The Process of Financial Development:

A Statistical View from the FSAP Program

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Abstract

This paper uses a simple statistical approach to exploit some of the wealth of information contained in FSAP reports. The authors classify and count FSAP recommendations along a logical grid that reflects the fabric of financial activity and the ways in which states organize their policies in support of financial development. With some caveats reflecting the inherent limitations of the exercise, this analysis provides a simple monitoring tool to help understand

the nature and evolution of the FSAP program. At the same time, it throws light on the nuts and bolts of the process of financial development and its inter-linkages with economic development. While many of the findings conform well to what one would expect, others are more surprising and also potentially more useful for understanding the inner workings of financial development.

This paper—a product of the Financial Policy Division, Financial Systems Department—is part of a larger project in the department to take stock of the FSAP program, monitor its effectiveness, and facilitate its evolution over time to respond to the needs of the membership. Policy Research Working Papers are also posted on the Web at <http://econ.worldbank.org>. The author may be contacted at Aize@worldbank.org.

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THE PROCESS OF FINANCIAL DEVELOPMENT: A STATISTICAL VIEW FROM THE FSAP PROGRAM¹

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I. INTRODUCTION

The FSAP program was launched as a joint Bank-Fund initiative nearly a decade ago to assess on a regular basis the stability and developmental challenges of financial systems around the globe. The number of completed FSAPs has now reached 119, covering 103 countries in all regions of the world and at all levels of income (Table 1). FSAPs cover all aspects of financial systems, from both a stability perspective and a developmental perspective. Drawing “lessons” from this program is a formidable challenge in view of its size (simply reading the thousands of pages of FSAP reports would already a major undertaking) and the variety of its content. At the same time, however, the broad cross-country coverage of the FSAP program as well as its breadth and depth of analysis provide a unique opportunity to peek deep down into financial system issues in a systematic and wide ranging manner.

This paper uses a simple statistical approach to exploit some of this wealth of information. We classify FSAP recommendations along a logical grid that organizes FSAPs’ content in accordance with the fabric of financial activity and the ways in which states organize their policies in support of financial development. Counting recommendations along such a grid provides a simple yet fairly rich and flexible way to measure FSAPs’ focus and orientation. The FSAP studies can thus be compared and contrasted according to their date, their nature (first assessment or update), the region and main structural characteristics of the assessed country (income level, size, etc.), and any other relevant characteristics of the study.

Table 1. FSAPs Completed and Projected, 1999-2008

	Actual									Projected	
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2007	2008
AFR		1	3	4	5	2	3	2	1	3	6
EAP				1	1	1			1	2	
ECA		2	7	4	3	5	4	5	2	6	8
LCR		2	4	1	2	6	5	4		1	3
MNA	1	1	3	1	3	2	1	1		4	3
SAR			1	1	1	1				1	1
High Income		2			5	4	1	5		1	2
Monetary Areas						1		1			1
Total	1	8	18	12	20	22	14	18	4	18	24
Total Updates					1	4	4	6	1	6	16
ROSCs per FSAP	1.0	6.3	6.1	7.2	6.7	5.0	3.4	3.0	2.0		

With some caveats reflecting the inherent limitations of the exercise (including difficulties in sorting out supply and demand effects), this analysis provides a simple monitoring tool to help understand better the nature and evolution of the FSAP program. At the same time, it throws light on the *nuts and bolts of the process of financial development and its inter-linkages with economic development*, i.e., as countries develop and their financial systems deepen, what policies matter when. While many of the findings conform well to what one would expect (set up basic frameworks and rules before focusing on how well they are applied, the more basic naturally comes before the

more sophisticated, etc.), others are more surprising and also potentially more useful for understanding the inner workings of financial development.

The rest of this paper is organized as follows: Section II presents the methodology and Section III the results. Section IV concludes by summarizing the main contributions of the study and pointing out some of its limitations.

II. METHODOLOGY

A. The grid

Financial activity helps allocate society's savings and risk absorption capacity to their most productive use. It gravitates around financial contracts through which money is exchanged today against the promise of money or risk coverage tomorrow. To facilitate this enormous leap of faith into an uncertain future, financial contracting must be supported by a proper underlying *infrastructure* that includes: i) a set of well agreed and enforced rules regarding property rights (that define what would happen under a breach of the contract); ii) general rules on corporate governance (that help limit the uncertainty and moral hazard attached to the management of funds under contract); iii) a basic framework to collect, organize, store and communicate information (a key ingredient for efficient contracting); and iv) an infrastructure to facilitate the trading and settlement of contracts. While states do not need to directly provide most of the specialized services that are associated with the production and delivery of information or the trading and settlement of contracts, they do need to provide the underlying legal and regulatory framework.

In addition to providing (and enforcing) basic rules of the game, states also need to exert a proper *oversight* over how the game is being played (i.e., be the game's referee). They must ensure that: i) financial systems remain sound and the failures of financial intermediaries, when they occur, are dealt with swiftly and efficiently; ii) financial intermediation remains as competitive and efficient as possible; and iii) consumers are adequately protected and markets retain their integrity.

Finally, states can affect financial development by directly influencing the way the game is played or by being part of the game themselves. They can do this through targeted *financial development policies* (they may directly manage public financial institutions or seek to influence the activities of private financial intermediaries), or they may contribute to financial activity more indirectly by managing *general enabling policies*. Although the latter (monetary policy, public debt policy, tax policy) are not mainly focused on financial development, they can have an important bearing on it. Thus, they can limit uncertainty in financial contracting by ensuring the stability of the currency through controlling returns at the shortest end of the yield curve and/or intervening in the foreign exchange market. At the same time, by regularly issuing debt obligations, they can facilitate the market's discovery of key benchmarks over the rest of the yield curve. States can also use taxation to push financial activity in some direction or, in the contrary, to ensure full tax neutrality.

The proposed grid closely follows the above summarized description of financial activity and the state's supporting role (Table 2). We first divide the policy universe into three first-tier headings: i) infrastructure; ii) oversight; and iii) public policies. We then subdivide each of these headings by broad areas (second-tier). Thus, we divide up:

- infrastructure into: i) contractual; ii) informational; iii) transactional; and iv) corporate governance;²
- oversight into: i) prudential; and ii) market performance and integrity;
- public policy into: i) general enabling policies (monetary and foreign exchange management, public debt, taxation) and financial development policy.

A third tier is then introduced by themes along logical lines. For example, the contractual framework is divided up between main rules (creditor rights and insolvency) and enforcement (the judiciary). The informational framework is organized according to the way information is presented (accounting), reviewed (auditing), disclosed (disclosure and reporting), assessed (rating), or stored (registries). The transactional framework distinguishes between the two phases of a transaction, trades followed by payments. Prudential oversight reflects the four logically different stages of oversight: i) the underlying legal and organizational framework (in the case of the Basel Core Principles, this would correspond to the preconditions for effective banking supervision); ii) the regulatory framework; iii) the supervisory framework (e.g., the implementation of regulations and the monitoring of risk); and iv) crisis management.

Financial development policy distinguishes between areas where the state: i) is directly involved in intermediation (i.e., when, through its direct management of public financial institutions, it seeks to substitute markets that are perceived to be performing inadequately);³ ii) seeks to influence the orientation of intermediation through indirect means (i.e., when it uses subsidies, guarantees, or regulations to promote a certain type of intermediation); or iii) exerts its leadership to promote market development in a neutral yet pro-active fashion. The latter includes a broad policy agenda, defined as “pro-market activism”. It ranges from the definition of developmental agendas to more specific R&D-type support and may also include catalytic interventions where the state limits its role to helping resolve coordination failures by market participants.

We also distinguish market competition-oriented policies (when the state seeks to influence market structure, regardless of its level of development) from market development policies (when the state seeks to promote market development regardless of its structure). While recommendations on the former are located in the market

² Only the general corporate governance recommendations (e.g., that apply to non financial firms) were placed in the infrastructure section. Recommendations on the corporate governance of financial firms (derived from sector-specific assessments of oversight rather than general assessments of corporate governance) were located instead in the oversight section (typically as part of institution-based risk management).

³ Thus, recommendations on the *managerial oversight of public* financial institutions (whether banks, pension schemes or insurance agencies) are all classified within the direct intervention component of financial development, while recommendations on the *prudential or competition oversight of their private* counterparts are all in the oversight section.

competition component of oversight, recommendations on the latter are placed in the pro-market activism component of public policy.

The grid is completed with a fourth and fifth tiers that reflect more specialized themes, different sectors of intermediation, or different logical stages of policy formulation and implementation (Appendix Table 1). For example, the judiciary distinguishes between procedures, transparency, enforcement, capacity building, specialized courts, and extra-judicial arrangements; accounting between standards definition and implementation; payments between general framework, wholesale and retail; monetary and public debt management between institutional framework, policy, and operations; public financial institutions between closure or privatization, restructuring, functional improvements, and performance assessment; pensions and social security between parameters definition, asset management, and functional improvements, etc.

In the case of oversight and some public policies (taxation and financial development), a division by sectors (banking, insurance, pension, microfinance, other NBFIs, capital markets) is made before opening up each of the sectors by themes. For example, recommendations on regulation and supervision are broken down along a Basel pillars orientation (supervisor-based, bank-based, and market-based oversight); capital markets distinguish by types of intermediaries (dealers and brokers vs. investment funds) or main focus of instruments (investment vs. risk); banking crisis management progresses from early warnings to corrections, lender of last resort, deposit insurance, and resolution. On the other hand, the recommendations that relate to the oversight of the financial system as a whole (unified or coordinated oversight, consolidated supervision) or that cut across national boundaries (cross-borders) are placed separately into a “global oversight” bucket. The grid can also be rearranged to provide an alternative breakdown that classifies oversight by sectors, ahead of functions and themes (Table 3 and Appendix Table 2).

A further breakdown is in principle possible to reflect the more specific orientation of each recommendation. While in some cases we were able to introduce such finer differentiation (for example, recommendations on public banks are divided up into closure, privatization, redefinition, restructuring, etc.), in most cases this task remains to be done. Such an exercise might help shed more light on the nature of the recommendations and contribute to a deeper understanding of the FSAP process, thereby providing useful inputs for cross-country.⁴

⁴ However, it would not serve a useful purpose for statistical analysis. The number of recommendations per row becomes too low for statistical significance once one goes beyond the fourth tier. Moreover, the farther one goes into breaking down recommendations, the more judgmental the process becomes (there are more and more ways to skin the cat).

Table 2. Main Trends
(In Percent of Total Recommendations)

	1999-2001	2002-2004	2005-2007
A. INFRASTRUCTURE	19.5	20.6	20.8
<i>a. Contractual</i>	5.8	5.8	4.7
i. Creditor Rights	1.5	0.9	1.3
ii. Insolvency	0.8	1.0	1.1
iii. Judiciary	3.5	3.9	2.3
<i>b. Informational</i>	4.8	7.3	8.6
i. Accounting	1.6	1.6	1.6
ii. Auditing	0.5	0.8	1.4
iii. Disclosure & Reporting	0.4	0.9	0.8
iv. Rating	0.0	0.1	0.1
v. Registries	2.3	3.9	4.7
<i>c. Transactional</i>	7.5	5.9	6.3
i. Trading	1.3	0.6	1.1
ii. Paying	6.2	5.3	5.2
<i>d. Corporate Governance</i>	1.4	1.5	1.3
B. OVERSIGHT	59.3	55.4	57.3
<i>a. Prudential</i>	54.3	50.3	52.2
i. Legal & organizational framework	18.8	18.2	20.3
ii. Regulation	14.1	11.7	13.2
iii. Supervision	14.1	13.9	14.4
iv. Crisis management	7.2	6.5	4.3
<i>b. Market performance & integrity</i>	5.0	5.1	5.1
i. Market Competition	2.5	2.1	2.5
ii. Consumer protection	1.3	0.9	1.1
iii. Anti-Money Laundering	1.3	2.1	1.5
C. PUBLIC POLICY	21.1	24.0	21.9
<i>a. General Policies</i>	14.6	14.8	11.4
i. Monetary & Foreign Exchange Management	10.0	7.6	7.6
ii. Debt Management	1.9	4.2	2.3
iii. Tax Management	1.9	2.5	1.2
iv. Fiscal & public sector management	0.8	0.5	0.4
<i>b. Financial Development Policy</i>	6.5	9.2	10.5
i. Direct intervention	5.6	8.0	8.2
ii. Indirect intervention	0.5	0.6	1.0
iii. Pro-market Activism	0.5	0.6	1.4

Table 3. Oversight Recommendations by Sector
(As percent of total)

	1999-2001	2002-2004	2005-2007	HIC	MIC	LIC
Banking	46.5	42.8	42.6	42.9	45.7	37.4
<i>a. Prudential</i>	44.5	40.2	39.4	41.4	42.9	34.0
<i>b. Market performance</i>	2.0	2.6	3.2	1.5	2.8	3.4
Insurance	16.7	19.2	16.5	20.1	17.3	17.3
<i>a. Prudential</i>	15.3	17.9	15.7	18.9	16.3	15.5
<i>b. Market performance</i>	1.4	1.3	0.8	1.2	1.0	1.8
Pensions	6.6	7.2	9.5	4.8	9.4	5.2
<i>a. Prudential</i>	5.6	6.3	8.1	4.8	7.7	5.2
<i>b. Market performance</i>	1.0	0.9	1.5	0.0	1.7	0.0
Microfinance	2.2	4.8	5.5	0.0	2.3	16.2
<i>a. Prudential</i>	1.8	4.3	5.2	0.0	2.0	14.7
<i>b. Market performance</i>	0.4	0.5	0.3	0.0	0.2	1.5
Other NBFIs	5.0	4.9	4.7	4.1	4.8	5.9
<i>a. Prudential</i>	4.8	4.7	4.4	3.9	4.6	5.4
<i>b. Market performance</i>	0.2	0.2	0.3	0.2	0.2	0.5
Capital Markets	12.9	10.7	9.0	12.6	10.2	10.6
<i>a. Prudential</i>	11.5	10.5	9.0	11.9	9.8	10.3
<i>b. Market performance</i>	1.4	0.2	0.0	0.7	0.4	0.3
Global Oversight	10.1	10.5	12.1	15.5	10.4	7.5
<i>a. Prudential</i>	10.1	10.5	11.8	15.5	10.3	7.5
<i>b. Market performance</i>	0.0	0.0	0.3	0.0	0.2	0.0

B. Statistical analysis

To avoid introducing a selection bias by cherry picking across the whole FSAP reports and to limit the number of recommendations, the database is limited to the key recommendations drawn from the summary tables (generally) placed at the end of FSAPs' executive summaries. In cases where such a summary table was unavailable (this was often the case in the earlier FSAPs), the recommendations were inferred from the executive summaries. When the recommendations in the summary table or executive summary were deemed to be excessively general, an effort was made to infer more specificity from the main body of the FSAP report (there were only a few such cases).

When recommendations could genuinely be placed into multiple rows of the matrix, they were copied into each of the rows. While such overlapping is difficult to avoid completely (some recommendations will inevitably fall in the interface between different items of the grid, particularly when they are not too specific), it was quite infrequent, suggesting that the grid does a good job on the whole in mapping up one for one the universe of recommendations.⁵

⁵ Take for example the case of a recommendation aimed at improving the registration and use of collateral. Because it touches on aspects of information infrastructure (e.g., the collection and storage of information

The recommendations in each row were counted and their total standardized in either of two ways:

- One approach, emphasizing the *overall focus* (OF) of the FSAP, divided up the row totals by the overall number of recommendations.
- The other approach emphasized *relative focus* (RF), i.e., the relative importance of any theme or sector within a given area; the row totals were divided by the number of recommendations in the tier immediately above. For example, “Contractual” was divided by “Infrastructure”, “Specialized courts” by “Judiciary”, etc.

Simple tabulations were first produced, breaking down the data in various ways. Vertically, two alternative breakdowns of the oversight component of the grid were used, one by themes and the other by sectors. Horizontally, the data was broken down by FSAP date (FSAPs are distributed in three even periods over the life of the program) and country income level. While the former gives a glimpse on FSAPs’ main focus and whether it has changed over time, the latter provides a window on how FSAPs’ content has adapted to reflect economic and financial development.

Tabulations have the advantage over formal statistical tests that they can adapt better to the data. In particular, they can reveal nonlinearities that may not come through in simple linear regression exercises. However, simple tabulations may also be misleading in that averages can be driven by a few outliers, or because they fail to integrate multivariate linkages. For example, apparent changes in focus over time could simply reflect a change in the relative participation of low or middle income countries over time relative to high income countries, rather than changes in focus for a particular type of country.

To address these issues, we back up our conclusions with OLS estimates whenever possible. Row-by-row OLS estimates were conducted, up to the fourth tier, according to both the OF and RF methods. Recommendation percentages are explained as a function of:

- A standard set of country structural variables that includes (the logs of) GDP per capita (a proxy for economic development), population (a proxy for country size), and population density (denser countries tend to have more developed financial systems).
- A set of FSAP-specific variables, including the year of the FSAP and whether it was an initial FSAP or an update (a dummy variable).
- Regional dummies, using the World Bank classification system (to better isolate these regional effects, regional dummies were introduced one at a time).

Two more statistical tests were conducted to help identify the breadth of the FSAPs and their focus (broad-based or mostly concentrated on a few areas or issues). We regressed the total number of recommendations, as well as their standard deviation across the upper

on collateral), it belongs to the section on pledge registries. At the same time, however, the recommendation may also be aiming at improving the contractual rules supporting the use of collateral, justifying its inclusion under the creditor rights section.

two tiers of the grid (a total of 11 rows), on the same explanatory variables as those previously used for OF and RF. Broader FSAPs should have a higher number of total recommendations and/or a lower variance (implying a more even distribution across areas).

III. RESULTS

A. Main focus and trends

Table 2 provides a first overall glimpse at main focus and trends. Most salient features are as follows:

- Prudential oversight (i.e., the mostly stability-oriented component of the assessments) has consistently accounted for over half of total recommendations.
- Instead, FSAPs' mostly development-oriented component, which can be roughly defined as the sum of infrastructure, market competition, and financial development policy, has accounted for only about a third.
- However, the developmental focus has risen over time, reflecting rapid increases in the informational component of infrastructure and a growing focus on the state's financial development policies.

On the other hand, the breakdown of oversight by sectors (Table 3) shows that:

- Banking continues to account for the lion's share (close to 50 percent) of FSAPs' oversight-centered recommendations.
- However, that share has declined over time.
- Instead, the share of microfinance, pensions, and global oversight has risen steadily.
- Surprisingly, FSAPs' focus on capital markets has declined.

The regression analysis (Appendix Table 3) broadly supports the above findings.⁶ In particular, it shows that the weight of infrastructure (particularly informational) and financial development policy has increased over time while that of oversight (particularly prudential) has declined. While in the case of information infrastructure, this may reflect in part the World Bank's increased emphasis and capacity in this area, in the case of oversight the decline may simply be a reflection of the fact that it initially accounted for the lion's share of the FSAP agenda (hence, some decline would be expected over time). The downward trend of capital markets and the increased attention given to pensions and other NBFIs (albeit not microfinance) are also corroborated by the statistical analysis.

Tables 4 and 5 deepen the analysis of trends by classifying and ranking the 40 top recommendations according to whether focus has increased over time or decreased. Some of the "in" topics include issues which have clearly been at the center of the global stability agenda in recent years, such as the application of the second and third Basel pillars to supervision, and global oversight (particularly crisis management). Similarly,

⁶ The level and direction of significance for each coefficient is reported with one (10 percent), two (5 percent), or three (1 percent) plus or minus signs (the OF scores are reported first, the RF scores are reported between parentheses after the comma).

on the developmental side, many of the items in the list have been widely emphasized in recent years as center pieces of the financial development agenda. These include the promotion of access (which comes at the very top of the list), microfinance related issues, the informational framework (registries, auditing), the general design of payments systems and the institutional framework for payments oversight.

Other “in” topics, such as the various ways in which the state can influence financial development and the performance and management of public programs and institutions (including housing, social security, and central banks), are somewhat more surprising. It is remarkable, however, that various items of pro-market activism come at the top of the list, perhaps reflecting the increasingly prominent role of the state as a catalytic agent of change. It is also worth noting that finding ways to improve the functioning of state-owned financial institutions (including through better performance assessments and better resource management) also figure prominently. A possible interpretation is that FSAPs are increasingly grasping with the broader role of the state in financial development, going beyond the setting up of the enabling environment. These issues may have been somewhat side-lined initially, perhaps due to their complexity or political sensitivity.

Similarly, the list of what is cooling off includes items that one would associate with somewhat “resolved” or “outdated” issues, such as wholesale payments (the big wave of RTGS systems introduction seems to have passed), checks, deposit insurance, and crisis management (less crises have occurred more recently). But in other cases, the list is more surprising as for the closure of state financial institutions, various aspects of monetary management (such as liquidity and reserve management, and money and foreign exchange market development), capital markets (as already noted above), and enforcement and capacity building in the judiciary.

In each of these cases, various interpretations are of course possible: i) the underlying issues have largely been resolved and no longer require attention; ii) the underlying issues have not been resolved but there is no point in repeating over and over the same recommendations; or iii) the underlying issues have not been resolved but the assessing institutions have limited their role or capacity in this area. Take for example the case of public financial institutions. FSAP teams may have learnt to accept realities on the ground whereby improving these institutions might be more productive than trying to close them. On the other hand, the apparent phasing out of recommendations in the area of capital markets perhaps reflects a supply constraint rather than a demand shift from the membership.

Table 4. Topics with increasing focus

		1999-2001	2002-2004	2005-2007	Score ⁷
1	Access Promotion - Pro-market Activism	0.0	0.1	0.8	187.0
2	Transparency - Banking - Consumer Protection	0.0	0.1	0.4	185.4
3	Global Oversight - Crisis Management	0.0	0.1	0.3	160.9
4	Human Resources Management - Monetary and FX Mgmt	0.0	0.1	0.3	160.9
5	Research and Information Support – Pro-market Activism	0.0	0.1	0.3	160.9
6	Performance Assessment – Public Banks	0.0	0.2	0.4	156.1
7	Institution based risk management - Pensions Supervision	0.0	0.3	0.5	141.4
8	Performance Assessment - Development Banks	0.0	0.2	0.3	141.4
9	Performance Assessment – Public Insurance	0.0	0.1	0.2	141.4
10	Resources & Capacity Building - Pensions Oversight	0.0	0.2	0.3	121.9
11	Market based risk management - Insurance Supervision	0.0	0.2	0.2	112.1
12	Microfinance - Market competition	0.0	0.2	0.2	112.1
13	Strengthening - Real Pledges	0.2	0.7	1.1	102.5
14	Implementation – Auditing	0.2	0.6	0.8	88.2
15	Guarantees - Indirect Intervention	0.1	0.2	0.4	86.1
16	Independence & Accountability - Pensions Oversight	0.1	0.3	0.4	82.5
17	Auditing	0.5	0.8	1.4	82.4
18	Real Pledges - Registries	0.4	1.2	1.4	81.3
19	Microfinance - Legal and Org Framework for Oversight	0.4	1.1	1.3	80.5
20	Pro-market Activism	0.5	0.6	1.4	79.3
21	Microfinance – Supervision	0.4	0.4	1.0	74.4
22	General Development Strategies – Pro-market Activism	0.4	0.4	1.0	74.4
23	Housing - Direct Intervention	0.4	0.4	1.2	73.6
24	Specialized Courts - Judiciary	0.2	0.4	0.5	68.4
25	Oversight – Payments System	0.4	0.6	0.8	68.0
26	Parameters - Pensions & Social Security	0.8	1.1	1.8	63.9
27	Banking - Consumer Protection	0.5	0.6	1.0	62.3
28	Indirect public intervention	0.5	0.6	1.0	62.3
29	Registries – Informational	2.3	3.9	4.7	56.8
30	Debtors - Registries - Informational	1.2	1.4	2.3	56.3
31	Subsidies - Indirect Intervention	0.2	0.3	0.5	55.9
32	Pensions – Supervision	0.5	0.7	0.9	55.7
33	Reserve Requirements - Operations Monetary and FX Mgmt	0.4	0.5	0.6	50.9
34	General Framework – Payments System	1.5	2.0	2.7	50.1
35	Pensions & Social Security - Direct Intervention	1.3	2.1	2.3	49.0
36	Informational Framework	4.8	7.3	8.6	49.0
37	Market based risk management - Banking Supervision	0.4	0.4	0.6	46.5
38	Pensions - Legal and Org Framework for Oversight	1.1	1.6	1.8	45.7
39	Coordinated Oversight - Global Oversight –Legal Framework	0.7	0.9	1.2	45.1
40	Legal Framework – AML	0.7	1.1	1.2	42.1

⁷ The score is the sum of the percentage increases from each column to the next, where the percent is calculated with respect to the later period.

Table 5. Topics with decreasing focus

		1999-2001	2002-2004	2005-2007	Score ⁸
1	<i>Capital Markets - Market competition</i>	0.5	0.1	0.0	177.4
2	<i>Dealer and Brokers - Capital Markets - Regulation</i>	0.4	0.1	0.0	169.9
3	<i>Pensions - Crisis Management</i>	0.1	0.1	0.0	154.8
4	<i>Microfinance - Consumer Protection</i>	0.2	0.1	0.0	154.8
5	<i>Other NBFIs - Crisis Management</i>	0.2	0.2	0.0	132.2
6	<i>Closure – Development Banks</i>	0.2	0.2	0.0	132.2
7	<i>Coordinated Oversight - Global Oversight - Regulation</i>	0.4	0.3	0.0	109.7
8	<i>Insurance - Consumer Protection</i>	0.1	0.1	0.0	109.7
9	<i>Check clearing and settlement – Payments System</i>	1.3	0.4	0.3	103.1
10	<i>Introduction - Deposit Insurance</i>	0.4	0.2	0.1	97.1
11	<i>Investment Instruments - Capital Markets - Regulation</i>	1.1	0.8	0.3	87.7
12	<i>Capital Markets - Regulation</i>	2.2	1.4	0.7	85.2
13	<i>Enforcement - Judiciary</i>	0.4	0.3	0.1	81.2
14	<i>Oversight - Corporate Governance - Corporate Governance</i>	0.4	0.3	0.1	81.2
15	<i>Capacity Building - Judiciary - Contractual</i>	1.3	0.9	0.5	78.7
16	<i>Strengthening – Security Registries</i>	0.2	0.2	0.1	75.3
17	<i>Insurance - Crisis Management</i>	0.2	0.2	0.1	75.3
18	<i>RTGS systems- Payments</i>	2.3	1.3	0.9	75.2
19	<i>Gross Payments</i>	2.0	0.9	0.7	74.5
20	<i>Movable Collateral - Creditor Rights - Contractual</i>	0.5	0.2	0.2	69.5
21	<i>Banking - Tax Management</i>	1.1	0.6	0.5	68.6
22	<i>FX Market Development - Operations Monetary and FX Mgmt</i>	1.1	0.4	0.4	67.3
23	<i>Fiscal and public sector management</i>	0.8	0.5	0.4	66.0
24	<i>Transparency - Policy Monetary and FX Mgmt</i>	1.1	0.6	0.5	54.4
25	<i>Corrections - Banking - Crisis Management</i>	0.9	0.9	0.5	53.8
26	<i>Licensing</i>	0.4	0.3	0.2	52.8
27	<i>Regulatory framework - AML</i>	0.4	0.3	0.2	52.8
28	<i>General Sector Development - Pro-market Activism</i>	0.4	0.3	0.2	52.8
29	<i>Money Market Development - Operations Monetary and FX Mgmt</i>	1.2	0.8	0.6	52.6
30	<i>Deposit insurance - Banking - Crisis Management</i>	2.0	1.4	1.1	52.1
31	<i>Capital Markets - Supervision</i>	1.2	0.7	0.6	51.4
32	<i>Institution based risk management - Banking Regulation</i>	0.8	0.7	0.5	48.7
33	<i>Resolution framework - Banking - Crisis Management</i>	2.7	2.6	1.4	48.0
34	<i>Modification - Deposit Insurance</i>	0.9	0.7	0.5	47.8
35	<i>Retail Payments</i>	1.9	1.2	1.1	44.8
36	<i>Banking - Crisis Management</i>	6.7	5.9	4.0	44.2
37	<i>Operations - Monetary and FX Mgmt</i>	6.2	4.2	3.7	44.1
38	<i>Crisis management</i>	7.2	6.5	4.3	43.8
39	<i>Open-market Operations - Operations Monetary and FX Mgmt</i>	0.9	0.9	0.5	43.8
40	<i>Restructuring - Retail Banking</i>	0.6	0.5	0.4	42.8

⁸ The score is the sum of the percentage decreases from each column to the next, where the percent is calculated with respect to the earlier period.

It is also worth noting that FSAPs' content has tended to follow a natural product cycle over time, which reflects basic sequencing constraints, increasing layers of complexity, and evolving international trends and priorities. For example, recommendations on the introduction of (all types of) registries peaks during 2002-2004 while those on the strengthening of those registries keeps rising (Figure 1). Recommendations on the strengthening of Basel Pillar I-type supervision (supervisory-based) account for a dominating share of FSAPs' total recommendations on the supervision of all financial institutions (banks, insurance companies and pension funds) but are smoothly declining over time (Figure 2). Instead, Pillars II and III-type recommendations started from a lower base but have continued to increase steadily. This conforms well to ongoing supervisory trends.

The results of the regression analysis of FSAP breadth and concentration (the total number of recommendations and their variance across rows) appear in Table 11. Although the effect is not very strong, the variance of FSAP recommendations has tended to decline over time, suggesting that the scope of FSAPs has become broader.

Figure 2. FSAP Recommendations on Supervision

B. Income effects

Tables 6 and 7 provide an overall breakdown by income level. Recommendations are classified as “advanced” if their intensity peaks at higher income levels, “intermediate” if they peak at mid-income, and “basic” if they peak at low income.

Broad trends in Table 6 are very clear:

- FSAPs become more stability-oriented and less development-oriented as income rises (in high income countries, prudential oversight accounts for over two-thirds of total recommendations versus less than half in the low income countries).
- The drop in FSAPs’ developmental component as country income rises reflects a declining emphasis on both overall infrastructure and financial development policy.
- Also not surprisingly, the (absolute) share of general enabling public policies declines sharply as income rises, reflecting the fact that these are basic building blocks that need to be well in place for a financial system to develop.

Within each of these broad categories there are interesting contrasts, however:

- Within infrastructure, creditor rights, the judiciary, accounting, and registries are all basic; auditing, and trading are intermediate; rating, disclosure, and corporate governance, are advanced. This agrees well with what one would expect about the relative complexity of each of these items and their evolving role as financial systems develop.

Table 6. Recommendations by Income Level

	OF			RF		
	HIC	MIC	LIC	HIC	MIC	LIC
A. INFRASTRUCTURE	14.5	21.0	22.7	14.5	21.0	22.7
a. Contractual	2.2	5.3	8.1	15.1	25.3	35.8
i. Creditor Rights	0.7	1.2	1.5	30.8	22.0	18.1
ii. Insolvency	1.0	1.0	0.8	46.2	19.7	9.7
iii. Judiciary	0.5	3.1	5.9	23.1	58.3	72.2
b. Informational	4.0	7.9	7.2	27.9	37.3	31.8
i. Accounting	0.8	1.8	1.8	20.8	22.5	25.0
ii. Auditing	0.5	1.0	0.8	12.5	12.8	10.9
iii. Disclosure & Reporting	1.0	0.9	0.1	25.0	11.8	1.6
iv. Rating	0.2	0.1	0.0	4.2	1.1	0.0
v. Registries	1.5	4.1	4.5	37.5	51.9	62.5
c. Transactional	6.6	6.3	6.3	45.3	30.1	27.9
i. Trading	0.3	1.1	0.7	5.1	17.2	10.7
ii. Paying	6.2	5.2	5.6	94.9	82.8	89.3
d. Corporate Governance	1.7	1.5	1.0	11.6	7.2	4.5
B. OVERSIGHT	72.5	57.2	45.2	72.5	57.2	45.2
a. Prudential	67.1	52.1	40.5	92.6	91.0	89.5
i. Legal & organizational framework	23.4	18.4	17.4	34.9	35.3	42.9
ii. Regulation	15.7	12.3	11.4	23.4	23.7	28.1
iii. Supervision	21.8	14.2	8.9	32.4	27.2	22.0
iv. Crisis management	6.2	7.2	2.8	9.3	13.8	7.0
b. Market performance & integrity	5.4	5.2	4.7	7.4	9.0	10.5
i. Market competition	1.7	2.6	1.8	31.3	51.2	38.1
ii. Consumer protection	0.8	0.9	1.5	15.6	17.9	31.0
iii. Anti-Money Laundering	2.9	1.6	1.5	53.1	30.9	31.0
C. PUBLIC POLICY	13.0	21.7	32.1	13.0	21.7	32.1
a. General enabling policies	8.1	14.0	16.8	62.3	64.6	52.3
i. Monetary & Foreign Exchange Management	3.9	8.1	11.2	47.9	57.5	66.4
ii. Debt Management	2.7	3.4	2.7	33.3	24.3	16.1
iii. Tax Management	1.2	2.0	2.5	14.6	14.1	14.8
iv. Fiscal & public sector management	0.3	0.6	0.5	4.2	4.2	2.7
b. Financial Development Policy	4.9	7.7	15.3	37.7	35.4	47.7
i. Direct intervention	4.2	6.3	13.0	86.2	82.0	84.6
ii. Indirect intervention	0.3	0.7	0.9	6.9	9.3	5.9
iii. Pro-market Activism	0.3	0.7	1.5	6.9	8.7	9.6

- Within prudential oversight, supervision is advanced while the legal framework and regulation (at least in relative terms) are basic. This suggests that, as income rises, watching how the game is being played gradually acquires more importance than making the rules. On the other hand, crisis management is intermediate, perhaps because middle income countries are more volatile than high income countries while having larger financial systems than low income countries, hence are the most crisis-prone of all.

- Within market performance, consumer protection is basic while market competition is intermediate, which is not too surprising. Perhaps more surprisingly, however, anti-money laundering is advanced (e.g., it would appear to be somewhat of a “luxury” good).
- Within the general enabling policies, monetary management is basic while public debt management is intermediate. While this reflects well the difficulties one typically encounters in setting up a good debt management function, the fact that debt management lags with respect to monetary management speaks volumes about the limitations faced by central banks in improving their monetary operations when markets for public debt remain undeveloped.

The breakdown by sectors (Table 7) shows that capital markets, insurance, and global oversight are all advanced, while microfinance and other non bank finance institutions are basic, which is not too surprising. Perhaps more interestingly, the table also shows that recommendations on pensions (and to a lesser extent banking) peak in the mid-income range. The latter is likely to reflect the fact that the reform of pension systems has taken place primarily in middle income countries, reflecting the existence of minimum pre-conditions for private pension schemes to develop.

Table 7. Oversight Recommendations by Sector
(As Percent of Total Recommendations)

	HIC	MIC	LIC
Banking	42.9	45.7	37.4
Insurance	20.1	17.3	17.3
Pensions	4.8	9.4	5.2
Microfinance	0.0	2.3	16.2
Other NBFIs	4.1	4.8	5.9
Capital Markets	12.6	10.2	10.6
Global Oversight	15.5	10.4	7.5

Tables 8, 9, and 10 expand the analysis by ranking the top 15 recommendations in each category. Basic and advanced recommendations are ranked according to how steeply they decline or rise with income. Intermediate recommendations are ranked according to how steeply they peak at the intermediate income level.

Table 8 (advanced recommendations) is dominated by global oversight, including cross-border issues and crisis management from a global perspective. It also includes some of the most sophisticated aspects of oversight (including Basel’s second pillar, early warning systems, and crisis contingency planning), various issues of capital markets oversight, and some of the more advanced components of infrastructure, including issues in corporate governance. However, some other advanced entries are a bit more surprising, such as the modification of deposit insurance schemes, the use of public guarantees, and the supervision and enforcement of AML. The latter suggests that higher income

countries are taking action towards improving older issues that needed revisiting (such as deposit insurance or the provision of guarantees) or are more prone to strengthen the implementation of policies in areas where lower income countries have less resources to focus on (such as AML).

The top fifteen intermediates (Table 9) include a number of relatively sophisticated items of infrastructure, oversight or public policy such as auditing standards, extra-judicial resolution arrangements, the oversight of insurance companies, pension funds and capital markets, and the management of public debt. However, it also includes items that one would expect to be rather more basic, such as key components of the informational framework (accounting standards and the strengthening of debtor registries).

Finally, as regards the basic recommendations (Table 10), not surprisingly many key items of infrastructure are high in the list, including the judiciary (specialized courts and judiciary transparency) and the more basic aspects of information storage (introduction of debtor and company registries). As regards oversight, microfinance comes at the very top, which is again hardly surprising. Basic recommendations on public policy include some of the key building pieces for monetary and foreign exchange management (liquidity forecasting, the institutional framework for monetary policy), and financial development policies (including the closure of development banks and the reform of social security systems).

Table 8. Top Fifteen Advanced Recommendations

		HIC	MIC	LIC	Score ⁹
1	<i>Early warnings - Banking - Crisis Management</i>	0.3	0.3	0.1	2.1
2	<i>Institution based risk management - Banking Regulation</i>	1.9	0.5	0.3	1.6
3	<i>Capital Markets – Supervision</i>	1.3	0.8	0.6	1.4
4	<i>Supervision and Enforcement - AML</i>	1.2	0.4	0.1	1.3
5	<i>Global Oversight – Supervision</i>	5.6	2.7	1.4	1.1
6	<i>Capital Markets – Regulation</i>	2.9	1.2	0.9	1.1
7	<i>Coordinated Oversight - Global Oversight - Regulation</i>	0.7	0.2	0.1	1.1
8	<i>Investment Funds - Capital Markets - Legal</i>	0.3	0.3	0.2	1.0
9	<i>Coordinated Oversight - Global Oversight Supervision</i>	1.9	0.8	0.1	1.0
10	<i>Shareholders - Corporate Governance</i>	0.8	0.5	0.1	0.9
11	<i>Insurance – Supervision</i>	4.0	2.4	1.5	0.9
12	<i>Crisis Contingency Planning - Resolution - Banking Crisis Management</i>	1.0	0.5	0.2	0.8
13	<i>Modification - Deposit Insurance</i>	1.0	0.8	0.1	0.8
14	<i>General Legal & Institutional Framework - Capital Markets</i>	2.0	1.3	0.8	0.8
15	<i>Guarantees-Indirect Intervention</i>	0.3	0.3	0.1	0.8

⁹ The score is derived from average income elasticities obtained from a regression in which both the level and the square of GDP per capita are introduced as explanatory variables.

Table 9. Top Fifteen Intermediate Recommendations

		HIC	MIC	LIC	Score¹⁰
1	<i>Strengthening - Debtor Registries</i>	0.3	1.4	0.7	23.2
2	<i>Consolidation - Global Oversight - Legal Framework</i>	0.3	0.4	0.2	22.0
3	<i>Independence & Accountability - Insurance Oversight</i>	0.7	0.8	0.2	19.8
4	<i>Supervisor based risk management - Pensions Supervision</i>	0.2	0.5	0.1	19.5
5	<i>Pensions – Supervision</i>	0.8	0.9	0.1	18.8
6	<i>Institutional framework - Debt Management</i>	0.7	0.9	0.7	18.7
7	<i>Independence & Accountability - Pensions Oversight</i>	0.2	0.3	0.1	17.3
8	<i>Banking - Market Competition</i>	0.7	0.9	0.3	17.2
9	<i>Security Registries</i>	0.5	0.5	0.0	16.9
10	<i>Resources & Capacity Building - Pensions Oversight</i>	0.2	0.2	0.1	16.7
11	<i>Standards – Accounting</i>	0.7	1.2	0.9	16.6
12	<i>Independence & Accountability - Capital Markets Oversight</i>	0.2	0.4	0.2	16.0
13	<i>Legal Framework - Payments System</i>	0.5	0.8	0.3	15.9
14	<i>Extra-judicial Resolution Arrangements</i>	0.0	0.5	0.3	13.9
15	<i>Standards – Auditing</i>	0.2	0.4	0.2	13.8

Table 10. Top Fifteen Basic Recommendations

		HIC	MIC	LIC	Score¹¹
1	<i>Closure – Development Banks</i>	0.0	0.0	0.5	9.1
2	<i>Specialized Courts - Judiciary</i>	0.0	0.1	1.4	7.0
3	<i>Collection & Organizational Improvement - Pensions & Social Security</i>	0.0	0.1	0.8	6.6
4	<i>Microfinance – Supervision</i>	0.0	0.3	1.8	3.8
5	<i>Microfinance – Regulation</i>	0.0	0.3	1.9	3.4
6	<i>Microfinance - Legal and Org Framework</i>	0.0	0.6	2.7	3.1
7	<i>Procedural & Managerial Improvements - Insurance Oversight</i>	0.0	0.1	0.5	2.8
8	<i>Liquidity Forecasting - Monetary & FX Management</i>	0.0	0.5	1.4	2.7
9	<i>Strengthening - Company Registries</i>	0.2	0.3	0.8	2.3
10	<i>Other NBFIs – Regulation</i>	0.2	0.4	1.0	2.0
11	<i>Transparency - Judiciary</i>	0.0	0.1	0.5	1.7
12	<i>Pensions & Social Security - Direct Public Intervention</i>	0.5	1.7	3.8	1.7
13	<i>Introduction - Debtor Registries</i>	0.2	0.5	0.9	1.6
14	<i>Institutional Framework – Monetary & FX Management</i>	1.2	1.5	3.0	1.5
15	<i>Capital Markets – Tax Management</i>	0.0	0.3	0.9	1.4

¹⁰ The score is obtained from the coefficient of the quadratic GDP per capita term in a regression in which both the level and the square of GDP per capita are introduced as explanatory variables.

¹¹ The score is derived from average income elasticities obtained from a regression in which both the level and the square of GDP per capita are introduced as explanatory variables.

A deeper look at some specific areas of the grid provides useful additional insights. Consider for example contractual recommendations (Figure 3). If one looks at how steeply the frequency of recommendations changes with the level of economic development, it is not surprising that strengthening the judiciary has the steepest slope. Clearly, without a functioning judiciary not much else can be achieved. It is rather interesting, however, that the slope for insolvency is flat or inverted. This probably highlights the fact that the insolvency legislation is difficult to calibrate and may need to be revisited again and again as financial systems develop and legal practices evolve.

In turn, a peek inside the judiciary recommendations (Figure 4) suggests that improving judiciary procedures and building up capacity are the most basic ingredients for strengthening the judiciary. Interestingly, enforcement has an inverted slope, suggesting that the judiciary authorities need to put their act together before cranking down on enforcement. Also, as already noted above, there is a notable difference between resolutions through specialized courts and out-of-court arrangements. While the former are most highly recommended for the lowest income countries, the latter are more recommended in somewhat more advanced legal environments, perhaps because they presume a minimum level of acceptance of basic rules of the game.

A look at the informational recommendations also provides some interesting insights (Figure 5). The basic message here is a natural progression, from accounting to auditing, auditing to disclosure, and disclosure to rating. Within the recommendations on registries (Figure 6), real pledges and companies are the most basic. Debtor registries come next. Security registries are last.

A similar progression is apparent as regards prudential oversight (Figure 7). First set the legal and regulatory framework, then concentrate on supervision. As already noted, global oversight lies at the top of the pyramid.

Consider finally the breakdown of recommendations on banking crisis management (Figure 8). The chart suggests that crisis management becomes (and remains) critical as financial systems develop. Indeed, the importance of crisis contingency planning, one of the most sophisticated aspects of crisis management, continues to rise as economies develop. Perhaps more surprisingly, as already noted, this is also the case of more conventional aspects such as deposit insurance.

The regression analysis broadly supports the above findings. In particular, it shows that:

- Oversight (both prudential and market performance) increases with income while infrastructure and public policy decline.
- Within infrastructure, the only item that rises with income is security clearing and settlement.
- Within prudential oversight, the weight of global oversight and supervision rise with income while that of regulation declines.
- Within the general enabling policies, monetary and foreign exchange management (but not debt management) decline as income rises.
- The weight of capital markets rises with income while that of microfinance declines.

The results of the regression analysis of FSAP breadth and concentration indicate that for sufficiently high levels of income the number of recommendations declines and the variance rises (see Table 11). Hence, focus narrows as income rises. This is not surprising as the higher income countries are essentially stability-oriented and hence more narrowly focused on oversight issues. However, at the bottom of the scale, there is a U-shaped pattern, with the number of recommendations peaking (and the variance bottoming) at some intermediate level of income. This is again consistent with what one would expect: issues in more incipient financial systems tend to be concentrated in fewer areas (mostly banking and basic infrastructure). However, Table 12, which reports simple average statistics by income level, suggests that the peak is located quite low in the income scale: FSAPs in low income countries as a whole are broader than those in middle income countries. This broader focus reflects the fact that low income countries need, on average, to cover a much broader developmental ground. Abstracting from the complexity of the issues and the underlying environment (which of course one would expect to rise—and thereby call for increased manpower—as income rises), this would suggest that FSAPs in the lower income countries could be the most resource intensive of all.

Table 11. FSAP Focus and Breadth-Regression Analysis

	Total	Total	Total	Standard Deviation	Standard Deviation	Standard Deviation
Income	-4.89 [1.08]***	23.68 [10.9]**	7.38 [15.58]	150.76 [20.54]***	-451.21 [205.25]**	-392.00 [292.91]
Income Squared		-1.76 [0.67]**	-0.66 [0.99]		37.18 [12.61]***	31.66 [18.59]*
Population	0.66 [1.09]	1.45 [1.10]	1.64 [1.19]	-14.88 [20.74]	-31.48 [20.82]	-35.93 [22.40]
Density	0.61 [1.12]	1.14 [1.11]	1.46 [1.20]	-22.87 [21.28]	-34.17 [20.92]	-47.28 [22.55]**
Date	0.48 [0.85]	1.00 [0.85]	0.95 [0.86]	-17.62 [16.13]	-28.43 [16.02]*	-35.29 [16.14]**
Update Dummy	-1.38 [4.75]	-4.49 [4.77]	-6.21 [4.90]	90.26 [90.20]	155.99 [89.99]*	174.39 [92.18]*
LCR			18.68 [8.95]**			-177.64 [168.34]
ECA			9.17 [8.78]			-87.41 [165.10]
AFR			9.20 [9.59]			-225.37 [180.34]
MENA			7.41 [8.73]			-349.70 [164.22]**
EAP			0.19 [10.44]			-64.74 [196.31]
SAR			8.96 [12.19]			-68.62 [229.21]
Observations	115	115	115	115	115	115
Adjusted R-squared	0.13	0.18	0.2	0.32	0.36	0.38

Standard errors in brackets

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 12. FSAP's Dispersion

	By Income Level			By Date			By Type of FSAP	
	HIC	MIC	LIC	1999 - 2001	2002 - 2004	2005 - 2007	Initial	Update
Standard Deviation	29.6	22.1	17.2	22.9	22.7	23.7	21.1	23.7
Total Recommendations	20.3	36.1	37.7	31.7	35.3	29.0	33.5	32.6

C. Regional variations

We now analyze to what extent FSAPs differ regionally (Appendix Table 4). Clear contrasting patterns appear. Starting with the Latin American and Caribbean region, it has received relatively more attention than the average as regards selected areas of infrastructure (insolvency and the judiciary, reporting and security registries, payments systems), oversight (pensions, global oversight, and crisis management), and public policy (monetary and foreign exchange management).¹²

- The heightened attention to crisis management, monetary management, and insolvency is consistent with the region's higher volatility, poorer macroeconomic record, and the resulting higher incidence of financial crises.
- The emphasis on the judiciary (including the very strong emphasis on out-of-court resolutions) is consistent with a generally poor institutional environment, which may motivate a search for alternative conflict resolution mechanisms.
- The stress on pensions is most likely a reflection of the introduction and rapid development of private pension schemes in most countries of the region as a reaction to unsustainable and poorly run public pension schemes.

Countries in the European and Central Asian region set themselves apart through the fact that infrastructure received special attention as regards the judiciary, accounting and auditing, and corporate governance. As regards oversight, capital markets were over-emphasized, microfinance under-emphasized. Except for fiscal and public sector management (state enterprises), public policy received generally less attention than in other regions.

- The emphasis on capital markets, accounting and auditing, and corporate governance, is consistent with the relatively rapid development of more advanced forms of intermediation in this region, which puts a premium on the accompanying (and relatively more sophisticated) infrastructure.
- The emphasis on (non financial) public sector issues probably reflects the residual importance of the state in transition economies.

As regards Africa, the judiciary (but not out-of-court resolutions) received particular attention; in contrast, other areas of infrastructure (particularly the informational framework) were de-emphasized. As regards oversight, there was a very clear emphasis

¹² It is also interesting to notice that FSAPs in the LAC region have an unusually high number of recommendations (see Table 11). This could reflect a number of factors, including more issues, more openness from the authorities to explore a broader set of issues, mission composition effects, or presentational issues (with more recommendations being reported in the summary tables).

on microfinance and other NBFIs. As regards public policy, debt management was de-emphasized, while financial development policy (particularly the Post Office, microfinance, and pro-market activism) were over-emphasized.

- The main focus on the judiciary and relatively lesser attention to information is consistent with the generally weak state of institutions and the limited willingness of banks to share information. (It is interesting in this context that out-of-court resolutions do not seem to have been perceived as a viable way to circumvent the failures of the judiciary.)
- The emphasis on microfinance and the post office systems is of course fully consistent with the need to improve access.
- The limited focus on debt management might reflect the somewhat limited institutional capacity and market development in many countries of the region (that might restrict the scope for making more rapid progress).

As regards the Middle East and North Africa, some items of contractual infrastructure (creditor rights and the judiciary) were strongly emphasized. Other infrastructure items that were (mildly) over-emphasized included accounting, auditing, and corporate governance. Public policy (monetary, debt and tax management) and public banks also received very strong attention. In contrast, prudential oversight was strongly de-emphasized. At the same time, Table 12 suggests that the FSAPs in this region have been more focused.

- The above pattern is broadly consistent with the very significant state intervention in most states of the region and the need to promote market-based financial development.
- The limited focus on prudential oversight (which may be behind the somewhat narrower focus of the FSAPs) is puzzling and seems to deserve further analysis.

As regards East Asia and the Pacific, the only areas of infrastructure that seem to have received extraordinary attention are the rating companies, security clearing and settlement, and some areas of corporate governance. Other areas that were overemphasized include pensions and global oversight, debt management, social security, and financial development policy (particularly, the state's catalytic pro-market support).

- This pattern is consistent with the region's generally more advanced level of financial development, better institutions, and more pro-active public sector.¹³

As regards South Asia, infrastructure was generally de-emphasized, particularly as regards information. Instead, areas that received special attention include capital markets, selected issues in microfinance, debt management, and financial development (particularly, the state's direct intervention role).

- This pattern is again consistent with better institutions and generally more advanced financial development.

¹³ The emphasis on private pensions is a bit more puzzling as this is generally not a strong component of financial systems in this region. A closer inspection reveals that this result is due to an outlier and reflects the small size of the sample (only 4 FSAPs were conducted in the region).

- Interestingly, it is the state's direct intervention role (rather than its market pro-active role) that receives more attention, perhaps reflecting the importance of state-owned financial institutions in most countries of the region.

IV. CONCLUSIONS

As regards FSAP trends, the overall picture that emerges from this analysis has at least three facets. On the one hand, FSAPs appear to have successfully incorporated *new issues and priorities coming from above*. This is probably the case of issues that have acquired a central status in the research and development agenda, such as the promotion of access, the consolidation of microfinance institutions, and the emphasis on improving the informational infrastructure when there are significant roadblocks to improving the contractual framework. As regards oversight, a similar evolution seems to have occurred, with increasing emphasis given to dominating issues of the day, such as global oversight and the promotion of the second and third Basel pillars.

At the same time, FSAPs have also started to *hug realities on the ground more closely* and made progress towards promoting a more subtle and complex role for the state as regards financial development policy. The increasing importance given to pro-market activism and to improving (rather than closing) public financial institutions are good illustrations along this line of thought.

Finally, the trends in FSAP recommendations also reflect an evolution along a natural “*product cycle*” in which FSAPs are increasingly shifting their attention from the center of the financial system (banks) to the periphery (non-banks), from making rules (regulation) to implementing them (supervision), and from the introduction of key building blocks (for example registries) to improving their functioning.

More generally, this exercise provided a somewhat unique window into the nuts and bolts of the process of financial developments. Many of the findings conform well to what one would expect. Basic frameworks and rules need to be put in place before focusing on how well they are applied and enforced. And the more basic and simpler naturally comes before the more sophisticated (for example, accounting precedes auditing, sector-specific oversight precedes global oversight, real pledge registries precede debtor and security registries, creditor rights precede insolvency, the first Basel pillar comes before the second and third, specialized courts precede out-of-court resolutions, etc.).

However, some issues which one would expect to have been settled long ago in the development path pop up again at later stages. This is the case, for example, of deposit insurance and government guarantees. In other cases, putting in place the right building blocks seems to take more time than would at first sight seem necessary. For example, some key building pieces which one would think to be pretty basic, such as the legal framework for creditor rights or the informational framework as a whole, do not seem to be fully in place until financial systems have matured towards their middle age. This may exert a lasting strain on financial systems' capacity to develop in the early stages. Similarly, the development of public debt management and security markets tend to lag,

straining the ability of central banks to sophisticate their monetary operations. In still other cases, such as for insolvency legislation, getting it right does not seem to be easy and many later day corrections may be called for.

In interpreting the results of this exercise and its possible implications for understanding the process of financial development and defining policies, an important *caveat* needs to be flagged. Equating the frequency of recommendations with the relative importance for financial development of the areas to which they apply could appear to be excessively simple-minded and subject to important potential pitfalls. In particular, the nature and relative weights of recommendations could reflect *supply as well as demand effects*. Thus, a low frequency in any particular area could mean that:

- no problems were detected;
- the country did not request an assessment in this area; or
- the assessing institutions were unable to contribute usefully on this topic in the context of an FSAP.

Distinguishing between these interpretations is not easy, yet essential to get the right picture and the correct policy response. Arguably, since the scope of the FSAP program is presumed to cover the whole financial system, demand biases of the second type (countries did not request assessments in a particular area) should tend to even out over broader samples. On the other hand, some systematic supply biases may be harder to avoid, with some pet issues for the assessing institutions acquiring perhaps more importance than warranted, or, inversely, some issues being unduly de-emphasized due to insufficient capacity. This being said, one should also recognize that the scope for disequilibrium is naturally limited. Supply cannot systematically exceed demand (you cannot keep selling ice to an Eskimo...), nor, presumably can demand systematically exceed supply (at some point, pressures to build up capacity will lead to an adjustment).

APPENDIX

Appendix Table 1

	1999-2001	2002-2004	2005-2007	HIC	MIC	LIC
A. INFRASTRUCTURE	19.5	20.6	20.8	14.5	21.0	22.7
a. Contractual	5.8	5.8	4.7	2.2	5.3	8.1
i. Creditor Rights	1.5	0.9	1.3	0.7	1.2	1.5
1. General Legal Framework	0.7	0.5	0.7	0.3	0.7	0.6
2. Real Estate	0.4	0.3	0.4	0.3	0.2	0.7
3. Movable Collateral	0.5	0.2	0.2	0.0	0.3	0.2
ii. Insolvency	0.8	1.0	1.1	1.0	1.0	0.8
1. Legal Framework	0.7	0.9	0.9	1.0	1.0	0.6
2. Capacity Building	0.1	0.1	0.2	0.0	0.1	0.2
iii. Judiciary	3.5	3.9	2.3	0.5	3.1	5.9
1. Procedures	1.2	1.4	0.9	0.2	1.2	2.0
2. Transparency	0.1	0.2	0.2	0.0	0.1	0.5
3. Enforcement	0.4	0.3	0.1	0.0	0.4	0.1
4. Capacity Building	1.3	0.9	0.5	0.3	0.8	1.6
5. Specialized Courts	0.2	0.4	0.5	0.0	0.1	1.4
6. Extra-judicial Resolution Arrangements	0.4	0.6	0.2	0.0	0.5	0.3
b. Informational	4.8	7.3	8.6	4.0	7.9	7.2
i. Accounting	1.6	1.6	1.6	0.8	1.8	1.8
1. Standards	1.2	1.0	1.1	0.7	1.2	0.9
2. Implementation	0.5	0.6	0.5	0.2	0.5	0.9
ii. Auditing	0.5	0.8	1.4	0.5	1.0	0.8
1. Standards	0.2	0.2	0.5	0.2	0.4	0.2
2. Implementation	0.2	0.6	0.8	0.3	0.6	0.6
iii. Disclosure & Reporting	0.4	0.9	0.8	1.0	0.9	0.1
iv. Rating	0.0	0.1	0.1	0.2	0.1	0.0
v. Registries	2.3	3.9	4.7	1.5	4.1	4.5
1. Debtors	1.2	1.4	2.3	0.5	1.9	1.6
a. Introduction	0.2	0.6	0.6	0.2	0.5	0.9
b. Strengthening	0.9	0.7	1.7	0.3	1.4	0.7
2. Real Pledges	0.4	1.2	1.4	0.3	0.9	1.9
a. Introduction	0.1	0.5	0.3	0.0	0.4	0.5
b. Strengthening	0.2	0.7	1.1	0.3	0.5	1.5
3. Companies	0.4	0.5	0.5	0.2	0.4	0.9
a. Introduction	0.0	0.2	0.1	0.0	0.1	0.1
b. Strengthening	0.4	0.4	0.5	0.2	0.3	0.8
4. Securities	0.4	0.5	0.3	0.5	0.5	0.0
a. Introduction	0.1	0.4	0.2	0.3	0.3	0.0
b. Strengthening	0.2	0.2	0.1	0.2	0.2	0.0
5 Insurance & Pensions	0.1	0.3	0.2	0.0	0.3	0.1
c. Transactional	7.5	5.9	6.3	6.6	6.3	6.3
i. Trading	1.3	0.6	1.1	0.3	1.1	0.7
1. Exchanges	0.9	0.5	0.7	0.3	0.8	0.7
2. OTC & Broker Systems	0.4	0.1	0.4	0.0	0.3	0.0

ii. Paying	6.2	5.3	5.2	6.2	5.2	5.6
1. General Framework	1.5	2.0	2.7	2.0	1.8	2.9
a. Architecture	0.2	0.6	0.6	0.5	0.3	1.1
b. Legal Framework	0.6	0.6	0.8	0.5	0.8	0.3
c. Payment Council	0.4	0.2	0.5	0.2	0.2	0.7
d. Oversight	0.4	0.6	0.8	0.8	0.5	0.8
2. Wholesale	2.3	1.3	0.9	1.7	1.6	0.8
a. Gross	2.0	0.9	0.7	1.0	1.2	0.8
b. Net	0.4	0.4	0.2	0.7	0.4	0.0
3. Retail	1.9	1.2	1.1	1.0	1.3	1.4
a. Checks	1.3	0.4	0.3	0.3	0.6	0.7
b. Other	0.6	0.7	0.8	0.7	0.8	0.7
4. Security Clearing & Settlement (SCS)	0.5	0.8	0.5	1.5	0.5	0.6
d. Corporate Governance	1.4	1.5	1.3	1.7	1.5	1.0
i. General Legal & Institutional Framework	0.5	0.6	0.6	0.5	0.5	0.9
ii. Shareholders	0.5	0.5	0.4	0.8	0.5	0.1
iii. Boards	0.1	0.1	0.2	0.2	0.2	0.0
iv. Other Stakeholders	0.0	0.0	0.0	0.0	0.0	0.0
v. Oversight	0.4	0.3	0.1	0.2	0.4	0.0
	1999-2001	2002-2004	2005-2007	HIC	MIC	LIC
B. OVERSIGHT	59.3	55.4	57.3	72.5	57.2	45.2
a. Prudential	54.3	50.3	52.2	67.1	52.1	40.5
i. Legal & organizational framework	18.8	18.2	20.3	23.4	18.4	17.4
1. Banking	6.1	5.0	5.9	8.1	5.3	4.2
a. General Legal & Institutional Framework	3.3	2.0	2.3	3.7	2.3	1.6
b. Independence & Accountability	1.3	1.1	1.6	1.5	1.6	0.3
c. Resources & Capacity Building	1.5	1.9	2.0	2.9	1.4	2.3
2. Insurance	3.6	4.3	4.0	5.4	3.9	3.4
a. General Legal & Institutional Framework	2.2	1.7	1.6	2.9	1.6	1.5
b. Independence & Accountability	0.1	0.9	0.6	0.7	0.8	0.2
c. Resources & Capacity Building	1.3	1.7	1.7	1.9	1.5	1.7
3. Pensions	1.1	1.6	1.8	1.3	1.6	1.5
a. General Legal & Institutional Framework	0.9	1.1	1.2	1.0	1.0	1.2
b. Independence & Accountability	0.1	0.3	0.4	0.2	0.3	0.1
c. Resources & Capacity Building	0.0	0.2	0.3	0.2	0.2	0.1
4. Microfinance	0.4	1.1	1.3	0.0	0.6	2.7
5. Other NBFIs	1.8	1.2	1.4	1.5	1.5	0.9
a. Leasing & Factoring	0.4	0.3	0.4	0.0	0.5	0.1
b. Finance Companies and Retailers	0.1	0.2	0.0	0.0	0.2	0.0
c. Coops	0.8	0.6	0.6	1.2	0.5	0.7
d. Savings and Loans	0.5	0.2	0.4	0.3	0.3	0.1
6. Capital Markets	3.3	3.3	3.7	4.0	3.4	3.0
a. General Legal & Institutional Framework	1.1	1.4	1.4	2.0	1.3	0.8
b. Independence & Accountability	0.4	0.3	0.4	0.2	0.4	0.2
c. Capacity Building	0.1	0.9	0.5	0.8	0.5	0.8
d. Investment Funds	0.5	0.2	0.4	0.3	0.3	0.2
e. Investment Instruments	1.1	0.5	0.8	0.7	0.7	0.8
f. Risk Instruments	0.2	0.1	0.4	0.0	0.3	0.2

7. Global Oversight	2.7	1.7	2.3	3.0	2.0	1.7
a. Coordinated Oversight	0.7	0.9	1.2	1.0	1.0	0.7
b. Unified Oversight	0.8	0.3	0.4	1.0	0.3	0.3
c. Consolidation	0.7	0.2	0.3	0.3	0.4	0.2
d. Cross-borders	0.5	0.3	0.5	0.7	0.3	0.5
ii. Regulation	14.1	11.7	13.2	15.7	12.3	11.4
1. Banking	6.4	4.6	5.8	6.1	5.3	5.0
a. Supervisor based risk management	4.6	3.3	4.5	3.9	4.1	3.6
b. Institution based risk management	0.8	0.7	0.5	1.9	0.5	0.3
c. Market based risk management	0.4	0.4	0.4	0.0	0.5	0.2
d. Licensing	0.7	0.2	0.5	0.3	0.2	0.8
2. Insurance	2.6	2.4	2.7	3.5	2.6	1.7
a. Supervisor based risk management	2.0	1.7	2.1	2.9	2.0	0.8
b. Institution based risk management	0.2	0.2	0.3	0.2	0.2	0.3
c. Market based risk management	0.0	0.2	0.2	0.2	0.2	0.1
d. Licensing	0.4	0.3	0.2	0.3	0.2	0.5
3. Pensions	1.6	1.1	1.8	1.2	1.7	0.7
a. Supervisor based risk management	1.1	0.8	1.4	0.8	1.3	0.5
b. Institution based risk management	0.2	0.2	0.2	0.2	0.2	0.2
c. Market based risk management	0.0	0.0	0.1	0.0	0.0	0.0
d. Licensing	0.4	0.1	0.1	0.2	0.2	0.0
4. Microfinance	0.4	0.7	0.6	0.0	0.3	1.9
5. Other NBFIs	0.2	0.6	0.5	0.2	0.4	1.0
6. Capital Markets	2.2	1.4	0.7	2.9	1.2	0.9
a. Dealer and Brokers	0.4	0.1	0.0	0.5	0.0	0.1
b. Investment Funds	0.7	0.3	0.3	1.0	0.2	0.3
c. Investment Instruments	1.1	0.8	0.3	1.3	0.7	0.5
d. Risk Instruments	0.1	0.2	0.2	0.0	0.3	0.0
7. Global Oversight	0.7	0.9	1.0	1.9	0.9	0.2
a. Coordinated Oversight	0.4	0.3	0.0	0.7	0.2	0.1
b. Unified Oversight	0.0	0.1	0.0	0.2	0.0	0.0
c. Consolidation	0.4	0.2	0.7	0.3	0.5	0.0
d. Cross-borders	0.0	0.4	0.3	0.7	0.2	0.1
iii. Supervision	14.1	13.9	14.4	21.8	14.2	8.9
1. Banking	6.7	5.9	6.4	8.9	6.7	3.2
a. Supervisor based risk management	4.9	4.2	3.9	6.1	4.7	2.0
b. Institution based risk management	1.4	1.3	1.9	2.5	1.5	0.8
c. Market based risk management	0.4	0.4	0.6	0.3	0.5	0.3
2. Insurance	2.5	2.7	2.0	4.0	2.4	1.5
a. Supervisor based risk management	2.2	1.9	1.4	2.2	2.0	1.1
b. Institution based risk management	0.2	0.7	0.4	1.5	0.3	0.3
c. Market based risk management	0.0	0.2	0.2	0.3	0.1	0.0
3. Pensions	0.5	0.7	0.9	0.8	0.9	0.1
a. Supervisor based risk management	0.4	0.3	0.4	0.2	0.5	0.1
b. Institution based risk management	0.0	0.3	0.5	0.5	0.3	0.0
c. Market based risk management	0.1	0.1	0.1	0.2	0.1	0.0
4 Microfinance	0.4	0.4	1.0	0.0	0.3	1.8
5. Other NBFIs	0.6	0.5	0.5	1.0	0.5	0.5

6. Capital Markets	1.2	0.7	0.6	1.3	0.8	0.6
7. Global Oversight	2.5	2.9	3.0	5.6	2.7	1.4
a. Coordinated Oversight	0.8	0.8	0.8	1.9	0.8	0.1
b. Unified Oversight	0.2	0.3	0.4	1.2	0.1	0.3
c. Consolidation	1.1	1.1	1.1	1.9	1.0	0.6
d. Cross-borders	0.4	0.7	0.7	0.7	0.8	0.3
iv. Crisis management	7.2	6.5	4.3	6.2	7.2	2.8
1. Banking	6.7	5.9	4.0	5.7	6.6	2.6
a. Early warnings	0.2	0.3	0.1	0.3	0.3	0.1
b. Corrections	0.9	0.9	0.5	0.5	0.8	0.8
c. Lender of Last Resort	0.8	0.7	0.9	0.7	1.0	0.3
d. Deposit insurance	2.0	1.4	1.1	1.7	1.6	0.7
i. Introduction	0.4	0.2	0.1	0.0	0.3	0.2
ii. Modification	0.9	0.7	0.5	1.0	0.8	0.1
iii. Funding	0.5	0.2	0.4	0.3	0.4	0.1
iv. Operations	0.2	0.3	0.1	0.3	0.2	0.2
e. Resolution framework	2.7	2.6	1.4	2.5	2.8	0.7
i. Framework	1.5	1.6	0.7	1.0	1.7	0.5
ii. Bank Restructuring	0.5	0.6	0.1	0.5	0.6	0.0
iii. Crisis Contingency Planning	0.7	0.4	0.6	1.0	0.5	0.2
2. Insurance	0.2	0.2	0.1	0.2	0.1	0.2
3. Pensions	0.1	0.1	0.0	0.0	0.1	0.0
4. Microfinance	0.0	0.0	0.0	0.0	0.0	0.0
5. Other NBFIs	0.2	0.2	0.0	0.0	0.2	0.0
6. Capital Markets	0.0	0.1	0.0	0.0	0.1	0.0
7. Global Oversight	0.0	0.1	0.3	0.3	0.1	0.0
b. Market performance and integrity	5.0	5.1	5.1	5.4	5.2	4.7
i. Market competition	2.5	2.1	2.5	1.7	2.6	1.8
1. Banking	0.7	0.7	0.8	0.7	0.9	0.3
2. Insurance	0.7	0.6	0.5	0.7	0.5	0.7
3. Pensions	0.5	0.4	0.7	0.0	0.8	0.0
4. Microfinance	0.0	0.2	0.2	0.0	0.0	0.5
5. Other NBFIs	0.1	0.1	0.2	0.2	0.1	0.2
6. Capital Markets	0.5	0.1	0.0	0.2	0.2	0.1
7. Global Oversight	0.0	0.0	0.2	0.0	0.1	0.0
ii. Consumer protection	1.3	0.9	1.1	0.8	0.9	1.5
1. Banking	0.5	0.6	1.0	0.3	0.6	1.1
a. Framework	0.2	0.3	0.4	0.2	0.3	0.5
b. Transparency	0.0	0.1	0.4	0.0	0.1	0.3
c. Usury Laws	0.2	0.3	0.3	0.2	0.3	0.3
2. Insurance	0.1	0.1	0.0	0.2	0.0	0.1
3. Pensions	0.1	0.1	0.1	0.0	0.1	0.0
4. Microfinance	0.2	0.1	0.0	0.0	0.1	0.2
5. Other NBFIs	0.0	0.0	0.0	0.0	0.0	0.0
6. Capital Markets	0.4	0.0	0.0	0.3	0.0	0.0
7. Global Oversight	0.0	0.0	0.0	0.0	0.0	0.0
iii. Anti-Money Laundering	1.3	2.1	1.5	2.9	1.6	1.5
1. Legal Framework	0.7	1.1	1.2	1.0	1.0	1.0

2. Regulatory framework	0.4	0.3	0.2	0.7	0.2	0.3
3. Supervision and Enforcement	0.2	0.7	0.2	1.2	0.4	0.1
	1999-2001	2002-2004	2005-2007	HIC	MIC	LIC
C. PUBLIC POLICY	21.1	24.0	21.9	13.0	21.7	32.1
a. General enabling policies	14.6	14.8	11.4	8.1	14.0	16.8
i. Monetary & Foreign Exchange Management	10.0	7.6	7.6	3.9	8.1	11.2
1. Institutional framework	1.4	1.8	2.2	1.2	1.5	3.0
a. Central Bank Mandate, Independence & Accountability	1.4	1.7	1.9	1.2	1.4	2.8
b. Human Resources Management	0.0	0.1	0.3	0.0	0.1	0.2
2. Policy	2.5	1.6	1.7	1.0	1.7	2.8
a. Liquidity Management	1.3	0.9	1.1	0.3	0.8	2.1
b. International Reserve Management	0.1	0.1	0.1	0.0	0.1	0.1
c. Transparency	1.1	0.6	0.5	0.7	0.8	0.6
3. Operations	6.2	4.2	3.7	1.7	4.9	5.3
a. Standing Facilities	1.3	0.4	0.5	0.3	0.7	0.5
b. Open-market Operations	0.9	0.9	0.5	0.3	0.8	1.0
c. Reserve Requirements	0.4	0.5	0.6	0.2	0.5	0.6
d. Liquidity Forecasting	0.6	0.6	0.5	0.0	0.5	1.4
e. Communications	0.6	0.2	0.4	0.5	0.3	0.3
f. Money Market Development	1.2	0.8	0.6	0.2	1.0	0.7
g. FX Operations	0.2	0.5	0.2	0.0	0.3	0.6
h. FX Market Development	1.1	0.4	0.4	0.2	0.7	0.3
ii. Debt Management	1.9	4.2	2.3	2.7	3.4	2.7
1. Institutional framework	0.4	1.1	0.6	0.7	0.9	0.7
a. Legal Framework	0.1	0.2	0.0	0.2	0.1	0.1
b. Organizational & Capacity Building	0.2	0.6	0.5	0.2	0.5	0.6
c. Debt Management Tools	0.0	0.3	0.1	0.3	0.2	0.0
2. Policy	0.7	1.3	0.9	0.7	1.1	1.0
3. Operations	0.8	1.8	0.7	1.3	1.4	1.0
a. Primary Market	0.6	1.3	0.5	0.5	1.0	0.8
b. Secondary Market	0.2	0.6	0.3	0.8	0.4	0.2
iii. Tax Management	1.9	2.5	1.2	1.2	2.0	2.5
1. Banking	1.1	0.6	0.5	1.0	0.7	0.5
2. Insurance	0.2	0.4	0.2	0.0	0.3	0.5
3. Pensions	0.2	0.3	0.3	0.2	0.3	0.3
4. Microfinance	0.0	0.0	0.0	0.0	0.0	0.0
5. Other NBFIs	0.1	0.3	0.0	0.0	0.2	0.2
6. Capital Markets	0.2	0.6	0.3	0.0	0.3	0.9
7. Global Oversight	0.0	0.3	0.0	0.0	0.2	0.1
iv. Fiscal & public sector management	0.8	0.5	0.4	0.3	0.6	0.5
b. Financial Development Policy	6.5	9.2	10.5	4.9	7.7	15.3
i. Direct intervention	5.6	8.0	8.2	4.2	6.3	13.0
1. Wholesale Banking	0.7	1.1	0.9	0.7	0.8	1.7
a. Closure	0.2	0.2	0.0	0.0	0.0	0.5
b. Restructuring	0.1	0.2	0.0	0.0	0.0	0.3
c. Functional Procedural & Managerial Improvements	0.4	0.6	0.6	0.5	0.5	0.8
d. Performance Assessment	0.0	0.2	0.3	0.2	0.2	0.1
2. Retail Banking	2.7	3.0	2.7	1.7	2.6	4.3

<i>a. Closure</i>	0.2	0.4	0.1	0.0	0.3	0.3
<i>b. Privatization</i>	0.6	0.8	0.5	0.7	0.5	1.2
<i>c. Restructuring</i>	0.6	0.5	0.4	0.7	0.5	0.2
<i>d. Functional, Procedural & Managerial Improvements</i>	1.3	1.1	1.4	0.3	1.1	2.1
<i>e. Performance Assessment</i>	0.0	0.2	0.4	0.0	0.2	0.3
<i>3. Insurance</i>	0.5	0.6	0.5	0.2	0.5	1.0
<i>a. Closure</i>	0.0	0.1	0.0	0.0	0.0	0.1
<i>b. Privatization</i>	0.2	0.2	0.3	0.2	0.2	0.3
<i>c. Restructuring</i>	0.1	0.0	0.0	0.0	0.0	0.0
<i>d. Functional, Procedural & Managerial Improvements</i>	0.1	0.3	0.1	0.0	0.1	0.5
<i>e. Performance Assessment</i>	0.0	0.1	0.2	0.0	0.1	0.1
<i>4. Pensions & Social Security</i>	1.3	2.1	2.3	0.5	1.7	3.8
<i>a. Parameters</i>	0.8	1.1	1.8	0.3	1.2	1.9
<i>b. Asset Management</i>	0.2	0.7	0.4	0.2	0.4	1.1
<i>c. Collection & Organizational Improvement</i>	0.2	0.3	0.2	0.0	0.1	0.8
<i>5. Housing</i>	0.4	0.4	1.2	0.5	0.5	0.9
<i>6. Post office & Microfinance</i>	0.1	0.8	0.5	0.7	0.3	1.2
<i>ii. Indirect intervention</i>	0.5	0.6	1.0	0.3	0.7	0.9
<i>1. Directed lending</i>	0.1	0.1	0.2	0.0	0.1	0.2
<i>2. Subsidies</i>	0.2	0.3	0.5	0.0	0.3	0.6
<i>3. Guarantees</i>	0.1	0.2	0.4	0.3	0.3	0.1
<i>iii. Pro-market Activism</i>	0.5	0.6	1.4	0.3	0.7	1.5
<i>1. Catalytic Involvement</i>	0.1	0.1	0.1	0.0	0.1	0.1
<i>2. Research and Information Support</i>	0.0	0.1	0.3	0.0	0.1	0.2
<i>3. General Development Strategies</i>	0.4	0.4	1.0	0.3	0.4	1.1
<i>a. General Sector Development</i>	0.4	0.3	0.2	0.2	0.3	0.5
<i>b. Access Promotion</i>	0.0	0.1	0.8	0.2	0.2	0.7

Appendix Table 2. General Grid by Sectors
(As Percent of Total Recommendations)

	1999 - 2001	2002 - 2004	2005 - 2007	HIC	MIC	LIC
Banking	46.5	42.8	42.6	42.9	45.7	37.4
a. Prudential	44.5	40.2	39.4	41.4	42.9	34.0
i. Legal and organizational framework	10.5	9.4	10.5	11.6	9.6	9.5
a. General Legal & Institutional Framework	5.6	3.8	4.0	5.3	4.2	3.6
b. Independence & Accountability	2.2	2.1	2.9	2.2	2.9	0.8
c. Resources & Capacity Building	2.6	3.6	3.6	4.1	2.6	5.2
ii. Regulation & Supervision	22.5	19.7	21.8	21.5	21.5	18.6
a. Supervisor based risk management	16.3	14.2	15.0	14.3	15.7	12.9
b. Institution based risk management	3.8	3.9	4.2	6.3	3.6	2.6
c. Market based risk management	1.2	1.4	1.8	0.5	1.8	1.3
d. Licensing	1.2	0.3	0.8	0.5	0.4	1.8
iii. Crisis management	11.5	11.1	7.1	8.2	11.8	5.9
a. Early warnings	0.4	0.6	0.2	0.5	0.5	0.3
b. Corrections	1.6	1.7	0.8	0.7	1.5	1.8
c. Lender of Last Resort	1.4	1.4	1.6	1.0	1.8	0.8
d. Deposit insurance	3.4	2.6	1.9	2.4	2.9	1.5
i. Introduction	0.6	0.4	0.2	0.0	0.5	0.5
ii. Modification	1.6	1.3	1.0	1.5	1.5	0.3
iii. Funding	0.8	0.4	0.6	0.5	0.7	0.3
iv. Operations	0.4	0.5	0.2	0.5	0.3	0.5
e. Resolution framework	4.6	4.9	2.6	3.6	5.1	1.5
i. Framework	2.6	3.0	1.3	1.5	3.1	1.0
ii. Bank Restructuring	0.8	1.2	0.2	0.7	1.1	0.0
iii. Crisis Contingency Planning	1.2	0.7	1.1	1.5	0.9	0.5
b. Market performance	2.0	2.6	3.2	1.5	2.8	3.4
i. Market competition	1.2	1.4	1.5	1.0	1.7	0.8
ii. Consumer protection	0.8	1.2	1.8	0.5	1.1	2.6
a. Framework	0.4	0.5	0.6	0.2	0.5	1.0
b. Transparency	0.0	0.1	0.6	0.0	0.2	0.8
c. Usury Laws	0.4	0.6	0.5	0.2	0.5	0.8

Insurance	16.7	19.2	16.5	20.1	17.3	17.3
a. Prudential	15.3	17.9	15.7	18.9	16.3	15.5
i. Legal and organizational framework	6.2	8.0	7.1	7.7	7.1	7.7
a. General Legal & Institutional Framework	3.8	3.2	2.9	4.1	2.9	3.4
b. Independence & Accountability	0.2	1.7	1.1	1.0	1.4	0.5
c. Resources & Capacity Building	2.2	3.2	3.1	2.7	2.7	3.9
ii. Regulation & Supervision	8.7	9.6	8.4	10.9	9.0	7.2
a. Supervisor based risk management	7.2	6.7	6.3	7.3	7.2	4.4
b. Institution based risk management	0.8	1.6	1.1	2.4	0.8	1.5
c. Market based risk management	0.0	0.7	0.6	0.7	0.5	0.3
d. Licensing	0.6	0.6	0.3	0.5	0.4	1.0

iii. Crisis management	0.4	0.3	0.2	0.2	0.2	0.5
b. Market performance	1.4	1.3	0.8	1.2	1.0	1.8
i. Market competition	1.2	1.1	0.8	1.0	0.9	1.5
ii. Consumer protection	0.2	0.2	0.0	0.2	0.1	0.3

Pensions	6.6	7.2	9.5	4.8	9.4	5.2
a. Prudential	5.6	6.3	8.1	4.8	7.7	5.2
i. Legal and organizational framework	1.8	3.0	3.2	1.9	2.9	3.4
a. General Legal & Institutional Framework	1.6	2.1	2.1	1.5	1.9	2.8
b. Independence & Accountability	0.2	0.5	0.6	0.2	0.6	0.3
c. Resources & Capacity Building	0.0	0.4	0.5	0.2	0.4	0.3
ii. Regulation & Supervision	3.6	3.3	4.8	2.9	4.7	1.8
a. Supervisor based risk management	2.4	2.1	3.2	1.5	3.2	1.3
b. Institution based risk management	0.4	0.9	1.1	1.0	0.9	0.5
c. Market based risk management	0.2	0.2	0.3	0.2	0.3	0.0
d. Licensing	0.6	0.1	0.2	0.2	0.3	0.0
iii. Crisis management	0.2	0.1	0.0	0.0	0.2	0.0
b. Market performance	1.0	0.9	1.5	0.0	1.7	0.0
i. Market competition	0.8	0.8	1.3	0.0	1.5	0.0
ii. Consumer protection	0.2	0.1	0.2	0.0	0.2	0.0

Microfinance	2.2	4.8	5.5	0.0	2.3	16.2
a. Prudential	1.8	4.3	5.2	0.0	2.0	14.7
i. Legal and organizational framework	0.6	2.1	2.3	0.0	1.1	6.2
ii. Regulation & Supervision	1.2	2.2	2.9	0.0	1.0	8.5
iii. Crisis management	0.0	0.0	0.0	0.0	0.0	0.0
b. Market performance	0.4	0.5	0.3	0.0	0.2	1.5
i. Market competition	0.0	0.3	0.3	0.0	0.1	1.0
ii. Consumer protection	0.4	0.2	0.0	0.0	0.2	0.5

Other NBFIs	5.0	4.9	4.7	4.1	4.8	5.9
a. Prudential	4.8	4.7	4.4	3.9	4.6	5.4
i. Legal and organizational framework	3.0	2.3	2.4	2.2	2.7	2.1
a. Leasing & Factoring	0.6	0.6	0.6	0.0	0.9	0.3
b. Finance Companies and Retailers	0.2	0.3	0.0	0.0	0.3	0.0
c. Coops	1.4	1.1	1.1	1.7	0.9	1.5
d. Savings and Loans	0.8	0.3	0.6	0.5	0.6	0.3
ii. Regulation & Supervision	1.4	2.1	1.9	1.7	1.5	3.4
iii. Crisis management	0.4	0.3	0.0	0.0	0.4	0.0
b. Market performance	0.2	0.2	0.3	0.2	0.2	0.5
i. Market competition	0.2	0.2	0.3	0.2	0.2	0.5
ii. Consumer protection	0.0	0.0	0.0	0.0	0.0	0.0

Capital Markets	12.9	10.7	9.0	12.6	10.2	10.6
a. Prudential	11.5	10.5	9.0	11.9	9.8	10.3
i. Legal and organizational framework	5.6	6.2	6.6	5.8	6.1	7.0
a. General Legal & Institutional Framework	1.8	2.6	2.4	2.9	2.3	1.8

<i>b. Independence & Accountability</i>	0.6	0.6	0.6	0.2	0.8	0.5
<i>c. Capacity Building</i>	0.2	1.7	0.8	1.2	0.8	1.8
<i>d. Investment Funds</i>	0.8	0.3	0.6	0.5	0.5	0.5
<i>e. Investment Instruments</i>	1.8	0.9	1.5	1.0	1.2	1.8
<i>f. Risk Instruments</i>	0.4	0.2	0.6	0.0	0.5	0.5
ii. Regulation	5.8	4.1	2.4	6.1	3.5	3.4
<i>a. Dealer and Brokers</i>	0.6	0.2	0.0	0.7	0.1	0.3
<i>b. Investment Funds</i>	1.2	0.5	0.5	1.5	0.4	0.8
<i>c. Investment Instruments</i>	1.8	1.6	0.5	1.9	1.2	1.0
<i>d. Risk Instruments</i>	0.2	0.4	0.3	0.0	0.5	0.0
iv. Crisis management	0.0	0.2	0.0	0.0	0.2	0.0
b. Market performance	1.4	0.2	0.0	0.7	0.4	0.3
<i>i. Market competition</i>	0.8	0.2	0.0	0.2	0.3	0.3
<i>ii. Consumer protection</i>	0.6	0.0	0.0	0.5	0.1	0.0

Global Oversight	10.1	10.5	12.1	15.5	10.4	7.5
a. Prudential	10.1	10.5	11.8	15.5	10.3	7.5
<i>i. Legal and organizational framework</i>	4.6	3.2	4.2	4.4	3.6	3.9
<i>a. Coordinated Oversight</i>	1.2	1.8	2.1	1.5	1.9	1.5
<i>b. Unified Oversight</i>	1.4	0.5	0.6	1.5	0.5	0.8
<i>c. Consolidation</i>	1.2	0.4	0.5	0.5	0.7	0.5
<i>d. Cross-borders</i>	0.8	0.5	1.0	1.0	0.5	1.0
ii. Regulation	5.4	7.1	7.1	10.7	6.4	3.6
<i>a. Coordinated Oversight</i>	2.0	2.1	1.5	3.6	1.7	0.5
<i>b. Unified Oversight</i>	0.4	0.7	0.6	1.9	0.2	0.8
<i>c. Consolidation</i>	2.4	2.3	3.2	3.1	2.8	1.3
<i>d. Cross-borders</i>	0.6	2.1	1.8	1.9	1.7	1.0
iv. Crisis management	0.0	0.2	0.5	0.5	0.2	0.0
b. Market performance	0.0	0.0	0.3	0.0	0.2	0.0
<i>i. Market competition</i>	0.0	0.0	0.3	0.0	0.2	0.0
<i>ii. Consumer protection</i>	0.0	0.0	0.0	0.0	0.0	0.0

Appendix Table 3. Statistically Significant Links-Basic Controls

	GDP	Population	Density	Date	Update
A. INFRASTRUCTURE	--, (--)			+, (+)	
a. Contractual	---, (-)				
i. Creditor Rights	-				
1. General Legal Framework					
2. Real Estate					
3. Movable Collateral	---				
ii. Insolvency					
1. Legal Framework					
2. Capacity Building					++, (++)
iii. Judiciary	---, (---)				
1. Procedures	---, (---)				
2. Transparency					
3. Enforcement					
4. Capacity Building					
5. Specialized Courts	---, (--)				
6. Extra-judicial Resolution Arrangements					
b. Informational	--			+++, (+)	
i. Accounting	-	++, (++)			
1. Standards		++, (++)	++, (+)		
2. Implementation					
ii. Auditing	---, (---)	(+)		+	
1. Standards	---, (---)				+
2. Implementation	--, (--)	++, (++)		++, (++)	-, (--)
iii. Disclosure and Reporting					
iv. Rating			(++)		
v. Registries				+++	
1. Debtors				+++, (++)	-, (--)
2. Real Pledges				+	
3. Companies					
4. Securities		-	+, (+)		
5 Insurance & Pensions					
c. Transactional					
i. Trading	++, (++)				
1. Exchanges	+++, (++)				
2. OTC & Broker Systems					
ii. Paying	(--)				
1. General Framework				+, (++)	-
2. Wholesale					(--)
3. Retail	(--)				
4. Security Clearing and Settlement (SCS)					
d. Corporate Governance		++, (+++)	+	(+)	--, (-)
i. General Legal & Institutional Framework				++, (++)	-, (-)
ii. Shareholders		+++, (+++)	++		--, (--)
iii. Boards		++, (+)			

iv. Other Stakeholders					
v. Oversight					
	GDP	Population	Density	Date	Update
B. OVERSIGHT	+++ , (+++)		- , (-)	-- , (--)	
a. Prudential	+++			-	
i. Legal and organizational framework	+			(++)	- , (---)
1. Banking					
2. Insurance		--	+		
3. Pensions				++	--
4. Microfinance	-- , (--)				++ , (+++)
5. Other NBFIs					
6. Capital Markets	++ , (+)	(++)	--		
7. Global Oversight			--- , (-)		
ii. Regulation	(---)	(+)			
1. Banking	- , (--)				
2. Insurance					
3. Pensions	(+)				
4. Microfinance	-		+		
5. Other NBFIs		+		++ , (++)	-- , (--)
6. Capital Markets			--- , (-)	--	
7. Global Oversight			+		
iii. Supervision	+++ , (++)	--- , (---)		--- , (--)	+++ , (+++)
1. Banking	++	---		--	+++ , (+)
2. Insurance			(+)		
3. Pensions	++ , (++)		+ , (+)		
4. Microfinance	(-)				
5. Other NBFIs		--- , (---)		--	
6. Capital Markets	+				
7. Global Oversight	++			-	+++
iv. Crisis management					
1. Banking	(-)				
2. Insurance					
3. Pensions					
4. Microfinance					
5. Other NBFIs		+			
6. Capital Markets		++			
7. Global Oversight			(--)		
b. Market performance and integrity	++				
i. Market competition	+++ , (++)	+			
1. Banking	++ , (+)	(+)			(-)
2. Insurance					
3. Pensions	++ , (++)				
4. Microfinance					
5. Other NBFIs	++ , (+)				
6. Capital Markets				-- , (--)	
7. Global Oversight		(-)	- , (--)		
ii. Consumer protection	++	+	(-)		
1. Banking					

2. Insurance		(++)			
3. Pensions					
4. Microfinance	++				
5. Other NBFIs					
6. Capital Markets				(-)	
7. Global Oversight					
iii. Anti-Money Laundering	(--)				
1. Legal Framework					
2. Regulatory framework					
3. Supervision and Enforcement		-			
	GDP	Population	Density	Date	Update
C. PUBLIC POLICY	---, (---)				
a. General enabling policies	---		+, (+++)		
i. Monetary and Foreign Exchange Management	---, (-)	-	+, (++)		
1. Institutional framework	-		(+)		
2. Policy	---				
3. Operations	---	--			
ii. Debt Management					
1. Institutional framework					
2. Policy					
3. Operations					
iii. Tax Management		+, (+)	+		
1. Banking		+	+		
2. Insurance					
3. Pensions					
4. Microfinance					
5. Other NBFIs			+, (+)		
6. Capital Markets					+++ , (+++)
7. Global Oversight		++, (++)			
iv. Fiscal and public sector management		(++)			
b. Financial Development Policy		(++)		+, (+)	
i. Direct intervention	(--)				
1. Wholesale Banking		(+)			
2. Retail Banking	(-)				
3. Insurance					
4. Pensions & Social Security	--, (---)				+
5. Housing		+, (+)			
6. Post office & Microfinance					
ii. Indirect intervention					
1. Directed lending					
2. Subsidies					
3. Guarantees		++			
iii. Pro-market Activism	(++)		--, (-)		
1. Catalytic Involvement					
2. Research and Information Support					++, (+++)
3. General Development Strategies			--	+	

Appendix Table 4. Statistically Significant Links, by Region

	lcr	eca	afr	mna	eap	sar
A. INFRASTRUCTURE						-, (-)
a. Contractual				+		
i. Creditor Rights				+++		
1. General Legal Framework		+				
2. Real Estate	-, (-)			+++ (+++)		
3. Movable Collateral	(++)		(-)	+		
ii. Insolvency	+++ (+++)					
1. Legal Framework	+++ (+++)					
2. Capacity Building	+					(+++)
iii. Judiciary						
1. Procedures		(++)	-, (---)	++ (+++)		
2. Transparency			+++ (++)			
3. Enforcement		++ (+++)				
4. Capacity Building			+++ (++)			
5. Specialized Courts		-- (--)	+++ (+++)			
6. Extra-judicial Resolution Arrangements	+++ (+++)		-- (--)			
b. Informational		+++	--			--
i. Accounting		+++		(+)		-- (--)
1. Standards		+++ (++)	-	+		-- (--)
2. Implementation	-	++				
ii. Auditing		+++ (+++)	--- (---)			(-)
1. Standards		+, (+)	--- (---)	(+)		
2. Implementation		+++ (+++)	-- (-)			-, (-)
iii. Disclosure and Reporting	(++)		-, (-)			
iv. Rating					+++ (+++)	
v. Registries		(-)			-, (-)	
1. Debtors						
2. Real Pledges			+, (+)			
3. Companies						
4. Securities	+++ (+)		-			
5 Insurance & Pensions						
c. Transactional						
i. Trading			+			
1. Exchanges			+++			
2. OTC & Broker Systems		++	-, (-)			
ii. Paying	(+++)	(-)	(--)			
1. General Framework	(+)					
2. Wholesale			-- (--)			
3. Retail	(+)	-				
4. Security Clearing & Settlement (SCS)		-, (-)			(++)	
d. Corporate Governance		+, (+)				
i. General Legal & Institutional Framework				+, (+)		
ii. Shareholders		++ (+++)	(-)			
iii. Boards					++ (++)	

iv. Other Stakeholders						
v. Oversight						
	lcr	eca	afr	mna	eap	sar
B. OVERSIGHT				---, (---)		
a. Prudential				---		
i. Legal & organizational framework						
1. Banking						
2. Insurance						
3. Pensions	+++ , (++)				(+++)	
4. Microfinance	--, (-)	--, (---)	+++ , (+++)			
5. Other NBFIs						
6. Capital Markets			(-)	(++)	(-)	+++ , (+++)
7. Global Oversight						
ii. Regulation				-		(--)
1. Banking			(--)			
2. Insurance						
3. Pensions					+++ , (+)	
4. Microfinance		(-)	++ , (++)			
5. Other NBFIs			+++ , (+++)			
6. Capital Markets						
7. Global Oversight						
iii. Supervision	- , (-)				(+)	
1. Banking	-	(-)		(+)		+
2. Insurance	-		++			
3. Pensions						
4. Microfinance			++ , (+++)			
5. Other NBFIs	(+)	(--)				
6. Capital Markets		++ , (+++)	(--)			(+++)
7. Global Oversight					++	
iv. Crisis management	++ , (++)					
1. Banking	++		- , (--)		(-)	
2. Insurance			+, (+++)			
3. Pensions				+, (++)		
4. Microfinance						
5. Other NBFIs						
6. Capital Markets	+					
7. Global Oversight	(++)					
b. Market performance & integrity						
i. Market Competition						
1. Banking		(++)				
2. Insurance						
3. Pensions	(+)					
4. Microfinance			+			(+)
5. Other NBFIs			(++)			
6. Capital Markets						
7. Global Oversight	++ , (+)					
ii. Consumer protection			++		(+)	
1. Banking			+			

2. Insurance		(++)				
3. Pensions	+++ , (+++)					
4. Microfinance			++			+, (+++)
5. Other NBFIs						
6. Capital Markets						
7. Global Oversight						
iii. Anti-Money Laundering						
1. Legal Framework						(++)
2. Regulatory framework					(++)	
3. Supervision & Enforcement						
	lcr	eca	afr	mna	eap	sar
C. PUBLIC POLICY		--, (--)		+++ , (+++)		
a. General Enabling Policies	(++)		(--)	+++		
i. Monetary & Foreign Exchange Management	(++)					
1. Institutional framework	(+++)					
2. Policy				++ , (++)		
3. Operations				++ , (+)		
ii. Debt Management			-		+, (+++)	+
1. Institutional framework			--, (---)			++ , (+)
2. Policy					+	
3. Operations				+++ , (+++)		
iii. Tax Management				+++		-
1. Banking				+++ , (++)		
2. Insurance						
3. Pensions	(+)					(+)
4. Microfinance						
5. Other NBFIs			+			
6. Capital Markets		(-)	+, (+)	+		
7. Global Oversight						
iv. Fiscal & public sector management		(++)				
b. Financial Development Policy		---, (--)	++ , (+++)		++	++
i. Direct intervention		---, (---)		(++)	+	++
1. Wholesale Banking						
2. Retail Banking			(--)	+++ , (+++)		+++
3. Insurance						++
4. Pensions & Social Security		--, (--)			+++ , (+++)	
5. Housing	(++)	(-)				
6. Post office & Microfinance		-, (-)	+++ , (+++)			
ii. Indirect intervention						
1. Directed lending			(++)			
2. Subsidies						
3. Guarantees	(+)					
iii. Pro-market Activism		-	++ , (++)		++	
1. Catalytic Involvement			++ , (+++)		+++ , (+++)	
2. Research & Information Support			(+)			
3. General Development Strategies					++ , (+++)	