INTERNATIONAL MONETARY FUND
FACTSHEET

Protecting IMF Resources: Safeguards Assessments of Central Banks

When the IMF provides a loan to a country, a due diligence exercise is carried out to obtain assurance that the country's central bank receiving IMF resources is able to manage the funds and provide reliable information. Experience with safeguards assessments, which were introduced in 2000, shows a positive impact for central banks through strengthened governance, control, and reporting mechanisms.

Protecting IMF resources ensures future availability to other members

Under its Articles of Agreement, the IMF must establish "adequate safeguards" for the use of its resources. This is to ensure that loans to member countries are repaid as they fall due so those resources become available to other members in need. Safeguards include limits on how much can be borrowed, conditions on the loans, measures to deal with misreporting or arrears, and "safeguards assessments" of central banks.

The safeguards assessment

A safeguards assessment is a diagnostic review of a central bank's governance and control framework. Five key areas denoted by the acronym ELRIC are assessed to help safeguard IMF disbursements and minimize the risk of inaccurate reporting of key data to the IMF ("misreporting"). Governance is an overarching principle transcending all ELRIC areas.

External audit mechanism: Publication of a central bank's annual financial statements that are independently audited in accordance with international standards is a key requirement of the safeguards policy. An assessment also looks at the process for the selection and rotation of external auditors, the quality of the audit and the auditors' communication with governance bodies such as the central bank board and audit committee.

Legal structure and autonomy: Government interference can undermine a central bank's autonomy and increase the risks associated with its operations. Assessments focus on laws and regulations affecting autonomy, transparency, and governance at the central bank, as well as actual practices in these areas. They also ascertain whether the legal framework supports the other four ELRIC areas.

Financial reporting: Safeguards assessments evaluate whether the central bank adheres to international good practices for transparent accounting and financial reporting. The use of internationally recognized standards enables consistency and reliable reporting. Because of the importance of monetary data reported under IMF programs, consistency between published financial information and the underlying accounting data is closely reviewed.

Internal audit mechanism: The internal audit function's role is to evaluate the effectiveness of risk management, control, and governance processes within a central bank. The IMF assesses whether internal audit has sufficient capacity and organizational independence to fulfill this mandate. Assessments also review compliance with international standards.

System of internal controls: Sound governance practices and policies and procedures are necessary to safeguard a central bank's assets and manage its risks. Assessments focus on oversight by the bank's board and audit committee, and the controls in foreign exchange management, accounting, banking, currency and vault operations, and the reporting of monetary data to the IMF.

Assessments involve several steps

Central banks provide information to the IMF on the above five areas, including financial statements, internal and external audit reports, legislation relevant to the central bank, and summaries of internal controls. IMF staff review this documentation and hold discussions with the bank's staff and external auditors, typically by conducting a visit to the central bank. Following this process, a report is produced that includes recommendations to address identified vulnerabilities. Priority recommendations may become part of program benchmarks.

Country authorities have the opportunity to comment on safeguards reports before they are finalized. The reports are confidential and are not shared with the IMF Executive Board. However, the Board is informed of key findings and recommendations in summary form in country reports, and is provided with thematic activity reports every two years. With the written consent of the central bank, safeguards reports may be shared with the World Bank, or where relevant, the European Central Bank on a confidential basis. Confidential briefings are provided to donors, if requested, with the consent of the central bank.

IMF staff monitor the implementation of recommendations and developments in the central bank's safeguards framework until the member's credit outstanding falls below the post-program monitoring (PPM) threshold, at which time the monitoring is normally limited to a review of the annual external audit results. Flexible Credit Line (FCL) arrangements are exempt from full safeguards assessments because of the rigorous criteria to qualify for an FCL. Safeguard procedures for FCLs are limited to a review of the most recent external audit of the central bank. Members may also request a voluntary assessment in cases where there is a non-financial arrangement with the IMF.

Successor arrangements where an assessment was completed within 18 months prior to approval of the successor arrangement do not require update assessments. In addition, no assessment is needed for augmentations of existing arrangements or if a central bank has a strong track record and had an assessment completed within the past four years.

Where IMF lending is provided as direct budget support to the government, an agreement between the central bank and the government must be reached on their respective roles and obligations for repayments to the IMF. In 2015, a fiscal safeguards review of state treasuries was introduced for cases where a member requests exceptional access, and at least 25 percent of IMF funds are expected to be used for direct budget support.

Assessments complement other IMF work

The safeguards assessments policy was introduced in March 2000, in the wake of instances of misreporting and allegations of misuse of IMF resources. It is now an integral part of the IMF's lending activities, with 301 assessments covering 96 central banks having been completed to date. The policy has been reviewed by the Executive Board every five years.

The assessments are conducted independently from other activities such as surveillance, program discussions, and technical assistance. They are distinct from voluntary IMF initiatives, which aim to enhance transparency and data integrity, such as Financial Sector Assessment Programs (FSAPs), ROSCs, and data dissemination standards.