

FIRST INITIATIVE

MANAGEMENT RESPONSE TO MID-TERM INDEPENDENT EVALUATION OF FIRST PHASE III

General Comments:

1. FIRST would like to thank Universalia Group for a comprehensive report that provides an in-depth assessment of the past 4 years of FIRST Phase III and future direction for the FIRST Initiative. The report underscores the continued relevance of FIRST core principles: demand-driven, additionality, transparency and accountability to its clients in low and middle income countries. In addition, the report reinforces FIRST stakeholder’s appreciation of the high quality, relevance and impact of FIRST TA. The overall weighted rating across all criteria was found to be 4/5 (good). Finally, most stakeholders surveyed appreciate the breadth of FIRST coverage and the flexibility to accommodate evolving needs and challenges in the financial sector.
2. At the same time, the report recognizes that FIRST needs to evolve to keep pace with changes in the financial sector space, donor funding constraints and the IMF and WBG. It emphasizes the need to rationalize FIRST’s approval process and funding model to make it more efficient, without sacrificing project quality control and Governing Council (GC) oversight.
3. The FIRST Project Management Unit (PMU) has prepared this response including the specific enumerated recommendations in the report below, for which GC endorsement is requested.
4. The PMU broadly agrees with the evaluation team’s analysis and main findings including the need to raise new funding and ensure sustainability of the program beyond the current Phase. FIRST continues to be one of the main and at times the only source of TA in some low-income countries and without future funding it would be challenging to address some of the critical technical assistance needs.

Comments on specific recommendations:

Recommendation 1: The GC with PMU support should take steps to streamline the FIRST funding model into maximum two buckets designated for LIC and MIC needs

The PMU agrees with this recommendation and acknowledges that too much segregation of funds in different buckets runs counter to the principle of being demand-driven and efficient. At the same time, donor contributions need to align with their own institutional policies.

As part of the Phase IV strategy, the PMU will recommend to the Governing Council to reduce funding windows from 4 to 2- LIC window and MIC window – within which the respective funding to programmatic and catalytic will be determined by client demand, and donor requirements

The objective of the proposed reduction is to streamline funding, consistent with the Mid-Term Recommendation 1. This makes FIRST more responsive to project/program demand and removes the need for reallocation mid-program which requires amending legal agreements (and cannot be done at all for amounts already received). While the funds would be comingled in two Windows, the PMU would

ensure that there is an agreed floor on Catalytic approvals, which represent the core of FIRST TA. The windows would also allow to accommodate donor decisions to limit contributions to either Catalytic or Programmatic. The PMU will also report periodically to the GC on the spending levels for the Catalytic and Programmatic under each Window.

Recommendation 2: The PMU should evaluate and report on the results of efforts made to expedite the FIRST approval process and consider additional options to increase efficiency.

The PMU agrees with the recommendation: PMU has already submitted and received approval from GC for a more streamlined approval process that is being applied to catalytic projects for the remainder of Phase III.

The PMU proposes further streamlining for both catalytic projects and programmatic engagements as follows:

- (i) Hold periodic meetings with World Bank Regional Practice Managers to discuss project pipeline. Going forward in Phase IV the project pipeline will be drawn from the WBG Work Program Agreement (WPA) and be incorporated into FIRST's annual strategic plans that are expected to be approved by GC.
- (ii) Deformalize eligibility clearance process: for catalytic remove/for programs merge and shorten PAC review/GC clearance of concept note based on bottom-up targets.
- (iii) Merge the peer review and donor due diligence process and consolidate all comments for the project teams at the same time.
- (iv) Make use of Virtual meetings for PAC where face to face is not feasible in the immediate term.
- (v) Shorten the GC approval time to 5 days since they will have had the opportunity to review the entire project and provide comments at due diligence.

As part of the Strategy the PMU will recommend to GC to raise the Manager's approval authority from the current \$125K to \$250K

Recommendation 3: The GC with support of the PMU should review and revise FIRST's roles and responsibilities so that they can support a clear, more efficient and effective implementation. The GC should assume a more strategic role in FIRST's governance

The PMU partially agrees with the recommendation. With regard to the first part of the recommendation on reviewing and revising FIRST's roles and responsibilities, the FIRST Charter clearly states responsibilities of the PMU in Section 4.3.

For implementing institutions, their technical assistance/advisory services roles and responsibilities emanate from their Articles of Agreement, by-laws, policies and procedures and other governance instruments¹.

¹ For the Bank OP 14.40 and BP 14.40 are the operating policies and business procedures related to trust funds.

Under the FIRST Charter the GC has greater oversight and latitude on the operations of the PMU than most other trust funds, and this may be the source of some confusion on the role of the implementing institutions. In practice the PMU serves as the interface between donors and the implementing bodies but since PMU staff is Bank staff the segregation of responsibilities is not as obvious. Therefore, the PMU will propose to further describe the roles of the three governing bodies of FIRST (GC, PAC and PMU) in the Phase IV Strategy to promote efficiency in processes where possible.

Finally, to respond to the recommendation that GC should take a more strategic role in FIRST's governance, the PMU does not believe this recommendation is well-founded. The sole aspect of governance cited to support this finding is the absence of the annual strategic plan. The PMU agrees that an annual strategic plan would provide more direct evidence of GC's strategic role and will propose to implement in FIRST Phase IV. However, the PMU doesn't view the lack of annual strategic plans as the only basis for the GC to guide and approve PMU priorities. The Phase III Strategy was translated into operational plans against which the PMU reports semi-annually. The GC reviews and revises some of the strategic priorities throughout the life of the Phase; revision of Program targets, KM agenda and moratorium on Higher MICs are some examples.

The PMU believes that part of the perception of GC taking a heavy operational role arises from instances of iterative GC comments on individual FIRST projects or programs, which will be streamlined in Phase IV under the approval process. In addition, GC has also been and will continue to work with the Program Manager and the Bank and the IMF to diversify FIRST's sources of funding by reaching out to potential new donors.

Recommendation 4: Building on noted accomplishments and lessons learnt in tracking performance of FIRST projects and programs to date, the PMU should refine the current approaches to M&E of FIRST projects and program so that they are more effective, efficient and support learning

The PMU agrees with the gaps identified in the M&E process and they will be addressed in the context of Phase IV.

GRM quality and completeness: The PMU acknowledges that the current GRM quality needs improvements as related to results elaboration and documentation of changes happened during project's life. The WBG is aware of this issue and has started to reform the TF system, which includes GRM, to improve the efficiency and quality of reporting. PMU will continue to reiterate the importance of GRMs as a source of results, accountability, and learning which is used to communicate back to donors and other stakeholders.

Client Survey:

The PMU agrees that FIRST's administered client survey at project closure is overlapping with the WB Annual Satisfaction Survey. Therefore, PMU will propose in Phase IV Strategy to drop FIRST's own project completion survey but could consider using client survey tool at later time (e.g., 2-3 years after completion) to collect outcomes and impacts which have not been materialized at project completion.

Recommendation 5: GC should consider adopting a much more narrowly focused set of knowledge management objectives that are better aligned with FIRST's delivery model

The PMU agrees with the recommendation: FIRST Phase III strategy included a very ambitious knowledge agenda that is not well aligned with the operational structure, financial resources or the skills set available in the FIRST PMU. In addition, some of FIRST mandates on knowledge do not fully reflect evolution of FIRST from a Client Executed TF to a Bank (and IMF) Executed Trust Fund. For example, as per FIRST Charter; one of FIRST objectives is to ***work with international standard-setting bodies and other relevant partners to broaden the base of providers supporting countries' efforts to implement standards and codes in accordance with FSAP and ROSC recommendations and strengthen their financial systems*** (Charter 3.2.5). This is a role that seems to be more suitable for, and is currently being fulfilled by, both IMF and WB and not FIRST. This remains a legacy in the Charter because FIRST's results and impacts are expected to be part of the feedback mechanism to the standard setters on the scalability and proportional application of the standards to LICs and MICs.

Phase IV will propose a more focused set of knowledge products. FIRST will continue to be selective in funding knowledge products in areas critical to its technical assistance program, drawing on specialized technical skills of the WBG and IMF staff, with a continued focus on disseminating best practices in technical assistance in financial sector reforms.

FIRST will also continue to be responsive to knowledge work in priority areas of focus of our donors, such as in gender mainstreaming in financial sector development operations.

In addition, FIRST will continue to take advantage of its extensive coverage of country and thematic areas to document lessons learnt, leveraging on IMF and WB staff expertise. FIRST will introduce very selective and targeted South-South knowledge exchange programs that are deemed beneficial to clients.

Recommendation 6: In the interest of designing projects more effectively, FIRST caps on diagnostic work and WB staff time should be eliminated

The PMU agrees with the recommendation.

The WB Staff cost cap has already been removed for the Phase IV Strategy and will be lifted for the remainder of Phase III. The PMU agrees that selection of project teams should be based on technical skills and not budget caps.

The PMU agrees with the recommendation to remove the cap on diagnostic work to ensure that its TA is adequately underpinned by relevant technically sound analytical work. FIRST PMU will make a concrete proposal as part of the Phase IV Strategy to strengthen analytical work while continuing to ensure that FIRST remains primarily implementation-focused. The PMU will propose to remove the cap on diagnostic work at the individual project level, and to limit diagnostic-focused TA interventions to 20% at the portfolio level of catalytic projects.

Recommendation 7: Given the generally positive results of Phase III mid-term evaluation, the GC with support of the PMU should play an active role in securing funds from existing and new donors in support for a future phase of FIRST

The PMU agrees with the findings of the Evaluation regarding the continued relevance and demand for FIRST technical assistance. In fact, for some countries FIRST remains the main source of technical assistance support for financial sector reforms. For most LICs, FIRST TA resources are available for financial stability focused legal, regulatory, and institutional capacity building as well as for broad financial sector strategies for which other available TA resources are limited. Most other Trust Funds and bilateral support is focus on the financial inclusion agenda. With regard to fundraising efforts please see response on recommendation 3.

Recommendation 8: The GC with the support of the PMU should ensure that the design of future FIRST phase encompasses a clear, approved results framework for the Initiative as well as systems to monitor, report on and evaluate its overall development results

The PMU welcomes the idea of having an overall Results Framework (RF) which could serve as a strategic guidance for grant level activities as well as a basis for future assessment of the Initiative's performance.

This dovetails with the WB TF reform which now requires each TF to have an Indicative Results Framework included in the Administrative Agreement and uploaded in the Development Partner Center. Given the nature of FIRST's programmatic TF where the funded activities/grants or beneficiary countries are unknown at the outset, the overall RF is indicative, i.e., it may need to be revised during implementation, with revisions to be approved by the GC

Recommendation 9: In designing any future phase of FIRST, the GC, with support of the PMU, should take steps to ensure that the FIRST design and practices are based more on client needs and country context

The PMU partially agrees with this recommendation. FIRST makes every effort to ensure each project is demand-driven and reflects client needs and country context. Each FIRST funded project includes the rationale and strategic context of the project as well as an official letter of request from the client. In addition, stakeholder engagements prior to project initiation and at dissemination of outputs are included in project design where relevant. At the same time, PMU recognizes that in some cases the design of FIRST programmatic approach with pre-determined program targets has created a selection bias towards activities that have a more obvious link to the pre-determined program targets.

The evaluation also highlights the perception of the prescriptiveness of FIRST's Operational Targets in terms of regional and sector ratio to be met. This coupled with the rigidness of current funding buckets could inhibit the ability to shift resources swiftly and at low or no transaction costs in order to meet client demand. Nonetheless it is important to point out that the operational targets are not binding but guidelines and are subject to continual GC adjustment as needed.

Overall, the PMU agrees that the FIRST-specific programmatic approach needs some revision and will make use of the evaluation recommendations and distill other lessons from implementation in designing the next Phase. Phase IV strategy will include a refined structure of the FIRST programs that are more flexible in implementation, with bottom-up approach to target setting. However, PMU does not agree that there should be a fluid model between Catalytic and Programmatic Windows. A fluid model would create more ambiguity and makes it challenging to make the case for when to use which of two business models

Finally, while some donors agree that FIRST should maintain a broad scope coverage of the financial sector to meet evolving global and national financial sector contexts, one donor would prefer to see FIRST become more narrowly focused. FIRST mandate since inception remains largely the same, but its interventions keeps evolving to keep pace with the changing global financial sector environment and individual country context. Its broad mandate is born out of the recognition that financial sector stability and development are two sides of the same coin and clients are better served when they analyzed in a coherent and coordinated manner. FSAPs and ROSCs have traditionally been the mechanism to provide such analysis and FIRST the unique vehicle, possibly the sole provider, to implement some follow-on reforms. In addition to FSAPs, FIRST TA is underpinned by country financial and sectoral strategies and other relevant analytical work. One of FIRST's comparative advantage is its ability to leverage the differences in the mandates and technical strength of its two implementing bodies to provide more "rounded" solutions to client's and flexibility to respond to financial sector challenges as they emerge. In Phase IV FIRST will maintain a broad coverage of the financial sector but sharpen its approach to project selectivity including by use of annual strategic plans to better align FIRST TA with country priorities.

Recommendation 10: FIRST should consider continuing to offer the FSDIP product in the prospective Phase IV

The PMU agrees with the recommendation: FSDIP has been an effective instrument in providing analytical underpinnings and a clear reform agenda for countries that have not had the opportunity to undergo FSAP and ROSC assessments. Given the shift in FSAP program priorities towards countries with systemically important financial sectors, the frequency of FSAPs to low income countries (LICs) has significantly declined and this is likely to remain the case for a foreseeable future.

In that regard, the PMU proposes that FIRST's GC consider funding FSDIPs for countries that have had an initial FSAP assessment but are not likely to have an update in the short term and the Phase IV Strategy will propose to include these countries as FSDIP eligible.

Other comments:

The report finds that a few Phase II Evaluation recommendations remain relevant: In particular, "FIRST needs to improve the accuracy of the classification of its projects as well as the reliability of information in its database". As related to the above recommendation we would like to clarify that FIRST's projects are Bank (and Fund-executed) TAs and all of project documentation including deliverables, memos, extension request, etc. are filed in WBDocs in line with WB operations procedures; likewise, in IMF internal systems for IMF projects. It would be inappropriate (against Bank policy) for FIRST to recreate a separate repository for documents. In future, the PMU will ensure that external evaluators receive all required documents on a timely basis.