INTERNATIONAL MONETARY FUND
THE WORLD BANK

2011 Review of the Standards and Codes Initiative

ROSC Case Studies*

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February 16, 2011

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*The Reports on Observance of Standards and Codes (ROSCs) are documents meant for publication; some contain a detailed assessment of 12 financial standards and codes and others just a summary. Detailed Assessment Reports are sometimes published separately, in addition to the summarized version contained in a ROSC.

Appendix

This report is meant to generate additional inputs for an informed assessment of the effectiveness of the ROSC Initiative in strengthening institutions in member countries. In particular, this report analyses in detail a sample of specific country cases—at least two for each standard currently included in the Initiative. A review of specific country experiences might contribute in the effort to assess the extent to which ROSCs have been instrumental in identifying institutional weaknesses and contributed with their recommendations to promote financial reform and reduce financial vulnerability. This is an independent review prepared by an external consultant.

List of Acronyms

A&A	Accounting and Auditing (Standard)
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BCP	Basel Core Principles for Effective Banking Supervision
CG	Corporate Governance Standard
CPSIPS	Core Principles for Systemically Important Payment Systems
CPSS	Committee on Payment and Settlement Systems
DQAF	Data Quality Assessment Framework
FATF	Financial Action Task Force
FIRST	Financial Sector Reform and Strengthening Initiative
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSSA	Financial System Stability Assessment
FPT	Fiscal Policy Transparency (Standard)
GDDS	General Data Dissemination System
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standards (predecessors to IFRS)
ICR	Insolvency and Creditor Rights (Standard)
IFRS	International Financial Reporting (Standard)
IOSCO	International Organization of Securities Commission
IS	Insurance Supervision (Standard)
ISA	International Standards on Auditing
MEFP	Memorandum of Economic and Financial Policies
MFPT	Monetary and Financial Policy Transparency (Standard)
MPT	Monetary Policy Transparency
NPL	Non-performing loans
OECD	Organization for Economic Cooperation and Development
P&S	Payment and Settlement (Standard)
RCCP	Recommendations for Central Counterparties
ROSC	Report on the Observance of Standards & Codes
RSSS	Recommendations for Securities Settlement Systems
RTGS	Real Time Gross Settlement
SBA	Stand-By Arrangement
SC	Securities Commission
SR	Securities Regulation (Standard)
SDDS	Special Data Dissemination Standard
TA	Technical Assistance
TN	Technical Note
UNCITRAL	United Nations Commission on International Trade Law

Executive Summary

1. This report is part of the 2011 ROSC Initiative review. It focuses on generating additional inputs for an informed assessment of the effectiveness of the Initiative in strengthening institutions in member countries. In particular, it analyses in detail a sample of twenty-two specific country experiences—at least two for each standard currently included in the Initiative. The review of specific country experiences with ROSC exercises—diagnosis and implementation of recommendations and follow-up—contributes to evaluate the extent to which ROSCs have been instrumental in identifying institutional weaknesses and contributed to promote financial reform and reduce financial vulnerability. This is an independent review prepared by an external consultant.

2. ROSCs are useful as diagnostic tools which produce broad-based recommendations, in line with internationally recognized benchmarks. While a sound, solid diagnosis is always a desirable outcome, this by itself does not guarantee a successful exercise. For that to happen it is essential also that those in charge of implementing a reform agenda accept the conclusions of the assessment and act upon them. It is also essential for the reform process to be supported by adequate technical and financial means. In summary, comprehensive follow up with sound and timely implementation of the right set of recommendations are key to a successful ROSC experience.

3. The impact of successful ROSC exercises can take many years to be fully felt and goes well beyond the production of ROSC reports. As of end-2010, close to fourteen hundred ROSCs, including reassessments and updates, had been completed by the Bank and Fund in 178 member countries, territories, economies and regional groups considered of interest for the Initiative (some three-quarters of which have been published). The twenty-two country experiences included in the case studies were selected following a directed two-step sample selection process covering countries in all regions and stages of development. A first step identified interesting country experiences for each standard with the help of ROSC program coordinators and experienced assessors at the Bank and Fund. In all, this initial effort identified close to seventy interesting country experiences out of the ROSC universe. The final sample of twenty-two country experiences resulted after discarding some names following additional evaluation and the need to stay within the set of self-imposed regional and standard constraints.

4. Key findings of this case study were as follows:

At the diagnostic level:

5. ROSCs are holistic diagnostic tools, generally well suited for making practical recommendations when they detect structural gaps vis-à-vis the core principles of the standard. However, translation of non-compliance/non-observance with the standards not always is translated into practical recommendations for reform although identification of

shortcomings has improved over time, in particular with the improvement brought about by the revision and upgrading of the standards and the introduction of better templates and assessment protocols.

6. The generation of practical recommendations depends largely on the quality of the underlying diagnosis contained in each specific ROSC. The panorama that emerges from the sample is mixed although the quality of ROSCs and their recommendations appears to be closely and directly related to the amount of effort put into a ROSC—size of assessing team and quality of preparatory work, in particular—and the prior country knowledge and sector/standard experience of the assessing team.

7. What is clearly illustrated by several country experiences is the high payoff associated with successful ROSC exercises, while weakness at the diagnostic level—or absence of an updated assessment—carries a high price not only because it often conveys a false sense of comfort but also because it badly erodes trust in the capabilities of the two assessing institutions among clients.

8. ROSC assessments face a set of complex issues in advanced economies with the potential for generating high global systemic financial risk. This situation is detrimental to ROSCs' value added as promoters of change. ROSCs—and the underlying detailed assessments—in these countries are perceived by local counterparts as one more surveillance tool rather than as instruments for generating practical recommendations. Ratings become the dominant issue during missions; often less time is spent and progress made on more substantive issues, like shaping the agenda for financial reform.[1] Perhaps more problematic is that the detailed assessments in which many crucial ROSCs are based (i.e., BCPs) have suffered from grade inflation, giving the false impression of countries comfortably meeting international standards, as the recent period of financial crisis confirms.

9. On the whole, detailed assessments normally give a strong sense of what is urgent and most relevant to close gaps. Lists of recommendations in the context of the summarized versions of the assessment, like those included in the ROSCs annexed to the FSSA report, sometimes lose clarity simply because the background information provided by the detailed assessment is not published.

At the implementation level:

10. Countries where there is strong ownership and internalization at all levels of the need for structural change are the ones which most often succeed in carrying out robust, enduring and timely financial reform. All too often detected gaps imply implementing ambitious legislative agendas for which broad political consensus and strong public-

[1] Many of the ROSCs done in the context of FSAPs are meant for publication and do not include explicit ratings, which nonetheless are an integral part of the detailed assessments prepared during FSAPs.

private partnerships are also essential. This speaks in favor of preferably carrying out ROSCs in countries actively demanding them in support of their plans for financial reform (i.e., take stock, improve the agenda, detect vulnerabilities, etc.).

11. The case studies suggest that closing gaps in the financial sector often implies advancing the agenda for reform in several fronts at the same time, in part due to interrelatedness and synergies peculiar to financial activity but also to take advantage of the emergence of favorable momentum for legislative change, which is hard to sustain and does not come often—and which often materializes too late and in the midst of severe financial turmoil.

12. Closing gaps often is a long-term endeavor, with several years elapsing between diagnosis and successful implementation. It is crucial to have a strong institutional setup, supported by key private players, to assist in the implementation of the agenda for change. This speaks strongly in favor of close and persistent follow up via ROSC updates to freshen up findings and lists of recommendations.

13. Bank and Fund-related technical assistance (TA) has been crucial in many instances to fill detected gaps, although its impact is much enhanced when applied in the general context of financial sector lending going in support of major sector reform. Support by the Fund and Bank to close gaps can take many shapes and forms and while it is often financially important, its impact is enhanced when it plays a catalytic role to extend domestic and international support for the reform at hand. This notwithstanding, agencies in developing countries often have a hard time convincing the authorities of the need to borrow for funding their TA needs.

14. With the exception of AML/CFT and Data ROSCs which can rely on their dedicated TA programs, the Fund and Bank do not currently have a targeted TA program for the ROSC Initiative. In the case of developing countries, the main constraint for providing TA is not money (there are plenty of donors) but the relatively limited capacity of the Fund and Bank to provide dedicated assistance in the context of weak implementing domestic agencies.

15. The case studies show several occasions when recommendations in ROSCs have been important ingredients for shaping Fund conditionality and structuring WB policy-based lending operations. Data, fiscal and BCP ROSCs have been particularly relevant for the Fund. In the case of Bank operations, conditionality associated to Developing Policy Loans and Financial Sector Adjustment Loans often have relied on recommendations contained in ROSCs.

16. In hindsight many different factors have played a role when efforts to fill detected gaps fail. However, the absence of broad-based political will appears as a dominant cause. This is particularly troubling when it leads to delays in moving the legislative agenda forward, which almost always is the starting point for in-depth financial reform.

Support from key agencies like the Central Bank or Ministry of Finance is not always sufficient.

17. There is no systematic approach to monitor the implementation of ROSCs' recommendations and follow-up. Basically, the ROSC Initiative is highly decentralized so monitoring of the final outcome of a given ROSC by the Fund and Bank varies with the standard and often the region in question. Much depends also on the interest of a given country management unit on the issues raised by a specific ROSC.

I. INTRODUCTION

18. In the wake of the Asian crisis the World Bank and the International Monetary Fund jointly launched the Standards and Codes Initiative ("the Initiative"), which at the moment considers the application of internationally recognized financial standards and codes in twelve distinct areas of the financial sector. [2] Thus, since 1999 the Initiative has been contributing to strengthening the international financial architecture with its assessments and recommendations to member countries. From its inception, the Initiative has promoted on a largely voluntary basis the dissemination, adoption and implementation of these internationally sanctioned benchmarks by member countries, and many of them have come to appreciate the benefits of participating in the Initiative. Country participation also has been pertinent for informing Bank and Fund work, with the so-called ROSCs or Reports on the Observance of Standards and Codes becoming their instrument of choice for assessing current levels of observance, compliance or implementation by member countries with each one of the twelve sets of standards and codes. Basically, ROSCs are used for two main purposes: a) as a comprehensive diagnostic tool to assess compliance or observance with the standards to detect weaknesses and strengths and b) to provide a focused and ideally prioritized list of recommendations for country action at a specific point in time.

19. The standards and codes are currently grouped by the Financial Stability Board (FSB) into three broad categories, namely, **macro policy and data transparency**, **institutional and market infrastructure**, and **financial sector regulation and supervision**. Table 1 below lists the areas covered by the ROSC Initiative, the names given to each standard (including hyperlinks to the internet), the different bodies that issued them, and the institutions currently acting as ROSC assessors.

[2] More recently, the Financial Stability Board also has become a strong advocate for the adoption and application the twelve standards by countries around the world, which is perceived as crucial for strengthening financial systems and reducing systemic financial risk worldwide. The FSB was established in April 2009 as the successor to the Financial Stability Forum (FSF) and with a stronger institutional framework to strengthen its effectiveness as a mechanism for national authorities, standard setting bodies and international financial institutions to address vulnerabilities and to develop and implement strong regulatory, supervisory and other policies in the interest of financial stability.

Table 1. Standards and Codes Relevant for Bank and Fund Work

Area	Name of Standard/Hyperlink	Issuing Body	Assessors
I. Macroeconomic Policy and Data Transparency			
1.1 Monetary and financial policy transparency	Code of Good Practices on Transparency in Monetary and Financial Policies (MFPT)/http://www.imf.org/external/np/mae/mft/code/index.htm	IMF	IMF
1.2 Fiscal policy transparency (Fiscal)	Code of Good Practices on Fiscal Transparency (FPT)/ http://www.imf.org/external/np/fad/trans/code.htm Guide on Resource Revenue Transparency/http://www.imf.org/external/np/fad/trans/guide.htm	IMF IMF	IMF IMF
1.3 Data	Data Quality Assessment Framework (DQAF)[1]/http://dsbb.imf.org/Pages/DQRS/DQAF.aspx	IMF	IMF
II. Institutional and Market Infrastructure			
2.1 Insolvency	Insolvency and Creditor Rights (ICR)[2]/http://www.worldbank.org/ifa/FINAL-ICRPrinciples-March2009.pdf	WB/UNCITRAL	WB
2.2 Corporate governance	Principles of Governance (CG)/http://www.oecd.org/dataoecd/32/18/31557724.pdf	OECD	WB
2.3 Accounting	International Accounting Standards[3] (IAS/IFRS)/http://www.iasb.org/IFRSs/IFRS.htm	IASB	WB
2.4 Auditing	International Standards on Auditing (ISA)/http://web.ifac.org/clarity-center/the-clarified-standards	IFAC	WB

Area	Name of Standard/Hyperlink	Issuing Body	Assessors
2.5 Payment and settlement (CPSS)	Core Principles for Systemically Important Payment Systems (CPSIPS)/http://www.bis.org/publ/cpss43.pdf?noframes=1 Recommendations for Securities Settlement Systems (RSSS) [4]/ http://www.bis.org/publ/cpss46.pdf?noframes=1	CPSS CPSS/IOSCO	WB/IMF WB/IMF
2.6 Market integrity	The Forty Recommendations of the Financial Action Task Force (AML)/http://www.fatf-gafi.org/dataoecd/7/40/34849567.PDF 9 Special Recommendations Against Terrorist Financing (CFT)[5]/http://www.fatf-gafi.org/dataoecd/8/17/34849466.pdf	FATF FATF	WB/IMF/FATF (including FATF's 6 regional bodies or FSRBs)
III. Financial Regulation and Supervision			
3.1 Banking supervision	Core Principles for Effective Banking Supervision (BCP)/http://www.bis.org/publ/bcbs129.pdf	BCBS	WB/IMF
3.2 Securities regulation	Objectives and Principles of Securities Regulation (IOSCO)/http://www.iosco.org/library/pubdocs/pdf/IOSCOPD154.pdf	IOSCO	WB/IMF
3.3 Insurance supervision	Insurance Core Principles (IAIS)/http://www.iaisweb.org/__temp/Insurance_core_principles_and_methodology.pdf	IAIS	WB/IMF

1. All data ROSCs benefit from the assessment structure provided by the Data Quality Assessment Framework (DQAF) revised in 2003 to include five dimensions of quality: assurance of integrity; methodological soundness; accuracy and reliability; serviceability, and accessibility. The scope of the Data Standard encompasses published statistics related to the real, fiscal, financial and external sectors as well as evaluations of the agencies supplying statistics and datasets.
2. In 2005, a revised version of the World Bank Principles for Effective Insolvency and Credit Rights Systems was submitted to the Bank Board and published. A unified standard based on the 2005 World Bank Principles and the Recommendations included in the UNCITRAL Legislative Guide on Insolvency

Law has been developed, in consultation with the Fund; the unified standard was published and presented to the Bank's Executive Directors for information in March 2009, and the next step is submission to the Bank Board for endorsement. A new methodology based on the Insolvency and Creditor Rights (ICR) Standard was agreed among the Bank, Fund, and UNCITRAL, and is currently being used for ROSC assessments.

3. IFRS refers to all standards and related interpretations issued by the International Accounting Standards Board (IASB) and its predecessor, the International Accounting Standards Committee (IASC), which had issued standards also known as International Accounting Standards (IAS).
4. The FSB Working Group on the Compendium of Standards is proposing to include a new set of principles to the Payments and Settlement list, the Recommendations for Central Counterparties (RCCP). (http://www.bis.org/publ/cpss64.pdf?noframes=1), which has been issued by CPSS/IOSCO. RCCP is meant to assess mainly derivatives markets where central counterparties take the counterparty risk with the ultimate buyer and seller.
5. These 9 Special Recommendations, combined with the 40 FATF Recommendations on Money Laundering, set out the basic framework to detect, prevent and suppress the financing of terrorism and terrorist acts.

II. Objectives and Scope of this Case Study

20. The main objective of this assignment is to generate additional inputs for the assessment of the effectiveness of the Initiative in strengthening institutions in member countries by reviewing ROSC experiences of twenty-two countries covering all the areas listed in Table 1.[3] The idea is to go from the particular to the general in order to add a new perspective in the effort to learn about the extent to which ROSCs have been instrumental in identifying institutional weaknesses and strengths. This case study is also useful to illustrate how effective a tool ROSC exercises have been for providing advice and recommendations capable of supporting and promoting desirable reforms in member countries. Closely related is the importance of ROSCs in the provision of input for the development and surveillance work identified with the Bank and Fund, respectively.

21. To have a more balanced view, a special effort was made to select for review a sample of country experiences where a similar number of fruitful and staid cases were represented. The emphasis was on the process and its final accomplishments rather than on the reported outcome of specific ROSC exercises. For that, it is necessary to take a longer term perspective which goes beyond the initial diagnosis provided by the ROSC and go for an evaluation of the overall impact of the exercise as an instrument for implementing financial reform. From that perspective, even when a ROSC detects poor levels of observance or compliance with international standards a country experience

[3] For each country, the accounting and auditing standards are always assessed jointly and the results are reported under a single ROSC, thus the number of detailed country experiences to be included in this case study will be twenty-two.

might well end up in hindsight being considered successful if the exercise was materially supportive of or contributed to enhance the workings and institutions of the financial sector. On the other hand, while it is always positive to confirm high levels of compliance/observance with standards, conducting ROSCs in countries with high compliance or observance levels might not always end up making a material contribution to the country experience or adding much in terms of additional development or surveillance value.

22. ROSCs are useful as a diagnostic tool that allows aligning a set of broad-based recommendations for improving the workings of the financial sector of a country with internationally recognized benchmarks. ROSCs provide a degree of objectivity across countries and highlight the degree to which countries use best international practices. While a sound, solid diagnosis is always a desirable outcome, this by itself does not guarantee a successful exercise. For that to happen it is essential also that those in charge of implementing a reform agenda accept the conclusions of the assessment and act upon them (i.e., internalize the recommendations and gather the political will necessary for actual delivery). It is also essential for the reform process to be supported by adequate technical and financial means. In other words, comprehensive follow up with sound and timely implementation of the right set of recommendations are key to a successful ROSC experience. From that perspective, this case studies will focus on trying to answer the following questions from a case-study perspective:

At the diagnostics level:

1. Was the identification of non-compliance areas translated into practical recommendations for reform?
2. Were the recommendations prioritized?

At the implementation level:

3. To what extent did the identification of areas of non-compliance, non-observance lead to efforts to fill those gaps?
4. Were such gaps filled through TA, surveillance, or other work by the Fund or the Bank?
5. If no effort was made to fill the gap, was this due to: (i) disagreement with the assessment; (ii) lack of political will; and (iii) other reasons?
6. What were the issues and obstacles for implementation?
7. What were the critical factors for the success/failure in bridging the gap between the diagnosis and implementation?
8. Is there a systematic approach (at the Fund, Bank, or county level) to monitor the implementation of ROSCs recommendations and follow-up?

23. Since parallel efforts are being made to have a multifaceted view of the impact of the Initiative, this case study ***does not*** provide a direct answer to the more fundamental question on the overall impact of the Initiative on member countries or assess whether the existing standards and codes are adequate in terms of coverage of issues important for financial sector strengthening.

24. Case selection in this study followed a directed sample selection approach. Thus, the conclusions drawn mainly from analyzing the sample of 22 specific country experiences studied in detail might not necessarily illustrate the combined experience of the universe of ROSCs as a whole. Nonetheless and despite the small sample size, the directed approach used here does offer many interesting insights into the recent experience with the ROSC Initiative.[4]

III. THE ROSC UNIVERSE[5]

25. **As of end-2010, close to fourteen hundred ROSCs, including reassessments and updates, had been completed by the Bank and Fund in 178 member countries, territories (Guernsey, Jersey) and economies considered of interest for the Initiative, including ROSCs conducted for regional groups such as CEMAC, ECCB, EU and WAEMU.** Before commenting on specific country experiences, it is worthwhile having a better understanding of the universe of ROSC experiences accumulated to date and from where the sample of twenty-two cases analyzed in some detail in the Appendix was obtained. Detailed assessments and updates done by the Bank and Fund under the Initiative are summarized in ROSC reports, which are ideally intended for publication. There is still room for more country participation in the Initiative, mainly among small economies and territories in the Americas, Asia and Africa, [6] but overall coverage under the Initiative has been high, particularly for systemically important countries.

26. **Overall, some three-quarters of completed ROSCs have been published, with not much difference between G-20 and non-G-20 countries.** A general overview of the ROSC universe at end-June 2010 is provided by Figure 1. Similar to participation in the Initiative, the release of ROSC reports to the public at large is voluntary for the countries involved. However, publication of the results of specific assessments either in a detailed or summarized version is encouraged by the Fund, Bank, and more recently the FSB—

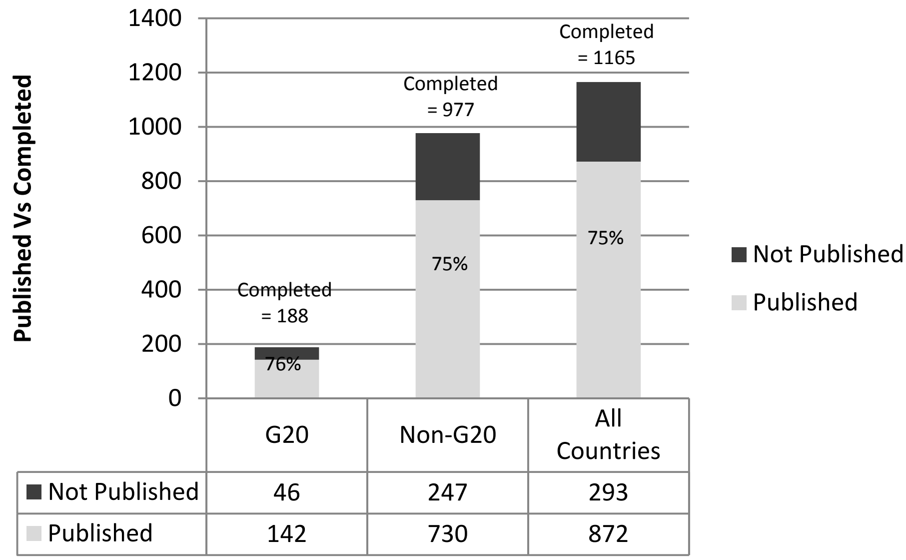
[4] A lot was also learned about country experiences under the Initiative from the process of selection of the final sample, which in the case of some of the standards involved the detailed analysis of several additional country experiences prior to arriving at the final case selection.

[5] The author wishes to thank Rafael Pardo from the FSAP unit (FPSD) at the World Bank for his contribution to gathering and processing the necessary ROSC data used in this report, and this section in particular.

[6] For example, 44 of the World Bank economies listed in its web site did not register any ROSC activity as of end-June 2010. Of those, 14 were in Asia (American Samoa, Guam, North Korea, Myanmar, Tonga, Vanuatu, etc.), 13 in the Americas (Bahamas, Belize, Cuba, Dominica, Grenada, St. Lucia, Suriname, etc.), 11 in Africa (Central African Republic, Eritrea, Guinea-Bissau, Liberia, Libya, Seychelles, Somalia, etc.), 5 in Europe (Andorra, Faeroe Islands, Gibraltar, Liechtenstein, Monaco), and Iraq in the Middle East.

sometimes strongly for some of the standards and those countries considered systemically important.

Figure 1. Published and Completed ROSCs
(1999 to End-June 2010)



27. **ROSC activity has been the greatest in Europe, which is explained in part by the large number of participating jurisdictions[7] in that region (i.e., 46 out of 52 countries) but also by a much higher incidence of completed ROSCs in participating jurisdictions**. The average number of ROSCs completed per participating European jurisdiction was 9.6 ROSCs (including updates and reassessments). At the other extreme, the smaller number of countries in the Middle East and fewer ROSCs in participating ones explains the small number of ROSCs completed in that region (6 percent of the total). The average number of ROSCs completed per jurisdiction in the Americas (6.0), Asia (5.5) and Africa (4.9) was also much lower than in Europe.[8]

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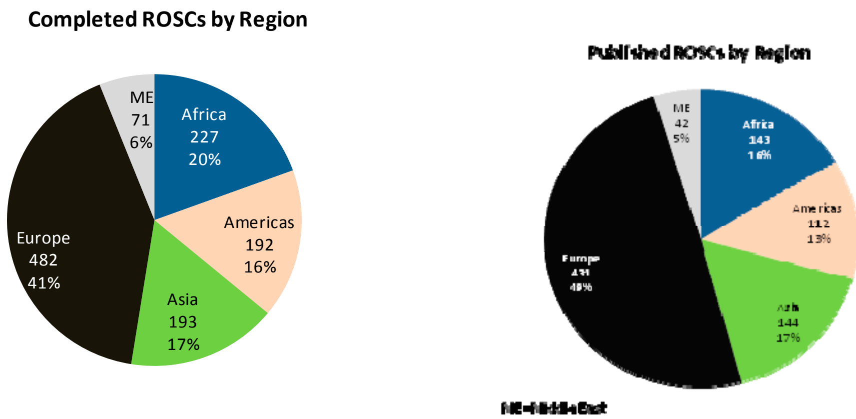
[7] It includes 46 countries plus the European Union, Guernsey and Jersey, which register completed ROSCs done.

[8] Notice that the concept of geographical region used in this report does not necessarily coincide with the regional division of countries actually used by the Fund or Bank for their work.

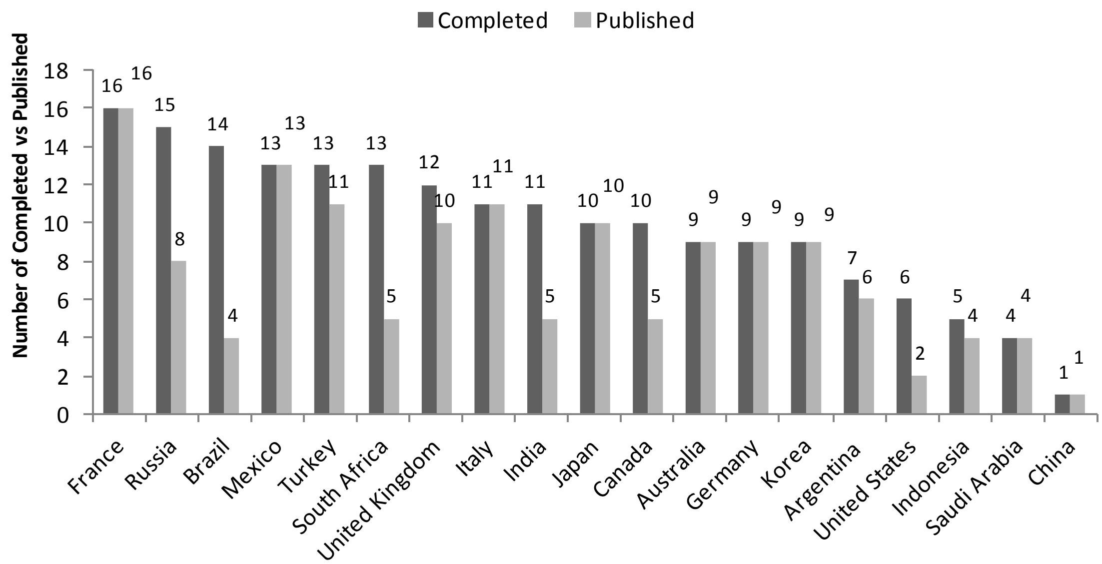
Figure 2. Completed/Published ROSCs by Region



28. **When comparing the number of completed versus published ROSCs, the experience under the Initiative has been for a higher tendency to publish in Europe (89.4 percent of completed ROSCs) and Asia (74.6 percent) than in the Americas (58.3 percent), the Middle East (59.2 percent) and Africa (63.0 percent).** As seen in Figure 2, almost half of the number of published ROSCs to date are for Europe (431 published reports). At the other extreme, there have been just 42 ROSCs published for the Middle East.

29. **There are noticeable differences among G-20 countries with respect to participation in the Initiative as well as in their attitudes towards publishing results of assessments done**. Basically, regional differences are the result of specific country experiences with the Initiative and of country attitudes towards publication of ROSC reports. Perhaps it is illustrative in this respect the accumulated experience for G-20 countries, which groups some of the largest and systemically important countries in terms of global financial stability. Figure 3 summarizes their experience with respect to completed and published ROSCs. From it, it becomes clear that there are important country differences with respect to both variables and that the two do not always go necessarily hand in hand. From the information in the chart, nothing can be said about the extent to which specific country participation in the Initiative is demand or supply driven. Differences in attitude towards publication, however, are more straightforward, as a group of countries appears to have been more reluctant to publish in the past.

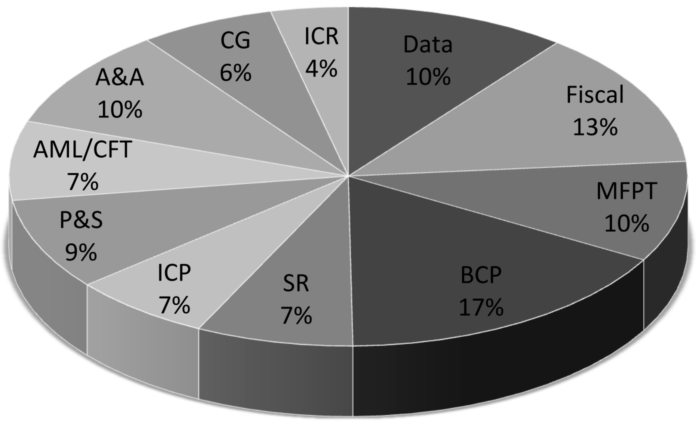
Figure 3. G-20: Completed vs Published by country
(1999 to End-June 2010)



30. **There are significant differences in the frequency with which different standards have been assessed in the past, with the Basel Core Principles (BCP) standard having the largest number of ROSCs done (17 percent of the total, including reassessments and updates).** At the other end of the spectrum, as shown in Figure 4, Insolvency and Creditor Rights (ICR) ROSCs only account for 4 percent of the assessments completed under the Initiative.[9] Most likely, there are several factors behind these differences in the frequency with which different standards are assessed, including differences in demand, prioritization, and perception of risk. For example, some of the disparity observed can perhaps be explained by differences in the relative weight of different business lines or activities within the financial sector of participating countries. Banking, for instance, is almost always relevant in terms of systemic risk, and in many emerging and developing countries it is clearly the dominant activity within the financial sector, explaining the bulk of financial intermediation. It is reasonable then to expect that BCP ROSCs in those economies be conducted much more frequently than, for example, those covering insurance and securities markets, which might be shallower and relatively less sophisticated in comparison. All the same, other variables are also likely to play a significant role, as for example budgeting differences among standards (a topic outside the scope of this paper), special country circumstances or the type of venue used for conducting different types of ROSC assessments. In any event, there is no reason to suggest that the number of ROSCs should be the same across standards, and the data in Figure 4 simply reflect past experience.

[9] ICR, A&A and Corporate Governance (CG) ROSCs are not currently conducted in developed economies.

Figure 4. Completed ROSCs by Standard
(1999 to End-June 2010)



31. **For some types of ROSCs normally done in the context of FSAPs, Technical Notes have become a strong alternative, especially noticeable in the case of insurance and securities markets assessments.** There are four types of ROSCs, indistinctively assessed by Bank or Fund-led teams, which are almost always assessed during FSAP missions—the BCP, Securities Regulation (SR), Insurance Supervision (IS) and Payment and Settlement (P&S). Technical Notes (TNs) have become a common alternative to ROSCs under FSAPs, and quite a strong one for some standards as shown in Figure 5. TNs and ROSCs are both instruments of diagnosis, making sector assessments and summarizing main findings and recommendations in reports that are common outputs of FSAP exercises. TNs often touch upon areas covered by ROSCs although not necessarily complying with all the methodological and assessment requirements demanded of ROSCs with respect to core principles included in a standard (the latter must be assessed against the accepted international standards under the Initiative and their results must be reported following the format designed for the standard). On the other hand, TNs provide a more flexible venue (i.e., when evaluating payment systems and the insurance and securities markets) and can often be broader in scope than ROSCs since they allow coverage of areas not considered in the standard (i.e., retail and government payment systems which are not included in assessments under the P&S standard unless they are systemically important). In other words, authors of TNs have much more latitude in terms of coverage and the presentation of their findings.[10]

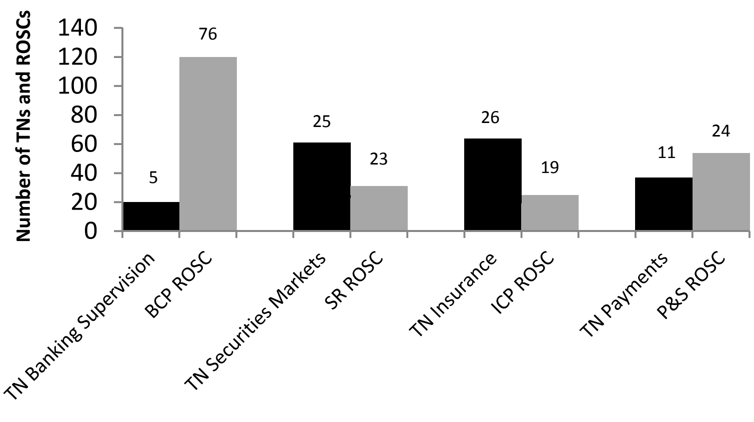
32. **An interesting question is why TNs are favored for assessments for sectors such as the securities and insurance markets, and to a lesser extent for payment systems**. Expert assessors often quote the relatively low levels of development of these

[10] Because TNs represent such a strong alternative to ROSCs for some of the standards, some TNs were reviewed as part of this case study. In the specific cases of the P&S and IS standards, for example, some of the countries in the sample were assessed using the TN alternative.

sectors in many of the countries assessed. It also appears to be a matter of resource allocation in the context of FSAPs. In particular, due to low levels of development, insurance and securities markets are unlikely sources of systemic risk, thus justifying less comprehensive standard assessments for which TNs are adequate instruments—and sometimes less demanding in terms of time and human resources.

33. **Sometimes formal ROSCs might be less attractive from a developmental viewpoint than factual assessments in the form of a TN which covers issues beyond those included in the standard**. For example, ROSCs using the SR and IS standards focus strongly on the legal, regulatory and supervisory framework of these sectors, so when levels of development are low—as it is often the case in developing countries—a TN that evaluates the market as whole and its potential for development is more appropriate. In addition, when the sector is underdeveloped, ROSCs are most likely to lead to low ratings of observance or compliance, which is a distraction in the dialogue with the authorities and thus shifting the focus away from other priorities such as the list of recommended actions. Also, because of their higher flexibility TNs allow experts to focus their work on a narrower development agenda for reform appropriate for moving it forward.

Figure 5. All Regions
Technical Notes (TN) vs ROSCs Completed
(2005 to End-June 2010)

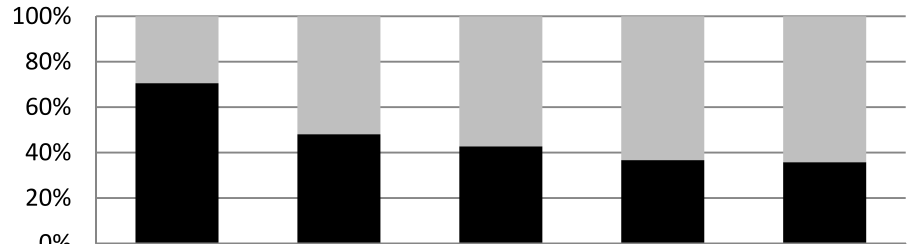


* It only includes TNs and ROSCs done in the context of FSAP missions

34. **There are also noticeable variations in the use of TNs among regions, among which assessments in the Middle East stand out as the most frequent user of the instrument.** Indeed, TNs explain 71 percent of all evaluations done for banking supervision, securities regulations, insurance supervision and payment systems, as compared with an average of 44 percent for the world as a whole (Figure 6). The high use of TNs in the Middle East might explain in part the relatively low frequency of ROSCs

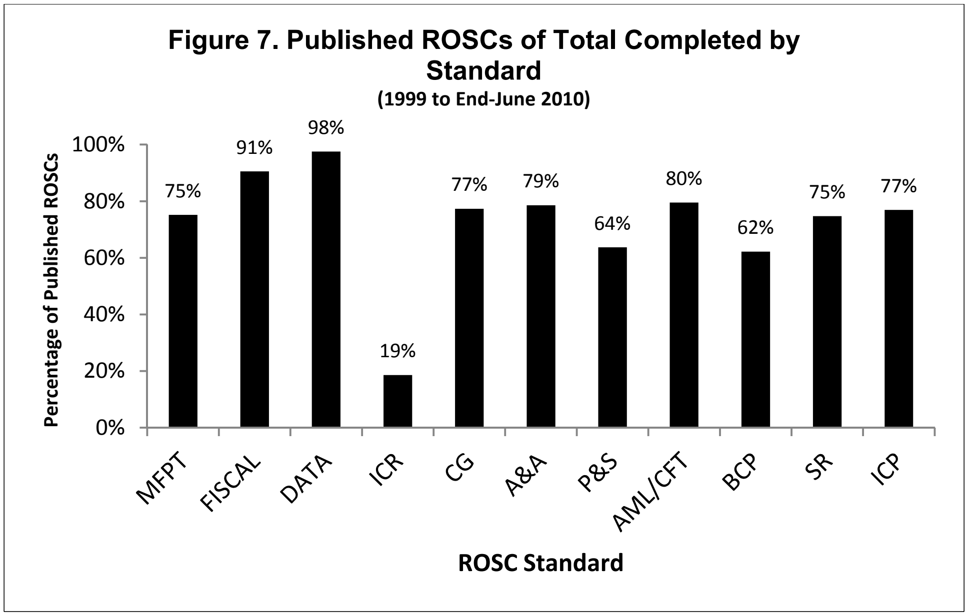
already commented upon for that region. On the other hand, Europe which already has the highest ROSC frequency among regions, also presents an above average use of TNs. Asia and the Americas show the least use of this instrument although the frequency of usage is still significant for the four sectors in question. Moreover, TNs overall have had a much lower rate of publication than ROSCs.

Figure 6. ROSC and TN Assessments for Four Standards (1999 to Mid-2010)



	Middle East	Europe	Africa	Asia	Americas
ROSCs %	29%	52%	57%	63%	64%
Technical Notes (TN) %	71%	48%	43%	37%	36%

35. **Attitude towards publication of assessment results varies significantly for different standards, with the highest rates of published ROSCs found for the data (98 percent) and fiscal transparency (91 percent) standards.** Figure 7 illustrates the differences in the publication rate among standards, which can be significant. Again at the lower end is the ICR standard, which has published assessments results for just 19 percent of the ROSCs completed so far. It is hard to argue that differences in the frequency of publication are due mostly to country attitudes. Rather, as it will be argued in more detail later on, it appears that the attitude of standard assessors and managers at the Bank and Fund towards publication is also an important factor to consider. For now, it should be kept in mind that different standards apply different disclosure policies when releasing ROSC reports to the general public. The practice for some is to disclose the whole detailed assessment, including principle-by-principle ratings in the published reports, while others limit disclosure to main findings and recommendations, often existing big gaps between the information contained in the detailed assessment and that of the published report.



IV. Features and Practices in the Assessment of the Standards

36. **The decentralized nature of the ROSC Initiative leads in practice to significant variations in the way the 12 standards are actually assessed and published in particular country situations.** In practice, this Initiative operates under a light structure and without a central budget, which means that features and practices followed in the preparation of the eleven different types of ROSCs currently undertaken are by and large the result of decisions made in different departments of the Bank and Fund. All this has practical implications for the coordination and accountability of the ROSC Initiative both at the diagnostic and implementation stages of particular ROSC experiences. In this section the emphasis will be on practices during the first stage that ends with the completion of a detailed assessment and a list of recommendations, and that in the majority of cases results in the publication of the results as a ROSC report. The comments that follow are mainly on three variables that differentiate ROSCs, that is, the venue used to conduct the assessment, the level of effort applied for different types of ROSCs, and the type of information released to the public when the results are published. Table 2 summarizes current practices whereas Box 1 provides additional information on the application of the standards.[11]

[11] See Table 1 for the institutions issuing the different standards and those currently acting as ROSC assessors.

Table 2. Current ROSC Practices

Area	Effort Level: Assessors per ROSC	When ROSC Report is Published, Released Information Includes:			FSAP-related
		Published Assessment	Principle Rating?	List of Recommendations	
I. Macroeconomic Policy and Data Transparency					
1.1 Monetary and financial policy transparency (MFPT ROSC)	1 to 2	Detailed	Yes	Detailed, no prioritization	Most of the time (>70% in the past 5 yrs.)
1.2 Fiscal policy transparency (FT ROSC)	3 to 6	Detailed	Yes	Detailed, prioritized with respect to urgency	No
1.3 Data dissemination (Data ROSC)	6	Detailed	Yes	Detailed, prioritized with respect to urgency	No
II. Institutional and Market Infrastructure					
2.1 Insolvency (ICR ROSC)	2 to 4	Summary	No	Summary, prioritized with respect to country need and urgency	In parallel, occasionally (about 1 in 4)
2.2 Corporate governance (CG ROSC)	3 to 5	Detailed	Yes	Detailed, prioritized with respect to urgency	In parallel, occasionally (about 1 in 6)
2.3 Accounting and auditing (A&A ROSC)	4 to 6	Detailed	No	Detailed, prioritization with respect to urgency	In parallel, occasionally
2.5 Payment and settlement (P&S ROSC)	1	Summary	No	Detailed, no prioritization	Most of the time (>92% in the past 5 yrs.)
2.6 Market integrity (AML/CFT ROSC)	3 to 6	Detailed	Yes	Detailed, prioritized with respect to importance	In parallel, all the time—although assessed during separate missions

Area	Effort Level: Assessors per ROSC	When ROSC Report is Published, Released Information Includes:			FSAP-related
		Published Assessment	Principle Rating?	List of Recommendations	
*III. **Financial Regulation and Supervision***					
3.1 Banking supervision (BCP ROSC)	2	Summary	No	Detailed, no prioritization	Most of the time (>91% in the past 5 yrs.)
3.2 Securities regulation (SR ROSC)	1	Summary	No	Detailed, no prioritization	Most of the time (>95% in the past 5 yrs.)
3.3 Insurance supervision (ICP ROSC)	1	Summary	No	Detailed, no prioritization	Most of the time (>86% in the past 5 yrs.)

37. **The FSAP Program is the principal venue for the generation of five types of ROSCs**. The three types of ROSCs that assess financial regulation and supervision (banking, insurance and securities) are normally assessed during FSAP missions, and the same is true for ROSCs covering payment and settlement systems and monetary and financial policy transparency. When done in the context of FSAPs, which is not always the case, the resulting ROSCs are one of several products of the FSAP, and as explained earlier can alternatively lead to the generation of a TN in the case of standard-based assessments. When an FSAP produces a detailed assessment for one of these standards, its findings are summarized in what is commonly known as a ROSC and attached as an Annex to the main text of the FSSA report produced by the Fund. In the case of some FSAP exercises, however, countries also allow the publication of the underlying detailed assessment as a separate document.[12] Four other types of ROSCs are done—occasionally for Accounting and Auditing (A&A), and CG ROSCs—in parallel with FSAP operations meaning that while the findings of those assessments can contribute to the financial sector stability assessment of FSAPs, the ROSCs for these four standards strictly speaking are not a product of the FSAP exercise but stand-alone reports published separately. AML/CFT ROSCs are done most of the time in parallel with FSAPs, normally within a window of time around a given FSAP.[13] Only two of the ROSCs assessed by Fund-led teams are not done in the context of FSAPs (fiscal transparency and data ROSCs). Figures 8 and 9 below illustrate the experience with stand-alone and FSAP-related assessments under the ROSC Initiative during the last five years (data include initial assessments, reassessments and updates).

[12] The following web site gives access to published documents generated during FSAPs: http://lnweb90.worldbank.org/FPS/fsapcountrydb.nsf/FSAPexternalcountryreports?OpenPage&count=5000
[13] If an AML/CFT ROSC is older than 5 years at the time of the FSAP, a reassessment has to be done (a Board requirement) no later than 18 months after the FSAP mission.

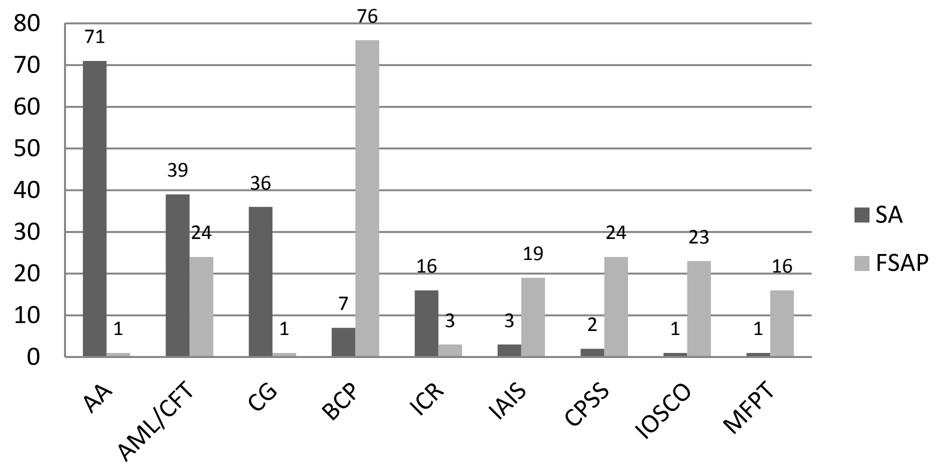


Figure 8. Stand Alone vs FSAP-ROSCs*
(2005 - end-June 2010)

* Includes initial assessments, reassessments and formal updates. FSAP-related ROSCs in this chart are ROSC documents in the FSAP database, that is, those ROSCs that were part of the package approved and sent to the authorities in connection with a specific FSAP exercise (i.e., normally those ROSCs based on detailed assessments carried out during FSAP missions and funded by the FSAP). AML/CFT ROSCs, while done in parallel with FSAP exercises, are not normally in that category.

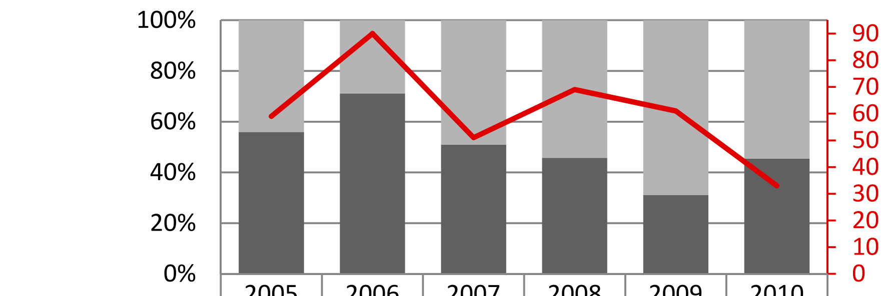


Figure 9. Stand Alone vs FSAP-ROSCs*
(2005 - end-June 2010)

	2005	2006	2007	2008	2009	2010
SA	26	26	26	38	42	18
FSAP	33	64	27	32	19	15
No. of ROSCs	59	90	51	69	61	33

* Includes initial assessments, reassessments and formal updates. Data and fiscal transparency ROSCs are **not** included.

38. **The level of effort by the Fund and Bank to produce a detailed assessment under the ROSC initiative varies greatly**. This is in part the result of the decentralized nature of the Initiative (i.e., different budget constraints faced by assessors of different standards) but more importantly differences in the templates and protocols adopted by issuers and assessors of each standard. For example, in the case of some standards the Bank and Fund rely heavily on preparatory work done directly by country counterparts (i.e., self-assessments in the case of BCP, responses to a questionnaire in the case of AML/CFT etc.). For some other standards, such as CG and ICR, the process normally starts with the preparation of a detailed preparatory due diligence report by a local expert hired by the Bank. The level of effort during formal missions by assessing team also varies greatly, as illustrated by the figures in the second column of Table 2. Clearly the number of assessors involved in ROSC assessments during FSAP missions is much smaller, with the level of effort determined by FSAP needs and budget constraints.

39. **ROSC reports vary greatly in the detail of the information released to the public**. There are not only big differences in the rate of publication, as already shown in Figure 7, but also in content of the ROSCs produced under different standards. In fact, as shown in Table 2, the ROSC document released for six of the standards contains the detailed assessment, while for the others the ROSC is a summary of the detailed assessment—mostly those generated by FSAPs and published in the Annex of the FSSA report. As already mentioned, detailed assessments generated during FSAPs are sometimes published as separate documents.

Box 1. Additional Comments on the Application of the Standard

Monetary and Financial Policy Transparency: The MFPT standard was developed in 1999 by the IMF around the theme that "monetary and financial policies can be more effective if their objectives, rationale, and methods of implementation are communicated to the public in a clear and timely manner". In practice this standard contains two sets of codes, which can and in many instances are used to conduct assessments separately of central banks (monetary policy transparency) and agencies dealing with banking regulation and supervision (financial policy transparency). These ROSCs include ratings of principle observance and a topical list of recommendations. As expected from a transparency standard, countries are encouraged to authorize their publication. MFPT ROSCs have been scarce in recent years. This standard overlaps the most with other standards, particularly the BCP, SR, IS and P&S standards. Moreover, the standard has remained basically unchanged since its formulation in 1999.

Fiscal Transparency: This standard is about assessing transparency or degree of openness to the public of past, present and future government activity. It is not surprising then that these ROSCs have shown a high publication rate (91 percent). Moreover, since 2007 under the revised FT standard and report format all published ROSCs include the detailed assessment, principle-by-principle ratings and a detailed list of recommendations prioritized with respect to their urgency (i.e., measures to be taken in the short, medium and long term).

Data: Data ROSCs benefit from the assessment structure provided by the Data Quality Assessment Framework revised in 2003. DQAF provides a six-part structure starting with a review of the legal and institutional environment, a pre-requisite of data quality. Then it continues with the analysis of five dimensions of quality: assurance of integrity; methodological soundness; accuracy and reliability; serviceability, and accessibility. High quality and timely macroeconomic data are essential for the Fund's surveillance work and Data ROSCs are an integral part of it. Data ROSCs register the highest rate of publication (98 percent) among the standards. This standard explicitly addresses the "one-size-fits-all" dilemma by applying different data dissemination parameters to countries at different stages in the development of their macroeconomic statistics. The SDDS was designed for countries wishing to access international capital markets. The Fund has well established and robust follow up and TA programs associated with the Data standard. In the case of countries aspiring to meet internationally accepted standards, the Fund offers TA.

Insolvency and Creditor Rights: The ICR standard is a distillation of international best practices for the design of insolvency and creditor rights systems worldwide. It is the benchmark currently used by the Bank to carry out assessments in emerging and developing economies in the context of ICR ROSC exercises, which are aimed at promoting and emphasizing contextual, integrated legislative solutions. These assessments take time to complete and demand extensive preparatory work, including preparation of a detailed due diligence report on ICR issues by a local legal expert prior to one or more missions by a Bank-led team. The detailed assessment is submitted to a peer review before completion. As reflected in their low rate of publication (19 percent), most ICR ROSC reports are confidential since much of the information is of a highly sensitive nature and where the prospects of publication may hinder dialogue between the client country and the Bank. Dissemination of findings normally is done through participation in specialty seminars and workshops, when main conclusions and recommendations are presented to an audience of private and public sector stakeholders. The latest version of the ICR standard (2005) will be presented this year for endorsement to the Bank's Board (see clarifying footnote 2 in Table 1).

Corporate Governance: The WB adopted the CG standard issued by the OECD in order to conduct comprehensive assessments of corporate governance issues, especially relevant for publicly traded corporations, in emerging and developing countries. Bank-produced CG ROSCs examine the legal and regulatory framework, enforcement activities, and private sector business practices related to corporate governance. CG ROSCs are stand-alone exercises that on occasion are conducted in parallel with or in the context of FSAPs, as they are helpful to inform and support the joint Fund-Bank work on financial sector stability. There is intensive preparatory work associated with CG ROSCs, including answering a detailed questionnaire by one or two local experts prior to Bank missions. Afterwards the drafted document is submitted to a peer review as part of the completion process. Publication of completed CG ROSC reports that include the detailed assessment is encouraged by the Bank.

Accounting and Auditing: The accounting and auditing standards are assessed jointly under a single ROSC by Bank-led teams. A&A ROSCs use the internationally recognized standards for accounting (IFRS) and auditing (ISA) as benchmarks for assessing gaps in a country's actual rules and practices, particularly in connection with the financial reporting of entities of "public interest" (i.e., listed companies, banks, etc.). IFRS and ISA are detailed rules (more than regulatory principles) for the preparation and auditing of financial statements, and IFRS are particularly numerous and subject to frequent modifications. The A&A ROSC templates developed by the Bank over the years are intended to be much more than a tool for assessing gaps as they also carry out comprehensive assessments of a country's financial reporting infrastructure, including a review of the institutional framework and the accounting and auditing professions. Sound accounting and auditing standards and practices are explicitly recognized as core principles by several other financial standards commented on this box.

Payment and Settlement: The P&S ROSCs are designed to assess observance with three different sets of Core Principles and Recommendations. The aim of this standard is to promote safe and efficient payment, clearing, settlement and related systems, enhancing the quality and security of transactional services in money and capital markets in the countries under evaluation. The most basic and practiced type of P&S ROSC assesses the Core Principles for Systemically Important Payment Systems (CPSIPS) and the associated responsibilities of central banks. The other two sets of principles are the Recommendations for Securities Settlement Systems (RSSS) and the Recommendations for Central Counterparties (RCCP)—the latter has not yet been officially sanctioned. Besides enhancements of safety and efficiency, the RSSS standard aims at the integration of securities settlement systems with payments and other systems with which they interface. The RCCP standard is applied to derivatives markets and sometimes securities exchanges and trading systems where central counterparties are buyers to every seller and sellers to every buyer in an effort to efficiently mitigate counterparty risk. Assessors conducting ROSCs under these three sets of standards apply templates supported by detailed assessment methodologies.

Market Integrity: The AML/CFT standard contains two separate but closely related and complementary sets of principles or recommendations, as they are called by the Financial Action Task Force (FATF). The current 2003 version of the forty recommendations on anti-money laundering was most recently updated in October 2004. In 2001, FATF added recommendations to fight the financing of terrorism. There are nine recommendations in the latest update of February 2008. Together they are known as the FATF 40+9 recommendations. A reference document containing a methodology for assessing and rating of each principle according to compliance was issued in 2004 (latest update is dated February 2009). This methodology adds essential criteria to the assessment process of each FATF 40+9 recommendations. These essential criteria must be fully met including effectiveness of implementation to declare compliance. In all, the AML/CFT standard provides the minimum requirements for a system to be compliant, which also has to meet minimum effectiveness of implementation requirements. Preparation for AML/CFT assessments normally starts six months before missions are conducted. Agencies being evaluated are normally requested to respond to detailed questionnaires. Detailed assessments are meant to be published and normally are reported as ROSCs, following peer reviews by the six FATF-style regional bodies around the world.

Banking Supervision: The Basel Core Principles (BCP) for effective banking supervision provide a framework of minimum standards for sound supervisory practices, deemed of universal applicability to deposit-taking financial intermediaries, and since their first publication in 1997 have become de facto the world standard for sound prudential regulation and supervision of banks. The BCP were revised in 2006 (Basel II) principally with the internationally active banks in mind. BCP ROSCs are prepared by teams of experts led either by the IMF or WB; institutions which also encourage supervisory agencies around the world to carry out their own self-assessments based on the BCP, particularly in connection with FSAP exercises, the principal venue for having a BCP ROSC. Published BCP ROSCs normally are summarized versions of the detailed assessments prepared during FSAP missions, which are occasionally also made public.

Securities Regulation: The SR standard was released in May 2003. Behind this standard is the idea that sound and effective regulation enhances confidence in securities markets which is important for their integrity, growth and development. In addition, the SR standard provides a common yardstick to a growingly integrated global securities industry. Besides stating the principles, the SR standard also provides some examples of current practices, recognizing that the latter can change over time and for different jurisdictions (often there is no single approach to a regulatory issue). The thirty principles in the SR standard are broadly grouped into eight categories. Assessors require that country counterparts prepare a self-assessment prior to FSAP missions. The Bank normally takes the lead for assessments in most emerging and developing countries and the Fund in countries considered more systematically important. The Bank often evaluates conditions in securities markets using Technical Notes, an alternative instrument used in FSAPs which offers a more flexible format for carrying out securities market evaluations that go beyond regulatory and supervisory issues.

Insurance Supervision: The current version of the Insurance Core Principles (ICP) and Methodology that defines this standard dates from October 2003. The ICP are meant to provide a set of best international practices and a globally-accepted framework that apply equally to the supervision of insurers (life and non life) and reinsurers within an individual jurisdiction, even when public responsibilities for the sector might be under more than one authority. Specific assessments sometimes are limited to the responsibilities of a particular insurance supervisory authority, although more agencies can be involved with supervising the sector. A summary of the findings and the list of recommendations are normally reported as ROSCs in the Annex of FSSA reports. In recent years, formal detailed assessments and associated ROSCs have been scarce (the use of Technical Notes has been more common; these normally are not published).

V. Choosing a Sample of Specific Country Experiences

40. **The impact of successful ROSC exercises can take many years to be fully felt and goes well beyond the production of ROSC reports**. Assessments under the different standards are basically diagnostic tools that take inventory and measure gaps against international standards at a specific point in time. It is also crucial that ROSC exercises generate a focused and prioritized list of recommendations, helpful for enriching the debate and supportive of a comprehensive agenda for reform, so that the authorities can act and move forward promptly, and in line with an efficient program of implementation. Thus, to fully appreciate the overall impact of a specific ROSC exercise it is crucial to look at a country experience for several years, particularly with respect to the follow up (i.e., dissemination efforts, TA consultations, ROSC reassessments and updates, etc.) and the process of actual implementation of recommendations by the country in question. Successful implementation often is smartly supported by outsiders, in particular by focused TA from international donors and well-designed financing operations by bilateral and multilateral financial organizations like the Bank and Fund. Thus, while the process for selecting the sample of countries and ROSC experiences for this case study started with the review of ROSC reports, the final choice very much depended on the lessons drawn from the whole country experience, over several years, with the agenda for reform recommended in specific ROSC reports and their follow up.

41. **The 22 country experiences included in the case studies summarized in the Appendix were selected following a directed sample selection approach.** As mentioned earlier, because of the nature of the selection process, the finally chosen sample of country experiences cannot be considered statistically representative of the ROSC universe—as a randomly generated alternative would have been. In any event, the sample size had to be small principally due to budget and time constraints, and from that perspective results derived from such a statistically representative but small sample would have been subject to large statistical errors—or wide confidence intervals. Besides, this is the first exercise of its type so even a small, carefully chosen and directed sample should be capable of rendering interesting insights into the role that ROSC exercises have had in the past.

42. **Two variables, geographical region and type of standard, were particularly relevant for the selection of cases**. Basically, it was decided beforehand that all regions and standards had to be represented in the final sample. In addition, a few other constraints were imposed a priori on the selection process. More specifically, it was decided to:

- Review in some detail two experiences per standard (accounting and auditing are always assessed jointly), trying to select both a successful and a sour/staid country experience per standard.

- Include developed, emerging and developing economies in the sample, while avoiding repeating country choices for different standards.
- Try to select country experiences where ROSCs were preferably completed in the last five years.[14]
- Use publicly available information as much as possible when reviewing country experiences, even though this case study was able to rely most of the time on information with restricted circulation found in the Bank and Fund data bases. [15] The idea was to adopt as much as possible the viewpoint of an outsider—and thus try to get a better grasp of the extent the ROSC experience has been consistent with the Initiative's "Inform the market" objective.

43. **A two-stage selection process was used to obtain the final sample of this case study.** A first step was to try to identify interesting country experiences for each standard with the help of ROSC program coordinators and experienced assessors at the Bank and Fund. For most standards, this generated an initial list of between six and twelve country experiences per standard, with a slight bias in favor of successful over staid/sour country experiences. The criteria for inclusion of a specific ROSC exercise into this initial case selection were left very much to the experts, although they were requested to explain their reasons from the perspective of the overall impact or lack of it—at the diagnostic and implementation stage—on the country in question. All in all, this initial effort generated close to seventy interesting country experiences out of the ROSC universe. It was interesting but not surprising to see that some country names appeared repeatedly for different standards, suggesting that successful financial reform is often broad based escaping the confines of a single financial activity (i.e., Turkey, Poland, Uruguay, etc.). While the initial sample did not support as strongly the opposite case, it clearly hinted at the lack of broad-based country ownership of the need for financial reform as a leading cause behind sour country experiences. The final sample of twenty-two country experiences reviewed in more detail and summarized in the Appendix resulted after some of the ROSCs in the preliminary list generated with the support of the experts were discarded following additional evaluation and the need to stay within the set of constraints discussed in the previous paragraph. All the same, several of the key findings are relevant and supported by the experience of countries in the initial list.

44. **The ROSCs and countries used in the detailed case study are listed in Table 3**. Of the twenty-two countries included in the case study and discussed in more

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[14] In reality, there were a few important exceptions to this rule since the absence of recent ROSCs was found to be a relevant factor in some country experiences (i.e., lack of a recent BCP ROSC for Iceland) Also, in the context of some country experiences old ROSCs were still relevant today (i.e., still valid lists of recommendations and diagnoses) and pertinent to ongoing or recently completed reform processes (i.e., the 2004 ICR ROSC for Rumania).

[15] Information subject to restrictions was preferably used as background information.

detail in the Appendix, 6 are in Europe, 5 in the Americas, 6 in Asia/Oceania, 3 in Africa and 2 in the Middle East.

Table 3. Final Sample of Case Studies Review in Greater Detail

Area	Country
I. Macroeconomic Policy and Data Transparency	
1.1 Monetary and financial policy transparency (MFPT ROSC)	➢ Turkey (2007) ➢ Tajikistan (2008)
1.2 Fiscal policy transparency (FT ROSC)	➢ Mozambique (2001; 2002 and 2003 updates; 2008) ➢ Greece (1999;2001, 2002, 2003 and 2005 updates; 2006)
1.3 Data dissemination (Data ROSC)	➢ Costa Rica (2001; 2010) ➢ Bosnia & Herzegovina (2008)
II. Institutional and Market Infrastructure	
2.1 Insolvency (ICR ROSC)	➢ Romania (2004) ➢ Guatemala (2006)
2.2 Corporate governance (CG ROSC)	➢ Malaysia (2001, 2005) ➢ Argentina (2006)
2.3 Accounting and auditing (A&A ROSC)	➢ Poland (2002; 2005) ➢ Azerbaijan (2006)
2.5 Payment and settlement (P&S ROSC)	➢ Uruguay (2006) ➢ Sudan (2005 TN)
2.6 Market integrity (AML/CFT ROSC)	➢ Mexico (2004, 2008) ➢ Botswana (2007)
III. Financial Regulation and Supervision	
3.1 Banking supervision (BCP ROSC)	➢ Australia (2006; 2010 Basel II) ➢ Iceland (2001; 2003 update)
3.2 Securities regulation (SR ROSC)	➢ Thailand (2008) ➢ Qatar (2008)
3.3 Insurance supervision (IS ROSC)	➢ Jordan (2004; 2008 factual update) ➢ Philippines (2002; 2010 TN)

VI. KEY FINDINGS OF THE CASE STUDY

At the diagnostic level:

Was the identification of non-compliance or non-observance areas translated into practical recommendations for reform?

45. **Experience in this respect is mixed although with a positive tone. Identification has improved over time, in particular with the improvement brought about by the revision and upgrading of the standards (i.e., fiscal transparency in 2007, ICR in 2005 and CG in 2004) and the introduction of better templates and assessment protocols (i.e., P&S and CG)**. Some standards, like MFPT, are laggards in this respect and probably all standards might gain if a minimum set of guidelines for updating practices and procedures, including adequate dissemination among assessors, applicable to all standards are put in place. Moreover, some standards have done a much better job at standardizing their pre-mission work than others. For example, ICR and CG assessors go to the mission with a solid document on the local environment prepared before hand by an independent local expert. The all important BCP-related assessments probably could gain from imposing more stringent pre-conditions for conducting formal assessments, such as demanding detailed documentation and quality self-assessments from local counterparts, leaving plenty of time for review and analysis prior to missions. It is also an indication of the leading counterparts' commitment with the assessment.[16] Moreover, assessors need to allocate a block of time pre-mission to do thorough preparatory work. More generally, assessing practices and procedures for stand-alone ROSCs both at the Bank and Fund appear to be more demanding.

46. **All the same, the generation of practical recommendations in the case of particular ROSC experiences depends largely on the quality of the underlying diagnosis contained in them.** From the perspective of the ROSCs reviewed for this report, the panorama that emerges is mixed although the quality of ROSCs and their recommendations appears to be closely and directly related to the amount of effort put into a ROSC (size of assessing team and quality of preparatory work, in particular) and the prior country knowledge and sector/standard experience of the assessing team. The establishment of a bond of professional trust between the assessing team and its local counterparts is also essential. FSAP-related ROSCs tend to suffer in comparison with stand-alone ROSCs because the level of effort applied by the former is normally much lower (Table 2). Although the contribution of external consultants often is of high caliber, the perception is that it is a big plus for a standard to be able to count on a critical mass of experienced in-house assessors (i.e., the case of data dissemination, fiscal transparency, AML/CFT); it also contributes to quality control.

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[16] The Bank and the Fund, through the Bank-Fund Financial Sector Liaison Committee, are in the process of finalizing guidelines in this respect.

47. **ROSCs are holistic diagnostic tools so in general are well suited for making practical recommendations when they detect structural gaps vis-à-vis the core principles of the standard**. However, recommendations are normally circumscribed to the areas specifically covered by the standard. In that respect, because TNs are more flexible instruments, they are often preferred when key issues needing evaluation lay outside the scope of the standard being evaluated (i.e., insurance supervision and securities regulation). In other words, TNs are useful for filling the gaps left untouched by the core principles of a given standard. The so-called factual assessments (i.e., assessments that leave principle ratings out) and sometimes TNs done in the context of FSAPs can end up being a fallback option to formal ROSCs, particularly when the FSAP mission finds out that there is not enough information available to carry out a formal detailed assessment.

48. **The case studies show that weakness at the diagnostic level—or absence of an updated assessment—carries a high price not only because it often conveys a false sense of comfort but also because they badly erode trust in the capabilities of the two assessing institutions among clients**. It should be stressed that the quality of assessments is an unequivocal prerequisite for effective ROSC experiences. Given the directed nature of the sample, several cases in the final sample of case studies show weaknesses at the diagnostic level, as reflected in the text. However, in all and from the broader perspective of the larger sample of country experiences reviewed to arrive at the final sample, the case studies suggest that while there are instances of poor quality ROSCs this is not the leading factor behind the less successful ROSC experiences. Rather, the less successful experiences are a result of weak country ownership over the agenda for reform and poor follow up on the part of the Bank and the Fund. However, what is clearly illustrated by several country experiences in the study is the high payoff associated with successful ROSC exercises, and in that context the cost of an actual assessment and production of a well thought out list of recommendations, including their proper dissemination, is miniscule when compared with the actual payoff.

49. **ROSC assessments face a set of complex issues in advanced economies with the potential for generating high global systemic financial risk. This situation is mainly detrimental to ROSCs' value added as promoters of change**. To start with, ROSCs—and the underlying detailed assessments—in these countries are perceived by local counterparts as one more surveillance tool in the IMF's toolkit than as instruments for generating practical recommendations.[17] Ratings become the dominant issue during missions; often less time is spent and progress made on more substantive issues, like shaping the agenda for moving forward with necessary financial reform. Perhaps more problematic is that the detailed assessments in which many crucial ROSCs are based (i.e., BCPs) have suffered from grade inflation, giving the false impression that advanced

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[17] Many of the ROSCs done in the context of FSAPs are meant for publication and do not include explicit ratings, which nonetheless are an integral part of the detailed assessments prepared during FSAPs.

economies were meeting international standards to a higher degree than justified in practice, as the recent period of financial crisis confirms. Also, it is often easier to reach agreement on the diagnosis than to come up with an acceptable list of recommendations. Sometimes even the guidelines provided by the standard are questioned when agencies feel that they are international standard setters themselves and worth emulating, so that there is more than prestige involved since they might even feel that the assessors are applying competing methodologies, which they are not ready to accept so easily.

Were the recommendations prioritized?

50. **On the whole, detailed assessments normally give a strong sense of what is urgent and most relevant to close gaps vis-à-vis sound international standards**. The authorities might not agree with the diagnosis and consequently the recommendations coming out of the assessment, but that is something else. Lists of recommendations in the context of the summarized versions of the assessment, like those included in the FSSA report, sometimes lose clarity simply because the background information provided by the detailed assessment is not published. For some standards (i.e., banking, insurance, securities) formal lists of recommendations in the detailed assessment are not explicitly prioritized. There is also the issue of variations in the templates used by different types of ROSCs for the presentation of the assessment, particularly in terms of ratings, publication and prioritization of recommendations (as seen in Table 2). An interesting example is given by A&A ROSCs which release the detailed assessment without ratings but with a prioritized list of recommendations, including additionally a standard recommendation to establish a multidisciplinary National Steering Committee in charge of developing a detailed action plan—and consequently the path for reform—based on the detailed list of recommendations contained in the document. Another innovative format has been adopted for CG ROSCs which give detailed topical lists of recommendations plus a summary stating urgency and the venue for their implementation (i.e., change in legislation, broad-based consultation, donor assistance, etc.). Also, it should be mentioned that recommendations for some of the standards tend to get little exposure beyond country counterparts (i.e., ICR ROSCs and TN for insurance and securities) since assessments more often than not remain confidential information, subject to little circulation even among the Fund and Bank staff. This is particularly damaging for reform agendas in countries where the local counterparts have a hard time or little inclination for implementing the proposed recommendations. This might effectively dampen the momentum for reform, even when one is badly needed.

At the implementation level:

To what extent did the identification of areas of non-compliance, non-observance lead to efforts to fill those gaps?

51. **Countries where there is strong ownership and internalization at all levels of the need for structural change are the ones which most often succeed in carrying out robust, enduring and timely financial reform**. The case studies illustrate several country experiences where closing gaps detected during ROSC exercises were quite successful (Uruguay, Malaysia, Thailand, Poland, Mozambique, Romania, Turkey, etc.). Detection of existing gaps via a robust ROSC report, however, is just an important first step in the process. The real challenge lies in a proper and timely implementation of the agenda for reform, for which long-term and sustained commitment by key government agencies and private stakeholders is essential. (To this one should add the need for having in those cases a receptive and attentive Bank and Fund.) All too often detected gaps imply implementing ambitious legislative agendas for which broad political consensus and strong public-private partnerships are also essential. While the case studies show that ROSCs can be important for preventive surveillance (i.e., fiscal policy transparency, BCP) they are more frequently used as instruments for driving structural change (i.e., closely related to policy-based lending at the Bank and TA at the Fund). This speaks in favor of preferably carrying out ROSCs in countries actively demanding them in support of their plans for financial reform (i.e., take stock, improve the agenda, detect vulnerabilities, etc.). It is also an argument in favor of voluntary ROSCs.

52. **The case studies suggest that closing gaps in the financial sector often implies advancing the agenda for reform on several fronts at the same time**, in part due to interrelatedness and synergies peculiar to financial activity—as reflected also in the overlapping of coverage among the 12 standards—but also to take advantage of the emergence of favorable momentum for legislative change, which is hard to sustain and does not come often—and which in the case of the financial sector unfortunately often materializes too late and in the midst of severe financial turmoil.

53. **The case studies also show that closing gaps often is a long-term endeavor, so that the time elapsed between diagnosis and successful implementation can span years, and it is crucial in this respect to have a strong institutional setup, supported by key private players, to assist in the implementation of the agenda for change**. This speaks strongly in favor of close and persistent follow up of the agenda for change via ROSC updates to freshen up findings and lists of recommendations. Traditional ROSC venues such as FSAPs can probably be supplemented effectively for this purpose by adding a more focused structural agenda to Article IV consultations and to the Bank's sector development work by explicitly including ROSC findings and recommendations. Robust TA agendas certainly have played important roles in the past during the implementation stage of financial reform, but certainly it is not enough by itself.

Were such gaps filled through TA, surveillance, or other work by the IMF or World Bank?

54. **Bank and Fund-related TA has been crucial in many instances to fill detected gaps, although its impact is much enhanced when applied in the general context of financial sector lending by these institutions in support of major sector reform**. The case studies show that support by the Fund and Bank to close gaps can take many shapes and forms and while it is often financially important, its impact is enhanced when it plays a catalytic role to extend domestic and international support for the reform at hand. For example, support by the Bank and Fund gives more credibility to reform efforts promoted by domestic agencies, such as central banks or securities market commissions, which helps galvanize other necessary local support behind the ROSC-promoted agenda. It also attracts the concerted interest of donors in support of targeted agendas. Access to TA is quite useful but not necessarily a guarantee for success, as illustrated by some of the case studies. While far from ideal, financial crises certainly have been a driver for reform, with ROSC diagnosis and recommendations having played a relevant role in the context of Fund and Bank conditional lending.

55. **With the exception of AML/CFT and Data ROSCs which can rely on their dedicated TA programs, the Fund and Bank do not currently have a targeted TA program for the ROSC Initiative**. This notwithstanding, as part of the FSAP follow up, the Fund normally sends afterwards a TA mission to discuss country priorities with the authorities in the context of the FSAP's recommendations. After a consensus is reached, the TA mission finalizes an action plan for future Fund-related support, where items originating in FSAP-related ROSCs have a chance of getting included. Sometimes the Bank also participates in the formulation of these action plans and contributes to their implementation. In the case of low-income countries, a donor conference is organized and supporters are identified to implement the action plan. ROSCs are often seen by Fund program managers as part of the Fund's TA effort rather than as a surveillance tool. The Fund's regional TA centers have been central to the efforts of implementing ROSC agendas. In the Bank, the FIRST Initiative has been particularly helpful for funding consulting work required for the formulation of the Action Plans associated with A&A ROSCs. It has also contributed to the funding of country self-assessments under the securities regulation standard in Eastern Africa and legal work required to implement recommendations of the insurance supervision standard. However, implementation of ROSC agendas normally demands substantially more resources than those currently available under FIRST, which is a short-term oriented program designed to fund small tasks (the funding of longer term projects is not part of its mandate).

56. **Also important in the case of poor countries, the main constraint for providing TA is not money (there are plenty of donors) but qualified people, as the absorptive capacity of the Fund and Bank, and also of domestic agencies, is limited**. Country managers emphasize the fact that the provision of TA is highly labor intensive

and very demanding in terms of management's time and administrative skills—which suggests that there is a need to look at current incentives in place for the provision of TA. ROSC also have been found to be handy for deciding on TA priorities when donors express a desire to fund specific financial subsectors. More generally, ROSCs with their systematic and comprehensive approach play an important role in identifying TA needs, but they are only one instrument among several in the Fund's and Bank's toolkits. On the other hand, ROSC recommendations are less well suited for designing Fund conditionality, particularly when ROSCs are outdated. Art IV missions are much better suited for that purpose and also as a first step to agree with the authorities on alternatives to pressing TA needs.[18] All the same, normally the Fund decides on a country's TA agenda in light of the findings of an FSAP—and its associated ROSCs—since that way the TA agenda takes proper account of the country's financial vulnerabilities, including pending structural issues.

Are ROSC findings included in conditionality?

57. **The short answer is yes, as shown for several of the case studies. This is valid for the Fund and the Bank.** In fact, on several occasions recommendations in ROSCs have been important ingredients for shaping Fund conditionality and structuring Bank policy-based lending operations. Data, fiscal and BCP ROSCs have been particularly relevant for the Fund (i.e., Greece, Mozambique, Iceland, Bosnia and Herzegovina, etc). In the case of Bank operations, conditionality associated to DPLs and FSALs often have relied on recommendations in ROSCs (i.e., Uruguay, Guatemala, Turkey, Azerbaijan, etc.). Bank's TA loans associated with financial sector lending have also relied on ROSC recommendations to set priorities and tasks to be financed.

If no effort was made to fill the gap, was this due to: (i) disagreement with the assessment; (ii) lack of political will; (iii) other reasons?

58. **In hindsight many different factors have played a role, but absence of broad-based political will is what appears to dominate when countries fail to gather sufficient collective will to close gaps**. This is particularly troubling when it leads to delays in moving the associated legislative agenda forward, which almost always is the starting point for in-depth financial reform. Even in countries where key agencies like the Central Bank or Ministry of Finance are fully on board and heavily committed to filling detected gaps, opposition to change can deny the necessary private and public consensus for passage of key legislation. Other factors worth mentioning for failures in filling gaps are:

- Cultural change is hard to come by, even when there is general recognition of the need for reform. The problem is often amplified by a lack of professional skills in the local private sector which raises additional obstacles to the practical implementation of proposed changes to financial reform. Adequate availability of

[18] Sometimes in the case of TA-dependent countries a consultant is hired by the Fund prior to Art. IV consultations to identify priorities and formulate a TA action plan.

TA funding often is insufficient to overcome cultural and local human capital barriers to implement change.

- Some agencies, particularly in developed and large countries (poor and rich alike), simply see little value added in ROSCs or do not wish to admit weaknesses in their regulatory and supervisory work. They perceive poor ROSC ratings and associated recommendations to fill gaps as detrimental to their reputation or simply dangerous since they add a new factor to market instability. The end result is that those ROSCs tend to go unpublished and often their recommendations go ignored, although sometimes afterwards to the country's regret.
- Some agendas are too dependent on one or two key senior country officials, something which can end up being a good thing but in others can stop the drive for reform if sudden changes take place at the top. Staff rotations at the two assessing institutions also can be a source of disruption if no proper consideration is given to the need for continuity, particularly when long-term relationships are at stake. Professional trust is an important ingredient in successful ROSCs.
- Some ROSCs are ill-timed and mostly supply-driven. It is hard to carry out a thorough ROSC if one of the direct counterparts in the country (i.e., supervisory agencies) does not feel it needs a ROSC, even though the central government might decide to go ahead with the assessment (for example, in the context of an FSAP). Best results come from quality preparatory work and agency ownership over the agenda for change.

What were the issues and obstacles for implementation?

59. **Agencies implementing ROSC agendas in developing countries often have a hard time convincing the authorities of the need to borrow for funding their TA needs.** In addition, in some countries borrowing from multilaterals requires special legislative approval, being another cause of delay. In many poor countries the only realistic way forward for advancing ROSC agendas in a timely fashion is grant money. One exception is central banks which normally sponsor standards like BCP and P&S and that use their own resources to pay for TA (i.e., the central banks in Uruguay, Jamaica and Russia, among others, entered into fee-paying advisory service contracts with the WB to implement payment and settlement systems reforms).

60. **Agency squabbling or lack of response to the other's needs compounds implementation difficulties for some standards**. This problem is more acute among standards like AML/CFT which normally have to deal with numerous country counterparts to fully implement the ROSC agenda. Also, securities and insurance supervisory agencies sometimes find it difficult implementing changes that require input and close collaboration with dominant banking overseers. On occasions, there is overlapping agency responsibility over certain areas which can lead to frictions and delays.

61. **Self denial by domestic agencies and resistance on the part of key private stakeholders can also make it hard to move the ROSC agenda forward**. Sometimes it takes time for executing agencies to internalize the need for broad-based change.

However, when there is a reversal in sentiment, which on occasions can be dramatic or crisis driven, the pace of implementation rapidly improves. A good indicator of a change in attitude is when agencies reconnect with the Bank and Fund seeking TA support. In some countries or sectors, financial agencies face great difficulties convincing powerful private stakeholders of the need to accept new market rules and regulations; business associations and other active market players can effectively block or delay the implementation of the agenda for change.

What were the critical factors for the success/failure in bridging the gap between the diagnosis and implementation?

62. **From the perspective of the Bank and Fund, persistence in the follow up pays off**. Ongoing, steady contact and consultations with the client following completion of the ROSC is quite valuable, as the work on financial reporting in Eastern Europe and Central Asia by the Bank's Vienna-based Centre for Reporting Reform illustrates. Preparation of credible action plans with credible timetables and clear agency responsibilities, procurement rules and funding sources has proven a useful tool for materializing ROSC recommendations. In this respect, there are important regional differences in the way follow up is done and implementation funded; it could be worthwhile establishing mechanism for sharing experiences across regions so that there is better sharing of lessons learned. From the perspective of the Bank and Fund, insurance and securities markets in developing countries often have little impact on systemic financial risk—given their relatively small size—so recommendations generated during FSAPs (often produced by factual assessments in the form of TNs and background notes) tend to get much less attention during follow up than those associated with the dominant banking sector. Indeed, gap-filling in the banking system often takes precedence during surveillance since it is in the banking sector where financial intermediation concentrates and systemic risk lies. The much larger numbers of BCP reassessments and updates is a response to that reality, which also explains the attention banking gets during Art. IV consultations—as is the case of ROSC-related fiscal recommendations. Perhaps it is worth exploring if ROSCs covering securities and insurance markets should more frequently be conducted as stand-alone exercises. This might focus attention more properly on gap-filling measures that are delaying their development and which are independent of their contributions to a country's systemic financial vulnerabilities.

Is there a systematic approach (at the IMF, World Bank, or country level) to monitor the implementation of ROSCs recommendations and follow-up?

63. **The short answer is, no**. As already mentioned, the ROSC Initiative is highly decentralized so monitoring of the final outcome of a given ROSC by the Fund and Bank varies with the standard and often the region in question. Much depends also on the interest of a given country management unit on the issues raised by a specific ROSC. FSAPs are the most important venue for ROSC generation, so it has much to say with respect to the quality of generated ROSC documentation but the links of this program

with actual implementation and follow up of recommendation is considerably weaker. Furthermore, implementation of recommendations can take years and FSAP-related assessors normally go on to new tasks following specific FSAP assignments, often having no clear responsibilities for long-term follow-up or monitoring on the work done. Besides, many ROSCs rely heavily on the work of outside consultants. Stand-alone ROSCs tend to fare better in this respect, but again it depends strongly on the standard and the different realities they face, not the least given important differences in budget assignments and priorities (i.e., little MFPT and FT ROSC activity has taken place in recent years). Some standards like AML/CFT have the benefit of associated TA programs that allows for much closer follow-ups, while others can rely on a more permanent organizational structure and in-house resources to monitor progress and maintain long-term relationships in countries assessed, such as in the case of Data, ICR and CG activity—versus absence of a dedicated manager for SR ROSC activity at the Bank.

APPENDIX I. HIGHLIGHTS OF THE CASE STUDIES

Monetary and Financial Policy Transparency (MPT)

1. Turkey: The assessment for Turkey completed in 2007 (based on two FSAP-related missions in 2006), only made an assessment of monetary policy transparency. What makes the Turkish experience interesting is the progress made by the country on monetary policy transparency in the years following the onset of the major fiscal and financial crises that badly battered Turkey early this decade. In fact, that crisis gave impulse, actively supported by the Fund and Bank, to a major macroeconomic reform targeted to correct the country's serious underlying macro vulnerabilities. In May 2001, in a clear break with failed past economic policies, the Central Bank gained operational independence and was freed from any obligation to finance the fiscal deficit; its primary objective was clearly stated as domestic price stability. The Central Bank used its independence to improve the monetary policy framework, materially enhancing monetary policy transparency with the introduction of inflation targeting and the adoption of clear rules for: influencing interest rates in the Interbank Money Market; reserve maintenance by banks; access by banks to its liquidity facilities; and its own foreign exchange market interventions. Progress did not materialize instantly but came rather gradually over the years. In fact, two years before the 2007 MPT ROSC, the Fund staff still perceived achieving a more transparent monetary framework as the main challenge for the medium term (2004 Article IV Consultations). The staff was encouraging the Central Bank to formally target its ultimate objective, inflation, rather than volatile monetary aggregates such as base money. The staff also saw a greater role for the monetary policy council, better predictability in the timing of interest rate decisions, and a more steady approach to foreign exchange market interventions.[1] When the 2007 MPT ROSC took stock of the situation it reported a high level of monetary policy transparency, both in the text of the laws and regulations and in the way these were being implemented. There was still room for improvement, as three of the core principles were found to be either partially observed or not observed. Some gap filling required amendments to the Central Bank Law—they are still pending, such as the adoption of legal provisions and obligations on capital maintenance by the Central Bank. It is hard to measure the amount of progress since the 2007 ROSC exercise but judging by the most recent surveillance reports, monetary policy transparency issues are no longer central to the Fund agenda with the Central Bank. Moreover, the new macroeconomic framework put in place by Turkey has proven valuable during the recent global turmoil, with the economy showing a smart come back this year on the heels of a robust credit-led rebound.

[1] In the context of a 2005 three-year Stand-By Arrangement, the Fund actively provided TA on inflation targeting and monetary policy implementation.

2. Tajikistan: In August 2007 a Fund assessor carried out both a monetary and financial transparency assessment of the National Bank of Tajikistan (NBT), the country's monetary authority and the banks' supervisory and regulatory agency. The Tajik experience with monetary and financial policy transparency is interesting for several reasons. To start with, it shows that appearances can be deceiving when trying to assess transparency. This initial MFPT ROSC found policy transparency at the NBT broadly satisfactory, in part a reflection of the good disposition of the central bank to inform the market on its activities. As a result, the MFPT ROSC gave it relatively generous ratings; most principles were found to be either in observance or broad observance with good transparency standards. In hindsight, the assessor appears to have relied too much on the text of the law without due weight of misaligned practices. For example, since the NBT is required to submit audited financial statements to Parliament the grading of principle 4.2 which deals with this type of disclosure was considered observed, despite the fact that the NBT had not produced audited financial statements for years due to reticence on the part of its auditors to sign off on them. Rather than demanding an immediate reversal of this anomalous and potentially damaging state of affairs, the assessor recommended: "The audited financial statements could be made available on a timely basis on the NBT's website." Sadly, a few months later (March 2008) the Fund Board had to meet on five non-complying disbursements by Tajikistan made on the basis of inaccurate net international reserve position reporting—the country was under a three-year Poverty Reduction and Growth Facility. Credibility of the Tajik authorities and its central bank were badly damaged at a time when the country was facing very difficult economic circumstances. In addition, the Fund was put in the position of having to demand a reimbursement.

3. The Tajik experience also illustrates some of the difficulties assessors face with the correct application of the MFP Transparency Code. The focus of this standard often must go beyond mere transparency since it has to be supportive and consistent with other interrelated financial standards. For example, the BCP assessment of February 2007 recommended enhancing transparency and predictability of decision-making at the highest level of the NBT, and that a full up-to-date set of regulations be made available. All the same, the MFPT ROSC assessed principle 6.2 of the MFP Transparency Code, which deals with timely reporting to the public of changes to financial policy, as being observed arguing that financial policies were timely communicated to the public via the media and the NBT's web site. The Tajik experience also shows how crises can be powerful incentives for financial reform and gatherers of the required political will for rapid implementation. Under a Staff-Monitored Program (SMP), Tajikistan has been addressing governance and management gaps detected at the NBT. With some delays, the most urgent amendments to the laws on Banking Activities (July 2009) and NBT (August 2009) were passed. Also, the NBT's audited financial statements for FY 2009 were released in April 2010. A new NBT Law is now expected to be enacted by mid-2011. All the same, it will take time to correct organizational shortcomings at the NBT, and in the

meantime data and operational integrity at the NBT will continue to lack adequate transparency.

Fiscal Policy Transparency (FPT)

4. Mozambique: This experience shows the long-term value of an accurate and comprehensive FPT ROSC containing a sound list of prioritized recommendations for fiscal reform. Active and sustained follow up has been one of the merits of this ROSC experience (4 ROSCs and updates starting in 2001, with the latest reassessment in 2008). An active Fund-led TA program, well supported by donors and the Bank over the years, has been a main contributor as well as crucial for supplementing the strong commitment and sense of ownership shown by the Mozambican authorities over their comprehensive fiscal reform program, which has been validated by different Administrations. Also, the Fund staff has recognized that gains in FPT have meant easier surveillance and improved compliance over time by Mozambique with Fund-imposed fiscal conditionality. All in all, sustained FPT ROSC engagement by the Fund in Mozambique has enriched fiscal reform, improved coordination of a rich TA program and introduced timely revisions to the long-term FPT agenda.

5. Greece: The Greek experience with FPT ROSCs provided several lessons. One is that country self-assessments (1999, 2001, 2002 and 2003) without the benefit of an initial full-fledged ROSC by a Fund-led team can derive in a false sense of security. A full-fledged FPT ROSC was initiated by a Fund-led team in 2005 and completed in January 2006. In addition, Fund also provided TA related to issues identified in the ROSC. Necessary corrections to the diagnosis were finally introduced once Art. IV consultations finally focused more carefully on the country's major FPT shortcomings (2005 and 2006). Another crucial lesson is that clear, sustained political will on the part of the authorities is essential. In Greece, the authorities did not take much action on the ROSC and TA reports primarily due to limited political commitment, as well as limited capacity in the Ministry of Finance to implement budget reforms. Further surveillance and EC reviews did not put enough pressure on the authorities to focus on addressing FPT issues. This experience also shows that there is no substitute to sound, broad-based fiscal reform when there is a major shortcoming in FPT. The Greek experience also illustrates the need for comprehensive follow-up on the FPT as a part of the Fund surveillance. In hindsight, it would have been far better to prevent by taking timely corrective action than expose the economy to a serious loss in fiscal credibility. Curative action, as is currently the case of Greece with its now ambitious fiscal reform package under outside-imposed conditionality, is far from ideal and clearly something to be avoided. In retrospect, while prior FPT ROSC tool did not work as preventive medicine, it allowed nonetheless to respond quickly to the emergency by providing a focused list of FPT recommendations for government action and essential material for designing Fund/EU-associated conditionality. In that respect, although the Greek experience has proven to be sour, FPT ROSCs exercises have been helpful to contain further damage

following the onset of the macroeconomic crisis. Future FPT ROSCs could also contribute to the slow process ahead of restoring the country's fiscal credibility.

Data

6. Costa Rica: Costa Rica has been a subscriber of the SDDS since 2001. A lesson from this country experience is that ROSC exercises can be successful even when formal assessments under a ROSC are not repeated for several years (in 2001 and 2010, in the case of Data ROSCs for Costa Rica). However, for that to happen several conditions are probably necessary and which were met in the case of Costa Rica, including strong country ownership of the agenda for macroeconomic statistical reform and close follow up by the Fund via a supportive TA program and periodical Art. IV Consultations. Another important lesson of this Data ROSC experience is the need to engage a country's commitment by agreeing on a detailed and well-supported action plan as part of the ROSC exercise, which appears to be crucial for moving successfully forward a complex agenda for change, particularly when the reform involves long-term commitment and the need to amend the legal framework—as is currently the situation in Costa Rica for further improvements.

7. Bosnia and Herzegovina: Bosnia and Herzegovina does not participate in the GDDS, and although it meets many of the GDDS recommendations for coverage major deficiencies in its macroeconomic statistics remain. These weaknesses have made it more difficult to deal with the ongoing economic and financial crisis and the country's sharp fiscal and external imbalances. One lesson is that it is not enough to have a sound, comprehensive assessment; it is also important that this be timely (the first Data ROSC is rather recent, dated February 2008) and that country's implementing agencies be capable of mustering the political will to apply a cohesive, well coordinated work plan. The four agencies responsible for macroeconomic statistics have had serious difficulties agreeing on clear priorities for a statistical program. There is also a lesson in the relatively abundant but segmented TA from a variety of donors, which has made things more difficult and real reform appear less urgent. The inability to move away from a fragmented, uncoordinated approach in the generation of macroeconomic statistics is a reflection of the pervasive and complex political realities of Bosnia and Herzegovina, which has precluded reaching broad encompassing political agendas. It would have been much better to prevent than to have to implement a real reform in the context of Fund-supported conditionality, as it is currently the case of Bosnia and Herzegovina. In hindsight, delays in improving statistical reporting appear to have added significantly to the current economic burden; this is another case of a missed opportunity for reform and drastically improving the quality of macroeconomic statistics—in particular, when the economic times were good (i.e., during the high growth years that lasted until 2008).

Insolvency and Creditor Rights (ICR)

8. Romania: The Romanian experience with insolvency and debtor/creditor rights issues is particularly interesting given that the ongoing global macroeconomic and financial turmoil has battered Romania particularly hard, resulting in high levels of distressed debtors. Romania made good progress in setting up the legal framework prior to the onset of the crisis. In particular, the country united behind a multidimensional reform effort with the objective of securing membership in NATO and the EU. Once more, the Romanian experience illustrates the importance of strong country ownership of the reform agenda. The ICR ROSC exercise in Romania came rather late (2004) in the process of transforming Romania into a market economy. The detailed assessment produced by a Bank team was for discussion with the authorities only, so unfortunately there was no associated publication of the results, even in a summarized version. The report detected major weaknesses in the implementation and enforcement of the recently modernized legislation. An over ambitious legislative agenda and hastily adopted amendments, ordinances and regulations without meaningful stakeholder participation had undermined transparency and predictability of legal practice and added pressure on the court system. The lesson here is that merely passing laws does not ensure or ingrain reform or a sound legal environment. This ROSC experience also produced a focused and prioritized list of recommendations that enriched the dialogue with the authorities and became integrated into a comprehensive agenda for reform. An impressive package of financial legislation was approved in 2006 as part of the impulse to bring Romania into compliance with the EU directives (Acquis Communautaire). The package also included a new Law on the Insolvency Procedure. Since then the challenge for Romania has been focused on the fair, transparent, expedient and efficient implementation of its new and impressive body of legislative work. The current crisis has accelerated that process. Amendments to the Insolvency Law in 2009 streamlined insolvency proceedings, including the adoption of measures proposed years earlier in the 2004 ICR ROSC (i.e., creation of special divisions within trial courts to deal exclusively with insolvency cases). Renewed recent involvement in Romania by the Fund and Bank also has benefitted the implementation of the reform. The FSAP program (April 2009), for example, made specific recommendations in support of a medium-term ICR structural reform agenda, which is now receiving technical and financial support under the Bank's DPL series. In particular, assistance is being provided to the Ministry of Justice to remove obstacles to efficient and effective corporate debt restructuring outside the court system, and to the National Bank of Romania on the preparation of guidelines for mortgage debt restructuring. The importance of TA in support of Fund and Bank conditionality is another lesson of this country experience.

9. Guatemala: Guatemala engaged in major financial reform following the economic and banking crisis that badly hit the country in 2001. An impressive long-term effort actively supported by the loans and TA from the Fund, Bank and Inter American Development Bank resulted in major overhauls of the legal, regulatory and supervisory

frameworks underpinning the financial system, particularly the dominant banking sector, which has shown appropriate solvency and resilience to market volatility during the current global crisis. Nonetheless, poor private sector access to credit remains a major problem in Guatemala. In this respect, most of the problems with legal practices detected by the 2006 ICR ROSC, which was done in parallel with an FSAP update, still are pending resolution. This is also relevant because it is likely that the high fiscal tag of recurrent bank interventions during the present decade was much augmented by the absence of a modern and agile framework for dealing with distressed credit resolution and collection. Non-financial company restructuring and insolvency in Guatemala is currently left to a fragmented collection of legal provisions regulating different aspects of the process, which often ends up entangled in procedural norms, with proceedings often becoming sluggish, complex and expensive exercises. It is not surprising then that corporate restructuring and insolvency are scarcely used, and that the stigma associated with bankruptcy remains very strong. As made clear by the list of recommendations in the 2006 ICR ROSC, pending financial reform in Guatemala needs to go much further than resolving solely financial issues. It actually implies a broad and in-depth modernization of the civil system of justice, and of its commercial law and procedures in particular. By its nature, this type of effort must engage new agents of change (i.e., in the courts, Ministry of Justice, Congress, etc.) and a wider network of private stakeholders than the one that made possible the banking reform. One of the lessons of this country experience is that sometimes financial reform requires going much beyond the boundaries of the sector, particularly when matters of credit access and appropriate credit risk management are involved. Also, it is likely that better dissemination of the 2006 ICR ROSC (findings remain confidential) could have helped create better awareness of the problems and the development of a more robust agenda for change.

Corporate Governance (CG)

10. Malaysia: The 2005 CG ROSC exercise had good timing. It took place at a crucial moment in the development of Malaysia's capital market development. Indeed, at the time the Securities Commission (SC) was taking inventory of progress already made in preparation for a major drive by the government to further enhance the capital market's framework and practices. CG has been part of a broader effort to transform the Malaysian capital market into a more effective and efficient source of long-term funding for the country's corporate sector. Improving corporate governance is perceived as an important ingredient for increasing capital market transparency and accountability, while benchmarking against best international practices is seen as key to accomplish this task successfully. One of the pillars in this process has been a strong public-private partnership involving key financial players, and which has imprinted the CG Code with a high degree of ownership among stakeholders. Following publication in 2006, the findings and recommendations of the detailed 2005 CG ROSC report were actively and jointly disseminated by the SC and the Bank. Since then most of the recommendations for improving the legal and regulatory framework have been enacted and adopted.

However, the combined presence of weaknesses in enforcement and the CG culture and practices have remained enduring problems detrimental to further advances. Nonetheless, recent surveys indicate that conditions in the area of CG have materially changed for the better since the 2005 CG ROSC. In fact, the Listing Requirements of Bursa Malaysia currently make mandatory the application of important CG principles for companies listing securities in the local market—as opposed to the "comply-or-explain" approach of the SC. As indicated by a recent Article IV report: "Malaysia has withstood the global recession well." Moreover, Malaysia has met its goal of making its securities market resilient and a dynamic force for meeting the country's corporate sector financial needs. There are perhaps two important lessons in the country experience. CG should not be left behind in the context of a sweeping and ambitious capital market reform and perseverance in the face of protracted CG issues can pay off handsomely at the end.

11. <u>Argentina</u>: International experience has shown that well-governed companies often are better valued by the market and get access to cheaper credit; and because they tend to be better run outperform their peers. All this should be particularly attractive to publicly traded companies and to those aspiring to a future listing. The question is why, as claimed by the Bank's 2006 CG ROSC report and others, awareness of the potential benefits of good corporate governance remains low in Argentina, with corporate perceptions that noticeable improvements in the legal and regulatory framework have resulted merely in added costs rather than benefits. Contributing to this lack of corporate culture has been the passive attitude on CG matters by institutional investors. Active preoccupation with CG issues in Argentina is concentrated on the small but important group of large corporations that have looked mainly towards New York in search of new equity funding for expanding their operations. The meager performance of the local equity market probably does not contribute to increasing the interest of the average company in projecting an active and progressive corporate governance image. The poor market performance perhaps gives the impression that no tangible future rewards can be expected in the local capital market, thus focusing the average company attention on other drivers to increase its overall financial return. One of the lessons of the 2006 CG ROSC experience is that the Bank effort to support improvements in corporate governance practices in Argentina would probably have been more fruitful if it had taken a more encompassing approach, directing the effort to addressing issues affecting the vastly larger universe of companies outside the umbrella of the National Securities Commission, including those companies with majority ownership by the state. There might had been more value added in targeting the reform effort on these larger group of companies, particularly if that could have improved corporate governance awareness and standards overall, thus making the future listing of potentially attractive companies more likely. Unfortunately, the 2006 ROSC's approach was to concentrate its recommendations narrowly around the pending agenda of the NSC. Moreover, there was no dissemination of the work done by the Bank and at the end the report was not made public. Circumstantial changes of staff at the Bank and NSC did not help in this respect.

Accounting and Auditing (A&A)

12. Poland: There have been two A&A ROSCs done in Poland (2002, 2005) and both have been able to report solid progress based on sound structural reform in the financial reporting infrastructure of the country. Central to the reform effort has been the sustained leadership and long-term backing of the Ministry of Finance, which has been ably supported during implementation by financial regulators and professional associations. Besides strong country ownership, another lesson derived from the Polish experience is the importance of solid preparatory work, such as the timely initial self-assessment to the 2002 A&A ROSC exercise. After the 2005 ROSC the country has continued to make steady progress on the basis of a detailed Country Action Plan (CAP). It set out key actions, tasks and allocated responsibilities for implementing necessary reforms. Multidisciplinary working groups have contributed to move the agenda forward, showing the importance of having the right setup for implementing multidimensional and complex reforms. In recent years the emphasis has been focused, as recommended in the 2005 A&A ROSC, on building the monitoring, supervisory and disciplinary regimes required for ensuring effective compliance. The leading challenge has been on quality enforcement of the demanding set of accounting, auditing and ethical standards adopted by Poland. All along, the process of change in financial reporting has been supported by a Bank-led TA program, an effort which has been recognized by the authorities. In this respect, the Bank’s Vienna-based Centre for Financial Reporting Reform and related donor cooperation (i.e., Swiss) have been key contributors to this Polish success.

13. Azerbaijan: The experience of Azerbaijan illustrates some of the difficulties and frustrations encountered by a transition economy trying to adopt and implement internationally recognized financial reporting standards applicable to a modern market economy. The adoption of the new Law on Accounting in 2004 gave a clear signal of the country’s desire for initiating a financial reporting reform. In hindsight, however, it would appear that there was not thorough internalization of the magnitude of the responsibilities and tasks entailed by the passage of that law, which was promoted by the Bank on the basis of a 2003 Country Financial Accountability Assessment. The 2006 A&A ROSC made available the first detailed diagnosis of the situation and summarized the magnitude of the work ahead. It pointed out, for example, serious cultural barriers to the adoption by businesses of general-purpose financial reporting, in particular the adoption of IFRS as required by the new legislation, in a country where different agencies and financial intermediaries had been developing accounting and auditing requirements suited to meet their own specific needs. Basically, the Law on Accounting did not provide basic tools or the financing for an adequate institutional setup for regulating, supervising and enforcing its requirements. The Bank response to the 2006 ROSC and its long list of recommendations was the approval of a Corporate and Public Sector Accountability Project (CAPSAP) in early 2008, a new type of lending for the Bank with the stated objective of supporting implementation of the 2004 Law on Accounting. Project implementation has been minimal so far, principally due to recurrent

delays in reaching an agreement on project priorities and the associated Procurement Plan. The lesson here is that the provisioning and financing of TA is not enough to trigger the desire response. Also, perhaps a financial policy lending operation combined with the adoption of a holistic Country Action Plan would have been a more appropriate venue to move the financial reporting agenda forward.

Payment and Settlement (P&S)

14. Uruguay: Under the leadership of the Central Bank of Uruguay, the country's financial community has been actively engaged in the implementation of a comprehensive program of reform of the payment and settlement systems, which the WB has actively supported since its inception. The first P&S ROSC exercise for Uruguay was carried out in the context of the 2006 FSAP. It provided a useful point of reference early on in the reform process while its holistic list of recommendations assisted in the formulation of the agenda for change, which included the enactment of key legislation, the creation of the P&S oversight function at the Central Bank, and a major upgrade of its real time gross settlement (RTGS) system, the backbone to the country's payment system. Other program components were the creation of a securities depository and the overhaul of retail payment systems. Solid preparatory work by the Uruguayan team prior to the ROSC exercise under the umbrella of the Western Hemisphere Payments and Securities Clearance Initiative helped with the assessment under the 2006 P&S ROSC. With the publication of the ROSC report came a period of active dissemination of its results jointly by the WB and Central Bank. It culminated with the release by the Central Bank of a comprehensive discussion document (including many of the recommendations in the 2006 ROSC) where it offered its long-term vision for the modernization of Uruguay's payment and settlement systems. This document, which set an ambitious agenda both in terms of content and timetable, has guided the reform process until today. The agenda was part of a broader effort since Uruguay at the time was engaged in a major overhaul of its financial sector with the support of the Fund, Bank and others. The new law on payment and settlement systems came into effect in September 2009 following the enactment of the Organic Law of the Central Bank and the Securities Market Law. The Bank recognized the work done with the inclusion of a payment and settlement component in its December 2008 Development Policy Loan operation. Implementation is still being actively pursued by the Central Bank and although there has been significant progress this has not been entirely free of hurdles on the way. The oversight function at the Central Bank is already in place and progress continues to be made in upgrading the RTGS system. Also, there is an approved action plan to bring about a new automated clearinghouse for checks and small payments, a central government securities depository and an enhanced securities settlement system. All this has required involving many players and a high degree of consensus supported by private-public partnerships. One of the lessons is that institutions like the Bank and the Fund can play a crucial catalytic role in multifaceted financial endeavors such as the one commented on here.

15. Sudan: These comments do not refer to a ROSC but to the findings summarized in the published 2005 P&S Technical Note (TN) for Sudan, which was one of the outputs of the first FSAP in that country. Part of the interest of commenting on the Sudanese experience is to extract lessons derived from basing a first time assessment on a TN rather than a ROSC, which embodies a more formal, holistic approach. Independently of the reason for a TN, in hindsight the Sudanese experience with the 2005 assessment of the payment and settlement systems appears to have been a case of a missed opportunity since it provided a diagnosis with important shortcomings and a rather shallow list of recommendations, some which were distractive to the Bank of Sudan's (BOS) efforts to engage in a broad and in-depth reform of the country's payment, settlement and custodial systems. Lack of adequate and timely information appears to have been the main problem during the preparatory stage and the two FSAP missions. In a marketplace dominated by cash payments, the Sudanese financial sector has been a laggard, with overall financial intermediation remaining low even for Sub-Saharan standards. It is not surprising then that the BOS has been engaged in promoting a comprehensive modernization of the country's financial system, including payment, settlement and custodial services. The 2005 FSAP actually represented a major opportunity to support the authorities' efforts for moving the process of financial reform forward. The 2005 P&S TN highlighted that there was much need of outside TA and capacity building support ,which the Bank and Fund are particularly well suited to supply, and that the Bank of Sudan was seeking and willing to finance. The 2005 P&S TN was not of much help (i.e., its list of recommendations was rather shallow and of little help for the preparation of a credible action plan for a far reaching reform). Although earnest, the assessing team did not have sufficient information available or enough time to carry out the comprehensive and formal assessment that the situation in Sudan demanded. There is little information available on recent progress with its payment and settlement systems reform although the Bank's 2008 Global Payment System Survey reported that Sudan was carrying out a comprehensive reform of its systems, including the legal and regulatory framework; large-value funds transfer systems, retail payment systems; securities settlement systems; foreign exchange settlement mechanisms, and other systems. In the absence of a formal lending program, the Bank continues to provide non-lending TA to the country, but the reform of the payment system is not currently in the agenda. Most of the recent support to the Bank of Sudan in connection with its payment and settlement systems reform apparently has come from the Arab Monetary Fund (AMF). The IMF also provided TA jointly with the AMF after the 2005 FSAP. However, the Fund's report on the 2009-2010 Staff-Monitored Program did not list structural measures related to the payment and settlement systems reform among its priorities.

Market Integrity (AML/CFT)

16. Mexico: The Mexican authorities have undertaken numerous measures to combat organized crime and drug trafficking including instituting the Integral Strategy against Organized Crime and the 2008 AML/CFT National Strategy. Another sign of the

seriousness attached to the AML/CFT agenda by the Mexican government has been its determination to periodically carry out detailed assessments and take corrective measures to improve the country's AML/CFT framework. There were formal assessments in 2004 and 2008. According to the assessors, the government contribution to these exercises was forceful, contributing to the process with solid self-assessments and well designed action plans to execute the work ahead.

17. The 2008 assessment found important pending issues, despite Mexico's progress since the previous one in 2004. In particular, the legal framework criminalizing ML and FT offenses, although comprehensive, was still not meeting international standards, especially on laws and procedures that deal with the freezing of terrorist funds. Perhaps more importantly, the effectiveness of the enforcement mechanisms to combat ML activity was not robust enough to meet the challenges faced by Mexico, as illustrated by the relatively weak capacity of law enforcement to adequately and effectively investigate ML activities and prosecutors to secure convictions. Another issue highlighted in the 2008 report was the need to continue strengthening coordination arrangements among intelligence, investigative and prosecution agencies. Also, the Financial Intelligence Unit remained understaffed and had poor access to criminal records. There were also deficiencies in the capacity of the AML/CFT system to prevent ML especially in non-deposit taking institutions, such as the atomized net of exchange bureaus. Another significant gap was detected in the absence of an AML/CFT legal, regulatory and supervisory framework applicable to the so-called FATF designated non-financial businesses and professions, which international experience has shown to be particularly vulnerable to AML/CFT-related criminal and terrorist activity. To be sure, Mexico continues to make steady progress and indications are that some of the shortcomings detected in 2008 have already been addressed or are priorities in the government's active AML/CFT agenda.

18. Botswana: This middle-income country has shown impressive high economic growth in the past two decades. In particular, the financial sector of Botswana has grown and diversified rapidly anchored around a sound banking system. However, the country is in need of further developing financial services as part of its strategy to increase economic diversification, in an economy which over the years has relied heavily on exports of a maturing diamond mining industry. Managing rapid growth is always a challenge, particularly when financial intermediation is a leading activity. In this general context, ML risk which is limited today in Botswana could easily increase in the future, driven by a domestic financial market that becomes more complex as it expands into new areas of activity, such as capital markets, and as the sector becomes more globally integrated.

19. The authorities were not idle in past years on AML matters. By 2007 Botswana already had put in place the key components of an AML regime. Indeed, the Bank-led team that conducted the detailed 2007 AML/CFT assessment found that the basic

elements of the AML legal framework were in place, although it detected some inconsistencies between instruments and several components fell short of the international standards. One important missing component was that financing of terrorism was not criminalized in the law. Despite shortcomings, the Bank assessors saw the potential for significant and rapid gains by just expediting implementation of the existing framework. For example, Botswana was in need of more proactive enforcement as well as better statistics for assessing the country's vulnerabilities to money laundering and financing of terrorism activities, a long pending task. Important laws such as the Proceeds of Serious Crimes Act (PSCA) were not being properly implemented or enforced, and active coordination and sharing of information between key parties was not taken place. A financial intelligence unit to analyze and disseminate suspicious transactions reports was also missing. Unfortunately, while needed actions were clear there was a sense of frustration in the sense that a promising agenda was not being actively pursued, despite years of waiting (i.e., the PSCA was enacted in 1990). At present, the picture is more encouraging, especially following the activation of the long awaited AML/CFT strategy. In 2008 amendments to the PSCA were approved and, perhaps more importantly, a Financial Intelligence Act was enacted in 2009, containing a new comprehensive legal framework to support AML and the establishment of the Financial Intelligence Agency (FIA). The challenge now is an adequate and timely implementation of the new legal framework. Previous failures with proper follow-up were caused in part by the lack of local experts to adequately carry out AMF/CFT work. While international assistance has been available to Botswana (i.e., from the Bank and Fund targeted AML/CFT TA programs), the country faces some restrictions to obtain outside assistance. Fortunately, Botswana this time has been receiving active support from the US Treasury Department to draft AML legislation and implement the FIA. Hopefully, this will provide another useful lesson on the key importance of international cooperation on AML/CFT matters.

Banking Supervision

20. Australia: Australia has a mature and robust financial system, where commercial banking plays the dominant role. The 2006 BCP ROSC exercise was able to reaffirm Australia's sound overall regulatory approach to prudential and market conduct regulation, which with the support of good supervisory practices, was contributing to the strength and observed resilience of Australia's financial system, and that of its banking sector in particular. However, the published report also highlighted banks' vulnerabilities such as their significant exposure to a highly leveraged household sector (mainly mortgages) and strong reliance on wholesale funding, particularly offshore borrowing. This notwithstanding, supervisors appeared aware of the embedded risk in the banks' portfolios and were already taking mitigating steps. From the perspective of the 2006 BCP ROSC exercise, an important lesson and crucial factor behind its success was the positive disposition shown by the authorities to participate in the process and try to gain from it. They had produced a detailed self assessment (completed in August 2005) well in advance of the December 2005 FSAP mission. This self assessment contributed to shape

the final diagnosis prepared by the two staff assessors and helped them to quickly focus the discussion on the relevant points. Time during FSAP missions is normally quite scarce, so the quality preparatory work done by the Australian authorities as well as their overall disposition to actively participate in the process added value to this ROSC exercise. To be sure, there were some points of contention with the drafted ROSC but in hindsight they appear now to have been minor in the context of the global financial crisis to come. The protracted global financial market turmoil continues to put to a hard test the resilience of Australian banks and so far the system has shown resilience, giving credit to the diagnosis in the 2006 BCP ROSC. While the global slump has made even clearer the need of Australian banks to reduce their funding exposure to rollover risk and dependency on short-term offshore wholesale funding, the overall impact of the global crisis on banks' asset quality has been limited. In general, financial soundness indicators for the Australian banking system have remained strong, at levels comparable with those of Canadian banks. The Fund recently completed a Basel II Implementation Assessment (published in May 2010) which concluded that there was sufficient evidence of the effectiveness of the Australian supervisory approach in promoting a well-capitalized banking system, both on an ongoing basis and in response to specific events such as the recent global financial market turmoil.

21. Iceland: Iceland can be characterized as a small-sized developed economy with a hyper developed and concentrated commercial banking system. Its BCP ROSC experience is particularly interesting because of the country's devastating experience with the recent banking crisis that led to widespread insolvency in the industry and a profound contraction in internal demand. There is little doubt that the domestic economy could have fared better had it been able to count on a better legal and regulatory framework and supervision for the financial system, particularly for the dominant banking sector. In retrospect, the question is what went wrong? The first formal BCP ROSC assessment was in 2001. It detected a number of important weaknesses. Unusually for a BCP ROSC, the published document contained the detailed assessment, including ratings of compliance for each Principle. There was material or simply noncompliance in many areas, such as legal protection, investment criteria, loan evaluation, connected lending, country risk and supervision of foreign establishments. Nonetheless, the 2001 BCP ROSC concluded, rather confusedly, that the backbone of Icelandic laws and prudential regulations was fundamentally sound. All the same, this first ROSC exercise was helpful since the Icelandic authorities acted upon the advice given and soon thereafter carried out a major overhaul of the regulatory and supervisory framework. Thus, the 2003 BCP ROSC update reported that the Financial Supervisory Authority (FME) was getting more funding and had additional supervisory powers. Although these were important improvements, in hindsight the 2003 BCP ROSC update gave too-rosy a picture of the situation, perhaps due to excessive reliance on changes in the legal text rather than on a detailed assessment of actual supervisory practices. The lesson here is that unless assessors have prior deep knowledge of the country's banking sector, the full cooperation

of local stakeholders, and a high quality and realistic pre-mission self-assessment, short on-site missions (i.e., in the context of FSAP exercises) have little chance of delivering a comprehensive and sound assessment of the BCP. Curiously, years later in 2008 an FSAP update did not include a formal BCP ROSC exercise among its tasks. Perhaps there was no clear perception at the time that Iceland's banking sector could pose a serious systemic threat to the international financial market. In hindsight, we now know that that was not the case. Even less fortunate was the fact that the 2008 FSSA report summarized the situation by stating that the banking supervision capacity of FME had been enhanced and that "all issues raised by the 2003 BCP assessment have been addressed." It should be noted that by June 2008 a profound transformation of the Icelandic banking industry had taken place since 2003, including a quantum leap in banking assets in the in-between years. This does not appear to have merited an in-depth, comprehensive BCP assessment. Unfortunately just a few months later (November 2008) the Fund hastily approved a two-year Stand-By Arrangement (SBA) for Iceland. It followed the enactment of a law giving the FME far-reaching powers to deal with problem banks, which it used days later to swiftly to take control of the three dominant commercial banks. The government had an experienced Finnish bank supervisor assess key areas where changes were needed, such as liquidity management, connected lending, large exposures, cross-ownership, and the "fit and proper" status of owners and managers. The Fund staff in the first review report under the SBA (October 2009) concluded that the recent assessment revealed notable deficiencies in supervisory practices, and that the authorities were determined to correct them by 2011, in particular prudential rules regarding connected lending, large party exposure and the use by banks of consolidated information on borrowers in the FME's new credit registry. Furthermore, the government is now committed to conduct a detailed BCP assessment by independent and internationally recognized assessors and to publish it at the latest by end-2011.

Securities Regulation

22. Thailand: Thailand has accomplished a lot since the 1997 financial crisis, greatly strengthening the resilience of its economy and financial sector. Major weaknesses in the regulatory and supervisory framework of the financial sector have been addressed, bringing it generally in line with international standards. Improvements in securities regulation and supervision as well as in corporate governance of listed companies have materially helped to bring about the much deeper and broader capital markets observed today. Not least, the financial overhaul has become valuable in the past few years of unsettled domestic politics and global recession. All the same, the 2008 FSAP reported that while the financial regulatory and supervisory structure was generally compliant with international standards, there was still a need to strengthen the legal framework, to which it attached immediate priority. Among other things, this implied amending the Securities Exchange Act to give the Securities and Exchange Commission (SEC) additional legal authority on matters of stock market discipline, SEC's enforcement powers, enhanced financial and operational independence of the SEC, and an improved toolkit for the SEC

to deal with stressed situations and firms' failures. There were several other recommendations in the 2008 SR ROSC but they could wait until the revised legal framework was in place.[2] The 2008 FSAP evaluation came at a time when the Thai authorities needed to take stock before finalizing a major drive to enhance once more the legal framework of the financial system. In fact, soon after the FSAP missions, in December 2007, five pieces of legislation of importance to the Thai financial market were enacted by the Legislative Assembly, including amendments to the Securities and Exchange Act which took into account key FSAP recommendations and went into effect in 2008. In summary, this country experience shows the relevance of timely ROSCs when there is country ownership over financial reform and the political will to continue making progress.

23. Qatar: This high-income and extremely fast-growing economy has great appetite for infrastructure financing, both equity and debt, which is clearly in the domain of capital markets to supply. It is not surprising, then, that the government had an active engagement to transform Qatar into an important regional financial center. Mixed results had been achieved by January 2007 when an FSAP mission assessed the securities regulation using the SR standard. The financial legal, regulatory and supervisory structure was complex and rapidly evolving at the time, as the transformation of the financial sector was mid way and there was still a lot of work in progress. The Doha Stock Market (DSM), at the center of Qatar's capital market activity with a market valuation of roughly US$57 billion, was mainly for trading by domestic retail investors in state-controlled companies. The DSM was basically a self-regulated entity since the Qatar Financial Markets Authority (QFMA), the new securities market overseer created in 2005 was still not operational. There was also the still small but rapidly expanding Qatar Financial Center (QFC) which the authorities had created in 2005, having many of the features of an off-shore center but where local investors also were allowed to do business. The intention was to add a state-of-the-art component to the domestic financial structure and increase competition. With its own legal framework, regulation and oversight of the QFC was in the hands of the QFC Authority (QFCRA).

24. In this environment reminiscent of an active construction site, it is not surprising that the application of the SR standard by the Fund staff found many more gaps than effectively implemented internationally accepted securities regulation principles. The SR ROSC picture taken in early 2007 was perhaps premature and probably came at the wrong time for the DSM. In the absence of an operational QFMA, the DSM was basically still in charge of securities supervision. Moreover, there was much work ahead to fully implement the rapidly evolving vision of the authorities on matters of financial reform. In that environment, it is not clear whether the DSM was the right counterparty to

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[2] The 2008 FSAP exercise also included a detailed evaluation of the fixed-income securities market, which was summarized in a published technical note containing a long list of additional recommendations for its improvement. All detailed assessments produced by the FSAP completed in April 2008 were released to the public in 2009.

the Fund assessor. In fact, almost in parallel to the FSAP mission the authorities were actively working on significant changes to the financial system framework, having already taken the decision of implementing an integrated financial regulation and supervision approach, in line with the British model. However, all these efforts were going ahead without the benefit of the Fund's advice, so most of the recommendations made in the context of the SR ROSC exercise came in conflict with the views of the DSM, which opposed most of them across the line, as illustrated by the Authorities' Response in the detailed SR assessment report.

25. Faced with a complex job, the process of unifying financial regulation and supervision has continued to make progress in Qatar although the practical outcome so far is hard to assess, especially given the scarcity of information available. QFMA has been operational since its law was amended in 2007. More significantly, that year the government formally declared its intention of establishing the new single Financial Regulatory Authority (FRA), a new agency adhering to the highest international standards and expected to draw together the resources of three existing bodies: QFCRA, QFMA and the banking supervision division of the Qatar Central Bank. In the 2009 Article IV Consultation report, the Fund staff commended the authorities' intention to establish this new unifying entity. However, it urged prompt action to deal with regulatory gaps during the transition period and increased market competition. In the meantime, perhaps it would be worthwhile for the authorities to revisit recommendations on financial and regulatory integration made in the 2008 SR ROSC.

Insurance Supervision

26. Jordan: One important lesson from the Jordanian experience is that it pays off to support reform minded, professionally strong and persistent regulators and supervisors. Perhaps more should have been done in the case of the Insurance Commission, the autonomous financial agency in charge of the sector's regulation and oversight, which could have benefited from more engaged and active international support, particularly for moving the legislative agenda forward. In that respect, the Bank and Fund could have been more forthcoming by including some of the key IS ROSC recommendations in the dialog with the authorities.[3]

27. The first detailed assessment of Jordan's insurance sector was done in the context of the 2004 FSAP evaluation (its findings have not been made public). By then, Jordan had already implemented massive financial modernization, including a major overhaul of the insurance legal and regulatory framework. The new Insurance Law enacted in 1999 gave birth to the new Insurance Commission (IC), the autonomous regulator and

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[3] In the case of the Fund, no mention is made in recent Article IV Consultation reports of the need for structural reform in the insurance sector, and notes that the Insurance Law proposed in the 2008 FSAP is yet to be passed; on the other hand, the Bank did not include the amendments to the Insurance Law as one of the prior policy actions in its recent Recovery under Global Uncertainty DPL (October 2009) which dealt with a variety of financial sector policy issues.

supervisor of the insurance industry. This was fully functional—following a major legal overhaul in 2002 that benefited from the accumulated experience with the new framework—by the time of the 2004 IS ROSC. The industry's new rules entailed internationally compliant licensing and financial solvency criteria based on risk-based capital and solvency ratios. Rules for technical reserves, reinsurance cover, claim settlement procedures and company market conduct also had been established, including the adoption of international accounting standards and actuarial methods. However, despite IC's great strides much work still lay ahead to fully meet international standards. A shortage of qualified staff was undermining the IC's capacity for on-site inspections. Other shortcomings required new legislation, including changes to enhance the operational and financial independence of the IC, which was important particularly to reduce undue political pressures. Much work also remained to be done to increase public awareness of the benefits of offering a modern menu of insurance services, given that most insurance was compulsory, with the bulk of premiums coming from automobile insurance. Life insurance business was incipient. All told, insurance penetration was low (equivalent to less than 2 percent of GDP in 2001). The IC, in broad agreement with the 2004 IS ROSC findings and recommendations, was moving ahead with the implementation of its ambitious medium-term action plan. FIRST funded TA needed for strengthening actuarial supervision and later on to take into account ROSC-related recommendations and fund British assistance to develop a supervisory ladder for risk-based supervision. In summary, the IC's experience shows the importance for a new financial agency to rely on strong and qualified leadership. Despite resource limitations, the agency was able to make much progress in modernizing the insurance industry and expanding its coverage—at a two-digit annual pace in the period 2002-08, when measured by invoiced insurance premiums (insurance penetration of 5.7 percent of GDP in 2007). A factual update of the initial assessment completed in 2009 reported much progress although the increase in premiums was still mainly explained by compulsory auto insurance; life insurance remained a laggard and a major challenge. Ingrained cultural impediments represented a major obstacle to the development of the insurance market. Little success with the finalization of the legal agenda—no fault of the IC—appears today as the major impediment to the IC' strategic objective of converting Jordan in a regional insurance center.

28. The Philippines: Insurance supervision in the Philippines was found to be largely compliant-oriented by the initial 2002 IS ROSC assessment and the evaluation carried out during recently completed 2010 FSAP exercise. However, the current situation of the insurance sector in the Philippines is far from encouraging. Many of the 2002 IS ROSC recommendations are still pending resolution. More telling, the insurance sector in the Philippines remains small (insurance penetration of 1.05 percent of GDP in 2008) and the non-life segment has shown a sharp contraction since 2002. Paradoxically, there are plenty of private companies and competition. Life insurance business, which represents about two-thirds of gross premiums, has fared somewhat better but it has been negatively

impacted by recent volatility in financial markets. This led the 2010 FSAP to conclude that the insurance industry was facing a negative outlook; it was a cause of concern if the present course is not altered.

29. There is a need for decisive corrective action both at the company level and to reform the sector's legal, regulatory and supervisory framework. For example, low asset yields require that minimum valuation standards for life insurance liabilities be strengthened to meet ICP standards. At the company level, the state-owned Government Services Insurance System (GSIS) continues to introduce major market distortions and if mandatory auto insurance is added to its list of monopolized product lines, it could have serious financial repercussions severely undermining the viability of some private players (the 2002 FSAP recommended the market exit of GSIS). Nonetheless, the technical note produced as part of the 2010 FSAP update highlighted several and wide raging opportunities for the growth of the industry (i.e., micro-insurance, crop insurance, pre-need insurance, flood and earthquake insurance, etc.). This adds to the current frustration with the sector's performance.

30. The authorities need to embark on a broad-based reform effort for the sector to develop it to its full potential. This would not be the first time that the Philippines tries to modernize its insurance industry. For example, the Asian Development Bank (ADB) has actively supported the Philippines in the context of the Financial Market Regulation and Intermediation Program. Similar previous efforts had some success but weaknesses have remained, in particular with respect to the IC's independence, scarcity of available resources and the absence of decisive risk-based supervision. The 2010 FSAP highlighted basically the same shortcomings. More specifically on matters of regulation and supervision, the 2010 TN found that while the Insurance Code and associated Regulations and Circulars remained functional they were out of date and should be reformed; in particular, the current framework for insurance companies' capital requirements and the capacity of the IC to deal with severe financial distress in the industry are in need of a major overhaul. Better IC governance (i.e., financial and operational independence from the central government) and more resources are also a pending issue. In addition, the IC scope should be widened (i.e., to cover pre-need insurance). Ideally, IC should move away from rule-based supervision and become a risk-based supervisor. Finally, the reform agenda is likely to require strong international support.