risk-based criteria for a fiscal safeguards review. An assessment was carried out in 2015 and concluded that Ukraine broadly met the safeguards criteria under the LeTIFA framework, with the exception of weaknesses in the reporting of financial data.

60. **The panel recommends that the threshold of 50 percent proposed for fiscal safeguards reviews be reconsidered.** Notwithstanding the above challenges, the fiscal safeguards reviews are a step in the right direction. The pilot recommended that fiscal safeguards reviews be conducted for countries with both (i) exceptional access to Fund resources, and (ii) more than half of the resources being directed to budget financing. While the above first criterion is grounded in an institution-wide risk-based approach to Fund lending, the 50 percent threshold does not appear to be sufficiently justified, especially in the light of the experience since the pilots was completed, and usefully could be revisited.

IV. Other Observations

A. Monitoring

61. **The question arises whether a single on-site visit during the tenure of a loan, irrespective of the duration of the loan, is adequate to prudently manage and mitigate the relevant risks.** Currently, staff makes only one on-site visit to a central bank during the life of a Fund loan, whose term could extend up to ten years. The greater the time span, the larger the potential for change, and the more irrelevant the single "snapshot" obtained by

way of the on-site safeguards assessment becomes. The principle of independent verification underlies the safeguards assessment policy. Ongoing off-site monitoring is necessary and important, but is not sufficient when compared to on-site verification. Risk-based considerations are applied by safeguards staff in considering its work activities in certain cases. The panel encourages staff to consider integrating metrics for more first-hand verification in the post-program period. Factors could include the materiality of the Fund's exposure, staff's assessment of safeguards risks at the central bank, and the Fund's reputational risk in relation to the exposure. This would also counteract the difficulty at times, especially once the term of an arrangement has expired, to obtain monitoring information.

B. Resources

62. **In the panel's view, given the current workload, the FIN safeguards division is appropriately staffed.** At a minimum, the Fund must maintain a base capacity to discharge effectively the responsibilities to perform safeguards assessments and ongoing monitoring. Safeguards work is indispensable to the Fund, given its ex ante due diligence and risk management role in relation to the Fund's credit risk exposures. No other part of the Fund would have the capacity over the short to medium term to take on and effectively discharge this function. The panel has been impressed by the professionalism and dedication of the safeguards staff, and the constructive rapport which the staff establishes with the counterpart central banks. Any streamlining of the safeguards budget should be based on risk-based savings—care should be taken not to put the balance sheet of the Fund at risk in order to achieve minor savings relative to the Fund's overall risk exposure.

63. **The panel encourages safeguards staff continually maintain a professionally diverse skill set.** Individuals with banking regulation and supervision experience who have post-graduate qualifications in law, risk management or finance should also be considered for professional positions in the safeguards team. The original focus of the safeguards staff was on accounting, auditing (internal and external) and financial disclosure. Currently still, a professional accounting and auditing background constitutes minimum requirements, while central banking experience is highly recommended and indeed the staff has individuals with such background in its team. Given the panel recommendations on governance and risk management, the staff would benefit from continuing greater diversity in the professional, career and academic experience of its staff.

C. Update of guidance material

64. **Internal documents on safeguards work should be updated on a regular basis**. The operational guidance should be updated at least as regularly as the safeguards assessment policy or whenever operational procedures are changed significantly. The *Operational Guidelines for Safeguards Assessments,* last updated in 2009, should constitute the basis of such operational guidance.

V. CONCLUSIONS

65. **In the panel's opinion, the safeguards assessment policy is an indispensable element of the Fund's overarching safeguards assessment policy and, accordingly, must remain in place for as long as the Fund is engaged in financing activities.**

66. **The panel concluded that the safeguards assessment policy was effective in meeting its objectives during the period under review.** The application of the safeguards assessment policy, by way of safeguards assessments and post-safeguards-assessment monitoring for the whole period that Fund credit remains outstanding, appears to have provided reasonable assurance of the soundness of central bank operational and control frameworks and standard reporting mechanisms within counterparty central banks.

67. **The panel's main recommendations are outlined in Section III.** These observations are made in full recognition of the strong base of safeguards work as noted above, and thus aim to ensure that the policy adapts to changing global and financial conditions.

68. **The panel acknowledges the excellent cooperation received during its work**. The panel greatly appreciates the help and cooperation of the offices of Executive Directors, World Bank and IMF staff that participated in discussions, and staff from the Finance Department in particular, who provided technical and logistical support.

External Expert Panel

Thomas O'Neill (Chair) /s   Caroline Abel /s   Archil Mestvirishvili /s

September 11, 2015

ANNEXURE 1: COMPOSITION OF THE PANEL

The third quinquennial review of the safeguards assessments policy was conducted in 2015. The following external panel of experts ("the panel") was assembled to advise the Executive Board on its third review of the policy:

- Mr. Thomas O'Neill (Chair), Chair of the Board of the Bank of Nova Scotia (Canada) and Bell Canada Enterprises, and former IMF External Audit Committee member during FY 2008-10. Mr. O'Neill also served on the 2011 External Panel for the Review of the Fund's Risk Management Framework.

- Ms. Caroline Abel, Governor of the Central Bank of Seychelles (CBS). Ms. Abel previously held senior positions at the CBS and was closely involved in the 2014 safeguards assessment of the CBS; and

- Mr. Archil Mestvirishvili, Deputy Governor of the National Bank of Georgia (NBG) and a member of the NBG Board. Mr. Mestvirishvili previously held senior positions at the NBG and was closely involved in the 2014 safeguards assessment of the NBG.

The panel also wants to acknowledge the secretarial assistance provided by Carel Oosthuizen in coordinating our work and in preparation of our report.

ANNEXURE 2: TERMS OF REFERENCE FOR EXTERNAL EXPERT PANEL

Background

1. The safeguards assessment policy was introduced to provide reasonable assurance to the Fund that central banks of member countries using Fund resources have adequate control, accounting, reporting and auditing systems in place to ensure the integrity of operations including managing Fund disbursements. The safeguards assessment policy's main objective is to mitigate risks of misuse of these resources and misreporting of monetary program data. The principal instrument in achieving this objective is the conduct of ex ante safeguards assessments of five key areas of control and governance within central banks of borrowing countries, namely the external audit, legal, financial reporting, internal audit and control mechanisms (under the acronym ELRIC). Safeguards recommendations to alleviate confirmed weaknesses in the ELRIC framework are agreed with the central bank authorities and implementation is monitored in the context of the member's program with the Fund.

2. The legal basis for the safeguards assessment policy is found in the Articles of Agreement, specifically Article I(v) and Article V, Section 3(a), which require the Fund to establish adequate safeguards for the temporary use of its general resources. The safeguards assessment policy serves as a complement to the Fund's other safeguards, which include limits on access, conditionality and program design, measure to address misreporting, and post-program monitoring. The safeguards assessment policy was first introduced on a two-year trial basis in 2000. With the Executive Board's review of the results of the implementation of the safeguards assessment policy in 2002, safeguards assessments of central banks became a mandatory requirement for most types of financial support from the Fund. The safeguards assessment policy was subsequently reviewed in December 2005 and July 2010.

Principal Objective and Tasks of the Panel

3. The principal objective of the panel of independent external expert (the "panel") will be to provide the IMF's Executive Board with advice on the focus of safeguards assessment and the operation of the risk-based monitoring framework. The panel will prepare a formal report outlining its key findings and recommendations, which will be submitted to the Executive Board together with the policy review paper prepared by staff. The chair of the panel will also be expected to attend the Executive Board's discussion of the safeguards assessment policy review, currently scheduled for October 23, 2015.

4. Building on the results of the previous reviews, the panel is expected to provide advice to the Executive Board on the effectiveness of the safeguards assessment policy and the continued appropriateness of the ELRIC framework, taking into account the application

of the framework and the evolving governance and control practices. The work of the panel will focus on:

a. **Assessments**. Advising the Executive Board on the continued appropriateness of the ELRIC framework and its application, taking into account adaptations made by staff in applying the framework over time and the evolution in governance and control practices in the public and private sectors since the introduction of the safeguards assessment policy.[10] Since safeguards reports are not circulated to the Executive Board, it is expected that the panel's review of the adequacy and coverage of safeguards reports would be a key input for their work in assisting the Board with the safeguards assessment policy review. In addition, panel members will be invited to share their views on any other aspects for the review. In particular, the panel's views on the appropriateness of the current safeguards requirements for programs involving direct budget financing would be useful.[11]

b. **Monitoring**. Assessing the operation of the risk-based monitoring framework and its effectiveness during the period of an arrangement, and thereafter. Monitoring is currently conducted for as long as Fund credit remains outstanding.

c. **Refinements to risk-based approach**. Assessing the current safeguards modalities and scope for efficiencies and streamlining, on a risk-based approach, in light of the improvements in central bank control frameworks since the safeguards assessment policy was first developed in 2000.

---

[10] The 2002, 2005 and 2010 reviews all concluded that: (i) the ELRIC framework provided a robust methodology for assessing central banks: (ii) assessments have had a significant and enduring positive impact on central bank operations; and (iii) the safeguards assessment policy had been broadly endorsed by central banks.

[11] Safeguards assessment reports are not shared with the Executive Board or made available to other multilateral financial institutions, except the World Bank and the European Central bank with written consent of the central bank in question.

ANNEXURE 3: SAFEGUARDS ASSESSMENTS PERFORMED DURING REVIEW PERIOD -2010-15

	Country	Area Dept	Assessment Type	Date of the Report	Selected in sample
1	Comoros	AFR	Update Assessment	4/20/2010	No
2	Congo, Democratic Rep	AFR	Update Assessment	4/27/2010	No
3	Mauritania	MCD	Update Assessment	4/30/2010	No
4	Angola	AFR	First time Assessment	5/4/2010	No
5	Dominican Republic	WHD	Update Assessment	6/1/2010	No
6	Tajikistan	MCD	Update Assessment	6/2/2010	No
7	Moldova	EUR	Update Assessment	6/3/2010	No
8	Jamaica	WHD	First time Assessment	6/8/2010	No
9	Iraq	MCD	Update Assessment	6/14/2010	No
10	Malawi	AFR	Update Assessment	6/25/2010	No
11	Seychelles	AFR	Update Assessment	7/29/2010	No
12	Greece	EUR	First time Assessment	8/16/2010	No
13	El Salvador	WHD	Update Assessment	9/13/2010	No
14	Zambia	AFR	Update Assessment	10/29/2010	No
15	Solomon Islands	APD	First time Assessment	10/29/2010	Yes
16	Armenia, Republic of	MCD	Update Assessment	11/4/2010	Yes
17	Kosovo	EUR	First time Assessment	11/4/2010	No
18	Sierra Leone	AFR	Update Assessment	11/24/2010	Yes
19	Samoa	APD	First time Assessment	11/30/2010	No
20	Lesotho	AFR	Update Assessment	12/28/2010	Yes
21	Fiji	APD	First time Assessment	1/7/2011	No
22	Haiti	WHD	Update Assessment	1/18/2011	No
23	Ukraine	EUR	Update Assessment	2/1/2011	No
24	Yemen	MCD	First time Assessment	2/9/2011	No
25	Honduras	WHD	Update Assessment	3/4/2011	No
26	Ireland	EUR	First time Assessment	3/25/2011	Yes
27	Nepal	APD	Update Assessment	5/12/2011	Yes
28	Macedonia	EUR	Update Assessment	5/26/2011	No
29	Bangladesh	APD	Update Assessment	7/28/2011	Yes
30	Romania	EUR	Update Assessment	8/30/2011	No
31	Georgia	MCD	Update Assessment	8/30/2011	Yes
32	Kenya	AFR	Update Assessment	9/2/2011	No
33	Portugal	EUR	First time Assessment	9/14/2011	Yes
34	Liberia	AFR	Update Assessment	10/12/2011	No
35	Kyrgyz Rep.	MCD	Update Assessment	10/28/2011	Yes

	Country	Area Dept	Assessment Type	Date of the Report	Selected in sample
36	Serbia	EUR	Update Assessment	12/19/2011	No
37	Afghanistan, Islamic Republic of	MCD	Update Assessment	12/27/2011	No
38	Kenya	AFR	Update Assessment	3/22/2012	No
39	Guinea	AFR	Update Assessment	4/9/2012	Yes
40	ECCB	WHD	Update Assessment	4/16/2012	Yes
41	Djibouti	MCD	Update Assessment	4/20/2012	No
42	Solomon Islands	APD	Update Assessment	6/15/2012	No
43	Kosovo	EUR	Update Assessment	6/25/2012	No
44	Burundi	AFR	Update Assessment	7/16/2012	No
45	The Gambia	AFR	Update Assessment	7/31/2012	No
46	Greece	EUR	Update Assessment	8/24/2012	Yes
47	Lesotho	AFR	Update Assessment	11/20/2012	Yes
48	Tanzania	AFR	Update Assessment	11/29/2012	No
49	Malawi	AFR	Update Assessment	12/28/2012	Yes
50	Jordan	MCD	Update Assessment	1/8/2013	No
51	Morocco	MCD	First time Assessment	2/12/2013	Yes
52	Bosnia & Herzegovina	EUR	Update Assessment	3/11/2013	No
53	Sao Tome & Principe	AFR	Update Assessment	5/20/2013	Yes
54	Egypt	MCD	First time Assessment	5/31/2013	Yes
55	Tunisia	MCD	First time Assessment	6/3/2013	No
56	Yemen	MCD	Update Assessment	6/3/2013	Yes
57	Solomon Islands	APD	Update Assessment	6/24/2013	Yes
58	Cyprus	EUR	First time Assessment	8/27/2013	No
59	Liberia	AFR	Update Assessment	9/5/2013	No
60	Jamaica	WHD	Update Assessment	9/9/2013	Yes
61	Seychelles	AFR	Update Assessment	10/8/2013	No
62	Libya	MCD	First time Assessment	10/22/2013	No
63	BEAC	AFR	Update Assessment	11/14/2013	No
64	BCEAO	AFR	Update Assessment	12/13/2013	No
65	Pakistan	MCD	Update Assessment	12/16/2013	Yes
66	Romania	EUR	Update Assessment	1/10/2014	Yes
67	Sierra Leone	AFR	Update Assessment	3/4/2014	No
68	Albania	EUR	Update Assessment	6/5/2014	No
69	Samoa	APD	Update Assessment	6/23/2014	Yes
70	Armenia, Republic of	MCD	Update Assessment	8/22/2014	No
71	Ukraine	EUR	Update Assessment	8/26/2014	Yes
72	Seychelles	AFR	Update Assessment	9/3/2014	Yes
73	Bosnia & Herzegovina	EUR	Update Assessment	10/12/2014	No
74	Georgia	MCD	Update Assessment	11/21/2014	Yes

	Country	Area Dept	Assessment Type	Date of the Report	Selected in sample
75	Madagascar	AFR	Update Assessment	1/8/2015	No
76	Morocco	MCD	Update Assessment	1/13/2015	No
77	Yemen	MCD	Update Assessment	1/22/2015	No
78	Ghana	AFR	Update Assessment	4/8/2015	No
79	Honduras	WHD	Update Assessment	4/13/2015	Yes
80	Serbia	EUR	Update Assessment	4/28/2015	No
81	Kenya	AFR	Update Assessment	5/26/2015	No
82	Sierra Leone	AFR	Update Assessment	6/12/2015	No

ANNEXURE 4: EXTERNAL EXPERT PANEL'S SOURCES OF INFORMATION

Fund-specific Reference Material

2015 Review

2011 Safeguards Assessment Policy – Update - Staff
2012 Safeguards Assessment Policy – Update - Staff
2013 Safeguards Assessment Policy – Update - Staff
2014 Safeguards Assessment Policy– Update - Staff
2013 Safeguards Assessment Policy – Fiscal Safeguards Pilots - Staff

2015 Safeguards Assessment Policy – Scoping Note - Staff
2015 Safeguards Assessment Policy - Terms of Reference for External Expert Panel – Staff and Panel
2015 Safeguards Assessment Policy - Facts and Figures - Staff
2015 Safeguards Assessment Policy – Videoconferences with central banks – Selection considerations – Staff and Panel
2015 Safeguards Assessment Policy – PowerPoint Presentation-Staff
Safeguards Assessment Documents, IMF Factsheet, 2 April 2015

Previous Reviews

2000 Safeguards Assessment Policy- Review—Board Paper Strengthening Safeguards on the Use of Fund Resources
2000 Review—Strengthening Safeguards on the Use of Fund Resources—Independent Review of IMF Staff Proposals, EBS/00/30
2000 Review—Summing Up by the Acting Chairman Strengthening Safeguards on the Use of Fund Resources and Misreporting of Information to the Fund-Policies, Procedures, and Remedies-Preliminary Considerations (2000 03 30) (BUFF/00/48)

2002 Review—Board Paper Safeguards assessments Review of Experience and Next Steps, EBS/02/27
2002 Review—IMF Panel of Experts on Safeguards Assessments Review of Experience and Next Steps
2002 Review—The Acting Chair's Summing—Safeguards Assessments, April 1, 2002
2002 Review—Summing Up by the Acting Chairman Revision 1
2002 Review—Press Release IMF Adopts Safeguards Assessments as a Permanent Policy, April 5 2002
2002 Safeguards Assessment Policy – Update Semi-Annual – Staff (2002 08)

2003 Safeguards Assessment Policy – Update Semi-Annual – Staff (2003 03)

2003 Safeguards Assessment Policy – Update Semi-Annual – Staff (2003 08)

2004 Safeguards Assessment Policy – Update Semi-Annual – Staff (2004 03)
2004 Safeguards Assessment Policy – Update Semi-Annual – Staff (2004 08)

2005 Review—Board Paper Review of Experience
2005 Review—Report of the Independent Panel on Safeguards Assessments
2005 Review—The Acting Chair's Summing Up Safeguards Assessments—Review of Experience
2005 Review—Supplement and Proposed Decision, Supplement 1 December 1, 2005 [Covers the sharing of Safeguards Assessment reports with other international agencies]
2005 Safeguards Assessments Policy - Review—Supplement correction
2005 Safeguards Assessments Policy - Review—Supplement Press release Safeguards Assessment Reports

2006 Safeguards Assessments Policy – Update - Staff

2007 Safeguards Assessments Policy – Update - Staff

2008 Safeguards Assessments Policy – Update - Staff

2009 Safeguards Assessments Policy– Update - Staff

2009 Safeguards Assessments Policy- Operational Guidelines for (issued November 10, 2009)

2010 Safeguards Assessments Policy - Framework for Risk-Based Monitoring
2010 Safeguards Assessments Policy - Review - Staff
2010 Safeguards Assessments Policy - Review - External Expert Panel

Confidential Safeguards Reports

Armenia – Central Bank of the Republic of Armenia (2014)

Bangladesh – Bangladesh Bank (2011)

East Caribbean Central Bank (2012)

Egypt – Central Bank of Egypt (2013)

Georgia – National Bank of Georgia (2014)

Greece – Bank of Greece (2012)

Guinea – Banque Centrale de la Republique de Guinee (2012)

Honduras – Banco Central de Honduras (2011)

Ireland – Central Bank of Ireland (2011)

Jamaica – Bank of Jamaica (2013)

Kyrgyzstan – National Bank of the Kyrgyz Republic (2011)

Lesotho – Central Bank of Lesotho (2012)

Malawi – Reserve Bank of Malawi (2012)

Morocco – Bank Al-Maghrib (2013)

Nepal – Nepal Rasta Bank (2011)

Portugal – Banco de Portugal (2011)

Pakistan – State Bank of Pakistan (2013)

Romania – National Bank of Romania (2014)

Samoa – Central Bank of Samoa (2014)

Seychelles – Central Bank of Seychelles (2014)

São Tomé and Príncipe - Central Bank of São Tomé and Príncipe (2013)

Sierra Leone – Bank of Sierra Leone (2014)

Solomon Islands – Central Bank of Solomon Islands (2013)

Ukraine – National Bank of Ukraine (2014)

Yemen – Central Bank of Yemen (2015)

Reports Obtained from IMF.org and Related Sites

Articles of Agreement of the International Monetary Fund, IMF, 27 December 1945
By-laws, Rules and Regulations of the IMF, IMF, May 2011
Governance of the IMF – Decision making, Institutional Oversight, Transparence, and Accountability, L van Houten, IMF Pamphlet Series No. 53, 2002
2011 Review of the Standards and Codes Initiative, IMF, 16 February 2011
Standards and Codes: The Role of the IMF, IMF, 27 March 2015
PEFA Framework Guidelines and selected country PEFA reports
Selected country Article IV staff reports
Selected country CFAA reports
Selected country ROSC reports
Progress in Strengthening the Architecture of the International Financial System, IMF, July 2000

Integrated Surveillance Decision, IMF Factsheet, 30 September 2013
Guidance Note for Surveillance under Article IV Consultation, IMF, May 2015
Strengthening Surveillance – Lessons from the Financial Crisis, IMF Factsheet, 13 April, 2015
IMF Surveillance, IMF Factsheet, 14 April 2015
IMF's Response to the Global Economic Crisis, IMF Factsheet, 27 March 2015
How the IMF promotes Global Economic Stability, IMF Factsheet, 27 March 2015
How the IMF makes Decisions, IMF Factsheet, 27 March 2015
Protecting IMF Resources: Safeguards Assessments of Central Banks, IMF Factsheet, 27 March 2015
The Managing Director's Global Policy Agenda – Confront Global Challenges Together, April 2015
Financial Sector Surveillance and the Mandate of the Fund, IMF, 19 March 2010
The IMF's Financial Surveillance Strategy, IMF, 28 August 2012
Financial System Soundness, IMF, 1 October 2014

Lending

Crisis Lending, IMF Factsheet, 22 September 2014
Stand-by Arrangement, IMF Factsheet, 22 September 2014
Flexible Credit Line (FCL), IMF Factsheet, 22 September 2014
Precautionary and Liquidity Line (PLL), IMF Factsheet, 22 September 2014
Extended Fund Facility, IMF Factsheet, 22 September 2014
Rapid Financing Instrument (RFI), IMF Factsheet, 22 September 2014
Trade Integration Mechanism (TIM), IMF Factsheet, 22 September 2014
Extended Credit Facility (ECF), IMF Factsheet, 22 September 2014
Rapid Credit Facility (RCF), IMF Factsheet, 22 September 2014
Standby Credit Facility (SCF), IMF Factsheet, 22 September 2014
Exogenous Shocks Facility (ESF), IMF Factsheet, 22 September 2014
Policy Support Instrument (PSI), IMF Factsheet, 22 September 2014
IMF Conditionality, IMF Factsheet, 22 September 2014
IMF Financial Operations, IMF, 2014
The Design of Fund-Supported Programs – Overview, IMF, 24 November 2004
The Fund's Mandate – Future Financing Role: The Current Lending Toolkit and Innovative Reform Options, IMF, 25 March 2010
Staff Guidance Note on the Use of Fund Resources for Budget Support, IMF, 23 March 2010

Other International Sources

Sources on Governance

Corporate Governance Principles for Banks – Guidelines, Basel Committee on Banking Supervision, July 2015

Principles of Corporate Governance, Organization of Economic Cooperation and Development, 2004

Methodology for Assessing the Implementation of the OECD Principles of Corporate Governance, Organization for Economic Cooperation and Development, 2006

Corporate Governance of State-owned Enterprises, Organization for Economic Cooperation and Development, 2005

Issues in the Governance of Central Banks, Report from the Central Bank Governance Group, Under Auspices of the Bank for International Settlements, May 2009

Corporate Governance, Value Creation and Growth – The Bridge between Finance and Enterprise, Organization for Economic Cooperation and Development

Corporate Governance and the Financial Crisis: Key Findings and Main Messages, Organization for Economic Co-operation and Development, 2009.

Financial Reform: A Framework for Financial Stability. Group of Thirty, 2009.

The IMF and Good Governance, IMF Factsheet, September 2014.

Implementation Plan for Strengthening World Bank Group Engagement on Governance and Anticorruption. World Bank, 2007.

Improving Financial Regulation: Report of the Financial Stability Board to the G20 Leaders. Financial Stability Board, 2009.

Internal Control: Guidance for Directors on the Combined Code [Turnbull Report]. The Institute of Chartered Accountants in England & Wales, 1999.

King Report on Corporate Governance for South Africa (King II and III). Institute of Directors of Southern Africa, 2002 and 2009.

Leaders' Statement: The Pittsburg Summit. Group of Twenty, 2009. (https://g20.org/wp-content/uploads/2014/12/Pittsburgh_Declaration_0.pdf)

World Bank Governance Global Practice: www.worlbank.org/en/topic/governance/overview#1

Sources on Risk Management

Various publications of the Basel Committee on Banking Supervision dealing with risk management (and other relevant topics) (www.bis.org/bcbs/index.htm)

Various publications of the European Banking Authority dealing with risk management (and other relevant topics) (www.eba.eurpopa.eu/regulation-and-policy)

Risk management and Corporate Governance, Organization for Economic Cooperation and Development, 2014

Internal Control – Integrated Framework, Committee of Sponsoring Organizations (COSO), 2013

Enterprise Risk Management—Integrated Framework. Committee of Sponsoring Organizations (COSO), 2004.

High Level Principles of Risk Management. Committee of European Banking Supervisors (CEBS), 2010.

ISO 31000 Risk Management: Principles and Guidelines. International Organization for Standardization (ISO), 2009.

Sources on Transparency

Updated Guidance Note on the Fund's Transparency Policy, IMF, 7 April 2014
Transparency at the IMF, IMF Factsheet, 13 April 2015
How does the IMF Encourage Greater Fiscal Transparency, IMF Factsheet, 27 March 2015
Transparency International – Home page, www.transparency.org
Code of Good Practices on Fiscal Transparency, IMF, 2007
Code of Good Practices on Transparency in Monetary and Financial Policies: Declaration of Principles, IMF, August 2000
Transparency in Monetary and Financial Policies, IMF Factsheet, 15 April 2015
Fiscal Transparency, Accountability and risk, IMF, 7 August 2012

Central Banks Consulted

1. The panel held conferences with the following central banks.

Central Bank	Authorities in Attendance
Central Bank of Ireland On 16 June 2015 (Teleconference)	Mr Patrick Honohan, Governor Mr Mark Cassidy, Head, Financial Stability Division) Mr Allan Kearns (Deputy Head, Operational Risk Division) Mr. David O'Riordan (Deputy Head, Payment & Securities Settlement) Mr John Hodgkinson (Manager, Financial Control & Procurement) Mr John Rowe (Manager, Financial Markets Division) Mr. Joe Foy (Head, Internal Audit Division)
Bank of Jamaica On 16 June 2015 (Videoconference)	Mr. Livingstone Morrison, Deputy Governor
National Bank of Ukraine On 17 June 2015 (Videoconference)	Mr. Rashkovan, Deputy Governor
Central Bank of Sierra Leone On 17 June 2015 (Videoconference)	Mr Ibrahim Stevens, Deputy Governor Mr Ralph Ansumana, Director of Internal Audit

Staff Consulted

5. **The panel met with Fund staff from area and functional departments on 16 to 18 June, 2015**. Departments represented were AFR. APD, EUR, FAD, FIN, LEG, MCD, MCM, SPR, WHD. In addition, the panel met with the head of the Fund's recently established Risk Management Unit.

Offices of Executive Directors Consulted

6. **The panel met with three separate assemblies of personnel from the offices of executive directors**. Offices were represented variously by executive directors, alternates, or advisors.

ANNEXURE 5: SUMMARY OF MEETINGS

Views from Central Banks

1. **The topics of discussion with central banks included**: (i) the motivation for, and objectives and scope of the safeguards assessment policy, (ii) effectiveness of safeguards assessments and monitoring in achieving the safeguards assessment policy objectives, (iii) usefulness of the safeguards activities to the central bank's operations and its management, (iv) value of the safeguards seminars, (v) the adequacy of the ELRIC framework and whether there were any suggestions for improvement, (vi) issues related to governance and risk management, (vii) the authorities' views on transparency, (viii) confidentiality of safeguards assessment reports, (viii) appropriateness of safeguards recommendations, priorities, and deadlines, (ix) effectiveness of communication with the safeguards staff, (x) the authorities' views on extending safeguards assessments beyond their current association with Fund arrangements, to be conducted proactively with all Fund members, (xi) practicality of having a central bank employ a self-assessment template to evaluate its safeguards, (xii) relationship with safeguards staff and evaluation of their performance, (xiii) legislative amendments flowing from safeguards recommendations, (xiv) central bank autonomy, (xvi) central bank solvency, (xvii) technical assistance.

2. **The central banks consulted approved of the safeguards assessment policy and acknowledge its benefits.** They appreciate that the safeguards exercise has better aligned them with sound principles and practices. They recommend the process to other central banks, even outside the context of a pending financial arrangement with the Fund.

3. **All agreed that risk management (RM) and governance require and warrant focused attention.** They were unanimous that the ELRIC framework needs to be extended also to cover governance and risk management.

Views from Offices of Executive Directors

4. **The panel queried the attending EDs and other representatives from the Offices of the EDs (OEDs) regarding:** (i) their appraisal of the value and effectiveness of the current safeguards assessment policy and its possible extensions of the ELRIC framework to include governance and risk management, (ii) their judgment about expanding safeguards to treasuries when resources for budgetary support are at stake, and (iii) their views on transparency for safeguards information.

5. **The OEDs expressed general satisfaction with the safeguards assessment policy, believing it to be helpful in reducing risk to the Fund and protecting its reputation.** The panel gained the sense that the OEDs were supportive of strengthening the safeguards assessments policy framework, inter alia by extending the safeguards assessments policy framework to include corporate governance and risk management.

6. **Many OEDs expressed the position that it is not acceptable to neglect safeguards assessments of treasuries, although they acknowledged the logistical difficulties of doing so.**

7. **The OEDs were interested in the basis for the panel's decisions on which central banks to interview and what the panel's review entailed.**

Views from Staff

8. **The discussion topics for staff were the same as those for OEDs.**

9. **Staff members in general are supportive of the safeguards assessment policy and believe it is a worthwhile undertaking.** Economists for some countries see the safeguards assessment policy as a bureaucratic hurdle whose findings and recommendations are tangential to the countries' economic problems and solutions.

10. **Functional departments had a clear understanding of the role of safeguards in general and the safeguards assessments policy.** It was noted that the IMF is not a standard-setter and in the absence of an IMF policy line on a particular topic, safeguard staff would need to exercise judgment. Functional departments expressed support for extending the safeguards assessments policy to corporate governance and risk management. The panel was informed of the technical assistance rendered by the Fund to central banks or in relation to central banking. The importance of maintaining a clear distinction between performing assessments and providing technical assistance was emphasized. The panel was informed that the Fund's Risk Management Unit intended to apply enterprise risk management. The characteristics of the Fund loan portfolio was discussed, including its high level of concentration and the increasing unpredictability of its cash flows and performance. The panel was informed of the Fund's approach to central bank autonomy, which is based on the EU Monetary Union construct of three dimensions: personal autonomy, functional autonomy and financial autonomy. Concerns were expressed about the complexity and perimeter of fiscal safeguards procedures. It was emphasized that the Fund is not a commercial lender, but a lender of last resort.

11. **Area departments expressed appreciation for the safeguards assessments policy but were concerned about the impact of certain types of recommendations on the authorities' commitment to a program.** Area departments were complimentary of the impact of the safeguards assessments policy, but expressed reservations about recommendations which impacted progress of programs, such as recommendations which require amendment to the legal framework. In this context, area departments suggested that more recognition should be given to country circumstances. Area departments indicated that there was a high rate of adoption of other recommendations.

12. **In meetings with the safeguards staff, the panel discussed the operational dimensions and challenges of the safeguards assessment policy.** Staff informed the panel

about the objectives and scope of application of the safeguards assessments policy and its application to central banks; the types of Fund arrangements and the applicability of safeguards assessments policy; the safeguards assessment cycle; the content of the safeguards assessment report, including the ELRIC risk ratings and the overall risk rating. The challenges relating to amendments of the legislative frameworks were noted. The panel canvassed safeguard staff views on ELRIC, governance and risk management, central bank solvency and the potential use of the self-assessment template. The issue of and safeguards staff's involvement in the Greece situation was also discussed. The discussion of Fund's budget support financing and the related fiscal safeguards procedures highlighted the challenges in this area. It was noted that where structural reforms are not encapsulated in the legal framework and though institutionalization, they may not become embedded and their benefits may not be reaped in future. The importance of political economy considerations, especially in the case of recommendations which require amendments to the legal framework was emphasized.

13. **In meetings with senior staff of FIN, the panel and FIN exchanged perspectives on the key issues for this year's safeguards assessment policy review**. The panel briefed FIN on results of the discussions with central banks, Fund executive directors and advisors, and Fund staff, and informed FIN of its key conclusions and recommendations.