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SAFEGUARDS ASSESSMENTS – 2022 EXTERNAL EXPERT PANEL'S ADVISORY REPORT

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IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following document has been released:

- The **Independent Panel** report on the Safeguards Assessments - 2022 External Expert Panel's Advisory Report to the Executive Board of the IMF, prepared by the Panel 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 Staff Report on Safeguards Assessments: 2022 Review of Experience.

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SAFEGUARDS ASSESSMENTS POLICY—EXTERNAL EXPERT PANEL'S ADVISORY REPORT

EXECUTIVE SUMMARY

This Advisory Report of the External Expert Panel (the Panel) presents the Panel's conclusions on the effectiveness of the safeguards policy and recommendations to the Board for its consideration to promote the continued and enhanced effectiveness of the policy. The Panel's findings are based on (i) discussions with stakeholders, including central banks, Executive Directors' offices, and IMF staff; (ii) review of a sample of the 91 safeguards assessments conducted during the period September 2015 to April 2022; and (iii) Fund publications, including policy papers, working papers, and other Fund documents.

The Panel focused on the following areas:

- The focus of safeguards assessments.
- The continued appropriateness of the ELRIC framework and its application.
- The adequacy and coverage of safeguards reports.
- Views on any other aspects, including (i) the modalities and thresholds for fiscal safeguards reviews, (ii) the increased focus on governance, and (iii) broader coverage of integrated risk management.

The review period includes the onset of a global pandemic in 2020 and attendant changes to prioritize the Fund's response. Hence, the Panel also examined the possible impact of the pandemic on safeguards assessments and monitoring.

The Panel found that good progress has been made in implementing the recommendations made by the 2015 External Expert Panel, notably, with an increased emphasis on governance in assessments conducted during the review period. Safeguards assessments conducted since the 2015 review have also placed more emphasis on risk management, especially in the context of emerging risks, such as from recent events (the COVID-19 pandemic, wars, and cyber incidents), and the adoption of digital currencies.

Safeguards assessment activities increased significantly due to emergency lending during the pandemic. Since the 2015 review through to end-April 2022, 91 assessments were completed, 42 (about 45 percent) of them in the last two years (April 2020–2022), owing to the pandemic response. The increased workload that resulted was met by significant staff overtime, as well as reallocation of staff and new hires. The Panel concluded that despite the increased activity and a move to remote work, the quality of the assessment and reporting was generally maintained during the pandemic.

The Panel found a general agreement among stakeholders that the focus of the safeguards assessments framework was appropriate. However, there was limited awareness among central banks of the overarching objective of the safeguards policy and little advance knowledge of what the safeguards assessment exercise would entail. Measures to enhance knowledge and understanding of the areas covered by the safeguards assessment framework would benefit central banks, even in the absence of a program with the IMF, by providing tools that could help them improve their operation and functioning.

The main recommendations of the Panel are as follows:

- The establishment of a separate pillar on governance focusing on board effectiveness and including central bank governance culture.
- Explicit recognition of risk management focusing on a high-level review of the appropriateness and effectiveness of existing risk management arrangements and their maturity.
- The preparation of comprehensive guidelines that reflect good practices in the areas of the safeguards assessment framework.
- Consideration should be given to broadening the identification of risks to central bank safeguards that may arise from changes to laws and regulations.
- The implementation of the recommendations in this report should avoid putting additional pressure on staff resources.
- Attention should be given to central bank capacity building to improve the implementation of safeguards recommendations.
- The development of guidelines for conducting fiscal safeguards reviews that clarify internally the interdepartmental roles and responsibilities.

In conclusion, in the Panel's opinion, the safeguards policy continues to be an effective instrument for preventing the misuse of Fund resources and misreporting of program monetary data. The addition of the fiscal safeguards review mechanism enhances the Fund's ability to safeguard its resources. Implementation of the measures recommended by the Panel will further strengthen the safeguards assessment framework and minimize risks to Fund resources that may result when authorities have inadequate capacity to safeguard those resources.

Prepared By

The External Expert Panel comprising Mohammed Nyaoga, Blanaid Clarke, Maher Hasan, and Brian Wynter. Joanne Creary served as the secretariat for the Panel.

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Abbreviations and Acronyms

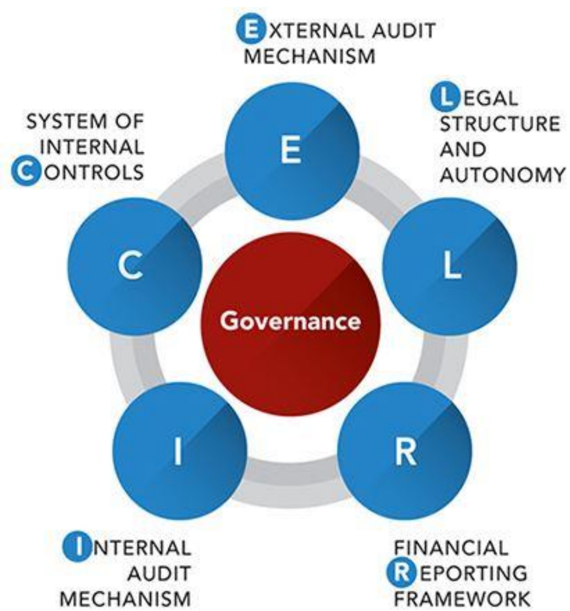
CBDC	Central bank digital currencies
ELRIC	The framework used by the IMF to conduct safeguards assessments at member central banks. ELRIC stands for (i) the **E**xternal audit mechanism; (ii) the **L**egal structure and autonomy of the central bank; (iii) the financial **R**eporting framework; (iv) the **I**nternal audit mechanism; and (v) the internal **C**ontrols system
ERM	Enterprise risk management
FAD	IMF's Fiscal Affairs Department
FCL	Flexible Credit Line
FIN	IMF's Finance Department
FINSA	Safeguards Assessments Division (IMF's Finance Department)
FSR	Fiscal safeguards review
GRA	General Resources Account
IIA	Institute of Internal Auditors
IFRS	International Financial Reporting Standards
IORWG	International Operational Risk Working Group
LEG	IMF's Legal Department
LETIFA	The framework used by the IMF to conduct fiscal assessment procedures. LETIFA stands for (i) **Le**gal framework for budgetary appropriations; (ii) Government banking arrangements through the **T**reasury; (iii) **I**nternal controls of public expenditure; (iv) Reporting of **F**inancial data; and (v) Independent **A**udit of government financial statements
MCM	IMF's Monetary and Capital Markets Department
RFI	Rapid Financing Instrument
RST	Resilience and Sustainability Trust
SPR	IMF's Strategy, Policy and Review Department
TA	Technical assistance

CONTEXT

1. The safeguards assessment policy was established in 2000 to mitigate the risks of misuse of Fund resources and misreporting of program monetary data. The policy derives its authority from the IMF's Articles of Agreement (Art. V, s.3), which requires that the IMF "adopt policies on the use of its general resources" that will "establish safeguards" for the use of the IMF's resources.

2. Since its inception in 2000, the principal instrument for achieving the objective to "establish safeguards" has been assessments carried out by IMF staff. These are diagnostic exercises to evaluate the adequacy of five key areas of control and governance—denoted by the acronym ELRIC (Figure 1)—within a borrowing member country's central bank.[1] The focus on central banks reflects their role in managing Fund resources on behalf of the government. In 2015, a process for fiscal safeguards reviews was introduced (see below).

Figure 1. The ELRIC Framework



3. Staff recommendations to address weaknesses in the ELRIC framework are set out in country safeguards assessment reports and made available only to the central bank authorities and the Executive Directors in whose constituencies the borrowing country falls. These reports are considered confidential and are unavailable to the public, owing to the institution-specific information they contain, which can be highly sensitive. Implementation of the

[1] The ELRIC framework refers to (i) the **E**xternal audit mechanism; (ii) the **L**egal structure and autonomy of the central bank; (iii) the financial **R**eporting framework; (iv) the **I**nternal audit mechanism; and (v) the internal **C**ontrols system.

recommendations is monitored in the context of the member country's program with the Fund; monitoring continues for as long as credit remains outstanding.

4. In 2015, additional measures were introduced when the fiscal safeguards review (FSR) process was created. FSRs aimed at providing reasonable assurance that Fund resources are used in accordance with member countries' legal frameworks and reported under transparent and effective budgeting, banking, accounting, and auditing procedures. The FSR covers five key areas (referred to as LETIFA): (i) legal authorization, (ii) treasury account, (iii) internal controls, (iv) fiscal monitoring and reporting, and (v) audit. An FSR is required for programs supported by exceptional access to Fund resources, where at least 25 percent of the funds will be directed to financing of the state budget.

5. Since its inception, the safeguards assessments policy has been subject to review by the Executive Board at five-yearly intervals. Given that staff reports on safeguards assessments are confidential documents made available only to the borrowing country's central bank and to the Executive Director in whose constituency it falls, Board oversight of the safeguards policy relies on the summary of key safeguards findings and recommendations in subsequent staff reports of those countries and the work of an independent Panel of external experts to evaluate the policy and advise on its continued effectiveness.

6. This 2022 External Expert Advisory Panel's Report reflects the findings and recommendations of the independent Panel appointed in 2020, based on its work conducted in 2022. This review was originally scheduled to take place in 2020 but was delayed by the onset of the COVID-19 pandemic and the prioritization of the Fund's response.

PANEL'S VIEW OF THE SAFEGUARDS ASSESSMENTS POLICY

A. Rationale and Mandate for the External Expert Panel Review

7. The principal objective of the External Expert Panel, as stipulated in its Terms of Reference, is to advise the Executive Board on the focus of the safeguards assessments and the operation of the risk-based monitoring framework. The Panel's Terms of Reference is included herein as Annex I.

Assessments

8. The Panel reviewed the following areas:

- The focus of safeguards assessments.
- The continued appropriateness of the ELRIC framework and its application, taking into account adaptations made by staff in applying the framework over time and the evolution in governance, accounting, audit, risk management, and control practices in the public and private sectors.

- The adequacy and coverage of safeguards reports.
- Views on any other aspects, including (i) the modalities and thresholds for fiscal safeguards reviews for programs involving direct budget financing, (ii) the increased focus on governance, and (iii) broader coverage of integrated risk management.

9. The Panel's attention was directed also to two new IMF initiatives: In 2018, the Executive Board adopted a policy framework for Enhanced Fund Engagement on Governance, which covers assessments of governance vulnerabilities and corruption in six categories of state functions, among them central bank governance and operations. In 2020, the IMF adopted a Central Bank Transparency Code that is in a pilot phase at the time this report is being prepared. Although these initiatives are not part of the safeguards policy, safeguards staff have been closely involved in their evolution.

Monitoring

10. The Panel's Terms of Reference included assessing the operation of the risk-based monitoring framework and its effectiveness during the period of an arrangement and thereafter.

B. Panel's Review Approach and Methodology

11. The Panel began its work by reviewing policy documents related to the safeguards assessments policy, as well as a sample of twenty safeguards assessment reports. The reports were selected by staff to reflect a representative sample of borrowing countries in the five Fund regions based on geography, size of loan, and risk rating (see Annex III). In addition, three of the Panel members are or have been in leadership positions in central banks included in the sample.

12. The Panel then selected and held remote meetings with five of the twenty central banks. Discussions with the central banks were held with the assurance of strict confidentiality. The Panel sent the central banks a list of questions in advance of the meetings as a basis for the discussions and also encouraged the submission of written feedback to the Panel after the meetings. The questions sent to the central banks are included as Annex IV of this report.

13. The Panel interviewed other key stakeholders during visits to Washington, DC, in April and July 2022, including staff in area and functional departments whose work is relevant to the safeguards policy.[2] The Panel also met with Executive Directors, including those whose constituencies included countries subject to safeguards assessments and monitoring. Section II.E presents the broad themes emerging from these discussions. The Panel also reviewed the reports of the four fiscal safeguards reviews conducted since 2015.

[2] The Panel met with staff from functional departments (FIN, FAD, MCM, LEG, and SPR) and the Office of Risk Management, and country teams from the five area departments (AFR, APD, EUR, MCD, and WHD).

C. Status of Implementation of 2015 Panel Recommendations

14. The Panel found that good progress was made in implementing the recommendations contained in the 2015 External Expert Panel's Advisory Report, particularly those pertaining to governance, risk management, and the threshold for fiscal safeguards review. The following table highlights key progress in implementation of the recommendations of the 2015 External Expert Panel.

2015 Recommendations	Implementation
Continued emphasis on Governance either by expanding the ELRIC acronym or emphasizing governance as an overarching principle	• Safeguards assessments emphasize governance as an overarching pillar. • There has been expanded comprehensive coverage of governance arrangements. • Remedial measures were included in safeguards reports to address governance vulnerabilities. • Staff participated in central bank governance assessments pursuant to the *Framework for Enhanced Fund Engagement on Governance;* discussions in the context of Article IV and Use of Fund Resources; and regular reviews of policy consultation notes and country staff reports on select governance issues.
Risk management: (1) Incorporation of risk management as key component of safeguards assessments and (2) encouragement of development within central banks of integrated risk management frameworks and the application of enterprise-wide risk management	• Deeper evaluations of risk management practices have become an integral part of safeguards assessments. • Staff developed a maturity assessment tool to evaluate the extent to which central banks are implementing risk management frameworks. • Staff published a Working Paper on *Risk Management Maturity Assessment at Central Banks* (2019). • The Fund joined the International Operational Risk Working Group (IORWG) in 2018. • Safeguards assessments now include more structured coverage of central banks' cyber risk management practices. • Safeguards assessments focus on emerging risks and adequacy of risk management practices for central banks with their own digital currencies in issue or in a pilot phase.
Legal framework: Fund to be **proactive and assertive in engaging key national stakeholders** in respect of recommendations on **legal frameworks** amendments	• Comprehensive amendments to legal frameworks were recommended in an increased number of assessments in the current review period. • Staff engaged with authorities to draft amendments and advance the legal reform process, including through IMF technical assistance. • There has been an increase in central bank legal amendments being incorporated in program conditionality.

2015 Recommendations	Implementation
Enhancing transparency, disclosure and accountability by (1) maintaining more consistent content in the summary paragraph in staff country reports and (2) including an ongoing program of **key stakeholder engagement**	• A safeguards-related paragraph is included in staff reports for countries undergoing safeguards monitoring, including information on the status of safeguards recommendations, and key developments in safeguards-related issues. • Staff collaborated with relevant TA-providing departments in areas such as legal and governance reforms, International Financial Reporting Standards (IFRS), risk management, internal audit, and the compilation and submission of monetary statistics. • Staff published two working papers presenting lessons learned: *Effectiveness of Internal Audit and Oversight at Central Banks: Safeguards Findings—Trends and Observations* (2018) and *External Audit Arrangements at Central Banks* (2018). • Staff contributed to two publications: *Central Bank Governance in Sub-Saharan Africa* (May 2022) and Central Bank Governance and Operations: High-level Diagnosis of Financial Accountability *and* Transparency Mechanisms in the MENA Region (January 2021). • Staff presented at the *High-Level Conference on the Promotion of Good Governance and Fight against Corruption* in Gaborone, Botswana (co-hosted by the IMF and African Union). • Staff conducted regional safeguards framework seminars annually in Austria, Barbados, Kuwait, Mauritius, and Singapore; contributed to internal audit and accounting workshops for central banks that are members of the World Bank's Reserve Advisory and Management Partnership; and participated in global and regional conferences hosted by central banks.
Review the proposed **Fiscal Safeguard Reviews threshold** of 50 percent	• The IMF Board approved a framework to be used to conduct fiscal safeguard reviews (FSRs), which apply to arrangements where members request exceptional access to Fund resources and there is an expectation that a significant proportion of the funds will be directed to financing of the state budget (i.e., at least 25 percent). Three FSRs were conducted during the period and lessons learned are being considered by staff in the Finance, Fiscal Affairs, and Legal Departments in the context of this review.
Enhance risk-based monitoring to include more first-hand verification in the post-program period	Staff engaged in onsite monitoring visits pre-pandemic in 12 missions where the implementation rate of recommendations was low or key vulnerabilities emerged across the safeguards framework. Remote engagement took place during the pandemic.
Update internal documents to reflect changes to the policy or significant changes to operational procedures	Staff updated *the Operational Guidelines for Safeguards Assessments* in 2017 and there have been no significant changes since then.

D. Panel's Statistical Review of the Safeguards Assessments for the Period September 2015 to April 2022

15. Safeguards assessment activities increased significantly in the last two years of the current review due to emergency lending during the pandemic. Since the 2015 review through to end-April 2022, 91 assessments were completed, nearly half of them in the last two years and representing 66 central banks. Safeguards monitoring has also increased significantly, by more than 22 percent, and is projected to remain elevated over the medium term. (See the figure "Central Banks Monitored (CY 2010–2022)" in paragraph 9 of the accompanying Policy Paper on Safeguards Assessments: 2022 Review of Experience).

16. Several measures were taken to accommodate this unprecedented demand, including a significant increase in staff overtime. Seminars and other outreach activities were suspended.[3] Monitoring activities were reduced significantly to mobilize more resources for assessments. This was also motivated by the fact that central banks subject to monitoring were involved in more urgent activities in response to the pandemic. The impact of the above on the implementation rate of staff recommendations was small, as it declined from 82 percent during the previous review period to 69 percent during the current one. In addition, staff resources were augmented through temporary internal reallocation and new hires. Despite the previous measures to accommodate this unprecedented demand, the quality of assessments was not sacrificed. This led, however, to significant pressure on staff, reflected in a considerable increase in overtime during the period. (See the chart "Quarterly Average Safeguards Activity" in paragraph 16 of the Policy Paper on Safeguards Assessments: 2022 Review of Experience).

17. The risk profile of central banks assessed during the current review period has deteriorated compared to the 2015 review period. In each of the five ELRIC pillars, the high and medium-high risk ratings increased by 11 to 18 percentage points relative to the prior period. This will likely put additional pressure on the resources needed to ensure effective risk-based monitoring over the medium term.

E. Panel's Observations Drawn from Stakeholder Engagements and Safeguards Assessments Reports

18. A number of common themes emerged from discussions with central banks and stakeholders representing staff views, as well as the views of Executive Directors. The main ones are identified in this section.

19. Central banks generally agreed that the focus of the safeguards assessments framework was appropriate, **particularly the emphasis on governance, risk management, and internal and external audit mechanisms**. The Panel observed that, except in the context of program negotiations, there was generally a lack of awareness of the safeguards policy and its

[3] Except for some limited virtual outreach.

applicability to central banks. Central banks were in agreement that the safeguards assessment exercise was valuable to them in promoting best practices and pointing out areas for improvement, and thought this would be a useful exercise whether or not the authorities had plans to enter negotiations into a program with the Fund.

20. Central banks expressed the view that access to guidance on best practices in the areas covered by the safeguards assessments policy, including a common understanding of the concepts, before undergoing an assessment would have helped them prepare better for the safeguards review. Advance knowledge and understanding of the areas covered by safeguards assessments would also be of value in their effective functioning and assist them in benchmarking against peer central banks. Central banks also suggested that this guidance would be a useful tool for educating board members on the importance of effective oversight of the areas included in the safeguards assessment framework.

21. The risk of misuse of Fund resources and misreporting of program monetary data increases with weak governance, risk management, and autonomy. In line with the recommendations of the 2015 External Expert Panel's Advisory Report, the Panel observed that staff paid more attention to these areas in reviews conducted since 2015.

22. On governance, the Panel observed that there has been expanded comprehensive coverage of governance arrangements in the safeguards assessments but that key aspects of governance, especially those pertaining to board decision making and culture, were not well understood by central banks. Staff were also of the view that an independent pillar on governance would be useful. A number of suggestions for improvement were discussed with stakeholders; these are outlined in Section III.A below.

23. On risk management, while central banks welcomed the increased focus from staff on risk management, some central banks were not satisfied with the scope of coverage. In line with recommendations from the 2015 External Expert Panel's review, recent safeguards assessments appropriately paid more attention to risk management. Staff evaluation of the internal control pillar covered different risks facing central banks, such as operational, financial, and cyber risks. Business continuity risks became more critical in light of recent events, such as the COVID-19 pandemic, wars, climate-related risks, and cyber incidents. The size and depth of risk management analysis are increasing to reflect central banks' emerging risks, among them risks arising from central bank purchases of government securities and from adoption of digital currencies. Some central banks were skeptical of the scope of reviewing risk management in the internal control pillar and how it relates to the objective of safeguards assessments. Other central banks were of the view that the assessments should cover areas such as reviewing the effectiveness of the arrangements of the three lines model (see footnote 7 for a definition) and risk governance.

24. Staff also identified risks related to resource availability arising from increased pressure on staff during the pandemic. The Panel explored the implications both for the quality of assessments conducted during crises such as the pandemic and for staff work life balance and well-being.

25. The Panel found central banks and other stakeholders had little in the way of documentation that would help central banks prepare in advance of a safeguards assessment. Staff thus spent a great deal of time on explaining the policy and the assessment framework to central bank personnel during the assessment exercise. Nevertheless, the Panel observed commendable efforts by staff to ensure even-handedness in applying the safeguards assessment policy. However, the Panel also found some level of skepticism on the part of central banks that the assessments were conducted in a manner that was transparent and even-handed. Given the maturity of the safeguards assessments policy (20 plus years in) the Panel solicited views from stakeholders on the usefulness of documentation of best practices in the areas covered by the policy.

26. Regarding the legal structure and autonomy component of the safeguards policy, staff noted that safeguards recommendations requiring changes to the central bank laws often take a long time to implement and are also often politically challenging. Nevertheless, central banks expressed satisfaction with the role of the safeguards assessments in motivating and in some cases assisting in reforms to their legal framework.

27. The Panel recognized capacity constraints within central banks as a key challenge to the implementation of safeguards recommendations. Central banks found value in outreach conducted by the safeguards team though this activity was discontinued temporarily during the review period to reprioritize work in response to the pandemic. Both central banks and internal stakeholders pointed to the need for increased outreach activity in the form of trainings and opportunities for knowledge sharing and peer-to-peer learning.

F. Impact of the Pandemic

28. At the outset of the pandemic in 2020, staff switched from on-site assessments to a fully remote work mode, which continued up to the end of the review period. At the same time, the heightened need for emergency lending created increased pressure on staff involved in safeguards assessment work. The Panel sought to understand what impact, if any, these eventualities had on the continued effectiveness of safeguards assessments in mitigating risks to Fund resources.

29. This was especially critical given central banks' role in supporting government responses to the pandemic. The COVID-19 pandemic created pressure on government budgets through both increased spending and reduced revenue streams. Many governments turned to central banks for support through direct lending or extension of credit, or other means of providing funding to the government, which has the potential to impact central bank autonomy, thus heightening the risk of misuse of Fund resources.

30. Staff report that of the 91 assessments conducted during the review period (September 2015 to April 2022), 42 (about 45 percent) were conducted remotely during the two-year period April 2020-2022 owing to the pandemic response. The length of time for conducting an assessment increased from an average of 9 days to an average of 14 days (a 55 percent increase), mainly a result of coordinating work across different time zones.

31. Requests for emergency lending increased during the same period, with the number of central banks subject to safeguards monitoring increasing from 67 to 82. For emergency lending, safeguards assessments are not tied to specific program deadlines, but are required to be completed before any subsequent arrangements can be approved. Staff therefore prioritized assessments in countries where requests for subsequent arrangements were likely.

32. The impact of the pandemic on staffing can be seen in two dimensions: the Safeguards Assessments Division (FINSA) staff overtime and increase in headcount. Between April 2020 and April 2022, monthly staff overtime averaged 16 percent. Prior to the pandemic FINSA staff numbered 12 (excluding two administrative assistants). At the end of June 2021, staff numbered 18, through a combination of temporary internal reallocations and external hires. Overtime levels remained high throughout the period. The Panel is concerned about the impact on staff welfare of significant overtime and interrupted leave and noted that this is not sustainable in the long term (see Section III.F, Resources, for more details of the Panel's view on this issue).

33. The Panel also sought to understand whether this heightened workload and the move from on-site to remote assessments had any effect on the quality of the assessments conducted. During the pandemic, there was no change in the established processes for conducting assessments. The information requested and obtained from central banks and external auditors remained the same; hence, quantitatively, there was no difference in the data on which ratings were based. Staff did allow, however, that there are intangible factors that may have an effect on the discussions with central banks: (1) connectivity issues, which may cause disruption to the free flow of information; (2) the videoconferencing technology heightens concerns of confidentiality and may hinder the candor of exchanges, despite assurances that discussions are not recorded; (3) in-person missions allow staff to observe nonverbal communication cues that may not be evident in a virtual conversation; (4) staff were unable to physically observe central banks' vault operations and controls.

34. The Panel concluded that the quality of the assessment and reporting was generally maintained during the pandemic, notwithstanding the limitations noted above.

G. Monitoring

35. The Panel was satisfied with the operation of the risk-based monitoring framework during the period of an arrangement and thereafter. Monitoring is currently conducted for as long as Fund credit remains outstanding. The intensity of the monitoring depends on the nature of the Fund's exposure and staff's assessment of safeguards risks at the central bank. Onsite monitoring pre-pandemic took place in 12 missions during the review period where there was a low rate of implementing recommendations and where key vulnerabilities emerged in areas such as governance, monetary financing of the government in breach of statutory limits, or irregular liquidity lending to commercial banks outside established policies and frameworks. During the pandemic, monitoring occurred remotely.

36. Staff developed a new database (Safeguards Portal) to enhance the IT capabilities of safeguards processes and to facilitate monitoring activities. In turn, the data management of safeguards findings has been strengthened and follow up on recommendations is timelier due to embedded alerts. Statistics on the status of outstanding safeguards recommendations are available in real time, and management reporting has been streamlined through dashboards. The new portal was developed in-house with close collaboration between other departments and has also enabled the safeguards team to enhance its data integration with other relevant Fund financial information.

PANEL'S RECOMMENDATIONS ON SAFEGUARDS ASSESSMENTS

A. Governance

37. The Panel recommends the establishment of a separate pillar on governance focusing on board effectiveness and designed to reduce the risks of misuse of Fund resources and misreporting of program monetary data. A separate pillar would allow a more holistic view of governance elevating the focus on board governance, effectiveness, and leadership.

38. The Panel considers that the current review of governance is fragmented in the pillars of the framework and an explicit focus on governance would allow for a deeper and more consistent analysis of governance structures, processes, and best practices. This is important because governance is the apex of the safeguards assessments framework, and its five existing pillars are key components of good governance. A more explicit focus would also facilitate a greater understanding of governance by all stakeholders. This is necessary because the Panel's review of the safeguards assessment reports and its interviews with key stakeholders evidenced a lack of understanding by central banks of certain key aspects of governance, especially those pertaining to board decision making and culture.

39. Good corporate governance practices are the foundation to a well-functioning central bank. The Panel adopted the useful definition of central bank governance set out by Bossu and Rossi (2019), which refers to "the ensemble of structures and arrangements by means of which an organization makes decisions in the pursuit of its mandate." [4] The mandate is correctly considered to be the core of a central bank's governance. In order to take responsibility and accept accountability for the conduct of the bank's affairs in accordance with its mandate, the board and senior leadership must have a clear understanding of the nature and scope of this mandate. The Panel agrees with the authors that: "Good governance balances effectiveness—when required, can decisions be taken adequately, effectively, and within the appropriate timeframe?—with soundness—are decisions appropriate, legally well-founded, and in line with the objectives of the institution?" Good governance enhances autonomy, disciplined and ethical conduct, accountability, transparency, sound decision making, and effective oversight. It also adds value to society by enabling central

[4] Wouter Bossu, Arthur Rossi, *The Role of Board Oversight in Central Bank Governance: Key Legal Design Issues*.

banks to deliver upon their mandates. The Panel considers that there is no "one size fits all model" and the appropriate balance adopted by central banks will depend on the circumstances in each case.

40. Although not organized around the concept of board effectiveness, the safeguards assessment reviews encompassed many elements of governance the Panel considers important and valuable, including:

- The legal framework regarding the appointment and dismissal of board members, governor, and deputy governor;
- Board members' qualifications, diversity, independence, executive roles, incompatibility, and tenure;
- Board committees' composition, roles, and responsibilities;
- Board oversight of internal audit, external audit, risk management, business continuity, compliance, reserve management, emergency liquidity assistance and dealing with problem banks; and
- Collegiality in decision making and the concentration of power with the governor.

The depth of focus on each element was driven by the nature of challenges faced by the individual central banks and the issues raised on other ELRIC framework pillars.

41. Central banks should be encouraged to measure board effectiveness, identifying strengths and weaknesses within their boards and challenges to their operation. As part of this exercise, a board evaluation should be conducted regularly, including of board composition, board responsibilities, diversity (including cognitive diversity), and members' suitability. These evaluations should assess both how effectively members work together in a spirit of collegiality toward the central bank's mandate and how they contribute individually. This exercise should be facilitated every few years by an experienced external independent evaluator and feedback should yield deliverables in terms of strategic actions and board leadership development.

42. Less attention appears to have been paid in the safeguards reviews to the issue of governance culture. Only one report addressed this and provided a valuable description of the risks of misuse and misreporting of program monetary data that arise from a poor compliance culture and ineffective oversight and controls. It also correctly referred to a vital role for decision-making bodies to establish the culture, values, and ethics of the organization and instill a principled "tone at the top."

43. The Panel recommends that the review of governance include an examination of central bank governance culture, emphasizing the role of the board in identifying and embedding values, incentivizing good behavior, creating the best environment for employees to perform, calling out ethical failings, supporting diversity and inclusion, and facilitating constructive challenge in the board and the organization more generally. Independence of mind and of judgment should be viewed as being of equal importance to autonomy in board appointments. The board should lead cultural change from the top and evidence its impact on the organization. Central banks should be encouraged to treat culture risk as part of an integrated process of oversight and to ensure that culture is aligned to the objectives and strategy of their central banks. This would include an examination of board effectiveness, an ability to manage organizational and cultural change, risk culture, and behavioral risks. The Panel is aware that certain boards find it a challenge to identify and measure culture in their organizations, and considers that the inclusion of such metrics in safeguards assessments would assist boards in this regard.

44. The Panel recommends that there be an increased emphasis in the safeguards assessments on the board's risk governance roles and responsibilities (see Section III.B below). Risk governance would allow for the application of the principles of good governance to the identification, assessment, management, and communication of risks.

45. Including a governance component in the proposed comprehensive safeguards assessment framework guidelines (see Section III.C below) that covers general principles, recommendations, and best practices should assist in explaining the different governance concepts and their rationales. This would help central banks in member countries, whether within a program or not, to evaluate and improve their governance frameworks.

B. Risk Management

46. Recent safeguards assessments appropriately paid more attention to risk management.[5] Staff within the internal control pillar covered different risks facing central banks, such as operational and financial risks. Staff also covered in detail cyber and business continuity risks. Various factors have raised the importance of business continuity, such as the COVID-19 pandemic, wars, climate-related risks, and cyber incidents. The Panel views the increasing focus in safeguards assessments on risk management as appropriate. The size and depth of risk management analysis are increasing to reflect central banks' emerging risks. Such analysis has become a core part of analyzing the internal control pillar.

47. The Panel recommends explicitly recognizing risk management in the framework and focusing on a high-level review of the appropriateness and effectiveness of existing risk management arrangements and their maturity. Currently, risk management is reviewed within the internal control pillar. We propose renaming the pillar *risk management and internal control*. This will better reflect the current practices in safeguards assessments, give risk management the deserved importance, and enable the framework to deal with the emerging risks without creating uncertainty for the authorities regarding the relevance of the staff analysis and recommendations.[6] The high-level review approach will ensure the relevance to the objectives of safeguards

[5] This is in line with the recommendations from the 2015 review.

[6] The absence of guidelines and the fact that risk management is a concept that encompasses different focuses compared to internal control created some skepticism for some central banks about the appropriateness of the staff analysis.

assessments and conservation of resources. It will also be consistent with the level of maturity in assessed central banks, where analysis conducted by staff shows that most central banks are in the early stages of risk management maturity (see the chart "Risk Management Maturity Spectrum" in paragraph 24 of Safeguards Assessments: 2022 Review of Experience). However, it would not prevent staff from flagging significant risks and recommending how these risks should be addressed. This could be done through building the capacity to manage them outside the assessments through, for example, technical assistance.

48. The high-level review could include the following: risk governance, the existence and effectiveness of the risk management committee at the board level (see Box 1), the availability of appropriate skills at the board level, the comprehensiveness and maturity of the enterprise risk management (ERM) framework, the adequacy of resources available to management, and the identification of material emerging risks that deserve special attention. It should also include a review of the three lines model to ensure the absence of gaps or overlaps in the control functions.[7,8]

49. Particular attention should be paid in new assessments to the risks arising from central banks' purchase of government securities, quasi-fiscal activities, and the adoption of central bank digital currencies (CBDCs). The COVID-19 pandemic put significant pressure on central banks to reduce financial stress and support macroeconomic recovery through the purchase of government securities. Central banks also expanded their engagements in quasi-fiscal activities such as subsidized lending and credit guarantees to support specific economic sectors, including small and medium-sized enterprises. Current high commodities prices will likely renew these pressures. These activities raise the risk of fiscal dominance and debt monetization and, hence, could undermine central banks' independence.[9] Staff have shown flexibility with central bank financing for governments and quasi-fiscal activities during the pandemic. In addition, central banks are active in digitizing payments systems and introducing CBDCs. These initiatives increase different kinds of risks, such as financial stability, financial integrity, cybersecurity, effectiveness of capital management measures, and business continuity, which makes having effective frameworks for managing these risks very relevant.

[7] Also called the three lines of defense: The **first** line of defense lies with the *business and process owners.* Operational management is responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis. This consists of identifying and assessing controls and mitigating risks. The **second** line supports management to help ensure risk and controls are effectively managed. Management establishes various *risk management and compliance functions* to help build and/or monitor the first line of defense controls. The **third** line of defense, *the audit function,* provides assurance to senior management and the board that the first and second lines' efforts are consistent with expectations.

[8] Some central banks raised this point during the Panel's meetings with them.

[9] The Recent IMF Departmental Paper "Asset Purchases and Direct Financing: Guiding Principles for Emerging Markets and Developing Economies during COVID-19 and Beyond" could provide a helpful framework in this regard.

Box 1. Risk Governance

In line with emerging good practices, staff should consider recommending a risk management oversight committee at the board level rather than give this responsibility to the audit committee. The board needs to set the risk appetite and be forward-thinking about overseeing current risks and exposures to minimize the impact on the ability of the central bank to achieve its mandate. While the board should not take a direct role in managing risks, it should be involved in the risk oversight of management and corporate issues that affect risk. Boards can fulfil their role in risk oversight by:

1. Adopting policies and procedures around risk that are consistent with the central bank's strategy and risk appetite.
2. Following up on management's implementation of risk management policies and procedures.
3. Following up on assurances that risk management policies and procedures function as they are intended.
4. Taking steps to foster risk awareness.
5. Encouraging an organizational culture of risk adjusting awareness.

Fulfilling this role would require appropriate risk governance and expertise at the board level. It would also require a separate board committee with a clear mandate to fulfil this responsibility and the implementation of enterprise-wide risk management across the central bank.

50. **The Panel's recommendations to explicitly include governance and risk management warrant revisiting the ELRIC framework**. The revised framework could thus be governance and board oversight, legal structure and autonomy, external audit mechanism, financial reporting framework, internal audit mechanism, and risk management and internal control. This amended framework would (i) give prominence to governance and risk management; (ii) reorder the pillars in terms of importance, and (iii) be more flexible to include emerging risks.

C. Developing Guidelines that Reflect Good Practices in the Areas of the Safeguards Assessment Framework

51. **The Panel noted a consensus among central banks in its sample on the usefulness and importance of having a code or guidelines that would assist them in preparing for a safeguards assessment**. Central banks have asked for more clarity on the expectations and requirements of the safeguards assessment and during assessments central banks often ask the FINSA team for advice or for sources on good practices. The Panel observed that at present there is no way for central banks to have a good understanding of what is expected in a safeguards assessment ahead of experiencing one.[10] Safeguards assessments usually take place at a time of crisis for central banks and their fiscal authorities. There are typically few opportunities for central banks to learn about the safeguards process and requirements beforehand; it is therefore challenging for a central bank to prepare by improving its safeguards elements in a way that the central bank can know beforehand would meet the requirements of the policy. Self-assessment by central banks is difficult as one needs to be in an IMF borrowing arrangement to find out where one

[10] See the Panel's recommendation at Section III.E. The Panel acknowledges the immense value provided to central banks in the outreach seminars conducted by staff.

stands on the elements of the safeguards assessment framework. The learning curve for safeguards assessments is steep (carried out usually in times of crisis) and slow (safeguards assessments are infrequent in the life of a central bank). Partly as a result of these factors, considerable time of the members of safeguards teams is spent explaining to central banks what is meant by or is being looked for in the assessment process. Considerable time of the safeguards team and other relevant Fund departments is also devoted to reviewing reports with a view to ensure consistency in the application of the policy.

52. The Panel has noted the successful (in the Panel's view) efforts by staff to ensure even-handedness in applying the safeguards assessments policy to central banks at widely varying stages of development and sophistication that operate in the widely disparate institutional and conjunctural conditions found across the Fund's membership and over time. Yet, the aforementioned factors help to explain why it is difficult nevertheless for the Fund to demonstrate transparently and comprehensively that there are standards for the safeguards assessment framework that central banks are being held to or measured against.

53. Additionally, while the work of the safeguards assessments team continues to evolve to meet the objective of minimizing the likelihood of misreporting of program monetary data and the misuse of Fund resources, after 22 years the policy may rightly be thought of as a mature policy. At this stage, comprehensive guidelines, as described below, would be useful in evaluating the safeguards assessment policy and its implementation in a routine and transparent manner, whether by internal Fund units or on behalf of the Fund's stakeholders in some manner or for purposes of the Fund's own risk management function.

54. It would be useful, too, for the Fund to collect and publish comparative information on good practices, which could be used by central banks as part of their own self-assessment exercise and to benchmark their performance against that of their peers. This could cover issues such as auditor rotation, board composition, and outsourcing the internal audit function, etc. Such an exercise would improve transparency and promote confidence in these institutions. Furthermore, the Fund has an opportunity to organize and provide the information needed to identify central banks with good practices that other central banks can learn from (peer-to-peer learning and training).

Comprehensive Safeguards Assessment Framework Guidelines

55. The Panel recommends that the Fund should prepare comprehensive guidelines that reflect good practices in the areas of the safeguards assessment framework. The guidelines would document institutional memory and collect in one place the contents of a range of existing reports, internal guidance, and memoranda. The guidelines would be dynamic and would be updated by staff as needed to ensure continued relevance in a changing environment by responding to emerging risks and challenges. Its contents would be used to guide the Fund's work internally, guide central banks on what to expect, and help central banks not in a borrowing program to continue to improve their risk profile under the safeguards assessments framework. The guidelines would support consistency in the application of the safeguards assessments policy and benefit new hires and staff in other departments involved in the safeguards review process (including SPR).

56. The Panel took note that of the five ELRIC pillars and governance at their center, the E, R, and I pillars (external audit, reporting, and internal audit pillars) use existing well-developed standards that are continuously updated and maintained by independent standard-setting bodies, although some central banks indicated that they would benefit from documented guidance from staff in certain areas. With respect to the L pillar (legal structure and autonomy), the FINSA team uses leading practices for central bank legislation articulated by LEG. With respect to monetary data and international reserves, FINSA relies on elements in the Balance of Payments Manual and MCM's template on reporting international reserves. With respect to the C pillar (internal controls), staff developed a working paper on risk management that built on internal guidelines. Incorporating these elements into safeguards assessment framework guidelines would help to clarify expectations under these pillars.

57. Notably, though, the Panel has not found specific dedicated documentation relied upon by FINSA for the overarching governance elements proposed as a separate G pillar by this Panel (see Section III.A). Similar to the ELRIC pillars, this gap would need to be filled with a governance component of the proposed comprehensive safeguards assessment framework guidelines. This component should focus on board effectiveness in central banks and should take the form of general principles (such as autonomy, accountability, disciplined and ethical conduct, transparency, sound decision making, and effective oversight), recommendations, and examples that would establish best practice and explain the rationale for the various provisions. A principles-based approach to governance would be useful and would acknowledge that "no one size fits all," given that central banks are at various stages of governance sophistication, possess differing mandates, and operate in different legal, political, economic, and cultural contexts. While the governance component of the guidelines should not be overly prescriptive, it should set out measures to be used to facilitate good governance.

58. In making this recommendation, the Panel recognizes that the safeguards assessments team has maintained an approach of continuously adapting its work to incorporate changes to the underlying standards and to reflect new developments and emerging risks at central banks. Examples include commenting on and incorporating World Bank guidance to central banks on the adoption of IFRS 9 (in relation to the Financial Reporting, or R, pillar), sharpening the focus on cybersecurity following the widely reported cyber heist at a central bank in 2016 and the emergence of CBDCs (in relation to the Internal Controls, or C, pillar), and accommodating the provision of temporary liquidity support or exceptional financing to governments during the COVID-19 pandemic (in relation to the Legal and Autonomy, or L, pillar).

59. This recommendation also builds upon the 2015 Panel's recommendation in respect of outreach initiatives (para. 49 of that report). Despite the various conferences and workshops, which appear to have been well received and were spoken of highly by the central banks interviewed by the Panel, it would seem there is a need for such guidelines. This is evidenced not just in discussions with the central banks but also by the requests by central banks during the assessments for information on good practices and recommendations in relation to board autonomy, for example. Fund staff provided key safeguards recommendations to strengthen central bank laws and practices in an annex to many country reports. The reports included detailed and helpful guidelines on personal autonomy, for example. In addition, on certain occasions best practice guidelines have been included in annexes on the role and responsibilities of the audit committee and model audit committee charter.

60. The proposed safeguards assessment framework guidelines would help to make central banks more transparent and understandable (which in turn would enhance confidence in their management). Other potential benefits include:

- Enabling more reliable measurement of central bank performance;
- Easing the workload of staff by not having to explain measures during assessments;
- Encouraging self-assessments on the part of central banks;
- Helping central banks to evaluate and improve their frameworks and bring law and practice closer to good practices;
- Reducing deviation from good practices;
- Reducing the need for safeguards reform to be included in program conditionality;
- Reducing the risk of misreporting of program monetary data and misuse of Fund resources; and
- Assisting in identifying gaps and capacity deficits where more focused training could be provided by the Fund along with peer-to-peer learning.

In addition, guidelines would help central banks in countries that do not need Fund resources but are keen on strengthening their legal frameworks and the maturity of governance, risk management, financial reporting, and internal control practices.

Resources

61. The Panel recognizes that development of the proposed Safeguards Assessments Framework guidelines would consume already scarce resources. For more on this, see Section III.F, Resources.

62. In commenting on capacity development, the 2015 Panel observed that the Fund may be able to leverage the self-assessment template prepared by safeguards staff as a tool to bring more detail to the attention of central bankers and to inform other key stakeholders. This Panel endorses that observation and invites staff as an intermediate step to consider incorporating into the *Safeguards Policy – Self-evaluation Tool* a separate section on the proposed governance pillar following the existing format of setting out examples of good practices and a self-evaluation table to be completed by central banks. This document should be made available on the Fund's website.

63. The Panel notes that staff should soon be providing feedback on the pilot review of the Central Bank Transparency Code and this, though only partially overlapping with the safeguards assessment framework guidelines the Panel is proposing, could yield important lessons for the project.

D. Legal Structure and Autonomy

64. The Panel recommends giving consideration to including a method to broaden the identification of risks to central bank safeguards that may arise from changes to laws and regulations affecting a central bank and its operations. The legal framework of a central bank has been identified by the safeguards assessment policy as a critical component of a central bank's safeguards. Different central banks operate under different legal frameworks, and these may undergo changes from time to time. Such changes, unless monitored, may affect the autonomy, structure, or even the general operations of a central bank. The spillover effect of such changes may impact certain safeguards in place for the central bank. The Panel observed that it is not only a change in the central bank legislation that is in question here but also other laws and regulations that affect the operations of the central bank, such as, for example, procurement laws and public service rules and practices.

E. Capacity Building

65. Lack of capacity has been identified as one of the challenges to the implementation of recommendations made by FINSA staff and specifically the rate of implementation. It was also flagged by staff as an issue that goes to the core of the safeguards of a central bank.

66. The Panel observed that the rate of implementation of the recommendations varies from region to region. Some central banks struggle to find the required talents within their jurisdictions. Further, the issue of lack of capacity was confirmed by the IMF staff in departments other than FIN interviewed by the Panel and the central banks the Panel interviewed during its review.

67. It is the Panel's recommendation that the issue of capacity building needs urgent addressing in view of the foregoing. This can be achieved by addressing the issue at the regional or subregional level, with more emphasis on the specific needs of central banks within a region or subregion.

68. The Panel noted that the safeguards staff have been conducting seminars aimed at capacity building. These trainings need to be increased in frequency and reach, taking advantage of available technologies for remote learning. It is also recommended that the IMF create a mechanism to facilitate central banks' sharing of experiences.

F. Resources

69. The pandemic has stretched resources for safeguards assessments work to the limit and the pressure on resources is likely to remain over the medium term. While the number of new assessments might decrease over the medium term, the number of central banks subject to monitoring is projected to remain elevated and related activities will increase to offset reduced monitoring during the pandemic, to enhance the implementation rate, and to address the deterioration in the risk profile of assessed central banks under monitoring (see paragraph 17). The risk self-assessment conducted by FIN under the supervision of the Office of Risk Management identified the pressure on staff and the erosion of work-life balance as key risks facing FIN.

70. The implementation of the recommendations highlighted in this report should avoid putting additional pressure on already stretched resources or creating additional risks. While the Panel is mindful of potential marginal resources implication arising from its recommendations, it strongly believes that the value added of implementing them in terms of reducing the risk to the misuse of Fund resources and misreporting of program monetary data exceed by far the cost. However, failing to address the resources issue runs the risk of imposing additional pressure on staff and/or reducing other relevant activities such as outreach and monitoring.

71. While the current assessment of staff indicates limited impact of Russia's war in Ukraine on new programs and, hence, on resources, the Panel recommends remaining vigilant. The spillovers from the war might intensify in the future, including through prolonged impact on food and energy prices. The rapid tightening of global financial conditions and the resulting capital outflow from some emerging markets and developing economies, as well as increase in the cost of borrowing and debt service could increase the number of countries that approach the Fund for financing. It might also slow the implementation of the needed reforms identified during assessments, increasing the pressure on monitoring resources. Regular assessment of the above risks is critical to avoid additional pressures on resources and to achieve the objectives of safeguards assessments effectively.

PANEL'S OPINION OF THE FISCAL SAFEGUARDS REVIEWS

72. The Panel does not see any reason to change the current criteria for fiscal safeguards reviews (FSRs) as they cover a large percentage of Fund resources used for budget support. Between 2015, when the safeguards policy was adopted, through the end of 2021, only seven countries have had exceptional access. Of these, three had no budget support. The remaining four countries met the FSR criteria, and three completed the review. The amount drawn for budget support for the three FSR cases represents 81 percent of total General Resources Account (GRA) budget financing. This excludes Flexible Credit Lines (FCLs; not subject to safeguards reviews).

73. The Panel recommends revisiting the scope of the FSRs once a sufficient number of FSRs has been conducted. The limited number of FSRs completed hindered effective assessment by the Panel of the appropriateness of the current scope of the FSR and the monitoring framework. Staff view the current scope as appropriate and helpful in achieving the review's objectives. However, they consider it resource intensive. FAD staff stated that the LETIFA framework has served all three FSRs well and consider it comprehensive and based on sound principles.[11] They noted, however, that the national authorities are generally not fully aware of the Fund's policy on FSRs, the framework, and the process. Given the limited number of reviews and the departure of certain key staff in the authorities who interacted with review teams, the Panel considered that direct engagement at this stage would not yield meaningful feedback.

74. The Fund should remain vigilant about the risk of conflict of interest that might result from the composition of the FSR team. FIN staff who lead central bank safeguards assessments do not participate in program negotiations, they do not provide TA prior to safeguards assessments, neither do they provide TA after the assessment. On the other hand, FAD staff usually participate in program negotiation and provide TA before and after FSRs. Notwithstanding the teams working on TAs and FSRs are comprised of different staffing units, it is important to avoid any appearance of a conflict of interest. Given the small number of reviews, however, the Panel views assigning the reviews to another department as an impractical solution. It also agrees with FAD's views that the potential conflict of interest is minimal as the implementation of TA recommendations depends largely on the authorities' commitments, capacity, and political environment and does not necessarily reflect fully the quality of the TA.

75. The Panel recommends developing guidelines that clarify internally the interdepartmental roles and responsibilities for conducting FSRs to ensure alignment concerning the objectives of the reviews. It is clear to the Panel that, compared with the safeguards assessments, the process for conducting FSRs is still developing, with only four reviews conducted to date. Nevertheless, much thought and discussion have taken place among staff regarding lessons learned, and the Panel expects the process will continue to evolve and mature. Developing guidelines that cover how the reviews should be conducted and arranging interdepartmental staff swaps could play a positive role in aligning expectations and improving efficiency.

76. There is no structured process for monitoring the implementation of FSR recommendations. Where recommendations are incorporated into program conditionalities, the program reviews provide an update on progress. In all other cases, the monitoring relies on subsequent engagement with the authorities, which is subject to the authorities' decision on seeking follow-up assistance.

[11] LETIFA refers to the five key areas of the FSR: (i) legal authorization, (ii) treasury account, (iii) internal controls, (iv) fiscal monitoring and reporting, and (v) audit.

77. Finally, with regard to the impact of the pandemic on fiscal safeguards work, staff reported the most noticeable impact was on the mission duration, which tended to extend beyond the usual two-week period observed before the pandemic. This is in line with findings of an increase in the time taken for safeguards assessments of central banks during the pandemic.

CONCLUSIONS

78. In the Panel's opinion, the safeguards assessment policy continues to be an effective instrument for preventing the misuse of Fund resources and misreporting of program monetary data. The addition of the fiscal safeguards review mechanism, although still in early stages of operationalization compared with its counterpart safeguards assessment framework, enhances the Fund's arsenal for safeguarding its resources.

79. The Panel concluded that during the review period from September 2015 to April 2022, the safeguards assessments of central banks and fiscal safeguards reviews effectively assessed and made recommendations to mitigate identified risks, despite the increased workload on staff resulting from the COVID-19 pandemic.

80. The Panel's recommendations are contained in Section III of this report. It is the view of the Panel that these measures will strengthen the safeguards assessment framework and provide meaningful tools to both staff and member country central banks that will serve to create greater understanding among stakeholders of the rationale for and implementation of safeguards assessments. The Panel made few observations on the fiscal safeguards reviews as there is not yet a critical mass of data by which its effectiveness can be assessed.

81. The Panel cautions that the implementation of the recommendations highlighted in this report should not impose additional pressure on already stretched resources or create additional risks.

82. The Panel wishes to acknowledge the assistance provided by Ms. Joanne Creary in coordinating its work and in the preparation of its report.

83. The Panel acknowledges the cooperation of the IMF staff in providing access to information requested during its work, particularly the excellent logistics support provided by FIN staff. The Panel thanks Executive Directors and DMD Mr. Kenji Okamura, as well as IMF staff for robust discussions and helpful comments.

Annex I. External Expert Panel's Terms of Reference

A. Background

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

2. The legal basis for the safeguards policy is found in the Articles of Agreement, specifically Article I(v) and Article V, Section 3(a), which require the Fund to establish adequate safeguards for the temporary use of its general resources. The policy serves as a complement to the Fund's other safeguards, which include limits on access, conditionality and program design, measures to address misreporting of program monetary data, and post-program monitoring. The policy was first introduced on a two-year trial basis in 2000. With the Executive Board's review of the results of the implementation of the policy in 2002, safeguards assessments of central banks became a mandatory requirement for most types of financial support from the Fund. The policy was subsequently reviewed in 2005, 2010, and most recently in October 2015.

B. Principal Objective and Tasks of the External Panel

3. The principal objective of the Panel of independent external experts (the "Panel") will be to provide the IMF's Executive Board with advice on the focus of safeguards assessments and the operation of the risk-based monitoring framework. The Panel will prepare a formal report outlining its key findings and recommendations, which will be submitted to the Executive Board together with the policy review paper prepared by staff. The Chair of the Panel will also be expected to attend the Board discussion of the policy review, tentatively scheduled for June 2022.

4. Building on the results of previous reviews, the Panel is expected to provide advice to the Executive Board on the effectiveness of the policy and the continued appropriateness of the ELRIC framework, taking into account the application of the framework and evolving governance and control practices. The 2015 policy review endorsed a sharper focus on governance and broader coverage of integrated risk management in the assessments. Key procedures and target dates are outlined in Section III. The work of the Panel will focus on:

a. **Assessments**. Advising the Executive Board on the continued appropriateness of the ELRIC framework and its application, taking into account adaptations made by staff in applying the framework over time and the evolution in governance, accounting, audit, risk management and control practices in the public and private sectors.[1] Since safeguards reports are not circulated to the Executive Board, it is expected that the Panel's review of the adequacy and coverage of safeguards reports would be a key input for its work in assisting the Board with the policy review.[2] In addition, Panel members will be invited to share their views on any other aspects for the review. In particular, the Panel's views on the modalities and thresholds for fiscal safeguards reviews for programs involving direct budget financing; the increased focus on governance; and broader coverage of integrated risk management would be welcome.

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

5. Recent developments in safeguards work include involvement in new initiatives at the IMF. Specifically, in 2018, the Fund adopted a framework for Enhanced Fund Engagement on Governance, which covers assessments of governance vulnerabilities and corruption in six categories of state functions.[3] In addition, in 2020 the IMF adopted a Central Bank Transparency code that is in a pilot phase. While these activities are not part of the safeguards policy, safeguards staff have been closely involved in their evolution. The relevant papers will be provided to the Panel for their information and to facilitate broader understanding of these related workstreams.

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

[2] Safeguards reports are not shared with the Executive Board or made available to other multilateral financial institutions, except the World Bank and the European Central Bank with written consent of the central bank in question. Executive Directors are informed about safeguards matters in country staff reports.

[3] The six categories are: (i) fiscal governance; (ii) financial sector oversight; (iii) central bank governance and operations; (iv) market regulation; (v) rule of law; and (vi) anti-money laundering and combatting the financing of terrorism. A separate Board review of the governance and corruption framework is scheduled for late 2022.

C. Key Procedures and Target Dates

6. The Panel is expected to conduct its work autonomously and impartially. The Panel will have access to all written documentation relevant to previous policy reviews and may at its discretion hold discussions with Fund staff and Executive Directors. The Panel may also elicit the views of central bank authorities as necessary. Each Panel member undertakes to protect the confidentiality of all information obtained in the course of the Panel's work.

7. The Panel will conduct the bulk of its review during the period January–May 2022. Much of the work is expected to be conducted remotely via e-mail, phone, and tele- or videoconferences. Depending on travel conditions and developments on containment of the COVID-19 pandemic, as in prior policy reviews, two visits to Fund headquarters are tentatively envisaged: an initial visit in February 2022 to provide the Panel with opportunities to consult with staff and stakeholders, including area department mission chiefs and Executive Directors, and a second visit in April 2022 to finalize the report and consult with stakeholders as needed. Contingency plans during the pandemic will include conducting this work entirely in a virtual environment through Webex, Zoom or Microsoft Teams calls.

8. In December 2021–January 2022, the Panel will be provided with relevant background documentation, including: (i) a scoping note, which will form the basis for staff's policy paper; (ii) a description of the safeguards assessment methodology and the risk-based monitoring framework; (iii) sample safeguards reports completed since the 2015 policy review; (iv) the 2017 operational guidelines for safeguards assessments; (v) IMF Board papers relevant to safeguards work; and (vi) the 2017 and 2019 biennial staff reports to the Board on safeguards activity. An initial videoconference with staff will be arranged to discuss logistical issues and answer initial questions pertaining to the materials provided.

9. The Panel members will be expected to agree among themselves on working modalities, including an agenda and schedule of discussions, with support from safeguards staff. The Panel's first visit to Fund headquarters which is tentatively planned for February 2022 would include consultations with staff and stakeholders, and discussions on the Panel's preliminary findings and recommendations. Additional materials can be requested, as needed.

10. The Panel will be expected to make its initial draft report available to staff as soon as the Panel's work is substantially complete, preferably during, or shortly after, the second visit to Fund headquarters. Staff will also provide the Panel with a draft of the staff policy paper. During the second visit to Fund headquarters, the Panel and staff will discuss their respective papers and clarify any outstanding matters. The Panel will then be expected to issue its final report in May 2022. The policy review paper and the Panel's report will subsequently be circulated to management and the Executive Board.

11. As noted, the Chair of the Panel will return to Washington to present the Panel's main findings and recommendations to the Board in June 2022.

12. The Fund reserves the exclusive rights to the written views of the Panel and the individual Panel members undertake not to publish any part of these views independently.

Annex II. Panel Composition

1. The fourth review of the safeguards assessments policy was conducted in 2022. Scheduled to take place in 2020 but delayed owing to the COVID-19 pandemic, the External Expert Panel (the Panel) was assembled in 2021 and conducted its review in 2022.

The following Panel was assembled to advise the Executive Board on its fourth review of the policy:

2. 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. He is a corporate governance trainer and consultant for various institutions, among them the Center for Corporate Governance Kenya, and a regular speaker and trainer for Central Banking Publications London. He has served as the Chairman of Ecobank and been a Director of the Capital Markets Authority of Kenya. Mr. Nyaoga holds LLB and LLM degrees.

3. Professor Blanaid Clarke is the McCann FitzGerald Chair in Corporate Law, Trinity College Dublin, specializing in corporate governance and financial services law. She was a member of the Irish Central Bank Commission (2010–2018) and chaired its Audit Committee. She is the Irish representative on the OECD's Corporate Governance Committee, Vice President of the Academic Board of the European Banking Institute, and Deputy Chairman of the Irish Banking Culture Board.

4. Dr. Maher Sheikh Hasan is the Counsellor and Chief Economist of the Arab Monetary Fund. Before that, he served for two terms (2012–2022) as a Vice Chairman of the Board of Directors and Deputy Governor of the Central Bank of Jordan. Dr. Hasan worked for the IMF (2005–2012) in different departments, and his last position was deputy division chief in the Monetary and Capital Markets Department. He holds a PhD in Economics and an MS in Statistics from Washington State University.

5. Mr. Brian Wynter, former Governor of Bank of Jamaica, is a company director and consultant. He was the founding CEO of Jamaica's Financial Services Commission. A graduate of the London School of Economics and Political Science, The City University (London) and Columbia University's School of International and Public Affairs, he was also called to the bar in the UK and Jamaica.

Annex III. Safeguards Assessments Conducted Since Last Review

(as at end-January 2022)

	Country	Area Dept	Approval Date	Assessment Type	Selected in Sample
1	Afghanistan	MCD	1/11/2017	Update	
2	Afghanistan	MCD	10/19/2020	Update	
3	Angola	AFR	4/2/2019	Update	
4	Argentina	WHD	10/15/2018	Update	Yes
5	Armenia	MCD	9/18/2019	Update	
6	Bahamas	WHD	11/18/2021	First-time	Yes
7	Bangladesh	APD	1/10/2022	Update	
8	Barbados	WHD	12/13/2018	First-time	
9	BCEAO	AFR	4/13/2018	Update	
10	BEAC	AFR	8/23/2017	Update	
11	Bosnia-Herzegovina	EUR	2/9/2017	Update	
12	Bosnia-Herzegovina	EUR	3/1/2021	Update	
13	Comoros	AFR	2/28/2020	Update	Yes
14	Congo, DR	AFR	5/29/2020	Update	Yes
15	Costa Rica	WHD	11/4/2020	Update	
16	Dominican Republic	WHD	1/28/2021	Update	
17	ECCB	WHD	4/26/2016	Update	
18	ECCB	WHD	8/18/2021	Update	Yes
19	Ecuador	WHD	6/1/2017	Update	
20	Ecuador	WHD	6/3/2019	Update	Yes
21	Egypt	MCD	4/22/2017	Update	
22	Egypt	MCD	8/19/2020	Update	Yes
23	El Salvador	WHD	11/4/2020	Update	
24	Ethiopia	AFR	7/2/2020	Update	
25	Gambia	AFR	1/24/2018	Update	
26	Gambia	AFR	7/22/2020	Update	
27	Ghana	AFR	6/7/2021	Update	
28	Guinea	AFR	6/2/2016	Update	
29	Guinea	AFR	1/16/2018	Update	
30	Guinea	AFR	4/22/2021	Update	
31	Haiti	WHD	1/20/2016	Update	
32	Haiti	WHD	8/22/2019	Update	
33	Honduras	WHD	9/19/2019	Update	
34	Iraq	MCD	4/7/2016	Update	
35	Jamaica	WHD	5/15/2017	Update	Yes
36	Jordan	MCD	11/23/2016	Update	
37	Jordan	MCD	7/31/2020	Update	Yes
38	Kenya	AFR	9/18/2019	Update	Yes

	Country	Area Dept	Approval Date	Assessment Type	Selected in Sample
39	Kosovo	EUR	11/11/2015	Update	
40	Kosovo	EUR	1/12/2021	Update	
41	Kyrgyz Republic	MCD	10/9/2015	Update	
42	Kyrgyz Republic	MCD	1/13/2021	Update	
43	Lesotho	AFR	7/7/2021	Update	
44	Liberia	AFR	11/11/2015	Update	
45	Liberia	AFR	1/29/2020	Update	
46	Madagascar	AFR	3/9/2017	Update	
47	Madagascar	AFR	4/22/2021	Update	
48	Malawi	AFR	7/9/2018	Update	
49	Malawi	AFR	12/13/2021	Update	Yes
50	Mauritania	MCD	5/24/2018	Update	
51	Mauritania	MCD	7/16/2021	Update	
52	Moldova	EUR	2/7/2017	Update	
53	Moldova	EUR	9/9/2020	Update	Yes
54	Mongolia	APD	6/28/2017	Update	
55	Montenegro	EUR	4/15/2021	First-time	
56	Morocco	MCD	4/29/2019	Update	Yes
57	Mozambique	AFR	6/10/2016	Update	
58	Mozambique	AFR	5/12/2020	Update	
59	Nepal	APD	2/12/2016	Update	
60	Nepal	APD	5/6/2021	Update	
61	Nicaragua	WHD	11/12/2021	Update	
62	Nigeria	AFR	4/15/2021	Update	
63	North Macedonia	EUR	8/27/2020	Update	
64	Pakistan	MCD	12/11/2019	Update	Yes
65	Panama	WHD	9/29/2020	First-time	
66	Papua New Guinea	APD	8/27/2021	Update	
67	Paraguay	WHD	7/16/2021	Update	
68	Rwanda	AFR	11/7/2016	Update	
69	Rwanda	AFR	1/14/2022	Update	Yes
70	Samoa	APD	5/19/2021	Update	Yes
71	Sao Tome-Principe	AFR	2/19/2016	Update	
72	Sao Tome-Principe	AFR	8/26/2019	Update	
73	Seychelles	AFR	2/28/2018	Update	
74	Seychelles	AFR	6/11/2021	Update	
75	Sierra Leone	AFR	7/31/2017	Update	
76	Somalia	MCD	3/27/2020	First-time	
77	South Sudan	AFR	9/10/2021	First-time	
78	Sri Lanka	APD	8/25/2016	Update	
79	Suriname	WHD	6/2/2016	First-time	

	Country	Area Dept	Approval Date	Assessment Type	Selected in Sample
80	Suriname	WHD	2/11/2021	Update	Yes
81	Tajikistan	MCD	1/4/2021	Update	
82	Tonga	APD	12/13/2021	First-time	Yes
83	Tunisia	MCD	5/24/2016	Update	
84	Tunisia	MCD	10/7/2020	Update	
85	Uganda	AFR	3/19/2021	Update	
86	Ukraine	EUR	5/22/2019	Update	Yes
87	Vanuatu	APD	10/24/2016	First-time	Yes

Annex IV. Questions Provided to Centrals Banks in Advance of Discussions with Panel

Policy Framework

1. The International Monetary Fund (IMF)'s safeguards assessment policy focuses on five key areas in the assessment process and procedures, which are the: (1) **e**xternal audit mechanism; (2) **l**egal structure and independence; (3) financial **r**eporting framework; (4) **i**nternal audit mechanism; and (5) internal **c**ontrols system, collectively often referred to by the acronym ELRIC. Do you believe the policy is accessible, understandable, coherent and well-targeted? Do you believe any changes or improvements could or should be made to it to enhance its effectiveness?

2. Safeguards assessments are intended to provide reasonable assurance to the IMF Executive Board that the central bank's internal controls are adequate to ensure the integrity of its operations. Do you believe the assessment achieves that objective as currently structured? If not, what changes would you propose to strengthen the degree of assurance that it provides?

3. Do you believe the safeguards assessment provides value to the central bank, its management and overall governance through an independent perspective on the five key areas of focus? What did you find to be the most beneficial aspects of the safeguards assessment process? What were the most difficult aspects to address?

4. External audit and financial reporting: to what extent has the safeguards assessment helped in establishing or strengthening external audit policies and processes, and establishing a standard financial reporting framework or facilitating the alignment of your practices with international financial reporting standards?

5. Internal audit: in your view, is the safeguards policy effective in diagnosing capacity constraints in this area? How does the central bank deal with capacity constraints in this area (if any)? Have assessments been helpful in identifying issues with de facto and de jure lines of internal audit accountability at your central bank (e.g., providing the audit committee with an assessment of the overall effectiveness of the governance and risk and control framework of the central bank, and conclusions on whether the bank's risk appetite is being adhered to)?

6. Legal framework and internal controls: what impact did the safeguards assessment have on the central bank's legal framework, including on aligning with leading practice in central bank legislation? Within internal controls (which includes, *inter alia*, foreign reserves management, currency operations, banking and lending operations, risk management), to what extent has the assessment helped in strengthening the control environment?

7. In assessing the five key areas above, do you believe the items were appropriately examined during the assessment of the central bank? Were some components within ELRIC not examined that perhaps should have been?

8. Governance: In assessing governance, staff reviewed many elements, including:

- The legal framework regarding the appointment and dismissal of board members, governor, deputy governor; autonomy; and board members' qualifications, diversity, independence, executive roles, incompatibility, and tenure.
- Board committees' composition, roles, and responsibilities.
- Board effectiveness in overseeing internal audit, external audit, risk management, business continuity, reserve management, ELA, dealing with problem banks.
- Collegiality in decision-making and concentration of power with the Governor.

Do you think the focus of the assessment process on these elements was appropriate, or do you think they should have a greater focus in their own right?

9. Risk management (operational, financial, cyber, business continuity in the event of pandemic, wars, climate, cyber incidents): Was the focus on these elements appropriate, or do you think they should be given more focus?

Safeguards Assessment Operations

10. Do you believe the safeguards assessment process appropriately prioritizes the key areas of focus as well as the findings of its assessments? Are there some areas of the process that you believe should receive more or less attention than they currently do and if so, what are those and what would you propose to change or improve them? Are there any other changes that you would recommend with respect to the Fund's safeguard assessments and policies, or comments you would like to make? Was the process fair? Were your opinions and objections reflected correctly and accurately in the report?

Outreach Activities

11. Has your central bank found the regional safeguards seminars conducted periodically by the IMF helpful in learning about the safeguards assessment methodology and the findings? Are they a useful forum for your staff to share experiences with other central banks? Did your bank attend any of the Forums on Central Bank Governance in Dubai (December 2016, March 2018, January 2019 and 2020), and if so, was it useful? Would further education or sharing of best practice be useful?

12. Do you think that having available guidelines or a code that summarizes good practices in the five areas covered by the safeguards assessments would have been useful in better preparing for the assessment? Do you see any value for such guidelines or code beyond the assessment?