



# FIRST 3<sup>rd</sup> Consultative Group Meeting Report

## May 25, 2011

### Summary

FIRST Initiative convened the 3rd Consultative Group (CG) meeting<sup>1</sup> on May 25, 2011 in London, UK. The meeting included the majority of FIRST donors and partners (including representatives from World Bank and IMF), as well as FIRST PMU staff, FIRST Task Team Leader (TTL)<sup>2</sup>, and selected recipients of FIRST funds (financial sector authorities from Malawi, Botswana and Azerbaijan).

At the time of the meeting, FIRST had committed more than US\$ 70 million to 380 projects, and was on track to fully disburse its initial US\$ 110 million endowment in the end of 2012.

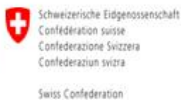
During the course of the CG meeting, participants reviewed various external evaluations of FIRST operations, heard project success stories and lessons learned, and listened to direct client feedback. FIRST stakeholders expressed appreciation of the work done by FIRST during the last 4 years, which was supported by the highly satisfactory evaluation results. According to the evaluation, FIRST offers high quality consultants and makes a strong contribution to project results, with most of its grants being demand-driven and aligned with the client country's priorities for financial sector development.

The main lessons learned were the importance of better addressing project timelines and ensuring the availability of resources to support project follow-up. An important consideration for FIRST now is whether the program should narrow or expand its focus to achieve greater impact, and how this impact should be measured. Since many countries lack necessary diagnostic work to determine areas of TA needs, CG participants also discussed whether FIRST should revisit the eligibility of diagnostic work for projects that may require preparatory analysis.

As the result of the meeting, all participants agreed that FIRST should become a catalyst for more systematic and larger financial sector reform programs in client countries, taking into account local factors as well as other international donor activities. Participants also agreed that FIRST project should be designed using a more results-based approach and including clearly defined objectives.

<sup>1</sup> FIRST Consultative Group meeting – a biennial event that started in 2004 (and consequently held in 2006, 2008 and then in 2011), two years after FIRST was established – aims to provide advice and feedback to FIRST program.

<sup>2</sup> A TTL is a World Bank staff involved in project management (together with FIRST Project Officer) from project preparation to completion.



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## I. FIRST work from TTL perspective

FIRST is viewed positively by the World Bank staff engaged in the implementation of the project for being flexible, quick responding, independent from the World Bank's budget, and for its focus on small interventions that complement Bank programs. TTL views FIRST as an excellent resource for funding FSAP/ROSC follow-up projects.

In TTL's opinion, FIRST could consider more programmatic and phased operations, particularly in small countries that lack donor support. The main suggestions for improvement included revisiting budget allocation for World Bank staff time, for project preparation, and for purely administrative tasks.

## II. FIRST client feedback

Three FIRST recipients gave their feedback on FIRST-funded projects in their countries.

### 1. Mr. Noel Mkulichi, Head, Supervision Department, Central Bank of Malawi:

FIRST has been instrumental in strengthening Malawi's regulatory and supervisory regime. FIRST has funded six projects to date, including: Financial Sector Regulatory Reform, Capacity Building for NBF Supervision and Development, Financial Crisis Preparedness Framework, Financial Sector Development Strategy, Enhancement of Central Bank Book Entry System, and Developing a Country Action plan for ROSC Accounting and Auditing.

Mr. Mkulichi cited the high quality of major deliverables of FIRST-funded projects in Malawi, which included drafting of directives and operational manuals, on-site inspection training, refining of legal bills, and training of central bank staff. Projects proved to have an impact on financial stability through bringing previously unregulated subsectors under central bank supervision, by facilitating implementation of monetary policy and reduction in interest rates, and through creating a developing framework for NBF sector – which, in turn, positively contributed towards poverty reduction efforts.

Some of the major challenges identified by Mr. Mkulichi were the lengthy procurement process, delayed project implementation, and other bureaucratic hurdles at the World Bank. It was suggested that FIRST should stick to committed timeframes in project cycle, accelerate procurement process, and should ensure availability of multiple experts in complex areas like capital markets.

### 2. Ms. Marcelina Gaoses, Director, Insurance and Pensions Department, Non-Bank Financial Institutions Regulatory Authority (NBFIRA):

In Botswana, FIRST has supported two NBFIRA capacity building projects to date: Insurance and Pensions, and Enhancing Supervision of Capital Markets. Ms. Gaoses noted that these projects helped NBFIRA to create a fair, stable and efficient NBF sector, develop an effective risk based policy and regulatory framework, and implement an effective regulatory framework for NBFs.

Major challenges of the projects, similar to Malawi example, were time constraints, lack of full participation of stakeholders, and bureaucratic hurdles. Ms. Gaoses suggested that FIRST should better adhere to project timelines and allow consultants to spend more time in the field for skills transfer, and consistently involve the client in the selection of consultants.

NBFIRA is currently preparing additional requests for FIRST assistance.

### **3. Mr. Rustam Tahirov, Head, Supervision Methodology Division, Banking Supervision Department Central Bank of Azerbaijan:**

In Azerbaijan, FIRST helped the Central Bank to develop a systemic risk response framework using a tailor-made computer model. The model diagnoses potential weaknesses that could be generated by exceptional but plausible shocks to individual financial institutions and to the financial system as a whole. Moreover, the FIRST project provided a unified systemic response framework (a quantitative methodology) and a report on weaknesses in legal and regulatory framework of Azerbaijan's financial system.

The project showed good management and coordination on behalf of FIRST and consultants, with the only shortcoming being the lack of sufficient resources for follow-up support and training (on-site visits). The Central Bank of Azerbaijan expressed strong interest in a future FIRST project to strengthen the bank supervision framework.

#### **Discussion and Conclusions:**

The discussion revolved around project implementation details, on the need to ensure adequate follow-up, and on the question of narrowing or expanding FIRST focus to cover both short-term flexible TA and long-term capacity building engagements. Donors appreciated the work done by FIRST in the three countries and the candid feedback provided by the recipients and the TTL, but they also underlined the need to link FIRST work with broader country strategies.

The major part of the discussion centered on the question of how to track impact of FIRST-funded TA. The recipients cited that, in the case of Azerbaijan's project, the new financial projection model generated meaningful results and translated into adequate supervisory practices, and in Malawi project results are already visible: all laws are enacted, all directives are gazetted, and the NBF supervision department of Central Bank was created.

### **III. Evaluation of FIRST Phase II**

Another key purpose of the CG meeting was to discuss the findings and recommendations from the 3rd independent external valuation of FIRST conducted by a team of external consultants, lead by Laurie Effron.

The objectives of this year's Evaluation of FIRST Phase II (March 2007 – December 2010) were to assess: (i) the extent to which the FIRST program has been consistent with its strategic focus and targets during Phase II; (ii) the performance of the grants in terms of achievement of deliverables and quality of consultant performance; (iii) the extent to which the grants have achieved their specific objectives and been linked to results in the financial sectors of the client countries.

The major findings of the evaluation included that a higher portion of FIRST funds went to low-income countries and that almost half of FIRST grants had a close link to a recent FSAP or ROSC (a sharp increase from Phase I: 2002-2007). This outcome is consistent with FIRST's objectives and donor funding decisions. On the other hand only 41% of the grants were in Africa Region, as opposed to the target of 50%.

The evaluation also found that most Phase II grants are demand-driven and aligned with the client country's priorities for financial sector development but that there are no clear synergies between FIRST grants and other donors or initiatives. Though the strongest dimensions of FIRST grants are consultant performance and delivery of outputs, there is a consistent need for additional support during project implementation and follow-up after project completion.

The evaluation also included a **client survey**, which showed that FIRST offers high quality consultants, and makes a strong contribution to project results, with 100% of respondents agreeing

that they would approach FIRST again for other projects. Client survey responses were strongly positive on grant objectives, project design, implementation and deliverables.

Survey respondents' views of FIRST as a donor were mostly positive regarding FIRST's helpfulness in the project concept and design stage, FIRST's role as a partner, and the quality of consultants recruited under FIRST grants

The main recommendation that emerged from the client survey was for FIRST to adopt a longer-term approach, with planned follow-up phased support to clients.

#### **IV. Additional evaluations of FIRST**

In order to complement the external evaluation and to assess FIRST's performance in cross-sectoral segments, FIRST conducted additional evaluation studies for Phase II that were presented at the CG meeting:

(1) Legal framework projects analysis (71 projects, US\$ 14.6 M) → concluded that legal instruments developed during FIRST-funded project tend to be good, but there is a need for more policy dialogue in the legal reform process and more active project management.

(2) Capital markets projects analysis (54 projects, US\$ 11 M) → concluded that FIRST should focus on direct impact during project preparation and verify economic relevance of project proposals.

(3) Crisis preparedness program analysis (25 projects, US\$ 3.7 M) → showed high demand for the program, an importance to design crisis simulation to cover country gaps, and a need to tailor products and to follow-up with clients.

(4) Analysis of financial sector indicators, conducted to gauge the potential impact of FIRST projects → showed that on average, countries with FIRST projects have better trends (i.e. higher and improving) in these indicators when compared to IDA countries without FIRST projects.

#### **Discussion and Conclusions:**

Donors concurred that FIRST has undoubtedly proven its usefulness, but recommended that FIRST strengthen its brand recognition to make it distinct from other World Bank TA projects. On the issue of using a programmatic approach to achieve greater impact, donors recommended that FIRST should capitalize on its vast knowledge resource to improve outreach and should be not only demand-driven, but also outcome-driven.

## Conclusions of CG meeting

On the whole, FIRST demonstrated strong performance and strong client satisfaction. Its technical assistance projects were able to meet client demands for specific financial strengthening efforts – a role gratefully acknowledged by clients. However, FIRST efforts, good as they may have been each, make it difficult to claim impact because the small TA projects are detached from a strategic implementation program.

Looking forward FIRST needs to find a way to better balance the need to be responsive to client demand and its role as a catalyst for more systematic and larger financial sector reform programs in client countries. The goal should not only be to help clients with their immediate needs, but to also assist them in engaging with other development partners in a more strategic manner and develop larger financial sector reform initiatives. This requires a more results-based approach where clients and partners agree on clearly defined objectives and targets.

## Participants

### FIRST Governing Council members:

Anuradha Bajaj	DFID, UK
Mahesh Mishra	DFID, UK
Christina Hasley	CIDA, Canada
Susane Dorasil	BMZ, Germany
Monica Rubiolo	SECO, Switzerland
Renske van der Kooij	Netherlands Ministry of Foreign Affairs
Consolata Rusagara	World Bank

### FIRST clients:

Noel Mkulichi	Reserve Bank of Malawi
Rustam Tahirov	Central Bank of Azerbaijan
Marcelina Gaoses	Non-Bank Financial Institutions Regulatory Authority (NBFIRA), Botswana

### Other participants:

Laurie Efron	Consultant (External Evaluation Expert)
Ann Rennie	TTL, the World Bank
Jorge Patiño	FIRST PMU
Carmencita Santos	FIRST PMU
Sebnem Sener	FIRST PMU
Olha Krushelnytska	FIRST PMU

