

INTERNATIONAL MONETARY FUND
THE WORLD BANK

**The Standards and Codes Initiative—Is It Effective?
And How Can It Be Improved?**

Prepared by the Staffs of the International Monetary Fund and World Bank

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List of Acronyms

AA	Accounting and Auditing
ADB	Asian Development Bank
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ASEM	Asia Europe Meeting
BCBS	Basel Committee on Banking Supervision
BCP	Core Principles for Effective Banking Supervision
CAS	Country Assistance Strategy
CG	Corporate Governance
CIPE	Center for International Private Enterprise
CPSS	Committee on Payments and Settlements Systems
DQAF	Data Quality Assessment Framework
EITI	Extractive Industries Transparency Initiative
FATF	Financial Action Task Force
FIRST	The Financial Sector Reform and Strengthening Initiative
FSAP	Financial Sector Assessment Program
FSF	Financial Stability Forum
FSRB	FATF-Style Regional Bodies
FSSA	Financial System Stability Assessment
FY	Fiscal Year
GDDS	General Data Dissemination System
IADB	Inter-American Development Bank
IAASB	International Auditing and Assurance Board
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBRD	International Bank for Reconstruction and Development
ICR	Insolvency and Creditors Rights
IDF	Institutional Development Fund
IEO	Independent Evaluation Office
IFAC	International Federation of Accountants
IFC	International Finance Corporation
INS	IMF Institute
ISA	International Standards on Auditing
IOSCO	International Organization of Securities Commissions
ISP	Insurance Supervisory Principles
MDBs	Multilateral Development Banks
MFPT	Code of Good Practices on Transparency in Monetary and Financial Policies
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
PEP	Private Enterprise Partnership
ROSC	Report on the Observance of Standards and Codes
RSSS	Recommendations for Securities Settlement Systems
SDDS	Special Data Dissemination Standard
TA	Technical Assistance
TAMS	Task Force on the Assessment and Monitoring of Standards
UNCITRAL	United Nations Commission on International Trade Law

EXECUTIVE SUMMARY

The standards and codes initiative was launched in 1999 as a prominent component of efforts to strengthen the international financial architecture. The initiative was designed to promote greater financial stability, at both the domestic and international levels, through the development, dissemination, adoption, and implementation of international standards and codes. Its three intermediate objectives include: to assist countries in making progress in strengthening their economic institutions, to inform Bank and Fund work, and to inform market participants. It covers 12 areas and associated standards, which the Bank and Fund Boards recognized as relevant for their work. These standards relate to policy transparency, financial sector regulation and supervision, and market integrity. At this six-year mark, this paper reports on the status of the initiative, seeks to assess its effectiveness, and suggests some areas for improvement.

Status of initiative

Through April 30, 2005, 723 assessments and updates had been completed in 122 countries, of which 592 were initial assessments. The pace of initial assessments has fallen in recent years: after peaking at 148 in FY03, it fell to 85 in FY05. The number of reassessments and updates has not yet increased substantially.

Participation has been high for emerging market countries and advanced economies, and somewhat lower for developing countries. However, developing countries have been catching up since FY02 and now constitute the bulk of first-time participants. Regional participation rates remain uneven, with participation highest for Europe, including Eastern Europe, and lowest for East Asia and Sub-Saharan Africa. There is evidence of “self-selection,” with best performers more willing to participate than poor performers.

The ROSC publication rate has been fairly stable at around 75 percent. The highest publication rates are for advanced economies, and for fiscal and data standards.

Assessment of effectiveness

In the views of the membership, the initiative scores fairly high in terms of its overall worth although less in terms of some specific benefits. Its greatest strength is perceived to be in identifying vulnerabilities and establishing priorities for strengthening domestic institutions. The initiative is not seen as having yet had a commensurate impact on actual reform implementation: this may partly reflect the substantial time needed to introduce reforms—using this time scale, the initiative may still be considered new. Hard evidence on the impact of the initiative on countries’ adherence of standards is not available. However, there is much anecdotal evidence suggesting implementation of ROSC recommendations and, generally, progress toward observance of standards by members.

The initiative informs other Bank and Fund activities to varying degrees. In Bank lending operations and Bank and Fund TA, the initiative has increasingly led to follow-up actions. Its contribution to Fund surveillance and Bank CASs has been modest on average. Part of the difficulty in integrating standard assessments and surveillance—particularly for non-financial

standard assessments—lies in the fact that ROSCs do not always clearly identify the findings that are macroeconomically relevant.

Direct use of ROSCs by market participants remains low, although they may use ROSCs indirectly, through their reliance on rating agencies. Market participants called for substantial changes to make ROSCs more useful to them.

Country authorities have a positive view on the accuracy, clarity, and overall quality of ROSCs. Some progress has been made in prioritizing ROSC recommendations. However, the significance of shortcomings in ROSCs is often difficult to discern; and ROSCs do not always provide an overall view on the extent and degree of observance of the standard.

The costs of the initiative rose sharply in the early years. In the last few years, it has come down as the bulk of work on standard development has taken place and the number of standard assessments has fallen.

Future

In light of the above, particularly evidence on the benefits to country authorities, staff continues to see merit in the initiative, while trying to improve some of its features.

The review revealed no strong reason to modify the scope or governance of the initiative. The 12 areas and associated standards covered by the initiative remain relevant for Bank and Fund work. Given the large volume of work left to achieve observance of standards in these areas, it would be unrealistic to expand the scope of the initiative. Refinements to these standards and associated methodologies will continue in light of economic and financial developments and experience with assessments.

The above findings on country participation and effectiveness point to the need (i) to consider the realism of achieving greater use by market participants; (ii) to revisit the related issues of country prioritization and encouragement to participate; (iii) to tighten the links between the initiative and other Fund and Bank activities; (iv) to improve further the quality of ROSCs; and (v) to enhance tools to compare compliance with standards across countries and over time.

The main proposals to pursue these improvements include:

- focusing our efforts on helping members strengthen their institutions and informing Fund and Bank work;
- strengthening processes to encourage country participation;
- adopting a flexible approach to updates;
- at the Bank, implementing a multi-step plan to enhance ROSC follow-up;

- at the Fund, instituting a post-ROSC wrap-up meeting between ROSC teams and area departments to identify issues of macroeconomic relevance, and enhancing mechanisms to reflect ROSC recommendations into TA prioritization;
- including a clear executive summary, a principle-by-principle summary of observance of the standard, and a prioritized list of key recommendations in each ROSC; and
- collecting information on observance of standards more systematically to facilitate prioritization of assessments, measurement of progress towards observance of standards, and cross-country analysis.

I. INTRODUCTION

1. **The standards and codes initiative** (hereafter, “the initiative”) **was launched in 1999 by the Fund and the Bank** as a prominent component of efforts to strengthen the international financial architecture following the emerging market crises of the 1990s.

2. **The initiative was designed to promote greater financial stability at both the domestic and international levels through the development, dissemination, and adoption of international standards and codes.** The term “standard and codes” (henceforth “standards”) refers to sets of provisions relating to the institutional environment—the “rules of the game”—within which economic policies are implemented. While the benefits of good institutions on economic performance has long been recognized, the initiative reflects a more explicit acknowledgment that financial stability is more likely to be achieved in institutional environments that meet certain standards. Over time, the initiative has evolved to recognize that, at the domestic level, implementation of standards can contribute to economic functioning and efficiency, not just to financial stability. It is seen as in the countries’ own interest to foster the adoption of these standards.

3. **By promoting the adoption of internationally recognized standards, the initiative was expected to achieve three intermediate objectives:** first, to assist countries in making progress in strengthening their economic institutions; second, to inform Bank and Fund work, including Fund surveillance and Bank Country Assistance Strategies (CAS), thus allowing a better assessment of countries’ needs and risks; and third, to inform market participants so as to allow market discipline to work more effectively.

4. **The initiative has required the development of appropriate standards and assessments of the degree of implementation of these standards by various countries.** Thus, together with member countries, key actors in the initiative are the “standard setters” and the “standard assessors.” An assessment results in a Report on the Observance of Standards and Codes (ROSC). For financial sector standards, longer documents (the so-called Detailed Assessments) are also produced.¹

5. **The initiative covers twelve areas and associated standards, which the Bank and Fund Boards have recognized as useful for their operational work.**^{2 3} These areas relate to: (i) policy transparency (for which the Fund is primarily responsible); (ii) financial sector regulation and supervision (assessed by the Bank and Fund mainly as part of their joint

¹ In this paper, the term “standard assessment” refers to both the process of assessing observance of a standard by a member and the output(s) of that process—i.e., a ROSC and, where relevant, a Detailed Assessment; while the term “ROSC” refers only to that particular output.

² These twelve standards had been identified by the Financial Stability Forum as being most relevant to strengthening financial system.

³ The initiative covers a range of standards with significantly different characteristics. Thus, while this report raises issues that are general and common across the range of standards, what is said does not apply with equal force to each standard.

Financial Sector Assessment Program, FSAP); and (iii) market integrity (assessed by the Bank) (Box 1).

Box 1. Standards and Codes Relevant for Bank and Fund Work ^{1/}

Policy Transparency

- **Data Transparency:** the Fund's *Special Data Dissemination Standard and General Data Dissemination System* (SDDS and GDDS).
- **Fiscal Transparency:** the Fund's *Code of Good Practices on Fiscal Transparency*.
- **Monetary and Financial Policy Transparency:** the Fund's *Code of Good Practices on Transparency in Monetary and Financial Policies* (MFPT), (usually assessed under the FSAP);

Financial Sector Regulation and Supervision

- **Banking Supervision:** Basel Committee on Banking Supervision's (BCBS) *Core Principles for Effective Banking Supervision* (BCP).
- **Securities:** International Organization of Securities Commission's (IOSCO) *Objectives and Principles for Securities Regulation*.
- **Insurance:** International Association of Insurance Supervisors' (IAIS) *Insurance Supervisory Principles* (ISP).
- **Payments Systems:** Committee on Payments and Settlements Systems' (CPSS) *Insurance Supervisory Principles*, complemented by *Recommendations for Securities Settlement Systems* (RSSS) for countries with significant securities trading.
- **Anti-money Laundering and Combating the Financing of Terrorism:** Financial Action Task Force (FATF)'s *40+9 Recommendations*.

Market Integrity

- **Corporate Governance (CG):** Organization for Economic Cooperation and Development's (OECD) *Principles of Corporate Governance*.
- **Accounting:** International Accounting Standards Board's *International Accounting Standards* (IASB).
- **Auditing:** International Federation of Accountants' *International Standards on Auditing* (ISA).
- **Insolvency and Creditor Rights (ICR):** A standard based the Bank's *Principles for Effective Insolvency and Creditor Rights Systems* and the United Nations Commission on International Trade Law (UNCITRAL) *Legislative Guide on Insolvency Law*.^{2/}

1/ Links to full descriptions of the standards and codes are available at:

http://www.fsforum.org/compendium/key_standards_for_sound_financial_system.html

2/ Work is in progress between the Bank and UNCITRAL, in consultation with Fund staff, to finalize such a standard.

6. The key governance features of the initiative are:
- **The Fund and Bank Boards are responsible for recognizing the areas and associated standards relevant for their work**, whose list is subject to regular reviews.
 - **The standard setters are the Bank, the Fund, and nine other organizations**—the BCBS, IOSCO, IAIS, the CPSS, FATF, the OECD, IASB, IFAC (IAASB), and UNCITRAL (see list of acronyms above).
 - **The Fund and the Bank are the main standard assessors.** FATF and the FATF-Style Regional Bodies (FSRBs) are the only other organizations producing ROSCs, and solely in the area of anti-money laundering and combating the financing of terrorism (AML/CFT).
 - **ROSCs do not provide a rating.**⁴ ROSCs are expected to identify institutional weaknesses, as well as their significance, and progress achieved in implementing standards, as well as to include prioritized recommendations. But the Bank and Fund Boards have underscored that care should be exercised to ensure that ROSCs do not resemble ratings or make use of pass-fail judgments.
 - **Participation by countries in standard assessments is voluntary.** ROSC publication is also voluntary. However, the Fund and the Bank encourage countries to participate in standard assessments and to publish the findings.

7. **The Fund and Bank Boards have reviewed the implementation of the initiative twice.** In 2001, Directors agreed that the modalities for undertaking assessments and producing ROSCs, including the voluntary nature of ROSC participation, should continue. Directors also stressed that all members had a role in shaping and guiding the work on standards. Fund Directors also endorsed modalities for linking work on standards to the surveillance process. A key focus of the 2003 review was how to handle the growing demand for assessments. Directors saw greater prioritization as key to focusing the scarce Fund and Bank resources on areas where reforms were most needed. Directors also agreed there was no strong case for adding new standards to the list of those covered by the initiative, but asked staff to monitor any emerging need.

8. **At this six-year mark, the initiative is ripe for a more comprehensive reassessment of its effectiveness.** To address whether the initiative is effective, the review considers evidence on the adoption of standards by countries as well as issues more directly related to the initiative's intermediate objectives, namely whether and how standard assessments are used by their potential target users, and whether the quality of ROSCs is adequate. It also reassesses the initiative's premise, namely that adherence to international

⁴ In this paper, "rating" is taken to mean an overall score (e.g., AAA/AA/A..., or a numerical score).

standards involves benefits. Finally, the review looks at the initiative's costs.⁵ The review draws from several sources and benefited from the recent FSAP review.⁶

9. **This paper is organized as follows.** Section II describes progress in implementing the initiative. Section III assesses its effectiveness in achieving its objectives and its costs. Section IV considers areas for improvement. Section V discusses the resource implications of staff's recommendations. Section VI suggests issues for discussion.⁷

II. IMPLEMENTATION SO FAR

10. This section:

- reviews information on the evolution of standards covered by the initiative and methodologies used in standard assessments;
- recommends recognition by the Fund and the Bank Boards of the revisions to the corporate governance standard;
- describes the prioritization process for standard assessments;
- presents summary information on the set of completed assessments, and discusses whether these assessments conformed to the priorities set by the Bank and Fund Boards; and
- describes outreach activities.

A. Standards and Methodologies

Standards

11. **The standards covered by the initiative have evolved over time, in light of economic, financial, and regulatory developments as well as experience with standard assessments:**

- The *Recommendations for Securities Settlement Systems* were added to the *Core Principles for Systemically Important Payments Systems* for use in countries with significant securities trading.

⁵ The review does not assess the quality of standards and methodologies, a task undertaken during reviews of individual standards.

⁶ *Financial Sector Assessment Program—Review, Lessons, and Issues Going Forward* (2005).

⁷ Additional information on the history of the initiative, its implementation, the literature on the benefits of adoption of international standards, stakeholders' views on the initiative, use of ROSCs in Fund surveillance, and Fund costs are provided in a background paper for the Fund's Board.

- **Other standards were reviewed and strengthened**, including by: adding data categories to the *Special Data Dissemination Standard*; revising the *Objectives and Principles for Securities Regulation*, which increased their scope; modifying the *Insurance Supervisory Principles*, which added principles and guidelines; and revising the Financial Action Task Force's *40+9 Recommendations*.⁸ Each review, led by the standard setter, involved extensive consultations with national authorities, the Fund, and the Bank.
- **The OECD's *Principles of Corporate Governance* were revised in 2004**. The most important revisions relate to: the supporting legal framework for effective governance; rights and obligations of shareholders; the protection of minority shareholders; disclosure and transparency; and links to principles for insolvency and creditor rights. World Bank-OECD Regional Corporate Governance Roundtables, with participation from developing countries and transition economies, provided significant input to these revisions. *Staff recommends recognition of the revised principles by the Fund and Bank Boards for use in the initiative*.
- **Progress has been made on the standard for insolvency and creditor rights**. The World Bank and UNCITRAL, in consultation with Fund staff, are developing a standard based on the Bank's *Principles for Effective Insolvency and Creditor Rights Systems* and UNCITRAL's *Legislative Guide on Insolvency Law*. This work has involved a concerted effort among staffs of the Bank, Fund, UNCITRAL Secretariat and a broad range of official and private sector representatives.

12. **Work on standards continues**. The BCBS decided at end-2004 to review the *Core Principles for Effective Banking Supervision*. Various bodies, including the World Bank and the BCBS, are working on corporate governance of entities such as non-listed companies, financial institutions, and state-owned enterprises. Moreover, as highlighted in the Fund Board discussion on *Financial Sector Regulations—Issues and Gaps*, further work may be needed in such areas as the treatment of system-wide regulatory issues and the handling of legal, institutional, and policy conditions that are not directly controlled by regulators but affect financial supervision.⁹

Methodologies

13. **Standard setters and assessors have developed methodologies to conduct assessments. These methodologies also have evolved over time.**

⁸ The FATF undertook a comprehensive review of the AML standard in 2003 and added a 9th Special Recommendation on cross-border cash movements in October 2004. The addition of Special Recommendation 9 to the accepted international standard will be presented for Board consideration in the context of the report on the AML/CFT Work Program scheduled for September 2005.

⁹ *Financial Sector Regulations—Issues and Gaps* (2004).

- **The Fund has further refined the *Data Quality Assessment Framework (DQAF)*, which provides a methodology that covers the whole data production cycle and directly relates to the data access, integrity, and other quality dimensions of the SDDS and GDDS.**
- **The Fund has produced a *Guide on Resource Revenue Transparency*, which applies the principles of the *Code of Good Practices on Fiscal Transparency* to the problems faced by countries with significant revenues from natural resources.**
- **The Bank has amended its corporate governance questionnaire template to reflect the revised *OECD Principles of Corporate Governance*. The OECD, in cooperation with the Bank, is developing a methodology, drawing on this template, to assess the principles.**
- **The Bank has updated its accounting and auditing template.**
- **The Bank and UNCITRAL, in conjunction with the Fund, advanced work on finalizing a methodology document for conducting assessments in accordance with the unified standard on insolvency and creditor rights.**

B. Prioritizing Assessment Requests

14. **Prioritization, with respect to initial assessments, reassessments, and updates, is mostly based on judgment guided by the criteria set by the Fund and Bank Boards and a consultative process.** As these criteria are fairly general,¹⁰ they had to be complemented by prioritization processes. The latter involve exchanges of views among staff in the Fund's area and functional departments and in the Bank's regions and networks and decision mechanisms led by functional departments and networks:

- For financial sector standards, the process involves: first, defining an annual FSAP program, which is coordinated by the joint Bank-Fund Financial Sector Liaison Committee; and second, a "scoping exercise" to identify the set of standards to be assessed in each FSAP. The process is jointly led by the Bank's Financial Sector Vice Presidency and the Fund's Monetary and Financial Systems Department.
- For Fund-led assessments, a strengthened process was put in place by the interdepartmental Task Force on the Assessment and Monitoring of Standards (TAMS) following the 2003 review. It involves identifying initial ROSC priorities by area departments; bilateral discussions between area and functional departments

¹⁰ As indicated in the 2003 review of the initiative, priority for new assessments should be given to (i) members where the exercise would have the highest return in terms of stability for the country and the international financial system; and (ii) members for which the developmental impact is likely to be important, including in a regional context. Furthermore, as mentioned in the 2003 FSAP review, the depth and intensity of standard assessments that are undertaken in the context of the FSAP should be tailored to country circumstances and take into account the authorities' priorities.

resulting in joint ROSC production plans; discussion of these plans by TAMS; and submission to management of the annual ROSC program.¹¹

- For Bank-led assessments, bilateral meetings between regions and ROSC teams aims at striking a balance between systemically important countries and countries for which the developmental impact is likely to be stronger.

C. Standard Assessments

15. This section reviews key features of the assessments completed through April 2005, in light of the prioritization criteria and processes described above. It covers initial assessments, reassessments, and updates (Box 2).

Box 2. Initial Assessment, Reassessment, and Update—Definitions

Initial Assessment: An assessment of observance of a standard done for the first time. An initial assessment results in a ROSC.

Reassessment (also known as a **Substantive Update**): An assessment repeated following an initial assessment. It includes a reassessment of the underlying (principle-by-principle) grading and results in a ROSC that replaces a previous ROSC.

Update (also known as **Factual Update**): An analysis of key developments regarding observance of a standard. It does not include a reassessment of the underlying grading. It results in a ROSC update, which complements a previous ROSC.

Volume and pace

16. **Through April 30, 2005, 723 assessments and updates had been completed in 122 countries, of which 592 were initial assessments.**¹² At end-April 2005, 104 Bank-led market integrity standards had been completed; another 19 had been completed by end-June, i.e., by the end of the Bank's fiscal year (Table 1). Policy transparency and banking supervision assessments were the most numerous, followed by financial sector assessments.

¹¹ For details on Fund prioritization, see Appendix I of the background paper.

¹² See Box 1 of the background paper for a definition of the completion of ROSCs.

Table 1. ROSCs Completed, FY1999-FY2005 ^{1/}

	Initial Assessments	Reassessments	Updates	Total
Total	606	44	92	742
Fiscal policy transparency	75	2	36	113
Banking supervision	88	13	10	111
Monetary and financial policy transparency	77	9	10	96
Data dissemination/quality	61	2	14	77
Payment and settlement systems	68	1	7	76
Securities regulation	51	4	8	63
Insurance supervision	45	3	7	55
Accounting & Auditing ^{2/}	49	2	0	51
Corporate governance ^{2/}	40	8	0	48
AML/CFT	28	0	0	28
Insolvency and creditors rights ^{2/}	24	0	0	24

^{1/} As per the Fund fiscal year (May 1-April 30), unless otherwise specified.

^{2/} As per the Bank fiscal year (July 1-June 30). Includes 11 accounting and auditing and 8 corporate governance ROSCs completed between May 1 and June 30, 2005.

17. **The overall pace of initial assessments has fallen in recent years.** The average number of financial sector assessments conducted in the context of FSAPs was reduced following the streamlining of the FSAP in 2003. In addition, demand for fiscal transparency assessments declined following completion of initial assessments for a substantial part of the membership. In contrast, demand for initial assessments of data standards, including from developing countries, has remained roughly constant (some 12 per year), possibly reflecting a logic of universal coverage of assessment of data standards. AML/CFT assessments surged in FY04-05, as the standard was included in the initiative in 2002 and the Fund and Bank Board decided in 2003 to address AML/CFT issues in all FSAP-participating countries. After a slow start, market integrity assessments have also risen recently (see Table 2).

18. **The number of reassessment and updates to date has been low, compared to that of initial assessments.** A peak was reached in FY03 with 18 reassessments and 35 updates. Only 5 reassessments and 18 updates were completed in FY05. Altogether, about one in five assessments has been reassessed or updated.¹³

¹³ In the 2001 review, it was envisaged that, at the Fund, factual updates would be prepared annually by area departments and circulated to the Board at the time of Article IV reports. In the 2003 review, Directors agreed on the need for greater selectivity in updating. In particular, Directors called for concentration on updates to ROSCs in those areas most central to the Fund's concerns (i.e., the data, fiscal, monetary and financial policy transparency, and the Basel Core Principles modules—the last in collaboration with the World Bank).

Table 2. Initial Assessments Completed, FY1999-2005 ^{1/}

	FY99	FY00	FY01	FY02	FY03	FY04	FY05
Total	12	41	64	118	148	138	85
Data dissemination/quality	3	6	3	14	11	13	11
Fiscal policy transparency	3	7	15	14	16	11	9
Monetary and financial policy transparency	3	9	10	17	17	14	7
Banking supervision	3	9	10	17	17	19	13
Securities regulation	0	5	4	10	14	12	6
Insurance supervision	0	3	5	13	14	7	3
Payment and settlement systems	0	2	7	17	21	15	6
AML/CFT	0	0	0	0	2	14	12
Insolvency and creditors rights ^{2/}	0	0	0	3	10	11	0
Corporate governance ^{2/}	0	0	10	8	10	5	7
Accounting & Auditing ^{2/}	0	0	0	5	16	17	11

^{1/} As per the Fund fiscal year (May 1-April 30), unless otherwise specified.

^{2/} As per the Bank fiscal year (July 1-June 30).

Country participation

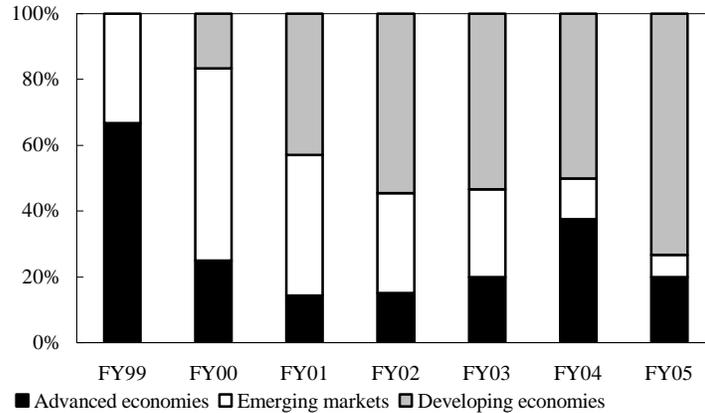
19. **Participation reflects the combined effect of the initiative's early focus on domestic and financial stability, the Bank and Fund processes to prioritize requests, and countries' willingness to volunteer:**

- **Participation has been very high for emerging market countries, high for advanced economies, and lower for developing countries** (Table 3). About 90 percent of advanced economies and emerging market countries have had at least one ROSC done, compared to 50 percent of developing countries. On average, 7 standards out of 12 were assessed at least once for each participating emerging market country, against 5 for each participating advanced economy and 4 for each participating developing country. Altogether, almost half of standard assessments were done for emerging market countries. Developing countries now represent the bulk of first-time participants (Figure 1). It is likely that participants in this group will continue to participate in fewer assessments per country, as not all standards may yet be relevant, particularly in the financial sector area.

Table 3. Distribution of Standards Assessments Through April 30, 2005

	Countries (total)		Participants in the initiative		Participation Rates	Assessments		Initial Assessments		Updates and Reassessments	
	Number	Percent	Number	Percent	Percent	Number	Percent	Number	Percent	Number	Percent
Total	187	100	122	100	65	723	100	592	100	131	100
Advanced economies	30	16	26	21	87	157	22	127	21	30	23
Emerging markets	40	21	37	30	93	338	47	259	44	79	60
Developing economies	117	63	59	48	50	228	32	206	35	22	17

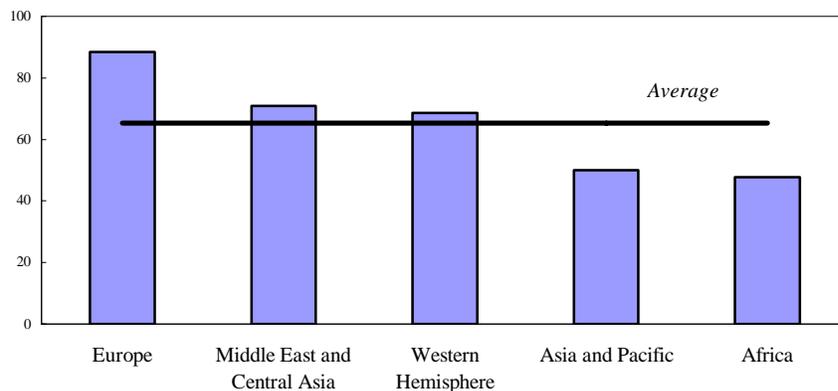
Figure 1. Distribution of First-Time Participants in the Initiative
(In percent of total number of new participants each fiscal year)^{1/}



^{1/} As per the Fund fiscal year (May 1-April 30).

- Regional participation rates remain uneven** (Figure 2). Participation rates were highest for Europe, including Eastern Europe, and lowest for East Asia and Sub-Saharan Africa. For emerging market countries, participation has been substantially lower in Asia than in other regions. In some cases, low participation rates may reflect countries' preference to undertake reforms prior to participation. In some other cases, it may stem from preferred use of technical assistance (TA) diagnostic missions, rather than full-fledged standard assessments, to identify needs in areas covered by the initiative.

Figure 2. Regional Participation Rates (As of April 30, 2005)



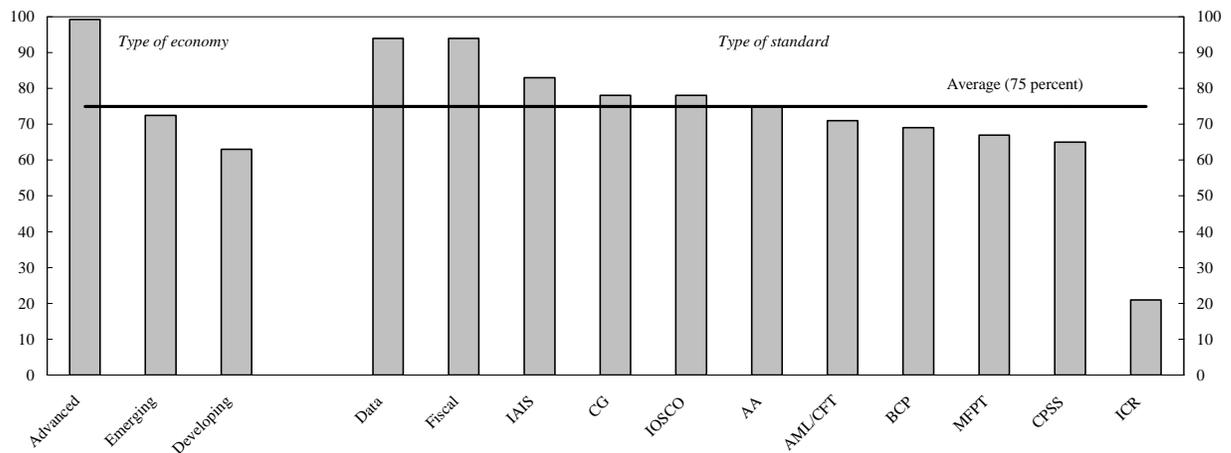
- While most systemically important countries have had substantial participation, there are notable exceptions.** In particular, among G-20 countries, participation of the United States and Indonesia has been limited, while China has not had any ROSC done.

- **Participation in the initiative seems to exhibit a degree of self-selection by “best performers.”** Anecdotal evidence suggests that some countries prefer to conduct self-assessments and undertake needed reforms before requesting participation, thus ensuring that their compliance would be higher—incentives to implement reforms are a positive feature of the initiative. In addition, a simple empirical test showed that participating countries tend to be those that have been independently rated as being more transparent or having stronger institutions and governance.

Publication of ROSCs

20. **The ROSC publication rate has been fairly stable at around 75 percent.** All updates have been published. The highest publication rates are for advanced economies, and for fiscal and data standards assessments (Figure 3).

Figure 3. ROSC Publication Rates (Percent)



D. Outreach Activities

21. **Outreach activities have evolved over time.** Initially, they were designed to familiarize various stakeholders with the initiative and to seek their input. Pilot reports were made available on the Fund website, and potential private sector users and standard setters were asked to comment on various aspects of the initiative. Later, the Fund and the Bank organized regional seminars to highlight key findings of ROSCs, and to discuss more specialized aspects of the initiative, targeting country officials, standard setters, private sector representatives, and other constituencies (e.g., parliamentarians, civil society). In recent years, broad outreach on the initiative has also become part of general outreach on the role of the Fund by the External Relations Department.¹⁴

¹⁴ For details on outreach activities, see the background paper.

III. VALUE AND COST OF THE INITIATIVE

22. This section assesses whether the initiative's objectives are being met and at what cost. It presents some evidence on the initiative's central premise that adherence to international standards is beneficial, key findings on the initiative's effectiveness drawn from surveys and other sources, and the evolution of the initiative's costs.

A. Is Observance of Internationally Recognized Standards Beneficial?

23. **The initiative assumes that adherence to specific internationally-defined standards is beneficial.** Thus, it is worth asking whether there is evidence that adopting international standards is useful and, more specifically, that adopting the standards covered by the initiative is useful.

24. **Few studies have been made so far of the effect on economic performance of adopting the specific standards covered by the initiative.** Six econometric papers assess the effect of adherence to the initiative's standards. Almost all of them have been produced by Fund staff. Four of them find evidence that adherence to policy transparency and banking supervision standards lowers market spreads, improves ratings, and improves indicators of market performance. One study concludes that SDDS participation improves spreads (and some weaker evidence that ROSC publication has the same effect). Another study only finds indirect evidence that adherence to BCP is beneficial.¹⁵ These results should be interpreted with caution as the studies are subject to limitations. These include short data series or small survey samples, limited availability of comparable data, difficulty to control for many factors correlated with the observance of standards. In addition, because there are so few studies, the findings may not be robust.

25. **Though it does not assess the effect of adherence to the initiative's standards directly, a study done at the Bank draws on an extensive financial sector supervisory and regulatory database.** It finds (i) no evidence that simply improving supervision has a positive effect on financial sector development, the efficiency of the financial sector, its stability, or the corporate governance of banks; and (ii) that the institutional setting is critically important when it comes to implementing changes in the regulatory framework. This research also finds that improvements in the ability of markets to monitor banks (better information disclosure, improved auditing, etc.) does foster financial sector development.¹⁶

26. **Other studies show benefits from greater transparency, which may provide some comfort as promotion of transparency is a key ingredient of many of the initiative's standards.** Several studies suggest that higher transparency lowers borrowing costs and improves sovereign ratings. Other studies show that better corporate governance and greater

¹⁵ These studies are described in more detail in the background paper prepared for the Fund Board.

¹⁶ This work will be presented in a forthcoming book by Barth, Caprio, and Levine (Cambridge University Press, 2005).

accounting transparency is correlated with higher investment returns and lower spreads for corporate borrowers.

27. **Indirect evidence of the benefits of adopting international standards may also be derived from other events.** Since the launch of the initiative, several incidents in advanced economies highlighted the costs of severe lapses in adherence to market integrity standards.¹⁷ Some corporate entities have taken an active part in the promotion of good governance practices, such as the Extractive Industries Transparency Initiative (EITI), which suggests a belief in the benefits of observance of international standards.¹⁸ Moreover, a few U.S. pension funds explicitly include various measures of financial transparency and investor protection in their investment decisions.

B. Key Findings on the Effectiveness of the Initiative

28. Inputs on the effectiveness of the initiative were collected from a variety of sources, including (i) surveys of member countries, market participants, and Fund and Bank staff, (ii) a roundtable organized by the Financial Stability Forum (FSF), the Bank, and the Fund, and (iii) staff analyses of the format and structure of ROSCs and on the use of ROSCs in Fund surveillance and Bank activities. The following paragraphs summarize key findings from these sources. Additional information is provided in the Appendix.

Identification of vulnerabilities, institutional reforms, and adherence to standards

29. **The initiative scores fairly high in terms of its overall worth, although less in terms of some specific benefits** (Appendix, paragraphs 6-9).

- **Survey results indicate that country authorities, on average, considered their participation in the initiative worthwhile “to a large extent.”** However, when asked about how the initiative helped meet specific objectives—such as enhance policy transparency, strengthen financial infrastructure, or strengthen market integrity laws and practice—they usually thought that it did so only “to some extent.”¹⁹
- **Looking across potential benefits, the initiative’s greatest strength is in identifying vulnerabilities and establishing priorities for strengthening domestic institutions.** Emerging market countries and, to a slightly lesser extent, developing countries also give fairly high marks to the role played by the initiative in improving

¹⁷ Some high-profile cases in recent years include Enron, WorldCom, AIG, and Parmalat.

¹⁸ The EITI was launched to increase transparency over resource-related revenue payments and receipts in countries with significant revenues from natural resources. It is closely related to, but narrower in scope, than the fiscal transparency code, and particularly the *Guide on Resource Revenue Transparency*.

¹⁹ The survey on the initiative was sent to 185 countries and 4 regional central banks. 106 participants answered the questionnaire (an overall response rate of 56 percent), comprising 35 from advanced economies, 25 from emerging markets, 44 from developing countries, and 2 not specified. 73 percent of the survey respondents had completed at least one standard assessment.

the policy dialogue with the Fund and the Bank. Country authorities note that participation brings different benefits compared to regular Article IV consultations. In particular, they appreciate the focus on institutional issues and the greater specificity of the recommended reform agenda. These are important considerations in assessing the value of the initiative.

- **The initiative is not seen as having yet had a commensurate impact on actual reform implementation.** This may partly reflect the substantial time needed to introduce reforms: using this time scale, the initiative can still be considered relatively new. It may also be related to many members' views that assistance to implement ROSC recommendations has been too limited. This suggests the need for closer attention to follow up.
- **Given the initiative's origin, it is noteworthy that, based on their own assessments, the initiative appears to have had the most beneficial impact for emerging market countries.** This result is also supported by follow-up discussions with the authorities and at the joint FSF/Bank/Fund workshop. It is true across areas covered by the initiative, namely policy transparency, financial infrastructure, and market integrity laws and practices. This points to the potential benefit of further participation by emerging market countries (e.g., in Asia).

30. **Country authorities value the dialogue that is at the heart of the assessment process.** This is evidenced by the answers to the survey and by opinions expressed during the follow up meetings and interviews. A number of participants commented on the benefits drawn from the exchanges between country officials (at a technical level) and outside experts.

31. **Evidence points to some implementation of ROSC recommendations.** Hard evidence on the impact of the initiative on countries' adherence to the standards is not available. There is neither a mechanism to track systematically members' implementation of ROSC recommendations nor the extent and degree of their observance of the standard in all ROSCs. Also, for most countries, ROSCs have only been done once, so existing ROSCs do not yet provide much information on how observance has evolved over time. Given that adherence to standards is the initiative's core mechanism for achievement of its objectives, it is worth reflecting how this information gap could be at least partly closed.²⁰ This said, country authorities, in interviews with staff, pointed to numerous examples of such implementation, particularly in areas where reforms were already under consideration prior to participation in the initiative. In the joint FSF/Bank/Fund workshop, standard setters also expressed the view that, since the launch of the initiative, significant progress had been made in many countries toward observance of covered standards.

²⁰ It is likely that, even if better information on progress toward observance of standard is collected, one will remain confronted with a problem of attribution of this progress to the initiative, given the absence of counterfactuals.

Informing Fund and Bank work

32. **The initiative informs other Bank and Fund activities to varying degrees.**

33. **In Bank lending operations and Bank and Fund TA, the initiative has increasingly led to follow-up actions.** Integration of ROSC findings into follow-up work by the Fund and the Bank could nevertheless improve.

- For the Fund, delivery of TA identified as direct follow-up to ROSCs or FSAPs doubled since 2001 (Table 4). It reached 39 person years in FY05, amounting to 22 percent of all Fund TA delivered.²¹

Table 4. Fund TA Delivery ^{1/}
(In person-years)

	FY00	FY01	FY02	FY03	FY04	FY05
Total Fund TA	171	162	154	166	173	176
Total related to S&C initiative	9	19	22	34	40	39
Follow-up TA for FSAP	1	2	3	6	10	15
Follow-up TA for Standards and Codes	8	15	13	18	21	14
OFC and AML/CFT	0	2	5	10	9	11
Other	162	143	132	131	133	137

^{1/} TA delivered in the field. Excludes INS activities.

- The World Bank Group has supported the growing demand, from both middle- and low-income countries, for TA to support the implementation of ROSC recommendations (Table 5).

Table 5. ROSC Assessments and World Bank Follow-up Assistance: Bank Client Countries Only ^{1/}

	BCP	IOSCO	IAIS	CPSS	AML/ CFT	CG	A&A	ICR	Total
Initial ROSC Assessments	62	30	26	48	21	33	39	24	283
Number of countries receiving follow-up assistance									
Lending instrument	3	...	...	1	3	3	1	...	11
Technical assistance	6	4	8	3	10	9	24	19	83
FIRST initiative	1	5	6	1	2	3	3	1	22
IFC project	...	9	8	...	...	3	...	...	20
Total	10	18	22	5	15	18	28	20	136
In percent of ROSC initial assessments	16%	60%	85%	10%	71%	55%	72%	83%	48%

^{1/} Number of initial ROSC assessments as of December 31, 2004, and number of countries that have received follow up assistance from the World Bank as of March 31, 2005. Some countries have received more than one project related to the S&C initiative.

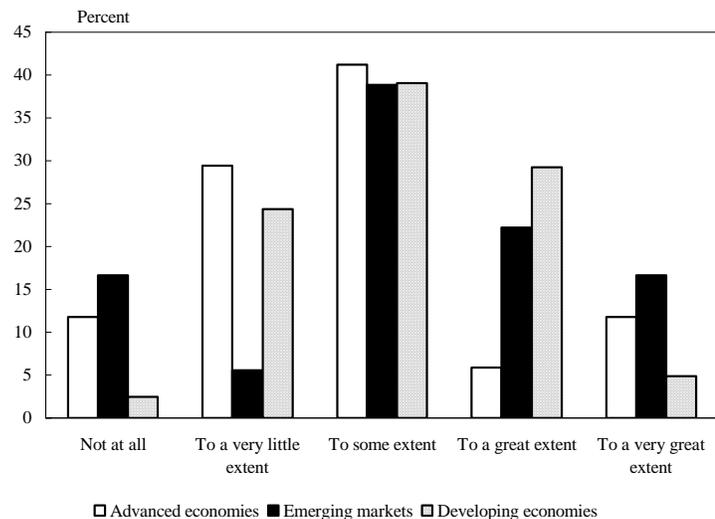
²¹ As pointed by the recent Fund's Independent Evaluation Office (IEO) report, this is probably an underestimate given classification issues of TA delivered by the Fiscal Affairs Department.

- While Fund ROSC mission chiefs see the initiative as playing a large role in identifying TA needs, area departments mission chiefs and country authorities have a less sanguine assessment of that dimension (Appendix, paragraph 20).
- At the Bank, a key challenge remains to better integrate ROSC findings into follow-up work through the development and implementation of systematic mechanisms (Appendix, paragraph 25).

34. The initiative’s contribution to Fund surveillance and Bank CASs has been modest on average:

- Across the whole membership, the extent to which the initiative has informed Fund surveillance appears moderate. On average, area department mission chiefs consider that the initiative has helped strengthen surveillance, but only “to some extent”. (Figure 4, and Appendix, paragraphs 15-17). The review’s case studies also suggest that ROSC findings could be better used in surveillance. It is nevertheless noteworthy that, in a non-negligible subset of the membership, including close to 40 percent of emerging market economies, the initiative was seen to inform surveillance “to a great” or “very great extent.” Part of the difficulty in integrating standard assessments and surveillance lies in the fact that the significance of ROSC findings is not necessarily clear to non-specialists—e.g., it may not always be easy to distinguish which of the findings may have a bearing on vulnerability assessments or which recommendations may have relevance for promoting stability. These results suggest the need to strengthen mechanisms to ensure that macroeconomically relevant issues, if any, are clearly identified and followed up in surveillance. In addition, a table that provides a non-specialist with a summary view of the degree of observance would be helpful to bridge this gap. Financial Sector Stability Assessments (FSSAs) have generally been an effective filter of financial sector ROSC findings, as they place these findings in a broader context that makes their relevance for surveillance clear.

Figure 4. Usefulness of the Initiative for Informing Fund Surveillance: Views of Area Department Mission Chiefs (Histogram of answers by country groups)



- For the Bank, in most cases, CAS and lending documents acknowledge the importance of institutional issues covered by international standards. Given the nature

and the focus of lending instruments, references to specific country actions to address issues in the area of international standards is relatively more frequent than in the CASs. Integration of ROSC findings in country strategies and lending programs is an ongoing challenge, because of the multi-year nature of CASs and the difference in timing between the preparation of ROSCs and CASs. Nevertheless, work on standards should underpin the policy dialogue, increasingly contribute to the formulation of CASs, and sharpen the focus of capacity-building efforts (Appendix, paragraphs 26–27).

Informing market participants

35. **Direct use of ROSCs by market participants is low** (Table 6, and Appendix, paragraphs 12–13). Use does not appear to have increased in recent years: a survey conducted in 2003 reported similar results. Lack of use may not reflect lack of interest in the topics covered by (at least some of) the ROSCs, but rather perceived shortcomings of the product (see below).

Table 6. Use of ROSCs by Market Participants
(In percent of markets respondents)

To what extent do you use ROSCs in your work?	
Not at all	21
To a very little extent	24
To some extent	45
To a large extent	10
To a very great extent	0

36. **Market participants may, however, use ROSCs indirectly.** Rating agencies noted that they typically use ROSCs to form their views on ratings, which in turn influence the behavior of other market participants. More than 50 percent of respondents also noted that they use private alternatives to ROSCs in their work, which in turn, are partly based on ROSCs findings. However, the absence of direct use of ROSCs, in contrast to Article IV reports, is indicative of difficulties.²²

37. **Market participants called for substantial changes to make ROSCs more useful to them,** including inclusion of quantitative measures of compliance, conduct of substantive updates at annual frequency, and routine inclusion of summaries of ROSC conclusions and recommendations in Fund country reports (Appendix, paragraph 14). This raises the issue of whether direct use of ROSCs by market participants can realistically be increased.

²² Follow-up meetings with market participants confirmed that they directly use Article IV staff reports regularly, but use ROSCs more sparingly.

Quality of the outputs

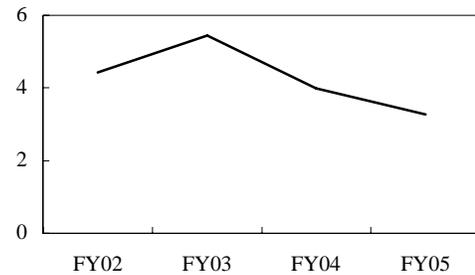
38. As the initiative is still relatively new, users may take time to appreciate it fully. Thus, in addition to considering whether the initiative's objectives have been met, it is helpful to assess the intrinsic quality of its direct outputs and to identify areas where improvements would be desirable. The bullets below focus on country-specific outputs. Assessing the quality of standards and assessment methodologies is beyond the scope of this review.

- **Survey results point to fairly positive views on the accuracy, clarity, and overall quality of ROSCs.** Views on the overall quality of the ROSCs were consistent across groups of respondents: all groups rated the overall quality of ROSCs as somewhere between “acceptable” and “good” (Appendix, paragraph 33).
- **Some progress has been made in prioritizing ROSC recommendations, a need highlighted by the 2003 review.** A review of the transparency ROSCs that were published in FY05 found that a prioritized list of recommendations was usually but not systematically included. Financial sector ROSC recommendations are aggregated across ROSCs, prioritized, and presented along with other FSAP recommendations in the main FSSA document (Appendix, paragraph 34).
- **Progress in presenting staff views on the significance of institutional weaknesses has been mixed.** Typically, ROSCs clearly described recommendations for improvement, but it was often difficult to discern the significance of identified shortcomings and whether they rose to the level of macroeconomic relevance.
- **As noted, ROSCs do not always provide an overall view on extent and degree of observance of the standard.** For instance, while some ROSCs—such as data ROSCs—contain summary matrices of observance principle-by-principle, others do not. This makes it difficult to compare observance of standards across countries or to assess progress over time.
- **On occasion, long delays reflect lengthy discussions between staff and the authorities on the ROSC's content.** It takes, on average, 8 months between the (last) ROSC mission and the issuance of a ROSC, with a standard deviation of 4 months.

C. Costs of the Initiative

39. **In the Fund, resources spent on the initiative have seen a hump-shaped evolution.**²³ Activity associated with the initiative quickly grew to a sizeable share of the Fund's budget. As discussed in Section II.C, activity and, by extension, costs peaked in FY2003. In FY05, they accounted for around 3¼ percent of the Fund's administrative budget, against 5½ percent in FY2003. A similar pattern emerges across the activities included in these aggregate numbers: standard-setting activities declined after 2003, as the bulk of the work on creating the standards has already taken place; and the reduction in the number of ROSCs conducted in the context of FSAPs, are mirrored in the Fund's expenditures in these categories.²⁴ Plans for FY06 suggest some likely further decline in this share, as departments expect to initiate fewer ROSCs and FSAPs.²⁵

Figure 5. Standard Setting, FSAP and ROSC Activity
(In percent of gross budget)



40. **In the Bank,** the production of Bank-led ROSCs rose steadily over the first years of the initiative. It has now stabilized at around 35 assessments per year, including both initial assessments and reassessments. Consequently, **the ROSC budget was around \$3.8 million in each of these two years,** with unit costs for each ROSC ranging from \$80,000-120,000, depending on the size and complexity of the economy being assessed.

41. **The limited experience with updates so far suggests that substantive updates, involving a reassessment of compliance, can be as costly as initial assessments, while factual ROSC updates are significantly less costly.**²⁶ Full reassessments of compliance are expected to require about the same amount of resources as the initial assessment (or only slightly less), as country practices need to be evaluated over again, although costs could be reduced in cases where developments warrant (and assessment methodologies allow)

²³ For further information on Fund costs, see the background paper for the Fund's Board. The figures discussed in this paragraph include the full cost to the Fund of the FSAP—not solely financial sector standards assessments. Available budget data do not provide a complete decomposition of FSAP costs.

²⁴ Existing information suggests that the unit cost of ROSCs is correlated with the average number of assessors required for each standard. Data and AML/CFT ROSCs require around 4 or 5 assessors each. Other financial sector ROSCs usually require one expert, except for BCP ROSCs which require two. Fiscal ROSCs are usually conducted by 3 or 4 assessors.

²⁵ Based on the planned number of ROSCs and FSAPs (initial and updates) to be conducted as reported in Departmental Business Plans.

²⁶ See Box 2 for definitions of substantive and factual updates. A proposal to adopt a more flexible approach to updates is made in Section IV.

confining the reassessment to only certain elements. Factual updates can be done at lower cost because they require less use of expert time.

42. **Country authorities generally found that participation in the initiative entailed quite intense demands on government officials' time**, in terms of preparation for the assessment and time spent with the assessors. The ROSCs that appeared to be most demanding were in the areas of AML/CFT and banking supervision.

IV. THE FUTURE OF THE INITIATIVE

General conclusions

43. **Staff continues to see merit in the initiative.** As summarized above, the initiative has delivered substantial results in some dimensions, notably identifying vulnerabilities and establishing priorities for strengthening domestic institutions. The impact on actual implementation of reforms may not yet have been as substantial, but neither has it been insignificant. In this respect, it may be considered that the initiative is still relatively new given the typical timeframe of institutional reforms. Overall, staff considers that there is sufficient evidence to support continuation of the initiative, while at the same time trying to improve some of its features.

44. **The review revealed no strong reason to modify the scope or the governance of the initiative at this time:**

- The standards covered by the initiative remain relevant for Fund and Bank work. Refinements to these standards and associated methodologies can be expected in light of economic and financial developments and continued experience with assessments.
- Given the large volume of work left to achieve observance of standards in the initiative's 12 areas (and to satisfy preconditions for observance), as well as the cost constraints faced by both country authorities and international financial institutions, it would be unrealistic to expand the scope of the initiative.
- No major stakeholder (e.g., country authorities, standard setters) appeared to favor changes to key governance features, such as the relative roles of the Fund, the Bank, and standard setters or voluntary country participation.

Specific proposals

Informing markets and other outside parties

45. **The initiative has significantly fallen short of its objective of informing market participants. While this does not mean that this goal should be formally dropped for the initiative, it should be acknowledged that expectations on its attainment should be lowered.** Direct use of ROSCs by market participants cannot be expected to increase significantly without radical changes (e.g., inclusion of ratings in ROSCs, substantive updates at annual frequency, focus on emerging and "pre-emerging" market countries). The possibility of including ratings was discussed in the past and never adopted, and more

frequent substantive updates would be too costly. Therefore, achievement of this objective will likely continue to be elusive. This will have to be taken into account in future assessments of the initiative's effectiveness.

Country coverage and prioritization

46. **It is critical that the initiative's resources are spent where they are most needed.** Given cost constraints, it is impossible to have full coverage and frequent updates across countries and standards. This requires acting both on the demand side and on the supply side.

47. **On the demand side, the critical issue is how to ensure that countries whose participation is most likely to be beneficial (from a national or system-wide perspective) choose to participate.**

- Mandatory participation has been debated by the Fund and Bank Boards on numerous occasions and has been consistently rejected, largely on the grounds that such participation would be unlikely to yield results.
- However, stepped-up efforts to encourage participation by persuading national authorities of the benefits they would derive would be helpful.
- At the Fund, processes should be put in place to ensure that staff's views on "unconstrained" ROSC priorities—identified in the TAMS prioritization process—are reflected in Article IV consultation reports.²⁷ This would help the Board implement existing policy whereby Directors can encourage countries to participate in a ROSC, including through the FSAP, as appropriate. As a complement, staff could resume sending to the Board regular reports on participation in the initiative.

48. **On the supply side, it is recommended (i) to strengthen prioritization processes; and (ii) to modify rules applying to reassessments and updates. It is also necessary to consider the financing of market integrity standard assessments for advanced countries.**

49. ***Prioritization processes.*** The general criteria set by the Boards to guide prioritization remain broadly appropriate. However, actual prioritization processes could be strengthened: (i) building on mechanisms put in place following the 2003 review of the initiative, it would be worth seeking further involvement of Fund area departments and Bank regions in the definition of annual ROSC programs; and (ii) for reassessments and updates, availability of systematic information (i.e., a database) on the extent and degree of countries' observance of international standards (drawn from past assessments) would facilitate prioritization (see below). In addition, alternatives to formal assessments of observance of standards should be considered in certain cases (primarily in low income countries) and for certain standards (such as insurance supervision or securities regulation), where more customized analyses, drawing on the standards, can be more constructive and have lower cost.

²⁷ "Unconstrained" priorities mean priorities defined independently of countries' willingness to participate.

50. **Rules for updates.** Experience has shown that, to be useful, updates require the expertise of the functional departments.²⁸ Updating the current stock of ROSCs at a fairly high frequency would be too costly. Therefore, *a more flexible approach is needed.*²⁹ More specifically:

- At the Fund, the requirement for annual factual updates carried out by area departments would be discontinued. Naturally, as is the case today, Article IV consultations should report any major institutional change in the areas covered by ROSCs or other areas that have material macroeconomic implications. Updates would be undertaken by functional departments.
- The frequency and scope of updates would depend upon country-specific circumstances. They could either be factual or substantive (see Box 2). In addition, for data ROSCs, substantive updates could be limited to one or a few data sets where significant gaps had previously been identified.³⁰
- Priority would be given to countries where significant gaps were identified in previous standard assessments and where the exercise would yield the highest return in terms of stability for the country or the international financial system. For these countries, updates could be undertaken every 4-5 years (for further discussion of frequency, see the next section on resource implications).³¹ For other countries, updates would be more spaced out.

51. **Conduct and financing of Bank-led ROSCs for industrialized countries.** Requests for ROSC assessments from a few industrialized countries suggest some interest among advanced economies to have assessments in these areas. The Bank staff is willing to accommodate these requests because, in addition to identifying gaps in assessed countries, they can provide the opportunity for transferring the experiences of more advanced countries to emerging markets and other developing countries, as appropriate, and they may promote higher participation among client countries. The challenge is how to accommodate requests from outside the Bank's client group without jeopardizing capacity to satisfy demands from

²⁸ At the Fund, existing procedures call for factual updates to be undertaken annually by area departments in areas most central to the Fund's concerns (data dissemination, fiscal transparency, monetary and financial policy transparency, and banking supervision). In practice, few such updates are done.

²⁹ A modified and flexible approach to FSAP updates was approved in the context of the 2005 FSAP review. Its key features include: an average frequency of FSAP updates of five years with flexibility built in to allow for country-specific circumstances; the FSAP update will contain factual updates of standards already assessed; beyond this, substantive updates (also known as reassessments) of standards could also be undertaken, as could new assessments of standards not previously assessed.

³⁰ Data ROSCs cover several data sets, which are assessed separately. The structure of data ROSCs thus lends itself well to selective updating.

³¹ The majority of mission chiefs in both area and functional departments thought that the shelf life of a ROSC was between one and four years.

the Bank's client countries. Discussions are ongoing on how the costs of these assessments would be borne; suggestions made include the creation of a Trust Fund or having the countries asking for assessments bear the principal cost of the assessments.

Integrating the initiative with other Bank and Fund work

52. **To integrate further the initiative into other Bank work**, the following steps are proposed:

- (i) developing a more *detailed action plan for follow-up in selected countries*, reflecting the recommendations of the FSAP or ROSC team, together with a view on sequencing and implementation of TA; (ii) assigning responsibility for convening a *ROSC follow-up meeting* involving relevant staff from the Bank, the Fund, the International Finance Corporation (IFC), the Financial Sector Reform and Strengthening Initiative (FIRST), and bilateral donors to coordinate the assimilation of recommendations in each institution's country work; (iii) *helping country authorities in identifying and arranging needed TA*, which could also involve other TA providers, including FIRST; and (iv) implementing a *process for monitoring progress with implementation*.
- Further efforts are needed to ensure that ROSC findings and recommendations inform staff and task managers when country assistance strategies are being set, to ensure that follow up activities are well coordinated, and to monitor the implementation of recommendations made in the assessments.
- A dissemination campaign by regional seminars might also be necessary to deliver a comprehensive and integrated approach with client countries. Success of the ROSC initiative depends on the impact of each assessment on institutional capacity building related operational activities in a client country.

53. **To integrate further the initiative into other Fund work**, the following steps are proposed:

- Improved coverage in surveillance of issues highlighted by ROSCs is needed, where such issues are macroeconomically relevant. The recommendations to improve the format and content of ROSCs discussed below will go some way in this direction. In addition, ROSC findings and their significance should be transmitted to area departments more effectively. One possibility to ensure adequate transfer of knowledge is to have the ROSC team suggest to the area department *a list of key ROSC recommendations of macroeconomic relevance to be followed up in Article IV consultations*. An effort should be made to: (i) keep such a list short to allow a realistic follow-up; (ii) clarify the macroeconomic relevance of the issue; and (iii) provide the basic information needed for the follow-up by non-specialists. *A post-ROSC wrap-up meeting between the ROSC team and the area department would take place* to discuss the list of key ROSC recommendations to be followed up in subsequent Article IV consultations—a record of the outcome of the meeting would

be produced by the area department and disseminated to relevant functional departments (i.e., ROSC producer, Policy Development and Review Department).³²

- In Fund-led areas, the modalities to ensure appropriate “hand-off” from ROSC teams to TA providers could be strengthened by holding *wrap-up meetings within functional departments* following completion of ROSCs with the aim of drawing selective lists of priority recommendations whose implementation would likely require TA. In parallel, following the above-mentioned post-ROSC wrap-up meeting, area departments could consider what issues would, in their views, deserve to be given priority in TA activities. Such lists could then be used to inform the Fund TA prioritization process and discussions with other TA providers.
- In general, *informal follow up should be also encouraged*, for example by providing to the authorities at the completion of ROSC contact points for further exchanges on technical issues or TA requests.

Quality of ROSCs

54. **To improve provision of information, enhance understanding of the overall significance of ROSC findings, and help monitor attainment of the initiative’s final objective, three steps could be taken:**

- Each ROSC should contain an *executive summary* providing a clear assessment of the overall degree of observance of the standard that could be, to the extent possible, understood by non-specialists.
- The practice of including a *principle-by-principle summary of observance of the standard*, which is currently used for data ROSCs and detailed assessments of financial sector standards, should be extended to other ROSCs, including policy transparency and financial sector ROSCs. Table 7 provides an example of such a summary table for a data ROSC.
- Each ROSC should systematically contain a *prioritized list of key recommendations*. When compliance is high, this list would be short.

55. The practice of *sharing draft ROSCs with the authorities*—which, from the Fund’s perspective, differs from that followed for Article IV reports—has, in some cases, led to lengthy discussions between staff and the authorities on the ROSC’s content. This resulted in significant delays in the completion of the ROSCs and raised questions about their candor.

³² For financial sector standards, procedures similar to the post-ROSC wrap-up meeting are already in place in the context of the integration of FSAP findings into Article IV consultations. They would not need to be duplicated.

Table 7. Data Quality Assessment Framework—Summary Results

Key to symbols: O = Practice Observed; LO = Practice Largely Observed; LNO = Practice Largely Not Observed; NO = Practice Not Observed.					
Datasets	National Accounts	Consumer Price Index	Government Finance Statistics	Monetary Statistics	Balance of Payments Statistics
Dimensions/Elements					
0. Prerequisites of quality					
0.1 Legal and institutional environment	LO	LO	LO	O	LO
0.2 Resources	LO	LNO	LO	O	O
0.3 Relevance	LO	LO	LO	LO	LO
0.4 Other quality management	LO	LO	LO	O	LO
1. Assurances of integrity					
1.1 Professionalism	LO	O	O	O	O
1.2 Transparency	LO	LO	LO	LO	LO
1.3 Ethical standards	O	O	O	O	O
2. Methodological soundness					
2.1 Concepts and definitions	LNO	O	LO	O	LO
2.2 Scope	LNO	LO	LNO	LO	LO
2.3 Classification/sectorization	LNO	LO	LO	LO	LNO
2.4 Basis for recording	LO	LO	LO	LO	LO
3. Accuracy and reliability					
3.1 Source data	LNO	LO	LO	LNO	LNO
3.2 Assessment of source data	LNO	LO	O	O	LNO
3.3 Statistical techniques	LNO	LO	LO	O	LO
3.4 Assessment and validation of intermediate data and statistical outputs	LNO	LO	LO	O	LO
3.5 Revision studies	LNO	LO	LNO	LNO	LNO
4. Serviceability					
4.1 Periodicity and timeliness	O	O	O	O	O
4.2 Consistency	LNO	O	LO	O	LO
4.3 Revision policy and practice	LNO	LO	LO	LO	LO
5. Accessibility					
5.1 Data accessibility	LO	LO	LO	O	LO
5.2 Metadata accessibility	LNO	LO	LNO	LNO	LNO
5.3 Assistance to users	LO	O	LO	LO	LO

Practice observed: current practices generally in observance meet or achieve the objectives of DQAF internationally accepted statistical practices without any significant deficiencies. **Practice largely observed:** some departures, but these are not seen as sufficient to raise doubts about the authorities' ability to observe the DQAF practices. **Practice largely not observed:** significant departures and the authorities will need to take significant action to achieve observance. **Practice not observed:** most DQAF practices are not met.

Against these actual or potential drawbacks, the practice has important advantages. It guarantees a higher level of accuracy of the assessments and may lead to a higher degree of ownership of the ROSC recommendations by country authorities. **To prevent excessive delays, staff proposes to adopt an indicative timeline from the end of the mission to the completion of the entire process.**

Tools to enhance cross-country and inter-temporal comparisons

56. The large number of ROSCs already completed contain a trove of information that is currently under-utilized. Discussions with country authorities and survey responses suggested there is a demand for more *cross-country research* to identify patterns across countries and issues of macroeconomic relevance. Publication of the ROSCs is important, in this regard.

57. In the Fund, staff intends to devote **further efforts to the systematic compilation of information embodied in standard assessments, so as to inform better its analysis and decision making**. Such information would be drawn from the elements described in paragraph 54, and would be available only to staff. It would help staff to: (i) prioritize assessments, (ii) measure progress towards observance of standards, and (iii) undertake cross-country analysis on key ROSC findings.³³

Expanding cooperation with other institutions

58. **As requested by the Bank Board in 2003, the Bank has reached out to the Multilateral Development Banks (MDBs) to expand cooperation on the International Financial Architecture agenda**, in particular the Asian Development Bank (ADB) and the Inter-American Development Bank (IADB). Interest in such cooperation has been variable. Partnership in follow-up actions has been achieved through other implementation mechanisms such as multi-donor trust funds (Global Corporate Governance Forum and FIRST) or other grants (Asia Europe Meeting (ASEM), Institutional Development Fund (IDF), and Center for International Private Enterprise (CIPE)).

59. One obstacle to involving outside agencies, MDBs, donors and the IFC in the follow-up process is the confidentiality attached to unpublished ROSC documents. Under current procedures, ROSCs cannot be shared with other agencies unless they are published, inhibiting the coordination of follow-up activities. To remedy this situation, **Bank staff proposes to put in place a procedure for the transmission of ROSCs to other international agencies.**³⁴ This would allow ROSC follow-up meetings for TA to be organized earlier than the current setting.

³³ FAD has already done work to develop a database on specific fiscal transparency practices.

³⁴ At the Fund, Directors have agreed to a transmittal policy for ROSCs to other organizations that follows the policy in operation for Article IV documents.

Outreach

60. Outreach has an important role to play. Disseminating and discussing information on the implementation of the initiative and its findings may encourage participation. “In-reach” on the initiative within the Fund and Bank will be essential to promote greater integration with our activities. **Thus, staff recommends to continue outreach and “in-reach” activities.**

V. RESOURCE IMPLICATIONS

A. Resource Implications for the Fund

61. **While the overall issue of the amount of resources to be assigned to the initiative in the future is expected to be addressed in the broader context of the Fund’s strategic review,** this section provides information on the implications of the review’s recommendations on the composition of the initiative’s costs.

62. **Implementation of the recommendations highlighted in the previous section would entail modest costs per ROSC. Given an unchanged aggregate number of ROSCs and updates, it would amount to roughly the equivalent of one ROSC annually for the initiative as a whole.** The proposals are costed below:

- ***On country coverage and prioritization,*** (small) savings from discontinuing factual updates would offset the costs associated to greater attention to “unconstrained” ROSC priorities in Article IV consultation reports and the resumption of regular reports to the Board on ROSC participation.
- ***On transparency of results and tools to monitor effectiveness,*** the proposals aimed at greater clarity and usefulness of ROSCs would require around 0.6 staff year to complete.
- ***On better integration with Fund work,*** the cost of the proposals to enhance coordination between and within departments to improve the initiative’s usefulness for surveillance and for technical assistance will be relatively minor, at around 0.1 staff year each. Finally, each paper presenting more cross-country analysis of ROSC findings would require around 0.2 staff year to complete.

63. **The Board’s eventual decision on the amount of resources to devote to this initiative will determine the number of assessments that can be done each year, and the implications for the frequency of updates.**

- Implementing the review’s recommendations would entail slightly higher unit costs for standard assessments and updates (previous paragraph). While, for any aggregate level of spending, the stock of assessments and updates would increase at a slightly slower rate, the mechanisms to strengthen prioritization, improve the transparency of ROSC findings, and increase links to surveillance and follow-up work would be expected to bring about greater overall impact.

- Simple calculations give some notion of the possible frequency of updates: (i) if current resources were dedicated solely to reassessments (i.e., full substantive updates), it would take a little over 5 years to update the existing stock of ROSCs; (ii) if the initiative were focused on important emerging market and developing countries (arbitrarily defined as non-advanced countries in the WEO's Group A), their ROSCs could be updated every 3 years. Thus, it would appear that, under the current resource envelope, with a judicious use of factual and substantive updates, ROSCs could be updated on average every 5 years, while still having some room to do new assessments. Targeting a higher frequency of reassessments for even a limited set of countries would put severe constraints on the program.

B. Resource Implications for the Bank

64. The production of ROSCs in the areas assessed by the Bank has steadily increased and, as the number of new ROSCs increases, demand, for reassessments also will rise steadily. The production of ROSCs in these areas is envisaged at close to 35 assessments in FY 2006 (only for Accounting and Auditing (AA), Corporate Governance, and Insolvency and Creditors Rights—a level that is planned to be maintained over the following years.
65. As discussed above, the issue of how to satisfy requests from industrialized countries for assessments in the areas assessed by the Bank without adding further pressure to the current resource and capacity constraints must be addressed.
66. In view of the increasing importance attached to the assessment and implementation of these standards, staff believes it is important (i) to maintain the goal of close to 35 annual assessments (including updates) in FY06-FY08, (ii) to provide a cost recovery mechanism for assessments undertaken in industrial countries, (iii) to provide a mechanism for better internal coordination, and (iv) to support the initiative with a dissemination campaign.

VI. ISSUES FOR DISCUSSION

67. Executive Directors may wish to address the questions set out below.
68. **Issues for Fund and Bank Directors:**
- Do Directors agree to recognize the OECD's revised *Principles of Corporate Governance* for use in the initiative (paragraph 11)?
 - What are Directors' views on the volume, pace, and composition of standard assessments (Section II.C)?
 - How do Directors assess the effectiveness of the initiative (Section III.B)? Are they satisfied with its impact so far? Or would they have anticipated better results at this stage?
 - Do Directors see merit in maintaining the initiative (paragraph 43)? Do they agree that the scope of the initiative and its key governance features should be left unchanged at this time (paragraph 44)?

- Do Directors agree that achievement of the objective of informing market participants will continue to be elusive in the absence of the radical changes market participants advocate (paragraph 45)?
- Do Directors agree with the proposals to enhance the clarity of ROSC findings (paragraph 54)?
- Do Directors agree with the proposal to adopt an indicative timeline for completion of ROSCs to help avoid excessive delays (paragraph 55)?
- In light of the nature of the initiative, the proposed recommendations and the time needed for them to yield tangible results, and the sizeable costs of policy reviews, staff recommends that the next review of the initiative take place in three years. Is this agreeable?

69. **Issues for Fund Directors:**

- Are the proposed stepped-up efforts to encourage country participation agreeable (paragraph 47)?
- Are Directors in favor of extending the flexible approach recently adopted for FSAP updates to other Fund-led areas of the initiative (paragraph 50)?
- Do Directors agree with the proposals to strengthen integration of the initiative with Fund surveillance and provision of technical assistance (paragraph 53)?
- Do Directors consider the pursuit of outreach activities worthwhile (paragraph 60)?
- What are Directors' views on the evolution of the composition of costs of the initiative (paragraphs 62-63)?

70. **Issues for Bank Directors:**

- What are Directors' views on cost recovery mechanisms for assessments done for industrialized countries (paragraph 51)?
- Do Directors agree with the proposed follow up mechanisms (paragraph 52)?
- Do Directors agree that the Bank should put in place a procedure for transmission of ROSCs to other international agencies (paragraph 59)?

**IS THE INITIATIVE MEETING ITS OBJECTIVES?
THE VIEWS OF THE STAKEHOLDERS**

1. **This appendix presents the views of the stakeholders of the initiative on whether its objectives are being met.** It first assesses progress in helping members meet internationally-recognized standards. It then goes into the initiative’s intermediate goals for members (strengthening institutions), the Fund and the Bank (informing their operations), market participants and other outside users (disseminating information). Finally, it describes the users’ views on the quality of the initiative’s direct outputs (e.g., ROSCs).

A. Is the Initiative Succeeding in Promoting Greater Adherence to Standards?

2. **Views collected for this review through questionnaires point to (i) a consensus that the initiative has made a positive contribution to policy transparency, financial market infrastructure, and market integrity regimes, and (ii) differences of view on the magnitude of that contribution.**

- Averaged across all members, country authorities consider that participation in the initiative has contributed to these three areas to “some extent” (Table 1).³⁵
- Authorities from emerging market countries view the initiative as having contributed to greater policy transparency “to a large extent” and to strengthened financial infrastructure to the mid-point between “some extent” and “a large extent.”
- In interviews with selected country officials, many examples of implementation of ROSC recommendations were brought up. Country officials often stressed that participation helped push through reforms that were already under way, rather than open a new reform agenda.
- Representatives of standard setters and national regulatory agencies at a recent FSF/Bank/Fund workshop were generally of the view that significant progress has been made in implementing financial sector standards.
- Fund ROSC mission chiefs consider that the initiative has had a large impact on institutional reforms. Bank ROSC mission chiefs and, even more, Fund country mission chiefs have a more reserved opinion.

³⁵ Country authorities were asked to respond to questions on usefulness of the initiative using the following 1 = “not at all”; to 5 = “to a very great extent.” The text refers to the average of the results.

Table 1. Usefulness of the Initiative: Country Authorities' Answers to the Survey
(Average and standards deviation of ratings on a scale of 1 = not at all, to 5 = to a very great extent)

	All countries		Advanced economies	Emerging markets	Developing countries
	Aver.	Stand. Dev.	Average	Average	Average
To what extent did you find the participation in the initiative worthwhile?	3.8	0.6	3.6	3.8	4.0
To what extent did the initiative...					
...contribute to greater policy transparency?	3.4	0.9	3.0	3.8	3.4
...contribute to strengthened financial infrastructure?	3.2	0.8	3.0	3.5	3.2
...contribute to strengthened market integrity laws and practice?	3.1	1.0	2.8	3.3	2.5
Average across objectives	3.2	0.9	2.9	3.5	3.0

Note: a shaded cell indicates a rating higher than the average across objectives for the relating country group.

3. **Given the initiative’s origin, it is noteworthy that, based on their own assessments, the initiative appears to have had the most beneficial impact for emerging market countries.** This may be attributed to the relevance of all of the initiative’s standards for these countries, given their level of financial development, which contrast with the situation of most developing countries; and the initial distance between standard and practice for these countries, which, on average, was likely higher than for advanced economies.

B. Are the Needs of Initiative’s Users Met?

Who are the users? What are their needs?

4. **At its conception, the intended users of the initiative were country authorities, market participants, the Fund, and the Bank.** This can be seen from the initial definition of the initiative’s intermediate objectives. However, **other groups should be added to this initial list, particularly civil society organizations.** Policy transparency and governance, particularly in the fiscal area, are of great interest to many groups, such as parliamentarians and Non-Governmental Organizations (NGOs). Other potential users include academics and private sector groups such as the E-Standards Forum or Oxford Analytica. We consider below the initiative’s use for these five main groups – country authorities, market participants, the Bank, the Fund, and civil society.

5. **Users’ needs relate to the initiative’s objectives** presented in the main text (paragraphs 2 and 3). They include identifying institutional vulnerabilities, establishing priorities for strengthening domestic institutions, identifying technical assistance needs or financing requirements, informing financial market participants, deepening the policy dialogue with the Fund or the Bank, and obtaining information on the country’s extent and degree of observance of standards.

Country authorities

6. **Overall, country authorities find participation in the initiative worthwhile “to a large extent,” but average satisfaction with specific objectives of the initiative seems to be lower.** As highlighted in Table 2, the average score for the overall question on whether participation was worthwhile is 3.8, which is close to the “4” mark (“to a large extent”). However, the average score on specific potential benefits from the initiative ranges from 3.5 to 2.8, close to the “3” mark (“to some extent”). This pattern may reflect the diversity of objectives and situations (across and within countries): while each respondent finds one or more dimensions of the initiative of great interest (and rates the whole initiative accordingly), each dimension of the initiative is not of great interest to all respondents (even within country groups). However, focusing on the answer referring to the overall degree of satisfaction, rather than on the average measure of appreciation of the various aspects of the initiative, may overestimate the actual degree of appreciation.³⁶ Be this as it may, looking at the distribution of answers across countries, developing countries express the highest satisfaction, closely followed by emerging market countries.

7. **Looking across potential benefits, the initiative’s greatest strength is in identifying vulnerabilities and establishing priorities for strengthening domestic institutions.** Emerging market countries and, to a slightly lesser extent, developing countries also give fairly high marks to the role played by the initiative in improving the policy dialogue with the Fund and the Bank.

8. **The usefulness of the initiative in facilitating implementation of institutional reforms is relatively lower.** This result can be interpreted in different ways: reform implementation is harder, and takes longer, than identification of gaps; and, in any country, the potential scope of institutional reforms is broader than the set of issues covered by the initiative’s standards—hence, the initiative is not relevant for the implementation of many reforms. This outcome can also be related to the view expressed by country authorities in several interviews that follow-up to standard assessments could be improved, including through greater provision of technical assistance.

³⁶ For example, if respondents provide a high overall rating as long as one aspect of the initiative is rated high, the overall rating will turn out to be high even if the distribution of the rating of specific aspects of the initiative were entirely random.

Table 2. Usefulness of the Initiative: Views of Country Authorities on Intermediate Objectives
(Average and standards deviation of ratings on a scale of 1 = not at all, to 5 = to a very great extent)

	All countries		Advanced economies	Emerging markets	Developing countries
	Aver.	Stand. Dev.	Average	Average	Average
To what extent did you find the participation in the initiative worthwhile?	3.8	0.6	3.6	3.8	4.0
To what extent did the initiative...					
...identifying vulnerabilities?	3.4	0.8	3.4	3.4	3.6
...establishing priorities for strengthening domestic institutions?	3.5	0.9	3.4	3.6	3.5
...prioritizing technical assistance needs?	2.8	1.3	2.2	2.9	3.4
...lead to implementation of institutional reforms?	3.0	0.9	2.7	3.2	3.0
...help inform market participants?	2.9	0.8	2.8	3.0	3.0
...help deepen the policy dialogue with the IMF?	3.4	0.8	3.0	3.8	3.4
...help deepen the policy dialogue with the World Bank?	2.9	1.2	2.0	3.5	3.1
Average across objectives	3.1	1.0	2.8	3.3	3.3

Note: a shaded cell indicates a rating higher than the average across objectives for the relating country group.

9. **The initiative is regarded by country authorities as less useful in prioritizing TA needs, with the notable exception of developing countries, and in informing market participants.** The latter view is consistent with market participants’ responses on use of the initiative’s outputs (see below).

10. **Country authorities note that participation brings different benefits compared to regular Article IV consultations.** In particular, they appreciate the focus on institutional issues and the greater specificity of the recommended reform agenda. They also value the signal of their commitment to transparency entailed by participation.

11. **When asked to name the least useful standards, four-fifths of the respondents answered that all had been useful.** Detailed analysis of the country authority survey responses shows that each standard meets the needs of at least some groups of countries for some specific objectives. Among standards, respondents saw assessments of the three policy transparency standards and the Basel Core Principles as most useful. The other financial standards come next.

Market participants

12. **Direct use of ROSCs by market participants is low and has not increased.** About 10 percent reported that they use ROSCs to a large extent, while 45 percent reported that they do not use them at all or to a very little extent. A survey conducted among market participants for the 2003 review reported similar results. Market participants may, however, use ROSCs indirectly. During interviews, rating agencies noted that they typically use ROSCs to form their views on ratings, while some market participants indicated that they look to the rating agencies to include the impact of ROSC in their reports. More than 50 percent of respondents also reported that they use private alternatives to ROSCs in their work, which, in turn, are partly based on ROSC conclusions.³⁷ Nevertheless, the absence of direct use of ROSCs does suggest, in contrast with the direct use by market participants of Article IV reports (see below), that the initiative is falling short of its intended objective in this area. It may not reflect lack of interest in the topics covered by (at least some of) the ROSCs, but rather perceived shortcomings of the product. Respondents who use private alternatives to ROSCs do so mainly because they are seen as more up-to-date and more user-friendly than ROSCs.

13. **The ROSCs most used by market participants are those done:**

- on monetary and financial policy transparency, fiscal transparency, data dissemination and banking supervision (Table 3).

Table 3. Average Usefulness Scores
by Market Participants

	Average usefulness score 1/
BCP	3.39
Data	3.30
MFPT	3.12
Fiscal	2.94
CG	2.42
ICR	2.24
Accounting	1.94
CPSS	1.79
Auditing	1.76
IOSCO	1.70
AML/CFT	1.61
IAIS	1.42

1/ Responses were provided on a scale of 1 = not at all; to 5 = to a very great extent.

³⁷ See Box 2 of the background paper for the Fund Board on private sector extensions of the initiative.

- for emerging market countries or developing countries trying to establish market access—much less use is made of ROSCs for developing countries with no market access and even less of ROSCs for advanced countries.

14. To make ROSCs more useful, market participants’ suggestions were similar to those provided during the 2003 review:

- **Provide quantitative measures of compliance**, as quantitative measures could be included in risk models.
- **Clarify ROSCs conclusions.** Participants noted that the ROSC conclusions are too complicated and difficult to interpret.
- **Provide annual updates.** Almost half of the respondents saw merit in the ROSCs being updated annually with another third favoring updates every two to three years.
- **Include routinely summaries of the ROSCs’ conclusions and recommendations in Fund country reports.** Participants indicated that they read Fund country reports regularly and suggested that ROSCs conclusions and recommendations would weigh more in their investment decisions if they were summarized in these reports.

The Fund

Surveillance

15. The extent to which the initiative has informed Fund surveillance appears limited. The survey of area department mission chiefs indicated that the initiative’s contribution to the analysis of macroeconomically relevant issues falls somewhere between “to a very little extent” and “to some extent” (Table 4). This perception is confirmed by an analysis of fifteen country case studies on the integration of ROSC findings into Article IV reports.

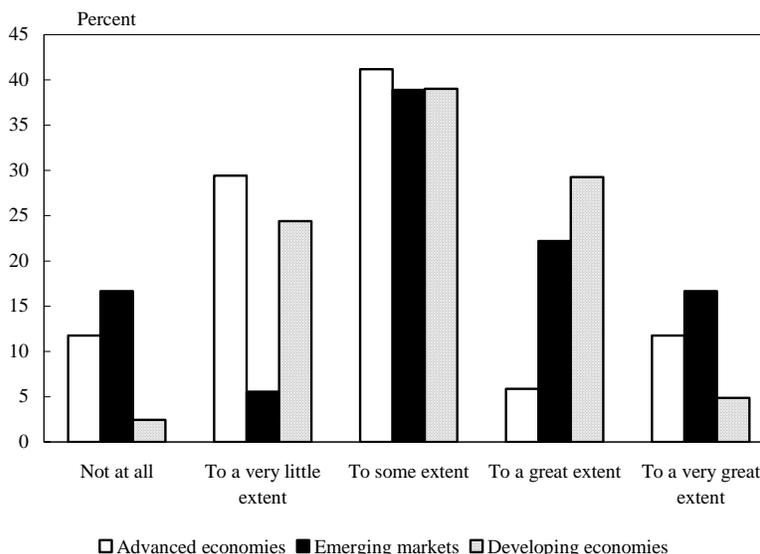
Table 4. Usefulness of the Initiative for Informing Fund Surveillance
(Average rating on a scale of 1 = not at all, to 5 = to a very great extent)

To what extent has/was the initiative ...	
... strengthened surveillance?	3.1
... informative for the analysis of key macroeconomically relevant issues?	2.8
... contributed to economic analysis in subsequent Article IV staff reports?	2.7

16. **This average response hides substantial variance across countries and standards.**

- **The impact of the initiative on surveillance is higher for emerging market economies and developing countries than for advanced economies (Figure 1).**

Figure 1. Usefulness of the Initiative for Informing Fund Surveillance: Views of Area Department Mission Chiefs (Histogram of answers by country groups)



- **In a non-negligible set of countries, the initiative was seen to strengthen surveillance “to a large extent” or “to a very great extent.”** Such countries accounted for 17 percent of emerging market economies, 12 percent of developing countries, and 10 percent of advanced economies. Again, these survey results are confirmed by the case studies, where the coverage of ROSC findings in Article IV reports varied from virtual silence to well-integrated analysis of the institutional issues discussed in the assessments.

- **ROSCs in the areas of banking supervision, monetary and financial policy transparency, fiscal policy transparency, and data dissemination are more used than others.** A second tier of assessments include ROSCs in the areas of insolvency and creditor rights, payments systems, and securities regulation.³⁸

17. **The above results can be partly explained by country-specific circumstances and the results of the standards assessments.** For example, in many cases, ROSCs may not reveal any deficiencies of sufficient macroeconomic relevance. In some other cases where ROSCs point to macroeconomically relevant issues, these issues may have been already known to area department staff or a host of other issues (not covered by the twelve standards) may be more pressing.

³⁸ Of the FSAP-related documents, area department mission chiefs found the FSSA to contribute most to the economic analysis presented in Article IV reports (average response of 3.8). These mission chiefs also believed that, to a large extent, the financial sector standards assessments added value to the FSSA reports (average response 4.3).

18. **However, some evidence suggests that better use of ROSCs could be made in surveillance.** The case studies revealed room for improvement on coverage of issues raised by ROSCs in Article IV reports. Examples of macroeconomically relevant issues raised in ROSCs that received little or no treatment in subsequent Article IV reports included limited central bank independence, banking vulnerabilities stemming from connected lending, inadequate resources of supervisory agencies, and lack of transparency on contingent fiscal liabilities. There is also a significant disparity of views on the usefulness of the initiative for surveillance between mission chiefs of area and functional departments (Table 5).

Table 5. Disparity in Mission Chiefs' Views on the Initiative's Role in Strengthening Fund Surveillance

	Area 1/	Functional 2/
To what extent has/was the initiative ...		
... strengthened surveillance?	3.1	3.6
... informative for the analysis of key macroeconomically relevant issues?	2.8	3.5

1/ Average rating on a scale of 1 = not at all, to 5 = to a very great extent.

2/ Average rating on a scale of 1 = not at all, to 5 = in all/almost all cases.

19. **Part of the difficulty in integrating standard assessments and surveillance may lie in the ROSC product.** ROSCs currently provide a principle-by-principle assessment of observance of the standard (or a summary of such assessment). While they are expected to discuss the significance of their findings and to lay out a set of prioritized recommendations, it may be difficult for a non-specialist to assess the macroeconomic relevance of ROSC findings and to identify the key issues that need to be followed up in the context of surveillance.

Technical assistance

20. **The role played by the initiative in identifying TA needs is appreciated differently by country authorities and area department mission chiefs, on the one hand, and by ROSC mission chiefs, on the other hand** (Table 6). On average, the former see the initiative contributing “to some extent” to meeting this need. The latter, on the contrary, consider that the contribution of the initiative is large. Sixty percent of respondents in functional

Table 6. Usefulness of the Initiative in Defining and Prioritizing Technical Assistance

	Country Authorities	Area Dep. Mission Chiefs	ROSC Mission Chiefs
All countries	2.8	2.6	3.8
Advanced economies	2.2	1.3	...
Emerging markets	2.9	3.0	...
Developing countries	3.4	2.9	...

Average rating on a scale of 1 = not useful at all, to 5 = useful to a very great extent.

departments thought TA was better prioritized following ROSC participation.³⁹ This difference of views could reflect a more positive assessment of ROSCs by their authors or a better understanding of links between ROSCs and TA prioritization by functional departments. The latter hypothesis is supported by the Independent Evaluation Office (IEO)'s finding that the initiative has had a growing influence on the provision of TA.⁴⁰ Indeed, delivery of TA identified as direct follow up to ROSCs or FSAPs doubled since 2001 (Table 7). It reached 39 person years in FY05, amounting to 22 percent of all Fund TA delivered.⁴¹

Table 7. Fund TA Delivery 1/
(In person-years)

	FY00	FY01	FY02	FY03	FY04	FY05
Total Fund TA	171	162	154	166	173	176
Total related to S&C initiative	9	19	22	34	40	39
Follow-up TA for FSAP	1	2	3	6	10	15
Follow-up TA for Standards and Codes	8	15	13	18	21	14
OFC and AML/CFT	0	2	5	10	9	11
Other	162	143	132	131	133	137

1/ TA delivered in the field. Excludes INS activities.

The Bank

21. **Over the past years, the World Bank group has supported the growing demand, from both middle- and low-income countries, for TA to support the implementation of ROSC recommendations.** In order to implement ROSC recommendations, the World Bank group has provided a wide range of support to countries, ranging from the International Bank for Reconstruction and Development's (IBRD) TA loans, to non-lending services by the IBRD, IFC, and trust funds (Global Corporate Governance Forum, FIRST, ASEM, IDF, CIPE) (Table 8). The objectives of TA vary from assisting in drafting laws and regulations in line with international standards to developing strategic action plans to guide the process of legal and regulatory upgrade consistent with countries' stage of development. The main

³⁹ This result was strongest in the Statistics Department (71 percent), followed by the Monetary and Financial Systems Department (65 percent) and the Fiscal Affairs Department (43 percent).

⁴⁰ "Evaluation of the Technical Assistance Provided by the International Monetary Fund," Independent Evaluation Office, January 31, 2005; <http://www.imf.org/external/np/ieo/2005/ta/eng/pdf/013105a.pdf>.

⁴¹ As pointed by the IEO report, this is probably an underestimate because of classification problems of TA delivered by the Fiscal Affairs Department.

objective of trust funds-financed projects is to build supervisory capacity in regulatory authorities, including the enhancement of prudential structure and updating regulations.

Table 8. ROSC Assessments and World Bank Follow-up Assistance: Bank Client Countries Only ^{1/}

	BCP	IOSCO	IAIS	CPSS	AML/ CFT	CG	A&A	ICR	Total
Initial ROSC Assessments	62	30	26	48	21	33	39	24	283
Number of countries receiving follow-up assistance									
Lending instrument	3	...	...	1	3	3	1	...	11
Technical assistance	6	4	8	3	10	9	24	19	83
FIRST initiative	1	5	6	1	2	3	3	1	22
IFC project	...	9	8	...	...	3	...	...	20
Total	10	18	22	5	15	18	28	20	136
In percent of ROSC initial assessments	16%	60%	85%	10%	71%	55%	72%	83%	48%

^{1/} Number of initial ROSC assessments as of December 31, 2004, and number of countries that have received follow up assistance from the World Bank as of March 31, 2005. Some countries have received more than one project related to the S&C initiative.

22. **Follow-up work was evenly distributed within each area.** Following ROSC assessments, the Bank has supported capacity building and policy development in the areas of regulation and supervision, covering about half of the countries in which ROSC assessments were undertaken.

23. **The IFC Private Enterprise Partnership (PEP) advisory program is a key vehicle to strengthen institutions.** The Partnership aims at offering training and information to companies and working with policymakers to improve implementation of regulations and foster private sector support for reforms. Drawing from the experience of countries of the former Soviet Union, work is underway to duplicate the program in other regions.

24. **A key objective of the multi-donor FIRST is to facilitate the systematic follow-up of the recommendations from FSAPs and ROSCs.** In addition, FIRST supports countries in strengthening their financial systems and implementing internationally recognized standards, in advance of participation in the FSAP program. Since its inception, FIRST has provided 39 technical assistance grants for capacity building in areas recommended by ROSC/FSAP teams.

25. **Looking ahead, the key challenge remains to better integrate ROSC findings into Bank's follow-up work through the development and implementation of systematic mechanisms, which would allow a better coordination between ROSC teams and the staff in charge for TA and lending.** Efforts have recently been made to ensure a more concerted approach in terms of follow-up, FIRST initiative, capacity building under sector programs, and TA. While such initiatives have proved the importance of appropriate sequencing and timeframe for implementation, much remains to be done in having ROSC

assessments as a relevant reference for the Bank’s country work. As the program has matured and a growing number of assessments have been completed, the demand for assistance to strengthen local capacity need to be addressed in a more systematic way.

26. Although standards assessments are increasingly integrated into Bank TA, they do not play a great role in the Bank’s CASs. Analysis of CASs and lending documents, together with staff responses to survey questionnaires, have pointed out that lending instruments and especially CASs had benefited from ROSC findings only in very few cases (Table 9). In most cases, CAS and lending documents acknowledge the importance of institutional issues covered by international standards. Fiscal transparency remains the major area of authorities’ concerns, followed by AML/CFT and banking supervision. In the area of market integrity, issues related to accounting and auditing overshadow other issues, while the importance of corporate governance issues is correlated with the level of development. Given the nature and the focus of lending instruments, references to specific country actions to address issues in the area of international standards is relatively more frequent than in the CAS. Finally, references to country actions linked to ROSC recommendations and/or tracking ROSC findings in CASs have been poor, especially for market integrity ROSCs.

Table 9. Acknowledgment of ROSCs in CAS and Lending Documents^{1/}

	Issues ^{2/}		Actions ^{3/}		ROSC follow-up ^{4/}	
	CAS	Lending	CAS	Lending	CAS	Lending
Macroeconomic policy and data transparency	91%	38%	33%	18%	NA	NA
Financial regulation and supervision	82%	62%	44%	51%	13%	14%
Market integrity	57%	44%	41%	31%	5%	19%

^{1/} Only programmatic and sectoral lending (financial and corporate) (e.g. SAL, PSAL, PAL, FSAL, PFPSAL, etc). Lending TA is excluded. 33 CASs and 22 lending documents have been reviewed.

^{2/} Acknowledgment of issues related with international standards.

^{3/} Acknowledgment of country actions to address issues related to international standards.

^{4/} Acknowledgment of country actions linked to ROSC recommendations.

27. Integration of ROSC findings in country strategies and lending programs is an ongoing challenge, because of the multi-year nature of CASs and the difference in timing between the ROSCs and CAS preparation. Nevertheless, work on standards should underpin the policy dialogue, increasingly contribute to the formulation of CASs, and sharpen the focus of capacity-building efforts.

Civil society

28. Knowledge of the initiative and use of ROSCs by civil society is limited. This was exemplified by the few and sparse responses to a survey sent to NGOs and by the thrust of a meeting held with NGOs in London. However, civil society has shown a growing interest in the area of fiscal transparency—for instance, the Extractive Industries Transparency Initiative (EITI) has attracted a lot of attention. In this context, the *Guide on Resource Revenue Transparency* was well received by civil society organizations.

29. **Civil society organizations that are aware of the existence of ROSCs see two important obstacles to their use, namely the technical language of the documents and the voluntary nature of the initiative.** Several groups have pointed out that ROSCs are not easy to decipher. They have also noted that few of the countries that, in their view, suffered from major fiscal transparency problems had undertaken fiscal ROSCs, suggesting this reflected the self-selection nature of the initiative.

C. Are the Initiative's Outputs of Good Quality?

30. As the initiative is still relatively new, users may take time to appreciate it fully. Thus, it seems sensible to assess also the intrinsic quality of the initiative's direct outputs. This may also provide a better understanding of potential areas for improvement.

31. **The initiative produces many outputs, ranging from country-specific assessments to global public goods.** Country-specific outputs include the dialogue between assessors and country authorities during the assessment process, the ROSCs (published or unpublished), and, for financial sector standards, detailed assessments (also published or unpublished). The global public goods are the standards and assessment methodologies. As noted, assessing the quality of the latter is beyond the scope of this review. The discussion below focuses on country-specific outputs.

Dialogue between assessors and country authorities

32. **Country authorities value the dialogue that is at the heart of the assessment process.** This is evidenced by the answers to the survey and by opinions expressed during the follow up meetings and interviews. A number of participants commented on the benefits drawn from the exchanges between country officials (at a technical level) and outside experts.

ROSCs

33. **Survey results point to fairly positive views on the accuracy, clarity, and overall quality of ROSCs.** The most favorable views came from country authorities (first column of Table 10), particularly regarding the provision of an accurate depiction of the situation in their countries. Views on the overall quality of the ROSCs were consistent across groups of respondents: all groups rated the overall quality of ROSCs as somewhere between "acceptable" and "good."

34. **Some progress has been made in prioritizing ROSC recommendations, a need highlighted by the 2003 review.** The latter concluded that ROSCs should "clearly identify staff views on institutional weaknesses and their significance but also progress achieved and

explicitly prioritize recommendations.”⁴² A review of the transparency ROSCs that were published in FY05 found that a prioritized list of recommendations was usually but not systematically included. Financial sector ROSC recommendations are organized by principle and thus not prioritized. However, the recommendations are aggregated across ROSCs, prioritized, and presented along with other FSAP recommendations in the main FSSA document.

Table 10. The Format and Content of ROSCs: Cross-sectional Views^{1/}

	Country authorities	Market participants	Mission chiefs	
			Area	Functional
To what extent did the initiative ...				
Provide clear conclusions on the degree of countries' compliance with the standard?	3.8	3.2	3.8	...
Accurately depict the situation in your country?	3.9	...	...	...
Were key conclusions and recommendations well-prioritized?	3.7	...	3.5	...
How would you rate the overall quality of the assessments produced?	3.8	3.6	3.6	...
Does the final report reflect the authorities' comments and suggestions ?	3.7	3.3	2.5	4.1
Is information content provided at the appropriate level of detail?	3.1	3.3	2.7	2.7
What is the shelf life of a ROSC?				
Three to four years (in percent of respondents)	...	...	53	40
One to two years (in percent of respondents)	...	...	36	51

^{1/} Responses were possible on a scale of 1 = not at all, to 5 = to a very great extent.

35. Progress in presenting staff views on the significance of institutional weaknesses has been mixed. Surveys of country authorities and Fund staff found ROSCs to be relatively clear. Market respondents were less positive. The fifteen case studies showed substantial variation in the assessments' distillation of the key findings and their significance. Overall, ROSCs clearly described recommendations for improvement, but it was often difficult to discern the significance of identified shortcomings and whether they rose to the level of macroeconomic relevance.

⁴² *Summing Up by the Acting Chairman, International Standards—Strengthening Surveillance, Domestic Institutions, and International Markets* (2003).

36. **As noted, ROSCs do not always provide an overall view of the extent and degree of a country's observance of the standard.** For instance, while some ROSCs—such as data ROSCs—contain summary matrices of compliance principle-by-principle, others do not. This makes it difficult to compare observance of standards across countries or to assess progress over time.