

52. Within this context of generally limited impact, interviews with market participants suggested that effects are greatest in countries where overall transparency is the least; failure to participate in or to publish a FSSA was generally regarded as the most significant signal. While there is no econometric work on the impact of FSAPs per se, there are a number of econometric studies on the impact of ROSCs, etc., which generally suggest a small impact, at best, on market spreads.⁴⁹

53. Actions that could increase the FSAP signaling role, according to market participants, would include (i) easier access to published documents, including the FSSAs; in this regard, many of those interviewed criticized the IMF website as not user friendly; (ii) more accessible, franker language in FSSAs and in Article IV staff report discussions of the financial sector; (iii) greater focus on potential “problem” countries; (iv) more timely published assessments; (v) eliminating the voluntary nature of the exercise, which a number of market analysts saw as creating a selection bias; and (vi) more concise, summary assessments. On the latter point, many market participants expressed a preference for even greater use of quantitative ratings but going further in this direction could raise potential problems. As discussed earlier, the in-depth country reviews suggest that the loss of important qualitative information may already be a problem with how other users (including the authorities themselves) use the ratings on compliance with the various standards and codes.

VII. LESSONS AND RECOMMENDATIONS

54. **Our overall assessment is that the FSAP represents a distinct improvement in the Fund’s ability to conduct financial sector surveillance and in understanding the important interlinkages between financial sector vulnerabilities and macroeconomic stability. While an overall judgment on the cost-benefit tradeoff will always be difficult for such activities because of the problems in quantifying the benefits, the evaluation concludes that the FSAP has significantly deepened the IMF’s understanding of the financial sector in specific countries, helped articulate policy recommendations, prompted better discussions with authorities, and helped support policy and institutional changes. The evaluation also suggests that the joint IMF-World Bank nature of the exercise has been beneficial.** Putting in place this major new initiative within a relatively short timespan represents a significant achievement.

55. The evaluation suggests some significant advantages of the present arrangements that should be preserved going forward: (i) an integrated approach to assessing financial sector vulnerabilities and development needs that could not be achieved by an ad hoc series of assessments of standards or analysis of particular issues; (ii) an institutional link to

⁴⁹ Data limitations and other methodological problems suggest that too much weight cannot be attached to these results. See the background paper on *The Standards and Codes Initiative—Is it Effective?* for a more detailed discussion.

surveillance that has greatly strengthened the operational relevance of the FSAP for IMF activities; and (iii) an administrative mechanism to coordinate IMF and World Bank inputs that, while subject to some tensions, does appear to have improved coordination, with benefits for the quality of assessments. Thus, while a variety of channels to strengthen financial sector surveillance are clearly possible and would be relevant in particular country circumstances, the evaluation evidence does suggest that FSAPs and comprehensive Updates offer distinct advantages that would be difficult to replicate fully through other less comprehensive modalities. These advantages derive largely from the critical mass of expertise mobilized for an FSAP which enables comprehensive assessments of financial systems and interaction of country officials with a range of technical experts.

56. Despite these achievements, the initiative is at an important crossroads and there is a danger that some of the gains already achieved could be eroded without some significant modifications. The evaluation indicates two interlinked sets of problems. First, financial stability assessments have not yet been fully “mainstreamed” as a regular part of IMF surveillance. Second, looking beyond the stage of initial FSAPs, there are doubts that current incentives for participation and priority-setting procedures will be sufficient to ensure continuing coverage of the bulk of countries where strong financial sector surveillance is most needed. The evaluation also points to the need for changes in the way the IMF organizes its own activities in order to make the best use of scarce technical expertise as well as to a range of measures that would further improve the quality and effectiveness of FSAPs.

57. Therefore, the recommendations are organized around three key themes:

(i) reconsidering incentives for participation, clarifying priorities, and strengthening the links with surveillance; (ii) steps to maintain and strengthen further the quality of the FSAP and organizational changes within the IMF; and (iii) the working of the joint IMF-World Bank approach. Consistent with the IEO’s mandate, the recommendations are couched in terms of actions to be taken by the IMF, although, given the joint nature of the initiative, a number of them could require decisions by both the IMF and World Bank Boards.

A. Incentives for Participation, Clarifying Priorities, and Strengthening the Links with Surveillance

58. Priority setting within the FSAP was bound to be a complicated exercise for several reasons. First, the initiative has multiple objectives, partly reflecting its joint IMF-World Bank nature. The evidence from the evaluation suggests that, in practice, this has not so far prevented priority being given to countries of systemic importance and/or with potential financial sector vulnerability concerns, provided such countries agree to participate. However, greater clarity is needed on how the balance between IMF-driven and World Bank-driven priorities will be resolved in the longer term, an issue we will return to later. Second, and probably of greater significance, there is clearly a tension between the voluntary nature of the exercise and the stated priority to be given to systemic importance and potential financial sector vulnerability. The evaluation evidence suggests this tension is increasing. The main problem is not that a minority of systematically important countries have not yet

volunteered (although they certainly should be encouraged strongly to do so), but that a significant number of countries that should be high priority candidates for updated assessments have been reluctant to participate in a timely manner. The sharp tradeoffs between different objectives that one would expect the priority-setting processes to address have largely not occurred, because some authorities' reluctance to participate has in practice been implicitly accepted when drawing up the ex ante priority lists.

59. Therefore, key design choices going forward are (i) how strongly the objective of the FSAP initiative should be to focus assessments on countries where the IMF judges they are most needed as an input to its global surveillance; (ii) how this objective can best be matched with effective incentives for participation; and (iii) how this objective can best be meshed with other objectives of the initiative through effective priority-setting procedures. There appear to be three broad choices. The first is to maintain the voluntary approach with the current set of incentives. This approach is likely to yield a result in which the coverage of FSAP Updates does not include in a timely manner many countries that the IMF would consider as high priority candidates from a global surveillance perspective. The second alternative would be to shift to a mandatory approach. The evaluation suggests that FSAPs appear to have been more effective where the assessments were most "owned" by the authorities, which suggests that the voluntary nature of the exercise can convey important advantages and should be preserved if possible. The third approach, which we favor, would be to retain a voluntary approach to the FSAP but to strengthen further the incentives for participation, especially in cases where, in the IMF's judgment, financial sector assessments are necessary for conducting effective surveillance because of potential vulnerabilities and spillover effects to other countries.⁵⁰ At the same time, other instruments for conducting financial sector surveillance, through the regular Article IV process, would also be strengthened, with the choice of the mix of instruments to be used taking into account each country's circumstances.

60. In addition, the evaluation shows that the IMF is not yet using the FSAP results as effectively as it could in its overall surveillance activities. There also appear to be substantial differences of view within the Fund on what is the appropriate expected scope for financial sector surveillance outside of the FSAP. For example, the long delay in finalizing revised guidelines on financial sector surveillance reflects disagreements on what could reasonably be expected from such surveillance, given likely resource constraints. Moreover, the organization of financial sector surveillance outside the FSAP was also subject to different

⁵⁰ The 2005 FSAP review took some steps in the direction of enhancing incentives to participate by calling for a more active promotion of Updates "through outreach programs and active encouragement by both Board, management, and staff." As a step to create greater awareness, Fund staff proposed "instituting annual reporting to the Fund Board on country participation in initial assessments and updates" similar to the Fund's *Quarterly Report on the Assessment of Standards and Codes*.

views, including on whether expertise should be centralized (i.e., in MFD and ICM) or decentralized (i.e., at the area department level).

61. These findings suggest the need for changes in how country choices for financial sector assessments are made and in how those assessments are mainstreamed into IMF surveillance. Our proposed approach contains the following mutually-supporting elements: country-specific strategies for financial sector surveillance that choose between a range of modalities for such surveillance, including FSAPs and Updates, based on sharper criteria for priority setting (Recommendation 1); strengthened incentives to encourage comprehensive assessment exercises when they are judged necessary for effective surveillance, albeit within a still-voluntary framework for the FSAP (Recommendation 2); and strengthened links between FSAPs and Article IV surveillance (Recommendation 3). The overarching idea is that, to maintain its strong relevance to the IMF's global surveillance objectives, financial sector assessments and their updates should cover most countries of systemic importance and/or with potential financial vulnerabilities in a timely manner. Both the incentives for participation and priority-setting criteria should be set with this objective in mind, and the IMF should take stock periodically of progress toward explicit benchmarks of achieving adequate country coverage.

Recommendation 1. The IMF Board and management should refine the criteria for setting priorities on IMF resource inputs into financial sector surveillance, including the FSAP. Based on these priorities, IMF staff should indicate, as part of its medium-term planning, what components are needed for strengthening financial sector surveillance in each country, drawing upon a range of possible modalities. These strategies would form the basis for more explicit accountability on results.

- The current list of factors to be taken into account in setting priorities, including geographic diversity, is quite long. So far, the relatively broad nature of the criteria has not been a major problem because the main focus has been on encouraging countries to participate—especially those judged important for global surveillance—rather than on meeting hard choices between competing demands. Going forward, however, if incentives for participation are strengthened successfully, clearer guidance will be needed on how to manage the resource tradeoffs between, on the one hand, following-up at relatively frequent intervals on vulnerability issues in countries of systemic importance (or where there are warning signs concerning the financial sector) and, on the other hand, a more extensive examination of financial sector development issues in lower income countries. Such guidance will need to be accompanied by a clear division of primary responsibilities between the Bank and the Fund, within the existing coordinating framework (see Recommendation 6).
- In calling for staff to indicate country-specific plans to guide financial sector surveillance, we do not propose the preparation of additional documents. Rather, such strategies could be included either in area department work plans or in Article IV reports. They should address two basic questions: (i) how much priority and emphasis should be given to financial sector issues in surveillance (in some countries, the

answer would be that these issues are a relatively low priority) and (ii) what is the frequency, scope and modality of assessments that would best fit each country's circumstances and the relative priority accorded to these issues. In the process of elaborating the strategy, which should be a collaborative effort between area departments and MFD, the systemic importance and macro-relevance of potential financial sector vulnerabilities should be considered explicitly.⁵¹

- While the particular scope of FSAP assessments will vary according to country circumstances, an approach that emphasizes more frequent assessments using a variety of modalities interspersed with relatively infrequent and more comprehensive assessments, akin to the initial FSAP, may often be more effective. In some cases, the more frequent assessments could build upon countries' own self-assessment exercises.
- While the evidence from the evaluation does not allow us to draw concrete conclusions about the merits of more explicit product differentiation between types of FSAPs,⁵² greater tailoring of the assessments to individual country circumstances should be an explicit objective of the country strategies—a process that is already underway. For instance, a broad range of ROSCs may be needed in some countries whereas in others it would be appropriate to cover at most the banking sector.
- In many cases, these country-specific plans will involve stronger efforts to “mainstream” financial sector assessments into regular Article IV surveillance. In some cases, following an initial FSAP, it may be appropriate for subsequent Article IVs to focus periodically on financial sector issues. This would be a natural outcome of management's intention of making Article IV reports more focused, dealing only with issues of critical importance: where domestic or international aspects of financial stability are of critical concern they would naturally form such a focus.

⁵¹ Existing priority-setting processes have already moved some way in this direction, with periodic (typically every six months) meetings between MFD and each area department to discuss work program priorities; ICM attends these meetings.

⁵² For example, the idea of “developmental FSAPs” that would focus on institutional and market access issues was discussed at one point but no such specific categorization was ever introduced and hence cannot be evaluated.

- Area departments should be held accountable for delivering on the country-specific plans, as part of the ongoing efforts to strengthen the monitoring of surveillance effectiveness.⁵³

Recommendation 2. To strengthen incentives and drawing upon these country-specific plans, IMF management should clearly signal to the Board those countries that it sees as the highest priorities for FSAPs and Updates, irrespective of whether these countries have volunteered. These lists should be the basis for periodic discussions by the Board of country-specific priorities.

- Also, in cases where there are indications of potential financial sector vulnerabilities in systemically important countries that have not volunteered for an initial assessment or Update, IMF management should indicate to the Board where it proposes to call for an intensified analysis of financial sector issues as part of the regular Article IV surveillance.
- Since it is not possible to predict whether this proposed strengthening of incentives will be sufficient, coverage of the FSAP should be reviewed again after several years, with the emphasis on the adequacy of surveillance potential. The key benchmark should be inclusion of FSAPs and/or updates for the bulk of countries signaled as high priorities for such coverage in the strategic plans. If the Board concludes at that time that coverage is falling significantly short of this benchmark, consideration should be given to shifting to a more mandatory approach.

Recommendation 3. Strengthen the links between the FSAP and surveillance by mainstreaming FSAPs and follow-up work into the IMF's regular surveillance activities. This means incorporating the assessment of financial sector standing and vulnerabilities into the overall macroeconomic assessment of the country in a way that fosters a greater understanding of stability; policy recommendations that are set in a coherent framework combining macroeconomic and financial sector analysis; more meaningful discussion of financial sector issues with authorities; and enhanced peer review discussion at the Board. Steps that could be taken in this direction include the following:

- As noted above, where financial stability issues are judged to be of high importance—either as a result of the findings of an FSAP or because of the potential global systemic importance of country's financial system—they should be a major

⁵³ This is consistent with the emphasis the IMF Board placed on clearer benchmarks for assessing the effectiveness of surveillance and the staff disseminating to the Board multi-year country work programs, articulated around a limited set of priorities (see the Summing Up of the Board discussion following the 2004 Biennial Surveillance Review, PIN 04/95 of August 24, 2004). Enhanced financial sector surveillance was one of the benchmarks established by the Board.

focus of an Article IV consultation. This would have obvious implications for the composition of the Article IV team.

- The internal review process should be strengthened to ensure that key messages on macro-financial stability are fully reflected in Article IV surveillance reports. A short (1-2 page) section in each FSSA that summarizes—in candid language—the main macro-relevant findings from the FSAP and the potential macroeconomic consequences arising from any major identified financial sector risks would assist this process.
- FSAP team leaders should be given a greater “voice” at the time of Board discussions, including an opportunity to summarize briefly what they see as the key FSAP findings with macroeconomic relevance.
- The Board itself should seek to give greater attention to financial sector issues in its surveillance discussions when the FSSA flags significant macro-relevant issues. If the potential implications for surveillance arising from the financial sector assessment are not sufficiently clear, the Board should encourage the staff to elaborate.
- Steps should be taken to identify and disseminate cross-cutting messages that arise in a number of FSAPs.⁵⁴ As part of this effort there is scope for integrating the macro-relevant findings of such assessments into multilateral surveillance Board papers and presentations, including informal presentations to the Board at WEMD-like sessions, and for greater sharing of cross-country experiences in the context of FSAP reviews.

B. Improving the Quality and Impact of the FSAP and Organizational Changes Within the IMF

62. While the evaluation concludes that the overall average quality of the FSAP exercises is quite high, several shortcomings were identified. The most systematic shortcoming was the insufficient attention paid to cross-border financial linkages and their potential consequences. In addition, problems were encountered in many FSAPs with inadequate prioritization of recommendations, as well as insufficient indication of the degree of urgency of implementation. These problems hampered effective follow-up by both surveillance and technical assistance. Moreover, while the application of various analytical tools significantly strengthened the overall quality of the assessments, problems were encountered in a number of areas, of which the most frequent included (i) a tendency to understate the potential consequences of identified weaknesses in supervisory standards, especially with regard to de facto enforcement rather than de jure regulations; (ii) presentations of the results of stress-testing exercises that tended to overstate what the exercises could say about the soundness of

⁵⁴ The 2004 staff paper on *Financial Sector Regulation—Issues and Gaps* was one good example.

financial systems, given the data and methodological difficulties usually encountered. In some cases, these difficulties were compounded by a reluctance to investigate the potential consequences of politically sensitive shocks; (iii) in a minority of cases, there was insufficient integration of the macroeconomic and financial sector components of the assessment; and (iv) many authorities would have liked to see greater efforts by FSAP teams to understand the political economy context of their country and to structure recommendations—especially those concerning wide-ranging reforms—with this context in mind. More generally, the need for greater staff continuity in follow-up on financial sector issues (both in surveillance and technical assistance) was a refrain heard frequently.

63. Addressing these issues will require steps to improve FSAP quality, in most cases by applying more widely what is already “good practice” (Recommendation 4) but also a number of organizational changes within the IMF to use scarce expertise on the financial sector and related capital market issues more effectively (Recommendation 5).

Recommendation 4. Implement steps to improve further the quality of the FSAP and strengthen its impact. In most cases, these steps would involve applying more systematically what is already current policy or “good practice.”

- Clearer prioritization of recommendations, along with a candid discussion of the potential consequences of not addressing key weaknesses.
- Steps to improve the quality of stress-testing analysis, especially in emerging market and low-income countries. These steps should include more candid judgments on the quality of data available for the assessments, and stronger “health warnings” about the limitations to be placed on any results. While it is neither possible nor desirable to pre-specify the precise types of shocks to be considered in particular country circumstances, it would be helpful to have greater transparency about the circumstances in which types of shocks that are likely to be politically sensitive will be analyzed.⁵⁵
- The greatest need is to include cross-border/financial sector linkages more systematically into the FSAP analysis. This will require, inter alia, greater ICM involvement, including at the TOR stage, in countries where cross-border linkages are of substantial importance.⁵⁶

⁵⁵ For example, greater ex ante transparency about the circumstances in which the consequences for the banking system of sovereign debt events should be analyzed would be helpful, so as to avoid ad hoc decisions and unintended signaling about the expected probability of such events.

⁵⁶ Increased use of regional FSAPs are another option for incorporating better financial cross-border analysis, especially in monetary unions. Some regional FSAPs have already been
(continued)

- The FSLC should ensure that FSAP team and deputy team leaders have adequate experience for the difficult challenges they face; if necessary, it would be better to reduce the number of FSAP missions rather than accepting any weakening in the quality of team leaders.

64. The evaluation indicates that the follow-up to the FSAP has been strongest in cases where the authorities have been most directly involved (i.e., have had some ownership of the FSAP results). Therefore, steps that enhance the involvement of the authorities in the process should be considered. We have the following menu of suggestions, but do not propose them as concrete recommendations so as to avoid prescribing specific procedural approaches that may not be well-suited to all country circumstances:

- Engage the authorities at an early stage on the objectives and scope of the FSAP, including the specific terms of reference.
- Informal discussions of the key FSAP results with high-level officials, before reports are drafted, appear to have been highly effective in many cases and should be used for (i) a candid presentation of potential vulnerabilities; (ii) a discussion of how to maximize the feasibility of various reform proposals; and (iii) follow-up plans.
- The precise modalities for such discussions would vary by country, and could include separate visits by core members of the FSAP team once the authorities have absorbed the key messages or discussions in the context of Article IV missions, with relevant Bank staff invited to participate.
- The authorities should be invited (but not required) to provide a brief written response indicating where they agree and disagree with key recommendations and what their proposed plan of action is. Where appropriate, this response could be appended to the FSSA.

Recommendation 5. Introduce changes in the organization of IMF mission activities to utilize scarce financial sector technical expertise (especially in MFD and ICM) more effectively in the surveillance process. One message from the evaluation is that the scarcity of financial sector and capital markets expertise is a major constraint on the effective follow-up in subsequent surveillance of major issues raised by FSAPs.⁵⁷ While efforts to improve

undertaken (e.g., the FSAP for the ECCA) or are under discussion (e.g., a regional surveillance exercise for the Nordic-Baltic region).

⁵⁷ In particular, the evaluation team's interviews with both ICM and area department staff indicated a widespread view that current arrangements were not utilizing ICM's expertise on capital market issues as effectively as possible, either in the FSAP or more generally in surveillance.

area department staff training and experience on such issues is important, a model in which each area department relies primarily on such “in-house” expertise would probably not be efficient and would risk reducing the broad “cross-country” perspective that many of those interviewed said was a particular potential value added of IMF financial sector surveillance. While these organizational issues involve many additional factors beyond the scope of this evaluation, they may require further changes in the way surveillance missions are organized, in the direction of a model in which the area department is the strategic coordinator of relevant specialist inputs provided by functional departments.⁵⁸

C. Joint IMF-World Bank Nature of the FSAP

65. The evaluation suggests that the joint nature of the exercise has brought considerable advantages in practice. In particular, organizing joint teams that included both IMF and World Bank staff members (as well as outside experts) has contributed significantly to the depth of analytical expertise and credibility of the findings in many, but not all cases.

66. Going forward, however, greater clarity will be needed on how tradeoffs between the objectives and priorities of the two institutions are to be handled within the FSAP framework. More specifically, if steps to strengthen incentives for participation, discussed in the earlier recommendations, are successful, then more concrete guidelines will be needed on how to manage tradeoffs between more frequent updated assessments of countries of systemic importance and/or potential financial vulnerability and assessments of countries with less developed financial sectors. The division between stability and some development aspects of the financial sector is not clear cut, and the Fund clearly has an interest in many aspects of the latter. Nevertheless, there are tradeoffs between, for example, devoting resources to assessing vulnerability in financial systems and identifying strategies to make financial services available to under-served sectors or groups. The approach we suggest (in Recommendation 6) is to keep the present institutional arrangements, including joint FSAP teams but, within this structure, to clarify further the respective roles of the two institutions. This will also involve each institution taking the lead in priority setting in those situations where it has primary responsibility.

67. The evaluation also indicates that there is often a weak framework for formulating detailed action plans to follow up on the FSAP recommendations, and identifying coordinated technical assistance support for these plans. While the country itself should take the lead to formulate such action plans, the IMF (and World Bank) can strengthen their support by (i) better prioritization of recommendations in the FSAP (see Recommendation 4); (ii) more explicit discussion of follow-up plans at the end of the FSAP exercise; and

⁵⁸ The report by the Review Group on the Organization of Financial Sector and Capital Markets Work at the Fund (McDonough group) addresses these organizational issues in greater depth.

(iii) a clearer framework for coordinating follow-up technical assistance (Recommendation 7).

Recommendation 6. Maintain the current joint approach, but clarify further the distinctive contributions the Fund and Bank can make, with the IMF taking the lead where significant domestic or global stability issues are present, and the Bank taking the lead where financial sector development issues are more paramount. Such clarity should include a clear delineation of primary responsibilities for setting priorities (and contributing resources). It should also recognize the distinct contributions the two institutions can make to follow up action, with the Fund taking the lead where the main need is for policy advice and TA linked to stability issues, and the Bank where the main need is for institution building or financial sector restructuring with associated advice, analysis and financing. Clearly, this delineation cannot be set in stone for any country since the issues that are most important will change as circumstances change and should be set as part of the country-specific strategy.⁵⁹ Moreover, we see the current coordinating framework for the joint approach, including a continued central role for the Financial Sector Liaison Committee, as a reasonably effective approach to ensuring that one institution taking the lead on certain issues and countries does not come at the expense of a reduced “buy in” of both institutions to the proposed strategy.

Recommendation 7. The IMF, in conjunction with the World Bank and other technical assistance providers, should seek to establish a clearer framework for coordinating follow-up capacity-building technical assistance activities, based on the country’s own action plans. Clearly, the authorities should take ownership of identifying and coordinating such activities to the maximum extent feasible, and many countries may have no need for external involvement in establishing a suitable framework. However, evidence from the evaluation suggests that this is an area where many countries would like to see stronger support from the IMF and World Bank. Establishment of such a framework will also require a clearer understanding between the two institutions of the appropriate dividing line between the FSAP as an assessment vehicle and capacity building/development activities; at present, the IMF approach involves a sharper demarcation between the two activities than occurs in the World Bank.

68. While details of the framework would vary from country to country, and should build upon existing institutional arrangements for donor coordination, the following steps could be considered:

- Building on the discussions with the authorities of their proposed follow-up plans, relevant IMF and World Bank staff (i.e., MFD, the Bank’s Financial Sector group, and area/country departments) should meet and prepare a possible agenda of

⁵⁹ As noted earlier, the case of Ghana represents a good practice example of how such changing priorities were handled.

capacity-building and other technical assistance needs, with an indication of priorities whenever requested to do so by country authorities. (Such quadrilateral meetings have been held recently for a small number of countries.)⁶⁰

- This agenda (along with the FSSA and FSA, as soon as release is cleared by the authorities) should be shared with other relevant TA providers as early as possible, and the Fund should seek to coordinate its own activities with these providers, using existing country-based coordination mechanisms wherever possible.
- MFD may wish to relax its approach whereby mission chiefs (and to a lesser extent other staff) who have participated in an FSAP assessment for a country are not involved in subsequent TA activities to that country. While the evaluation team was not able to assess fully the arguments in favor of such a demarcation, there are signs that it can adversely affect continuity and the transfer of knowledge in the IMF's own TA activities.

69. Finally, a few words about the **possible resource implications of the various recommendations**. We are not in a position to provide specific estimates of the possible net costs of implementing each recommendation, in part because to attempt to do so would involve specifying the particular approach to be taken in much greater detail—choices that are best left to IMF management. However, in our judgment, many of the recommended actions would have limited resource cost implications that could be absorbed within the existing envelope. (For example, drafting FSAP/FSSA reports in a way that prioritizes recommendations and highlights the key findings of greatest macroeconomic relevance for surveillance is largely a question of the relative emphasis and content of the reports and should not require additional resources per se). However, several of the recommendations would probably require additional resources, although exact quantification is not possible at this stage: (i) strengthening incentives for participation in the FSAP could raise average costs per FSAP if it results in a larger proportion of comprehensive Updates (and initial assessments) being undertaken for countries with relatively complex financial systems; (ii) strengthened coverage of cross-border issues in FSAPs would require some additional staff time and specific expertise, although there may be scope for achieving some economies of scale through regional FSAPs. Greater attention to these issues would be needed in some, but not all, FSAPs; (iii) greater lead time before FSAP missions—to allow for further discussion with the authorities at the TOR stage, more advance notice of information

⁶⁰ Another approach that is in the pipeline for two countries with recently completed FSAPs is to organize a “post-FSAP TA providers forum” under the chairmanship of the FSAP country, bringing together the IMF, World Bank, and other potential donors to consider how to take forward post-FSAP TA plans. In one of these cases, FIRST may be commissioned to transform the FSAP action plan into a series of coordinated TA programs. While it is too early to evaluate such an approach, it appears to be a useful precedent in line with the thrust of this recommendation.

requests, etc.—could raise moderately the total staff resources per FSAP, although better advance coordination with the authorities is likely to yield net benefits overall; and (iv) more systematic approaches to post-FSAP follow up, including a clearer framework for coordinating subsequent TA, are likely to involve additional costs, especially if additional country visits are required. Some of these costs would fall on the TA functions of MFD (and the respective area department), rather than the FSAP initiative per se. If the thrust of these recommendations is accepted, more precise quantification of resource costs would need to be prepared as part of any plan for implementation.

70. More generally, the message from this evaluation is that the FSAP has proved to be a reasonably effective vehicle for enhancing the Fund's understanding of financial sectors, including for surveillance purposes. Going forward, the choices made on country coverage are likely to be one of the biggest influence on FSAP costs and will reflect strategic decisions on how central to strengthening financial sector surveillance globally the FSAP exercise is intended to be. Some of these choices would involve higher resource costs for the FSAP. Such decisions on overall resource allocation can only be made in the context of the IMF's broader medium-term strategy.