

ANNEX 3

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:

- (1) Systematic review of relevant documents using a detailed template (including all FSAP papers, Article IV and program documents, comments from review departments, Public Information Notices, and Executive Board minutes).
- (2) 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 Table A3.1). 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, and so on.

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, the ministry of finance, and various supervision agencies and regulatory bodies.

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

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

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

Table A3.1. Criteria and Coding Scheme for Desk Reviews¹

| I. Inputs, Effectiveness, and Efficiency Assessment | |
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| 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)? | <p>Rating:</p> <p>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:</p> <p>(1) Comprehensive; including (where appropriate) market structure, compliance with standards and codes, stress testing, governance issues, legal and institutional aspects, etc.</p> <p>(2) Some aspects not covered adequately (without a clear explanation of why) or only partially discussed.</p> <p>(3) Several aspects not covered, partially discussed.</p> <p>(4) Focus only on just a few aspects (without proper explanation), cursory discussion across the board.</p> |
| 5. Did the internal review process (comments by IMF/World Bank 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? | <p>Rating:</p> <p>(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.</p> <p>(2) Overall financial sector is assessed but the coverage and depth of analysis could be better.⁴</p> <p>(3) There is relatively little mention of the overall financial sector analysis.</p> <p>(4) There is no analysis of the overall financial sector but only separate sectors are covered (like banking, insurance, etc.).</p> |
| 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. | <p>Rating:</p> <p>(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.</p> <p>(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)).</p> <p>(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).</p> <p>(4) Major macro or financial sector vulnerabilities and development needs requiring follow up and intense monitoring of the situation.</p> |
| B. Cooperation between IMF and World Bank | |
| 9. Do documents specify how were sectoral responsibilities divided? | Yes/No, describe. |
| 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. |

Table A3.1 (continued)

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| 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 trade-offs)? | 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. |
| 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

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| 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. |
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Table A3.1 (continued)

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| | <p>(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).</p> <p>(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.</p> |
| 26. Were the importance and consequences of findings explained? | <p>Rating:</p> <p>(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.</p> <p>(2) The potential systemic/macro impact of some vulnerabilities and implications of recommendations are not well explained or consequences limitedly addressed.</p> <p>(3) Major vulnerabilities identified are not linked to systemic or macro consequences.</p> <p>(4) There is a general lack of sense of importance or consequences of findings.</p> |
| 27. Were the issues and clarity/candidness in the FSSA aligned with those in the FSAP? | <p>Rating:</p> <p>(1) Full coherence of FSSA and FSAP findings and recommendations. Only information that is clearly market sensitive (on individual financial institutions) is left out.</p> <p>(2) Broadly consistent. Some sectors or systemic issues not fully treated on similar basis (less prominence or downplayed importance).</p> <p>(3) FSSA does not adequately reflect FSAP findings, though some are mentioned.</p> <p>(4) There is a major difference between both documents.</p> |
| 28. Have the FSAP recommendations been clear? | <p>Rating:</p> <p>(1) All recommendations are clearly/unambiguously explained and linked to specific findings.</p> <p>(2) Some recommendations are not stated clearly enough (open to interpretation) or the linkage to findings is not fully spelled out.</p> <p>(3) Some major recommendations linked to systemic risks are not clearly stated.</p> <p>(4) General lack of clarity and linkage to findings in recommendation plan.</p> |
| 29. Have the FSAP recommendations been usable (e.g., specific as opposed to general)? | <p>Rating:</p> <p>(1) All recommendations have a high degree of specificity and can be linked to concrete and well-identified actionable reform agenda.</p> <p>(2) Some recommendations lack proper specificity to identify concrete actions.</p> <p>(3) Many recommendations lack proper specificity to identify concrete actions, or some key recommendation of systemic importance are not specific enough.</p> <p>(4) Complete lack of specificity in most recommendations.</p> |
| 30. Have the FSAP recommendations been prioritized (laying out a strategic agenda with attention to sequencing needs)? | <p>Rating:</p> <p>(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.</p> <p>(2) Good degree of prioritization but some sequencing issues not well addressed.</p> <p>(3) Some prioritization exist but it is unclear and partial.</p> <p>(4) Complete lack of prioritization.</p> |
| 31. Have the FSAP recommendations taken into account “technical” country specific capacity constraints (ex ante constraints)? | Yes/No, describe. ⁸ |

Table A3.1 (continued)

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| 32. Were recommendations in FSAP followed up consistently in IMF/World Bank programming, operations (technical assistance, lending and analytical work), updates or other forms of financial sector surveillance (programs, Article IV)? | <p>Rating:</p> <p>(1) All recommendations were followed in subsequent operations, assistance and documents.</p> <p>(2) Main recommendations were followed up, but not all or not fully.</p> <p>(3) Some recommendations were followed up, but neither consistently nor the major ones.</p> <p>(4) No recommendations was followed up in documents after the FSAP.</p> |
| 33. Has the FSAP led to a better understanding of future World Bank/IMF assistance needs for a country? | Yes/No, describe. |
| 34. Has the subsequent World Bank/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). | <p>Rating:⁹</p> <p>(1) They were completely carried out, all recommendations were fully implemented in scope and in “spirit.”</p> <p>(2) To a large degree (major ones were accomplished).</p> <p>(3) To some degree, only some recommendations were implemented, but most major were left out.</p> <p>(4) No recommendations were carried out.</p> |
| 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 World Bank/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 | <p>Rating:</p> <p>(1) Aim and constraints of FSAP are well explained and country specific limitations are given.</p> <p>(2) Main FSAP constraints are explained in documents (major points, major constraints) but could be better, more explicit.</p> <p>(3) Some constraints are mentioned but they are neither well explained nor comprehensive.</p> <p>(4) No constraints are mentioned.</p> |
| IV. Integration with IMF Surveillance | |
| 40. How is FSAP included in Article IV (staff report, especially staff assessment, sometimes Selected Issues papers)? ¹¹ | <p>Rating:</p> <p>(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).</p> <p>(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.</p> <p>(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.</p> <p>(4) FSAP (financial sector surveillance) is not mentioned at all.</p> |
| 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. |

Table A3.1 (concluded)

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| 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? | <p>Rating scheme:</p> <p>(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).</p> <p>(2) Relatively strong, but with time has somewhat waned.</p> <p>(3) It has faded to a significant degree (mean revert). It is mentioned but more pro forma, less in substance.</p> <p>(4) Has disappeared from the “radar screen” immediately after the FSSA/Article IV discussion.</p> |
| 45. How was the FSSA reported and discussed at the Executive Board meeting? Does the PIN reflect FSSA main findings? ¹² | <p>Rating:</p> <p>(1) FSSA findings were fully reported and discussed at the board and reflected in PIN.</p> <p>(2) Main findings were reported and discussed in PIN but more attention should have been paid.</p> <p>(3) Only some issues were briefly reported without the “core” findings reported to the Board and reflected in PIN.</p> <p>(4) Board did not discuss the FSSA at all or only marginally and the same with PIN.</p> |
| 46. Evaluate the overall FSAP/FSSA documents presentation. | Describe. |

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

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

³For 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.

⁴Note separately the major weaknesses.

⁵Some 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? And liberalization/deregulation vis-à-vis regulatory framework. The evaluator should think whether there was a forward-looking appraisal of risks.

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

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

⁸For 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 that deal with institutional capacity of a country.

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

¹⁰FSAP 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.

¹¹This 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 the FSAP.

¹²To 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 Directors' statements.