

IMF Publication

# Safeguards Assessments - 2022 Review of Experience

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INTERNATIONAL MONETARY FUND



# IMF POLICY PAPER

## SAFEGUARDS ASSESSMENTS: REVIEW OF EXPERIENCE

DECEMBER 2022

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its December 7, 2022 consideration of the staff report.
- The **Staff Report** on the Safeguards Assessments: 2022 Review of Experience prepared by IMF staff and completed on November 7, 2022 for the Executive Board's consideration on December 7, 2022. The report should be read in conjunction with the Safeguards Assessments Policy – 2022 External Expert Panel's Advisory Report.
- The **Independent Panel** report on the Safeguards Assessments Policy - 2022 External Expert Panel's Advisory Report to the Executive Board of the IMF.

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**International Monetary Fund**  
**Washington, D.C.**



## IMF Executive Board Concludes 2022 Review of the Safeguards Assessments Policy

FOR IMMEDIATE RELEASE

**Washington, DC – December 16, 2022:** On December 7, 2022, the Executive Board of the International Monetary Fund (IMF) concluded a periodic review of the safeguards assessments policy. The review covered experience with the policy since the last review in 2015, and included a staff paper, [Safeguards Assessments – 2022 Review of Experience](#), and an independent report by an external panel of experts, [Safeguards Assessments – 2022 External Expert Panel's Advisory Report](#). The safeguards assessments policy's main objective is to minimize the possibility of misreporting of information under IMF lending arrangements and misuse of IMF resources.

Safeguards assessments seek to provide reasonable assurance to the IMF that central banks of member countries using IMF resources have adequate governance and control frameworks to manage their resources and IMF purchases or disbursements. The assessments cover the following key areas of central bank operations: the external audit mechanism, the legal structure and autonomy, the financial reporting framework, the internal audit mechanism, and the system of internal controls. In addition, the assessments will now cover the governance arrangements at the central bank as a separate pillar in the safeguards framework. The policy continues to require that central banks publish their financial statements that have been independently audited by external auditors in accordance with internationally accepted auditing standards.

The external panel of experts comprised: Mr. Mohammed Nyaoga (Chair), Chairman of the Central Bank of Kenya Board of Directors and a Senior Counsel and Senior Partner of Mohammed/Muigai LLP Advocates; Professor Blanaid Clarke, the McCann FitzGerald Chair in Corporate Law, Trinity College Dublin and a former member of the Irish Central Bank Commission; Dr. Maher Sheikh Hasan, the Counsellor and Chief Economist of the Arab Monetary Fund, and a former Deputy Governor of the Central Bank of Jordan; and Mr. Brian Wynter, a former Governor of Bank of Jamaica, and the past founding CEO of Jamaica's Financial Services Commission.

### Executive Board Assessment<sup>1</sup>

Executive Directors welcomed the opportunity to review the experience with the safeguards assessments policy since the last review in 2015. They noted that the policy remains an important and integral part of the Fund's overall risk management framework. Directors expressed their appreciation to the external panel of experts for their independent appraisal of the safeguards assessments policy and their conclusions and recommendations to enhance the safeguards framework.

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<sup>1</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Directors recognized the importance of the safeguards assessments policy to help mitigate the risks of misreporting and misuse of Fund resources. They welcomed the findings that the policy continues to play an important role to meet these objectives and to maintain the Fund's reputation as a prudent lender. Directors noted positively that in cases where central banks have been subject to more than one assessment, there has broadly been an improvement in the governance and control frameworks, notwithstanding challenges.

Directors agreed that the existing framework for the assessment and monitoring of central banks' governance and control mechanisms remains broadly appropriate. They welcomed the proposals for further enhancements to keep pace with evolving developments, including establishment of a separate pillar on governance in the safeguards assessments framework to facilitate broader coverage and discussion of the board oversight role and the division of responsibilities among key decision-making bodies to preserve accountability. Directors also recognized the continuing importance of integrated risk management in strengthening central banks' control frameworks and supported the broader coverage of financial risks in risk management functions, taking into account the technical capacity of each central bank.

Directors noted the developments in issuance of central bank digital currencies in some member countries and broadly supported safeguards coverage of these activities in a systematic and consistent approach. This would help ensure that appropriate oversight and technical and operational aspects are in place to manage the specific risks arising from these activities. Directors also welcomed staff's plans to expand its outreach to central banks through regional governance events and by disseminating operational guidelines to central banks to help build awareness of the safeguards process and leading practices and international standards. Directors emphasized the importance of monitoring and capacity development in improving implementation of safeguards recommendations.

Directors noted staff's experience with the fiscal safeguards reviews (FSRs) conducted to date and welcomed the proposals to strengthen the modalities for the reviews, including in-person or hybrid engagement, review processes with management approvals, and a formal mechanism for staff to follow up on recommendations. Directors also welcomed the proposal to require FSRs for High Combined Credit Exposure (HCCE) cases with at least 25 percent of resources directed to budget financing. Given the scope and resource challenges, Directors broadly agreed that the existing threshold for FSRs remains appropriate and covered a significant proportion of Fund resources disbursed for budget financing during the review period. A number of Directors, however, felt that there is value to increasing the number of FSRs, and encouraged staff to explore alternative thresholds at the next review of the safeguards policy.

Directors generally agreed that the safeguards assessments policy would apply to new requests for Resilience and Sustainability Facility (RSF) arrangements by members that seek access to the Resilience and Sustainability Trust (RST) resources through a concurrent program supported by the Policy Coordination Instrument (PCI) or the Policy Support Instrument (PSI). It was noted that the safeguards framework is sufficiently flexible and would continue to take into account country-specific circumstances, including for small states that seek access to the RST and have limited capacity.

Many Directors were willing or open to support the staff's proposal to introduce an exceptional event clause in the safeguards policy in the event of a future global crisis that leads to similar

unprecedented demands for Fund financing (as during the pandemic, which resulted in a large pipeline of safeguards assessments), noting that in such an event, management approval, followed by a staff paper to the Board for a decision to activate the clause for a pre-defined period would be required. Many other Directors, however, expressed reservations or disagreed with the proposal and cautioned that delaying safeguards assessments is not to be undertaken lightly, given that timely assessments are crucial to identifying vulnerabilities, and that defining criteria for such a clause ex ante is difficult. Some Directors argued for a risk-based approach to the exceptional event clause, allowing the extended flexibility only for lower-risk cases. A few Directors also suggested that utilizing any such flexibility should be based on an assessment of the workload, and not on global economic developments. In the end, Directors underscored that allocating appropriate resources for safeguards assessments is crucial.

Directors urged staff to carefully monitor the resource needs for the work on safeguards assessments. They noted that structural resource requirements would need to be considered in the context of the budget discussions.



## SAFEGUARDS ASSESSMENTS: 2022 REVIEW OF EXPERIENCE

November 7, 2022

## EXECUTIVE SUMMARY

**This paper reviews the experience with the safeguards assessments policy.** The policy is subject to periodic reviews, normally every five years, by the Executive Board. The last review was completed in 2015 and the current review was delayed from 2020 owing to prioritization of work related to the COVID-19 pandemic. The policy's main objective is to mitigate risks of misuse of Fund resources and misreporting of monetary data under Fund arrangements. In line with past reviews, an external panel of experts (panel) provided an independent perspective on the implementation of the safeguards assessments policy.

**The review involved wide consultations with stakeholders.** Staff engaged with area and functional departments on the scope of the review. The panel initiated their work during the pandemic and engaged with selected central banks through video conference calls. The panel also visited headquarters and sought the views of Executive Directors, and staff from area and functional departments on the effectiveness and implementation of the safeguards assessments policy.

**The current review period saw a high demand for emergency financing.** This was precipitated by the COVID-19 pandemic. Compared to the prior review period, the risk profile of central banks assessed during the current period deteriorated, in part reflecting the revolving nature of Fund lending. At many central banks, vulnerabilities in governance arrangements and capacity constraints in risk management impact the internal control environment. Areas that show relative sustained good practices include the external audit arrangements and financial reporting.

**Staff considers the safeguards framework to continue to be appropriate, but some refinements are necessary.** The proposals include establishing a stand-alone governance pillar in the safeguards framework to facilitate deeper engagement with central banks in this important area; enhancements to the modalities for fiscal safeguards reviews that were introduced in the 2015 policy review; continued refinements to evaluation of central banks' risk management functions and issuances of central bank digital currencies (CBDCs); and strengthened outreach to central banks.

**The panel concludes that the safeguards policy continues to be effective.** The panel further notes that the addition of fiscal safeguards reviews enhances the Fund's ability to safeguard resources. Consistent with past practice, the panel's report is being circulated concurrently. It recommends some refinements to the safeguards modalities, which staff broadly agrees with, and these have been taken into account in staff's proposals.

**Approved By**  
**Bernard Lauwers (FIN)**

Prepared by a staff team in the Finance Department, led by Mr. Kabwe and consisting of Mmes. Cardoso, Grochalska, Kargbo-Sical, Meshenko, Mohlala, Nanyonjo, Sandakly and Ong and Messrs. Chamoun, Chidawaya, Majewski, Manzanera, Matai, Shin, van Greuning, and Zbasnik (all FIN). Mmes. Aslan, Renteria Rodriguez and Mr. Saxena (all FAD), and Mr. Gullo and Ms. Vasquez Suarez (both LEG) also provided input. Mr. Bradbury (FIN) provided guidance to the team.

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## Glossary

|        |   |
|--------|---|
| AFR    | IMF's African Department  |
| APD    | IMF's Asia and Pacific Department   |
| CBDC   | Central Bank Digital Currencies   |
| EA     | Exceptional Access  |
| EFF    | Extended Fund Facility  |
| ELA    | Emergency Liquidity Assistance  |
| ELRIC  | The framework used by the IMF to conduct safeguards assessments. ELRIC stands for (i) the External audit mechanism; (ii) the Legal structure and autonomy; (iii) the financial Reporting framework; (iv) the Internal audit mechanism; and (v) the internal Controls system.  |
| EUR    | IMF's European Department   |
| FAD    | IMF's Fiscal Affairs Department   |
| FCL    | Flexible Credit Line  |
| FIN    | IMF's Finance Department  |
| FSR    | Fiscal Safeguards Review  |
| GELRIC | The proposed framework to be used by the IMF to conduct safeguards assessments. GELRIC stands for: (i) <u>G</u> overnance arrangements; (ii) the <u>E</u> xternal audit mechanism; (iii) the <u>L</u> egal structure and autonomy; (iv) the financial <u>R</u> eporting framework; (v) the <u>I</u> nternal audit mechanism; and (vi) the internal <u>C</u> ontrols system. |
| HCCE   | High Combined Credit Exposure   |
| IFRS   | International Financial Reporting Standards   |
| IORWG  | International Operational Risk Working Group  |
| ISA    | International Standards on Auditing   |
| LEG    | IMF's Legal Department  |
| LETIFA | LETIFA stands for (i) Legal framework for budgetary appropriations; (ii) Government banking arrangements through the Treasury; (iii) Internal controls of public expenditure; (iv) Reporting of Financial data; and (v) Independent Audit of government financial statements.   |
| MCD    | IMF's Middle East and Central Asia Department   |
| PCI    | Policy Coordination Instrument  |
| PFM    | Public Financial Management   |
| PLL    | Precautionary and Liquidity Line  |
| PSI    | Policy Support Instrument   |
| RAMP   | World Bank's Reserve Advisory & Management Partnership  |
| RAP    | Rights Accumulation Program   |
| RCF    | Rapid Credit Facility   |
| RFI    | Rapid Financing Instrument  |
| RST    | Resilience and Sustainability Trust   |
| SBA    | Stand-By Arrangement  |
| SMP    | Staff Monitored Program   |
| WHD    | IMF's Western Hemisphere Department   |

## INTRODUCTION AND BACKGROUND

**1. This paper reviews the experience with the safeguards assessments policy since the last review in 2015.**<sup>1</sup> In line with past reviews, an external panel of experts (panel) comprising central bankers provided an independent perspective on the implementation of the policy. The panel's work included review of the confidential safeguards assessment reports.<sup>2</sup> The panel's report is being circulated concurrently to the Executive Board with this paper. Consistent with past practice, the Chair of the panel will attend the Board discussion.

**2. The safeguards assessments policy has been in place since 2000.** Following an initial two-year trial, the Executive Board endorsed the policy as an integral part of the Fund's risk management framework in the institution's financing operations. The policy was established to provide reasonable assurance that central banks of member countries seeking financial arrangements from the IMF have control, audit, and reporting systems in place to properly manage resources. The policy's main objective is to mitigate the risks of misuse of Fund resources and misreporting of information on program monetary data under IMF arrangements (see Box 1). The 2015 policy review expanded the safeguards work to also include fiscal safeguards reviews (FSRs), see further discussion below. The safeguards assessment policy complements other risk mitigation measures in the Fund's financing operations such as access limits, program conditionality and design, and post-program monitoring.

**3. The Executive Board conducts periodic reviews of the policy.** The Board normally reviews the policy at least every five years. The current review was delayed from the original timeframe of 2020 owing to the COVID-19 pandemic, which necessitated a prioritization of crisis-related work. The 2015 review endorsed the policy's effectiveness as part of the Fund's overall risk-management framework, including enhancements to keep pace with the evolving nature of safeguards risks. These included a sharper focus on governance, broadening coverage of integrated risk management functions at central banks, as well increased outreach, and engagement with stakeholders. The review also endorsed the introduction of FSRs of state treasuries to be conducted for all arrangements where a member requests exceptional access to Fund resources with at least 25 percent of the funds directed to financing the state budget. The expansion to the policy beyond central banks was in recognition of the increasing number of arrangements involving the use of Fund resources for budget financing.

<sup>1</sup> See [Safeguards Assessments—Review of Experience \(2015\)](#); and [Safeguards Assessments Policy—External Expert Panel's Advisory Report \(2015\)](#). The current policy review period covers September 2015 to April 2022. The 2015 policy period covered April 2010 to August 2015.

<sup>2</sup> The panel comprises Mr. Mohammed Nyaoga (Chair), Chairman of the Central Bank of Kenya Board of Directors and a Senior Counsel and Senior Partner of Mohammed/Muigai LLP Advocates; Professor Blanaid Clarke, the McCann FitzGerald Chair in Corporate Law, Trinity College Dublin, and a former member of the Irish Central Bank Commission (2010–18); Dr. Maher Sheikh Hasan, the Counsellor and Chief Economist of the Arab Monetary Fund, and a former Deputy Governor of the Central Bank of Jordan; and Mr. Brian Wynter, a former Governor of Bank of Jamaica, and the past founding CEO of Jamaica's Financial Services Commission.

**4. The current review has been conducted in wide consultation with stakeholders.** Finance Department (FIN) staff has primary responsibility for conducting safeguards assessments.<sup>3</sup> Early engagement with area and functional departments was conducted on the scope of the review. The panel initiated its work in a virtual setting during the pandemic through video conference calls among members and with staff and central bank officials. When the travel restrictions eased, the panel visited headquarters twice and sought the views of Executive Directors and staff from area and functional departments on the effectiveness and implementation of the safeguards policy.

### Box 1. Safeguards Assessment and Policy Evolution

A safeguards assessment is a diagnostic review of a central bank's governance and control framework. Assessments focus on central banks as they are typically responsible for managing Fund resources and reporting on key statistics used for program monitoring. Safeguards assessments currently cover five key areas within central banks of borrowing countries, namely, the external audit, legal structure, financial reporting, internal audit and control mechanisms, i.e., the ELRIC framework. Safeguards assessments are conducted for each new Fund financing arrangement (except for Flexible Credit Line (FCL) arrangements for which limited procedures are applied owing to the rigorous requirements that must be met to qualify for an FCL). Streamlining measures introduced in 2015 discontinued update assessments for augmentations of existing arrangements and in specific circumstances for successor arrangements (see discussion in paragraph 8). Annexes I and II summarize the applicability of the safeguards assessments policy, and the safeguards framework, respectively.

A cornerstone of the policy is that central banks of member countries that borrow from the Fund should publish annual financial statements that are independently audited by external auditors in accordance with International Standards on Auditing. Safeguards assessments are distinct from audits in that they entail high-level diagnostic reviews of the structures and mechanisms in place rather than a detailed test of transactions or verification of assets. The assessments are conducted independently from program discussions. Safeguards recommendations may lead to technical assistance from the Fund or other agencies to implement remedial measures.

The main output of a safeguards assessment is a confidential report with time-bound recommendations to address key vulnerabilities in a central bank's safeguards framework. The recommendations are discussed and agreed with the central bank authorities and implementation is monitored closely by staff. While the safeguards report is not circulated to the Executive Board, the Executive Director in whose constituency the borrowing member country falls receives a copy. The Executive Board, however, is informed of the main findings and recommendations in summary form in country reports. In accordance with past Executive Board decisions, safeguards reports can also be shared, upon request, with the World Bank and the European Central Bank staff, subject to strict confidentiality restrictions and with the consent of the concerned central bank.

In 2015, the policy evolved with the introduction of FSRs, which broaden the coverage of safeguards assessments beyond member central banks and entail a high-level review of state treasury operations in exceptional access cases that involve at least 25 percent of resources directed to budget financing. In addition, the new Food Shock Window introduced in 2022 is subject to the timing and modalities of safeguards assessments for members with financing under the RFI and RCF.

Prior to establishment of the Resilience and Sustainability Trust, non-financing instruments such as the Policy Coordination Instrument (PCI) and Policy Support Instrument (PSI) did not trigger a need for a safeguards assessment, but voluntary assessments were encouraged. However, since eligible countries can now request access to RST resources (i.e., use of Fund resources) through a concurrent program under these instruments, staff proposes that such cases be subject to a mandatory safeguards assessment, similar to other Fund financing arrangements.

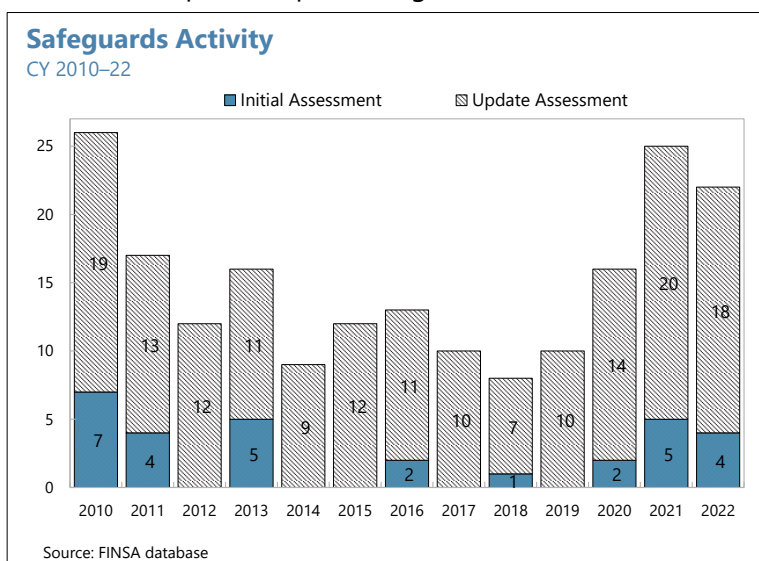
<sup>3</sup> FIN coordinates closely with staff from the Legal Department (LEG) in the conduct of the assessments, particularly with respect to review of the legal structure and autonomy of the central bank. Further, the FSRs are a multi-department exercise where staff from Fiscal Affairs Department (FAD) has primary responsibility and conducts the work jointly with staff from FIN and LEG.

5. This paper is structured as follows: Section II discusses the key safeguards activities during the current review period, including lessons learned during the pandemic; Section III takes stock of general trends in safeguards findings; Section IV discusses topical emerging issues; Section V reviews the experience with FSRs; Section VI makes proposals for changes in the following areas: to establish a standalone governance pillar in the safeguards framework, to emphasize the broader coverage of financial risks in central banks' risk management functions, and the approach to cover central bank digital currencies (CBDCs) in safeguards assessments, enhancements to FSRs and incorporation of recent new lending facilities in the applicability of the safeguards policy; and Section VII outlines issues for the Executive Board's discussion.

## SAFEGUARDS ACTIVITIES IN THE CURRENT REVIEW PERIOD

### A. Assessments

6. **The high demand for emergency financing in the context of the COVID-19 pandemic resulted in an unprecedented pipeline of safeguards assessments.** Since the 2015 policy review through end-April 2022, 91 assessments were completed representing 66 central banks.<sup>4</sup> In addition, a further 16 assessments were in progress at end-April 2022 (see Annex IV). The level of activity in the current review period is slightly higher than the previous review period, which had 83 assessments of 57 central banks. In total, some 102 central banks have been assessed since inception of the policy.<sup>5</sup> The increased activity owing to the emergency financing during the pandemic resulted in nearly half of the total assessments



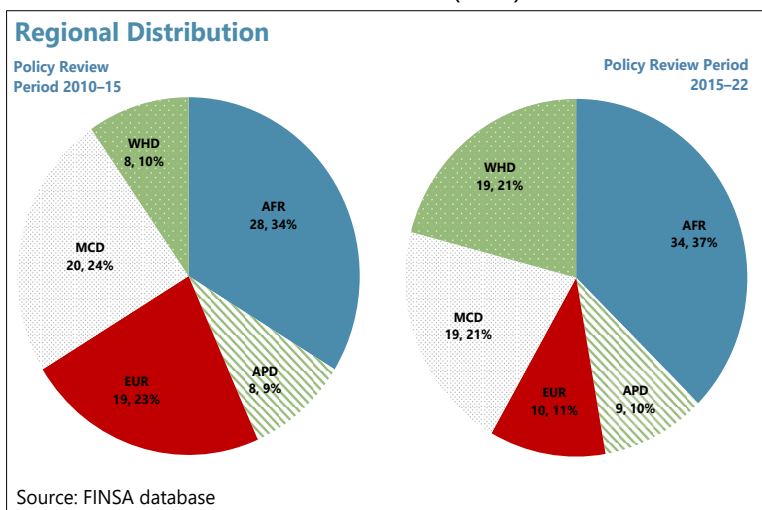
<sup>4</sup> The chart presents assessment activity by calendar year for the period 2010–22. As a result, 2010 includes six assessments that relate to the 2005–10 policy review period (one first-time assessment and five update assessments). Further, 2022 includes 16 assessments that were in progress as at end-April 2022 (two first-time assessments and 14 update assessments).

<sup>5</sup> A further 27 abbreviated assessments of only the external audit mechanism, including the publication of audited financial statements, were conducted in 2000–02 under transitional procedures that were applicable to countries with Fund arrangements in effect prior to June 30, 2000. Annex IV lists all completed assessments through end-September 2022.

during the current review period, i.e., 42 assessments, being conducted in the two-year period to end-April 2022. The current review period had 12 first-time assessments, compared to 15 during the 2015 review.<sup>6</sup>

**7. The geographic distribution of assessments is largely unchanged except for two main shifts.** Africa (AFR) continues to represent the largest number of assessments completed (37 percent). The proportion of assessments conducted in the Asia Pacific (APD) and Middle East and Central Asia (MCD) remains broadly comparable to previous periods at 10 percent and 21 percent, respectively. A notable change is the shift in geographic distribution in the current review period to the Western Hemisphere region (WHD), where the proportion of assessments conducted more than doubled to 21 percent. This reflects a shift from Europe (EUR) that represented only 11 percent (about half of the proportion in the 2010–15 period). The changes in the regional distribution of assessments had an impact on the overall safeguards risk profile (see Section IV).

7. The geographic distribution of assessments is largely unchanged except for two main shifts. Africa (AFR) continues to represent the largest number of assessments completed (37 percent). The proportion of assessments conducted in the Asia Pacific (APD) and Middle East and Central Asia (MCD) remains broadly comparable to previous periods at 10 percent and 21 percent, respectively. A notable change is the shift in geographic distribution in the current review period to the Western Hemisphere region (WHD), where the proportion of assessments conducted more than doubled to 21 percent. This reflects a shift from Europe (EUR) that represented only 11 percent (about half of the proportion in the 2010–15 period). The changes in the regional distribution of assessments had an impact on the overall safeguards risk profile (see Section IV).



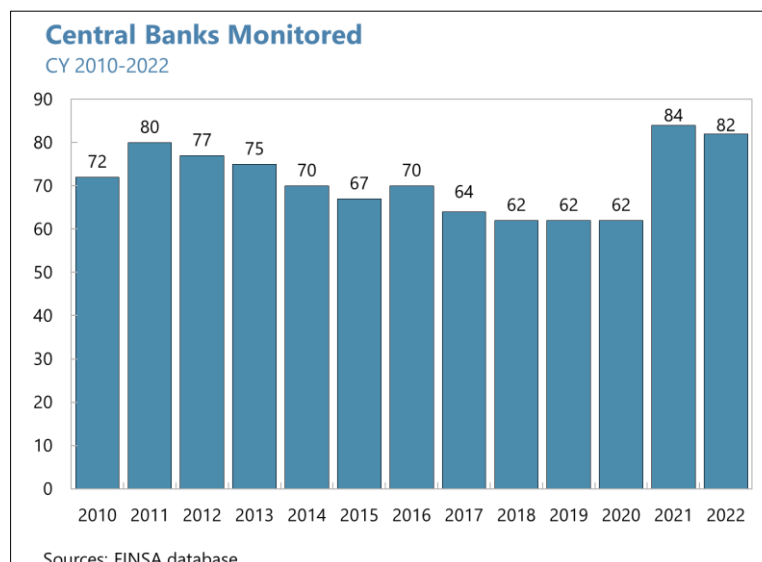
**8. The 2015 streamlining measures have been beneficial and resulted in a 25 percent reduction in assessments conducted in the current review period.** The 2015 policy review introduced streamlining measures that discontinued update assessments for augmentations of existing arrangements and in specific circumstances for successor arrangements.<sup>7</sup> During the period, these risk-based streamlining measures yielded 31 fewer assessments in connection with 17 augmentations, 13 successor arrangements that met the time-based criteria, and one on account of a strong track record. When compared to the total number of assessments that would have been performed under the previous policy framework (122 assessments) this represents a reduction of 25 percent. Although update assessments are no longer conducted in the above-described instances, safeguards monitoring of developments continues in all cases for as long as Fund credit remains outstanding (see below).

<sup>6</sup> In addition, limited safeguards procedures for nine FCL arrangements were performed during 2015–22 (12 during 2010–15).

<sup>7</sup> Namely, (i) time-based criteria if a prior assessment was conducted recently, i.e., within 18-months; or alternatively (ii) if the central bank in question has a strong track record and the previous assessment was completed within the past four years, and no substantial issues were identified in the prior assessment or subsequent monitoring. Against the background of the Fund's flat budget environment, the streamlining was proposed as part of efforts to reallocate resources and achieve efficiency gains to help meet new demands within a fixed envelope.

## B. Monitoring

**9. Monitoring activity reached a record level during the period and is expected to remain elevated for the medium-term.** Monitoring is the second main activity of safeguards work. Central banks that undergo a safeguards assessment are subject to monitoring until Fund credit is fully repaid. Monitoring involves follow up on the implementation of safeguards recommendations and other relevant developments at the central bank through regular contact with country authorities, the external auditors, and IMF area department staff.<sup>8</sup> The number of central banks under safeguards monitoring increased significantly by some 22 percent to 82 at end-April 2022 compared to 67 at end-August 2015. It peaked in 2021 with 84 central banks being monitored, reflecting the unprecedented ramp-up of emergency financing during the COVID-19 pandemic.



**10. Monitoring during the current review period involved closer engagement in some cases.** Twelve safeguards monitoring missions were conducted during the period (three in the prior period). Monitoring missions were primarily prompted by the need to resolve long outstanding recommendations; or the emergence of new safeguards vulnerabilities that warranted staff's closer collaboration and follow-up with country authorities or to support area departments in technical discussions on safeguards-related program conditionality.

## C. Analytical Work, Outreach, and Collaboration with Stakeholders

**11. As the policy matures, staff's experience is being leveraged through analytical work and publications.** Staff published three working papers and presented on safeguards experience as part of the IMF Analytical Corner series.<sup>9</sup> These initiatives were undertaken to strengthen awareness and improve communication with stakeholders on safeguards-related issues. In addition, with the continued emphasis on governance, staff also contributed to two regional publications on central

<sup>8</sup> The work also involves review of the annual audited financial statements and reports issued by the external auditors on the internal control system.

<sup>9</sup> [External Audit Arrangements at Central Banks \(2018\)](#); [Effectiveness of Internal Audit and Oversight at Central Banks: Safeguards Findings—Trends and Observations \(2018\)](#); and [Risk Management Maturity Assessment at Central Banks \(2019\)](#).

bank governance.<sup>10</sup> This analytical work has drawn on broad data from safeguards findings and observations, and staff's cross-regional experience. The publications have resonated well with the central banking community and continue to generate interest from various parties as useful and aspirational benchmarking references.

**12. Outreach with key stakeholders in the central banking community was broadened during the review period.** In addition to the well-established safeguards outreach activities (see below), engagement with the central banking community was expanded through two significant developments. First, as noted above, the analytical work has generated substantial interest in safeguards findings and provided a platform for advocacy of leading practices. Second, the Fund joined the International Operational Risk Working Group (IORWG) in 2018, increasing the avenues for staff's contribution to research and discussions on leading practices in operational risk management.<sup>11</sup> Staff also continued to participate in outreach activities as follows:<sup>12</sup>

- **High-level governance forums.**<sup>13</sup> These high-level forums are targeted at central bank board members, governors, and deputy governors. These decision makers engage in broad topical governance issues such as the legal underpinnings for central bank board oversight; roles and responsibilities of the board and audit committees; the role of financial risk management; and implications of developments in FinTech on central bank governance. The events provide a platform for useful exchanges of cross-regional experience and have been well received by the central bank community.
- **Regional safeguards seminars.** The seminars which are held two to three times a year on a rotating basis at the various IMF training centers target central bank department heads. The seminars provide a channel for sharing safeguards experience on topical issues affecting central banks and raise awareness of the safeguards assessment process. Twelve seminars were held during the current review period in Kuwait (four), Austria (three), Singapore (two), Mauritius, South Africa, and Barbados.<sup>14</sup> Participants have noted the beneficial impact of the seminars on their understanding of the safeguards policy and the opportunity to share their experiences and establish contacts with counterparts facing similar issues.

<sup>10</sup> Newiak, et al, 2022, [Good Governance in Sub-Saharan Africa Opportunities and Lessons](#); and Jarvis et al, 2021, [Economic Governance Reforms to Support Inclusive Growth in the Middle East, North Africa, and Central Asia](#).

<sup>11</sup> The IORWG comprises 85 central banks and monetary and supervisory authorities and the Bank for International Settlements. The IORWG shares good risk management practices through an annual meeting that is informed by select research conducted by working groups on topical issues.

<sup>12</sup> Other outreach activities include staff presentations on safeguards-related issues such as internal audit, risk management, governance and financial reporting at the invitation of central banks and international financial institutions.

<sup>13</sup> Six such events have been held since 2013, four of which were during this period in 2020, 2019, 2018, and 2016. The events are held in collaboration with the Hawkamah Institute for Corporate Governance, a not-for-profit organization based in Dubai. The external auditors of central banks are also invited.

<sup>14</sup> After an initial pause due to the COVID-19 pandemic, two virtual safeguards seminars were held in late-2021 (Kuwait center) and early-2022 (Mauritius center).

- **Collaboration with the World Bank.** Staff coordinated with and contributed to six internal audit and accounting workshops organized by the World Bank's Reserve Advisory & Management Partnership (RAMP) during 2018-21. The workshop participants are officials from central banks that are members of the RAMP. The workshops focus on capacity building, and the internal audit events, in particular, serve as a good opportunity to strengthen central bank staff technical skills given the persisting challenges in this area as discussed in paragraph 23. The events were well received, and the World Bank has requested staff's continued involvement in similar workshops going forward.

### 13. The period under review saw increased demand for staff's input in an advisory capacity.

Staff's contributions focused on aspects that required subject matter expertise in audit and financial reporting matters that have a bearing on program monetary data. In particular, as part of ongoing safeguards support to area departments in the context of IMF lending, safeguards staff provided technical input to the drafting of terms of reference for several special audits that were conducted by international audit firms. Staff also assisted with the review of the special audit results and integration of remedial action plans in program measures where considered necessary. Such work included: (i) three special audits of foreign exchange reserve positions; (ii) two forensic audits in connection with allegations of misappropriation of banknotes and foreign exchange, and an asset recovery process of a large commercial bank; (iii) two special audits associated with undisclosed loans in a program context, and foreign exchange transactions between the central bank and quasi government agencies; and (iv) special audits of state-owned enterprises.

### 14. In addition, safeguards staff participated in IMF Central Bank Transparency Code (CBT) reviews.<sup>15</sup>

The CBT updates the 1999 IMF Monetary and Financial Policies Transparency Code, and aims to provide clear guidance to central banks on their own transparency practices. The CBT reviews are voluntary; a key objective is to facilitate policy effectiveness, and to help central banks maintain public trust, through greater transparency especially in light of emerging challenges they are facing. The CBT five-pillar framework covers central bank governance, policies, operations, outcomes, and official relations. Since its adoption in July 2020, seven CBT pilot review missions have been completed.

## D. Lessons Learned During the Pandemic

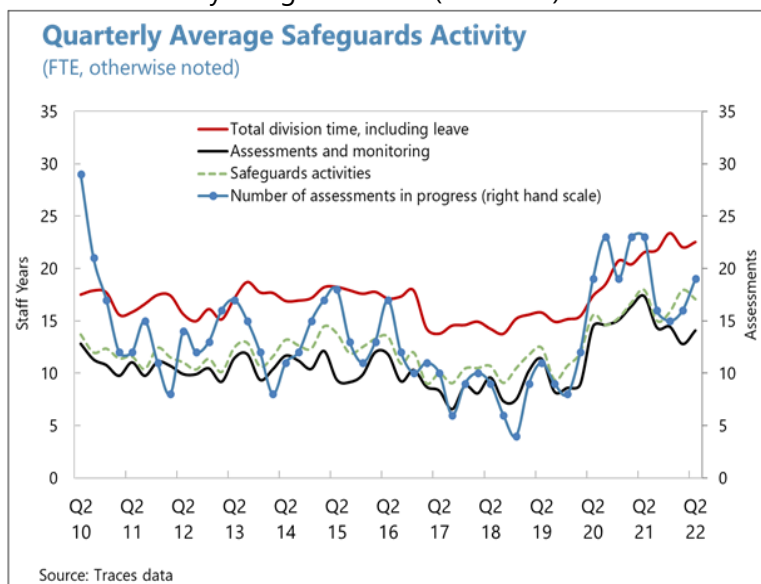
**15. The high demand for emergency financing during the pandemic resulted in an unprecedented pipeline of safeguards assessments.<sup>16</sup>** While the pipeline of some 55 assessments has now largely been completed, this required rapid re-prioritization of work to focus on assessments and re-allocation of staff resources (internal and external). Moreover, staff overtime was also elevated to unsustainable levels (see chart on safeguards activity).

<sup>15</sup> See [The Central Bank Transparency Code \(2020\)](#). The work is led by the IMF's Monetary and Capital Markets Department (MCM) in collaboration with staff from FIN and LEG.

<sup>16</sup> Requests for emergency financing require a commitment to a safeguards assessment, with the timing of the assessment being determined on a case-by-case basis, however the safeguards policy requires that the assessment normally be completed before Board approval of any subsequent arrangement.



**16. Demands on staff have been significant during the pandemic.** While overall safeguards activity reflected in the total division time recorded by safeguards staff (see chart) decreased after the last policy review, primarily due to the reduction of 2 FTEs as a result of streamlining, it subsequently increased significantly during the pandemic. Temporary and structural resources were reallocated to help accommodate the increased demand, increasing total FTEs by six (three temporary and three structural staff) for a total staff complement of 20 as of end-December 2021.<sup>17</sup> Staff monthly overtime during the pandemic averaged over 15 percent, ranging from 7 to 25 percent. Such levels of demand on staff are not sustainable.



**17. Staff adapted to virtual engagements well although the sustained high demands were a challenge.** Whilst virtual engagements faced challenges associated with time zone differences, connectivity, and relatively lengthier mission duration, overall staff was able to adapt well to the remote missions. Aspects of the remote missions that have been retained in the current environment include advance preparatory work in the form of questionnaires to aid the mission meetings, and in some cases hybrid missions, where certain meetings are held virtually ahead of a shorter in-person mission.

**18.** To help deal with stress on staff, in the event of a future global crisis that leads to such unprecedented demands for Fund financing, staff proposes that the policy introduce an exceptional circumstance clause that would relax the deadlines for safeguards assessments. Specifically, it is proposed that the current requirements for completion of safeguards assessments by the first review for lending arrangements, and by Board approval of a subsequent new arrangement in cases of emergency financing be relaxed to the second review and the first review of a subsequent new arrangement, respectively. The additional three to six months, depending on the frequency of program reviews would present staff with much needed additional time to accommodate the resultant significant pipeline of assessments to be conducted.<sup>18</sup>

<sup>17</sup> In mid-2022, the three temporary staff assignments lapsed.

<sup>18</sup> This would be in addition to the necessary reallocation of staff resources to help accommodate such higher demand. See also footnote 53.

## TRENDS IN SAFEGUARDS ASSESSMENT FINDINGS

### A. Assessment Findings and Recommendations

**19. Compared to prior review periods, the risk profile of central banks assessed during the current period has deteriorated, in part reflecting the revolving nature of Fund lending.** Figure 1 provides a trend analysis of safeguards risk ratings in the five ELRIC pillars, over the last three review periods: 2005–10, 2010–15, and 2015–22.<sup>19</sup> Comparing the last two review periods, in each of the ELRIC categories, the high and medium-high risk ratings increased by 11 to 18 percentage points. Key factors that contribute to this are that over half (62 percent) of the central banks in the current review period were either: (i) first-time assessments (12 central banks) and thus had not undergone such scrutiny previously; or (ii) had not been assessed for a prolonged period (29 central banks) and therefore were not subject to regular safeguards monitoring. Experience shows that assessments in such cases tend to find significant vulnerabilities and consequently higher risk ratings. In addition, of the remaining 25 central banks that were subject to update assessments, a significant proportion—almost two-thirds (16 central banks)—had persisting acute capacity constraints or significant governance vulnerabilities.

**20. External audit.** Overall, external audit arrangements have been strengthened over time at most central banks. In the current review period, 65 percent of assessments have a low or medium-low risk rating in the external audit pillar. Most central banks continue to have external audits that state compliance with International Standards on Auditing (ISA). That said, about a third of assessments found heightened risks in this area.<sup>20</sup> Identified vulnerabilities included audit quality issues (e.g., lack of either quality control review or relevant technical experience in the audit teams), delays in the completion of audits, and weak auditors' selection and rotation policies.

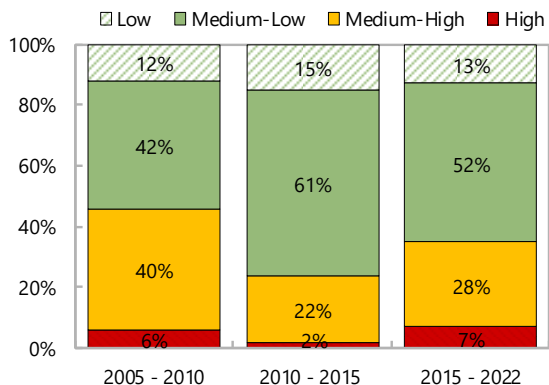
<sup>19</sup> Safeguards assessments assign a rating to each ELRIC pillar. The four-level internal and confidential risk ratings are low, medium-low, medium-high, and high.

<sup>20</sup> This shift was driven by central banks that have either not been subject to safeguards assessments for a prolonged period or were being assessed for the first time—such cases comprise 50 percent of banks that were assigned a High or Medium-High risk rating for their external audit mechanism during the period.

**Figure 1. Risk Ratings per ELRIC**

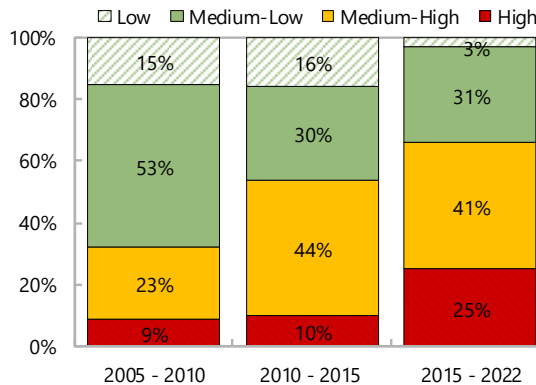
*External audit arrangements strengthened over time...*

**External Audit Mechanism**



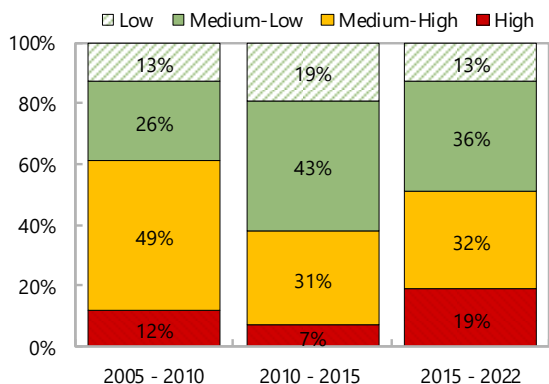
*...while legislation reforms continue to be a challenge.*

**Legal Structure and Autonomy**



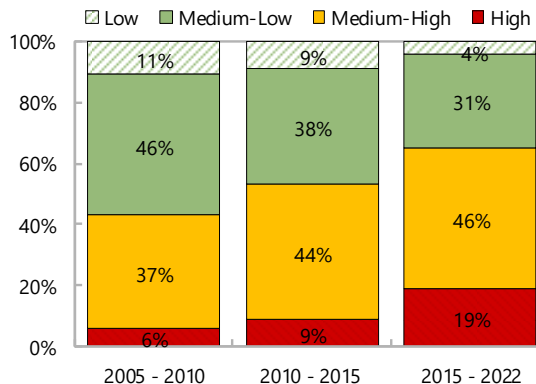
*Most central banks are moving towards IFRS...*

**Financial Reporting**



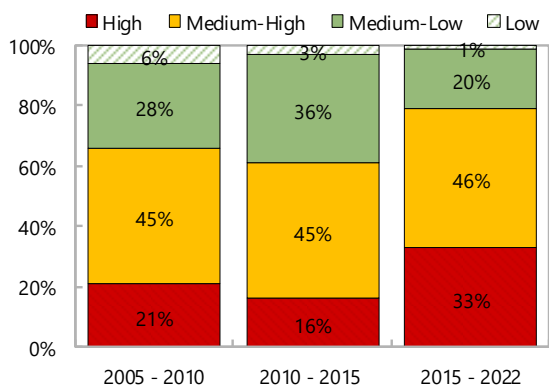
*...but capacity constraints persist in internal audit functions.*

**Internal Audit Mechanism**



*Vulnerabilities in governance arrangements and underdeveloped risk management practices impacts the control environment.*

**System of Internal Controls**



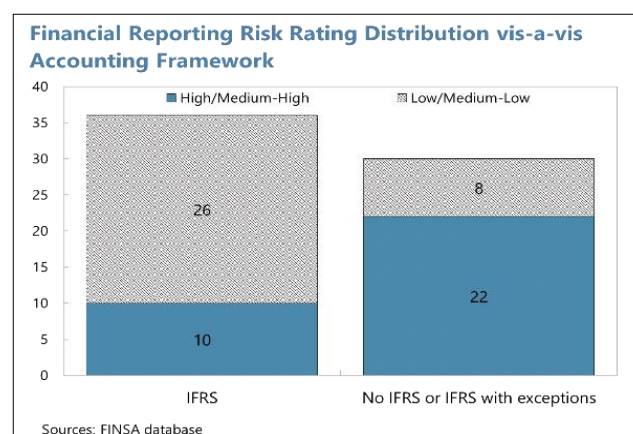
Source: FINSA database

**21. Legal structure and autonomy.** Strengthening legislation continues to be a challenge as it is a process that involves parties external to the central bank.<sup>21</sup> However, with the Executive Board’s endorsement of a stronger emphasis on governance in the last two safeguards policy reviews, safeguards assessments have had a closer focus on this pillar.<sup>22</sup> This closer scrutiny, essentially a higher “bar”, contributes to the persisting high proportion of high and medium-high risk ratings in the current review period.

- 70 percent of assessments (52 central banks) during the current review period, had recommendations for comprehensive amendments to the central bank laws.<sup>23</sup> The upward shift in the risk profile is also due to the relatively longer implementation period for enactment of the amended central bank law. Enacting legal reforms remains a challenging undertaking owing to a lengthy process and multiple stakeholders.
- Notwithstanding this, progress in this area is notable as over 50 percent of these central banks have advanced the safeguards recommendations with either draft amendments having been submitted to Cabinet or Parliament having enacted an amended law. In almost 60 percent of cases, strengthening the law was part of program conditionality and involved close engagement with the authorities, primarily through technical assistance.
- In addition, some assessments found cases where the legal frameworks were relatively strong, but compliance is weak. Thus, as noted in paragraph 30, further work is needed to ensure good legal frameworks are actually implemented in practice.

| Safeguards Recommendations to Amend Central Bank Law |                         |                 |
|--|-------------------------|-----------------|
|  | Number of Central Banks | As a Percentage |
| Enacted new Law                                      | 18                      | 35%             |
| Submitted to Cabinet/Parliament                      | 9                       | 17%             |
| In Progress  | 25                      | 48%             |

**22. Financial reporting.** Adoption of International Financial Reporting Standards (IFRS) at central banks remains relatively high with 55 percent of assessed banks in the current review period applying these standards. Staff’s experience shows that central banks that apply IFRS have a much lower incidence of significant vulnerabilities. Specifically, over 70 percent of such central



<sup>21</sup> Legal changes normally require the involvement of the government (i.e., cabinet, ministry of finance or justice) and parliamentary approval for amendments to be enacted.

<sup>22</sup> Staff’s evaluations of central bank laws have evolved towards greater autonomy requirements (financial, personal, and institutional) and commensurately stronger oversight, transparency, and accountability arrangements. Other noticeable gaps in legal frameworks included provisions that allowed (or did not explicitly prohibit) quasi-fiscal activities and excessive monetary financing of the government, both undermining the central bank’s financial autonomy and at times weakening its financial position.

<sup>23</sup> Half of these were being assessed for the first time or had not been assessed over an extended period.

banks have low or medium-low risk ratings and conversely, central banks that have not yet fully adopted IFRS have an incidence of high or medium-high risk ratings of over 70 percent. This is primarily due to a lack of transparency and consistency in financial reporting, which is particularly important given the close relationship to the robustness of a member central bank's reporting of monetary data to the Fund under IMF programs. Delays in, or the lack of, publication of audited financial statements were also factors that affected the risk profile. That said, nearly all central banks continue to publish their audited financial statements, albeit some with delays.

**23. Internal audit.** Assessments continue to identify weaknesses in internal audit functions. These are primarily a result of limited capacity and resources that manifest in low staffing levels, lack of professional certifications, training, and IT audit expertise. These attributes were observed at 35 central banks.<sup>24</sup> Access to training to help staff achieve professional certifications to sustain capacity in internal audit requires strong sponsorship from central bank senior management with an acknowledgement that results can only be seen in the medium-term. A second predominant shortcoming is the lack of independence of the function, with limited or no functional reporting to the central bank Board. This was seen at 29 central banks, of which 14 were either first-time assessments or had not been assessed in a long time. The lack of technical expertise led to vulnerabilities such as internal audit charters that are not in compliance with international standards; involvement in operational activities which raise conflict of interest issues; and weak positioning within the organization. These deficiencies have a significant impact on the internal audit functions' ability to fulfill its mandate. See below on steps being taken to support capacity development in this area.

**24. System of Internal Control.** An evaluation of internal controls within the ELRIC framework aims to assess that central banks have sound governance practices and policies and procedures necessary to safeguard their assets and manage risks. Key areas of focus include governance arrangements and the effectiveness of oversight, maturity of risk management practices, controls in lending operations, particularly emergency liquidity assistance (ELA), and the compilation of program monetary data.

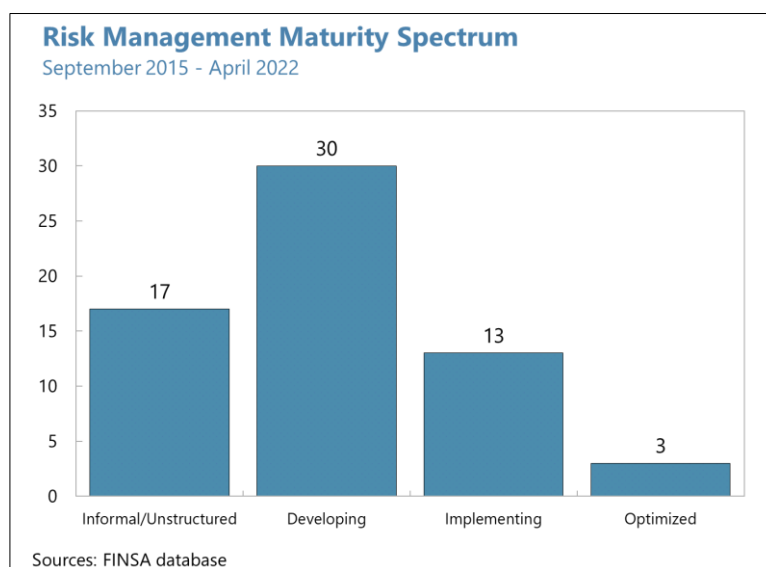
- **Governance.** A closer evaluation of governance arrangements remains the focus of safeguards assessments. The evaluations aim to assure clear delineation of responsibilities among decision making bodies: the central bank board with a majority of non-executive (independent) members, the senior management team, and sub-committees of the board, such as the audit committee; appropriate exercise of responsibilities by these bodies; a system of checks and balances between the board and the executive team, i.e., appropriate independent oversight.<sup>25</sup> Vulnerabilities related to governance arrangements were a risk factor in about a third of assessments. These included boards that were not fully constituted or lacked independence, i.e., had a majority of executives; or operational modalities fell short of leading practices. Staff also

<sup>24</sup> In addition, four central banks did not have an internal audit function.

<sup>25</sup> Points of focus for the assessments include the strength of their mandates and legal underpinnings, composition, appointment practices, independence and expertise, and operational modalities.

continued to see shortcomings such as the absence of an audit committee in ten central banks, and limited oversight due to lack of expertise among audit committee members (18 central banks) or conflict of interest issues in audit committee composition owing to the presence of executives or government officials (11 central banks). Section V discusses proposals to strengthen staff's work on governance.

- Risk management.** Risk management remains an emerging area for many central banks. Assessments found that scarcity of technical skills is a major constraint in this area, which normally requires a long-term progressive development of capacity. In line with the 2015 policy review mandate, staff developed a maturity tool to help assess central banks' risk management practices.<sup>26</sup> Most of the central banks (70 percent) assessed during the current review period are in the early stages of building a risk management function, i.e., they have an informal or developing function.<sup>27</sup> Nearly half of central banks were in the developing stage whereby an approach and initiation documents may have been established, but full operationalization of the function has not yet been reached.<sup>28</sup> Although central banks were found to be at different stages of developing a bank-wide risk management practice, assessments noted that most central banks had, at a minimum, an operational approach to financial risks, mostly centered around foreign reserves management. See Section IV for further discussion on risk management.
- Lending operations.** Weaknesses in central bank lending operations were noted in almost half of the assessments conducted in the period. At the forefront of this higher risk were central banks that have not yet established or operationalized a framework for ELA, have weak collateral frameworks, or that engaged in either quasi-fiscal lending activities or monetary financing



<sup>26</sup> The maturity assessment tool helps evaluate the extent to which central banks have developed their risk management practice. It guides staff in benchmarking risk management practices against the key elements of an optimal and integrated risk management framework such as strategy, policies, process, governance structure, and monitoring and reporting mechanisms.

<sup>27</sup> The developing stage indicates that the practice has been established with elements of risk management defined but not yet implemented through a formal established process and structure. A central bank is deemed to be in the implementing stage when risk management practices are present but still fragmented. At the most mature stage there is overall integration of risk management practices within the activities of the central bank.

<sup>28</sup> In such instances, guiding resources were welcomed in structuring the next steps (e.g., Risk Management maturity tool and resources made available through the IORWG membership).

(lending to government). In instances where the legal framework did not safeguard the central bank's financial autonomy, safeguards assessments noted significant monetary financing that impacted the bank's financial position. In two cases, central banks took a leading role in legitimizing and reforming the mining sector using their own resources, exposing them to financial and reputational risks and jeopardizing their autonomy. Staff also saw an emergence of quasi-fiscal lending, particularly during the pandemic, where resources were dedicated to either unsecured lending to select sectors or to state owned enterprises at concessional rates.<sup>29</sup>

- **Program monetary data.** Assessments found that issues in program monetary data were identified early in the process and thereby did not result in misreporting except as noted later in this Section. Shortcomings that were identified in the compilation of program monetary data related to the lack of formalized procedures for data compilation (23 central banks); and the need for alignment with Technical Memorandum of Understanding definitions (10 central banks). Recommendations included having additional assurances over program monetary data reported to the Fund through reviews conducted by internal audit or the external auditors in about a third of the central banks.

## B. Implementation of Safeguards Recommendations

|   | Program<br>Conditionality * | Other      | Total      |
|---|-----------------------------|------------|------------|
| Recommendations issued during the period                      | 110                         | 919        | 1,029      |
| <i>Less: Recommendations not yet due</i>                      | (2)                         | (90)       | (92)       |
| Sub-total (due recommendations)                               | 108                         | 829        | 937        |
| <i>Less: Implemented</i>                                      | 89                          | 561        | 650        |
| <b>Overdue</b>  | <b>19</b>                   | <b>268</b> | <b>287</b> |
| Implementation rate by percentage (current review period)     | 82%                         | 68%        | 69%        |
| Implementation rate by percentage (2015 policy review period) | 84%                         | 70%        | 72%        |
| Implementation rate by percentage (since inception)           | 94%                         | 86%        | 87%        |

\* Program conditionality covers structural benchmarks, prior actions, and commitments in the Letter of Intent contained within the Memorandum of Economic and Financial Policies

Source: FINSA database

**25. The implementation rate of safeguards recommendations slightly deteriorated in the current period (see Table 1).** This is largely attributable to the challenges posed with the onset of the COVID-19 pandemic in early-2020.

- On the one hand, central banks faced pressing priorities and rechanneled resources to maintain critical operations as the pandemic emerged. The prolonged nature of the pandemic, which led to limited presence in offices affected the pace of implementation of safeguards recommendations.

<sup>29</sup> For a number of central banks, these activities were in place prior to the pandemic and did not represent assistance to the economy in facing it, as seen in many central banks since the onset of the pandemic.

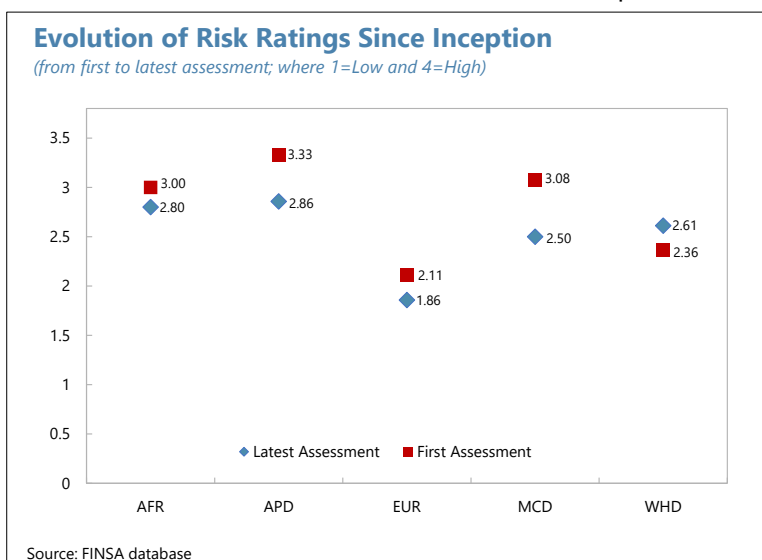
- On the other hand, staff prioritized the conduct of safeguards assessments over following up on recommendations in light of the unprecedented pipeline resulting from the high demand for IMF emergency financing. The prioritization continued through mid-2021 at which time staff started to re-integrate broader safeguards operations including follow-up on safeguards recommendations.
- A third key factor is that about a third of central banks (23 banks) assessed in the current review period had emergency financing that was not followed by a Fund program. An active program typically provides additional traction on implementation of recommendations, including through elevation to program measures where considered necessary.<sup>30</sup>

Against this background, the implementation rate of 69 percent in the current review period is not significantly lower than the prior period's level of 72 percent (see Table 1). The implementation rate in the current review period remains high at 82 percent for recommendations under program conditionality, indicating the benefit of IMF programs.

## C. Impact of Safeguards Assessments

### 26. Notwithstanding the challenges noted above, central banks have generally improved their controls and processes over time.

As indicated at the 2015 policy review, the notable improvements in central banks' governance and control frameworks continue to be perceived as substantial "collateral benefits" that flow from the safeguards assessment process. This is evident in staff's review of the average risk rating over time for central banks that have undergone more than one assessment. The average risk rating when comparing the initial assessments against the most recent assessments, using aggregated scores by region, shows improvements for all regions, except the Western Hemisphere (WHD).<sup>31,32</sup>



<sup>30</sup> Recommendations to address significant vulnerabilities in safeguards frameworks are often anchored in program conditionality. It is worth noting that the safeguards monitoring process involves active follow-up on all outstanding recommendations without distinguishing whether these are under program conditionality or not.

<sup>31</sup> Each ELRIC pillar risk-rating was transposed to a number from one to four. The composite average across all ELRIC pillars yields the aggregated scoring for each country. A score of "one" indicates an average of "low" ratings across all ELRIC pillars, while a score of "four" denotes an average of "high" ratings across all ELRIC pillars.

<sup>32</sup> A subsequent lower score signifies a shift toward the risk ratings of low or medium-low, that is, scores of 1 and 2, respectively.



The deterioration in WHD is partly explained by the fact that IMF credit is of a revolving nature and lending to Latin America has not been active since the early 2000s, and has only recently resumed. Therefore, as mentioned previously, first-time assessments and assessments conducted after a long period of time tend to identify significant vulnerabilities. In contrast, the Middle East and Central Asia (MCD) region has seen the biggest improvement thus far, followed by the Asia-Pacific (APD) region. In addition, Europe has made some improvement, and its risk rating remained the lowest.

## D. Misreporting and Misuse

**27. Safeguards assessments are a key element of the Fund’s safeguards to manage financial risks.** The safeguards policy has played an important role in helping to mitigate the risks of misreporting and misuse of Fund resources, and to maintain the Fund’s reputation as a prudent lender. Previous experience shows that the safeguards framework helps identify misreporting and related governance issues in central banks. Further, the increased emphasis on governance also mitigates such incidents, by bringing out the importance of independent oversight of central bank operations as a counterweight to possible risks of high-level overrides of controls.

**28. Against this backdrop, few misreporting cases on monetary data or cases of misuse have been identified since 2010.** The extent to which assessments have prevented potential misreporting is not fully quantifiable because the counterfactual, by definition, cannot be determined. In the period from September 2015-April 2022, one possible misreporting case was identified in connection with inaccurate reporting of net international reserves. Following this finding, a special audit of foreign reserves was conducted by an international audit firm to establish the extent of misreporting. When concerns emerge of possible misuse of Fund resources, safeguards staff assist, in collaboration with concerned area and functional departments, in formulating follow up and remedial measures to strengthen controls. Such work is generally in the form of terms of reference for special audits and forensic investigations (see paragraph 13). That said, there have been no observed cases of direct misuse of Fund resources.

**29. Assessment experience continues to highlight the importance of the safeguards process to identify potential misreporting.** The ex-ante nature of safeguards work has fostered inter-departmental discussion among staff and with the authorities on the treatment of complex items that could contribute to misreporting. Such early engagement has helped mitigate the risk of misreporting by clarifying data components and definitions in the Technical Memorandum of Understanding to avoid potential errors in subsequent reporting. In cases where additional assurances are needed, staff also recommended the involvement of the internal audit function and, where warranted, an external audit verification.

## EMERGING ISSUES

### A. Governance

**30. The 2010 and 2015 policy reviews endorsed an increased emphasis on governance.** In implementing this enhanced approach, assessments have included an expanded and more comprehensive coverage of governance arrangements at central banks, including closer evaluation of the key decision-making bodies: namely the roles and responsibilities of the central bank board; the audit committee, which is typically a sub-committee of the board; and the executive management team (Governor and deputy Governors). This has also included review of these bodies' mandate, appointment practices, their composition and technical expertise. As noted in Section II, most assessments have necessitated legal reform to help strengthen the *de jure* aspects of these important attributes.

**31. Staff experience shows that many central banks continue to face governance challenges.** The findings discussed in Section II in relation to governance show continuing *de facto* gaps in this area. The panel's report also finds that key aspects of governance such as board decision making are not well understood by central banks, and that although these issues are covered during the safeguards assessment, the current coverage is fragmented across the ELRIC pillars. These conclusions are consistent with staff's experience in its interaction with central banks as evidenced by the trends in the Section II risk ratings, including cases where the legal framework is relatively sound, but non-compliance or poor governance practices persist. Further, the increasing cases of legal reform as noted in paragraph 20 also call for greater attention to help central banks in their implementation and compliance with these stronger legal foundations.

**32. Staff therefore proposes establishment of a standalone governance pillar in the safeguards framework.** This is not a new proposal, the 2015 external expert panel considered that governance should continue to be emphasized either as "an 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." The 2022 panel also reaches the same conclusion and considers that a standalone pillar would allow for "deeper and more consistent analysis of governance structures, processes and best practices".<sup>33</sup> The new pillar would expand the ELRIC framework to GELRIC.<sup>34</sup> The governance pillar, which would focus on *de facto* (non-legal) issues, should facilitate broader coverage and discussion of good governance practices and attributes for the oversight functions, and also evaluate the split of responsibilities among the decision-making

<sup>33</sup> Staff concurs with this; such closer focus will also help sharpen engagement in the context of the Fund's 2018 enhanced framework on governance and corruption, which has central bank governance and operations as one of the six core state functions that are assessed by staff. Monetary policy formulation and regulation arrangements are not within the scope of safeguards assessments.

<sup>34</sup> GELRIC stands for: (i) Governance arrangements; (ii) the External audit mechanism; (iii) the Legal structure and autonomy; (iv) the financial Reporting framework; (v) the Internal audit mechanism; and (vi) the internal Controls system. The key GELRIC aspects are summarized in Annex II.

bodies to preserve accountability.<sup>35</sup> This would include evaluation of the Board’s effectiveness and the governance culture.<sup>36</sup> At the same time, with the addition of a pillar, staff would adopt a more risk-based approach with streamlined discussions in the other sections where central banks show sustained maturity, such as external audit and financial reporting. Accordingly, the addition of a new pillar should not imply increased resource demands, other than the initial near-term staff investment in developing new procedures and internal guidelines for the new pillar.

**33. The panel’s report enumerates areas that could be considered for the enhanced coverage of governance practices.** A number of these important aspects, such as the legal framework; the board’s composition, independence, roles and responsibilities, including oversight; collegiality in the executive management team’s decision making; and delineation of responsibilities among the decision-making bodies are already part of safeguards work. The key change in this regard will be broader coverage in discussions with the authorities and in the safeguards assessment report, including on how oversight cascades into various central bank operations.<sup>37</sup> This latter aspect should help in addressing the concern raised by the panel on the limited awareness of key governance aspects at some central banks. New frontiers that will need to be explored and developed are on the deeper coverage of the board’s effectiveness and their governance culture. This will entail a deeper engagement on modalities and “tone at the top”. These issues are of particular relevance in the current financial conditions, where central banks are likely to experience increased political pressure from governments. A strong and professional central bank board that can withstand such pressure and help sustain central bank independence is of critical importance.

## B. Financial Risk Management

**34. Many central banks continue to broadly remain in the beginning stages of risk management.** Risk management continues to be a relatively underdeveloped area in many central banks. Assessments identified, among other issues, the need to strengthen staff technical capacity, and oversight at both the management and board level; lack of separation of risk management from internal audits in some cases; and weak risk management processes, in areas such as establishing risk registers, reporting and monitoring. Progression of capacity in risk management typically takes time and is a medium-term process.

**35. Central banks have room to broaden risk management covering financial risks.** As noted in the Panel’s report, assessments cover a wide range of risks facing central banks, including areas such as operational risk, cybersecurity, and business continuity. The risk management analysis in the assessments has increased reflecting central banks’ emerging risks. Assessments have found

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<sup>35</sup> Decision making responsibilities at central banks fall into four main areas: executive management, regulatory, policy formulation, and oversight.

<sup>36</sup> Governance culture would cover the effectiveness of the Board and the structures and processes it has in place to support strong Board operations and dynamics that enable timely access to high-quality information.

<sup>37</sup> This has interlinkages across other safeguards pillars, including for example the oversight of risk management whether through a risk governance Board committee, or broad board oversight of critical bank operations that raise financial risk implications.

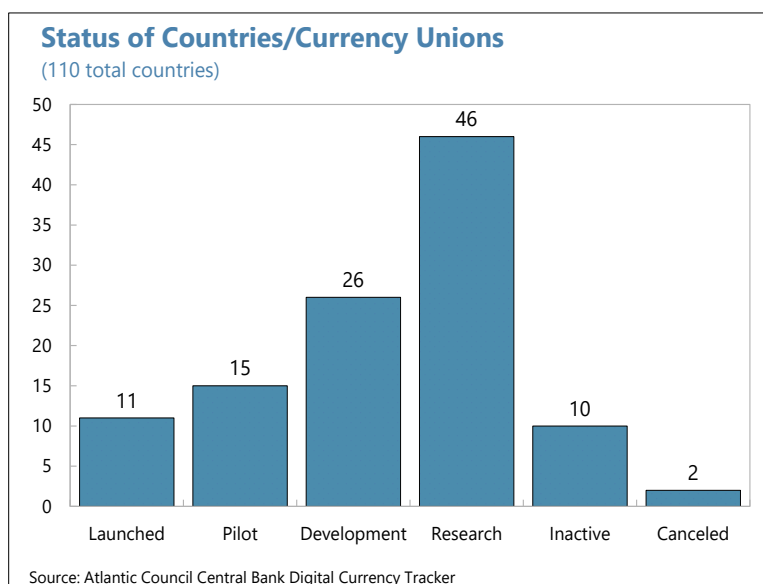
that even central banks that have embraced wider risk management functions primarily focus on monitoring non-financial risks, while financial risk management is largely narrowly focused on foreign reserve operations. Leading practices advocate for financial risk management to cover the whole balance sheet in order to identify and monitor emerging risks, including those associated with domestic operations such as open market operations or emergency liquidity assistance. Such broader coverage beyond the traditional focus of foreign reserve management has been shown to reap benefits through wider ex-ante identification of emerging risks in central banks that have more advanced risk management functions. Safeguards assessments have already started to engage with central banks on these issues, particularly where a central bank is deemed to have sufficient capacity. Central banks need to continue to broaden their coverage of risk management.

## C. Central Bank Digital Currencies

**36. Innovation is emerging with a number of central banks exploring or developing Central Bank Digital Currencies (CBDCs).** Falling under the umbrella of financial technology (fintech), CBDCs are a digital form of a country's fiat currency that is also a claim on the central bank.<sup>38</sup> Countries around the world are at varying stages of progress, ranging from research and pilots to actual issuance of digital currencies (see the text chart).

Countries that have launched issuances of CBDCs are The Bahamas, Jamaica, Nigeria, and the Eastern Caribbean Currency Union.<sup>39</sup> There are some 15 countries in the pilot stage, albeit at different stages of readiness.<sup>40</sup> Other countries have adopted a more cautious approach given the unknowns and the risks posed by CBDCs, and many are in the process of conducting broad consultations

with the public and key stakeholders. The impact of CBDCs on the safety and stability of a country's



<sup>38</sup> Retail CBDCs are issued for use by individuals, whereas wholesale digital currencies are issued to a limited set of financial institutions. The type of issuance (retail versus wholesale) is driven primarily by the objectives for issuing CBDCs, especially the financial inclusion consideration.

<sup>39</sup> The Eastern Caribbean Central Bank is the regional central bank for the Eastern Caribbean Currency Union, which consists of eight island economies.

<sup>40</sup> The pilots, which include projects in investigation phase, are being conducted at central banks in China, the European Central Bank, Ghana, Hong Kong, Kazakhstan, Malaysia, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Sweden, Thailand, Ukraine, and United Arab Emirates.

financial system at large is important in understanding the measures needed to embark on the digital currency revolution. Two central banks that have issued CBDBs were subject to safeguards assessments in 2021 (see below).

**37. Objectives of issuing CBDCs are varied.** The objectives include: (i) promoting financial inclusion for unbanked and underbanked populations; (ii) introducing competition, leading to better access to money; (iii) increasing efficiency and resilience in payment systems and lowering transaction costs; and (iv) improving transparency in money flows, suppressing money laundering or other illicit activities that are arguably more easily perpetrated with cash. Similar broader objectives are outlined in the Fund's [Bali Fintech Agenda](#) (October 2018) that aims to help member countries harness the benefits of fintech, while at the same time managing the inherent risks. As these objectives are all-encompassing, central banks that have embarked on the exploration and eventual issuance of CBDCs are investing considerable resources (staff, time, and capital expenditure) in the process.

**38. Assessments of central banks that have issued CBDCs highlighted some areas for improvement.** Issuance of a CBDC is a significant undertaking that cuts across the operations of a central bank. Also, given the novelty of CBDCs and the current limited prior experience of central banks, risks identified during safeguards assessments were of a technical, operational and governance nature. Technical and operational aspects included: significant over-reliance on vendors and external consultants; lack of dedicated risk management for the project; the absence of a comprehensive project management plan; and highly customized software and platforms that may not easily integrate with existing accounting and operating systems. Governance aspects were weak independent oversight at the Board level, including insufficient information flow partly due to limited staff technical expertise; and absence of a cybersecurity framework that monitors emerging risks. Against this backdrop, recommendations were provided to strengthen oversight, expand cybersecurity frameworks, and enhance project management.

**39. Assessments will continue to review CBDC-related activities through the prism of the GELRIC framework.** Staff's experience shows that the safeguards framework is sufficiently flexible to respond to such emerging developments that are of relevance. Given the specific risks arising from CBDCs and to assess whether safeguards risks are adequately mitigated, assessments will continue to hone-in on how CBDC issuances are managed, monitored and reported within central bank operations. Without proper safeguards, the exposure to additional risks could lead to financial losses that would have implications for the misuse of Fund resources and misreporting of information to the IMF. Relevant aspects will include: (i) review of staff capacity and the project management process in the pilot and issuance phases; (ii) risk management considerations to identify and mitigate new and emerging risks; (iii) implications on operational risks and central bank finances (seigniorage income changes) owing to the changes in the cash currency management operations as (retail) CBDCs are rolled out; and (iii) the governance arrangements, and reporting mechanisms, on the end-to-end processes for the CBDC project.

## FISCAL SAFEGUARDS REVIEWS

### A. Background

**40. Fiscal Safeguards Reviews (FSRs) are a high-level review of state treasury operations covering broad aspects of Public Financial Management (PFM) processes.** FSRs evaluate the design of institutional safeguards at the state treasury and aim to provide assurances on the proper use of IMF resources in cases where these are directed for budget financing. FSRs are required for all IMF lending arrangements with: (i) exceptional access; and (ii) a significant proportion, i.e., at least 25 percent, of the funds directed toward financing of the state budget. The scope of FSRs is based on the LETIFA framework, which encompasses the Public Financial Management legal framework for budgetary appropriations, treasury functions, internal controls, financial reporting, and independent audits.<sup>41</sup> FSRs were adopted as part of the safeguards assessments policy following the 2015 policy review.

#### Box 2. Fiscal Safeguards Reviews

**Overview.** Fiscal safeguards risks arise when funds are channeled through the treasury for budget financing. Such risks include possible misuse due to weaknesses in the Public Financial Management legal framework, government banking arrangements, internal controls, audit procedures, or other areas of budget execution. FSRs aim to provide reasonable assurance that the funds directed toward budget financing are subject to appropriate institutional safeguards in the above areas.

**Evolution of coverage of fiscal issues.** Prior to the 2015 policy review, the scope of the safeguards assessments framework focused solely on central banks, which are the primary counterparty in the Fund's financing activities. Prior reviews considered extending the mandate beyond the central bank, but practical difficulties in replicating the assessments conducted at central banks were acknowledged to be significant. That said, at the 2010 policy review, in consideration of the increase in the number of arrangements involving the use of Fund resources for budget financing, particularly during the global financial crisis, the Board endorsed additional measures. Specifically, application of frameworks, i.e., memoranda of understanding, between central banks and their state treasuries were adopted to ensure the timely servicing of members' obligations to the Fund as a standard procedure in such cases.

**Adoption of the FSR as part of the safeguards policy.** At the 2015 policy review, and based on five pilot exercises concluded in 2013, the Board endorsed a risk-based exercise focused on the evaluation of the institutional safeguards at state treasuries, within the scope of the LETIFA framework. FSRs were to be conducted by FAD staff based on available Public Financial Management (PFM) diagnostics concluded within the past six years and supplemented by a questionnaire. It was also envisaged that if no recent PFM assessment had been conducted, FAD staff would conduct a stand-alone review of fiscal safeguards.

**41. Four FSRs have been conducted since the 2015 policy review and modalities have evolved based on staff experience.** The Argentina (2018 SBA and 2022 EFF), Egypt (2020 SBA), and Ecuador (2021 EFF) arrangements met the FSR criteria. Overall, the experience with FSRs has broadly confirmed the usefulness of this assurance work, and the appropriateness of the LETIFA framework

<sup>41</sup> LETIFA stands for (i) **L**egal framework for budgetary appropriations; (ii) **G**overnment banking arrangements through the **T**reasury; (iii) **I**nternal controls of public expenditure; (iv) **R**eporting of **F**inancial data; and (v) **I**ndependent **A**udit of government financial statements. This framework was developed by FAD.

to identify fiscal safeguards risks. However, some refinements are needed to integrate lessons learned, including strengthening the review modalities defined in the policy, clarifying the scope of the review and the operational procedures within the Fund and with the authorities, fine tuning the methodology of the LETIFA framework to better tackle the evolving nature of fiscal safeguards risks, and enhancing the monitoring framework for implementation of recommendations. In particular, the first Argentina FSR in 2018 helped staff identify a number of pragmatic steps that are necessary to carry out such assurance work and set a precedent for the other three reviews that followed. The learning has continued through this period (see discussion below on lessons learned).

## B. Lessons Learned

**42. The LETIFA framework remains appropriate, although some refinements are warranted.** Staff's experience indicates that the LETIFA framework continues to be broadly appropriate for a high-level review of the key governance aspects of treasury operations, and provides sufficient flexibility for staff to adapt the evaluation based on country specific idiosyncrasies, IMF program priorities, and high-risk areas identified. That said, the standardized questionnaire which serves as guidance to staff as to the scope of the review exercise will continue to be modified and tailored with respect to different elements that will help facilitate a deeper risk-based analysis.

**43. Strengthening of FSRs is proposed in a number of aspects.**

- *Interdepartmental coordination.* Building from the experience of the first Argentina review, all the FSRs have been led by FAD in a multi-department effort with participation from FIN and LEG staff. This broader interdepartmental coordination also allows staff to draw on an enriched set of professional background, expertise, and experience in the conduct of this work. Further, FIN and LEG staff's experience from safeguards assessments often provides relevant background information for the FSRs in the context of central bank and government transactions and institutional relationships.
- *Stand-alone reviews.* While in most of the FSRs conducted so far, useful information was derived from existing PFM diagnostic tools and evaluations, and in some cases intensive capacity development support, all reviews had a stand-alone review in-person (or virtual during the pandemic) engagement component as the modality for the FSR, rather than a high-level desk review.<sup>42</sup> This was seen as necessary to properly evaluate specific fiscal safeguards risks, either because additional information was needed and/or because a more systematic review on selected topics was critical to ensure the integrity of the exercise.<sup>43</sup> Stand-alone reviews also permitted staff to conduct due diligence on the quality of existing information and update and

<sup>42</sup> At the 2015 policy review, a stand-alone review was envisaged only if there had been no recent PFM assessments (in the past six years) and no plans to conduct such assessments in the near future. In addition to the above proposals, staff proposes to now only consider assessments that are no more than three years old to ensure the relevance of information.

<sup>43</sup> As an assurance exercise, FSR assessments should preferably be conducted independently from CD activities.

verification of actual practices. In addition, in-person engagement with the authorities was necessary to have a sound appreciation of the actual practices. That said, staff will continue to take account of ex ante knowledge of the country to determine the necessary level of interaction. When staff faced travel restrictions during the pandemic, virtual missions were conducted.

- *Review process of FSR reports.* Currently, FSR reports do not require management approval within the Fund, although management and the Executive Board are informed of the key findings and recommendations in country staff reports. Staff experience suggests that the process should be aligned with that of central bank safeguards assessment reports, and mission briefing memos, which go through management approval, as key recommendations have been incorporated in program measures in most cases. FSR reports should continue to remain confidential, as is the case for central bank safeguards assessments.
- *Monitoring mechanism.* Currently, there is no clear monitoring framework to follow up on the recommendations of FSRs unless included in program conditionality. Going forward, the implementation status of recommendations should be followed up by staff and discussed in country staff reports. A more systematic approach to the monitoring of recommendations could help increase the rate of compliance, including through a more systematic inclusion of key findings in program conditionality and by designing tailored TA to support the authorities, identify in a timely manner any further emerging vulnerabilities, and provide key input on the evolution of risks and vulnerabilities for any update as required by the safeguards policy.
- *Operational guidelines.* In light of the current low level of FSR cases, it will be helpful to develop internal operational guidelines that would allow staff that participate in FSRs to have a consistent agreed approach. The guidelines would cover *inter alia* the FSR scope (informed by the questionnaire), the review process, and the monitoring framework.

### C. Threshold for Fiscal Safeguards Reviews

**44. The threshold for FSRs is risk-based.** Given the past several years of implementation of this threshold, this section reviews the experience under the threshold with respect to FSR coverage of budget support disbursements since 2015.

**45. Since the 2015 review, seven countries have had arrangements with exceptional access, of which three used actual budget financing and underwent FSRs.** Only three countries—Argentina, Ecuador, and Egypt—used exceptional access with at least 25 percent of Fund resources channeled to budget financing. The other countries had no budget financing (Ethiopia, Panama, and Somalia) or exceptional access (Chad) and were therefore not subject to FSRs.<sup>44</sup>

<sup>44</sup> Chad's arrangement (2020 ECF/EFF) was initially for exceptional access, but subsequently moved to normal assess at the first review, and thus did not require an FSR.



**46. The FSRs conducted covered a significant portion of the Fund resources provided for budget financing.** In the period 2015–21, GRA financing represented 88 percent of amounts drawn for budget support (see Table 2).

- This includes emergency financing (the RCF/the RFI) that have limited access.<sup>45</sup> Emergency financing to member countries during the pandemic was subject to other specific conditions to assure proper use of funds: specifically, commitments to have independent audits of COVID-19 related spending; publication of procurement contracts; and transparent disclosure of beneficial ownership of companies that were awarded contracts. Almost all (97 percent) of the emergency financing in the 2015–22 period was provided in connection with the COVID-19 pandemic.
- The four FSRs conducted covered about 81 percent of GRA resources, excluding emergency financing, i.e., SBA, EFF, or PLL resources channeled to budget financing (see Table 2). More broadly, from a big picture perspective, budget financing from the GRA accounts for around 70 percent of total budget financing, and emergency financing represents about 25 percent.

**47. Given this significant level of FSR coverage, the current threshold seems appropriate.** This is also in line with the external panel’s assessment. Staff envisages that the current threshold will continue to cover a critical mass of budget financing of Fund programs.

## D. High Combined Credit Exposure Cases

**48. The policy for High Combined Credit Exposure (HCCE) adopted in 2020 raises questions on the applicability of FSRs.**<sup>46</sup> Under the Fund’s policies before the HCCE, requests for access to Fund financing in excess of specified thresholds were subject to enhanced scrutiny under the Exceptional Access (EA) policy, but the previous EA policies provided for separate thresholds governing EA in the GRA and under the PRGT independent of each other. The HCCE addressed this issue by considering additional safeguards for high combined access cases. Nonetheless, with respect to FSRs, while a GRA EA with more than 25 percent of budget financing would require a FSR, the HCCE safeguards did not consider if such a high combined credit exposure case with significant budget financing would also trigger a FSR.

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<sup>45</sup> Prior to the temporary increases during the pandemic, the access limits under the regular window of the RFI and under the RCF’s exogenous shock window were up to 100 percent of quota. Emergency financing does not give rise to an FSR unless obtained in the context of prior exceptional access that on a cumulative basis exceeds the exceptional access threshold for.

<sup>46</sup> See [Policy Safeguards for Countries Seeking Access to Fund Financial Support that Would Lead to High Levels of Combined GRA-PRGT Exposure \(2020\)](#). According to the HCCE policy, when combined access of the GRA and the PRGT exceeds the normal GRA access limits, such a high combined credit exposure case is subject to the GRA EA criteria (if the GRA credit portion exceeds the normal GRA access limits), or HCCE criteria (if the PRGT credit portion also exceeds the normal PRGT access limits) which are broadly comparable with the corresponding GRA EA criteria.

**Table 2. Amounts Drawn for Budget Support 2015–21***(in billions of SDRs and as a percent)*

|  | Approved   | Drawn for Budget | As a percent |
|--|------------|------------------|--------------|
| <b>Total access (in billions of SDR)</b> | <b>150</b> | <b>85</b>        | <b>100</b>   |
| of which SBAs/EFFs/PLLs (GRA)            | 114        | 60               | 70           |
| of which ECFs/SCFs (PRGT)                | 12         | 4                | 5            |
| <b>Total UCTs</b>                        | <b>126</b> | <b>64</b>        | <b>75</b>    |
| of which RFIs (GRA)                      | 17         | 15               | 18           |
| of which RCFs (PRGT)                     | 7          | 6                | 7            |
| <b>Total RFIs/RCFs</b>                   | <b>24</b>  | <b>21</b>        | <b>25</b>    |
| <b>Total GRA (SBAs/EFFs/PLLs, RFIs)</b>  | <b>131</b> | <b>75</b>        | <b>88</b>    |
| <b>Total PRGT (ECFs/SCFs, RCFs)</b>      | <b>19</b>  | <b>10</b>        | <b>12</b>    |

**Amounts drawn for budget support by countries subject to FSR***(in billions of SDRs)*

|  | Approved   | Drawn for Budget |
|--|------------|------------------|
| <b>Total SBAs/EFFs/PLLs</b>  | <b>114</b> | <b>60</b>        |
| <b>of which countries subject to FSR</b>                             | <b>61</b>  | <b>48</b>        |
| - Argentina  | 41         | 32               |
| - Ecuador  | 8          | 4                |
| - Egypt  | 12         | 12               |
| <b>Coverage by FSR (GRA, financing excluding RFIs), as a percent</b> |            | <b>81</b>        |

Source: IMF Arrangements database and staff calculations

**49. Staff therefore proposes that FSRs be required for any HCCE case with at least 25 percent of the resources directed to budget financing.** The HCCE policy safeguards intend to mitigate financial risks to the PRGT and the GRA that arise from a member having high levels of combined credit from these two sources of funding. In line with this HCCE policy intention, requiring an FSR for any HCCE with at least 25 percent of resources directed to budget funding, would be consistent with the overall objective to safeguard Fund resources in cases that have significant budget support.<sup>47,48</sup>

<sup>47</sup> Exceptional access cases are limited in their frequency given the heightened scrutiny applied. Since the HCCE policy was adopted, Benin is the only country that had HCCE with at least 25 percent directed to budget financing. Benin decided to undergo an FSR on a voluntary basis.

<sup>48</sup> The HCCE does not apply to financing under RSF arrangements; see [Proposal to Establish A Resilience and Sustainability Trust \(2020\)](#).

## WAY FORWARD: PROPOSALS FOR POLICY CHANGES<sup>49</sup>

### A. New Governance Pillar

**50. Staff proposes establishment of a new pillar on governance in the safeguards framework.** Currently, governance is covered in the internal controls pillar of the safeguards framework. The proposed change reflects the maturing nature of the policy and would facilitate deeper engagement with authorities, which in turn should strengthen awareness, and actual practice, of good governance at central banks. Staff's experience suggests this is an opportune time for such enhanced engagement, as also evidenced in the observed trends on risk ratings in Section II. Furthermore, the panel's observations and conclusions concur with this proposal.

### B. Fiscal Safeguards Reviews

**51. Staff experience with FSRs conducted to date point to the need for enhancements in the policy.** Building on lessons learned, the proposed enhancements are to adopt a stand-alone review with in-person or hybrid engagement as the expected modality for FSRs as it is critical for effective and impactful service delivery;<sup>50</sup> a strengthened review process with management approval of FSR mission briefing memos and reports; a formal follow-up mechanism by staff on the implementation status of recommendations, with discussion of developments in country staff reports; and internal operational guidelines will need to be developed to ensure a consistent agreed approach by staff teams in the conduct of FSRs. This is also in line with the Panel's recommendation which further noted that the development of guidelines would help clarify staff's interdepartmental roles and responsibilities.

**52. The current threshold for FSRs has proven to be robust covering a significant portion of the Fund resources provided for budget financing.** Given this significant level of FSR coverage, the current threshold remains appropriate, consistent with the Panel's assessment.

**53.** Staff proposes to also require that HCCE cases with at least 25 percent of resources directed to budget financing be subject to an FSR.

### C. Financial Risk Management

**54. Assessments will emphasize broader coverage of financial risk management.** This is in addition to the current coverage of operational risk management. The proposed shift in this area takes account of many central banks' current narrow focus to primarily cover foreign reserves operations in their coverage of financial risk management. The inclusion of domestic operations, and more broadly, the whole balance sheet, will provide for a more holistic approach to risk management. This will need to continue to be tailored to central banks' capacity and level of

<sup>49</sup> See Annex V for a summary of the panel's main recommendations and staff's responses.

<sup>50</sup> Staff would continue to exercise flexibility with respect to the nature and extent of the interaction with the authorities on a case by case basis, taking into account the *ex ante* knowledge of the country.

maturity in the development of the risk management function. Such an approach is consistent with the Panel's observations that safeguards assessments should continue to maintain a high-level review of the appropriateness and effectiveness of existing risk management arrangements and their maturity. Such evaluation will continue to be conducted within the internal control pillar of the safeguards framework. In addition, more explicit reporting of the stage of maturity will be incorporated in the safeguards reports. Assessments will also continue to evaluate relevant governance and oversight structures for financial risk management activities.

## D. Central Bank Digital Currencies

**55. Assessments will continue to review CBDC activities through the prism of the GELRIC framework.** The safeguards framework is sufficiently flexible to respond to such emerging developments that are of relevance. Staff proposes to develop internal methodologies that facilitate a consistent and systematic approach across safeguards teams, taking account of the key principles laid out in Annex III.

## E. Outreach

**56. In the context of strengthening safeguards-related capacity in central banks, staff will strengthen efforts for outreach.** Capacity constraints have been one of the critical challenges at central banks. The Panel's report encourages staff to address this through broader engagement including virtual platforms and by broadening the current offerings to also include regional thematic engagement on governance issues targeting senior central bank officials in the decision-making bodies. The latter would be an important support anchor to the continued emphasis on governance in safeguards work and would complement the deeper engagement in a setting outside of the time-intensive assessments. The virtual platform has scalability benefits and would leverage the digitalization advances gained during the pandemic. Staff proposes to embark on offerings of 1-2 events a year, with a goal of geographic coverage across the membership at least once every two to three years.<sup>51</sup>

**57. More broadly, staff agrees with the Panel's recommendation to develop operational guidelines that can be disseminated to central banks to help build awareness of the safeguards process and leading practices and international standards.** The Panel recommended the preparation of comprehensive guidelines that reflect good practices in the areas of the safeguards assessment framework. Staff is ready to incorporate this as part of its analytical work program to help promote leading practices in central bank governance arrangements and operations.

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<sup>51</sup> Cost estimates would be in the range of US\$55k for each event, assuming the central bank hosts (or the event is conducted at one of the regional training centers). Staff has received interest from authorities in such interactions in the course of safeguards work.

## F. Other

**58.** For countries that seek access to RST resources through a concurrent program under a non-financing instrument such as the PCI and PSI, such request would need to be subject to a mandatory safeguards assessment, similar to other traditional Fund financing arrangements. In addition, member countries' access to the recently introduced food shock window under the RCF and RFI, would also be subject to the safeguards assessment policy requirements under those instruments.<sup>52</sup>

**59. Staff proposes to introduce an exceptional event clause in the safeguards policy.**<sup>53\*</sup> The proposal builds on lessons learned from the COVID-19 pandemic where the significant increase in demand led to a heavy strain on staff to meet the deadlines, which are designed for normal steady state conditions. The clause would allow relaxation of the normal policy deadlines in the event of a global crisis that leads to significant demand on Fund resources from the membership that creates a large pipeline of safeguards assessments that need to be conducted. Staff would consult with management and seek approval that the above conditions have been met. The clause would allow relaxation of the deadlines as follows:

- Lending arrangements – shift the completion deadline from the first review of an arrangement to the second review.
- Emergency financing disbursements – shift the completion deadline from the Board approval of any subsequent arrangement to the first review of any subsequent arrangement.

**60. Overall, the staff proposals will have primarily transitional resource implications requiring an additional 2-3 FTEs.** These transitional resources will primarily be associated with the near-term needs to develop internal guidelines for the conduct of FSRs, enhancements to the safeguards assessment approach for governance, financial risk management, CBDCs and broadening outreach, including development of operational guidelines that would be publicly available. The broad estimate is in the order of 2-3 FTEs. Separately, structural resource needs stemming from the recently established new lending facilities through the RST will need to be considered in the context of budget discussions as the demand becomes clearer in the period ahead. It should also be noted that FSRs were initially designed to provide a high-level overview of potential fiduciary risks arising from budget support at a low marginal cost using existing information. Staff experience, as described in earlier sections, has shown that these exercises require more substantial resources.<sup>54</sup> There will be a need to keep resource needs under close review as staff gains more experience with the FSRs.

<sup>52</sup> See [Proposal for a Food Shock Window Under the Rapid Financing Instrument and Rapid Credit Facility \(2022\)](#).

<sup>53</sup> This staff proposal was not adopted by the Board. The Board considered that timely assessments are crucial to identifying vulnerabilities and underscored that allocating appropriate staff resources is critical.

<sup>54</sup> For example, two of the FSRs conducted during the pandemic each lasted three to four weeks, mobilizing 6-9 staff.

## ISSUES FOR BOARD DISCUSSION

### 61. Directors may wish to focus their observations on the following:

- The appropriateness and effectiveness of the safeguards assessments policy in helping to mitigate the risks of misreporting of program monetary data and misuse of Fund resources.
- The proposals to establish a standalone governance pillar in the safeguards framework, to emphasize the broader coverage of financial risks in central banks' risk management functions, and the approach to cover CBDCs in safeguards assessments.
- The proposals to enhance staff conduct of FSRs and whether HCCE cases with a significant proportion of resources directed to budget financing should be subject to these reviews.
- The mandatory requirement for a safeguards assessment in cases where member countries have a concurrent PCI or PSI with access to RST financing.
- The proposals to relax the deadlines for completion of safeguards assessments during episodes of a global crisis with significant demands on Fund resources from the membership.<sup>55</sup>
- The proposals to strengthen outreach with member countries.

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<sup>55</sup> See footnote 53.

## Annex I. Safeguards Policy: Applicability

### Current Policy Requirements:

1. The safeguards assessments policy applies to members seeking financial arrangements with the IMF, with certain exceptions (see Table).

The policy applies to new and successor arrangements, including arrangements treated as precautionary. A member following a Rights Accumulation Program (RAP), where resources are being committed but no arrangement is in place, would also be subject to an assessment. Staff's proposes in the current review, for safeguards assessments to also apply to PCIs and PSIs when members request access to RST resources through a concurrent program.<sup>1</sup> Safeguards assessments do not apply to financing extended through first credit tranche purchases. In addition, the 2015 review of the safeguards policy introduced some streamlining measures (see box below).

| Facility   | Commitment             | Timing   |
|--|------------------------|--|
| SBA / SCF<br>EFF / ECF<br>PLL (one-two yr.)<br>RSF | Assessment             | Commit at the time of the official request / to be completed before the 1st Review         |
| RFI / RCF<br>PLL (six-month)                       | Assessment             | Commit at the time of the official request / to be completed before subsequent arrangement |
| PMB / SMP<br>PCI / PSI                             | Voluntary Assessment   | Flexible, depending on needs of the country and staff availability                         |
| FCL / SLL  | Streamlined procedures | Commit at the time of the official request / flexible                                      |
| ALL  | Monitoring             | As long as credit is outstanding   |

2. Safeguards assessment requirements also apply to disbursements involving liquidity and emergency assistance under the Rapid Credit Facility (RCF), Rapid Financing Instrument (RFI), and a 6-month Precautionary and Liquidity Line (PLL). A member's request for assistance in these cases requires a commitment to a safeguards assessment. The timing and modalities of the assessment for such programs are determined on a case-by-case basis,<sup>2</sup> but typically the assessment must be completed before Executive Board approval of any subsequent arrangement to which the IMF's safeguards assessment policy applies.<sup>3</sup>

<sup>1</sup> In the absence of a concurrent request for RST financing, voluntary assessments are encouraged for members that have a PSI or PCI in place, or those that are implementing a Staff-Monitored Program (SMP).

<sup>2</sup> The following principles serve to guide the case-by-case approach in emergency assistance cases: (i) if there is no functioning central bank, the safeguards assessment will be delayed until the reconstruction process establishes a sufficient degree of functional capability for the central bank to enable a meaningful assessment; or (ii) if a central bank exists, the degree of its functional capability will be evaluated in order to determine the scope of the safeguards assessment, which may include an initial targeted assessment aimed at basic control functions, to be followed by a full assessment once a functioning central bank exists and/or the security situation permits.

<sup>3</sup> One-to-two year PLL arrangements are subject to the standard requirement for the assessments to be completed at least by the time of the first review under the arrangement.

3. For members of currency unions with no autonomous national central banks, a periodic assessment cycle was established, irrespective of the timing of the member countries' programs. Accordingly, the Central Bank of West African Countries (BCEAO), the Central Bank of Central African Countries (BEAC), and the Eastern Caribbean Central Bank (ECCB) are assessed every four years.

4. Safeguards assessments are not conducted for members with FCL or SLL arrangements, on the grounds that qualifying countries have strong institutional arrangements in place. However, limited safeguards procedures, focused on discussions with external auditors of central banks are conducted.

### Box 1. Streamlining Measures for Update Assessments

The 2015 review of the safeguards policy introduced streamlining measures so that update assessments would not be required for:

- **Augmentations** of existing arrangements, since a change in access should not necessarily translate to heightened safeguards risks;
- **Successor arrangements** where an assessment was completed no more than 18 months prior to the approval of the successor arrangement;<sup>1</sup> and
- **Central banks with a documented strong track record** where the previous assessment was completed within the past four years.<sup>2</sup> A central bank is considered to have a strong track record if: (i) recommendations from the previous safeguards assessment have been implemented; (ii) the previous assessment did not identify any substantial issues (i.e., the risk assessment for each of the ELRIC pillars was either low or medium-low); (iii) no substantial political or governance changes, such as overhaul of central bank management, have taken place; and (iv) monitoring activities since the previous assessment have not uncovered any significant adverse developments at the central bank.

If a central bank is assessed to meet the strong track record criteria, the authorities state in the Letter of Intent (LOI) for the new arrangement that the safeguards framework remains robust. FIN, in close engagement with the area department, ascertains whether any significant safeguards issues have arisen. Staff would need to report on its assessment of these conditions in the staff paper seeking Board approval of the arrangement.

<sup>1</sup> For practical purposes, if the successor arrangement is approved within 1-2 months of the end of the 18-month period, no assessment will be conducted. This window takes account of possible Board date slippages and the fact that risks should not substantially change within this period. FIN will collaborate with the area department throughout this process.

<sup>2</sup> If the arrangement is approved within 2-3 months of the four-year period, no assessment will be conducted for reasons similar to those mentioned in Footnote 1 and also accounting for the longer associated period of four years compared to 18 months above. The operational procedures will follow those described in Footnote 1.



## Annex II. The GELRIC Framework

1. Safeguards assessments are a diagnostic exercise carried out by IMF staff to evaluate key areas of control and governance within a central bank. These areas are currently denoted by the acronym ELRIC, and the pillars are explained below. With the continued focus on governance as an overarching theme of the framework, staff proposes to establish a stand-alone governance pillar to expand the ELRIC framework to GELRIC. The new governance pillar will have a deeper discussion on governance arrangements and de facto practices of the key decision-making bodies. Other pillars will continue to cover relevant governance aspects, in keeping the overarching reach of governance. The proposed six GELRIC pillars and the main safeguards assessment objectives for each of these would be as follows:

2. **Governance Arrangements.** This encompasses the practices and procedures in place for the key decision-making bodies at a central bank, namely the oversight board, the audit committee, and the senior executive team (the Governor and deputy governors). Key attributes of good governance relevant to central banks include: *discipline*, represented by senior management's commitment to promoting good governance; *transparency*, necessary to facilitate effective communication to, and meaningful analysis and decision making by, third parties; *exercise of autonomy in practice*, which is essential for a top decision-making body—for example, a central bank board—to operate without risk of undue influence or conflict of interest; *accountability*, under which decision makers have effective mechanisms for reporting to a designated public authority, such as the parliament; *governance culture*, which supports strong Board operations and dynamics through a structure and processes that enable consistent and efficient information practices that provide timely access to high-quality information and people; and *responsibility*, which entails high priority on ethical standards and corrective action, including for mismanagement where appropriate. *The objective of assessing the governance arrangements is to ensure these key bodies establish appropriate structures and systems to ensure close oversight and compliance, in practice, with the legal mandate of the central bank and exercise strong professional diligence in the execution of their fiduciary duties to the institution. De jure aspects of governance will continue to be assessed separately in the legal structure and autonomy pillar of the framework.*

3. **External Audit Mechanism.** This encompasses the practices and procedures in place to enable an independent auditor to express an opinion on whether the financial statements are prepared in accordance with an established financial reporting framework, such as IFRS. This mechanism is important for the credibility of a central bank. *The objective of assessing the external audit mechanism is to establish whether an independent external audit of the central bank's financial statements is conducted regularly in accordance with internationally accepted auditing standards such as ISA, previous audit recommendations have been implemented, and to ensure that the external audit opinion is published with the full audited financial statements.*

4. **Legal Structure and Autonomy.** Government interference in central bank operations undermines central bank autonomy and could increase the risks facing the central bank. A sound legal framework enshrines central bank autonomy and complementary transparency and accountability. *The objective of assessing the legal framework and its application in practice is to:*

(i) establish whether the legal framework provides the central bank with an appropriate level of autonomy (including institutional and operational autonomy) along with adequate internal and external checks and balances; (ii) ascertain whether key legal requirements are complied with without interference or override; (iii) clarify if other legislation exists that could impair central bank autonomy; (iv) determine whether the respective roles and responsibilities of the central bank and other agencies are transparently and explicitly defined in cases of shared monetary authority; and (v) ascertain that the legal framework supports the other pillars.

**5. Financial Reporting Framework.** Strong financial reporting principles and practices are essential elements of effective central bank operations that encompass the provision of financial information to both central bank management and to external parties, the latter typically through published interim and annual financial statements. For such information to be useful, it must be relevant, reliable, timely, readily available, consistent in presentation over time, and based upon recognized standards, such as IFRS. Non-adherence to accepted international practices could indicate a lack of transparency or accountability. *The objective of assessing financial reporting is to ensure that the central bank adheres to international good practices in the adoption of accounting principles for internal reporting to management, and the published annual and interim financial statements.*

**6. Internal Audit Mechanism.** Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization achieve its objectives by bringing a systematic, disciplined approach that adheres to international standards, to evaluate and improve the effectiveness of risk management, control, and governance processes. *The objective of assessing a central bank's internal audit function is to determine whether internal audits are performed in accordance with international standards, such as International Standards for the Professional Practice of Internal Auditing, and whether the function is assigned sufficient independence and authority to fulfill its mandate effectively, including whether procedures exist for communicating results without interference.*

**7. System of Internal Controls.** A sound system of internal controls encompasses a thorough assessment of risks and the design of adequate mitigating controls. It includes the set of behaviors, policies and procedures put in place by an entity's board, senior management, or staff with the intent to manage risks and provide reasonable assurance regarding the achievement of objectives in the following categories: (i) conducting ethical, effective and efficient operations; (ii) fulfilling accountability obligations, including through reliable financial reporting; (iii) safeguarding resources against loss and misuse; and (iv) compliance with applicable laws and regulations. Together, risk management and internal controls systems are a key component of good governance. They are effective if built on rules of conduct and integrity upheld by the governance bodies at a central bank. *The objective in assessing the internal control system in a central bank is to ascertain the bank's commitment to building and maintaining a robust control environment. The assessment looks in particular at operational and financial risk management and controls in areas of high importance for central bank operations and of significant relevance to a Fund arrangement, including reserves management, accounting, currency and banking operations, cybersecurity and business continuity arrangements, and measures in place to ensure accurate and timely reporting of monetary program data.*

## Annex III. Safeguards Assessment Approach to CBDCs

*Assessments will focus on the central bank's governance, risk management, cyber security framework, and project management under the GELRIC framework.*

- **Governance.** The Board and the Audit Committee should have active oversight of CBDC developments, including regular updates from management. The composition of these bodies should ensure they have access to technical expertise for oversight to be effective.
- **External Audit.** CBDCs should be included in the external audit firm's planning, including audit steps to verify the balances of CBDCs and the accuracy of disclosures in the financial statements. External auditors should also evaluate the internal and IT controls associated with CBDCs.
- **Legal Structure.** The legal issues surrounding CBDCs are complex and require close examination to ensure that this activity is anchored in the central bank law. Widely understood definitions such as "currency" face challenges with interpretation when presented in a digital form, and may not be considered as legal tender. Other pertinent legal issues are the design of the CBDC (e.g., wholesale vs. retail or centralized vs. decentralized), and the central bank's mandate to issue the CBDC. Ultimately, the provisions must be coherent with the autonomy of the central bank.<sup>1</sup>
- **Financial Reporting.** Controls are required to ensure the accuracy and completeness of the accounting and financial reporting of CBDC transactions, including the integration with the general ledger. Accounting systems may also need to be updated for proper recording.
- **Internal Audit.** Internal audit must provide assurance on the control environment. Audit plans need to incorporate reviews of these operations based on risk assessments, and recommendations should be timely implemented. Key findings need to be reported to the governance bodies to inform revisions to the process and an institution-wide mitigation of risks.
- **Internal Controls.** The issuance of CBDCs impacts the internal control environment in many areas. In the early stages, a comprehensive project management plan is critical to ensure appropriate allocation of human, financial, technical, IT and other resources. Such plan should be subject to strong governance arrangements and close oversight by the Board throughout the project. Risk management frameworks should incorporate CBDCs in their coverage to identify, assess and mitigate emerging issues. The rapid development of technologies and platforms to support CBDC issuance heightens the cyber risks.

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<sup>1</sup> See [Legal Aspects of Central Bank Digital Currency: Central Bank and Monetary Law Considerations \(2020\)](#).

## Annex IV. Assessments Completed

(Since inception through end-September 2022)

| Calendar Year | Countries  | Total |
|---------------|--|-------|
| <b>2022</b>   | Albania, Bangladesh, BEAC, Cabo Verde, Eswatini, Georgia, Rwanda, Solomon Islands, South Africa, Tanzania, Uzbekistan, Zambia  | 12    |
| <b>2021</b>   | The Bahamas, Bosnia and Herzegovina, Dominican Republic, ECCB, Ghana, Guinea, Kosovo, Kyrgyz Republic, Lesotho, Madagascar, Malawi, Mauritania, Montenegro, Nepal, Nicaragua, Nigeria, Papua New Guinea, Paraguay, Samoa, Seychelles, South Sudan, Suriname, Tajikistan, Tonga, Uganda       | 25    |
| <b>2020</b>   | Afghanistan, Comoros, Democratic Republic of Congo, Costa Rica, El Salvador, Egypt, Ethiopia, The Gambia, Jordan, Liberia, Moldova, Mozambique, North Macedonia, Panama, Somalia, Tunisia  | 16    |
| <b>2019</b>   | Angola, Armenia, Ecuador, Haiti, Honduras, Kenya, Morocco, Pakistan, São Tomé and Príncipe, Ukraine  | 10    |
| <b>2018</b>   | Argentina, Barbados, BCEAO, The Gambia, Guinea, Malawi, Mauritania, Seychelles   | 8     |
| <b>2017</b>   | Afghanistan, BEAC, Bosnia and Herzegovina, Ecuador, Egypt, Jamaica, Madagascar, Moldova, Mongolia, Sierra Leone  | 10    |
| <b>2016</b>   | ECCB, Guinea, Haiti, Iraq, Jordan, Mozambique, Nepal, Rwanda, Sao Tome & Principe, Sri Lanka, Suriname, Tunisia, Vanuatu   | 13    |
| <b>2015</b>   | Ghana, Honduras, Kenya, Kosovo, Kyrgyz Republic, Liberia, Madagascar, Morocco, Serbia, Sierra Leone, Ukraine, Yemen  | 12    |
| <b>2014</b>   | Albania, Armenia, Bosnia and Herzegovina, Georgia, Romania, Samoa, Seychelles, Sierra Leone, Ukraine   | 9     |
| <b>2013</b>   | BCEAO, BEAC, Bosnia and Herzegovina, Cyprus, Egypt, Jamaica, Jordan, Liberia, Libya, Morocco, Pakistan, São Tomé and Príncipe, Seychelles, Solomon Islands, Tunisia, Yemen   | 16    |
| <b>2012</b>   | Burundi, Djibouti, ECCB, Gambia, Greece, Guinea, Kenya, Kosovo, Lesotho, Malawi, Solomon Islands, Tanzania   | 12    |
| <b>2011</b>   | Afghanistan, Bangladesh, Fiji, Georgia, Haiti, Honduras, Ireland, Kenya, Kyrgyz Republic, Liberia, Macedonia, Nepal, Portugal, Romania, Serbia, Ukraine, Yemen   | 17    |
| <b>2010</b>   | Angola, Armenia, BCEAO, Cambodia, Comoros, Democratic Rep. of the Congo, Dominican Republic, El Salvador, Georgia, Greece, Iraq, Jamaica, Kosovo, Lesotho, Malawi, Maldives, Mauritania, Moldova, Mozambique, Pakistan, Samoa, Seychelles, Sierra Leone, Solomon Islands, Tajikistan, Zambia | 26    |

| Calendar Year                   | Countries   | Total |
|---------------------------------|---|-------|
| <b>2009</b>                     | Armenia, BEAC, Belarus, Bosnia and Herzegovina, Costa Rica, Djibouti, El Salvador, Ethiopia, Ghana, Guatemala, Hungary, Iceland, Kenya, Kyrgyz Rep., Latvia, Lebanon, Mongolia, Nicaragua, Pakistan, Romania, Sao Tome & Principe, Serbia, Sierra Leone, Sri Lanka, Tanzania, The Gambia, Ukraine, Zambia | 28    |
| <b>2008</b>                     | Afghanistan, Burundi, Cape Verde, Congo Dem. Rep., Georgia, Haiti, Honduras, Iraq, Lebanon, Liberia, Madagascar, Malawi, Mozambique, Seychelles, Tanzania   | 15    |
| <b>2007</b>                     | Comoros, ECCB, Guinea, Guyana, Haiti, Liberia, Mauritania, Nicaragua, Peru, Rwanda, The Gambia, Uganda  | 12    |
| <b>2006</b>                     | Afghanistan, Albania, Burundi, Croatia, Iraq, Macedonia, Madagascar, Malawi, Moldova, Paraguay, Sierra Leone  | 11    |
| <b>2005</b>                     | Armenia, Bangladesh, BCEAO, Bosnia and Herzegovina, Colombia, Croatia, Dominican Republic, Haiti, Kenya, Kyrgyz Republic, Turkey, Uruguay   | 12    |
| <b>2004</b>                     | Argentina, BEAC, Belarus, Bolivia, Brazil, Bulgaria, Burundi, Cambodia, Georgia, Honduras, Mauritania, Mozambique, Nepal, Peru, Romania, Sao tome & Principe, The Gambia, Ukraine, Zambia   | 19    |
| <b>2003</b>                     | Bolivia, Colombia, Congo Dem. Rep., Croatia, Dominican Republic, ECCB, Ecuador, Ghana, Guyana, Jordan, Kenya, Lao People's Republic, Lesotho, Macedonia, Malawi, Mongolia, Nicaragua, Paraguay, Rwanda, Sri Lanka, Tajikistan, Tanzania, Uganda, Uruguay  | 24    |
| <b>2002</b>                     | Albania, Argentina, Armenia, Azerbaijan, Bangladesh, BCEAO, Bosnia and Herzegovina, Brazil, Brazil, Bulgaria, Cape Verde, El Salvador, Georgia, Guatemala, Guinea, Kyrgyz Republic, Moldova, Mongolia, Nepal, Romania, Sierra Leone, Turkey   | 22    |
| <b>2001</b>                     | Albania, BEAC, Ethiopia, Kenya, Latvia, Lesotho, Lithuania, Madagascar, Malawi, Nicaragua, Nigeria, Pakistan, Peru, Serbia, Sri Lanka, Tajikistan   | 16    |
| <b>Transitional Assessments</b> | Argentina, Bolivia, Bosnia and Herzegovina, Bulgaria, Cambodia, Colombia, Djibouti, Estonia, Ghana, Guyana, Honduras, Indonesia, Jordan, Latvia, Lithuania, Mauritania, Mozambique, Panama, Papua New Guinea, Romania, Sao Tome & Principe, Tanzania, Turkey, Ukraine, Uruguay, Yemen, Zambia             | 27    |

## Annex V. Key Recommendations of the External Expert Panel

| Panel's Recommendations   | Staff Responses  |
|---|--|
| Establish a separate pillar on governance focusing on board effectiveness and including central bank governance culture.  | Staff agrees with the recommendation and proposes a new governance pillar in the safeguards framework (see Section VI. A).   |
| Explicit recognition of risk management focusing on a high-level review of the appropriateness and effectiveness of existing risk management arrangements and their maturity. | Staff's adaptive approach is broadly reaffirmed in the panel's observations. Staff proposes broader coverage of financial risk management in assessments (see Section VI. C). Since risk management is a sub-component of an entity's internal control framework, no changes are made to naming convention of the safeguards framework in this regard.   |
| Prepare comprehensive guidelines that reflect good practices in the areas of the safeguards assessment framework.   | Staff agrees with the recommendation and will develop operational guidelines to help build awareness of the safeguards process (see Section VI. E).  |
| Broaden the identification of risks to central bank safeguards that may arise from changes to laws and regulations.   | In response to the 2015 policy review, staff has increased engagement with key stakeholders to advance reforms to central bank legislation (see paragraph 20). Legal reform is conducted in close consultation with IMF staff. Extension to other laws and regulations would have significant resource implications for both staff and central banks. Staff considers the current coordination and safeguards monitoring to be adequate. |
| Give attention to building central bank capacity to improve the implementation of safeguards recommendations.   | Staff agrees that strengthening safeguards-related capacity in central banks is important and proposes regional outreach events to allow for deeper engagement with central banks. Operational guidelines will also be developed and disseminated to central banks (see Section VI. E).  |
| Develop guidelines for conducting fiscal safeguard reviews that clarify internally the interdepartmental roles and responsibilities.  | Staff agrees and proposes to develop FSR internal guidelines (see Section VI. B).  |
| The implementation of recommendations in this report should avoid putting additional pressure on staff resources.   | Staff reviewed resource implications (See Section VI. F).  |