The Financial Sector Reform and Strengthening Initiative, FIRST, is a multidonor grant facility that provides short- to medium-term technical assistance to promote sounder, more efficient, and inclusive financial systems.

Mission Statement

FIRST aims to support economic growth and poverty reduction in low- and middle-income countries by promoting robust and diverse financial sectors.
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**Countries that directly benefited from FIRST-funded projects (percentage) commitments (US dollars) (in millions of USD)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of Commitments</th>
<th>Direct Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>12%</td>
<td>$14.3</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>16%</td>
<td>$17.3</td>
</tr>
<tr>
<td>South Asia</td>
<td>9%</td>
<td>$16.2</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>8%</td>
<td>$14.3</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>44%</td>
<td>$81.1</td>
</tr>
<tr>
<td>East Asia and the Pacific</td>
<td>9%</td>
<td>$17.3</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>16%</td>
<td>$30.3</td>
</tr>
</tbody>
</table>

FIRST: 2019 Annual Report
On behalf of FIRST donors, I am pleased to present this report covering FIRST’s accomplishments during the 2019 fiscal year, with a special focus on the results achieved in the implementation of FIRST’s Phase III and related knowledge generated and lessons learned. Last year marked the 17th year since FIRST’s inception, with 790 projects implemented and US$186.4 million deployed to date.

The publication of this report comes at a time when the global economy is facing an unprecedented multidimensional crisis. The full ramifications of the COVID-19 pandemic are yet to materialize. However, it is abundantly clear that those countries that have strengthened and enhanced the resilience of their financial sectors came into this situation much better prepared to withstand its effects, both financially and fiscally. This confirms the relevance of FIRST’s broad policy focus, including on systemic stability.

As we move forward in assisting countries in dealing with the effects of the crisis, FIRST’s foremost goal of creating an enabling environment for recovery, sustainable growth, and poverty alleviation will remain particularly relevant. Many beneficiary countries are struggling with finding the appropriate policies to provide the private sector with the liquidity necessary to “keep the lights on.” In this connection, regulators and supervisors find themselves particularly challenged with finding ways to make sure that such liquidity support does not come at the risk of creating moral hazard in the system. On the flip side, to preserve the strength of financial institutions, they also want to make sure that they do not end up resorting to procyclical supervisory measures that would amplify the effects of the crisis on the private sector.

Beyond supporting stability efforts, FIRST also has a role to play in supporting measures that could help alleviate the impact of the crisis on the most vulnerable and those who remain marginalized from accessing financial services. The rapid development of technology in delivering financial service solutions (Fintech), for example, offers opportunities not only to enhance access to finance for the previously unbanked but also to provide fast and safe relief and financial assistance for those now unemployed and facing economic strains in the foreseeable future.

Moreover, these challenging times also provide an opportunity to “build back better.” Climate change has become the most pressing issue of our time, and finance must adapt to support the greening of our economies. Greening of the financial sector and the provision of sustainable finance are moving to the top of the reform agenda as climate-related events become more frequent and massive in their impact, particularly on the most vulnerable and uninsured. These two topics, among others, had already been embraced as part of FIRST’s new strategy—FIRST 2.0, which was approved in 2018 and was the focus of an outreach event in January of this year.

In this context, we are in the process of looking for new development partners that could join us in facilitating assistance to beneficiary countries not only to address the challenges emerging from the current global health crisis, but also to help them address long-term impediments to stability and growth as well as issues relating to emerging technology and to environmental challenges.

Rosmarie Schlup
Chair of Governing Council
Head of Macroeconomic Support, Economic Cooperation and Development
State Secretariat for Economic Affairs SECO, Government of Switzerland
Statement from the Program Manager

Since taking over as program manager for the FIRST Initiative last November, I have witnessed how even after 17 years since its inception FIRST’s mandate remains crucially relevant—perhaps even more so now that the global economy is facing an unprecedented crisis. Providing technical assistance to develop and strengthen the financial sectors in low- and middle-income countries around the world has, if anything, gained a renewed urgency, not only to protect the gains achieved but also to make financial sectors around the world more resilient to the effects of a crisis whose impact has yet to be felt fully. Efforts to assist financial sector authorities in enhancing financial stability, broadening financial inclusion—particularly for those most vulnerable to the economic impact of the crisis—and keeping finance flows going need to be, if anything, intensified. These constitute the backbone of financial sector health and the necessary conditions to enable the financial sector to fuel economic improvement and recovery from the crisis, and to assist people in rising out of (and most importantly now avoiding falling into) poverty.

This report takes pause to reflect on some of the results generated through the projects approved in Phase III (2013–2018) of the FIRST initiative, including a look at lessons learned and knowledge generated, which we hope will serve colleagues (at both the World Bank and the International Monetary Fund) as well as policymakers in appropriately designing policies for both the challenges ahead and those that we all currently face at this time. The report closes with a forward look at a sample of projects under implementation as part of Phase IV (2018–2022) of the initiative, which reflect emerging policy issues (and some “old” ones) and structural challenges such as Fintech and digital finance, and the greening of financial sectors.

Closing on a personal note, I cannot help but be impressed by some of my World Bank and International Monetary Fund colleagues’ continued absolute dedication and determination to achieving results, including at times in very difficult political and personal safety environments. Similarly, a special note of recognition goes to the project management unit team, whose steadfast and unwavering dedication to quality at entry and results has renewed my faith in the work we do every day.

Carlos Piñerúa
Program Manager
Financial Sector Reform and Strengthening Initiative
Motivation

FIRST FACT SHEET

The Financial Sector Reform and Strengthening Initiative (FIRST) is a multidonor program aimed at supporting low- and middle-income countries (LICs and MICs) in building more sound, stable, and inclusive financial systems.

FIRST’s overarching goal is to create a strong enabling environment in these countries to help mobilize private sector investment. In this context, sound financial institutions and stable and competitive financial markets are prerequisites to economic growth, employment generation, and poverty reduction.
FIRST’s technical assistance (TA) grants support national policy-making and regulatory bodies in designing appropriate financial sector policies and building government capacity to regulate, supervise, and develop the financial sector.

FIRST is the flagship financial sector global program for TA of the World Bank Group (WBG) and the International Monetary Fund (IMF), the only joint WBG-IMF vehicle for financial sector TA provision.

Created in 2002, following the East Asian financial crisis, FIRST has stood out as a catalyst for broader reforms by delivering targeted, gap-filling TA projects.

During its 17 years of operation, FIRST has funded over 790 projects in 120 countries around the globe, deploying over US$186.4 million in supporting tailored TA projects to strengthen financial sector stability, build inclusive financial systems, and deepen financial markets.

FIRST projects have catalyzed over US$1.5 billion of additional funding from other sources to implement successive reforms.

FIRST seeks to ensure that its activities are complementary to those funded by other development sources and that its funding does not substitute for or displace more suitable assistance available elsewhere.

FIRST’s business model is built on close collaboration between the WBG and the IMF, leveraging their presence on the ground as well as their expertise in designing and implementing financial sector reforms.

FIRST’s TA projects are integrated with IMF and WBG country work programs to ensure that reforms are aligned with countries’ priorities and strategies. Through this strong collaboration, FIRST seeks to improve TA coordination and complementarity among all strategic partners.

FIRST’s operational structure consists of the Governing Council and the Secretariat. The Secretariat, headed by a program manager, manages day-to-day operations and activities. It is located within the World Bank Group’s Finance, Competitiveness, and Innovation Global Practice in Washington, DC. The Governing Council provides strategic guidance, sets overall policies, and approves large-scale projects and programs. The Council comprises representatives from FIRST donors as well as from the WBG and the IMF, as partnership is key to FIRST’s extensive outreach and success.
FIRST 2.0 Activities at a Glance

1. Financial sector diagnostics

2. TA to financial sector policy makers, regulators, and central banks to strengthen financial systems in LICs and MICs

3. Global knowledge and dissemination of best practices related to key regional and global topics

Beneficiaries

- Country regulatory and policy-making authorities
- Bank and nonbank regulators
- Government policymakers, particularly in central banks and ministries of finance, and coordinating ministries responsible for financial sector policy issues

FIRST supports three interconnected thematic pillars (figure 1).
Stable, robust, diverse, and inclusive financial systems

NEW FOCUSES
- Fintech
- Climate change/Green finance
- Mainstreaming gender
- Maximizing finance for development

Financial Stability → Financial Inclusion → Long-Term Finance

Economic Growth, Job Creation, and Poverty Reduction
Closing the Book on Phase III—Operations and Results Highlights

FIRST’s Phase III operations have been highly effective in catalyzing long-term, durable financial sector reforms in client countries. The Strategy for Phase III (2013–2018) focused on achieving results on the ground, ensuring the sustainability of reforms, and aligning interventions with countries’ overall development priorities. To do so, Phase III activities put results management at the forefront of engagements, striving to successfully move projects from achieving outcomes to fully realizing their intended development impact.

The essence of FIRST’s results framework is mainstreaming results measurement, from the project design stage through the postcompletion stage. At the approval stage, each project or program must have clearly identified outputs and outcomes with clearly specified, measurable indicators and timelines. The result chain concept is applied in every project and program, and client surveys are conducted at completion, as is outcome monitoring.

Phase III activities addressed the long-tail effects of the global financial crisis, signified by fragility in developed and emerging market countries. The postcrisis period featured an environment of anemic economic growth, sustained low interest rates, and weak commodity prices, which led to an increase in nonperforming loans. Therefore, from the foundational enabling environment perspective, FIRST support was key to underpinning the return to growth and diversification of financial sectors. Phase III activities continued to address the strengthening of beneficiary countries’ micro- and macroprudential frameworks and their financial sector safety nets in order to build financial
systems that can better withstand future shocks. Given the growing interconnectedness between banks and nonbank financial institutions, the proportion of FIRST interventions in insurance and pension regulation and supervision has grown. Reforms in both the banking and nonbanking sectors have been at the core of FIRST’s financial stability agenda. FIRST’s TA projects in this period have been closely aligned with countries’ economic growth and employment objectives.

To ensure FIRST TA projects are always demand driven and priorities are shaped primarily by clients’ reform needs as well as changes in the global financial sector landscape, FIRST shaped Phase III through intensive collaboration within the Governing Council. In addition, Phase III TA projects benefited from intensive feedback from clients, donors, and partners during the FIRST Consultative Group meeting in Morocco on June 9–10, 2015, and from direct follow-up to FIRST engagements through feedback questionnaires and follow-up engagements.

Accordingly, over the course of Phase III, FIRST sharpened its areas of specific focus. These included helping countries address clear barriers related to specific interventions and promote policies that are aimed at reducing the gender gap in financial inclusion, including strengthening the framework for measuring progress. Phase III featured TA projects to address finance for development constraints, which required building capacity to mobilize domestic resources, which remains a major bottleneck in many low-income countries. Prominent were TA projects to address the needs of critical sectors such as agriculture and micro-, small, and medium-sized enterprises (MSMEs), both of which are crucial for job creation and poverty reduction in low-income countries.

A midterm evaluation confirmed that FIRST has optimized its impact on the ground by aligning its TA projects with clients’ national and sectoral strategies, ensuring the proportionality of regulations and the appropriateness of policy interventions to balance financial inclusion and stability and to connect financial sector reforms to overall growth and poverty alleviation.

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**Table 1: Phase III Project Approvals by Region**

<table>
<thead>
<tr>
<th>Region</th>
<th>Approvals (number)</th>
<th>Value (US$ million)</th>
<th>Distribution (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFR</td>
<td>76</td>
<td>38.2</td>
<td>48</td>
</tr>
<tr>
<td>EAP</td>
<td>12</td>
<td>3.2</td>
<td>4</td>
</tr>
<tr>
<td>ECA</td>
<td>21</td>
<td>8.8</td>
<td>11</td>
</tr>
<tr>
<td>LAC</td>
<td>29</td>
<td>8.5</td>
<td>11</td>
</tr>
<tr>
<td>MNA</td>
<td>28</td>
<td>8.5</td>
<td>11</td>
</tr>
<tr>
<td>SAR</td>
<td>16</td>
<td>9.0</td>
<td>11</td>
</tr>
<tr>
<td>Global</td>
<td>14</td>
<td>2.6</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>196</td>
<td>78.8</td>
<td>100</td>
</tr>
</tbody>
</table>

**Table 2: Phase III Project Approvals (excluding Knowledge Products) by Window**

<table>
<thead>
<tr>
<th>Window</th>
<th>Approvals (number)</th>
<th>Value (US$ million)</th>
<th>Distribution (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catalytic</td>
<td>163</td>
<td>48.7</td>
<td>64</td>
</tr>
<tr>
<td>Programmatic</td>
<td>18</td>
<td>27.3</td>
<td>36</td>
</tr>
<tr>
<td>Total</td>
<td>181</td>
<td>76.1</td>
<td>100</td>
</tr>
</tbody>
</table>

**Table 3: Knowledge Products by Theme**

<table>
<thead>
<tr>
<th>Theme</th>
<th>Projects (number)</th>
<th>Value (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term finance</td>
<td>4</td>
<td>0.6</td>
</tr>
<tr>
<td>Inclusion</td>
<td>5</td>
<td>1.1</td>
</tr>
<tr>
<td>Stability</td>
<td>6</td>
<td>1.0</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>2.7</td>
</tr>
</tbody>
</table>
Figure 2. Phase III Project Approvals by Core Themes (Share by Value)

- Inclusion: 35%
- Crosscutting: 33%
- Depth: 28%
- Stability: 4%

Figure 3. Phase III Project Approvals by Country Income (Share by Value)

- MIC: 37%
- LIC: 63%

Figure 4. FIRST’s Impacts Framework

**Contribution to SDGs**

**Beneficiary Groups**

- **INDIVIDUALS**
  - Increased access to financial services, including for women and youth: transactions accounts, pensions, insurance, affordable housing finance, etc.

- **MSMEs**
  - Increased access to finance, including for women-owned businesses

- **FINANCIAL INSTITUTIONS**
  - Compliance with international standards and soundness

- **FINANCIAL MARKETS**
  - Efficient and deepening capital markets

**FIRST’s Support**

- **Work with financial sector authorities to**
  - Develop financial sector development strategies, national financial inclusion strategies
  - Implement legal and regulatory reforms, aligning with international standards and best practices
  - Strengthen institutional capacity of financial sector bodies
  - Modernize financial infrastructure
  - Develop financial products

**Thematic Objectives:**

- **FINANCIAL INCLUSION**
- **FINANCIAL STABILITY**
- **LONG-TERM FINANCE AND FINANCIAL MARKETS**
Increasing Financial Inclusion for Individuals

Financial inclusion is now center stage in the financial sector policy goals of many developing countries, given its implication for poverty reduction. Inclusive financial systems provide individuals with access to resources to meet their financial needs, such as saving for retirement, investing in education, starting and growing a business, and confronting shocks.

The challenge remains enormous, however. At the start of FIRST Phase III, an estimated 2 billion people—or 38 percent of adults in the world—did not have access to basic financial services (Findex 2014). Overcoming this challenge requires a multipronged set of reforms from both the public and private sectors—the policy maker, the regulator, the banker, and the financial consumer—to address such entrenched barriers as lack of access points and products to reach the underserved.

During 2013–2019 (Phase III), FIRST supported more than 50 countries in addressing barriers to financial inclusion, including in (i) developing financial sector development strategies or national financial inclusion strategies, (ii) establishing legal frameworks and strengthening institutional capacity, (iii) modernizing financial infrastructure, and (iv) developing suitable financial products and—since 2015—the specific objective of mainstreaming gender issues. FIRST TA projects have contributed to notable improvements in financial inclusion, as shown in table 4.

<table>
<thead>
<tr>
<th>Increased access to...</th>
<th>Country</th>
<th>Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction accounts</td>
<td>Maldives</td>
<td>90,000 people used mobile money accounts (23 percent of adults) as of 2017, following the issuance of mobile money regulations in July 2016, which were supported by FIRST.</td>
</tr>
<tr>
<td></td>
<td>Paraguay</td>
<td>1.2 million people used transaction accounts in 2017 (49 percent of adults), compared with 22 percent of adults in 2011 (according to Findex), as a result of the implementation of the NFIS that FIRST supported in 2014.</td>
</tr>
<tr>
<td></td>
<td>Liberia</td>
<td>550,460 people own transaction accounts as of 2017, representing an increase of 17 percentage points over ownership in 2011. FIRST has supported the Central Bank of Liberia in developing the financial sector since 2008, through seven catalytic projects and one programmatic TA project. The most recently completed project helped introduce agent banking regulations and e-payment regulations.</td>
</tr>
<tr>
<td></td>
<td>Indonesia</td>
<td>63.3 million people (35 percent of adults) had made or received digital payments as of 2017. FIRST supported the authorities in improving the payments regulatory framework including developing e-money regulations, modernizing the payment infrastructure, and implementing the NFIS.</td>
</tr>
<tr>
<td>Affordable housing finance</td>
<td>Indonesia</td>
<td>380,000 poor households have access to affordable finance for new homeownership or home improvements as of December 2019, through the country's National Affordable Housing Program, catalyzed by a FIRST TA project in 2016.</td>
</tr>
<tr>
<td></td>
<td>WAEMU</td>
<td>3,650 households have access to housing finance through the regional mortgage refinance company (Caisse Régionale de Refinancement Hypothécaire) as of May 2019. FIRST supported the WAEMU's development bank, the Banque Ouest Africaine de Développement, in creating solutions for housing finance for low-income households. The TA project has catalyzed a US$155 million International Development Association credit to implement the solution.</td>
</tr>
</tbody>
</table>
Maldives: Mobile Money Solutions to Reach a Geographically Remote Population

Context

Maldives is a challenging environment in which to deliver access to financial services through a traditional bank branch network. Maldivians live on 200 scattered islands in 26 atolls, and 71 percent of the inhabited islands have fewer than 1,000 residents. Approximately two-thirds of the population of Maldives outside the Male area (the capital) do not have proper access to finance and payment infrastructure or services. Inhabitants of outlying atolls must travel by infrequent and costly ferries to the islands where banks are located.

Given the more than 100 percent mobile phone penetration in Maldives and the tech savviness of the Maldivians, a mobile money solution 1 could help the country to overcome the barriers of geography, small population size and low density to deliver payment and financial services at an affordable cost across the country. The government was keen to improve financial inclusion and requested assistance from the World Bank to “revitalize the promise of mobile money” to achieve higher levels of cost-effective access to financial and payment services, especially for the people living on the outer islands and atolls, where traditional bank and payment infrastructure is largely absent.

Note:
NFIS = National Financial Inclusion Strategy, WAEMU = West African Economic and Monetary Union.

a. “Digital payments” refers to using mobile money, a debit or credit card, or a mobile phone to make a payment from an account or using the internet to pay bills or to buy something online in the past 12 months. It also includes paying bills, sending or receiving remittances, receiving payments for agricultural products, receiving government transfers, receiving wages, and receiving a public sector pension directly from or into a financial institution account or through a mobile money account in the past 12 months. Source: Findex 2017.

1 In a telecommunication-led mobile financial services model, the telecommunication company is the issuer of the product and handles all activities, including taking responsibility for customer funds.
An initial attempt at providing a Bank-led mobile financial services model\(^2\) proved unsuccessful as a key participant, the Bank of Maldives Ltd (BML), which is 51 percent government owned and has a market share of about 62.5 percent, was unwilling to join the interoperable switch.

A mobile network operator (MNO)-led solution also faced significant impediments: the legal and regulatory framework did not allow nonbank entities to engage in financial and payment services or any associated oversight. Nor did it include provisions to protect the rights of customers of financial institutions or nonbank entities, including MNOs.

FIRST supported Maldives in reforming the legal and regulatory framework as well as building institutional capacity in implementing and overseeing an MNO-led mobile money solution. These efforts included the issuance of regulations on mobile payment services to enable nonbanks to handle payments. These regulations also enabled custodial banking, trust relationships, and a risk management framework that established a tiered approach to customer due diligence and compliance with standards on anti–money laundering and combating the financing of terrorism. A financial consumer protection framework was also introduced.

**Results Achieved**

In July 2016, the Maldives Monetary Authority issued regulations to enable nonbank payment service providers to handle payments.\(^3\) To this end, the Authority has licensed Ooredoo Maldives Private Limited to provide mobile payment services. Ooredoo’s mobile payment service allows customers to register for a Mobile Wallet Account to deposit, withdraw, pay, and send money in Maldives instantly through mobile phones, both by USSD (unstructured supplementary service data, a communication protocol) and by mobile application. The payment service enables person-to-person or person-to-merchant payments, as well as allowing customers to pay bills, top up airtime, etc. through their mobile wallet accounts. Bank of Maldives Plc also provides mobile payment service through BML MobilePay, a mobile application. The service enables person-to-person transfers as well as a safe and secure method of making payments at merchants without presenting the physical card. Bank customers can integrate their cards with the mobile app and use them in BML card terminals.

The uptake happened much faster than expected. According to the 2018 Findex survey, 23 percent of adults (90,000) have a mobile money account. Maldives has some of South Asia’s strongest numbers on financial inclusion. Digital payments are widespread, and people use mobile phones for a range of transactions—receipt of wages, government payments, agricultural payments, domestic remittances, and the like.

Finally, faced with competition from MNO-led mobile money services, commercial banks—which dominated the financial markets—have reduced their ATM and point of sale charges, expanded their agent network among atolls and islands, and started their own mobile services (for example, BML’s mobile money service). These changes offer consumers more opportunities to lower costs.

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\(^2\) In a commercial bank-led mobile financial services model, the bank is the primary driver of the product or services, typically taking the lead in marketing, branding, and managing the customer relationship. The customer has a contractual relationship with the bank, which often outsources certain activities to one or more service providers, such as a mobile network operator, for the transmission of transaction details and sometimes even the maintenance of clients’ accounts.

Liberia: Advancing Financial Inclusion through Agent Banking and Mobile Money Services

Context

After the civil war ended in 2003, Liberia needed to rebuild its financial sector from the ground up. The sector was narrow and underdeveloped, characterized by few financial instruments, a low level of financial intermediation, and limited trust among the public. A financial inclusion baseline survey conducted in 2013 by the Central Bank of Liberia (CBL) with support from the Alliance for Financial Inclusion found that only 17.6 percent of adults had an account with commercial banks. Barriers to financial inclusion included the small number of access points (3.7 commercial bank branches and 1.8 ATMs per 100,000 adults; IMF FAS 2014), inability to meet requirements for opening a bank account, and only a nascent payment infrastructure. Despite the prospects for agent banking to promote financial inclusion, there was no legislation or regulatory framework that permitted a system of agent banking to address the need.

Mobile money services were legally endorsed by the CBL in 2011; however, uptake was limited as there was inadequate interoperability between the mobile money accounts of different mobile money providers and between bank/microfinance institution accounts and mobile money accounts. In addition, low levels of consumer protection and financial capability and poor governance and risk management by non-deposit-taking microfinance institutions, credit unions, and village savings and loan associations also posed barriers to financial inclusion.

The CBL, with FIRST’s support, has issued regulations on agent banking, e-payment, nonbank financial institutions, deposit-taking microfinance institutions, and rural community financial institutions, as well as amendments to the consumer protection regulations. FIRST also supported the CBL in developing and launching the National Financial Inclusion Strategy, strengthening the payments oversight framework, and strengthening institutional capacity to operationalize the Financial Sector Development Implementation Plan, the development of which was supported by FIRST in November 2016. Long-term engagement over three years enabled FIRST to flexibly adapt the TA delivered and to account for the uncertainties in the fragile, conflict-ridden, and violent environment.

Results Achieved

The adoption of agent banking and e-payment regulations has quickly generated results in financial inclusion: commercial banks had 12 agent outlets as of December 2019; and the number of active mobile money accounts reached nearly 400,000, with over 10 million transactions performed during 2019 (IMF FAS). According to Findex, the share of adults with an account has increased from 19 percent in 2011 to 36 percent in 2017, or 550,460 people.
Albania: Developing the Private Pension Sector

Context

Albania is a relatively young country but is aging rapidly. The average age has risen from 30.6 to 35.3 years; the proportion of the population over age 65 has risen from 8 percent to 11 percent and is forecasted to rise to 25 percent by 2050. Pension income in Albania comes almost exclusively from the state pension—a “Pay as You Go” system, where current contributions pay for current pensions. This system, representing the lowest level of retirement income sources, is financially unsustainable. The voluntary pension system was created in 2009 but had under 10,000 members by 2014, with US$5 million in assets, representing only 0.05 percent of GDP. This low coverage was the biggest risk for the sustainability of the pension system.

The 2013 Financial Sector Assessment Program (FSAP) Technical Note recommendations set out a six-year reform (2014–2020) toward building progressively greater coverage of private pensions. The Albanian Financial Supervisory Authority (FSA), the supervisor of private pensions, had limited independence, a limited number of experienced supervisors, and lightly defined supervisory guidance. FIRST implemented TA projects during 2014–2016 focused on building capacity for the FSA supervisors in regulating, supervising, and developing the nascent private pensions sector. It included (i) an outcomes-based diagnostic report and road map; (ii) a risk-based supervision framework for private pensions; (iii) draft amendments to regulations, guidance and legislation for the FSA to support risk-based supervision of private pension plans; (iv) training, capacity building, and consultations; (v) an analysis of employment data to support the coverage expansion strategy; and (vi) outreach related to coverage expansion.

The Outcomes-Based Diagnostic Report and Road Map

The outcomes-based assessment concluded that the design of the voluntary pension system was essentially sound and that the biggest weakness and threat was its small scale and its low participation rate, arising in part from a lack of trust in the system, compounded by lack of investment diversification and limited supervision.
Legislation and Risk-Based Supervision

The project team designed supervisory solutions that were tailored to the Albanian context while ensuring that they had a rigorous and risk-based orientation. This project supported the FSA in amending the Law on Voluntary Pension Funds. The proposed amendments fulfill portions of the framework of the National Plan for European Integration 2015–2020, including empowering the FSA to enforce good governance and risk management for pension fund management companies; establishing the FSA’s role over the pension funds’ investment strategies; resolving the conflict of interest of pension management companies managing pension funds while owning retail investment funds; and premature exit of members.

After conducting a ground-breaking survey on employer attitude and outreach, the project assisted the FSA in detailing a coverage expansion strategy and identifying policy options that addressed (i) financial incentives (for example, tax incentives) and (ii) financial education for private sector buy-in.

☑️ Results Achieved

The TA project has contributed to the enactment of new legislation and regulations that are critical fundamentals if the private pension sector is to develop. The Risk-Based Supervision Manual of Voluntary Pension Funds was approved by the Board of the FSA in 2016, providing the staff with strong tools for enhancing capacity to supervise the sector.

Since the project’s completion in 2016, the private pension sector has made significant progress in member acquisition and asset accumulation. Specifically, as of December 2019, the number of members reached 28,273, compared with 10,000 at the time the project started; 54 percent of new members are women (FSA website).

In the feedback on the TA received from FIRST, Ms. Patris Poshnjari, of the Albania FSA, stated that...

“The technical assistance with the final output, namely the risk-based supervision manual for pensions, is of an utmost importance for the Authority, as it will change the way pension funds are supervised. In addition, the on the job training during the implementation of the draft manual through the pilot inspection was another useful part of the technical assistance. Moreover, in relation to the second component, we appreciated very much the assistance on the coverage expansion strategy, as well as the awareness events.”
Increasing Access to Finance for MSMEs

Small- and medium-sized enterprises (SMEs) account for a significant share of employment and GDP around the world, especially when taking into account the informal sector; however, lack of access to financing presents a major obstacle for growth and development for this segment. According to a 2010 study conducted by the International Finance Corporation (IFC) and McKinsey, close to 45 to 55 percent of formal SMEs (11–17 million) in emerging markets do not have access to formal institutional loans or overdrafts despite their need for one. The finance gap is far bigger when considering micro and informal enterprises: 65–72 percent of all MSMEs (240–315 million) in emerging markets lack access to credit. This level of financing gap is explained by market failures and imperfections, including information asymmetries, inadequacy of collateral accepted by lenders, high transaction costs for small loans, and perceptions of high risk in lending to MSMEs.

FIRST responds to these MSME finance constraints by supporting financial sector regulators in creating an enabling legal and regulatory framework and in strengthening financial infrastructure. Table 5 presents examples of countries that received FIRST support to remove barriers to MSME financing, using both catalytic and programmatic approaches. In addition to project-level TA, FIRST also supported the development and dissemination of Knowledge Products (see chapter 3) to promote best practices in MSME lending (box 1).

### Table 5: Key Constraints on MSME Finance and FIRST’s Response

<table>
<thead>
<tr>
<th>Key constraints on MSME finance</th>
<th>FIRST’s response</th>
<th>Countries supported (2013–2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information asymmetry</td>
<td>Credit reporting system</td>
<td>Sudan, Djibouti, Georgia, Republic of Yemen</td>
</tr>
<tr>
<td></td>
<td>Accounting and auditing standards</td>
<td>Kosovo, Djibouti, South Sudan</td>
</tr>
<tr>
<td>MSMEs’ lack of preferred collateral</td>
<td>Secured transactions framework, including movable assets registries</td>
<td>Cameroon, Georgia, Moldova, Seychelles, Zambia, Sudan, Comoros, Swaziland</td>
</tr>
<tr>
<td>Lenders’ lack of financing sources and products</td>
<td>Public credit guarantee schemes</td>
<td>Djibouti, Ghana, Guatemala, Lesotho, Egypt (Arab Rep.)</td>
</tr>
<tr>
<td></td>
<td>Warehouse receipt financing</td>
<td>Senegal, Malawi, Niger</td>
</tr>
<tr>
<td></td>
<td>MSME lending products or process design or improvement</td>
<td>India, Guatemala</td>
</tr>
</tbody>
</table>
Box 1: Principles for Public Credit Guarantee Schemes for SMEs

In 2015, the World Bank Group and FIRST convened a global task force to develop a set of principles for the design, implementation, and evaluation of public credit guarantee schemes. The flagship publication, *Principles for Public Credit Guarantees for SMEs*, was endorsed by all regional associations for public guarantee schemes and has become widely accepted as a global benchmark.

These principles have now been mainstreamed into World Bank Group country-level operations pertaining to partial credit guarantees. Some examples:

**Lending projects:**
- Sri Lanka: Agriculture Sector Modernization Project, 2016
- Mozambique: Agriculture and Natural Resources Management, 2016
- Malawi: Agricultural Commercialization, 2017
- Organization of Eastern Caribbean States (Antigua and Barbuda, Grenada, Dominica St. Lucia, St. Vincent and the Grenadines): Regional Partial Guarantee Corporation, 2018
- Republic of Cabo Verde: Access to Finance for MSMEs, 2018
- Angola: Commercial Agriculture Development Project, 2018

**TA projects:**
- Egypt: Credit Guarantees Strengthening, 2018
- Morocco: MSME Development Facility, 2018

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India: Supporting the Small Industries Development Bank of India to Expand Access to Finance for MSMEs

**Context**

The government of India sees a strong and vibrant MSME sector as crucial to the achievement of sustained high growth in the country for the next couple of decades, both to stimulate domestic demand and consumption and as a vehicle for inclusive growth. In 2012, MSMEs accounted for 45 percent of India’s industrial output and 40 percent of its exports. The growth of MSMEs, however, was severely constrained by lack of access to finance. An estimated 87 percent of MSMEs did not have access to finance and were self-financed. Financial institutions limited their exposure to the sector due to a perceived high level of risk, information asymmetries, high transaction costs, and the lack of collateral. Bank loans to MSMEs represented only 15 percent of all bank loans.

In 2015, the Small Industries Development Bank of India (SIDBI), India’s development bank for the MSME sector and for microfinance, requested FIRST’s assistance in addressing the financing gaps for the three underserved MSME segments—start-ups, services, and manufacturing. SIDBI is the apex institution in India, established by the government to implement its national agenda of addressing MSME finance. FIRST responded with a US$1.7 million program to be implemented from 2015 to 2020. This program complemented World Bank investment project financing, a credit line worth US$266 million extended to SIDBI for on-lending to start-up companies and companies in the services and the manufacturing sectors, through participating financial institutions.
FIRST TA projects have supported SIDBI in designing financial products for each targeted group—start-up firms, services firms, and manufacturing firms:

- Development of the **Start-up Mitra**, an automated loan-origination platform exclusively for start-ups. The portal had registered more than 13,925 start-ups, 121 incubators, and 92 investors as of October 2018.

- Improvement of SIDBI’s **working capital facility**, including quicker processing and multiple collateral options, through a single window for customers.

- Pilot of a **co-lending scheme with small finance banks** to provide term loans to underserved micro and small enterprises in areas where SIDBI previously could not reach, as well as a trade finance scheme for retailers and wholesalers.

- Development of the **Udyami Mitra**, a digital MSME lending aggregator and matchmaking platform launched by SIDBI in 2017. By June 2019, the platform counted 151 eligible lenders, including commercial banks, small finance banks, nonbanking financial companies and Fintech companies, as well as more than 250,000 MSMEs, together with certified credit counselors, credit bureaus, and MSME assistance agencies. It is further informing SIDBI’s role in Fintech.

- A **contactless lending platform** built with the learning from the Udyami Mitra portal was launched in 2018. By June 2019, the platform had sanctioned 45,265 new loans, worth Rs 127 billion (US$1.9 billion), making it the largest online lender in India. The platform enabled more efficient matching between lenders and MSME borrowers, and significantly reduced turnaround time and credit cost, leveraging Fintech solutions and data analytics tools. An in-principle approval is issued to approved borrowers within 59 minutes of the online loan application, and MSMEs can choose the most cost-effective loan from a list of financial institutions that provide in-principle approvals. The loans are sanctioned or disbursed within five to seven working days after the in-principle approval.

- Other **innovative lending tools** launched by SIDBI with program support included partnerships with original equipment manufacturers to finance MSMEs’ equipment purchases; the SIDBI-Loan for Purchase of Equipment for Enterprise Development program to provide easier access to credit for the purpose of purchasing machinery; and SMILE (SIDBI Make in India Soft Loan Fund for Micro Small and Medium Enterprises) Equipment Finance, an online platform for MSME equipment financing.

**Results Achieved**

FIRST TA projects have assisted SIDBI in launching innovative lending methods that reduced turnaround time, reached more underserved MSMEs, and crowded in more private sector financing. New financial products have already reached over 1,000 MSMEs, of which 19 percent are women-owned and 19 percent are firms in India’s low-income states (table 6). The program expects to see thousands of more MSMEs with access to finance from SIDBI and its participating financial institutions in the coming years.

<table>
<thead>
<tr>
<th>Impact</th>
<th>Early stage/start-up firms</th>
<th>Services MSMEs</th>
<th>Manufacturing MSMEs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans (number)</td>
<td>90</td>
<td>186</td>
<td>920</td>
<td>1,196</td>
</tr>
<tr>
<td>MSME beneficiaries (number)</td>
<td>82</td>
<td>175</td>
<td>804</td>
<td>1,061</td>
</tr>
<tr>
<td>Women-owned MSMEs (percent)</td>
<td>16</td>
<td>22</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>MSME beneficiaries in low-income states (percent)</td>
<td>13</td>
<td>21</td>
<td>19</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: SIDBI, WB MSME Innovation and Inclusion Project ICR.
Egypt: Strengthening the Credit Guarantee Company to Ease Access to Finance for MSMEs

**Context**

MSMEs today are positioned as the backbone of the modern enterprise sector in Egypt: at the end of 2015, some 2.4 million MSMEs employed 6.3 million formal workers. MSMEs represent 90 percent of Egyptian enterprises, employ more than 80 percent of the private sector labor force, and contribute 25 percent toward GDP. Accordingly, MSMEs and women’s economic empowerment are central to the government’s strategy to promote economic opportunity and growth. Among other barriers to growth, MSMEs face constrained access to finance. According to the 2017 Investment Climate Survey, only 6 percent of small firms have access to finance, which compares poorly with the regional average of 28 percent in the Middle East and North Africa. Women’s access to finance is constrained by the institutional bias of service providers against women.

Credit guarantee programs are currently offered to banks through the Credit Guarantee Corporation (CGC) of Egypt, which is publicly controlled. FIRST’s TA project began with a diagnostic of CGC operations using the World Bank/FIRST Principles for Public Credit Guarantees Schemes for SMEs. It concluded that CGC would need to reform its product design, risk management, and governance if it were to increase outreach and financial additionality for lending to MSMEs. As a result, CGC adopted a new five-year strategic plan and began reforms on its operational management and product design to improve the efficiency and effectiveness of its operations in line with international best practices.

In the context of promoting women and youth entrepreneurship and MSME development in general, the
government in late 2017 requested FIRST TA for the CGC to further enhance its capacity to extend guaranteed loans to these underserved groups. Specific recommendations centered on operationalizing the three-part strategic vision, focusing on governance enhancement, product development, application of advanced systems, and implementation of a streamlined structure including milestones and key performance indicators (KPIs), for the first year of implementation as well as a set of five-year overall objectives for implementing the strategic plan.

FIRST provided advisory support to review, validate, and recommend potentially beneficial adjustments to CGC’s three newly developed scorecards to improve their utility and performance, and to ensure smooth execution and effective implementation. The scorecards were a baseline one, one for start-ups, and one for SMEs that lack financial statements.

FIRST’s TA project focused on governance reforms aimed at increasing the efficiency of CGC operations, providing an adequate level of internal control and operational risk management, improving data collection, and producing specifications to facilitate the implementation of the processes into the new management information system.

The overarching objective was to increase CGC outreach in line with Bank of Egypt requirements for banks to devote a target 20 percent of their portfolio to MSME lending. To do so, CGC launched in 2019 a new portfolio guarantee product. The Portfolio Guarantee Model objectives center on Principle 10 (delivery approach tradeoff between outreach, additionality, and financial sustainability), Principle 11 (guarantees that are partial and designed to ensure compliance with relevant prudential requirements), and Principle 12 (a transparent and consistent risk-based pricing policy). The new product has helped to shift the banks’ focus toward longer-term working capital loans over the current majority share of overdraft lines, which would benefit MSMEs that need longer-term working capital. The project team also provided recommendations for developing targeted portfolio products for specific sectors or recipients (for example, women- and youth-led businesses).

The project also supported CGC efforts to establish the Euro-Mediterranean Guarantee Network. The network seeks to alleviate the region’s structural constraints in access to finance by promoting the exchange of best practices in governance, design, functioning and services offered among guarantee schemes active in the countries of the Euro-Mediterranean Partnership.

**Results Achieved**

CGC has been able to expand its guarantee portfolio to reach LE 30 billion in 2019, more than double its 2018 portfolio value of EGP 14.067 billion, and serve more than 2.2 million beneficiaries (including 39,000 SMEs). In terms of contribution to total private credit, CGC’s outstanding guaranteed portfolio accounted for 30 percent of total MSME credit as of June 2019, as compared with just 5.6 percent in 2016.
Malawi: Warehouse Receipt Financing

Context

In 2012, the banking sector in Malawi extended just 11 percent of its lending portfolio to agriculture even though the sector contributes about 30 percent to GDP. The focus of the agricultural lending was on estates or large commercial farmers of products such as tea, sugar, and tobacco, with less than 2 percent going to smallholder food crop producers. As a consequence, about 60 percent of the smallholder farmers are excluded from financial services altogether, only 30 percent can access informal financial services, and only 10 percent can access formal financial services.

Since 2009, the Agricultural Commodity Exchange for Africa has been piloting a commodity exchange and, as recently as 2012, the Auction Holding Commodity Exchange (AHCX) has also started piloting a commodity exchange. In the absence of a regulated warehouse receipt service, these commodity exchanges have been providing warehousing—albeit without proper warehouse receipts, so that banks have been reluctant to join these exchanges. Nevertheless, some promising results have given the government the confidence to support the scaling up of the pilots, as indicated in the Agriculture Sector Wide Approach adopted by the government of Malawi for the period 2011–2015. With support from the World Bank’s Global Agriculture and Food Security Program, a draft warehouse receipts bill was submitted to Parliament for approval. The government sought FIRST’s support in developing related regulations, which would be the precondition for the industry-level activities to be supported by other donors.

Results Achieved

With FIRST’s assistance, the Warehouse Receipt Act, approved by Parliament in late 2017, and its regulations, issued soon after, have defined the legal status of warehouse receipts and clarified the rights and obligations of warehouse operators and holders of warehouse receipts, in line with international best practices. A cadre of ministry officials who support the Act and regulators implementing its authority were trained. FIRST’s project has joined other projects of the WBG and other donors’ activities to unlock financing for stakeholders in the agriculture value chain in Malawi. Farmers, traders, processors, and exporters can use receipts issued for commodities stored at certified warehouses as collateral to secure loans from banks and other financial institutions.

According to the AHCX website, five commercial banks and one government-backed fund have provided financing through this exchange, with about 70 percent of the underlying value of the commodity advanced as a loan. The volume of collateral financing advanced through the other exchange, the Agricultural Commodity Exchange for Africa, was more than US$4 million in 2018 (International Food Policy Research Institute, Policy Note 33, March 2019).

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4 National Statistical Office and FinMark Trust, 2012
Strengthening Financial Stability

Strong regulation and supervision play an essential part in ensuring a safe and sound financial system, however, the process is complex and costly in many developing countries, where human resources are scarce and other supporting institutions are weak. FIRST was established with the initial mandate of supporting its clients in preserving financial stability, and this mandate remains at the core of FIRST’s work today. Since 2013, FIRST has helped 18 countries improve their institutional capacity for both macroprudential and microprudential framework management (table 7).

Table 7: Capacity Improvements Supported by FIRST

<table>
<thead>
<tr>
<th>Country</th>
<th>Examples of capacity improvements supported by FIRST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>Islamic banking supervision</td>
</tr>
<tr>
<td>Colombia</td>
<td>Deposit insurance system</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>Systemic risk monitoring</td>
</tr>
<tr>
<td>Guyana</td>
<td>Deposit insurance system, emergency liquidity assistance, bank resolution, bank supervision</td>
</tr>
<tr>
<td>Haiti</td>
<td>Bank supervision</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>Risk-based supervision of the banking sector</td>
</tr>
<tr>
<td>Mexico</td>
<td>Bank supervision</td>
</tr>
<tr>
<td>Morocco</td>
<td>Crisis simulation</td>
</tr>
<tr>
<td>Mozambique</td>
<td>Crisis simulation</td>
</tr>
<tr>
<td>Nepal</td>
<td>Deposit insurance system, bank supervision</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>Deposit insurance system</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Deposit insurance system</td>
</tr>
<tr>
<td>Rwanda</td>
<td>Risk-based supervision; deposit insurance system; emergency liquidity assistance facility</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>Banking supervision</td>
</tr>
<tr>
<td>Sudan</td>
<td>Financial stability analysis, reporting, crisis management and bank resolution, risk-based supervision</td>
</tr>
<tr>
<td>Tunisia</td>
<td>Crisis simulation</td>
</tr>
<tr>
<td>Ukraine</td>
<td>Deposit insurance system</td>
</tr>
<tr>
<td>Uganda</td>
<td>Systemic risk assessment; deposit insurance</td>
</tr>
</tbody>
</table>
Guyana: Strengthening the Financial Safety Net for a More Resilient Financial Sector and a Prosperous Guyana

Context

In 2016, Guyana underwent an FSAP performed by a joint team from the IMF and the World Bank. The FSAP highlighted several weaknesses in the country’s financial safety net (FSN). These included (i) the absence of a deposit insurance scheme (DIS), (ii) limited powers and tools to facilitate swift and cost-effective bank resolution, (iii) the need for more robust banking supervision with early warning systems and prompt corrective action, and (iv) the lack of an appropriate framework for providing emergency liquidity assistance to solvent but illiquid banks. The FSAP provided several recommendations for strengthening the Guyanese FSN, as weak FSNs lead to deeper and longer financial crises, whereas robust FSNs support financial stability.

In January 2018, with the help of the World Bank and funding from FIRST, the Guyanese authorities led by the Bank of Guyana (BOG) began a journey to modernize and strengthen the FSN. The recommendations of the FSAP were used as a road map to making the necessary legal, regulatory, and policy changes.

FIRST’s project was focused on supporting the BOG in strengthening its FSN and working toward greater financial stability through improvements in four elements: (i) banking supervision, (ii) the bank resolution framework, (iii) emergency liquidity assistance, and (iv) the establishment of a DIS.

- Strengthening the bank supervisory framework. This includes the ongoing implementations of risk-based supervision, (ii) prompt corrective-action policies, (iii) early warning systems and stress testing, and (iv) a methodology for reviewing asset quality and loan loss-provision guidelines. The TA project included support for the revision of regulations, policies, and guidelines and training and capacity building.

- Modernizing the bank resolution framework. The Financial Institutions (FIs) Act, Amendment Act No. 12 of 2018\(^6\) modernized the bank resolution framework so that it is now consistent with Key Attributes of Effective Resolution Regimes for Financial Institutions, the international standard.\(^7\) The new bank resolution framework incorporated the FSAP recommendations for changes to the resolution process, including broadening the resolution toolkit to include the ability to undertake purchase-and-assumption transactions and to set up a bridge institution, with power to abrogate the rights of shareholders vested in the BOG. The BOG was also advised to minimize the cost of resolution and avoid the destruction of value by adopting in each case a resolution method that is least costly to the BOG, the financial system, or the DIS. The World Bank conducted several training sessions for BOG staff on bank resolution.

- Establishing a deposit insurance scheme. Deposit insurance, an important element of an FSN, was missing in Guyana, and implementing a DIS was a key recommendation of the FSAP. The BOG had been considering the establishment of a DIS even prior to the 2016 FSAP and had prepared a draft law. With the support of the World Bank and on the basis of the International Association of Deposit Insurers’ Core Principles for Effective Deposit Insurance Systems,
the international standard for deposit insurers, a DIS was designed and tailored to the Guyanese context. In July 2018, the Deposit Insurance Act was passed, establishing protection for depositors of up to G$2 million per depositor per institution.\(^8\) The Act came into force in February 2019. The DIS comprises the Deposit Insurance Corporation and the Deposit Insurance Fund. All deposit-taking financial institutions that are licensed under the FIs Act are mandatorily members of the DIS. The DIS became fully operational in March 2019 and collected initial contributions from member institutions on July 3, 2019. The DIS has a paybox-plus mandate;\(^9\) therefore, it not only can make payouts on insured deposits of a failed bank but also can contribute to the resolution of a failing bank. Guyana joins a small number of countries in the Caribbean Community (CARICOM) with a DIS, including Jamaica, the Bahamas, Trinidad and Tobago, and Barbados.

- **Emergency liquidity assistance.** The modernization of the emergency liquidity assistance framework was approved by the passage of Bank of Guyana Amendment Act No. 14 of 2018\(^10\)—in particular, section 41 of the act, gazetted on September 7, 2018. The framework allows the BOG to grant temporary liquidity assistance to licensed depository financial institutions in exceptional circumstances, for a limited period, and on terms and conditions determined by the BOG.

### Results Achieved

In less than two years, Guyana has expanded and modernized its FSN in line with international standards: four significant pieces of legislation were passed; several implementing regulations, policies, and guidelines were approved; a DIS was established and made operational; staff members were trained; and capacity was built at the BOG in bank resolution and crisis management.

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**Nepal: Strengthening Banking Supervision (implemented by the IMF)**

#### Context

A FIRST-funded TA program aimed to foster financial stability in Nepal by strengthening banking and financial institution supervision. The project objective was to build the capacity of the supervisors and the institutional framework of Nepal Rastra Bank (NRB), supporting their move toward risk-based supervision. The program, which placed a long-term adviser with the NRB, operated from mid-July 2015 to mid-July 2018 and was extended to early March 2019.

The project began shortly after Nepal was devastated by the April 2015 earthquake and significant aftershocks, which resulted in the loss of over 8,800 lives and economic losses of US$7 billion (a third of GDP). NRB’s main headquarters was totally destroyed, resulting in supervisory staff being relocated to various commercial buildings in Kathmandu. On-site risk-based supervision examinations were stopped for approximately one calendar quarter. Although there was damage to the NRB’s operations branch building, the national payment system and the SWIFT international payment messaging system remained operational. The banking sector was...
largely unscathed, with only about 10 percent of the
ATMs inoperable and a limited number of bank branches
closed due to damage.

The social and economic situation did not improve
during 2015, as the September promulgation of a new
constitution triggered unrest among ethnic groups in
the south of the country, essentially closing the border
with India from late September 2015 to early February
2016. The closed border resulted in a fuel crisis, a general
slowdown in the economy, and a change in government.
The NRB deputy governor, who had supported reforms
to the banking supervision function, left the bank in
December 2015.

After the earthquake, the TA program focused on
gathering data from banks to inform the estimate of the
economic impact, as well as proposing limits to the scope
of forbearance granted to the banks. This program helped
to implement the modernization of the legal framework:

• Under IMF and World Bank guidance, amendments
to the Nepal Rastra Bank Act and the Bank and
Financial Institutions Act were adopted in 2016.

• The NRB increased the capital requirements for
commercial banks (fourfold) with a two-year phase-
in period.

• Mergers had been used to reduce the number of
banking and financial institutions from a high of
about 200 in 2011 and took place primarily among
the smaller deposit-taking institutions.

• Fiscal year 2017 was identified as the target date
for banking and financial institutions to be compliant
with the International Financial Reporting Standards
(IFRS), as adapted into Nepal Financial Reporting
Standards. The TA program then shifted focus to
building the long-term supervisory capacity of NRB
with a move toward risk-based supervision and
focused on hands-on capacity building in on-site
supervision.

Results Achieved

The on-site supervisors have high levels of confidence
in identifying problems in banks following the underlying
logic of risk-based supervision. All their activities are
aligned with this paradigm, starting with selection of the
data collected from banks, through the analysis performed,
to the final outcomes, which map banks’ processes to
their risk profiles. After the enactment of the Banking
and Financial Institutions Act in 2017, the NRB has been
better positioned to demand higher risk management
standards. This act and the ensuing strengthening of
financial institution supervision have reduced previous
findings of poor loan underwriting standards and
concentrations of exposures. On-site supervisors have
accurately and comprehensively developed risk profiles
for the commercial banks, after analysis.
Developing Efficient and Deep Capital Markets

FIRST supports financial sector regulators in LICs and MICs in improving the soundness, efficiency, and transparency of financial markets. A typical FIRST TA package to develop long-term bond markets, for example, includes (i) an action plan to develop the primary bond market, (ii) a design plan for the secondary market architecture, (iii) a primary dealer framework, (iv) guidelines and principles for market infrastructure, and (v) capacity building for capital market authorities that will oversee the market. FIRST also supports financial sector authorities in creating an enabling environment for pension and insurance funds and in deepening their investments into infrastructure finance.

Kenya: Mobilizing Long-Term Local Currency Funds for Infrastructure Finance—Results to Date and Lessons Learned

Infrastructure needs in Kenya are vast, and government resources available to meet these needs are insufficient. Addressing Kenya's infrastructure deficit would require sustained investment of almost US$4 billion per year in the medium term to meet the gap, which is about 6–7 percent of GDP. Responding to the government's request for TA in mobilizing domestic institutional investors into infrastructure finance, in July 2017 FIRST started a three-year programmatic TA project, working with authorities from the National Treasury, the Capital Market Authority, the Insurance Regulatory Authority, and the Retirement Benefit Authority to create an enabling environment and a demonstration capital market solution to address the challenge. Specifically, the program supports the authorities in (i) improving the efficiency and transparency of the government bond market, creating market confidence and an improved price reference that could be used for pricing infrastructure assets; (ii) establishing an enabling regulatory framework and building capacity for institutional investors to be able to participate in infrastructure financing; and (iii) creating a new capital market financing vehicle to be tested in a demonstration transaction and replicable for future transactions.

The program currently runs until December 2020; however, the progress on the capital market financing vehicle is worth highlighting:

- The program conducted a feasibility study on the legal, regulatory, and tax aspects of an infrastructure debt fund. The study concluded that it is possible to create such an instrument in Kenya with minimal tax and regulatory adjustments.

- The program reached out to various potential fund managers for the pension fund vehicle and put them in touch with the pension funds. Following up on an intensive capacity-building process and feasibility work under FIRST, 14 leading Kenyan pension funds (representing US$2 billion in assets) have signed a memorandum of understanding to form an investment vehicle for investing in infrastructure.

- The program collaborated with the joint initiative of the U.S. Agency for International Development (USAID) and the investment partnership Mobilizing Institutional Investors to Develop Africa's Infrastructure (MiDA). The initiative seeks to bring U.S. pension funds to Africa to invest alongside local pension funds. USAID-MiDA had brought a few investors from the United States to Kenya to share their experience in investing in infrastructure assets.

- The program worked on credit enhancement structures, particularly a World Bank guarantee to support the demonstration transaction which is the

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The first public-private partnership in transport going to market and a flagship project for Kenya. This road is part of the Northern Corridor—a key trade route linking Mombasa port with Burundi, the Democratic Republic of Congo, Rwanda, and Uganda—so it is a strategic asset. The purpose of the credit enhancement is to provide confidence to institutional investors to come into the deal, given that there have been no public-private partnership projects or investment in long-term infrastructure assets by institutional investors before.

- In the next steps, the program will provide more support on structuring the credit enhancement mechanism, after a preferred bidder is selected for the demonstration transaction. FIRST will continue supporting the formation of a vehicle for institutional investors in a way that meets regulatory requirements, as well as investment parameters.

The successes under FIRST have leveraged additional funding from the World Bank-IFC Joint Capital Markets initiative and from USAID to support the Kenya Pension Fund Consortium in structuring itself and making its first transactions.

- The program is part of an integrated approach to infrastructure finance: this includes the supply of bankable projects, the education of investors and regulators, and the implementation of enabling regulations and de-risking instruments to take projects to market.

- The availability of a pipeline of transactions is a key driver for investors. Demonstration projects are critical for testing reforms, discussing the risk appetite of investors, and helping inform the design of the capital market vehicle. They provide confidence to investors that investable projects exist.

- Strong alignment with the client: The National Treasury and the pension and capital market regulators have amplified the message delivered by the Bank on why it makes sense for pension funds to invest in infrastructure. They are also ready to innovate based on global examples provided through other successful World Bank programs (for example, in Colombia).
Vietnam: Bond Market Development

The government and corporate bond markets in Vietnam are still at a nascent stage of development. The total outstanding government bond volumes are still among the smallest in the region. On average, East Asian countries have outstanding government bond volumes of about 40 percent of GDP, whereas the volume in Vietnam was only 14 percent of GDP in 2012. The development of the corporate bond market has lagged despite the rapid growth of the private sector. The listed corporate bond market outstanding accounts for approximately 1.4 percent of GDP, whereas in Thailand and Malaysia the figures have reached 12 percent and 40 percent, respectively.

Vietnam's bond market is characterized by a lack of liquidity in government bond markets due largely to fragmented issuances, too many individual bonds outstanding with relatively small size per issue. Vietnam sought assistance to develop a primary dealer system to increase the likelihood of success in bond issuances and to improve liquidity in the secondary market.

The vast majority of corporate bonds are issued in the private placement market, with few disclosures and no price transparency. The regulatory framework is segmented: different agencies are responsible for regulating public and private issuances in different markets and issuances by different types of institutions (such as state-owned enterprises [SOEs] and financial institutions), thus creating duplication and inefficiencies and hindering many corporates from raising funds from the bond market.

The FIRST TA project supported the Ministry of Finance of Vietnam in preparing a road map for bond market development through 2020, outlining the major challenges and gaps that exist and providing recommendations to address these deficiencies for both the government and the corporate bond markets.

☑ Results Achieved

Following FIRST's TA provision, the Ministry issued new circulars (Circular 111/2015 and Circular 22/2017) on government bond issuance, incorporating recommendations from the project, to include changes in the issuance mechanism and auction processes, competitive and noncompetitive bidding methods, and new policies to balance rights and obligations for primary dealers and auction members. The project's technical advice and capacity building has helped the Ministry to improve the issuance mechanism and planning (with an issuance calendar and benchmark
bonds), and to implement new products, including zero-coupon bonds, long and short coupons, buybacks, and reopenings.

The government bond primary market has made significant progress: the total bond market outstanding increased on average 21 percent year on year, reaching 36.9 percent of GDP in 2016 from 14 percent in 2011. Government bond maturities at issuance are up to 30 years. Improved benchmark bonds for fixed-rate instruments are now in the 5-, 10-, and 15-year maturity ranges, with larger sizes and greater frequency of issuance. The average tenor of new issuance within a year improved from 7 years in 2015 to 8.7 years in 2016. Average time to maturity reached 5.9 years in 2016 compared with 4.4 years in 2015.

With the positive impact on the primary market, the functioning of the secondary market—its liquidity, the volume and value of trades, and the diversity of the investor base—has also improved. The average trading amount grew from D 1.7 trillion per session in 2013 to D 6.3 trillion per session in 2016. Banks are the main players, with 85 percent of the trading volume.

In June 2017, the government approved the proposal by the Ministry to revise Decree 90, on private placement. The revision aims to improve market transparency by introducing requirements for information disclosures and reporting. At the end of 2019, the value of corporate bonds was 11.3 percent of GDP, compared with 1.4 percent when the project started.

The investor base has gradually become more diversified with the increase in nonbank investors in government bond holdings. The increase was particularly driven by Vietnam’s public social security fund, which had D 654 trillion (almost 8 percent of GDP) converted from loans to the government to their investment in government bonds in 2016.

An investor relations communication strategy helped secure more funding from the Asian Development Bank to build the investor relations website, an effort that is ongoing. The project team built on the relationship and credentials with the Ministry, leveraged the project’s knowledge and insights about the bond market to provide recommendations, and designed follow-up programs to help the Ministry and other agencies involved to implement the Bond Market Development Road Map 2017–2020. These programs, supported by the Korean Trust Fund and SECO (the Swiss State Secretariat for Economic Affairs) with a total of more than US$2.5 million, will focus on developing the government bond secondary market (that is, repo and securities lending), enhancing benchmark building for both the secondary and the primary markets, improving liquidity and risk management, improving the primary dealer system, and diversifying the investor base.

Catalyzing Resources through Financial Sector Strategies

During Phase III, FIRST has been assisting 15 countries in developing financial sector development policies or strategies under its flagship products, Financial Sector Development Strategies (FSDSs), the Financial Sector Development Implementation Plans (FSDIPs), and National Financial Inclusion Strategies (NFISs). Examples are described in table 8. The estimated funding catalyzed by FIRST’s supported strategies and catalytic projects so far is US$1.5 billion (based on only data sources from WBG operations).

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12 The FSDS helps countries implement the recommendations of Financial Sector Assessment Programs (FSAPs) by prioritizing the recommendations and developing an implementation plan.
13 FSDIPs assist countries that have not yet undergone FSAPs.
14 For more details on NFISs, please refer to the FIRST Lessons Learned Note, https://www.firstinitiative.org/reports/developing-national-financial-inclusion-strategy-paraguay-experience.
Table 8: Examples of Impacts Contributed by Financial Sector Development Strategies

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>In 2015 FIRST supported the government in developing the 2018–2022 FSDS toward a resilient, inclusive, and diverse financial sector. The FSDS includes a pillar on financial inclusion that emphasizes the need to strengthen payment systems and promote retail payments; broaden the collateral framework and credit infrastructure; and improve the reach, governance, and monitoring of access to finance initiatives. The FSDS has catalyzed a number of WBG support efforts through development policy operations, reimbursable advisory services, and TA projects, as well as FIRST’s follow-up TA project to modernize the national payment systems in particular. During 2018–2019, under a FIRST follow-up project, the Angolan Central Bank reorganized the Payment Systems Department; revised the Payment System Law and the Financial Institution Law; and adopted the Instant and Fast Payments Strategy and Approach. These efforts are in line with the government’s objective of increasing the share of adults with a transaction account to 70 percent by 2021.</td>
</tr>
<tr>
<td>Guinea</td>
<td>During 2016–2018, with FIRST’s support, Guinea developed its NFIS and enacted a new Microfinance Law (in July 2017). The law introduces new regulations governing the activity and control of microfinance institutions as well as electronic money institutions and the financial services of the Guinean postal service. The law also introduced resolution power for the financial sector regulator, and more stringent prudential and nonprudential measures such as consumer protection, thus helping to strengthen the soundness and stability of the microfinance sector. Importantly, the NFIS has catalyzed donors’ support. For example, the WBG’s follow-up support includes a US$30 million lending operation to modernize the financial infrastructure (retail payments, credit reporting, and a collateral registry), digitalize microfinance activities, and increase access to finance and markets for MSMEs.</td>
</tr>
<tr>
<td>Liberia</td>
<td>With FIRST’s support, the CBL launched the FSDIP in November 2016. It also created a new Financial Sector Development Unit with the primary function of implementing the FSDIP. The FSDIP makes financial inclusion a top priority to be achieved through new products (savings, credit, insurance, and payments) that leverage digital technologies. Following the FSDIP, FIRST provided a three-year US$1.1 million programmatic TA to modernize the legal framework in agent banking, digital credit and mobile money, the payment system, microfinance, and consumer protection, as well as to build capacity to implement the FSDIP. The programmatic TA, implemented during 2017–2019, has helped the authorities to put in place the legal foundation for financial inclusion with the adoption of important regulations, namely on agent banking, e-payment, nonbank financial institutions, deposit-taking microfinance institutions, and rural community financial institutions, as well as amendments to the consumer protection regulations. According to the IMF’s Financial Access Survey, the number of active mobile money accounts had reached 340,000 as of September 2019.</td>
</tr>
</tbody>
</table>
| Paraguay | In 2014, FIRST supported the government of Paraguay, various ministries and agencies, and the Central Bank of Paraguay in the establishment of the National Committee for Financial Inclusion by providing technical input for the drafting of a National Decree, followed by the formulation of the technical analyses that formed the basis for the development of the NFIS. The government officially launched the NFIS at a public event on December 2, 2014. The NFIS has effectively created a national consensus for reforms to achieve a more inclusive financial sector, economic growth, and poverty reduction. According to the 2017 Findex, the share of adults with an account reached 49 percent, doubling the 2011 share; in particular, the share of such adults in the poorest 40 percent of the population increased to 38 percent from a very low base of 6 percent in 2011. FIRST has played an important role in Paraguay’s effort to first have approved a national strategy on financial inclusion. We were able to put together with the support of the World Bank and have the national strategy approved in less than 12 months. The staff of the World Bank was up to the challenge in having this momentum in implementing this national strategy with the speed and the intensity that we wanted.  
—Santiago Peña, Minister of Finance, Paraguay |
Expanding Financial Sector Knowledge Sharing and Know-How

FIRST’s global footprint and holistic approach to TA provide a useful window into common challenges and impediments faced by LICs and MICs in need of financial sector reform. FIRST has used this window to try to distill and generate common advice and guidance for countries that may not be direct beneficiaries of its TA engagements.

With a track record of more than 16 years, FIRST’s TA provision helps countries to pinpoint approaches and strategies to overcome common policy challenges, so that they can ensure that their legal, regulatory, and capacity-building reforms in the financial sector take hold and are sustainable. In addition, FIRST shares these approaches and strategies with broader audiences beyond direct TA recipients through its flagship knowledge initiatives on best practice guidance, emerging and forward-looking topics, and lessons learned.

FIRST knowledge initiatives, much like FIRST TA efforts, are grounded in the design and implementation of reforms that support an enabling environment across three interconnected thematic pillars: strengthening financial stability, expanding financial inclusion, and deepening financial markets. Knowledge initiatives generalize and spread good practices and often target novel and emerging challenges in the financial sector.

FIRST’s knowledge agenda to close out Phase III was designed with an eye toward the emerging financial sector landscape and to lay the groundwork for new priorities and challenges. Looking onward from the Phase III agenda, key priorities include (i) financial sector stability as a prerequisite to economic growth and poverty reduction, (ii) financial inclusion, (iii) maximizing finance for development, (iv) finance for jobs creation (SME finance, women’s entrepreneurship, and countries affected by fragility, conflict, or violence), (v) Fintech and cybersecurity, and (vi) green finance. All are encompassed in the knowledge agenda under
development and implementation. As well, risks from money laundering and terrorism financing have led to de-risking by international financial institutions that constrains the growth and agility the financial sector in LICs and MICs. Each area poses opportunities and challenges for policy makers, regulators, and supervisors, and often legal frameworks are not responsive to the breakthroughs needed.


FIRST has supported two flagship knowledge initiatives that are intended to serve as best practices in the global public goods area. They were developed through extensive consultation and collaboration with key stakeholders.

Principles for Public Credit Guarantee Schemes for SMEs and Toolkit for Impact Evaluation of Public Credit Guarantee Schemes

Financial inclusion, particularly for SMEs, is widely recognized as a key driver of economic growth and job creation in all economies. In emerging and developing economies, the largest proportion of jobs is often created in the SME sector. However, SME credit markets are notoriously characterized by market failures and imperfections, including information asymmetries. The constraints on credit to SMEs are driven by inadequacy or lack of recognized collateral, high transaction costs for small-scale lending, and perceptions of high risk, all of which lead to suboptimal allocation of credit. In emerging markets, most formal SMEs (between 55 and 68 percent) are unserved or underserved by formal credit institutions.

Public credit guarantee schemes (CGSs) are a common form of government intervention to unlock finance for SMEs. More than half of all countries have a CGS for SMEs and the number is growing; however, their effectiveness in increasing financing for SMEs has been uneven. A credit guarantee scheme provides third-party credit risk mitigation to lenders through the absorption of a portion of the lender’s losses on the loans made to SMEs in case of default, typically in return for a fee. CGSs are popular in part because they commonly combine a subsidy element with market-based arrangements for credit allocation, i.e., by operating through banks and other formal financial institutions, thereby leaving less room for distortions in credit markets than through more direct forms of government intervention, such as state-owned banks and direct lending programs.

The Principles are a set of best practices for countries to establish, assess, and reform their CGSs to optimize their financial and economic additionality, outreach, and financial sustainability:

- They are intended to help countries to deploy their CGSs to overcome small and shallow credit markets for SMEs, which are usually characterized by market failures and imperfections.
- They have been developed through a collaborative process, convening a task force of CGS regional associations, and through outreach to international bodies, including the European Central Bank, the Organisation for Economic Co-operation and Development, and the Institute of International Finance.
- They have been endorsed and adopted by all regional associations of CGSs and have become the benchmark for TA in effectively and efficiently establishing and running public CGSs for SMEs around the world.
The 16 *Principles* cover four key areas that are critical to the success of CGSs:

- ✔️ Legal and regulatory framework
- ⚠️ Corporate governance and risk management
- 🔨 Operational framework
- 🔍 Monitoring and evaluation

Following the adoption of the *Principles*, FIRST and the World Bank developed the *Toolkit for Impact Evaluation of Public Credit Guarantee Schemes for SMEs* (2017). The goal was to help countries to identify a set of uniform methodologies for assessing the financial and economic impacts of public CGSs as systematically and objectively as possible, which also helps to ensure comparability across time and countries.

The Toolkit is intended to provide guidance to CGS managers, policy makers, and stakeholders on how to design and implement an effective and efficient CGS impact evaluation. It is composed of 10 modules that provide choice sets on the evaluation modalities, road maps for designing and implementing an impact evaluation, and a hierarchy of appropriate methods that fit the operational rules of CGSs. Finally, the toolkit touches upon some operational steps to implement an impact evaluation, such as collecting data, assembling the evaluation team, budgeting and timing the evaluation, and producing and disseminating the results. Since its introduction, the Toolkit has been used in member country impact evaluations of two regional associations.

**Strengthening Financial Market Infrastructure—Considerations for Organizing Central Securities Depositories in Developing Markets (2017)**

The IMF developed a working paper to support country authorities in their decision-making process on the optimal financial market infrastructure, in particular whether securities should be kept in a single central securities depository (CSD) or in multiple CSDs. CSDs are a crucial element of capital markets and the broader financing of the economy. A CSD is defined as an entity that provides securities accounts, a securities settlement system, and central safekeeping services to market participants, which can be banks and other financial institutions. They are critical for the effective implementation of monetary policy, the credibility of a government’s debt management program, the management of collateral, and the safety and efficiency of securities markets.

The working paper is designed to support authorities in their decision making about the optimal organization of CSDs in their country. The paper argues that the optimal model depends on the country’s specific circumstances and features, such as the size of its markets, the strength of private operators, and the level of market development.

In their interactions with countries worldwide, the IMF and World Bank have noted that authorities in developing markets, in particular central banks, may grapple with two questions: (i) whether to pursue a single CSD to increase market efficiencies and benefit from economies of scale and scope, and (ii) whether to partake in the governance of the CSD as owner and/or operator.

There is no evident international best practice on how to organize CSDs at a national level. The paper presents seven considerations that authorities may take into account in answering these questions and determining the best model for their country.

The seven considerations are supplemented by decision trees that are intended to guide authorities in finding the model that best fits their country.
Seven Considerations for the Organization of CSD Functions in Developing Markets

1. Efficiencies through a single CSD
2. Efficiencies through links between CSDs
3. Efficiencies through competition among CSDs
4. Promotion of public interests
5. Sufficient financial resources and human resources
6. Compliance with international standards
7. Good reputation and integrity

Based on the guidance, different countries may come to different conclusions. The outcome for country A may be to pursue a single CSD operated by the central bank, whereas the outcome for country B may be to pursue a single CSD operated by a private operator. For other countries, multiple CSDs could be the optimal solution.

The main recommendation is that authorities should strike the right balance between safety and efficiency considerations for securities markets. Although a single CSD can be the most efficient solution from a cost perspective, this option should be pursued only if there is a strong indication that the safety and soundness of the securities market are not at stake. In the same vein, although central banks may consider that owning and operating a CSD is not in their core mandate, a CSD can be owned and operated by private entities only if these entities have the capacity to address public interests. Otherwise, the central bank may be best placed to own and operate the CSD. Furthermore, three cornerstones underpin any decision about (re)organizing CSD functions: a sound legal framework, effective supervision and oversight, and cooperation and coordination among all stakeholders, both private and public.

The paper includes lessons learned during TA missions and builds upon the CPSS-IOSCO Principles for Financial Market Infrastructures of 2012, published by the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions, and the most recent results of the World Bank Global Payment Survey, with global CSD statistics.

Guidance on Emerging Issues

FIRST supports knowledge sharing on common challenges and emerging areas in the financial sector that policy makers, regulators, and supervisors will likely need to tailor their interventions and operations. These knowledge initiatives often take the form of guidance that is flexibly designed to account for the evolving context of new initiatives and the need to gather feedback. Through 2019, three projects were completed or reached advanced stages of implementation.

Central Bank Accounting and Transparency—Model Set of IFRS for Central Banks

Central bank independence enables a central bank to adjust its policy actions as it deems necessary to attain the objectives under its mandate. However, central banks do not operate in a vacuum and should, within limits, be transparent about their operations and activities, to enhance their credibility and effectiveness. This transparency is an integral component of the central bank’s accountability. Central banks are expected to explain and justify their actions and give an account of the decisions made in the execution of their responsibilities and the use of the resources that are entrusted to them. Transparency contributes to increasing a central bank’s accountability and informs the judgment stakeholders make about the central bank’s performance and broad compliance with its mandate. It is a tool within the broader governance and accountability frameworks of a central bank. A central bank’s external reporting of its financial position can be considered a fundamental component in its transparency and accountability; applying an internationally recognized reporting standard such as IFRS adds to the credibility of this transparency. One of the IFRS’s key strengths is its disclosure requirements.
To assist central banks, the IMF has been developing a model set of IFRS-compliant financial statements to be used as a guide by central banks in developing or improving their external reporting. At the time this initiative launched, approximately 50 central banks complied with the IFRS for their external financial reporting.

These model statements are being compiled from research of financial reports prepared by IFRS-compliant central banks from around the world. They are intended to assist central banks in preparing their own financial statements and in discussions with their auditors. While not meant to be interpreted as the definitive application of the IFRS for a central bank, the model statements will serve as guidance as to the types of formats and disclosures that should be considered when a central bank reports under the IFRS.

The project team, representing 13 central banks and three advisors, has developed a comprehensive guideline that provides a model for a central bank’s financial statements, including examples of note disclosures to accompany the statements as well as user guidance highlighting factors that the central bank should consider in developing its own statements.

### Sustainable Finance

The World Bank has launched an initiative to provide investors with improved country-level sustainability information. The World Bank’s Long-Term Finance unit is working to create a more sustainable global financial sector that better integrates environmental, social, and governance (ESG) criteria, particularly related to climate change. Alongside pilot projects, including one in Colombia with FIRST support to assist the Financial Superintendency of Colombia to implement an action plan to manage climate-related risks in the financial system.

The preparation of the World Bank’s Sovereign ESG Data Portal got under way during this fiscal year and launched after the close of fiscal 2019. The portal provides searchable data for institutional investors, who have a large percentage of their portfolios in sovereign bonds related to sustainability factors. Prior to this engagement, sovereign ESG data were found to be lacking in recent World Bank research conducted jointly with the Government Pension Investment Fund of Japan. The Portal incorporates indicators relevant to all 17 Sustainable Development Goals. It organizes data into themes that the World Bank considers to be crucial for financial sector representatives to consider when assessing the contribution to sustainable development of new investments or policies. The Portal team is working with counterparts across the WBG to identify improved criteria to add, especially as new data become available.

Within the same project, the team is also producing research on how sustainability affects risks and returns for investors, with a special focus on climate and environmental criteria. The World Bank’s long-term finance experts, together with the Country Credit Risk team, are assessing relationships between various indicators of sovereign risk and sustainability performance, including research on how well stranded assets risks are priced into sovereign risk.

### Strengthening Safeguards in Banking Resolution Frameworks in Emerging and Developing Economies

Effective banking resolution regimes are critical to FSNs and are a key driver of stability and resilience in the health of the banking sector. The World Bank produced guidance to address key challenges experienced by emerging and developing economies in implementing safeguards in bank resolution frameworks. The guidance draws from the Key Attributes for Effective Resolution Regimes issued by the Financial Stability Board to formalize a range of good practices for effective bank resolution frameworks. Whereas these Key Attributes focus on global, systemically important financial institutions and the safeguards for their effective resolution, the objective of the World Bank guidance is to provide key considerations for countries to use in tailoring safeguards for effective bank resolution regimes in emerging and developing economies, where the resolution of domestic, systemically important banks may have a substantial impact on financial stability.

Although the Key Attributes are focused on resolving global, systemically important financial institutions,
their underlying principles provide good guidance for resolving financial institutions that pose systemic risks to domestic financial stability and can guide effective resolution regimes for smaller, nonsystemic, financial institutions. The World Bank guidance, through a rigorous review of 12 country cases, highlights the importance of safeguards in building effective bank resolution regimes and the challenges faced by emerging and developing economies in implementing such safeguards.

The challenge in a given country therefore lies in identifying which principles are the most appropriate for that country and how to effectively integrate them in the national resolution framework, considering the size and complexity of the financial sector. In developing the guidance, the World Bank conducted an analysis of the safeguards in resolution regimes across 11 emerging and developing economies, as well as one country that developed into an advanced economy. Analysis of the surveyed countries highlights some key implementation challenges of the safeguards as well as recommendations across key safeguards:

- The operational independence of the resolution authority
- Clear legal protection of the resolution authority and its staff
- Safeguarding of the rights of creditors in resolution
- Safeguarding of third-party rights to appeal the resolution authority’s actions and admitted remedies
- Freezing of contractual rights

The guidance is intended to ensure that countries review the scope of their safeguards and assess the appropriate balance to counterbalance market pressures. Where safeguards for creditors are too weak, private sector interest in financial activity may erode; where safeguards for creditors are too strong, financial stability may be compromised when unviable financial institutions cannot be resolved swiftly. Thus, the implementation of safeguards of the Key Attributes not only relates to safeguards for the rights of shareholders and creditors of a failing bank, but also serves to ensure financial stability through the soundness and effectiveness of a bank resolution framework.

The Lessons Learned series offers a collection of FIRST’s technical and functional insights gained from FIRST-funded engagements:

Building Effective Deposit Insurance Systems in Developing Countries
http://www.firstinitiative.org/reports/challenges-building-effective-deposit-insurance-systems-developing-countries

Crisis Simulation Exercises

Private Pensions
http://www.firstinitiative.org/reports/expanding-coverage-good-quality-private-pensions

Making Financial Sector Development Strategies Work

Developing National Financial Inclusion Strategy – Paraguay Experience
http://www.firstinitiative.org/reports/developing-national-financial-inclusion-strategy-paraguay-experience
Implementing FIRST 2.0 and More

With Phase IV came the implementation of an updated strategy for the FIRST Initiative—FIRST 2.0. It was prepared in response to the shifting priorities of donor and recipient countries in an evolving financial sector landscape. Of note, demand for support for assistance in dealing with the challenges relating to rapid innovation in financial sector services (most prominently in low-income and fragile countries) has increased significantly. Moreover, work on the impact of climate change on financial sectors has gained traction as well. Throughout their design and implementation stages, these projects have maintained FIRST’s original conceptual approach of supporting three core pillars of the financial sector—Financial Stability, Financial Inclusion, and Long-Term Finance. Three examples of the Phase IV projects under implementation, including one that incorporates all three core pillars, are described in this chapter.

1 FIRST’s new priorities include Fintech, climate change, mainstreaming gender, and maximizing finance for development.
2 Close to 60 percent of approved Phase IV projects relate to support in dealing with the regulation and supervision of digital services, with the ultimate goal of enhancing financial inclusion—one of the three key conceptual pillars of FIRST.
In an environment of lingering conflict issues and deep institutional limitations, mobile money transactions are a lifeline for economic activity in Somalia. The preponderant use of mobile money (accounting for 36 percent of GDP) also raises concerns about the magnitude of systemic vulnerabilities and potential macroeconomic effects in cases of disruptions—with potentially serious implications for the wider economy. For the most part, customers have no guarantee that their e-money can be redeemed for cash, as there is no requirement for parity between monetary value held virtually in mobile money wallets and physical funds held on deposit. Know-your-customer data, used to identify clients and determine the risks of illegal intentions, are not systemically registered for mobile money wallets, and there are no formal frameworks to protect consumers in case of disputes.

Somalia’s mobile money services need to be adequately regulated before they can serve as a critical enabler for innovation and as an anchor of financial inclusion and financial sector development. The challenge for policy makers and regulators is then how to introduce mobile money regulations in a market that has operated without proper regulatory oversight. Ensuring the stability and reliability of the mobile money system should be a priority, focusing on safeguarding consumer funds, improving compliance and risk management, reducing opportunities for fraud, strengthening regulatory reporting, and protecting consumer data.

In April 2019, stakeholder consultations were finalized on draft regulations for mobile money; they were endorsed by the management and Board of the Central Bank of Somalia (CBS) in July 2019. Going forward, the key challenge confronting the CBS (and the National Communications Authority, the MNO regulator) is how to regulate effectively in a context of internal capacity constraints without creating excessive compliance burdens for the industry.

To achieve this objective, the FIRST project seeks to support the CBS in its efforts to implement the new regulations with the goal of making required reporting
smoother while applying regulatory tools to equip the regulators and the industry with adequate monitoring and analytical tools for improving the effectiveness of compliance. Further, increasing the transparency of compliance monitoring processes will over time increase the confidence of external partners in the industry, and protect and enhance the access of Somali individuals and businesses to international payments and transfer services. This will position Somalia well to participate in the digital economy.

The Project

Implementation support activities to be undertaken over the next two years include these three:

1. Provision of expert consultancy services to design a manual and a toolkit of regulatory and supervisory tools to guide the implementation of the new regulations. The manual will cover reporting requirements for mobile money providers that comply with the new regulations, in order to enhance CBS’s oversight role.

2. Capacity building:
   a. Workshops aimed at improving the technical capacity of CBS staff in the new regulatory and oversight approaches
   a. Consultative stakeholder forums with mobile money providers on the adoption of the new manual and regulatory workflows.

3. Oversight of program activity by Bank staff.

Expected Results

Mobile money services that are properly regulated and supervised will provide opportunities to securely and responsibly expand financial inclusion. The effect of doing so would be amplified by the current use of mobile money to transfer more than a billion dollars as remittances to Somalia. Regulation of mobile money is likely to promote greater financial stability and integrity, level the playing field, and boost the system’s usefulness for more advanced applications, with the ultimate goal of enhancing prosperity in this fragile economy. The results chain from this task is illustrated in figure 5.

Figure 5: Somalia—Results Chain

- The CBS faces the key challenge of how to regulate the mobile money sector effectively in the context of internal capacity constraints
- Limited oversight capacity within the CBS means that consumers have little protection against malfeasance by mobile money operators
- A manual and regulatory tools to guide the implementation of the newly issued mobile money regulations delivered
- Workshops to improve the technical capacity of CBS staff on mobile money oversight and implementation of the new regulations provided
- Improved CBS’s oversight capacity to monitor and regulate the mobile money service providers
- Stakeholder forum with mobile money providers on the adoption of the new manual and regulatory tools provided
- Improved compliance by the mobile money service providers with the regulations
- Greater financial stability, integrity, and innovation
Context

Both physical risks related to climate damages and transition risks associated with potentially disorderly mitigation strategies are expected to play an increasingly relevant role in the Colombian financial sector. As a result of the expected rise in temperatures and dramatic change in the hydrological regime, Colombia is highly exposed to the risks of climate change. The economic and social costs associated with climate-related events are already tangible, having registered record figures in the last decade. During 2010/11, La Niña created damages worth Col$11.2 trillion and affected more than 3 million people. During 2015/16, El Niño was reported as one of the strongest events ever, negatively affecting national production worth Col$3.1 trillion or 0.4 percent of GDP.

Against this background, the Financial Superintendence of Colombia (FSC) has identified climate change as a current financial risk with an exponential impact on the future if appropriate and preventive measures are not taken. Leveraging its recently acquired membership in the Central Banks and Supervisors Network for Greening the Financial System, of which the WBG is an observer, the FSC has developed an action plan to manage climate-related risks in the financial system. It rests on four pillars: (i) assessing climate-related risks in the financial sector, (ii) integrating sustainability factors into risk management and investment decisions by financial sector players, (iii) developing a taxonomy of economic activities, and (iv) engagement and capacity building.

The Project

The WBG, through the International Bank for Reconstruction and Development (IBRD) and IFC, with financial support from FIRST and the Green Bond Technical Assistance Program, has partnered with the FSC to support implementation of the action plan. Within the agreed TA framework, the IBRD is supporting the work of the FSC in measuring and assessing physical and transition risks with scenario-based approaches. The IBRD is also supporting the FSC’s efforts to integrate environmental sustainability factors into risk management, corporate governance, and disclosures of financial institutions, including pension funds and insurance companies. IFC is providing support to develop a taxonomy of eligible green activities as well as guidance for green bonds and green loans. In addition,
IFC is assisting the FSC with capacity building and facilitating continuous dialogue and engagement among stakeholders. All these efforts are expected to translate into regulatory and supervisory action.

Although these actions are essential, it is important to stress that the FSC can only do so much. Its actions cannot substitute for the many interventions that are necessary to achieve a successful transition to a low-carbon economy. The government, the central bank, and the private sector are all undertaking climate mitigation measures, yet coordination remains elusive at best. In this context, as the supervisory authority responsible for promoting financial stability as well as the integrity and transparency of securities markets, the FSC can play an important role in coordinating its own actions with those implemented by other domestic players.

The transdisciplinary approach required to manage climate-related risks to the financial sector also explains why the IBRD and IFC are working in concert on this initiative. Aligning the incentives of the supervisor with those of the private financial sector is key to the success of this project, and this can be best achieved by combining the IBRD’s traditional upstream engagement with public sector clients with IFC’s downstream focus on the private sector. The expectation is that this modus operandi can help Colombia become a regional pioneer in greening the financial system while being successfully replicated in other emerging market economies.

Expected Results

Being the first of its kind, this project is a high-risk, high-reward proposition for FIRST, serving as a pilot for similar future engagements in other countries. While the project aims to assist the Colombian authorities in strengthening their regulatory and supervisory tools in dealing with the impact of climate change on the financial sector, the ultimate goal is higher level in substance—the hope is to help the country meet its Nationally Determined Contributions, which are at the heart of the Paris Agreement. The results chain from this task is illustrated in figure 6.

Uzbekistan—Bringing all pillars together

Context

Economic reforms in Uzbekistan started in 2017, with the alignment of the informal and official exchange rate and the start of market-oriented reforms in the state-bank-dominated financial sector. State banks’ core business was to channel funds from public sector entities to priority sectors and firms, mostly SOEs, often at preferential terms. The priority for banking regulation and supervision was to ensure compliance with government-dictated policy priorities, rather than the preservation of financial stability and the protection of depositors.

On October 11, 2019, Uzbekistan’s Senate approved a package of financial sector laws, including a new banking law. The new banking law marks the beginning of a new chapter for banking in Uzbekistan.

The Project

This activity aims to inform the Uzbek authorities in the formulation of a financial sector reform strategy. The authorities requested a World Bank report to inform the preparation of their financial sector strategy, focusing on banks and nonbank credit providers as capital markets and insurance sector strategies are being developed by other multilateral organizations. Under this activity, the World Bank is also supporting the authorities in the preparation of an NFIS.

The report aims to inform the Uzbek authorities’ discussions on the formulation of a financial sector
Figure 6: Colombia—Results Chain

Key Challenges
- High vulnerability to climate change; large economic and social costs associated with climatic vulnerabilities
- Asymmetry of information on the risks associated with climate change
- Lack of legal frameworks or guidelines on managing risks related to environmental, social, and governance (ESG) factors
- Lack of knowledge and capacity among regulators, supervisors, and market players on green bonds and green assets development

Outcomes

Short-Term
- Assessing climate-related financial risks
  - A report outlining the impact of climate change on the financial sector and supervisory response, including results from stress tests delivered
  - A stress test model for assessing impacts of climate change on financial institutions’ exposure delivered
- Regulation and guidelines for risk management, governance, and disclosure in the banking sector:
  - Draft regulation outlining a framework for environmental risk management, governance, and disclosure of environmental risks in the banking sector delivered
  - Guidance note providing detailed guidance for risk management, governance, and disclosure delivered
  - Industry workshop, stakeholder consultation organized
- Integrating sustainability factors into risk management and investment decisions by the financial sector:
  - Draft ESG reporting regulations delivered
  - Industry workshop, stakeholder consultation organized
  - Workshop with leading institutional investors on implementing ESG regulations organized
  - Capacity building of leading institutional investors to produce ESG report delivered
- Taxonomy of green assets (led by IFC)
  - Guidelines for green bonds delivered
  - A taxonomy of green assets delivered
  - Capacity building for adoption provided

Medium-Term
- Strengthened capacity of the Financial Superintendency of Colombia in assessing climate-related financial risks
  (Indicator: A stress test model in place to assess impacts of climate change in financial sector exposures)
- Strengthened legal framework and guidance on ESG risks for the banking sector
  (Indicator: Regulation/guidance on ESG for the banking sector issued)
- Reduced climate-related risks to the financial system, strengthened financial stability
  (Indicators: Percentage of financial institutions integrating ESG factors in their risk management systems)

Long-Term
- Increased awareness and adoption of good practices for green bonds issuance and green assets origination
  (Indicator: Taxonomy for green assets adopted; guidelines for green bonds adopted)
- More investments into environmentally friendly or sustainable projects
  (Indicators: Value of green bonds issued)

Contribution to the achievement of the Paris Agreement and SDG 13 Goals
reform strategy. Such a strategy is critical for the development and agreement on a road map for its implementation, including its sequencing, while coordinating activities among multiple stakeholders. The authorities have correctly identified financial sector reform as a policy priority, and major steps have already been taken, including enacting a modern banking law and issuing presidential decrees that aim to reduce preferential lending and speed banking sector restructuring. This report focuses on financial sector intermediaries engaged in the provision of credit (that is, banks and nonbank credit providers) which constitute the bulk of the Uzbek financial sector. A capital market development strategy and insurance sector strategy are being addressed by other multilateral organizations.

The proposed reform aims to ensure financial sector stability, improve efficiency, and boost financial inclusion through bank restructuring and privatization, regulatory reforms of the intermediation framework and strengthened sector oversight. The main line of actions of the reform include (i) reining in the ongoing credit boom, winding down preferential lending, (ii) restructuring most state-owned banks for privatization to reputable strategic investors with know-how that can support sector transformation and product innovation; (iii) restructuring and refocusing public credit institutions toward market gap-filling functions; (iv) developing the ecosystem of credit providers, including through a supportive regulatory framework; (v) upgrading corporate governance and disclosure practices in banks, including ensuring operational independence in state-owned banks; and (vi) revamping sector oversight to identify and mitigate emerging risks to the stability of the sector and individual institutions. The proposed reforms were informed by the diagnostic of current sector challenges and international experiences on financial sector reform. A set of indicators to monitor the outcomes of reform implementation was provided for the authorities’ consideration.

Reform efforts offer opportunities as well as risks. At the start of the reforms, a comprehensive vision for the future of the sector is key, including deciding on what kind of banking and regulatory institutions are appropriate for the country. Decisions about entry, licensing, and privatizations of banks should not be rushed. Experiences in former Soviet republics underscore the potential flaws in the transition from government-owned to private banking sectors. Financial sector liberalization and privatization does not typically succeed at improving sector stability, efficiency, and inclusiveness in the absence of adequate
regulatory and oversight frameworks. Furthermore, not all modalities of privatization yield the same results. Involving international financial institutions in the restructuring process, the approach currently pursued by the authorities, sends a strong signal about the commitment to privatize and attracts strategic and reputable investors to the sector.

Reform success will ultimately depend on the success of state-owned enterprise (SOE) reform, stability supporting macroeconomic policies and a credible contractual environment. SOEs play a crucial role in Uzbekistan’s economy and are one of the main borrowers of the state-owned banks, making it necessary to proceed in parallel in view of these close linkages. The reform of state-owned banks is necessary to stop rewarding inefficient SOEs with preferential loans, enforcing hard budget constraints to speed their restructuring or orderly exit. That said, SOE restructuring and privatization enhances borrowers’ economic prospects and reduces the scope for political intervention in the banking sector, facilitating the privatization of state-owned banks. Both reforms can only proceed successfully under a macroeconomic environment with low inflation, a stable currency, and a sound fiscal position. Other key requirements are having a modern bankruptcy framework for commercial firms and banks, legal security, and an effective and fair judiciary to enforce contracts.

**Expected Results**

Financial sector reform is essential to transition successfully to a market economy and support economic growth, job creation and social cohesion. Moving to a market economy requires a fundamental transformation of the financial sector: from directly allocating public funds toward priority sectors and enterprises to mobilizing and allocating savings to the most productive activities on a market basis following price signals. Such reforms will improve economic efficiency and support both economic growth and job creation. Reforms are also needed to widen access to all financial services. Enhancing financial inclusion can improve resiliency to shocks, boost the productivity of firms, and facilitate the empowerment of marginalized groups, such as women and rural residents. The results chain from this task is illustrated in figure 7.

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**Figure 7: Uzbekistan—Results Chain**

<table>
<thead>
<tr>
<th>PROBLEMS</th>
<th>OUTPUTS</th>
<th>OUTCOMES</th>
<th>IMPACTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inefficient financial intermediation due to the prevalence of directed lending by state-owned banks, funded also with public sector funds. Banks do not have incentives to measure risks, innovate to develop new products, or attract depositors.</td>
<td>A financial sector structure strategy drafted and communicated to guide policy decisions regarding the size and role of state-owned financial institutions; options for privatization and restructuring of state-owned banks, and the type of nonbank credit institutions developed</td>
<td>Adoption of strategy, policy, and regulations implementing key recommendations of the financial sector strategy</td>
<td>Improved efficiency of financial intermediation and increased credit to the private sector (long-term, outside of project’s time frame)</td>
</tr>
<tr>
<td>Limited use of financial services on the part of the population, with low and stagnant financial inclusion as measured by the share of the population using an account</td>
<td>An NFIS drafted in consultation with stakeholders. Two notes produced to inform the strategy on consumer protection and basic accounts, as well as customer due diligence</td>
<td>National financial inclusion formally adopted as a government policy</td>
<td>Increased usage of financial services by the population (long-term, outside of project’s time frame)</td>
</tr>
</tbody>
</table>
Financial Summary

Sources and Uses of Funds

Donor Contributions

All contributions received are converted into US dollars at the time of receipt. As of June 30, 2019, a total of US$90.6 million had been pledged in trust fund agreements for Phase III, of which all have been paid in full.

For Phase IV, a total of US$9.2 million was pledged, of which US$8.7 million has been paid in.

### TABLE 9a: PLEDGED DONOR CONTRIBUTIONS FOR PHASE III

<table>
<thead>
<tr>
<th>DONOR</th>
<th>LIC (US$ million)</th>
<th>MIC (US$ million)</th>
<th>LIC (US$ million)</th>
<th>MIC (US$ million)</th>
<th>TOTAL AMOUNT (US$ million)</th>
<th>SHARE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BMZ (Germany)</td>
<td>4.2</td>
<td>4.6</td>
<td>—</td>
<td>—</td>
<td>8.8</td>
<td>10</td>
</tr>
<tr>
<td>DFID (UK)</td>
<td>4.4</td>
<td>—</td>
<td>12.3</td>
<td>—</td>
<td>16.7</td>
<td>19</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2.9</td>
<td>2.4</td>
<td>—</td>
<td>0.6</td>
<td>5.9</td>
<td>7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>10.7</td>
<td>1.9</td>
<td>10.6</td>
<td>3.8</td>
<td>27.0</td>
<td>30</td>
</tr>
<tr>
<td>SECO (Switzerland)</td>
<td>9.8</td>
<td>13.1</td>
<td>—</td>
<td>7.3</td>
<td>30.3</td>
<td>34</td>
</tr>
<tr>
<td>Total Contributions</td>
<td>32.0</td>
<td>22.1</td>
<td>22.9</td>
<td>11.7</td>
<td>88.6</td>
<td>100</td>
</tr>
</tbody>
</table>

*Note: All dollar figures are rounded to one decimal point.*

### TABLE 9b: PLEDGED DONOR CONTRIBUTIONS FOR PHASE IV

<table>
<thead>
<tr>
<th>DONOR</th>
<th>LIC (US$ million)</th>
<th>MIC (US$ million)</th>
<th>TOTAL AMOUNT (US$ million)</th>
<th>SHARE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SECO (Switzerland)</td>
<td>4.1</td>
<td>4.0</td>
<td>8.1</td>
<td>88</td>
</tr>
<tr>
<td>Total Contributions</td>
<td>4.6</td>
<td>4.6</td>
<td>9.2</td>
<td>100</td>
</tr>
</tbody>
</table>

*Note: All dollar figures are rounded to one decimal point.*
Use of Funds

Table 10 summarizes projections for funding and project allocation as of June 30, 2019 for Phases III and IV. The numbers reflect current contributions, based on the signed agreements and projections for disbursements through the end of Phases III and IV.

Phase III

Of the total fund balance available for the Bank’s project allocation (US$70.2 million), US$65 million has been committed, under both the Catalytic and the Programmatic windows.

A total of US$14.4 million is estimated to be transferred to the Project Management Unit (PMU) and will cover the costs through the end of calendar year 2020. Transfers to the IMF for Phase III projects total US$13.2 million and have been paid in full.

Phase IV

Of the total fund balance available for the Bank’s project allocation (US$9.4 million), US$3.9 million has been committed, under both the Catalytic and the Programmatic windows.

A total of US$1.9 million is estimated to be transferred to the PMU and will cover the costs through the end of calendar year 2021. Estimated transfers to the IMF for Phase IV projects total US$1.3 million.

In fiscal 2019, a total of US$11.2 million was disbursed against projects for Phase III, with the highest share in the Africa Region, representing 56 percent of the total disbursements, followed by South Asia and then Europe and Central Asia (13 percent each).

The 2019 disbursements for Phase IV add up to US$0.8 million, with the highest share in the Africa Region, representing 58 percent of the total disbursements.

FIRST’s administrative arrangements provide that the IBRD disburses to the IMF subaccount 15 percent of paid-in contributions for IMF-executed activities, net of administration fees. The IMF has committed US$13.8 million to Phase III projects and disbursed US$9.6 million.
### TABLE 10a: FUNDING AND PROJECT ALLOCATION PROJECTIONS FOR PHASE III AS OF JUNE 30, 2019 (US$ million)

<table>
<thead>
<tr>
<th>PROJECTION</th>
<th>CATALYTIC WINDOW</th>
<th>PROGRAMMATIC WINDOW</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LIC</td>
<td>MIC</td>
<td>LIC</td>
</tr>
<tr>
<td>Current contributions*</td>
<td>34.0</td>
<td>22.1</td>
<td>22.9</td>
</tr>
<tr>
<td>Administration fees*</td>
<td>1.1</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Balance from Phase II projects</td>
<td>7.2</td>
<td>3.3</td>
<td>22.4</td>
</tr>
<tr>
<td>Total funds for Phase III</td>
<td>40.1</td>
<td>24.7</td>
<td>115</td>
</tr>
<tr>
<td>PMU*</td>
<td>5.7</td>
<td>3.4</td>
<td>3.6</td>
</tr>
<tr>
<td>IMF†, ‡</td>
<td>4.9</td>
<td>3.2</td>
<td>3.4</td>
</tr>
<tr>
<td>M&amp;E‡</td>
<td>0.3</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Total</td>
<td>10.9</td>
<td>6.9</td>
<td>7.1</td>
</tr>
<tr>
<td>Budget for Bank project allocation (net of administration fee, IMF share, PMU, and M&amp;E reserve)</td>
<td>29.2</td>
<td>17.8</td>
<td>15.3</td>
</tr>
<tr>
<td>Project allocation across windows (%)</td>
<td>42</td>
<td>25</td>
<td>22</td>
</tr>
<tr>
<td>Bank projects approved as of June 30, 2019</td>
<td>25.6</td>
<td>15.7</td>
<td>15.5</td>
</tr>
</tbody>
</table>

**Note:** PMU = Project Management Unit, M&E = Monitoring and Evaluation.

* Amounts converted to US dollars based on average exchange rates from recent months. Contributions include only signed agreements.

† Reserve for PMU cost through calendar year 2020. Includes both Knowledge Management and M&E staff.

‡ IMF usage details are presented in table 12.

### TABLE 10b: FUNDING AND PROJECT ALLOCATION PROJECTIONS FOR PHASE IV AS OF JUNE 30, 2019 (US$ million)

<table>
<thead>
<tr>
<th>PROJECTION</th>
<th>LIC</th>
<th>MIC</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current contributions*</td>
<td>4.6</td>
<td>4.6</td>
<td>9.2</td>
</tr>
<tr>
<td>Balance from Phase II projects</td>
<td>1.8</td>
<td>1.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Total funds for Phase III</td>
<td>6.4</td>
<td>6.4</td>
<td>12.8</td>
</tr>
<tr>
<td>PMU*</td>
<td>1.0</td>
<td>0.9</td>
<td>1.9</td>
</tr>
<tr>
<td>IMF†</td>
<td>0.7</td>
<td>0.6</td>
<td>1.3</td>
</tr>
<tr>
<td>M&amp;E‡</td>
<td>0.2</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Total</td>
<td>1.8</td>
<td>1.7</td>
<td>3.5</td>
</tr>
<tr>
<td>Budget for Bank project allocation (net of administration fee, IMF share, PMU and M&amp;E reserve)</td>
<td>4.6</td>
<td>4.6</td>
<td>9.3</td>
</tr>
<tr>
<td>Project allocation across windows (%)</td>
<td>50</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>Bank projects approved as of June 30, 2019</td>
<td>2.2</td>
<td>1.7</td>
<td>3.9</td>
</tr>
</tbody>
</table>

**Note:** PMU = Project Management Unit, M&E = Monitoring and Evaluation.

* Amounts converted to US dollars based on average exchange rates from recent months. Contributions include only signed agreements.

† Reserve for PMU cost through calendar year 2021. Includes both Knowledge Management and M&E staff.

‡ IMF usage details are presented in table 12.
### TABLE 11a: PHASE III PROJECT DISBURSEMENTS FOR FY19 BY REGION

<table>
<thead>
<tr>
<th>WORLD BANK REGION</th>
<th>CUMULATIVE (US$ million)</th>
<th>SHARE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>6.2</td>
<td>56</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>0.1</td>
<td>1</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>1.4</td>
<td>13</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>1.1</td>
<td>10</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>0.9</td>
<td>8</td>
</tr>
<tr>
<td>South Asia</td>
<td>1.5</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11.2</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Note: All dollar figures are rounded up to one decimal point.*

### TABLE 11b: PHASE IV PROJECT DISBURSEMENTS FOR FY19 BY REGION

<table>
<thead>
<tr>
<th>WORLD BANK REGION</th>
<th>CUMULATIVE (US$ million)</th>
<th>SHARE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>0.5</td>
<td>58</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>0.1</td>
<td>8</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>0.3</td>
<td>32</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>0.0</td>
<td>2</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>—</td>
<td>0</td>
</tr>
<tr>
<td>South Asia</td>
<td>—</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0.8</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Note: All dollar figures are rounded up to one decimal point.*

### TABLE 12: FINANCIAL SUMMARY DETAILS ON IMF FUNDS AND USAGE, PHASE III, SFA ONLY, FY19 (US$ million)

<table>
<thead>
<tr>
<th>FUNDS AND USAGE</th>
<th>CATALYTIC LIC</th>
<th>PROGRAMMATIC LIC</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MIC</td>
<td>MIC</td>
<td></td>
</tr>
<tr>
<td>Donor contributions based on current signed agreements(a)</td>
<td>4.8</td>
<td>3.1</td>
<td>3.4</td>
</tr>
<tr>
<td>Rollover from Phase II to Phase III (FAA to SFA)</td>
<td>n.a.</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Total funding for Phase III</td>
<td>4.8</td>
<td>3.8</td>
<td>3.9</td>
</tr>
<tr>
<td>Funds transferred to the IMF(b)</td>
<td>4.8</td>
<td>3.8</td>
<td>3.9</td>
</tr>
<tr>
<td>Approved IMF projects</td>
<td>4.9</td>
<td>3.5</td>
<td>3.8</td>
</tr>
<tr>
<td>Total project expenses</td>
<td>3.9</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Balance that can be committed based on total funding</td>
<td>0.0</td>
<td>0.2</td>
<td>0.0</td>
</tr>
</tbody>
</table>

*Note: SFA = Selected Fund Activities, FAA = Framework Administered Account. In fiscal 2015, the IMF transferred management of FIRST resources into a subaccount under the SFA Framework Account. Upon the transfer, the prior FAA instrument was terminated. All figures are rounded to one decimal point.*

\(a\). Does not include a contribution of US$0.25 million made to Phase III under the old technical assistance framework (FAA), which was terminated on April 30, 2015.

\(b\). Includes the transfer from Phase II to Phase III of US$1.2 million and does not include a contribution of US$0.25 million made to Phase III under the old (FAA) instrument.
### TABLE 13: FINANCIAL SUMMARY DETAILS ON IMF FUNDS AND USAGE, PHASE IV FY19 (US$ million)

<table>
<thead>
<tr>
<th>FUNDS AND USAGE</th>
<th>MIC AND LIC</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor contributions based on current signed agreements</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Transfer residual balance from Phase III</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total funding for Phase IV</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Funds transferred to the IMF</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Approved IMF projects</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Projects pending approval (3 projects)</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Total project expenses as of June 30, 2019</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Balance that can be committed based on total funding(a)</td>
<td>-1.0</td>
<td>-1.0</td>
</tr>
</tbody>
</table>

\(a\). Does not include interest earned.