FIRST INITIATIVE

MANAGEMENT COMMENTS TO THE MAY 2011 EXTERNAL EVALUATION REPORT

A team of qualified external consultants completed an Evaluation of FIRST, following a similar exercise done by the same team in 2009. The evaluation produced a main evaluation report (Report) delivered in May 2011, and a client survey (Survey) delivered in January 2011.

It would be difficult to do justice to the totality of the Report in a concise document; hence this response focuses on the conclusions and recommendations from the Report's Executive Summary. References to up to date information and Phase III issues are made as appropriate.

Since the conclusions of the Survey have a bearing in understanding some of the conclusions of the Report, a summary of the Survey results is shown in Annex 1.

Evaluation framework and objectives

The **Evaluation's framework** proposed by the consultants' is shown in Annex 2. This framework is consistent with the general M&E framework presently being developed for FIRST Phase III, in that it tracks outcomes at various levels.

Moreover, the Evaluation takes the **country level as a "unit of account**". That is, as explained by the consultants' proposal:

"The country-based evaluations will assess both implicit and explicit linkages to country-level outcomes […] this will include analysis of the evolution of relevant financial sector indicators and consideration of the possible contribution of the FIRST grant to any changes in those indicators".

The Report's **information sources** were for the most part secondary, including desk reviews and interviews, with the addition of **three country case studies** with visits to Malawi, Nigeria and the Kyrgyz Republic.

"… the evaluation will carry out post-completion evaluations of Phase II grants as desk studies and use available country-level data. This includes examining all relevant documents, interviewing Washington-based task team leaders, and phone or video interviews with task team leaders based in countries and with clients and other knowledgeable people working in the financial sector in the country. […]".

Focusing on Phase II grants, **the main objectives of the Evaluation** were "to assess: (i) The extent to which the FIRST program in its Phase II has been consistent with its strategic focus and targets; (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."

COMMENTS ON THE REPORT'S MAIN FINDINGS AND RECOMMENDATIONS

The Report's finding and recommendations presented in its Executive Summary are quoted below in italic with management comments in regular font.

1. Regional focus

LIC focus

*"**Consistent with FIRST's objectives and donor funding decisions, a higher portion of commitments went to low-income countries (LICs) than to middle-income countries (MICs).** FIRST met its target for fiscal year (FY) 2010 and the first half of FY11 of approving more than 50 percent of its grants to LICs. Nevertheless, MICs' share of FIRST grants has risen in the most recent 18 months, even though the revised 2009 strategy reduced the number of eligible MICs and increased eligibility criteria for MIC access to funding".*

Most of FIRST funds are directed to LIC projects, following the 74%/26% proportion of LIC and MIC donor contribution (before the recently approved reallocation). Relative proportions evolved over time following the dynamics of the demand, and response to outreach efforts. As of September 30th, 2011, the share of LIC projects for Phase II is 70%, with 23% for MIC and 8% for regional projects.

Africa focus

*"**For the Phase II period through end-December 2010, 41 percent of grants were to the Africa Region.** The annual target of 50 percent of grants to Africa for FY10 and FY11 has not been met".*

FIRST continues its efforts to maintain a 50% Africa share of its portfolio as a notional target. The share of Africa projects approved in the last two six month periods is 51% and 48% respectively.

FSAP links

*"**Almost half of Phase II grants have a close link to a recent FSAP or ROSC** […] a sharp increase from Phase I. But in the most recent 18 months, the percentage of grants linked to FSAP/ROSC has dropped (to 39 percent of the total) from the first two years of Phase II (58 percent), and the target for FY10 and FY11 of 50 percent of annual total approved grants has not been met."*

Projects' FSAP links have gone through an interesting evolution during Phase II, starting at 70% in 2007, going down to 20% in 2009, to climb back steadily since then to reach 75% in the last six months period.

The Reports offers the following explanation for the proportion of FSAP linked projects:

"The difficulty in meeting the targets for grants to Africa and for FSAP/ROSC follow up, as well as the more recent increase in grants to MICs, are likely due to the introduction in

FY09 of crisis-related grants and the surge in these grants in the more recent 18-month period."

However, neither the proportion of CP (crisis preparedness) nor the share of MIC projects have sufficient size or FSAP correlation to support the Evaluation's assertion.

ALL projects	Total $	FSAP	% of FSAP
LIC	49,023,720	20,580,170	42%
Blend/Regional	5,809,846	722,525	12%
MIC	24,764,219	12,098,365	49%
Total	79,597,784	33,401,060	42%
CP	**Total $**	**%**	
LIC	2,353,421	49%	
MIC	2,489,005	51%	
Total	4,842,425		

The table above as well as the increase of FSAP links in the last periods, simultaneous with a LIC increase, shows that the Report's suggested explanation is not consistent with the facts.

In relation to the above commented FSAP targets the Report observes that:

"This highlights the difficulty of achieving simultaneously a variety of targets and initiatives. *These include, inter alia, a focus on LICs and the Africa Region, linkage to FSAP, and, since 2009, crisis-related grants. Because LICs tend to have fewer FSAPs/ROSCs, it may be difficult to achieve targets in both, as well as to achieve targeted levels of grants to Africa at the same time."*

Multiplicity itself only poses an additional difficulty if those targets are in conflict. As pointed out by the Report, there are indeed more FSAPs in MICs and less FSAPs in Africa, posing programming challenges, but these are mostly operational.

The point raised that perhaps FIRST has too many targets, is worth analyzing in a broader context, and the recommendation of the Report that "the implication [of the existence of multiple targets] for achieving existing strategic objectives and targets should be examined" merits donor consideration.

2. Project results

The Report states that most FIRST Phase II grants were demand driven and had strong client ownership, but catalytic effects were not generally found:

"The evaluation finds that Phase II grants are, for the most part, demand-driven and aligned with the client country's priorities for financial sector development; synergies, however, were less frequently found. *A large majority was characterized by either strong or moderate ownership. Similarly, Phase II grants also appeared to be, with a few exceptions, relevant for the development of the financial sectors, although there is room for* *improvement in this dimension. The picture is more mixed, however, on the extent to which FIRST grants show synergies with other donors or initiatives, with fewer than half of the reviewed grants showing clear synergies. FIRST grants also did not generally serve as a catalyst for larger initiatives or development programs, although some did".*

In fact, client satisfaction is one of the strongest performance elements for FIRST Phase II, as demonstrated by the Survey.

The fact that fewer than half of FIRST's grants had catalytic effects is not unsatisfactory considering that in Phase II, catalytic impact was valued but there was no explicit element in the business model that made this goal instrumental. As such, it was a hope to be verified ex-post.

Client satisfaction is strongly linked among other things to ease of access to FIRST funds and quality of consultants. In fact, the Report states that:

"The strongest dimensions of FIRST grants are consultant performance and delivery of outputs. *The analysis found that in around two-thirds of the completed Phase II grants consultant performance was very good and the grants fully delivered outputs as expected – and in a few cases even delivered more than planned – and in the remaining one-third of the grants outputs were partially delivered. "*

However, even when outputs were in general very good, the outcomes were, according to the Report, not as strong:

"Progressing from outputs to outcomes, however, was less successful. *Only about one-quarter of the completed grants fully achieved their objectives and some 30 percent did not achieve expected outcomes at all. Ownership was strongly correlated to outcomes, but was not sufficient by itself to ensure success. Most of the grants that fully achieved their outcomes had modest objectives that included 'raising awareness' or 'identifying weaknesses for further actions', and it suggests that objectives and expected outcomes of grants should be tailored and scaled to reflect the expected outputs from the grants".*

If outputs were good but outcomes were lacking, there are *a priori* various reasons to explain it; e.g. a) insufficient time for outcomes to materialize, b) unrealistic outcomes in relation to project scope c) vaguely defined outcomes, d) client's changing priorities, and e) need for further actions.

A number of these factors are associated to Phase II's M&E framework and project formulation. Moreover, the absence of follow-up priorities is singled by the Report as a frequently missing element:

"A key finding of the evaluation was the almost universal need for follow-up and additional support. *Virtually all responses to the client survey agreed that follow up was needed, and among the completed grants, the presence of other donors, or close follow up by FIRST, was key in almost all of the grants that fully achieved their outcomes. Involvement of other donors was particularly important for achieving objectives in the case of financial sector development strategies".*

This observation is complemented by:

"Short-term technical assistance alone proved insufficient in most of the completed grants to achieve their outcomes. *The importance of additional inputs for achieving reforms and capacity development cannot be overstated. These can include on-going advice from international specialists, training, manuals, software, hardware, dialogue and review, consensus-building, and disseminating public information about reforms".*

These important findings underscore the importance of the introduction of policy dialogue in Phase III business model, as a way to identify those complementary actions, without which project outcomes are not fully achieved, no matter how good the initial outputs.

It is nevertheless striking that clients expressed such a degree of satisfaction with FIRST support, despite the apparent weakness in outcomes. This may perhaps be attributable to a sense of shared responsibility. After all, since there was project ownership and funding was available, the clients themselves could have asked for more support. But this is a question that merits more analysis, with clients in particular.

When it comes to linking projects' results to indicators, the Report admits that

*"**Grants' specific outcomes, even when fully achieved, were not reflected in financial sector indicators**. In all but one of the 34 grants, it was not possible to identify quantifiable financial sector indicators related to FIRST-funded activities, and **even where quantifiable indicators could theoretically be identified, the results chain leading to those indicators was very long and subject to many other influences**. This highlights the relatively modest levels of inputs of most of the grants and reinforces the message that expectations on outcomes and impact of FIRST grants should be tailored to their scale and scope".*

This important conclusion brings to mind two challenges associated to assessing FIRST's results; first the general difficulty (not just FIRST's) of linking outputs and outcomes at the financial sector enabling environment level with changes in the country's aggregate indicators. The second difficulty is related to FIRST projects' scale and geographical and sectorial dispersion.

3. FIRST performance

When it comes to assessing FIRST performance as a fund manager, the Report refrains from expressing an opinion, arguing that

"For several reasons, the evaluation of 'FIRST performance' does not allocate 'performance' between the FIRST PMU and the Bank or the IMF*. The administration and management of FIRST funds are mostly the result of teamwork between FIRST PMU and the Bank or between the FIRST PMU and the IMF. In addition, the country case studies found that FIRST does not have strong 'name recognition' among clients or donors".*

If the fact that FIRST worked as a team with WB and IMF is a good reason to abstain from judging FIRST performance, is debatable, but outside the scope of this response. On the other hand, the assertion that FIRST does not have strong brand recognition seems to be at odds with the results of the Survey, which suggest a strong recognition of FIRST as a TA provider. See for example the conclusion quoted next below.

On **other angles of performance**, the Report says that:

*"**The client survey was quite positive about FIRST as a donor**. Client views of FIRST as a donor were most positive on the aspect of 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 responses were least positive on the speed of FIRST's response to the initial request for funding, although even on this dimension, 83 percent agreed that FIRST was quick to respond to the initial request for funding. In addition, **FIRST compared favorably in the client survey to other donors**."*

FIRST was set up in Phase II to be demand driven as one of its essential features, thus the important of this finding cannot be overstated. Moreover, client satisfaction is high precisely in those areas that reflect a good performance with respect of key goals set by the donors: client support, quick response, and partnership work. See Annex 1 for a summary of client responses.

"Ratings on "FIRST performance" from the completed grants were more mixed than the client surveys. *About forty percent of the grants were rated very good, and another third, fair. The remaining grants had weaknesses related to the quality of the grant at approval (realism of objectives and design, assessment of ownership, clarity of outputs and definition of deliverables) or during implementation, and/or completion reporting was weak".*

It should be noted that the "ratings" referred to in the assertion above, are the results of a desk exercise that attempted to capture project elements, namely "*Relevance, Ownership, Outcomes, Risks to development outcomes, Consultants' performance, and FIRST performance*" most of which are difficult to capture reliably many years after the fact, from a desk in Washington. As a result, those ratings are based in many instances on information of small value, and the ratings themselves are inconsistent internally and with project realities[1].

That said, it is probably true that FIRST performance was mixed when it comes to project formulation and screening; not a surprising fact for a new organization in flux, and whose M&E framework is also evolving.

"The evaluation identified several additional issues. *On eligibility criteria, there is some confusion among Bank staff about the consistency in applying the criteria, which may be due to evolving criteria over time".*

FIRST's selection criteria have indeed evolved over time, as this was to be expected from a new organization learning from a changing demand in a dynamic environment. That said, FIRST could have done a better job communicating those changes to stakeholders. If Bank's staff were confused, likely the same applies to IMF's staff, and to clients in general.

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[1] A detailed analysis of the referred inconsistencies based on project review was shared with the Evaluation team.

*"In addition, FIRST has proposed narrowing eligible sub-sectors to achieve higher quality and greater impact, **but fewer eligible sub-sectors increases the likelihood of supply-driven grants,** where clients will request FIRST funding based on the menu of options available to them, rather than on their own priorities".*

Like any funding agency, FIRST has and will always have selection criteria that separate what is eligible for funding from what is not. That this elemental separation would lead to supply driven projects is debatable. During Phase II, donors were actually inclined to narrow the focus of FIRST's eligibility criteria, fearing that a dispersion of sectors would diminish the visible impact, among other factors.

*"On budgetary resources, FIRST does not regularly provide funding for proposal development by Bank staff, and **the fixed percentage of cost provided by FIRST for Bank supervision has been inadequate in a number of cases to cover the full costs**".*

The amount available for WB staff is set in FIRST Charter. Within that limit FIRST has increased the cap on a project basis from 10% to 18%, and more recently to 34%.

***"On reporting, the accuracy of some information on completed grants is expected to improve with the recent (FY11) adoption of a new completion reporting system**, but the timeliness and quality of the content still need improvement. Finally, on availability of information, while FIRST has a newly revamped website that includes useful information about FIRST, additional succinct project information would be valuable to include".*

FIRST continues to strive to improve its reporting at all levels. Output reporting is more than satisfactory at the ouput/ production level, with improvements needed in the dissemination tools. Much more needs to be done in the collection and reporting of results; a progress that it is expected to go hand in hand with a stronger M&E framework.

4. Report's recommendations

Improving outcomes

***"Developing a more integrated work program with other donors**. The IMF modality is one example, where the IMF makes use of FIRST funding to supplement or expand existing TA programs to client countries. FIRST should consider a similar arrangement with the Bank, where **FIRST would commit support to Regional and centralized units' programs of non-lending TA to client countries**. The specific initiatives could be identified for a one-year work cycle and an agreement reached for funding the TA as appropriate for those initiatives. If experience with the Bank proves satisfactory in terms of the quality of the grants and reporting on implementation and results, FIRST could develop similar arrangements with other multi-lateral development banks, especially the African Development Bank (AfDB), which would be consistent with the strategic focus on Africa, or other regional agencies and bilateral donors that provide non-lending TA to client countries".*

More integration and coordination with the donors is no doubt necessary, but the specifics of this recommendation pose implementation challenges, and entail a substantial change in the goals set by the donors. To start, the IMF and the Bank have different staff allocation methods. Whereas the IMF allocates to FIRST projects staff whose time is paid for, the Bank needs to have staff time covered. In other words, the IMF contributes staff time to FIRST projects, while the WB gets paid for it. The arrangement with the IMF is unlikely to suit the Bank.

The second and further reaching point (that of allocating lump sums to programs) raises a number of issues:

- It eliminates direct client demand; one of the *raisons d'etre* of FIRST.
- It makes FIRST a regular funding source for WB country programs.
- If Bank units have their funding approved up front for yearly programs, the idea of rapid, flexible response is gone. Interestingly, the Bank and the IMF are beneficiaries of this flexibility, when it allows them to support urgent requests while larger programs are put together.

Finally, although FIRST desires a closer engagement with regional banks, the idea of advancing sums for yearly programs would make FIRST a source of funding for their regular operating budgets.

***"Adopt a phased, longer-term framework for individual grants that envisages the steps needed to achieve outcomes.** At the outset, it would be important to identify likely follow up actions and activities required to realize intended outcomes. FIRST should conditionally agree to phase its support, provided satisfactory implementation of earlier phase(s), through to the final steps. Full disbursement of a grant should not be a prerequisite for funding a subsequent phase, as that could lead to significant funding gaps and loss of momentum".*

Identifying follow-up actions is part of Phase III catalytic business model. Those actions can sometimes be identified at the outset, but is may not always be the case. What is important is that they are tailored to the results, and pursued immediately after the first project has been completed.

"Unless other agencies have a clear comparative advantage in specific sub-sectors or functional areas, this evaluation recommends leaving a broad menu of options that would be eligible for FIRST funding. *Funding should be determined by the needs of the client in the context of the grant's objectives".*

FIRST supports a wide set of sectors and project types. In the past, donors have expressed a concern that this range might actually be too wide. Implementing the recommendation of increasing the range would not assuage that concern.

Strengthening relevance of objectives:

"FIRST should ensure that proposed activities are based on or consistent with diagnostic work or a country strategy that identifies priorities. *A recent FSAP can serve this function, as it should ensure that the grant's objective has been identified as a priority, or that the work is a direct follow-up to the FSAP. Other diagnostic work or an agreed financial sector development strategy can also provide guidance".*

This is not new and is part of FIRST's present project analysis.

Improving implementation and consultant selection

"For individual grants, establish a longer time frame than the current 18 months. *At least 40 percent of Phase II grants require at least two years to carry out all planned activities. FIRST should establish a normal implementation time limit of at least two years."*

FIRST analysis shows that actual implementation times are 21 months on average; many projects last longer. Donors may consider increasing the eligible project's maximum time to let's say 24 months for Phase III.

"FIRST should avoid concentrating its use of the same consultants in multiple grants. *While many tasks require highly specialized experience and knowledge, adding a wider range of well-qualified specialists could serve to avoid situations where consultants have market power; to broaden the pool of qualified consultants; and help to avoid any appearance of financing a narrow group of consultants."*

This recommendation overlooks the fact that consultants are procured in about 90% of the cases by the IMF and the WB TTLs, and not by FIRST. That is, if there is any concentration, it is not a variable that can be controlled by or attributed to FIRST.

"Terms of reference should specify deliverables*. FIRST should ensure that consultants' terms of reference require them to deliver reports, to the client and to FIRST, on the content of the policy advice and recommendations, and include explicit focus on practical implementation of recommendations ("how to")".*

It is FIRST regular practice to request such reports.

Improving supervision

"FIRST grants should include funding for supervision, based on a costed plan from the TTL instead of a uniform percentage*. This approach would take account of variations in cost due to location of the task team leader, complexity of the activities, and travel costs".*

Implementing a costed plan for every project's TTL work would add a burden to project preparation. The operating mode used by FIRST, based on an 18% regional average until October, and 34% since then, seems to take care of the underlying problem within the limits set in the Charter.

Improving reporting, evaluation, and transparency

"Reporting needs to be improved in timeliness and quality, for both on-going and completed grants. *FIRST and Bank management should monitor the quality of completion reporting, to ensure that it is timely, complete, and as accurate as possible. Additional brief information on completed and on-going grants should be made available on FIRST's website. This evaluation should also be posted on the website in a timely way".*

Point well taken, there is much to be improved in project completion reports, particularly if FIRST wants to capture project lessons. Project information is available in the FIRST's site, but there is always room for improvement, and FIRST is working on that.

ANNEX 1

SUMMARY OF CLIENT PERCEPTIONS ACCORDING TO SURVEY

According to the 2010 client survey done by the external evaluation team, **clients agree or strongly agree** (in the percentages shown) that[2]:

The objectives of the project were clear to the organization	98%
FIRST was helpful in the project concept and design stage	96%
The objectives of the project were a high priority for the government	93%
The project was well designed to achieve its objectives	98%
My organization had sufficient input into the project design	93%
Appropriately qualified consultants were selected for the project	93%
The consultants provided relevant, appropriate and timely advice	93%
FIRST was quick to respond to our original request	84%

That is, there is a great degree of satisfaction on project relevance, time response, design and delivery.

However, the clients' responses indicate a clear need for more work after project completion:

We have followed up (taken further actions) on the deliverables from this project	67%
We need further external support from FIRST or other donors to follow-up on the deliverables of this project	74%

That is, projects are good from client's perspective, but more needs to be done in terms of follow-up, which is clearly suggesting a phased or programmatic approach.

[2] The survey contains 34 questions. Questions presented here were selected based on relevance, not on degree of agreement..

ANNEX 2

EVALUATION STUDY FRAMEWORK

Inputs

FIRST program:

focus of grants; operational efficiency; dissemination; M&E

Outputs of grants

Draft strategies; proposed laws, codes, standards, regulations, crisis preparedness, training

Intermediate Outcomes of grants

Implementation of strategies; stronger laws, regulations, standards, codes, practices, payment systems, credit registries; crisis preparedness procedures in place

Outcomes at a country level

Links between grant outcomes and stronger financial infrastructure, regulation, and supervision

Links between grant outcomes and indicators of financial sector depth and access

Impact at a country level

Economic growth; poverty reduction; reduced inequality; financial stability