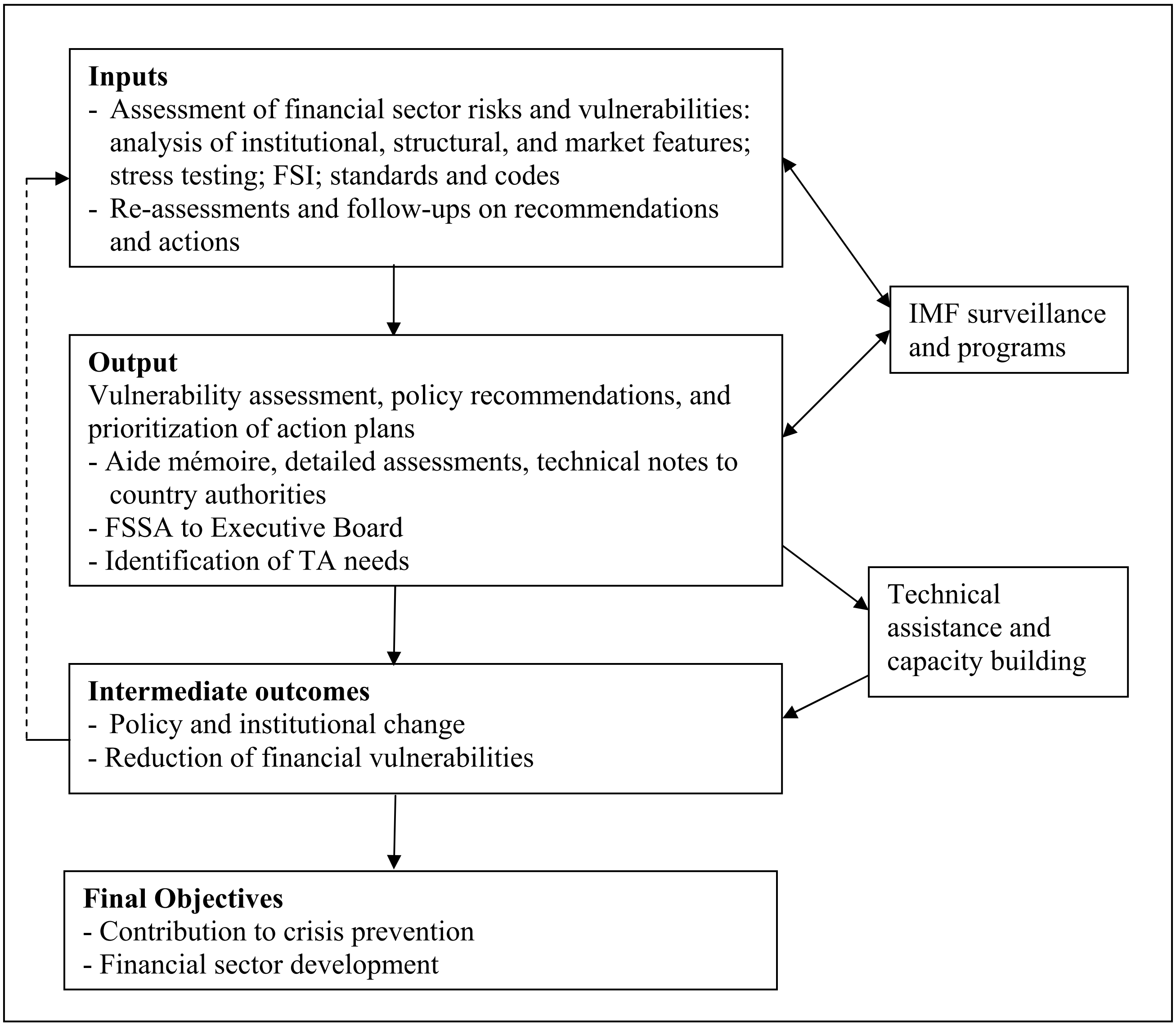
Logical Framework for the FSAP Evaluation

The following chart shows a schematic version of a results chain (or logical framework) for the FSAP that guides the current evaluation.[1]

The FSAP's Logical Framework



[1] See Duignan, P. (2001) *Introduction to Strategic Evaluation: Evaluation Approaches, Purposes, Methods and Designs* at www.strategicevaluation.info/se/documents/104f.html for a general discussion of evaluation methodologies.

Survey of Stakeholders

As part of the evaluation, IEO and OED undertook jointly a survey of the key stakeholders involved in the FSAP. This annex presents the methodology used for surveying the views of participants and a set of summary tables of various stakeholders' responses. The main findings from the surveys have been incorporated in the report. To ensure the confidentiality of survey responses, an external company was hired to administer the implementation and collection of results.[1] The surveys were conducted in the spring of 2005, to a large degree through an on-line modality.[2]

I. Survey Methodology

Population surveyed

Survey questionnaires were sent to five groups of stakeholders, consisting of different users and producers of the FSAP: [3]

i) **Authorities**. A single survey was sent to the authorities of all countries that had completed an FSAP by the first quarter of 2005. Every effort was made to send the survey directly to the authorities in the country most directly involved with the FSAP.

ii) **IMF Article IV mission chiefs and area department division chiefs**. The survey was sent to the relevant staff that worked on countries that had a FSAP.

iii) **World Bank country directors**. The survey was sent to the relevant directors that worked on countries with an FSAP.

iv) **FSAP team leaders as well as deputies and co-leaders**. Team leaders and co/deputy leaders are typically drawn one each from the IMF and World Bank.[4] FSAP updates were treated as a separate assessment from the original FSAP.

v) **FSAP team members**. The survey was sent to all team members from IMF and World Bank staff. External experts were not included.

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[1] The external company was Fusion Analytics LLC, Washington DC.

[2] Participants were also given an opportunity to send their responses directly to Fusion Analytics by facsimile. Only a handful of authorities replied by fax.

[3] Stakeholders other than the authorities that had been involved with more than one FSAP were invited to submit a survey response for each country (up to a maximum of three).

[4] In advanced economies the IMF has responsibility for the FSAP.

Main features of the questionnaires[5]

- The outline of each questionnaire followed broadly the outline of the evaluation questions in the IEO and OED Issues/Approach papers. The main components of each questionnaire related to inputs, outputs, outcomes, and process issues.

- There were about 30 questions for each group of stakeholders. Where applicable, the same questions were posed to different groups; a number of questions applied only to specific groups.

- Survey questions were mostly of the closed-end type. Many consisted of specific statements where respondents were asked to identify their views on a 5-point scale (ranging from "strongly agree" to "strongly disagree"). Some questions had multiple choices, and others sought "Yes/No" answers. Where applicable, the respondents were given the opportunity to chose a "Don't know" option and to write in their response ("Other, please specify"). At the end of the survey, all respondents were given the opportunity to provide comments on the FSAP.

Survey response

The overall stakeholder response to the survey was quite high (53 percent of the net deliverable sample).[6] Significantly different response rates were obtained across groups; those from the authorities and FSAP leaders and members were the highest at around 60 percent (see Table 1).

Table 1. Survey Sample & Response Rate

Survey	Original Unique Sample	Total Non-qualifying Sample	Net Deliverable Sample	Response Received	Response Rate 1/ (in percent)
Authorities	81	5	76	45	59
IMF Article IV Mission Chiefs	83	9	74	27	36
WB Directors	57	3	54	14	26
FSAP Team Leaders	79	8	71	45	63
FSAP Team Members	289	41	248	148	60
Total	589	66	523	279	53

1/ Response rates represent the response received as a percentage of net deliverable sample.

[5] For those readers who are interested in seeing details of the specific questions and responses, a full version of each questionnaire and a summary of the responses will be made available on the IEO website (at www.imf.org/ieo).

[6] Net deliverable sample is defined as the total target population minus those who could not be contacted for various reasons.

II. Summary Tables

Table 2. Motivation for FSAP

Reason	Authorities	IMF Chiefs	Team Leaders	WB Directors
	(In percent)			
An independent assessment of the country's financial sector	80	70	82	57
Recommended by IMF/World Bank	42	56	40	71
To learn more about the country's financial sector	22	30	32	29
Concerns about over financial vulnerabilities	24	15	26	50
FSAP is expected of very country	22	11	19	21
Signal to international capital market	18	19	40	14
Other peer countries have had FSAP	16	15	32	7
To facilitate lending by IFIs	9	15	18	21
Other	11	15	15	0
Don't know	0	4	2	0

1/ International Finance Institutions.

Table 3. Quality of Analysis
(In percent, except Average Rating)

	Authorities				IMF Chiefs				WB Directors				Team Leaders				Team Members			
	1	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**
1. FSAP provided analytical insight into country's financial sector that did not exist before.	23	32	45	0	25	38	38	0	14	29	57	7								
Average Rating 1/		**3.36**				**3.25**				**3.50**										
2. Analysis balanced financial sector stability issues with development priorities.	11	41	48	16	17	39	44	28	15	50	35	7								
Average Rating 1/		**3.41**				**3.33**				**3.36**										
3. Recommendations took into account unique country circumstances.	20	40	40	0	8	46	46	0	14	29	57	7								
Average Rating 1/		**3.23**				**3.46**				**3.57**										
4. Recommendations were prioritized.	9	23	67	2	33	17	50	0	27	40	33	0								
Average Rating 1/		**3.74**				**3.29**				**3.27**										
5. Recommendations were clear.	0	7	94	0	0	33	67	0	13	33	53	0								
Average Rating 1/		**4.32**				**3.92**				**3.73**										
6. Recommendations were candid.	12	14	74	2	21	17	63	0	20	33	46	0	5	10	86	0	5	24	71	0
Average Rating 1/		**3.74**				**3.46**				**3.53**				**4.29**				**3.90**		

1/ Averages are based on the 5-point scale that was used in the survey.

Note: **1** = Strongly Disagree or Disagree; **2** = Neither Agree nor Disagree; **3** = Strongly Agree or Agree; **4** = Don't Know. For presentational purposes, the 5-point scale used for the survey has been condensed to a 3-point scale.

Table 4. Usefulness
(In percent)

	Authorities				IMF Chiefs				WB Directors				Team Leaders				Team Members			
	1	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**
1. Satisfaction with FSAP recommendations.	2	16	81	0	13	29	59	0	20	27	54	0								
Average Rating 1/		**3.93**				**3.63**				**3.47**										
2. Satisfaction with overall usefulness of FSAP.	5	14	81	0	22	39	39	0	28	29	43	0	7	16	78	0				
Average Rating 1/		**3.93**				**3.22**				**3.21**				**3.84**						
3. Most insightful FSAP components:																				
a. Input into reform agenda.		43				54				73				65						
b. Integrated financial sector analysis.		71				50				47				84						
c. Financial standards and codes assessment.		80				42				33				59						
d. Assessment of development priorities.		21				29				27				52						
e. Anti-money laundering and CFT.		18				13				7				11						
4. Most useful analytical component:																				
a. Financial infrastructure assessment.		66				54				33				66						
b. Stress testing.		75				38				33				62						
c. Financial soundness indicators.		59				38				40				43						
d. With public.		14				4				13				26						
5. Three FSAP areas most useful.	Objective evaluation of fin. sec. (58 percent). Integrated view of fin. sec. (16 percent). Learning best int. practices (11 percent).				Objective evaluation of fin. sec. (62 percent). Identification of new fin. sec. risks and learning new analytical tech. (13 percent each). Enabling reforms by contributing to public debate (8 percent).				Objective evaluation of fin. sec. (40 percent). Integrated view of fin. sec. (31 percent). Identification of new fin. sec. development needs, prioritization of fin. sec. reforms, learning new analytical tech., learning best int. practices and ident. of TA needs (8 percent each).				Objective evaluation of fin. sec. (30 percent). Integrated view of fin. sec., identification of new fin. sec. dev. needs and prioritization of fin. sec. ref. (13 percent each). Identification of new fin. sec. risks (12 percent).				Objective evaluation of fin. sec. (38 percent). Integrated view of fin. sec. (15 percent). Identification of new fin. sec. risks (12 percent).			
6. Three FSAP areas least useful.	Identification of TA needs (58 percent). Enabling reforms by contributing to public debate (50 percent). Identification of new fin. sec. dev. needs (33 percent).				Improved coordination among regulators (52 percent) Enabling reforms by contributing to public debate (48 percent) Learning new analytical tech. (35 percent)				Enabling reforms by contributing to public debate (69 percent). Improved coordination among regulators and prioritization of fin. Sec. reforms (39 percent each). Identification of new fin. sec. risks (31 percent).				Enabling reforms by contributing to public debate (48 percent). Improved coordination among regulators (41 percent). Learning new analytical tech. (34 percent).				Enabling reforms by contributing to public debate (46 percent). Improved coordination among regulators (40 percent). Learning new analytical tech. (28 percent).			

1/ Averages are based on the 5-point scale that was used in the survey.

Note: **1** = Strongly Disagree or Disagree; **2** = Neither Agree nor Disagree; **3** = Strongly Agree or Agree; **4** = Don't Know. For presentational purposes, the 5-point scale used for the survey has been condensed to a 3-point scale.

Table 5. Outcome
(In percent)

	Authorities				IMF Chiefs				WB Directors				Team Leaders			
	1	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**
1. Financial sector vulnerabilities have been reduced since the time FSAP was completed.	16	45	39	13	56	39	6	44	36	18	45	18	23	34	44	44
Average Rating 1/		**3.26**				**2.11**				**3.09**				**3.27**		
2. FSAP generated negative public debate.	86	3	10	10	91	5	5	9	86	7	7	7				
Average Rating 1/		**1.59**				**1.50**				**1.79**						
3. FSAP strengthened strategic view on development of financial sector.	10	38	52	2												
Average Rating 1/		**3.43**														
	Yes	No		Don't know	Yes	No		Don't know	Yes	No		Don't know	Yes	No		Don't know
4. Has FSAP contributed to a policy debate in the country.	56	33		11	35	48		17	40	60		0	61	19		19
5. Form of policy debate:																
a. Within government agencies.		92				100				80				97		
b. Financial sector stakeholders.		75				75				60				71		
c. With legislators.		63				50				20				34		
d. Public debate.		13				25				0				8		

1/ Averages are based on the 5-point scale that was used in the survey.

Note: For question 1: **1** = Not at all Reduced or Somewhat Reduced; **2** = Have Remained the Same; **3** = Significantly Reduced or Reduced; **4** = Don't Know. For questions 2 and 3: **1 =** Strongly Disagree or Disagree; **2 =** Neither Agree nor Disagree; **3 =** Strongly Agree or Agree; **4 =** Don't Know. For presentational purposes, the 5-point scale used for the survey has been condensed to a 3-point scale.

Table 6. Implementation
(In percent)

	Authorities				IMF Chiefs				WB Directors				Team Leaders				Team Members			
	1	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**
1. Extent of implementation of main FSAP recommendations.	7	26	66	2	32	26	42	26	55	33	11	56	10	37	53	27	28	35	37	70
Average Rating 1/		**3.60**				**3.11**				**2.44**				**3.45**				**3.09**		
2. Major reason for not implementing FSAP recommendations:																				
a. Little political support.		17				13				50				39						
b. Recommendations too recent.		17				44				14				29						
c. Disagree. with recommendations.		28				17				14				9						
d. Difficulty in prioritizing.		14				4				36				7						
e. Too many recommendations.		8				4				36				3						
f. Other.		42				17				21				9						

1/ Averages are based on the 5-point scale that was used in the survey.

Note: **1 =** Not at All Implemented; **2** = Partially Implemented; **3** = Completely Implemented; **4** = Don't Know. For presentational purposes, the 5-point scale used for the survey has been condensed to a 3-point scale.

Table 7. Follow-Up
(In percent)

	Authorities			IMF Chiefs			WB Directors			Team Leaders		
	Yes	No	Don't know	Yes	No	Don't know	Yes	No	Don't know	Yes	No	Don't know
1. Was FSAP output published.	66	29	5	58	25	17	13	33	53	65	22	13
2. Reasons for not publishing FSAP output:												
a. To keep it confidential.		58			33			60			60	
b. To protect market-sensitive information.		50			17			20			7	
c. Disagreement with recommendations.		8			17			20			7	
c Government does not publish such documents.		8			33			20			0	
d. FSAP was a pilot.		17			17			20			0	
e. Other.		8			33			20			33	
3. Modalities of IMF follow up of FSAP:												
a. Art. IV consultations.		67			82						66	
b. Technical assistance.		24			41						31	
c. IMF program.		21			18						26	
d. FSAP update.		17			14						10	
e. Did not follow up.		5			0						3	
4. Modalities of World Bank follow up:												
a. Non-lending activities.		5						57			40	
b. Don't know/NA.		42						14			43	
c. Lending.		11						43			22	
d. World Bank facilitated technical assistance.		18									37	
e. FSAP update.		11						14			10	
f. Did not follow up.		16						0			2	
g. Regular contacts with authorities.								50				

Table 8. Role of the Board and Management
(In percent)

	IMF Chiefs				WB Directors				Team Leaders				Team Members			
	1	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**
1. Focus of IMF Board discussion on main risks identified in FSA.	31	58	11	37					24	24	52	48				
Average Rating 1/		**2.74**								**3.29**						
2. Focus of World Bank Board discussion on main risks identified in FSSA.					25	25	50	250	50	50	0	450				
									Team Leaders				Team Members			
									1	**2**	**3**	**4**	**1**	**2**	**3**	**4**
3. Satisfaction with IMF's internal comments during FSAP process.									14	28	58	2	13	29	58	15
Average Rating 1/										**3.60**				**3.50**		
4. Satisfaction with World Bank's internal comments during FSAP process.									22	29	49	18	24	31	45	37
Average Rating 1/										**3.33**				**3.32**		

1/ For question 1: **1 =** Not Focused or Somewhat Focused; **2 =** Neither Focused nor Not Focused; **3 =** Completely Focused or Focused; **4 =** Don't Know. For Questions 2-4: **1** = Very Dissatisfied or Dissatisfied; **2** = Neither Satisfied nor Dissatisfied; **3** = Very Satisfied or Satisfied.; **4** = Don't know. Averages are based on the 5-point scale that was used in the survey. For presentational purposes, this scale has been condensed to a 3-point scale.

Table 9. Team and Process
(In percent)

	Authorities				IMF Chiefs				WB Directors				Team Leaders				Team Members			
	1	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**
1. FSAP team's technical skills.	0	7	92	2	14	27	59	9	0	21	78	7								
Average Rating 1/		**4.14**				**3.68**				**4.00**										
2. FSAP process required too much data.	21	21	59	0																
Average Rating 1/		**3.67**																		
3. FSAP process provided significant lead time for preparations.	12	42	46	5																
Average Rating 1/		**3.41**																		
4. FSAP process was too time-consuming.	17	42	42	5																
Average Rating 1/		**3.32**																		
5. Team leader was able to select a strong team.													9	14	77	0				
Average Rating 1/														**4.08**						
6. Joint IMF-WB FSAP is cost-efficient.													25	21	53	7				
Average Rating 1/														**3.27**						
7. Joint IMF-WB team worked well together.													9	9	82	14	16	23	62	16
Average Rating 1/														**4.21**				**3.74**		
8. Team's access to information was adequate.													3	16	81	0	6	12	83	0
Average Rating 1/														**4.14**				**4.09**		
9. Team members had enough time to complete the work.													17	16	67	0	19	17	64	2
Average Rating 1/														**3.76**				**3.66**		
10. Team members had enough resources to complete the work.													3	18	79	0	11	19	70	1
Average Rating 1/														**4.03**				**3.88**		

1/ Averages are based on the 5-point scale that was used in the survey.

Note: **1** = Strongly Disagree or Disagree; **2** = Neither Agree nor Disagree; **3** = Strongly Agree or Agree; **4** = Don't Know. For presentational purposes, the 5-point scale used for the survey has been condensed to a 3-point scale.

Table 10. General Aspects
(In percent)

	IMF Chiefs			WB Directors			Team Leaders			Team Members		
	Yes	No	Don't Know	Yes	No	Don't Know	Yes	No	Don't Know	Yes	No	Don't Know
1. Would it useful for the country to ask for an FSAP update?	58	33	9	31	35	35	39	46	14	65	33	2
	Voluntary	Mandatory	Don't Know	Voluntary	Mandatory	Don't Know	Voluntary	Mandatory	Don't Know	Voluntary	Mandatory	Don't Know
2. Should FSAP be voluntary or mandatory?	84	16	0	52	35	13	69	31	0	59	39	2
	2–3 yrs / 4–5 yrs.	Over 5 yrs.	Flexible	2–3 yrs / 4–5 yrs.	Over 5 yrs.	Flexible	2–3 yrs / 4–5 yrs.	Over 5 yrs.	Flexible	2–3 yrs / 4–5 yrs.	Over 5 yrs.	Flexible
3. Preferred frequency of updates.	58 / 33	4	4	63 / 38	0	0	80 / 0	0	20	35 / 47	14	4

	Strongly agree or agree	Neither agree not disagree	Strongly disagree or disagree	Don't know
4. FSAP should focus more on development than on stability issues.	32	32	37	5
Average		**2.72**		

Averages are based on the 5-point scale that was used in the survey. For presentational purposes, this scale has been condensed to a 3-point scale.

ASSESSMENT METHODOLOGY FOR COUNTRY STUDIES

This annex presents the methodological approach used in the 25 case studies undertaken as part of the evaluation. The assessment comprised both a desk review component and the interview of key stakeholders, specifically:

i) Systematic review of relevant documents using a detailed template (including all FSAP papers, Article IV and program documents, comments from review departments, Press Information Notices and Executive Board minutes).

ii) Structured interviews with FSAP and Article IV mission leaders and World Bank staff;[1] and interviews with country officials.

The **review of documents** involved the use of a detailed template to evaluate specific questions (see template attached). The template specifies detailed criteria for the assessment and comprises two types of results: qualitative assessments and ratings (in a four-point scale). Where ratings were required, the template describes what would be expected to warrant a specific rating.

Some broader questions, such as those regarding more general quality aspects of FSAPs, required combining several specific questions into a broader qualitative assessment that is discussed in the main report.

The full sample of case studies was combined into an overall database that permitted the analysis of specific questions and ratings by the various characteristic used in the sample selection, including vintage of FSAP, systemic importance of the country concerned, etc.

Structured interviews with staff used a common set of questions across countries, tailored when necessary to the specific elements of the case. Interviews served two purposes: to triangulate evidence collected through other sources; and to obtain evidence specific to the stakeholder's role in the FSAP process.

The interviews with country authorities were conducted by phone or in the context of a visit to the country.[2] The evaluation team visited 14 countries of the 25 case studies.[3] In these cases, the team held extensive consultations with a variety of country authorities, which typically included senior officials at the Central Bank, Ministry of Finance, various supervision agencies and regulatory bodies.

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[1] Since IEO's evaluation of the FSAP was in parallel to that of the World Bank's OED (meaning extensive collaboration on all aspects of inputs into the evaluation process), OED staff were invited to attend these interviews. Conversely, OED held interviews with World Bank staff where IEO staff were invited to participate.

[2] All country authorities were given an opportunity to provide feedback on their experience with the FSAP.

[3] Countries visited included Bulgaria, Cameroon, Costa Rica, Germany, Ghana, India, Ireland, Japan, Jordan, Korea, Romania, Russia, Slovenia, and South Africa.

Criteria and Coding Scheme for Desk Reviews 1/

I. Inputs, Effectiveness and Efficiency Assessment	
A. Scope of financial sector coverage across countries	
1. Did terms of reference (TORs) discuss criteria for prioritization of issues?	Yes/No, describe.
2. Did FSAP discuss reasons for scope and depth of sectoral coverage? 2/	Yes/No, describe.
3. Which sectors were covered?	List all covered sectors.
4. Were the critical sectors as defined in question (5) adequately analyzed (or what was the degree of coverage)?	Rating: Each important sector should be rated separately. Adequate analysis means a judgment if the sector is analyzed according to its relative importance in the economy. 3/ Rating scheme is the following: (1) Comprehensive; including (where appropriate) market structure, compliance with S&Cs, stress testing, governance issues, legal and institutional aspects, etc. (2) Some aspects not covered adequately (without a clear explanation of why) or only partially discussed. (3) Several aspects not covered, partially discussed. (4) Focus only on just a few aspects (without proper explanation), cursory discussion across the board.
5. Did the internal review process (comments by IMF/WB departments) discuss appropriateness of scope and depth of sectoral coverage in FSAP?	Yes/No, describe.
6. How was the overall financial sector covered in FSAP?	Rating: (1) The overall financial sector got full attention, trends, strengths and weaknesses were analyzed, its structure, role in the economy and development needs explained in details. (2) Overall financial sector is assessed but the coverage and depth of analysis could be better. 4/ (3) There is relatively little mention of the overall financial sector analysis. (4) There is no analysis of the overall financial sector but only separate sectors are covered (like banking, insurance etc).
7. Do documents discuss the need for an FSAP reassessment or focused update?	Yes/No, describe.
8. According to your judgment, please select the appropriate category for the country.	(1) Macro conditions are stable and expected to remain so, no major weakness was identified, the regulatory and supervisory frameworks are commensurate with the path of financial development, etc. (2) Macro conditions are stable, no systemic risk, but some sectors have vulnerabilities or in the process of development. This would require follow up (operational support and more frequent—albeit focused—reassessments (updates)). (3) There are some macro/systemic risks, sectoral vulnerabilities and major development needs, which would require systematic follow up (operational support and more frequent, fuller reassessment). (4) Major macro or financial sector vulnerabilities and development needs requiring follow up and intense monitoring of the situation.
B. Cooperation between IMF and World Bank	
9. Do documents specify how were sectoral responsibilities divided?	Yes/No, describe.

Criteria and Coding Scheme for Desk Reviews (continued) 1/

10. Keeping in view TOR, was the emphasis in documents more on financial development issues or on stability issues?	Describe.
C. Modalities and toolkit for identification of risks, vulnerabilities and development needs	
11. Were the evaluated risks (possible domestic shocks) and development needs linked clearly to country conditions? 5/	Yes/No, describe.
12. Has FSAP taken into account regional and global risks (external shocks), trends and their possible impact on a country?	Rating: (1) Full integration into risk assessment (e.g., stress testing including terms of trade, global interest rates, etc. where applicable), explaining linkages and potential transmission mechanisms. (2) Partial integration (i.e., covering some sectors or risks) with cursory explanation of linkage. (3) Cursory reference to regional/global risks (4) Complete lack of reference to regional/global risks
13. Do the documents discuss the regional or global implications of the domestic (country) financial sector risk?	Yes, No, describe.
14. Has the analysis been cast broadly enough to capture less obvious vulnerabilities (e.g., transfer of risks between government and financial sector, perceptions of implicit government guarantees)?	Yes/No, describe. 6/
15. Were the financial sector vulnerabilities analyzed in questions 15-19 integrated in the overall assessment?	Yes/No, describe.
16. Has the overall assessment considered explicitly the linkages between financial development and stability issues (i.e., potential complementarities and tradeoffs)?	Rating: (1) Thoroughly discussed, reflected in overall assessment, and integrated into recommendations and prioritization criteria. (2) Linkages discussed and incorporated in some specific sectors, but not well integrated into overall assessment. (3) Some aspects of linkages considered in some specific sectors (4) Little or no reference to linkages
17. Have other mechanisms of financial sector surveillance/reviews/assessments discovered new risks and vulnerabilities after FSAP?	Yes/No, describe.
18. Was the rationale for the choice of certain analytical tools and methodologies used in FSAP made explicit (were they explained)?	Yes/No, describe.
19. Were the available data for the FSAP sufficient (both quantity and quality)?	Yes/No, describe.
20. If the data were not sufficient (in quantity and/or quality), was this considered to be of major importance for the findings/assessment (significantly hampering analysis or even obstructing the assessment altogether)?	Yes/No describe.
21. Standards and Codes (S&C). Do reports discuss extent to which S&C are appropriate for country conditions?	Yes/No, describe.

Criteria and Coding Scheme for Desk Reviews (continued) 1/

22. Do the documents discuss reasons for selection of assessment of S&C?	Yes/No, describe.
23. How did the assessments of S&Cs feed into the overall analysis?	Rating: (1) Fully and main conclusions were well integrated into the overall assessment. (2) Main findings were embedded into the analysis, but not completely, (3) Assessment of S&C was mentioned but some findings were "mechanically" incorporated into the assessment. (4) S&C were barely mentioned or not mentioned at all into the overall analysis.
24. Has the assessment of S&C dealt with the distinction between *de jure* and *de facto* implementation of regulations?	Yes/No, describe. 7/
II. The Outputs: Articulation of Findings and Recommendations	
25. Were findings and diagnosis in the FSAP clear and candid for the overall financial sector and major sectors analyzed?	Rating: (1) All issues and sectors are clearly/unambiguously explained and linked to specific aspects of financial risks and vulnerabilities. FSAP overall assessment addresses directly and prominently the more pressing and systemically important findings. (2) Some issues/sectors are not stated/analyzed clearly enough (open to interpretation) or the logical implications are not fully spelled out. The overall assessment is broadly clear and candid but some risks are reflected less prominently. (3) Some important, systemic risks or sectors are not reflected prominently in the overall assessment or they reflect a different sense of urgency/importance than in other parts of the report (inconsistent/disconnected tone of findings). (4) Overall assessment does not reflect major systemic risk/sectors or there is a major inconsistency or disconnection in the tone of findings with other parts of the report.
26. Were the importance and consequences of findings explained?	Rating: (1) The systemic importance of findings is clearly stated, including linkages involved. The consequences of lack of action to correct the vulnerabilities are well explained and their potential for macroeconomic impact is considered. The implications of implementing the recommendations are clearly analyzed. (2) The potential systemic/macro impact of some vulnerabilities and implications of recommendations are not well explained or consequences limitedly addressed. (3) Major vulnerabilities identified are not linked to systemic or macro consequences. (4) There is a general lack of sense of importance or consequences of findings.
27. Were the issues and clarity/candidness in the FSSA aligned with those in the FSAP?	Rating: (1) Full coherence of FSSA and FSAP findings and recommendations. Only information that is clearly market sensitive (on individual financial institutions) is left out. (2) Broadly consistent. Some sectors or systemic issues not fully treated on similar basis (less prominence or downplayed importance). (3) FSSA does not adequately reflect FSAP findings, though some are mentioned. (4) There is a major difference between both documents.

Criteria and Coding Scheme for Desk Reviews (continued) 1/

28. Have the FSAP recommendations been clear?	Rating: (1) All recommendations are clearly/unambiguously explained and linked to specific findings. (2) Some recommendations are not stated clearly enough (open to interpretation) or the linkage to findings is not fully spelled out. (3) Some major recommendations linked to systemic risks are not clearly stated. (4) General lack of clarity and linkage to findings in recommendation plan.
29. Have the FSAP recommendations been usable (e.g. specific as opposed to general)?	Rating: (1) All recommendations have a high degree of specificity and can be linked to concrete and well-identified actionable reform agenda. (2) Some recommendations lack proper specificity to identify concrete actions. (3) Many recommendations lack proper specificity to identify concrete actions, or some key recommendation of systemic importance are not specific enough. (4) Complete lack of specificity in most recommendations.
30. Have the FSAP recommendations been prioritized (laying out a strategic agenda with attention to sequencing needs)?	Rating: (1) The assessment emphasizes the need to address those vulnerabilities that are more pressing and of systemic importance. For each sector it specifies which measures are most urgently needed, and what is the interplay and sequencing of recommendations. It also sets priorities for medium-term, institutional reforms. (2) Good degree of prioritization but some sequencing issues not well addressed. (3) Some prioritization exist but it is unclear and partial. (4) Complete lack of prioritization.
31. Have the FSAP recommendations taken into account "technical" country specific capacity constraints (*ex ante* constraints)?	Yes/No, describe. 8/
32. Were recommendations in FSAP followed up consistently in IMF/WB programming, operations (technical assistance, lending and analytical work), updates or other forms of financial sector surveillance (programs, Article IV)?	Rating: (1) All recommendations were followed in subsequent operations, assistance and documents. (2) Main recommendations were followed up, but not all or not fully. (3) Some recommendations were followed up, but neither consistently nor the major ones. (4) No recommendations was followed up in documents after the FSAP.
33. Has the FSAP led to a better understanding of future WB/IMF assistance needs for a country?	Yes/No, describe.
34. Has the subsequent WB/IMF assistance matched the identified needs and recommendations by FSAP?	Yes/No, describe.
III. Outcomes: Policy and Institutional Change and Strengthening of Financial Sector	
35. Have recommended actions/reforms been effectively carried out by country authorities? In answering assess if the momentum for reforms has picked up after the FSAP (or after an FSAP update for cases where this is applicable).	Rating: 9/ (1) They were completely carried out, all recommendations were fully implemented in scope and in "spirit." (2) To a large degree (major ones were accomplished). (3) To some degree, only some recommendations were implemented, but most major were left out. (4) No recommendations were carried out.

CRITERIA AND CODING SCHEME FOR DESK REVIEWS (CONTINUED) 1/

36. Do documents give *ex post* reasons and constraints for lack of financial sector reform (and implementation of recommendations)?	Yes/No, describe.
37. Have FSAP influenced WB/IMF supported program design?	Yes/No, describe.
38. Have FSAP updates evaluated the implementation of initial FSAP recommendations?	Yes/No, describe.
39. Did FSAP/Article IV mention constraints and limitations of what can be expected from FSAP? 9/	Rating: (1) Aim and constraints of FSAP are well explained and country specific limitations are given, (2) Main FSAP constraints are explained in documents (major points, major constraints) but could be better, more explicit. (3) Some constraints are mentioned but they are neither well explained nor comprehensive. (4) No constraints are mentioned.
IV. INTEGRATION WITH IMF SURVEILLANCE	
40. How is FSAP included in Article IV (staff report, especially staff assessment, sometimes Selected Issues Papers?)? 11/	Rating: (1) FSAP findings(financial sector surveillance) are fully included and well embedded into Article IV (meaning full integration and especially the main messages and the "spirit" of financial sector surveillance). (2) FSAP (financial sector surveillance) is integrated, main points are reported, but could be more comprehensive, could be better explained, could use stronger arguments etc. (3) FSAP (financial sector surveillance) is mentioned (typically in one or two paragraphs),but is not integrated, main messages are not well transmitted and one is under the impression that the financial sector is "mechanically" implanted in the Article IV, without reflecting the main messages/spirit of the report. (4) FSAP (financial surveillance) is not mentioned at all.
41. Are FSAP Updates (only updates not FSAP itself) findings discussed and reported during Article IV consultations?	Yes/No describe (where applicable).
42. Have Article IV, programs and TA assessed implementation of reforms?	Yes/No, describe.
43. Are the linkages between the macroeconomic variables and financial sector (both ways) well integrated in Article IV?	Yes/No, describe.
44. Has the intensity of coverage of financial sector issues in the Article IV consultations waned with time (in subsequent Article IV) after the attention received initially with the FSAP?	Rating scheme: (1) Intensity has stayed strong, in accordance with recommendations (there is a possibility that there are not much to report if there were no major problems). (2) Relatively strong, but with time has somewhat waned. (3) It has faded to a significant degree (mean revert). It is mentioned but more pro forma, less in substance. (4) Has disappeared from the “radar screen” immediately after the FSSA/Article IV discussion.

CRITERIA AND CODING SCHEME FOR DESK REVIEWS (CONCLUDED) 1/

45. How was the FSSA reported and discussed at the Executive Board meeting? Does the PIN reflect FSSA main findings? 12/	Rating: (1) FSSA findings were fully reported and discussed at the board and reflected in PIN. (2) Main findings were reported and discussed in PIN but more attention should have been paid. (3) Only some issues were briefly reported without the “core” findings reported to the Board and reflected in PIN. (4) Board did not discuss the FSSA at all or only marginally and the same with PIN.
46. Evaluate the overall FSAP/FSSA documents presentation	Describe.

1/ The matrix was a combined template used together with the World Bank’s OED. Questions pertaining exclusively to the role of the World Bank that were the focus of the OED evaluation have not been included.

2/ FSAP comprises the aide memoire (or main report), assessment of standards and codes and all other volumes that might be prepared after the missions.

3/ For example a small sector in the economy does not require sophisticated stress tests. But even if relatively small a sector can be comprehensively analyzed and get a relatively high rating.

4/ Note separately the major weaknesses.

5/ Some examples of possible linkages are: were the risks coherent with macro risks in Article IV; do they take into account the degree of financial development of a country; do they talk about past financial sector failures, have they taken into account planned reforms in the financial sector; liberalization/deregulation vis-à-vis regulatory framework. The evaluator should think whether there was a forward looking appraisal of risks.

6/ Desk review is not fully appropriate to answer this question. Additional evidence for this will have to be collected by interviews, surveys etc.

7/ This question should include issues such as past failures to follow up pre-arranged resolution mechanisms, proper regulatory framework but pervasive governance problems, etc. Desk reviews can only assess if reports address the issue which needs to be followed up in interviews (and other sources of evidence).

8/ For example are the institutions qualified in professional, technical terms to implement recommendations? In assessing this question it would be helpful to take into account the assessment of standards and codes which deal with institutional capacity of a country.

9/ This question cannot be fully answered from documents. It would require follow up in interviews.

10/ FSAP limitations relate for example to difficulties to identify problems in individual institutions or fraudulent operations, political willingness to undertake preventative actions or implement pre-established mechanisms etc.

11/ This requires checking Article IV before and after the FSAP. When answering try to assess if the possible important changes in a country are taken into account and if financial sector surveillance is done outside FSAP.

12/ To answer this question one should in all cases check the PIN. Where warranted one should check the minutes of the Executive Board meeting and the so called “grays” or Executive director’s statements.

Additional Information on Priority-Setting Processes, Costs, and FSAP Organization

This annex supplements the discussion in Sections II and III of the main report with additional information on arrangements for setting priorities; outcomes in terms of country and sectoral coverage; resource costs of the exercise; and some aspects of FSAP mission organization.

1. Objectives and procedural arrangements for setting priorities

While the criteria for setting FSAP priorities across countries and for the selection of topics covered within countries have been modified over time—in the direction of greater selectivity—the core of the approach remains unchanged.

For **country participation**, the IMF and World Bank Executive Boards endorsed a variety of criteria for setting priorities at the time of the initial review of the pilot stage, including a country's (i) systemic importance, (ii) external sector weakness and financial vulnerability, (iii) features of its exchange rate and monetary policy regime that make its financial system more vulnerable—such as inconsistencies with other macroeconomic policies, (iv) likelihood of upcoming major reform programs (as reflected for example in the Bank's Country Assistance Strategy),[1] and (v) geographical balance among countries. It was noted that country selection should seek to maximize the program's contribution to the strengthening of national and international financial stability, and thus within any one year should give priority to systemically important countries (SICs). The SICs were defined as (i) countries whose capital markets intermediate the bulk of global financial transactions, and (ii) emerging economies whose financial systems have the potential to cause, or be subject to, undue volatility in cross border flows and financial system contagion. However, no explicit list of such countries has ever been made public.[2]

The criteria were revised by the Executive Boards in March 2003 to take into account the need to accommodate countries' requests for FSAP reassessments and updates while balancing the expectation that all member countries would benefit from the program. While noting the need to give continued priority to industrial and emerging market economies of regional or international systemic importance, priority for reassessments and updates would be given to countries where there have been major developments in the financial system, or a

[1] This criterion was not explicitly identified in the Chairman Summing-up, but it was fleshed out in subsequent reports and internal memoranda.

[2] In a table listing the FSAPs that have been initiated through FY2003, the staff identified the following countries (among those in the list) as being systemically important: Canada, India, Mexico, Argentina, Luxembourg, Switzerland, United Kingdom, Korea, Brazil, Russia, Japan, Germany, Hong Kong, and Singapore. There was no complementary list identifying the systemically important countries that had not participated up to that point.

lengthy period had passed since the last assessment. These criteria were further refined in the 2005 FSAP review by noting that the interval between assessments should be shorter for SICs, and for countries where there have been significant macroeconomic shocks to the financial system, or major reforms have taken place. Furthermore, an earlier update may also be appropriate in cases where important financial sector issues were not covered in the initial FSAP but are deemed to warrant an in-depth analysis.

A few things are worth noting with regard to these criteria. First, even though they are multidimensional and with no specific weighting attached—hence leaving room for discretion in their implementation—they clearly signal the major importance attached by the Executive Boards to having systemically important countries' participation, both in the initial assessments and the updates. Second, in any given year, there is an expectation that priority should be given to these countries. Third, these countries should also be reassessed more frequently. Finally, the notion of systemic importance encompasses both regional and global dimensions.

For **topic coverage**, FSAP policy documents sought to establish from the inception of the initiative "...an approach to financial system assessments that is broadly consistent across countries, while allowing for difference in emphasis to reflect different country circumstances."[3] To this end, the staff of the IMF and World Bank developed a common template covering all important sector and issues, from both stability and developmental perspectives, but with the understanding that FSAP teams would tailor its application to country circumstances. Comprehensiveness was viewed as key to ensure that major vulnerabilities and financial sector needs are not overlooked. However, judgments on cost effectiveness and relevance were to be used to set the scope of work in each case.

The approach of comprehensiveness in scope but selectivity in depth of coverage was developed further in the 2003 review. This called for FSAPs to be more sharply focused and tailored to individual country circumstances while maintaining a broad overall assessment. The varying depth of analysis across sectors would be achieved along various dimensions including (i) the selection and timing of S&Cs to be formally assessed—in principle to be limited to no more than three plus AML/CFT; and (ii) the extent of quantitative analysis. Furthermore, in low-income countries with small financial systems, the approach called for greater focus on medium-term and structural issues. It was envisioned that topics and S&Cs which warranted an assessment but were not covered under an initial FSAP could be included in FSAP updates.

The Financial Sector Liaison Committee, a joint committee of senior IMF and World Bank staff, was responsible for coordinating many aspects of the FSAP, including the selection and sequencing of countries (Box 1).

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[3] "IMF-World Bank Financial Sector Assessment Program (FSAP)," May 1999 (SM/99/116).

Box 1. Financial Sector Liaison Committee Guidelines for Country Selection

The FSLC developed guidelines covering all stages of the FSAP process, including country selection and scheduling, FSAP teams leader selection, terms of reference for FSAP missions, and preparation, discussion, and transmittal of FSAP reports. 1/ For country selection, the FSLC envisioned an iterative consultative process involving the regions in the World Bank and the area departments in the IMF. Consultation would be undertaken every six months to prepare rolling FSAP work plans covering the year ahead. These procedures were endorsed by both Executive Boards.

Under these procedures, IMF area departments and Bank regions would each identify candidates for inclusion in the program with no requirement for agreement at the initial stage. Countries were to be ranked in three groups, highest (1), high (2), and medium (3) priority in accordance with the criteria established by the Boards, with a view to generate "first best" lists. Country authorities' willingness to participate in the program was not supposed to be considered at this stage. MFD, and its counterpart in the Bank, the Financial Sector Vice-presidency (FSE), would then compile separate "first best" lists to be discussed by the FSLC. Discussions would seek to reconcile differences in ratings, preparing a modified "first best" list of countries that would be sent to departments and regions for comments. MAE/FSE would then send a final "first best" list to their respective managements for approval, noting remaining differences. On the basis of the consolidated list approved by the two managements, and now taking into account other considerations (i.e., resources availability, timing for Article IV Consultations), MAE/FSE would follow up on country participation to prepare operational lists for the coming year, based on countries responses.

In addition, country authorities may independently request participation in the FSAP, but in such cases the relevant Bank region and IMF area department need also to agree that the country is a suitable priority candidate for participation.

If a country's participation in the FSAP is considered to be of high priority by IMF and World Bank staff, but the country is reluctant to commit to participating, the staff can seek the assistance of Bank and Fund management in encouraging the country's participation.

1/ See for example Attachment in "Progress Report on the Bank-Fund Financial Sector Liaison Committee" (SM/01/295, September 2001).

One key objective of the FSLC guidelines was to generate a "first best" list of countries, with a view to identify a pool of countries in accordance with the criteria set by the Boards. This "first best" list was considered a key input into the preparation of a working plan. In particular, area departments and regions were instructed not to be constrained in their selection by their understanding of country authorities' willingness or unwillingness to participate. This was important because the signaling of how the IMF and World Bank viewed the importance and priority of a particular country's participation was expected to influence incentives to participate. The survey results provide some support for this view.

2. Outcomes for country and topic coverage

The evaluation undertook a detailed examination of how this process worked in practice based on a review of internal documents and interviews with staff involved.[4] Tracking each stage of the process suggests the following (see Tables 1 and 2):

- The share of SICs that are given the highest rating by IMF area departments has fallen over the period FY2002–05.[5] The reasons are not fully clear, but in some cases area departments appear to be accepting countries' reluctance to volunteer.

- In effect, each institution has the ability to "block" countries appearing on the joint priority list that is signaled to the two managements. This has led to some cases of countries not been signaled as priorities for FSAPs because of concerns that to do so might disrupt the broader relationship with the country.[6] Thus, when a country was rated 1 by one institution and 3 (or not rated at all) by the other, typically that country was not included in the working plan of the FSLC. This was the case with Turkey and Malaysia, which were rated 1 in three successive submissions by IMF area departments, but where either rated 3, or not rated by the World Bank regions. For the FY2005 submission, these countries were dropped from the ratings.

- The share of SICs that are being flagged as high priorities for updates is very small. One-third or less of the "pool" of SICs where the lag between initial FSAP and completion of update would be at least four years are being signaled as "high priority."

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[4] The documentation is somewhat fragmentary, particularly for FY2003 and FY2004, and an attempt was made to reconstruct country ratings based on e-mail communications.

[5] One reason why the IMF list submitted to the FSLC has many more "high priority" ratings than does the similar list from the World Bank is because the former includes advanced economies (including the G-7).

[6] The FSLC uses the ratings given by the regions and area departments in the preparation of the working program. For example, whenever a country is rated 1 by both a region and area department, it is highly likely that it makes into the list, followed by those rate 1 by one of them and 2 by the other. For countries for which the IMF is solely responsible, for example the G-7, generally it suffices to have a rating of 1 to make it into the working program. The evidence shows that there are some exceptions to these working rules, reflecting at times the fact that country authorities have indicated their preference not to participate or to do so at a later date. There are also cases where a country is rated low by an area department or region, but it is nevertheless included in the working plan reflecting the drive to achieve geographical and developmental diversity, or because of a substantial lag since it volunteered.

Table 1. "First Best" Priority Lists for Initial FSAPs 1/
(In number of countries)

	Source of submission and outcomes				
Ratings 2/	IMF Area Departments	FSLC-IMF	FSLC-WB	List to Managements	Outcome 4/
	Submission date: Spring 2001 for FY2002				
SICs priority ranking					
1	10	10	4	...	...
2	4	7	2	...	...
3	5	3	3	...	...
Total	19	20	9	6	5
Non-SICs rated priority "1"	18	18	23	24	15
Memorandum item					
SICs remaining in pool 3/	21	21	15	...	...
	Submission date: Spring 2002 for FY2003				
SICs priority ranking					
1	4	...	...	...	...
2	8	...	...	...	...
3	3	...	...	...	...
Total	15	...	...	4	4
Non-SICs rated priority "1"	11	...	...	15	11
Memorandum item					
SICs remaining in pool 3/	16	16	11	...	...
	Submission date: Spring 2003 for FY2004				
SICs priority ranking					
1	5	0	2	...	...
2	3	2	1	...	...
3	1	1	0	...	...
Total	9	3	3	3	3
Non-SICs rated priority "1"	14	4	14	14	13
Memorandum item					
SICs remaining in pool 3/	12	12	9	...	...
	Submission date: Spring 2004 for FY2005				
SICs priority ranking					
1	3	3	2	...	...
2	3	3	1	...	...
3	0	0	1	...	...
Total	6	6	4	2	1
Non-SICs rated priority "1"	15	13	11	16	14
Memorandum item					
SICs remaining pool 3/	9	9	7	...	...

Sources: IMF internal memoranda, and IEO staff calculations.

1/ See main text for definition of systemic importance (SIC).

2/ Countries are classified by area departments in the IMF and regions in the World Bank into three groups, highest priority (1), high (2), and low (3) priority for participation in the FSAP, based on the criteria laid out by the Executive Boards.

3/ The number of SICs that have not had an FSAP up to that point.

Table 2. "First Best" Priority Lists for FSAP Updates 1/

Ratings 2/	Source of submission and outcomes: IMF Area Departments	FSLC-IMF	FSLC-WB	List to Managements	Outcome 4/
	Submission date: Spring 2003 for FY2004				
SICs					
1	0	...	...	...	...
2	1	...	...	...	...
3	0	...	...	...	...
Total	1	...	...	2	0
Non-SICs rated priority "1"	3	...	...	7	4
Memorandum item					
SICs remaining pool 3/	5	5	4	...	...
	Submission date: Spring 2004 for FY2005				
1	3	2	3	...	...
2	1	1	0	...	...
3	0	0	0	...	...
Total	4	3	3	4	3
Non-SICs rated priority "1"	3	2	3	4	3
Memorandum item					
SICs remaining in pool 3/	9	9	8	...	...

Sources: IMF internal memoranda, and IEO staff calculations.

1/ See main text for definition of systemic importance (SIC).

2/ Countries are classified by area departments in the IMF and regions in the World Bank into three groups, highest priority (1); high (2), and low (3) priority for participation in the FSAP, based on the criteria laid out by the Executive Boards.

3/ The number of SICs which had an FSAP at least three FY earlier than the one for which the submission is being prepared. Given time lag of completing updates, this implies an overall lag of at least four years between FSAP and update.

4/ Number of countries that had an FSAP during the corresponding financial year.

- A very high proportion of non-systemically important countries rated as the highest priority were included in that year's program.

In sum, while all SICs that volunteer for the program are implemented in a timely manner, the number of such "volunteers" is declining markedly, especially for updates, and the current system is no longer providing an effective signaling of priorities independent of such countries' willingness to volunteer.

Finally, data on the number of detailed standards and codes assessed per FSAP indicate that the greater selectivity called for by the Boards has been implemented as planned (Table 3):

- The average number of standards assessed (excluding the AML/CFT) has declined to under 3 since the 2003 review.

- Fewer standards are being assessed in emerging market economies and even fewer (an average of only 2) in low-income countries.

- The banking standards (BCP) are assessed in almost all cases.

Table 3. Formal Assessments of Standards and Codes by Country Type 1/
(In average number of standards and codes)

Standards and Codes FSAP Vintage	Country type 2/ Advanced	 Emerging	 PRFG-eligible	Total
Basel Core principles				
Pilot	1.00	1.00	1.00	1.00
Pre-2003	1.00	1.00	1.00	1.00
Post-2003	1.00	1.00	0.89	0.97
CPSIPS				
Pilot	1.00	0.63	1.00	0.75
Pre-2003	1.00	0.90	0.81	0.90
Post-2003	0.50	0.73	0.33	0.52
IAIS				
Pilot	1.00	0.50	0.50	0.58
Pre-2003	1.00	0.70	0.31	0.66
Post-2003	0.88	0.18	0.00	0.31
IOSCO				
Pilot	1.00	0.50	0.50	0.58
Pre-2003	1.00	0.67	0.38	0.66
Post-2003	0.88	0.36	0.22	0.48
MFP				
Pilot	1.00	1.00	1.00	1.00
Pre-2003	1.00	0.97	0.88	0.95
Post-2003	0.38	0.55	0.56	0.48
Memorandum item				
Total average number per country, excluding AML/CFT				
Pilot	5.00	3.75	4.00	4.00
Pre-2003	5.50	4.37	3.50	4.36
Post-2003	4.00	2.75	2.00	2.86
Total	4.91	3.88	3.04	3.88

Sources: MFD database and IEO estimates.

1/ Includes all completed FSAPs and those in which at least a first mission has taken place through June 2005.
2/ Advanced as per WEO classification, PRGF-eligible as per PDR classification, and emerging all others.

3. Resource costs of the FSAP

To track costs of the FSAP for the two institutions, we combined data from the IMF (MFD) and World Bank on the expenses incurred on each FSAP (staff and experts time plus travel costs, but excluding overhead). While there are some differences in the way the cost data is compiled in the two institutions, we do not think the differences are sufficiently great to affect the overall conclusions.[7]

The main findings (see Table 4) are:

- The average direct cost has declined by about 6 percent between the pre- and post-2003 review periods, with a 10 percent decline for the IMF partially offset by a rise in average cost for the World Bank.[8]
- The realized savings are driven by a sharp decline in the average direct cost of FSAPs in advanced countries, while the average direct cost of FSAPs in both emerging and PRGF-eligible countries have not changed much.[9]
- Resource savings generated by the reduction in the number of formal assessments of standards and codes in emerging and PRGF-eligible countries have been reallocated to other activities in the FSAPs for these countries.
- Post-2003, the average direct cost of FSAPs in emerging and PRGF-eligible countries is broadly the same (around $690,000), which is surprising.
- The IMF still incurred the larger share of FSAP costs for assessments in PRGF-eligible countries after the 2003 review (about 60 percent).[9]
- FSAP Updates for which direct cost data are available suggest the potential for some savings of resources, although this would depend on the type of reassessment. Estimates range between $45,000 for a very narrow update (Iceland) to $342,000 for a significantly more comprehensive update (Kazakhstan), which is half the average cost of initial assessment for a PRGF-eligible country.

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[7] IMF data on staff resource costs is calculated from the amount of staff and expert time spent on each FSAP (obtained from the Budget Reporting System) and applying standard labor cost factors (salaries plus benefits) provided by MFD (at an average of about $200,000 per person-year). World Bank data is actual dollar budgetary expenses reported under the FSAP accounts. The IMF data does not include expenses associated with AML/CFT assessments whereas the World Bank data does include such costs. For earlier cost estimates by the staff, see *FSAP—Indicative Fund Resource Costs* (SM/03/77, Supplement 4, February 2003), and *Financial Sector Assessment Program—Indicative Fund Resource Costs* (SM/05/67, Supplement 2, February 2005).

[8] The post-2003 review period corresponds to the latter part of FY2003 and FY2004.

[9] These statements and the data reported in Table 5 treat the FSAP for the Eastern Caribbean Currency Union as a single assessment. However, excluding this case does not alter the broad conclusions.

Table 4. Direct Cost of Initial FSAP Assessments for the World Bank and IMF 1/
(In thousand of U.S. dollars)

Country type	IMF-average 2/		World Bank-average 3/		Total		
	Total	*Of which* labor	Total	*Of which* labor	Average 4/	Maximum	Minimum
Advanced							
Pre-2003	822	571	110	67	887	1824	321
Post-2003	591	371	36	25	600	939	438
Emerging							
Pre-2003	410	295	271	167	681	1469	267
Post-2003	367	280	321	223	689	1108	559
PRGF-eligible							
Pre-2003	396	287	259	155	656	1070	323
Post-2003 5/	408	294	285	146	693	824	459
All countries							
Pre-2003	488	349	244	151	710	1824	267
Post-2003	438	308	283	172	668	1108	438

Sources: MFD, World Bank Secretariat to the FSLC, and IEO estimates.

1/ Excludes overhead, but includes cost of experts and travel costs. Data for the FY2001–04 period (IMF financial year). The costs of non-completed FSAPs (Argentina, Cote d'Ivoire, and Uruguay) are excluded from the calculations. The unit of observation is the completed FSAP irrespective of the fiscal year in which the expense is incurred.

2/ Estimates based on the amount of time allocated to FSAPs, converted into U.S. dollars using a factor provided by MFD. Excludes the cost of AML/CFT assessments.

3/ The estimated average is based only on the FSAPs in which the World Bank actually participated.

4/ The reported values are not the sum of the corresponding values for the IMF and World Bank, as the latter does not always participate in FSAPs for advanced economies. Rather the estimates reported are total direct cost divided by total number of FSAPs.

5/ Includes costs for an FSAP undertaken in the Eastern Caribbean Currency Union, which covers six small countries. Excluding this FSAP from the calculations, the estimates for the first five columns would be 379, 275, 303, 129, and 681 thousand dollars.

4. FSAP mission organization

The FSLC allocates FSAP team leadership responsibility between Bank and Fund staff. In practice, overall team leadership has been divided equally (Table 5). The IMF staff have led all FSAP teams to advanced countries, about 40 percent of teams to emerging economies, and one-third of teams to low-income countries.

Table 5. FSAP Team and Deputy Leaders and Country Type 1/
(In number of FSAP lead)

	World Bank		IMF	
	Leader	Deputy	Leader	Deputy
Advanced	...	1	21	20
Emerging	33	22	22	33
PRGF-eligible 2/	21	11	11	21
Total	54	34	54	74

Sources: World Bank FSAP website, and IEO estimates.

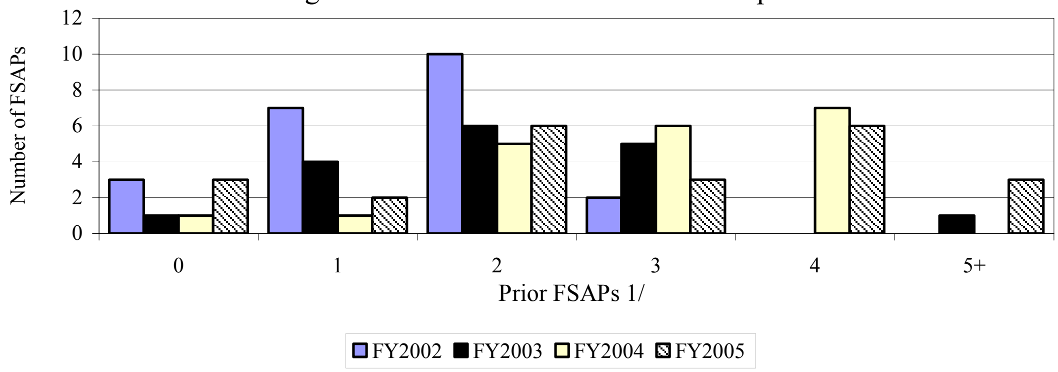
1/ All completed or ongoing FSAPs and updates through June 2005.

2/ PRGF-eligible as per PDR data set, advanced as per WEO classification, and emerging all other countries.

During interviews with the evaluation team, some senior Bank and Fund staff expressed concern over what they perceived to be the increasing appointment of team leaders with little experience. In their view, this runs the risk of lowering the quality of FSAPs as the task of mission leader requires the judicious combination of technical skills and balanced macrofinancial policy judgment necessary to form sound overall assessments.

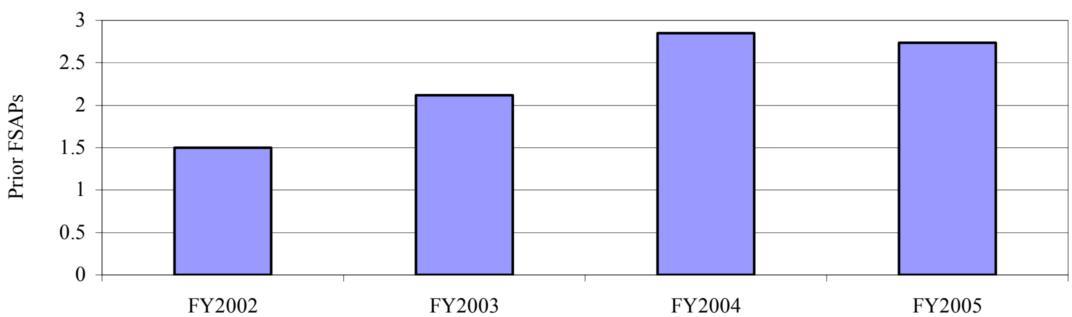
An examination of trends in the experience of FSAP team leaders (defined in terms of their participation in previous FSAP missions) suggests that there may be some basis for this concern. After rising steadily as the FSAP exercise matured, the "average" previous experience of FSAP team leaders began to decline again in FY2005 and the share of team leaders with no or very limited previous FSAP experience began to rise (Figures 1 and 2).

Figure 1. FSAP Mission Leaders and Experience



Source: TIMS and IEO estimates.
1/ A "unit" of experience is participation in an FSAP either as a team member or in a leadership capacity.

Figure 2. Median "Units" of Experience 1/



Source: TIMS and IEO estimates.
1/ A "unit" of experience is participation in an FSAP either as a team member or in a leadership capacity.

ADDITIONAL BACKGROUND ON STRESS-TESTING METHODOLOGIES USED IN FSAPS

This annex provides additional information to supplement the discussion in Section IIIb, drawing on a review of stress-testing approaches in the 25-country sample that was examined in depth. It begins with a brief summary of the approaches most often encountered in FSAPs, proposes a possible approach to providing "benchmarks" of methodological approaches that different country peer groups could aim for, and concludes with some comments on key areas that require greater attention.

Current stress-testing methodologies

FSAPs incorporate stress-testing approaches of varying degrees of sophistication. However, in reporting results, most FSAPs rarely discuss the limitations of the methodologies used and the consequent need for caution in interpreting results. We summarize here the most common approaches used.[1]

FSAPs in low-income countries and some emerging markets have frequently used credit risk methodologies based on a simple static exercise that assumed (relatively arbitrary) increases in levels of banks' nonperforming loans together with assumptions on different provisioning levels. Usually the analysis is supplemented by a simple analysis of the direct effect of exchange rate risk, based on the application of different exchange rates to the Net Open Position of the entire banking system. The results that can be extracted from these models are very limited.

Methodologies based on individual portfolios have been used in more advanced economies, which uses highly disaggregated data from individual financial institutions (bottom up approach). In order to conduct stress testing, one of the challenges of these models is to be able to translate the effect of a broad macroeconomic shock into a balance sheet of a financial institution. Usually this exercise requires a mapping of macro variables into a set of common risk factors that can be applied to stress individual balance sheets. Typically, institutions require two steps, one mapping from macro adjustment scenarios to a set of common risk factors, and another mapping from a set of common risk factors into all of the instruments in a portfolio. The results that can be extracted from these models are more precise in the risk measurement.

Methodologies based on aggregated portfolios have been used in some emerging economies (top-bottom approach), that typically derive common parameters from all financial institutions in the data set through regression analysis. However, important differences have been found among the use of stress testing according to this methodology that seems to reflect a lack of a common view on certain issues such as the way in which the corporate

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[1] See Bank for International Settlement (2005); Blaschke, Jones, Majnoni, and Peria (2001); Jones, Hilbers and Slack (2004); Sorge (2004); and International Monetary Fund and World Bank (2003).

sector or household sector risks should be included in the evaluation of the financial sector vulnerabilities.

A possible approach: country peer groups

Stress testing methodologies differ substantially among FSAPs, which can be attributed in large part to data constraints, relative sophistication of the financial system, cooperation from the authorities, time available for the analysis, and the judgment of the FSAP team.

While the need to tailor stress tests to country conditions is understandable, in our examination has not been easy to find common elements among FSAPs stress test, except for many cases in which methodologies converge towards the most simple approaches.

From a more dynamic perspective, there are a number of cases in which there are not significant methodological improvements between the FSAP and its update three or four years later.[2]

One possible approach to strengthening the methodological approach, and building greater cross-country knowledge, would be to develop good practices for conducting stress tests among various country peer groups. Such country peer groups would reflect common macroeconomic conditions, as well as the degree of sophistication of the financial sector of a country. This approach could help countries adapt their methodologies to good practices within groups with comparable capacity and data limitations. It would also help to recognize that stress testing practices can substantially differ between countries with widely varying levels of financial complexity. Standardizing a core set of methodologies, data sets, and sensitivity analysis within country peer groups could also help to develop benchmarks for cross country comparisons, thus facilitating vulnerability analysis.

In addition, there is some room for standardization of certain shocks under certain circumstances. For example, one possibility would be that all non investment grade countries evaluate the potential effects of sovereign downgrade scenarios. Similar approaches could be used for shifts in exchange rate pegs. Greater standardization of such approaches across countries could help reduce their political sensitivity and help avoid an inadvertent signal that the Fund thinks such events are more probable in certain countries.

It would be useful for the FSAP to provide advice in the design of a roadmap for reaching the relevant country peer benchmark for stress testing, beginning with recommendations on the data that is necessary in order to run more appropriate stress testing. This could help countries to build financial infrastructure, collect data and allocate resources to foster a better understanding of the vulnerabilities of the financial system.

[2] For example, Slovenia, Ghana, Kazakhstan.

Areas that require some attention

Credit risk is the most important risk from the banking sector. In measuring credit risk, emerging markets should make efforts to move from static models to regression models that relate credit exposure to macroeconomic events in a systematic manner. It would be necessary to establish good practices for including corporate sector and household sectors exposures within the regression approaches. Although the scenarios or events may not have an associated probability of occurrence, the interpretation of the stress testing results should provide an opinion of the relative importance of the different vulnerabilities (credit risk, market risk, commodity risk, etc) of the financial system.

The size of the shocks should reflect exceptional but plausible events. In the 25 country cases, we found that, even in recent vintages, there is insufficient explanation for the size of the shocks and insufficient use of macro models to simulate the effects of the certain scenarios and events on economic and financial variables as outputs.[3] Although it is desirable that shocks be derived from macro models, some countries are not yet in a position to do so. In these cases, good practices should also be established for the simulation of scenarios and events, for example by considering methodologies that look at the joint empirical distribution of risk factors.

[3] For example, one scenario might include a sudden reversal of capital flows and a rapid depreciation of the exchange rate. Macro simulations of this scenario could produce effects on GDP growth, price level, interest rates, and the exchange rate. These outputs would serve as the basis of a stress test of balance sheets for individual institutions.

USE OF FSAP RESULTS IN ARTICLE IV SURVEILLANCE

This annex presents the analysis supporting the findings in Section Va of the main report. The evidence is drawn from the detailed reviews of the 25 case studies and is structured around four evaluation questions: (i) Have FSAPs provided a good basis for their use in Article IV surveillance?; (ii) What has been the resulting coverage of findings in Article IV reports?; (iii) How was the integration of key FSAP findings into the overall macro assessment?; and (iv) What was the extent of financial sector surveillance after the FSAP?

I. Have FSAPs provided a good basis for their use in Article IV surveillance?

The evaluation criteria for case analysis comprised the following tests (the questions of the desk review matrix used are in parenthesis):[1]

1) Have FSAP results been articulated in a way that facilitates use in Article IV surveillance? More specifically:

- Have findings and recommendations been clear, usable, prioritized, with a view of consequence? (Questions: 31, 33, 34, 35)

- Has there been an overall assessment of the financial sector? (Desk review questions: 8, 20)

2) Have domestic and external/global economic conditions fed into the financial sector assessment? (Questions: 15, 16, 17, 18)

The results from the reviews of the 25 case studies show that:

- Over 80 percent of cases reviewed showed that FSAPs articulated findings well, with a general assessment of the financial sector standing, facilitating the use in Article IV surveillance. Findings and recommendations are generally clear and usable. Moreover, nearly half of the cases had a very clearly articulated overall assessment, with a good sense of consequence and priorities.

- Over 80 percent of cases reviewed showed that domestic and external conditions fed into the FSAP's analysis, with a third of cases showing a very clear and strong linkage to the financial sector assessment.

In good practice cases, the FSAP's articulation of the overall assessment has a comprehensive view of the structure, standing and trends in the financial sector. It sometimes presents also a body of analysis (including sectoral linkages, externalities, potential spillovers) that facilitates the formulation of a broader assessment of macroeconomic

[1] See Annex III for the template of the desk review matrix.

vulnerabilities and a more comprehensive policy framework for recommendations (e.g., Costa Rica).

The instances where the FSAPs have fallen short of good practice involve an overall assessment that is not clearly conveyed or that lacks a clear indication of macro consequence and prioritization (e.g., Kazakhstan, Philippines). In these cases, there is a shift of what should be part of the FSAP's expert analysis onto the Article IV team.

II. What has been the coverage of findings in Article IV reports?

The analysis comprised the desk review questions 50 and 51.

Over 80 percent of Article IV reports make a good coverage of FSAP results, and about half of the cases present many of the good practice characteristics. The good practice coverage of FSAP results in Article IV has a clear reporting of the main findings and recommendations, the importance and consequence of findings and the associated priorities. It also presents the interplay of these findings with the non-financial sector (e.g., Japan), including potential fiscal liabilities, impact on/of monetary and exchange rate policy, and corporate/household sector implications. But in some instances the coverage of FSAP results in Article IV reports has fallen short of good practice, with a cursory presentation of findings (e.g., Romania).

III. How were the key financial sector findings integrated into the overall macro assessment?

The analysis comprised desk review questions 50 and 53.

In three quarter of the cases reviewed, the overall macroeconomic assessment has benefited from the FSAP, with an enhanced assessment of the standing of the financial sector and the areas of potential macroeconomic implications. In these cases, the main FSAP findings were reported and merged into the assessment of Article IV surveillance. Moreover, in a third of cases the contribution has been significant, whereby FSAP findings contributed to shaping the overall macroeconomic assessment (i.e., not only the main messages were presented but the findings about the financial sector were well embedded into the overall appraisal).

The instances where practice has fallen short of a good integration into the overall macro assessment involve a mechanical presentation of FSAP results in the Article IV report (e.g., just a summary table of results) with little integration of the main messages (e.g., Tunisia, Romania). Typically this comprised reporting on financial vulnerabilities but not considering potential linkages, externalities, or policy complementarities.

Box. What Makes a Good Integration of FSAP Findings into the Overall Macro Assessment?

This box presents the key characteristics of good integration of the financial sector assessment into the overall macroeconomic assessment. Ultimately, a good integration is one that results in a greater understanding of macro/systemic vulnerabilities, a more comprehensive stability assessment and a broader policy recommendation framework. We present here some good practice examples on the various characteristics.

- *Macro/financial/structural linkages are identified*. For example in the assessment of Japan's macroeconomic situation, a framework with four interlinked pillars was considered, comprising the financial and corporate sectors, and the monetary and fiscal frameworks.
- *Externalities are a key element of the assessment*. In the case of Japan, the analysis highlights the feedback effects from bank reforms (via improved lending position) to supporting the economic recovery, and from economic recovery (and strengthen regulation) to supporting the resolution of balance sheet problems. Thus, complementarities of policies are emphasized leading to an assessment of the need of simultaneous adoption.
- *Risks and vulnerabilities are evaluated in a systemic manner*. For example, in Costa Rica the implications of the exchange rate regime on dollarization and financial vulnerabilities are explicitly addressed. In Korea the interplay of risks and vulnerabilities between the corporate and financial sectors is explicitly analyzed, considering potential externalities.
- *Broader policy framework for recommendations*. In Japan, drawing on the elements described above, policy recommendations comprised broader and more rapid financial sector reforms, accelerated corporate restructuring, a more aggressive *anti*-deflationary stance, and a framework for medium term fiscal consolidation. The "big-bang" policy recommendation was based on the increased effectiveness that was expected from the joint implementation, whereby, for example, monetary policy would be more effective to end deflation if banks' balance sheets problems are resolved, which in turn build on corporate restructuring.
- *Enhanced discussions with the authorities based on the broader assessment and policy recommendations*. In the case of Costa Rica, the authorities indicated that the appropriate integration of the financial sector assessment with macroeconomic conditions and policies, as well as the comprehensive scope of recommendations for reform (including monetary/exchange rate, fiscal and financial pillars) helped to form a good, integrated platform for discussions of policy and reform needs

IV. What was the extent of financial sector surveillance after the FSAP?

The evaluation criteria for case analysis comprised the following tests:

1) Has Article IV/program work identified new vulnerabilities? (Question: 22)

2) Has the intensity of coverage of financial sector issues been maintained after the FSAP? (Question: 54)

3) Have Article IV, program and TA activities assessed implementation of reforms? (Question: 39; 52)

The results from the reviews of the 25 case studies show that:

- In only a few cases financial surveillance under Article IV or program work was able to identified new vulnerabilities or understand better the extent of some risks that were noted in the FSAP (e.g., Costa Rica). In terms of areas, these have included corporate sector vulnerabilities to interest and exchange rates (Mexico), bank vulnerabilities to interest rate risk through their holding of government bonds (Philippines), and risks stemming from links between banks and other financial institutions (e.g., investment funds). The analyses in most instances comprised new stress testing exercises. In these cases, staff from MFD participated and contributed to the analysis.

- In over 80 percent of cases reviewed, the intensity of coverage in Article IV consultations has remained significant (excluding those with an Update and those too recent to have a subsequent Article IV cycle). Although in nearly half of the cases the intensity has waned over time (in terms of the depth and scope), there has not been a full mean reversion of the coverage of financial sector issues to that prevailing before the FSAP. But in some cases, the coverage of important issues highlighted in the FSAP was lost in time (e.g., Korea).

- With respect to tracking of progress in implementation of reforms, the general practice has been to report on measures taken by country authorities. But there has been very little appraisal of how significant those measures are to address the vulnerabilities identified in the FSAP. In terms of areas of coverage, there tends to be greater follow-up on traditional area of surveillance (e.g., issues related to exchange rate and monetary policy) and on the banking sector (as oppose to other segments of the financial system, which sometimes receive little or no coverage). In many instances, the scope of coverage has not followed the priorities assigned by the FSAP.

In nearly a quarter of the cases, the tracking was done more comprehensively and in greater depth; these either comprise cases where an Update took place or where MFD staff participated in the consultations. The cases reviewed that counted with expert assistance were also able to cover a broad spectrum of areas in the tracking of implementation under Article IV work.

Good practice in tracking of implementation of recommendations takes place under the FSAP Updates reviewed among the 25 case studies, where the assessments are the most comprehensive in scope and depth (e.g., Slovenia, Bulgaria). Updates present an overall assessment of progress, whereby the standing of the system and remaining challenges are re-articulated (see also Annex VIII on review of Updates).

ADDITIONAL INFORMATION ON ASSESSMENT OF FSAP UPDATES

This annex presents the supporting analysis for the key messages on FSAP Updates that have been incorporated in the main report (Box 4). The evaluation has analyzed all 11 Updates (completed by June 2005) of post-pilot FSAPs. The Updates for the countries that had the FSAP in the pilot phase were not considered since they may have been driven by factors specific to the inception of the initiative (e.g., FSSAs for pilot cases could not be published, even upon the request of country authorities). To conduct the desk reviews, a streamlined template was used based on the one applied in the detailed analysis of the 25 country studies. No additional interviews were held with staff or country authorities.[1]

The exercise has sought to provide evidence on two main aspects: (i) it analyzed what Updates have done so far in terms of the nature of the exercise (focused versus comprehensive reassessments), stock taking (assessment of implementation of reforms), and the extent to which they have taken a fresh look at vulnerabilities; and (ii) it assessed the institutional use and integration with surveillance in Article IV consultations.

The issue of country selection for Updates is covered in the analysis of the priority-setting process (Annex IV).

[1] Three of the countries with Updates were covered in the 25 case studies. For these countries, interviews with staff and authorities did cover their experience with the Updates.

Country (Financial year)	Nature of the assessment in the Update 1/	Extent of stocktaking and tracking of implementation 2/	Degree to which the Update took a fresh look at vulnerabilities	Integration with surveillance and coverage of recommendations
Iceland (FY2003)	Focus is on stock taking, with a particular emphasis on the reassessment of the BCP. The Update discussed the bulk of the financial system (although the team comprised only 2 staff). A clear description of the rationale for the scope of the Update was lacking.	Stocktaking is most in depth in the case of the BCP and CPSS core principles (with recommendations centering on the former). There is an overall assessment of progress (even though several sectors received only a general coverage).	The FSSA provided an assessment of the external indebtedness of the Icelandic financial system (this topic was covered more in depth in an Annex to the 2003 Article IV Staff Report).	The accompanying Article IV Staff Report and PIN reflected the Update's main findings and recommendations. Prioritization and sequencing of recommendations are minimal.
Ghana (FY2004)	The Update has primarily a developmental perspective and presents findings and recommendations along three broad themes: competition, integrity, and fairness. But it has also a strong coverage of stability issues.	The tracking of implementation carefully covers the recommendations of the FSAP, and reports on the reasons for lack of progress. The FSSA presents a clear and candid overall appraisal of progress in implementation.	The emphasis of the Update is not on taking a fresh look at vulnerabilities (stress testing is replicated from the FSAP). But the analysis includes some topics that were not addressed in the FSAP (e.g., the effects of fiscal consolidation on bank profitability).	There is a cursory mention of the Update's findings in the Staff Report of the Article IV. However, accompanying program documents draw significantly from the Update. The PIN is cursory on financial sector issues and does not refer to the Update. The key recommendations are clear, well grounded in the analysis, and fairly specific in some cases.
Slovenia (FY2004)	The Update was comprehensive with a broad overall assessment. There is no explicit rationale for the scope and timing of the exercise (Slovenia's entrance into the EU and ERM2 has likely played a significant role).	Tracking of recommendations is in depth (but does not provide reasons for lack of progress).	The Update incorporates a rather detailed fresh look at vulnerabilities (e.g., the housing market, corporate governance, and macroeconomic risks linked to the entrance into ERM2).	The Article IV Staff Report integrates the Update well (the main findings and recommendations are included in a section on financial sector issues and in the Staff appraisal). The PIN reports the main Update messages. Prioritization is good (with high specificity and detail of recommendations).

Country (Financial year)	Nature of the assessment 1/	Stocktaking and tracking of implementations 2/	Fresh look at vulnerabilities	Institutional use and integration with surveillance
Kazakhstan (FY2004)	This exercise provides a comprehensive assessment of the financial sector, including banks, insurance companies, pension funds, and securities market. The Update has an emphasis on assessing what has happened since the FSAP. The FSAP was not very explicit about the rationale behind the timing and coverage of the exercise.	The Update reports on implementations of reforms. It provides a fairly in-depth update of reforms in the banking sector, while for other sectors there is more mechanical reporting.	Some new challenges are analyzed, but generally the coverage was similar to that of the FSAP. Stress testing did not improve on the methodology used in the FSAP.	Discussions of the Update in the Article IV Staff Report are only cursory (it only mentions the creation of the FSA). The PIN mentions only briefly the Update. The FSAP presented a wide range of poorly prioritized recommendations, and the Update does not provide a clearer order of the previous and new recommendations.
El Salvador (FY2004)	The reassessment is rather focused, with coverage of the banking sector, cross-border operations, payments and securities settlement, and central bank functions. On development issues, it covered micro finance. No rationale for the scope of the exercise was presented. The report presented an overall assessment of the financial sector standing, despite that the scope of analysis was rather focused.	The analysis of progress in implementation of reform was in depth for the core sectors of focus. Other financial segments received a more mechanical reporting on implementation. There is no overall assessment of progress in implementations.	Some new vulnerabilities are included, but the emphasis is placed on topics that were covered previously. Stress tests are largely similar.	Main findings and recommendations covered in Article IV reports. The PIN makes a general mention of the financial sector being generally in good health. Prioritization is not prominently discussed in the report.
Senegal (FY2005)	This is a focused Update. The terms of reference indicate that development issues will be the main focus.	The Update provides in depth follow up on selected sectors: banking, microfinance, and legal issues. FSAP recommendations on other (smaller) sectors (insurance and pensions) are not followed up. There is limited explanation on the reasons for the lack of progress.	Stress tests are more elaborated than in the FSAP, but cover the same type of risks.	The Article IV Staff Report has limited coverage of the Update. The PIN does not mention the Update. Prioritization of recommendations is weak.

Country (Financial year)	**Nature of the assessment 1/**	**Stocktaking and tracking of implementations 2/**	**Fresh look at vulnerabilities**	**Institutional use and integration with surveillance**
Colombia (FY2005)	The exercise has a broad coverage and the emphasis on stability and development issues is more balanced than in the FSAP (which focused on stability in the aftermath of financial turmoil). The Update is to a good extent a stocktaking exercise. No explicit rationale is mentioned for the timing and scope of the Update.	The analysis of progress in implementation of reforms is generally thorough. The reasons for lack of progress are generally well explained. No specific overall assessment of progress in implementations.	Efforts to capture new vulnerabilities were somewhat limited. Stress tests are largely similar to those in the FSAP.	The most important findings and recommendations are reported in the Article IV Staff Report. The PIN also presents the main messages. Prioritization is reasonably well done.
Peru (FY2005)	Overall, the Update provides comprehensive analysis of the issues raised in the FSAP, and of remaining vulnerabilities and developmental needs. The report indicates that, since the FSAP had focused on the resolution of financial sector problems, the Update would cover remaining stability and developmental issues.	The tracking of implementations is in depth, although findings are scattered through the document. The Update provides reasons for areas with a lack of progress.	The Update covers remaining vulnerability, but the implications of recent developments in the banking sector are not followed up in the analysis of risks.	The Update is adequately discussed in the second review of the SBA. The PIN also conveys the main messages in the Update. Prioritization is somewhat weak, e.g., the overall assessment does not indicate the priority actions.
Armenia (FY2005)	The assessment is fairly comprehensive, taking into consideration the small size of the financial system (especially outside of the banking sector). The Update has a balanced focus on stability and development. The latter comprises a detailed analysis of non-bank financial sector development.	There is detailed tracking of implementation of FSAP recommendations. Progress is reported, but the reasons for lack of advancement are not always provided.	Some new sectors were covered: pension system and housing finance. The Update captured newly emerging risks related to the rapid credit growth and the monetary consequences of remittances.	The findings and recommendations have a prominent place in the accompanying PRGF document. The Update's main conclusions are well embedded in the document. Although the Update provides some sense of urgency, the list of recommendations appears too long for effective prioritization.

Country (Financial year)	Nature of the assessment 1/	Stocktaking and tracking of implementations 2/	Fresh look at vulnerabilities	Institutional use and integration with surveillance
Hungary (FY2005)	The Update's nature comes close to a full reassessment, with the overall appraisal covering the broad financial system. The report was not very explicit about the rationale for selection and scope (the accession into the EU and ERM-II likely played a role).	The tracking of implementations of reforms is comprehensive across the sectors and Standards and Codes assessed in the FSAP. But the degree of depth across sectors varies, and the reasons for lack of progress are not provided.	A new look at vulnerabilities identified new risks (e.g. the growth of the non-banking sector, the rapid growth of unhedged foreign currency borrowing by households and SMEs).	The coverage of findings and recommendations in the Article IV Staff Report is limited. The PIN only reflects on the risks from household and SME borrowing. Although recommendations are clear, prioritization is limited to a time classification of medium and long term.
Uganda (FY2005)	The Update focuses on developmental aspects to improve financial intermediation, but also pays attention to overall financial stability. There is little discussion of the rationale behind the timing and scope of the exercise (the Update was conducted relatively soon after the FSAP).	The tracking of implementation of reforms is thorough and tends to provide the reasons when there is lack of progress. There is a concise overall assessment of progress in implementation of FSAP recommendations.	The Update does not explicitly conduct an assessment of new vulnerabilities. The stress testing is somewhat more sophisticated than in the FSAP.	The discussion of Update findings and recommendations in the accompanying PRGF review covers the most important findings. The coverage in the Article IV report is minimal (largely limited to a Selected Issues paper). The PIN discusses the main findings and recommendations. Prioritization of recommendations is largely limited to a classification of medium and long term (except those for the pension system that provide guidance on sequencing).

1/ This includes whether the Update was a focused or fuller reassessment (in terms of scope and depth), what was the balance between stocktaking and new assessments, and between stability and development aspects.

2/ The review comprised what was the level of detail of analysis and whether there was an overall assessment of progress in implementation of reforms, including their significance in addressing the vulnerabilities that the FSAP had identified.

FINANCIAL SECTOR SURVEILLANCE OUTSIDE THE FSAP

This annex presents additional evidence on financial sector surveillance in countries that have not undertaken an FSAP, to supplement the discussion in Box 4 of the main report.

To assess the extent to which financial sector surveillance conducted exclusively under the aegis of Article IV consultations has been a good substitute for analysis and assessments under the FSAP, the evaluation reviewed the content of such surveillance in five systemically important countries that had not participated in the FSAP as of mid-2005 (China, Malaysia, Spain, Turkey, and the U.S.). For each country, documents for the last two Article IV consultation cycles (as well as any program documents, where applicable) were reviewed vis-à-vis four basic components. For each component, the standard of comparison was what one would normally expect to see in an FSAP assessment (see attached table):

- Scope of coverage. The coverage in FSAPs is, by design, expected to be comprehensive.

- Detail and specificity of analysis. In FSAPs, the depth of analysis of specific sectors depends on the level of development and systemic importance—and can include stress testing, market infrastructure analysis, review of the regulatory and supervisory framework.

- Overall assessment of financial sector vulnerabilities. A key value added of FSAPs is the ability to present an overall, comprehensive assessment of the standing and vulnerabilities in the financial sector—especially those of macro and systemic importance. This is perhaps the most important test of the exercise.

- Reported discussions with authorities. FSAPs are expected to lead to extensive and detailed discussions with authorities, including on differences of views on findings and on approaches to deal with vulnerabilities. The review of the five cases discussed here covers only what the staff reports say about the discussions. Actual discussions may have been more encompassing than reported.

Moreover, FSAPs are expected to lay out clear, usable and prioritized recommendations. The review of these cases of financial sector surveillance outside of the FSAP suggests that none was able to generate a comprehensive set of prioritized recommendations.[1]

[1] Some of the cases reviewed have included recommended actions in staff appraisals. These have been at a relatively broad level of generality to deal with specific sectoral risks (e.g., China and Turkey on banking issues).

Financial Sector Surveillance Outside the FSAP: Review of Selected Systemic Countries 1/

	MFD and ICM participation 2/	Scope of coverage	Detail and specificity of analysis	Overall assessment of financial sector standing and vulnerabilities	Reported influence in discussions with the authorities
China	MFD participation in 2004(1).	Banking sector only.	Mostly description of situation with some notion of urgency; greater specificity in detailed 2003 Selected Issues paper on banking.	View on progress with banking reforms and how to proceed with stock and flow problems.	Strong recommendation to participate in FSAP to guide next reform steps.
Malaysia	MFD (1 in 2003 and 2004) and ICM participation (1 in 2003).	Banking and capital markets (Selected Issues paper on capital markets trends); corporate sector analysis (Selected Issues paper in 2003).	Limited coverage and detail in staff report; Selected Issues papers have better specificity and descriptive analyses. Little original risks assessment.	Attempt to have an overall view but with limited supporting analysis (e.g., general statement that "financial system soundness has improved...").	Reporting of discussions mostly on areas of agreement.
Spain	MFD participation in 2004 (1).	Banking (and cajas).	There was increased coverage of banking sector in 2001 due to concern over exposure to Latin America. Some reporting of stress testing by authorities in 2003, but no coverage of other segments of financial system.	No integrated, overall assessment of financial vulnerabilities; separated reference to real estate risks and political influence in cajas.	Staff welcomed authorities' request of FSAP. Little reporting on discussions and exchange of views.
Turkey	MFD participation (1 in 2004; 2 in 2002).	Banking, corporate sector.	Review of crisis and reform program. Good detail on banking (regulation and supervision). Detailed analysis of draft banking law (LEG).	View on remaining crisis-related reforms, little on overall financial sector standing.	Little reporting on discussions, mostly on areas of agreement.
U.S.	MFD (3 in 2004) and ICM participation (1 in 2003 and 2004)	Banking, government-sponsored enterprises, corporate governance, and defined-benefits pensions.	Limited original analysis of risks, regulations and supervision; no coverage of large and important segments of financial sector and cross linkages. Greater depth in 2004 with detailed Selected Issues paper on large complex banking groups.	No overall assessment of financial sector vulnerabilities.	Mostly reporting on authorities' views; little reporting on discussions.

1/ The analysis covered the last two Article IV cycles and program reviews where applicable.

2/ Numbers in parentheses refer to the number of staff members from the Monetary and Financial Systems Department (MFD) and the International Capital Markets Department (ICM), respectively, that participated in the Article IV surveillance mission.

ADDITIONAL INFORMATION ON LINKS BETWEEN THE FSAP AND IMF-SUPPORTED PROGRAMS

This annex presents further details on the econometric evidence on the links between FSAPs and IMF-supported programs, discussed in Section Vc of the main report.

The analysis examined the relationship between FSAPs and the total number of program conditions (prior actions, structural performance criteria, and benchmarks) on financial sector issues for all programs approved between 1995 and 2003. There were 93 programs approved over the period, of which 23 had FSAPs undertaken up to two years prior to the start of the program. This time frame was chosen to capture the notion that at least some of the FSAP's finding become dated after a few years and hence the relevance to guide program design on financial sector issues wanes over time.

FSAPs have been undertaken both in countries with relatively sound financial systems and countries whose financial systems would require significant reforms to improve their soundness and foster their development. To help distinguish between different types of countries, we use an index of financial liberalization. This index was developed by the IMF Research Department and it attempts to capture the extent of distortions in the operating framework of financial systems by assessing various characteristics (e.g., government mandated credit allocation regulations, banking sector entry barriers, etc).[1] The value of the index is normalized to the [0, 1] range, with 0 being a fully repressed system and 1 a fully liberalized system. Some properties of the data are presented in Table 1.

The econometric results are presented in Table 2. They show that both the FSAP and the combined variable FSAP*FSLI are statistically significant at the 90th percentile. In principle having an FSAP would tend to increase the number of program conditions on financial sector issues. However, this effect would decline, and could in fact be reversed for those countries whose financial systems are less distorted. In other words, the fact that a country has undertaken an FSAP tends to result in one or more structural conditions in subsequent programs for countries with highly repressed financial systems whereas there is no increase in structural conditionality following an FSAP in countries with more liberalized systems; indeed, for countries that already have open financial systems with few distortions, a previous FSAP is associated with fewer structural conditions. This could be interpreted as reflecting the fact that, in such circumstances, the FSAP contributes to greater understanding of the financial system and judgments that structural conditionality is not warranted.

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[1] See Abdul Abiad and Ashoka Mody in "Financial Reform: What Shakes It? What Shapes It?," (IMF WP/03/70) for an explanation on a precursor to the index used in the regression reported in Table 2. The financial liberalization index covers such issues as the extent of free determination of interest rates, credit allocation by intermediaries, and entry barriers, certain features of the regulatory and supervisory frameworks, and capital account transactions regulations.

Table 1. FSAPs, Financial Liberalization, and Program Conditionality: Data Properties

	Number of program conditions 1/		Financial sector liberalization index 2/	
	All programs	*Of which*: with FSAPs 3/	All programs	*Of which*: with FSAPs 3/
Maximum	48	20	0.90	0.90
Minimum	0	0	0.05	0.42
Mean	9.33	6.52	0.59	0.65
Median	6	4	0.61	0.61
75 percentile	13	10	0.72	0.77
Number of observations	93	23	93	23

Source: Internal IMF (MONA) database.

1/ Number of program conditions on financial sector areas.

2/ Value of the index in the year preceding the start of the program.

3/ Data attributes for which there is both an FSAP and a value for the financial sector liberalization index.

Table 2. FSAPs, Financial Liberalization, and Program Conditionality: Estimation Results

Number of program conditions 1/	Coefficient	Robust Standard Error	z	P> |z|	[95 percent confidence interval]	
FSLI 2/	0.54	0.72	0.76	0.448	-0.86	1.96
FSAP	1.39	0.77	1.81	0.070	-0.11	2.90
FSAP*FSLI	-2.99	1.29	-2.32	0.020	-5.51	-0.46
Constant	2.01	0.42	4.73	0.000	1.18	2.84
Poisson regression		Wald $Chi^2(3) = 8.4$		Pseudo $R^2 = 0.042$		
Number of observations = 93		Prob > $Chi^2 = 0.039$				

Source: IEO staff calculations.

1/ Number of program conditions on financial sector areas.

2/ Financial sector liberalization index = FSLI.

Additional Information on Impact of the FSAP

This annex presents supporting evidence collected in the course of the evaluation on the impact of the FSAP process in each of the 25 case studies. The sources of evidence comprise mainly interviews with country authorities; interviews with staff and reviews of documents served a complementary role.

The purpose of the exercise has been to identify policy and institutional changes that have taken place subsequent to the FSAP. Several important methodological caveats should be noted:

- It is not possible to attribute any changes specifically to the FSAP given the complexity of the factors at work. Rather the aim is to examine (i) whether any changes have taken place (since if little has happened it is difficult to see how the FSAP could have had much impact); and (ii) what qualitative evidence exists on how the FSAP might have contributed to the policy discussion and processes.

- Even when specific policy and institutional changes are identified, it is generally not possible to say, with available evidence, whether these changes have effectively addressed the vulnerabilities and developmental needs highlighted in the FSAP. Such a conclusion would require an in-depth assessment akin to another FSAP (for example, this review can say whether or not a new law was passed, but it cannot come to a conclusion about the effectiveness of the new law).

EVIDENCE ON POLICY AND INSTITUTIONAL CHANGE

Country (Date of FSAP completion)	**Contribution to Policy Discussions**	**Policy and Institutional Changes 1/**	**Evidence on Contribution to Policy Process in General**
Brazil (12/2002)	Senior officials indicated that the FSAP contributed to inter agency discussions.	Financial Stability Report, incorporating more comprehensive risk-based stress testing, launched. It also helped in enhancing the capacity of the government's debt management office. Some changes in the pension fund and insurance sector also took place. There was progress in restructuring some of the large federal banks and some steps have also been taken to upgrade financial sector supervision to best international practices.	According to former officials interviewed, the FSAP contributed to the design and launching of the Financial Stability Report and to improve the debt management process. Soon after the FSAP, there was an election and change in government which resulted in shifts in the priorities for the financial system: A number of officials interviewed said that this timing of the FSAP adversely affected its impact.
Bulgaria (7/2002)	The FSAP contributed to discussions by providing an agenda of modernization for the financial sector.	After the FSAP, a new bank insolvency regime was implemented, the Deposit Insurance Fund was strengthened, and Central Bank powers were enhanced. In the securities area, there were amendments to the public offering law.	According to authorities, the FSAP helped to build momentum at the Central Bank to enhance the financial sector regulatory framework. According to authorities and one rating agency, FSAP findings were instrumental to achieve an upgrade in the sovereign rating.
Cameroon (6/2000)	The FSAP (together with the one for Gabon) contributed to foster regional awareness and discussions on the need to strengthening prudential regulations and tightening enforcement.	At the national level, microfinance institutions are being relicensed, and a regulatory and supervisory framework is being put in place in collaboration with the regional banking commission. At the regional level, prudential banking standards have been brought closer in line to international standards, and a regional payment system continues to be developed.	The authorities indicated that the FSAP contributed to raise their awareness of the need for a major upgrade in the legal framework, in the broader context of improving transparency and governance.
Chile (8/2004)	According to senior officials, the FSAP contributed to discussions and coordination between the Central Bank and supervisory agencies.	Chile's is a very recent FSAP. The Capital Markets Reform II legislation has addressed some of the findings on corporate issues, insurance, and cross-sectoral financial oversight. Market risk regulations have been introduced, commercial bank's restrictions to enter into derivative activities have been relaxed, and the legal protection to supervisors is being discussed in congress.	Senior official indicated that they were already well aware of the issues raised in the FSAP, but that it contributed by providing a comprehensive view and a sense of priority and importance. Authorities reported that the FSAP was useful at a time when the Central Bank was setting up the Financial Stability Report.
Costa Rica (3/2003)	The FSAP contributed to inter-agency coordination efforts, to discussions with financial sector participants and in informing discussions with legislators.	Political gridlock has historically interfered with a speedy reform process. The government submitted comprehensive legislation promoting financial reforms after the FSAP, but the legislation failed to pass in Congress. Subsequently, the government has submitted some measures through piecemeal legislation.	Senior officials indicated that the FSAP findings and recommendations, as well as discussions by the FSAP team with various authorities, contributed to the piecemeal work after the failed attempt at a comprehensive financial reform.

EVIDENCE ON POLICY AND INSTITUTIONAL CHANGE (CONTINUED)

Country (Year of FSAP completion)	Contribution to Policy Discussions	Policy and Institutional Changes 1/	Evidence on Contribution to Policy Process in general
Dominican Republic (5/2002)	Limited initial contribution as authorities did not fully share the FSAP's main findings and the sense of priority and importance. Substantial contributions during the program negotiations after the crisis.	Some FSAP recommendations were implemented in the post-crisis period including a draft. Monetary and Financial Law.	Financial crisis erupted following the FSAP, and attention was on crisis management. FSAP staff indicated that it contributed to improve the draft banking law.
Egypt (11/2002)	FSAP findings (e.g., on insurance) have been used by incoming officials as inputs in their discussions and formulation of sectoral reform agendas.	Reform progress gathered momentum since mid-2004, including the enactment of new banking sector legislation, recapitalization of state banks and appointment of new management, unification and floating of exchange rate, and announcement of a broad reform plan for the financial sector.	According to senior officials, the FSAP helped to raise the authorities awareness of the need to assess the condition of state-owned banks and for wide ranging financial sector reforms. In so doing, it helped rekindle the momentum for financial sector reform. The authorities indicated that the FSAP findings and recommendations were used as background for the formulation of the government's Financial Sector Reform Plan launched in mid-2004.
Germany (11/2003)	The FSAP contributed to a significant for public discussion of banking consolidation issues. It also raised some "taboo" issues in the insurance sector.	Stress testing started to be included regularly in the Financial Stability Report.	Official said the increased emphasis on stress testing was already underway, but the FSAP contributed to the momentum. The FSAP helped in the effort to crate a new law on reinsurance companies.
Ghana (6/2001)	The authorities indicated that the FSAP played a catalytic role in authorities' discussions on financial sector issues. It also provided a platform for policy discussion with the IFIs on financial sector matters.	Legislation was enacted granting independence and setting a narrower set of objectives to the central bank. But there has been little progress in the recapitalization of the central bank, the portfolio management practices of the social security administration, and the framework for contract and collateral enforcement. The exposure of banking system to a single major borrower was reduced, while its debt was restructured.	The authorities indicated that the FSAP served as a wake-up call, and helped buildup consensus, for a timely adoption of corrective actions to tackled impending problems in the banking system. It provided an important building block in the development of the authorities' Financial Sector Strategic Plan.

EVIDENCE ON POLICY AND INSTITUTIONAL CHANGE (CONTINUED)

Country (Year of FSAP completion)	Contribution to Policy Discussions	Policy and Institutional Changes 1/	Evidence on Contribution to Policy Process in general
India (6/2001)	The authorities indicated that the FSAP contributed to raising awareness of risks, informing authorities' discussions and opening a space for coordinating different agencies' views and positions (Reserve Bank of India, Ministry of Finance and state regulators).	There has been a gradual reform process involving a change in paradigm of financial sector organization (from command and control to a more market structure) and regulation and supervision—a process that began before the FSAP and has continued thereafter.	According to senior officials, the FSAP served as a confidential second opinion to the authorities' reform plans—buttressing the case for reforms. The mere existence of the initiative stimulated the authorities to pursue reform efforts further and show progress in the assessment. But none of the specific actions taken can be attributed to the FSAP where; internal self-assessments also played a significant role.
Ireland (8/2000)	The FSAP contributed to the debate on whether to create a single supervisory agency (IFSRA) under the umbrella of the Central Bank or Greenfield.	The IFSRA was created under the Central Bank's umbrella. Stress testing has been used more intensively for monitoring the household sector. Supervision of insurance sector shifted to risk-based assessments from exclusive focus on consumer protection.	Senior officials said the FSAP recommendations had a significant influence on the institutional location of the IFSRA and contributed importantly to the debate on insurance sector supervision.
Japan (8/2003)	The authorities considered that the FSAP contributed to greater international understanding of Japan's financial sector situation including a greater dissemination of knowledge about actual practices. A number of senior officials also indicated that it contributed to inform the dialogue between key agencies, but others expressed skepticism about its contribution to the domestic policy dialogue.	There has been good progress with the stock problem of nonperforming loans in large systemic banks. There has also been more accurate reporting of data and better risk management frameworks, amid tighter oversight by the Financial Services Agency. The adoption of changes in the corporate governance framework has been slower.	There are different views among senior officials on whether the FSAP contributed to informing the policy dialogue. Some expressed the view that there was too little discussion during the FSAP process about recommendations and policy alternatives that could better conform to country conditions and that therefore the overall impact was limited. Some others had a more positive assessment. All agreed that the most significant contribution to the domestic debate had come from the opportunity to have discussions on the assessment with respected experts.
Jordan (4/2004)	The FSAP influenced the thinking of a small group of key policymakers that had limited impact on discussions among various agencies and regulators because circulation of the report was highly controlled There were no public discussion as the FSSA was not published.	Progress areas include the regulation for prompt corrective actions, bank corporate governance, a new manual on licensing banks, the conduct of regular stress testing by the Central Bank of Jordan, assessment of country risk in evaluation of banks, and other segments (payment systems, insurance sector, and securities markets).	According to senior officials, the FSAP made a very positive contribution to the momentum for reforms, to setting reform priorities and to solidifying a culture of financial stability.

EVIDENCE ON POLICY AND INSTITUTIONAL CHANGE (CONTINUED)

Country (Year of FSAP completion)	**Contribution to Policy Discussions**	**Policy and Institutional Changes 1/**	**Evidence on Contribution to Policy Process in general**
Kazakhstan 2/ (12/2000)	The FSAP helped to build a roadmap of reforms for the capital market development.	There have been enhancements of banking supervisory powers. Consolidated prudential norms were introduced. A new regulatory framework for securities was implemented in 2003. Since 2005, International Accounting Standards are compulsory for financial institutions. A new insurance legislation was adopted in 2000 to better observe international practices. The payment system has been further reformed. A Financial System Authority (FSA) was created.	Senior officials noted that the FSAP provided an impact to the various financial sector reforms as well as a broad roadmap of the necessary steps to develop the capital market. Subsequent IMF-supported program contributed to the development of more specific action plans.
Korea (3/2003)	According to the authorities, the FSAP contributed to strengthening the reform agenda within the government, and recommendations influenced discussions among various agencies. The FSAP contributed to explaining reforms needed and to support the position of the government in the National Assembly.	There has been important progress in reform implementation (e.g., Bank of Korea Act, payment system, etc.). There are still pending issues including the unification of supervisory functions and further advancing with risk-based supervision.	Senior officials expressed the view that the FSAP, as an expert review, contributed to the credibility of the authorities' reform program. It also helped with the prioritization of the reform agenda. The FSAP was an important contribution to the authorities' thinking about the nature of risks and regulation (e.g., in insurance and banking). According to officials, FSAP also contributed to fend off pressures on directed credit to SMEs.
Mexico (8/2001)	Authorities said that the FSAP contributed to the government's internal debate on development banks, crisis resolution and improvement in the management of the deposit insurance system.	Progress includes: approval of the People's Savings and Credit Law, approval of the Securities Market Law, approval of the new Investment Fund Law, creation of a Federal Housing Institution, overhaul of development banks, reforms of credit institutions law, strengthening of bank regulation and supervision by enhancing the mandate of the CNBV, reforms to the pension system law, amendments to bank's capitalization requirements, approval of a law that regulates the operation of credit information institutions, approval of a law that regulates the operation of a new bankruptcy law, and approval of other reforms to promote development of institutional investors (with an environment of higher accountability and transparency).	According to senior officials, the FSAP served as a confidential advisor to the authorities, helping them to discuss their proposed reform agenda in a comprehensive manner with an expert team. They viewed the high-level discussions at the end of the FSAP mission, rather than the report itself, as having the most important impact. The timing of the FSAP mission (early on in the team of the new government, at the authorities' request) who an important factor contributing to the positive effect of the FSAP.

EVIDENCE ON POLICY AND INSTITUTIONAL CHANGE (CONTINUED)

Country (Year of FSAP completion)	**Contribution to Policy Discussions**	**Policy and Institutional Changes 1/**	**Evidence on Contribution to Policy Process in general**
New Zealand (4/2004)	The FSAP helped to generate momentum for financial reform, and serve to get the attention of authorities of the government and Reserve Bank. On many occasions, the governor and the minister have used the FSAP findings in public speeches.	New Zealand's is a recent FSAP. Regular publication of the Financial Stability Report was started, including the use of stress testing. The areas of recent work by the Reserve Bank include: (i) strengthening the ability to monitor risks by adopting a framework for independent reviewers of banks' systems and controls; (ii) reviewing the disclosure regime, which includes a framework for strengthening market discipline; (iii) enhancing the capacity to manage financial stresses by operationalizing the Reserve Bank's lender of last resort role and determining options for responding to bank failures.	Authorities indicated that FSAP recommendations were a useful contribution to set the agenda for reforms in the banking sector. The Central Bank Governor adopted the FSAP recommendations as a roadmap for further improvements in the financial sector, and requested periodical updates of the state of implementation of the recommendations.
Philippines (9/2002)	It is unclear whether the FSAP had any significant impact on policy discussions.	There has been little progress with enacting reform legislation on prompt corrective action powers and protection of supervisors. But stress testing is now part of supervision practices.	According to authorities, reform plans for the securities and exchange commission have drawn from the IOSCO assessment as input.
Romania (11/2003)	According to authorities, the FSAP encouraged discussion of financial stability issues within the government, but there was no significant public debate on the matter.	There is greater focus on stability issues and the overall financial system; and more attention to staff and building expertise. The Central Bank has been reorganized (new department and staff dedicated to financial stability issues). Stress testing is now a regular feature of supervision. The regulatory framework for credit unions has been amended. Progress has been made in implementing the new banking law (on consolidated approach, corporate governance, bank internal controls, definition of past due loans).	Authorities noted that the FSAP supported them in promoting attention on financial system stability. Authorities indicated that FSAP contributed significantly to securities regulation.
Russia (5/2003)	A press conference was held after the FSAP. According to authorities, FSAP results were used in discussion within the Central Bank, and in discussions in Parliament to pass legislation.	There was a change in regulations concerning large exposure, connected lending, consolidated supervision, and amendment to the method for computing bank capital. Bankruptcy regulations were also changed. Supervision at the Central Bank started using regularly stress testing, and improving on methodology. Reform of accounting practices towards International Accounting standards has received new momentum. Adoption of payments system action plan and implementation of RTGS.	Senior officials indicated that, although most issues were not new to them, the FSAP contributed significantly to the momentum for financial sector reforms. FSAP findings contributed to Central Bank's "Strategy of Banking System." They also said improvements in use of stress-testing approaches as part of supervision stemmed directly from the FSAP.

Evidence on Policy and Institutional Change (concluded)

Country (Year of FSAP completion)	**Contribution to Policy Discussions**	**Policy and Institutional Changes 1/**	**Evidence on Contribution to Policy Process in general**
Singapore (3/2004)	While issues raised in FSAP were not new to the authorities, the FSAP did contribute to increased discussion of them, especially within the Monetary Authority of Singapore (MAS).	According to senior officials, the adverse effects of the Central Provident Fund interest rates on the development of the life insurance market have started to be corrected. Authorities began to publish a Financial Stability Report, and stress testing is conducted regularly as a part of the exercises. Local capital requirements for banking sector were reviewed. A new risk based capital framework for the insurance industry was implemented.	According to senior officials, most FSAP recommendations have been implemented but they expressed that this should not be attributed the FSAP per se.
Slovenia (5/2001)	Senior officials indicated that the FSAP contributed to discussions at the central bank and among various agencies and institutions (e.g., on dynamic provisioning), and to inform the dialogue with Parliament. There was little public discussion.	A Stability Unit (in charge of stress testing) was established in the Central Bank. There has been broad implementation of recommendations, including on connected lending, large exposures, market risk regulation, and governance criteria. Payments systems were upgraded.	According to authorities, the FSAP provided significant support to the authorities' reform initiatives in Parliament. Other important contributing factors to the reform momentum include the EU accession and entering into ERM II system.
South Africa (2/2000)	Authorities viewed the FSAP as part of their broader efforts to promote credibility by encouraging greater transparency of their policies and institutions.	Procedures for consolidated supervision were strengthened. Stress testing began to be conducted on a regular basis and regular publication of a financial stability report began.	According to senior officials, the FSAP was useful in providing an integrated analysis and recommendations across the whole financial sector. Reserve Bank officials expressed the view that most reforms would have happened in any case, but that the FSAP helped accelerated the pace in some areas.
Sri Lanka (9/2002)	According to authorities, the FSAP assisted discussions within the Central Bank and contributed to coordination with other agencies. It helped to increase transparency of the policy stance.	Progress has been made in several areas: prudential norms were strengthened, banking supervision was enhanced, and financial indicators were improved across the entire banking system (including for the two large state-owned commercial banks).	Senior officials indicated that the FSAP was helpful to identify and raise awareness of vulnerabilities, to prioritize measures, and to support the reform momentum.
Tunisia 2/ (6/2002)		Progress has been slow (including on the restructuring of state banks facing continued non-performing loan problems) amid preference for gradual reform efforts.	

1/ Policy and institutional change refer to the identification of outcomes; it does not imply any attribution to the FSAP.
2/ A blank space indicates that evidence could not be obtained, it does not imply that there has been no impact.