FIRST Evaluation

Phase II

GOVERNING COUNCIL MEETING

May 25, 2011
London

Abbreviations

AML/CFT	Anti-money laundering/combating the financing of terrorism
Bank	World Bank
BETF	Bank-executed trust fund
CSE	Crisis simulation exercise
DFID	Department for International Development of the United Kingdom
EBRD	European Bank for Reconstruction and Development
EU	European Union
FIRST	Financial Sector Reform and Strengthening Initiative
FSA	Financial Sector Assessment
FSAP	Financial sector assessment program
FSSA	Financial System Stability Assessment
FY	Fiscal Year
GRM	Grant Reporting and Monitoring System
IDA	International Development Association
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
IOSCO	International Organization of Security Commissions
LIC	Low income country
M&E	Monitoring and Evaluation
MIC	Middle income country
PAC	Project Approval Committee
PCER	Project Completion Evaluation Report
PCR	Project Completion Report
PMU	Program Management Unit
QAG	Quality Assurance Group
ROSC	Reports on the Observance of Standards and Codes
TA	Technical Assistance
USAID	United States Agency for International Development

Preface

This evaluation was carried out by a team of three consultants over the period November 2010 through May 2011. This team carried out an earlier evaluation in 2009 of Phase I activities, but otherwise has not been involved in any aspect of FIRST operations.

The team would like to thank everyone at the FIRST Program Management Unit as well as Bank and IMF staff and managers for the time, cooperation, and help provided throughout the process.

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Evaluation of FIRST Phase II

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Executive Summary

The Financial Sector Reform and Strengthening Initiative (FIRST) was launched in 2002 by a number of donors as a technical assistance (TA) facility whose primary objective is to "support growth and poverty reduction in low- and middle-income countries by promoting stable, deep and diverse financial sectors." Phase I of the initiative, which lasted through February 2007, was managed from London. Phase II, from March 2007 through June 2012, is now managed at the World Bank (Bank) headquarters in Washington, D. C. as a Bank-executed trust fund. Fifteen percent of FIRST funds are allocated to a sub-account managed by the International Monetary Fund (IMF) under a separate agreement.

Three main objectives of the evaluation were to assess: (i) The extent to which the FIRST program in its Phase II has been consistent with its strategic focus and targets; (ii) The performance of the grants in terms of achievement of deliverables and quality of consultant performance; (iii) The extent to which the grants have achieved their specific objectives and been linked to results in the financial sectors of the client countries.

The evaluation focused on Phase II grants. To analyze the trends in grant allocations and FIRST strategy and FSAP linkages, the evaluation reviewed all Phase II grants approved between March 2007 and December 31, 2010, covering a little over three and a half years of the five years of Phase II. Feedback from a survey sent to all Phase II clients was also used in the evaluation. To assess outputs, consultant performance, and outcomes, the evaluation reviewed all of the 40 Phase II grants (34 Bank-executed, 6 IMF-executed) that had been completed by June 30, 2010 and carried out country case studies in the Kyrgyz Republic, Malawi, and Nigeria, which were randomly selected. Because Bank-executed grants are handled differently from IMF-executed grants, the evaluation distinguished, where relevant, findings on the two types of grants.

FIRST strategy and targets

A total of $29.9 million was committed for 135 grants in Phase II (from March 2007 through end-December 2010), of which 80 percent was Bank-executed and 20 percent IMF-executed. Consistent with FIRST's objectives and donor funding decisions, a higher portion of commitments went to low-income countries (LICs) than to middle-income countries (MICs). FIRST met its target for fiscal year (FY) 2010 and the first half of FY11 of approving more than 50 percent of its grants to LICs. Nevertheless, MICs' share of FIRST grants has risen in the most recent 18 months, even though the revised 2009 strategy reduced the number of eligible MICs and increased eligibility criteria for MIC access to funding.

Another pillar of FIRST's strategy is a focus on the Africa Region. For the Phase II period through end-December 2010, 41 percent of grants were to the Africa Region. The annual target of 50 percent of grants to Africa for FY10 and FY11 has not been met: for FY10 and the first half of FY11, grants to Africa have been 43 percent of the total approved over this period.

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

The difficulty in meeting the targets for grants to Africa and for FSAP/ROSC follow up, as well as the more recent increase in grants to MICs, are likely due to the introduction in FY09 of crisis-related grants and the surge in these grants in the more recent 18-month period. This highlights the difficulty of achieving simultaneously a variety of targets and initiatives. These include, inter alia, a focus on LICs and the Africa Region, linkage to FSAP, and, since 2009, crisis-related grants. Because LICs tend to have fewer FSAPs/ROSCs, it may be difficult to achieve targets in both, as well as to achieve targeted levels of grants to Africa at the same time. Crisis-related grants have, until recently, been made more to MICs than to LICs, and a relatively low percentage (about one-third) of these crisis-related grants have been approved for clients in Africa. Continued response to demand for the crisis-preparedness grants may make it more difficult to achieve targets for commitments to LICs and to Africa. If other initiatives or areas of focus are added to FIRST's strategy, the implication for achieving existing strategic objectives and targets should be examined.

Findings on completed grants

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

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

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

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

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

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

These findings are important for FIRST's strategy and mode of operation. A key objective of FIRST is to have a strong link between its technical assistance and outcomes that lead to increased financial sector stability, efficiency, and inclusiveness. This evaluation has highlighted some constraints to achieving that objective.

Management of FIRST funds

For several reasons, the evaluation of "FIRST performance" does not allocate "performance" between the FIRST PMU and the Bank or the IMF. The administration and management of FIRST funds are mostly the result of teamwork between FIRST PMU and the Bank or between the FIRST PMU and the IMF. In addition, the country case studies found that FIRST does not have strong "name recognition" among clients or donors. Except for the individuals most closely associated with the grants, most officials and donors interviewed perceived FIRST grants to be part of World Bank or IMF programs. Most of the grants reviewed in the country case studies had been developed with Bank staff, and in all three countries, the Bank (and, to a lesser extent, the IMF) has been pro-active and visible in supervising the grants. The limited name recognition of FIRST complicates the interpretation of the client survey that asked questions about "FIRST performance".

"FIRST performance"

The client survey was quite positive about FIRST as a donor. Client views of FIRST as a donor were most positive on the aspect of FIRST's helpfulness in the project concept and design stage, FIRST's role as a partner, and the quality of consultants recruited under FIRST grants. The responses were least positive on the speed of FIRST's response to the initial request for funding, although even on this dimension, 83 percent agreed that FIRST was quick to respond to the initial request for funding. In addition, FIRST compared favorably in the client survey to other donors.

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

The evaluation identified several additional issues. *On eligibility criteria,* there is some confusion among Bank staff about the consistency in applying the criteria, which may be due to evolving criteria over time. In addition, FIRST has proposed narrowing eligible sub-sectors to achieve higher quality and greater impact, but fewer eligible sub-sectors increases the likelihood of supply-driven grants, where clients will request FIRST funding based on the menu of options available to them, rather than on their own priorities. On *budgetary resources*, FIRST does not regularly provide funding for proposal development by Bank staff, and the fixed percentage of cost provided by FIRST for Bank supervision has been inadequate in a number of cases to cover the full costs. On *reporting*, the accuracy of some information on completed grants is expected to improve with the recent (FY11) adoption of a new completion reporting system, but the timeliness and quality of the content still need improvement. Finally, on *availability of information*, while FIRST has a newly revamped website that includes useful information about FIRST, additional succinct project information would be valuable to include.

Recommendations

Improving outcomes:

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

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

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

Strengthening relevance of objectives:

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

Improving implementation and consultant selection

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

FIRST should avoid concentrating its use of the same consultants in multiple grants. While many tasks require highly specialized experience and knowledge, adding a wider range of well-qualified specialists could serve to avoid situations where consultants have market power; to broaden the pool of qualified consultants; and help to avoid any appearance of financing a narrow group of consultants. FIRST already funds local consultants in some projects, which is good practice, and further efforts in this direction would both bring local perspective to the work and ensure that consultants have appropriate language skills.

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

Improving supervision

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

Improving reporting, evaluation, and transparency

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

I. Introduction

1.1 **The Financial Sector Reform and Strengthening Initiative (FIRST) was launched in 2002 by seven bilateral and multilateral donors[1] as a technical assistance (TA) facility whose primary objective is to "support growth and poverty reduction in low- and middle- income countries by promoting stable, deep and diverse financial sectors."[2]** In recent years, two more donors added their support.[3] Phase I of the initiative, which lasted from April 2002 through February 2007, was managed by a free-standing Program Management Unit (PMU) in London. Phase II began in March 2007 when the PMU was moved to the World Bank (Bank) headquarters in Washington, D. C., and FIRST became a Bank-executed trust fund (BETF). In addition, 15 percent of FIRST funds are allocated to a sub-account to be managed by the International Monetary Fund (IMF) under a separate, formal agreement.[4] Phase II is to end June 30, 2012.

1.2 **FIRST provides grants to client countries, multi-country initiatives, regional institutions, and international standard setting bodies.** One of the main objectives of the initiative has been to help fund follow up to financial sector assessments made under the joint Bank – International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP) and the Reports on the Observance of Standards and Codes (ROSCs) carried out in client countries. FIRST finances both short term and medium term TA, training, conferences, and study tours that can help strengthen financial systems in client countries.

1.3 **FIRST has committed a total of $69.4 million in 382 grants between its first year of operation and December 31, 2010.** Some 80 percent of the grants have been accorded to 96 countries, with the rest going to regional or international agencies. In Phase II, a total of $29.9 million had been committed through end-December 2010, of which 80 percent was Bank-executed and 20 percent IMF-executed.

Objectives of evaluation

1.4 **The objectives of this evaluation are to assess the following three aspects of the FIRST program**:

(i) **Consistency of the Phase II program with its strategic focus and targets.** Questions include:

- Has the geographic distribution of FIRST Phase II grants been consistent with its focus on and targets for low-income countries and on Africa?
- Have grants linked to FSAPs and ROSCs met FIRST's targets, and what is the nature of this linkage?

[1] These were the Canadian International Development Agency (CIDA), the Department for International Development of the United Kingdom (DFID), the International Monetary Fund (IMF), the Ministry of Foreign Affairs of The Netherlands, the State Secretariat for Economic Affairs of Switzerland (SECO), the Swedish International Development Cooperation Agency (SIDA) and the World Bank.

[2] FIRST Charter Phase II, July 2007, page 2

[3] German Federal Ministry of Economic Cooperation and Development (BMZ) and Luxembourg's Ministry of Finance.

[4] "Instrument for a Framework Administered Account for Technical Assistance Activities", of various dates, the latest September 2009.

- Has Phase II been consistent with the principles of the Paris Declaration on Aid Effectiveness: ownership, alignment, harmonization, managing for results, and mutual accountability?
- Have FIRST grants had a catalytic impact on development initiatives?

(ii) **The performance of completed grants in terms of deliverables and consultant performance**. Questions include:

- Have the outputs been delivered as planned?
- Has the quality of outputs been satisfactory?
- Has the performance of consultants been satisfactory?

(iii) **The outcomes of completed grants and linkages to results in the financial sector of the client countries.** Questions include:

- Have grants achieved their stated objectives?
- Have clients followed up on the grant outputs?
- How significant are risks that grant outcomes will not be sustained in the future?
- Are grant outcomes linked to measurable or objective changes in the financial sector?

Scope

1.5 **To analyze the trends in grant allocations and FIRST strategy and FSAP linkages, the evaluation reviewed all 135 Phase II grants approved between March 2007 and December 31, 2010, covering roughly three and a half years of the five years of Phase II.**

1.6 **To assess outputs, consultant performance, and outcomes, the evaluation reviewed in more detail all of the 40 Phase II grants that had been <u>completed</u> by June 30, 2010.** By the time the evaluation began in January 2011, a minimum of seven months had elapsed since each grant's deliverable was provided to the client. This interval was thought sufficient to assess the extent of any actual or planned follow up.

1.7 **Bank-executed grants are handled differently from IMF-executed grants, and the evaluation distinguishes, where relevant, findings on the two types**. The PMU has more limited interaction with and oversight of the IMF-executed grants compared to those of the Bank-executed grants, as established in the formal agreement referred in the first paragraph above.

1.8 **The evaluation examined, where possible, grant outcomes in financial sectors, but not higher-level outcomes such as economic growth.** While FIRST's basic mission is to address growth, poverty, and income inequality, this evaluation does <u>not</u> seek to trace the grants' effect on these wider outcomes because of the modest scope and limited duration of the individual grants.

Methodology

1.9 **The evaluation framework agreed at the beginning of the evaluation exercise is in Annex 1.** The sources of information were: FIRST's data on grant allocations, the results of the client survey, desk reviews of grant-related documents, interviews with involved staff, clients, consultants, and donor representatives, independent sources of information on the country's financial sector, and three country case studies involving field visits.

1.10 **A client survey was carried out by email in December 2010 – January 2011**. Its main objective was to obtain the client perspectives on Phase II grants on the following dimensions: the extent to which the project was demand-driven; quality of the project design; consultant selection and quality; project implementation; project deliverables and follow up; FIRST as a donor. The second objective was to compare responses to those from past surveys in 2008 and 2004, which focused mainly on Phase I grants. The survey was delivered to 102 individuals listed as the main contact for all grants approved between April 2007 and end-September 2010. 41 completed surveys were returned for a response rate of 40 percent. A separate report on the results of the client survey has been provided to the members of the Governing Council and an executive summary is provided in Annex 2.

1.11 **The analysis of FSAP/ROSC linkages relied on the FIRST database for identifying grants that stated a linkage existed.** The evaluation examined the grants' objectives and the most recent FSAP summaries and ROSCs for consistency between them.

1.12 **Each grant assessment was summarized in a Project Completion Evaluation Review (PCER).** The 40 PCERs, with ratings in seven dimensions (relevance, ownership, outputs, outcomes, risks to outcomes, consultant performance, and FIRST performance), have been sent to FIRST management. A summary of methodology and ratings is in Annex 5, along with the list of individual grants and their ratings.

1.13 **Country case studies were carried out in Kyrgyz Republic, Malawi, and Nigeria.** The objectives of the case studies were to get perceptions of clients and donors in the country on FIRST as a donor as well as on the outcomes of the grants. The three countries were selected at random from among the 13 countries that had at least one active Phase II grant and at least one completed Phase II grant. The missions were facilitated by Bank staff in Washington and in country offices. The three country case study reports have been sent to FIRST management.

1.14 **As a global partnership and a Bank-executed trust fund (BETF), FIRST is one of many such trust funds in the Bank (see Box 1).** In an effort to provide a larger perspective on the findings from this evaluation, the report refers, where relevant, to recent evaluations of trust funds with which the World Bank is involved, and identifies issues common to other BETFs.

Box 1 FIRST as a global partnership and a Bank executed trust fund (BETF)

FIRST is one of 43 global and regional partnership programs (GRPP) whose secretariat (PMU) is housed in the Bank. GRPP finance investments, technical assistance, knowledge generation and dissemination, advocacy, and standard setting. FIRST is also a Bank-executed trust fund (BETF) – other trust fund models are recipient executed trust funds and financial intermediary funds, operating under different rules.

BETF activities have grown rapidly in the last five years, disbursing some $560 million in FY10. Evaluations of Bank-administered trust funds have found strengths and weaknesses in their effectiveness, management, and accountability.

Sources: Independent Evaluation Group, World Bank, "Trust Fund Support for Development: An Evaluation of the World Bank's Trust Fund Portfolio", February 2011, and "The World Bank's Involvement in Global and Regional Partnership Programs: An Independent Assessment", March 2011

II. Strategic focus, targets, and trends

Total FIRST commitments

2.1 **Table 1 below shows total commitments for both Phases through December 31, 2010.** The Bank-executed grants account for 80 percent of the total by both number and commitments, IMF-executed for 20 percent of the total.

Table 1: FIRST grants, Phase I and II, Bank and IMF-executed

Phase I		*Phase II (FY08 – mid FY11)*					
		Bank-executed		*IMF-executed*		*Total*	
# grants	*Commitment (US$m)*	*# grants*	*Commitment (US$m)*	*# grants*	*Commitment (US$m)*	*# grants*	*Commitment (US$m)*
235	*39.13*	*107*	*23.85*	*28*	*6.06*	*135*	*29.91*

2.2 **FIRST strategy includes an emphasis on low-income countries and a focus on the Africa region.** Another focus of the program was to provide support for clients to prepare for or follow up on FSAPs and ROSCs. The next sections review the extent to which targets set in the 2010 business plan for these focus areas are being met.

Distribution of grants: low income and middle income countries

2.3 **FIRST's focus is on low-income countries (LICs).** Consistent with this focus, donor contributions to LIC funding have been more than twice that of contributions to funding for middle-income countries (MICs), with multi-country grants that include both LICs and MICs drawing on both funds. The business plan for FY10 set an annual target of 50 percent of approved projects for LICs (no explicit target was set beyond FY10, but FIRST is using the same target for FY11). This target is being exceeded, with some 61 percent of all approved grants going to LICs (Table 2, last column).

Table 2: FIRST grants to LICs and MICs, Phases I and II

	Percent of grants approved			
	Phase I	*Phase II*		
	FY03-FY07	*FY08-09*	*FY10-mid FY11*	*Total Phase II*
LIC	56	63	60	**61**
MIC	32	31	40	**35**
Mixed	12	6		**4**

Note: Results are similar when commitments are used instead of number of grants. These figures are for both Bank- and IMF-executed grants; the pattern for Bank-executed and IMF-executed is similar.
Source: FIRST PMU data. See Annex 3, Table 1 for detailed figures.

2.4 **Nevertheless, the proportion of grants going to MICs rose from 31 to 40 percent in the most recent 18 months, even though the 2009 revisions to the strategy reduced the number of eligible MICs** (no EU members or near-term candidates) and introduced additional eligibility criteria for grants to MICs. The recent increase in grants to MICs likely reflects the introduction in FY09 of crisis-related grants (Box 2), 60 percent of which have gone to MICs.

Box 2 Crisis-related grants

FIRST started funding crisis related grants in FY09. Their main objective has been to help financial sector supervisors and regulators to recognize early warning signs and to manage systemic financial crises – whether from exogenous shocks or internal reasons – in their countries.

These grants can take the form of: (i) regional workshops to raise awareness of the issues involved with crisis preparedness and to let participants know about the availability of FIRST funding for further support to countries; (ii) grants to countries for crisis simulation exercises (CSE), which are a form of war games that simulate a series of shocks requiring actions and decisions by the financial authorities, and which highlight areas for improving crisis preparedness and management; and (iii) grants to countries, usually following CSE, for strengthening crisis management in the areas identified by the CSE.

Through end-December 2010, 26 crisis-related grants had been approved – five regional workshops and 21 grants to 20 countries (of which two are IMF-executed), totaling $4.0 million, or 13 percent of Phase II grants. The evaluation of the seven completed crisis-related grants is in Box 4.

Regional distribution of grants

2.5 **Forty-one percent of all Phase II grants (Bank and IMF-executed) went to the Africa Region, as shown in Table 3, a slightly higher percentage than in Phase I.** The IMF-executed grants were more heavily focused on Africa than were the Bank-executed grants (61 percent versus 36 percent - Table 3, middle columns). Europe and Central Asia was the next largest recipient of FIRST Phase II grants, overall and for both Bank and IMF-executed grants.

Table 3: FIRST grants by region, Phases I and II

	Phase I	*Phase II*		
		Bank-executed	*IMF-executed*	*Total Phase II combined*
Region		*Percent of grants approved*		
Africa	40	36	61	41
East Asia and Pacific	11	8	11	8
Europe and Central Asia	18	19	18	19
Latin America and Caribbean	15	17	0	13
Middle East and North Africa	5	9	7	9
South Asia	8	11	4	10
Worldwide	2	-	-	-

Note: Results are similar when commitments are used instead of number of grants.
Source: FIRST PMU data. For details, see Annex 3, Table 2.

2.6 **The annual target of 50 percent of approved projects for the Africa Region set in the business plan for FY10 was not achieved.** No explicit target was set for grants to Africa beyond FY10, but FIRST is using the same target for FY11. Grants approved to the Africa Region for FY10 and the first half of FY11 have been 43 percent of total grants approved over this period. As in the case with the recent increase in grants to MICs, the difficulty of achieving the FY10 target for grants to Africa may be the funding of crisis-related grants. In the period FY10-first half of FY11, only 30 percent of the 20 crisis-related grants approved were in Africa.

Table 4: FIRST grants to Africa Region, by fiscal year

Percent of grants approved to Africa	
*FY08 - 09**	*FY10-mid FY11*
40	43

* Includes 3 grants from FY07
Source: FIRST PMU data.

FSAP/ROSC linkage

2.7 **From the outset, the FIRST program focused on helping clients prepare for an up-coming FSAP and/or follow up on FSAP and ROSC recommendations.** As other initiatives were added, FIRST retained its focus on the FSAP/ROSC linkage.[5] The annual target set in the business plan for FY10 (and implicitly for the following years) set an annual target of 50 percent of approved projects for FSAP/ROSC follow-up grants.

Trends in linkage

2.8 **There has been a marked increase in the linkage of grants to FSAPs or ROSCs in Phase II compared to Phase I, but that linkage decreased in the more recent 18 month period (FY10 and first half of FYT11), and the target of 50 percent of grants has not been met.** Grant proposals indicate linkage with an FSAP or ROSC by a "yes" or "no". Table 5 shows that 48 percent of Phase II grants marked "yes" for linkage to FSAP or ROSC compared to only 28 percent in Phase I. But in the more recent 18 months of Phase II, only 39 percent of the Bank-executed grants marked a "yes" for linkage, compared to 58 percent in the first two years of Phase II.

Table 5: FIRST grants linked to FSAP/ROSC, Bank-executed grants

	Phase I	**Phase II (through 12/31/2010)**		
	FY03-07	*FY08-09*	*FY10-1st H FY11*	*Total Phase II*
	percent of grants approved			
FSAP/RSOC linked (percent)	28	58	39	48

Note: By number of grants; results for commitments are similar. IMF figures are different, but number of grants is small, so differences are not meaningful. See Annex 3, Tables 3 and 4 for details.
Sources: Phase I, FIRST Monitoring and Evaluation Report, November 2009, p. 4. Phase II, FIRST PMU data.

2.9 **The recent drop in FSAP/ROSC linkage likely reflects the surge in crisis-related grants in FY10 and the first half of FY11.** Two-thirds of the crisis-related grants approved during the recent period were not linked to FSAPs or ROSCs, and a large proportion (43 percent) of non-FSAP/ROSC-linked grants were crisis-related.[6] More recent FSAPs recommend that client countries improve crisis preparedness, so going forward there may not be a trade-off between crisis-related grants and FSAP linkages, provided the FSAP is recent.

Analysis of FSAP/ROSC linkage

2.10 **Because the FSAP/ROSC linkage was not defined in FIRST's strategy nor explained in the grant proposals, the 2009 FIRST evaluation recommended that a more detailed analysis of these linkages be carried out in a future evaluation.** This evaluation therefore reviewed the linkages along two dimensions: time elapsed between the FSAP/ROSC and the grant and whether the grant's objectives are found in the FSAP summary. The details of the analysis are in Annex 4 and are summarized here.

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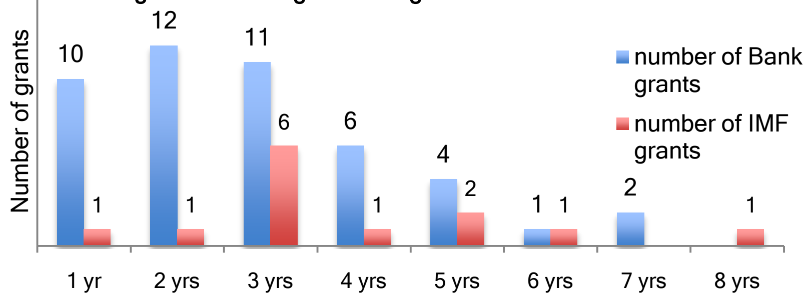
[5] FIRST Charter As Adopted July 6, 2007, page 3, and FIRST Strategy, 2008-2012, May 2009, page 9.

[6] Another explanation for the recent drop in FSAP-related grants might have been the effort to reach LICs, which are less likely to have FSAPs. While only 40 percent of FIRST grants to LICs have FSAP linkages, compared to 60 percent of MICs' grants, the percentage of grants to LICs dropped in the recent period (Table 2), so this does not explain the drop in FSAP linkage.

Findings on FSAP/ROSC linkage

2.11 **The majority of Phase II grants were approved quite soon after the FSAP or ROSC was carried out**. Almost 70 percent of the Phase II grants with FSAP linkage were carried out within three years of the most recent FSAP, FSAP update, or ROSC; the average time lag was 3.1 years. The distribution of time lags is similar for Bank- and IMF-executed grants, although IMF grants tend to have a slightly longer average time lag (Figure 1).

Figure 1 Time lag between grants and FSAP/ROSC



Note: Phase II grants approved through September 30, 2010.
Sources: FSAP PMU data, FIRST grant proposals and FSAP summaries

2.12 **The objective of the grant typically figured prominently in the FSAP summaries.** In all but two of the 64 grants marked as linked to an FSAP/ROSC, the objective of the grant could be found in the executive summary of the Bank and IMF reports summarizing the FSAP or ROSC findings, and often in a box highlighting the main recommendations of the FSAP. Thus, in almost all cases, the linkage between the grant and the FSAP was direct and obvious.

2.13 **In summary, the review found that the grants claiming a linkage with an FSAP or ROSC had objectives that featured prominently among recommendations in a recent FSAP or ROSC.**

Sector distribution of grants

2.14 **The sector composition of grants has shifted since Phase I.** Banking, accounting and auditing, and multi-sector grants (mainly financial sector development strategies) have doubled as a proportion of total commitments, and crisis-related grants – introduced only in FY09 – comprised 13 percent of total Phase II commitments (Table 6). The shares of capital markets and Non-Bank Financial Intermediary support have decreased. Anti Money Laundering/Combating the Financing of Terrorism (AML/CFT) has not been supported in Phase II.

2.15 **The 2009 amended strategy proposed narrowing the sector focus "to allow for higher quality and greater impact"[7].** One basis for narrowing the focus was whether the sector was well-covered by other donors or agencies. While avoiding overlap with other donors is a good thing and can strengthen the case for additionality of FIRST funding, there is also the risk that the narrower the range of sectors eligible for FIRST funding, the more likely it is that FIRST will become supply-driven, because clients will request FIRST funding based on the menu of options available to them, rather than on their own priorities.

[7] FIRST Strategy, 2008-2012, May 2009, page 9

Table 6: Sector distribution, all FIRST grants, Phases I and II

	Phase I FY03-FY07	*Phase II FY08-1st H FY11*	*Change from Phase I to Phase II*
Selected sectors, in order of importance in Phase II:	*Percent of total commitment*	*Percent of total commitment*	*percentage point difference*
NBFI, incl. insurance & pensions	35%	17%	**-18%**
Banking (incl. deposit protection, credit info bureaus)	13%	25%	**+12%**
Multi-sector, Other	6%	15%	**+9%**
Crisis preparedness/management	0%	13%	**+13%**
Capital markets (incl. debt instruments)	21%	9%	**-12%**
Other	24%	20%	-4%

Notes: Total may not sum to 100% due to rounding. Only sectors with large changes are shown. Bank and IMF shown together; IMF grants are concentrated in Banking and Payment systems. For details, see Annex 3, Table 5.
Source: FIRST PMU data

Conclusions on trends and strategic focus

2.16 **Phase II has achieved some degree of success in meeting its strategic areas of focous, but not all targets have been met in the most recent 18 month period.** Grants to LICs have been over 60 percent of the total, and the target of 50 percent of total annual grants to LICs in FY10 and beyond has been surpassed. Nevertheless, in spite of the 2009 revisions to the strategy that attempted to limit the use of the funds by MICs, the proportion of grants to MICs increased in the most recent 18-month period. Grants to Africa, at 41 percent of the total for Phase II, exceed the percentages to other Regions, but the target of 50 percent of total annual grants to Africa in FY10 and beyond has not been met. For FSAP/ROSC follow-up grants, there has been a marked increase in Phase II over Phase I, but the linkage decreased in FY10 and first half of FYT11, and the target of 50 percent of grants has not been met**.**

2.17 **The difficulty in meeting the targets for grants to Africa and for FSAP/ROSC follow up, as well as the more recent increase in grants to MICs, may reflect the crisis-related grant initiative introduced in FY09 and surge in these grants in the more recent 18-month period.** This highlights the difficulty of achieving simultaneously a variety of targets and initiatives. These include, inter alia, a focus on LICs and the Africa Region, linkage to FSAP, and, since 2009, crisis-related grants. Because LICs tend to have fewer FSAPs, FSAP updates, and ROSCs, it may be difficult to continue to focus on both, and to achieve both target level of grants to Africa as well. Crisis-related grants have, until recently, been made more to MICs than to LICs, and a relatively low percentage has been approved for clients in Africa. Continued emphasis on this line of business may make it more difficult achieve targets for commitments to LICs and to Africa. As other initiatives or areas of focus are added, the implication for achieving existing strategic objectives and targets should be examined.

III. Ownership, relevance, and synergies of Phase II grants

3.1 **This chapter examines the extent to which the individual Phase II grants are consistent with FIRST's strategic objectives along three dimensions:**

i) demand-driven (ownership)
ii) relevance (alignment)
iii) synergies (harmonization).[8]

3.2 **The findings are based on the recent client survey,[9] the PCERs, and the three country case studies.** All figures show results for the 34 Bank-executed grants; the six completed IMF-executed grants are presented separately.

Demand driven - Ownership

3.3 **Responses to the client survey point to strong ownership of the grants' objectives.** 93 percent of respondents agreed that the objectives of the grant were a high priority for the government (five percent did not answer the question; only two percent disagreed). In addition, some three-quarters of respondents agreed that they would have sought funds elsewhere if FIRST funds had not been available. These responses are similar to those of the 2008 client survey.

3.4 **The PCERs assessed ownership at completion, taking into account evidence on participation during implementation, and on the extent to which clients were knowledgeable about the grant and/or were following up on recommendations or next steps.** The assessment of ownership at completion is based on more information than was available at the time of approval. Overall, ownership was strong, as discussed in the next paragraph, but in a number of grants (see para. 3.6), the situation changed during the course of the grant's implementation that affected ownership, while in others, early signs of weak or moderate ownership do not appear to have been taken into account.

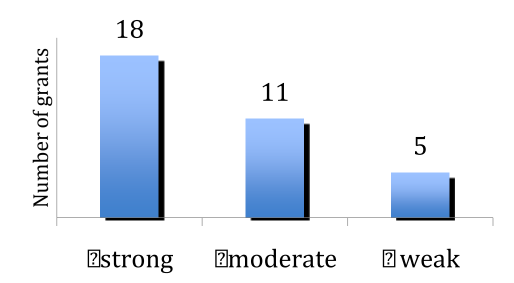
3.5 **The 34 PCERs point to strong ownership.** The average rating on ownership for the completed grants was 1.59 (on a scale of 1 to 3, where 1 is strong and 3 is weak ownership), almost identical to the Phase I average. More than half of the 34 completed grants were rated as having strong ownership, as shown in Figure 2. In *Albania*, for example, work had been on-going

[8] The FIRST strategy enumerates a number of objectives that are here considered synonymous with each other. For example, FIRST strategy stresses the importance of *demand driven* grants and separately notes its intention to follow the Paris Declaration for Aid Effectiveness principle on *ownership*. In this evaluation, "demand-driven" and ownership are considered synonymous, both signifying commitment by the stakeholders to the grant's objectives. In addition, *relevance* and (the Paris Declaration principle of) *alignment* are used interchangeably here to mean that the grant's objectives are consistent with the priorities of the country's own development strategy. Alignment also includes making use of a country's systems, which is discussed in the next chapter in relation to consultant procurement. *Synergy* and (the Paris Declaration principle of) *harmonization* are both used here to indicate that the grant's objectives, design, and timing are coordinated with other donors' efforts, although harmonization also has other aspects (legal, procedural, and informational) not examined here.

[9] Only two of the 41 responses to the client survey were from IMF-executed grants; their responses were not different from those of the 39 Bank-executed grants and, as a result, are not separated out in the discussion on client survey results.

to strengthen insurance supervision to bring it in line with EU standards, and the supervisory authority welcomed the support and requested a follow up grant. In several countries (*Guatemala, Colombia crisis-related grant)* financial authorities had dealt with failed banks in the past and were interested in addressing crisis-preparedness issues.

Figure 2 Ownership ratings



3.6 **Factors associated with moderate to weak ownership include: absence of supportive political environment** (*Colombia's* supervision of financial conglomerates, *Indonesia's* life insurance sector reform, *Kyrgyz Republic's* privatization of Aiyl Bank), **change in key personnel** (*Liberia, Malawi, South Asia)* **or in the financial sector environment** (*Nigeria* country case study, and *Montenegro*, assessment of banks' risk profiles**)**. In several multi-country grants, ownership was particularly difficult to assess at the outset, and it was never well-established for the participating countries (*East African Security Regulatory Authority*, wherein a grant had been initiated by an international regulatory body; and *Armenia*, regional workshop on crisis preparedness). Finally, in several grants early evidence of moderate or weak ownership appears to have been either ignored or misjudged (housing grants in *Kenya, Uganda, Uruguay*, and *Montenegro*, accounting and auditing).

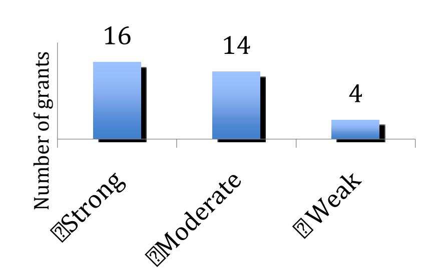
3.7 **For IMF-executed grants, ownership rating for three grants averaged 1.33.** Ownership was not rated for the three IMF-executed training conferences.

Relevance: alignment with country priorities

3.8 **The completed grants were considered, for the most part, aligned with country priorities, although there is room for improvement.** Ratings were based in part on whether the grant's objective was highlighted in a recent FSAP or other diagnostic work, or in an articulated country strategy, and in part whether the design of the grant was consistent with the objectives.[10]

3.9 **The average rating was 1.65, with almost half of the grants rated "1" on relevance.** The seven crisis-related grants were rated highly for relevance (rating = 1) even where the issue did not appear in diagnostic or strategy documents, because financial supervision needs to be prepared to deal with potential bank failures or systemic crises. Of the other nine grants rated "1" on relevance, four emanated from FSAP/ROSC recommendations, and two involved formulating sector strategies to identify priorities for reform.

Figure 3 Relevance Ratings



3.10 **Another 14 completed grants were rated as moderately relevant.** In most of these grants, the design was not well-suited to achieve the objectives. In several cases, the grant was overly ambitious (*Colombia*, supervision of financial conglomerates; *Malawi and Montenegro*, country action plans for accounting and auditing), or larger than necessary (*Sierra Leone*, Phase II); or provided a technical solution in an unwelcoming institutional or political setting (*Indonesia*, *Montenegro* banking), or funded short term TA when

[10] Evaluation methodology considers "relevance of design" to be integral to an assessment of relevance.

more fundamental and substantial support was needed *(Albania).* Several grants supported objectives of secondary importance or not on a critical path to develop the sector (*East Africa, Georgia, Uganda*).

3.11 **The evaluation found four grants with weak relevance.** These grants supported activities that were out of step with the country's level of financial sector development. For example, in *Bosnia-Herzegovina*, a grant supported the establishment of a unified stock index, even though the country's stock exchanges are dormant and an exchange-traded country index could have little impact in a situation where corporate governance is weak and capital markets so small. In *West Bank and Gaza*, the grant aimed at devising a deposit insurance scheme, even though none of the 12 recommendations in a recent diagnosis of the banking sector involved deposit insurance, and deposit mobilization is strong and not a constraint to bank expansion.

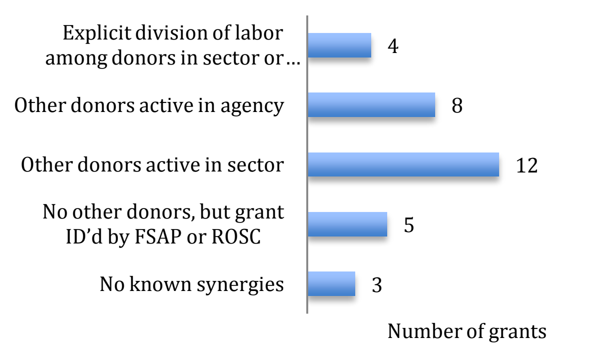
3.12 **The country case study on Malawi highlights a weakness of approving a succession of individual grants over the years without the benefit of an overall strategic framework.** Since the beginning of Phase I, Malawi has had a total of eight grants, totaling $1.65 million (including part of a large regional grant). Malawi has a small financial sector, dominated by commercial banks, where access to finance is one of the key issues. Nevertheless, two-thirds of the grants (or $1.1 million) were aimed at regulation of non-bank financial intermediaries (pensions, insurance, capital markets, and micro-finance). With the exception of the work on micro-finance, this allocation seems to be imbalanced given Malawi's constraints.

3.13 **For the six completed IMF-executed grants, the average relevance rating was 1.83.** The three conferences were rated as moderately or not relevant[11], while direct TA to the *Philippines* for problem bank resolution, and to *Kyrgyz* and to four countries in *Africa* for payment systems was rated "1" for relevance.

Synergies among FIRST grants and other donors: harmonization

3.14 **FIRST grants were implemented in a variety of donor environments, ranging from a fully articulated donor program in the sector or agency to no evidence of other donor activity in the sector or agency.** Figure 4 shows the different situations of the 34 Bank-executed grants reviewed, in descending order of consistency with FIRST's strategy, although for the grants in the categories "other donors active in agency" and "other donors active in sector", it was not always possible to tell if there was coordination with other donors. Grants were not rated on synergies.

Figure 4 FIRST grant synergies



3.15 **A clear division of labor among donors was identified in four grants.** FIRST's grant to *Syria*'s Damascus Stock Exchange complemented funding from

[11] The IMF conference in *Sub-Saharan Africa* on monetary and foreign exchange policy was an example of good practice in development training in a couple of respects: the participants were hand-selected based on their work responsibilities (rather than as a reward or favor), they all worked at central banks, there would be opportunity for follow-up and mentoring through some of the central banks' ongoing support from IMF resident advisers, and the curriculum included presentations by participants.

other donors for the basic regulatory framework, hardware, and training. In *Albania*, complementary TA was provided to the insurance supervisory agency by the European Bank for Reconstruction and Development, several bilateral donors, and the World Bank. The experience in *Sierra Leone* (two grants) involved explicit sector-wide synergies, where FIRST funded a financial sector development strategy, that in turn was supported in a coordinated way by a number of donors.[12]

3.16 **The *Nigeria* country case study also found a division of labor among donors, although less formalized than in Sierra Leone**. The FIRST grants for financial sector strategy work have been complemented by more specific work by DFID and GTZ, while IFC has been involved at the entity level, and the IMF FIRST-funded missions introduced a bank asset management consultant that is now resident in Nigeria under DFID financing.

3.16 **The Malawi country case study found substantial synergies with several FIRST grants.** The Bank has been closely involved in all of the Phase II FIRST grants to Malawi. The government used a FIRST grant (not reviewed here because not completed by June 2010) for developing and adopting a Financial Sector Development Strategy after detailed consultation with stakeholders, which was followed by a large multi-donor aid program (a recently approved IDA TA project with parallel financing from DFID and USAID). A grant for a country action plan for accounting and auditing was meant to launch a large donor-funded capacity-building project, which appears unlikely to happen, but the Bank has followed up through a more modest $0.5 million Institutional Development Fund grant. Finally, the on-going FIRST grant for strengthening contingency (crisis) planning has been complemented by a bank stress-testing exercise supported by Norway.

3.17 **The seven *crisis-related grants* reviewed here were considered synergistic, and are categorized under "other donors active in sector".** The Toronto Centre[13] and the Bank participated in one *regional* workshop and the Bank participated in two other *regional* workshops and were supporting similar activities elsewhere in the world, so FIRST's participation was a part of a larger-scale effort. All of the four grants to individual countries reviewed here fit in well with donor-assisted initiatives on supervisory strengthening.

3.18 **"Other donors active in agency" did not always signify synergies: in a couple of cases, it raised questions about the additionality of FIRST funding.** In the grant to the *East Africa Securities Regulatory Authority*, a forum for capital market regulators, peer reviewers and clients raised concerns about the grant's relationship to several related donor-financed actions, and it is unclear why the work was not included in an on-going IFC program in the region. A similar question applies to the grant to the *Africa Trade Insurance (ATI) Agency* to develop a risk management framework, given that the agency was supported by other donors – including a substantial on-going Bank project and a second one under consideration – and that such a framework was a central for ATI to carry out its work effectively.

3.19 **Synergies with other donors could not be identified in nine grants.** In *Montenegro*, the FIRST grant for accounting and auditing emerged from a ROSC, but did not – despite advice

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[12] The IMF's support for retail payments system in the *Kyrgyz Republic* took place at the same time as an IDA-funded credit to modernize the payment system, but there is no evidence of coordination between them.

[13] The Toronto Centre, supported by donors and a Canadian university, is an institute that offers training programs for financial regulators from around the world.

to this effect during the review process – situate the exercise within the work of other donors such as REPARIS (a regional program for accounting reform) and the EU.

3.20 **The country case study of the *Kyrgyz Republic* found no significant synergies with the six grants approved for the country**. Through close and intense supervision of the grants, however, Bank staff were able to maintain relationships with key financial entities that would not have been possible, given the absence of other IDA-financed analytic work or lending operations that might have provided a platform for policy discussions.

3.21 **IMF-executed grants operate under a different model, whereby FIRST funds are sometimes, although not always, used to supplement an existing IMF program of technical assistance.** As a result, the FIRST grant to four countries in *Africa* to strengthen their payment systems was part of the provision of TA by IMF to this end. Similarly, the grant to the *Philippines* for problem bank resolution was a follow up to an earlier mission by the same consultant – not funded by FIRST – at the request of the IMF resident advisor. The grant to the *Kyrgyz Republic* for retail payment systems complemented an on-going IDA credit for that purpose. By contrast, it was difficult to identify synergies for the three multi-country conferences and workshops funded by Phase II grants through the IMF.

Conclusions

3.22 **Phase II grants are, for the most part, demand-driven and aligned with the client country's priorities for financial sector development.** A large majority was characterized by either strong or moderate ownership. Similarly, Phase II grants also appeared to be, with a few exceptions, relevant for the development of the financial sectors, although there is room for improvement in ensuring strong relevance.

3.23 **Synergies, however, were more complicated to assess.** In general, the picture is quite mixed, with fewer than half of the reviewed grants showing strong synergies.

3.24 **Two recommendations emerge:**

(i) **Relevance: FIRST should ensure that the proposed activity is based on or consistent with diagnostic work or a country strategy that identifies priorities.** A recent FSAP can serve this function, as it should ensure that the grant's objective has been identified as a priority or that the grant is a direct follow-up to the FSAP itself. In the absence of an FSAP, other diagnostic work or an agreed financial sector development strategy can provide such guidance. Although having such a document is no guarantee of relevance, it increases the likelihood. In addition, FIRST should ensure that the Bank and/or other donors active in the client's financial sector is/are fully supportive of the selected activities. Finally, the grant's design needs to be consistent with the objectives - this is where the judgment of the task team leader and technical leader is important.

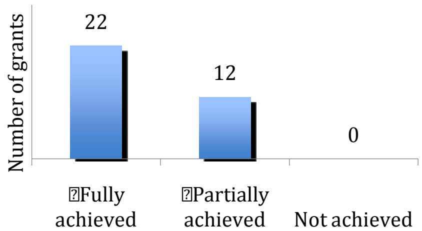
(ii) **Synergies: opportunities to partner with other donors should become a greater focus of FIRST's program.** FIRST finances mainly short term TA, which experience has shown is often not sufficient to bring about needed change. FIRST should seek ways to develop closer partnerships with other donors. This is elaborated on in later chapters.

IV. Outputs and consultant performance

Findings on outputs

4.1 **The review of 34 Bank-executed completed grants found that outputs were generally delivered as expected (if not always within the estimated timeframe), and to a good standard.** The average rating for outputs was 1.35 (out of 3, where 1 is fully achieved, 3 is not achieved), the best rating (along with consultant performance) of the seven dimensions rated. Phase I grants had a similar pattern.[14] This was consistent with client survey results, where some 80 percent of those respondents who expressed a view agreed or strongly agreed that the project produced all of the expected deliverables. Several respondents mentioned that too little time was allotted for the tasks.

Figure 5 Output Ratings



4.2 **Outputs were fully delivered as anticipated in 22 grants (Figure 5).** This is consistent with a recent evaluation of Bank-managed trust funds, which found that most of the trust funds reviewed delivered their planned outputs.[15] In several cases, the situation changed during implementation, or it was agreed that the initial scope of the grant was too ambitious, and the outputs were not fully delivered as originally set out, but by mutual agreement with the client. In other cases, the outputs were delivered but were not of particularly good quality and were rated as partially delivered. No grant was rated as having had no achievement of outputs. Examples of fully and partially achieved outputs are in Box 3.

4.3 **This reflects well on the scope of the grant proposals.** It suggests that the grants are generally realistic in defining the expected deliverables and that the consultants hired under the grants have, for the most part, produced them. Consultant performance is reviewed below.

4.4 **The IMF ratings on output averaged 1.33.** Of the six IMF-executed grants, three were conferences; two were delivered as planned and were rated "1"; one was more modest than planned and was rated "2". Two country-focused grants were rated "1". In *the Kyrgyz Republic*, both political upheaval and political decisions about the payments system derailed the work before it was completed; output was rated "2".

Box 3 Examples of delivery of outputs

In *Colombia crisis preparedness*, output was rated as "fully achieved." The grant produced a detailed and practical report that included second and third best alternatives for bank resolution, deposit insurance, and dealing with financial conglomerates and non-bank financial intermediaries; cost estimates of different bank resolution approaches; and staff training on a financial projection model.

In *Liberia*, the planned output was a roadmap for the development of a financial sector strategy. The diagnostic report produced by consultants was well received by the Liberian authorities. Deliverables exceeded what had been planned, with the on-demand memorandum on the establishment of a Credit

[14] The 30 Phase I completed grants had an average output rating of 1.53, also one of the best of the five dimensions rated. The difference with Phase II average output rating is not statistically significant.
[15] Independent Evaluation Group, "Trust Fund Support for Development, An Evaluation of the World Bank's Trust Fund Portfolio", World Bank, February 2011, page 15

Reference Bureau and a Draft Credit Reporting Bill, delivered to the Central Bank of Liberia. The output was rated as *fully achieved*.

In *the Philippines* (IMF-executed grant), the consultant provide detailed recommendations to improve policies and procedures for banks needing prompt corrective action (PCA); the outline of an early warning system for not-yet-PCA banks, and training for bank supervisors, including for future in-house trainers. An early warning system was delivered, not in the original plan but requested by the client. Output was rated as *fully achieved*.

In *Montenegro*, the grant aimed at producing a country action plan for accounting and auditing. The consultants produced two reports, a short-term plan and a medium/long term one. A close review of the two plans show that they are, page for page, about 90 percent identical; they are also general and non-prioritized, with the long-term plan being primarily a continuation of the same items in the short-term plan. The two plans together were estimated to require a budget of 3.7 million Euros, a sum that was unlikely to be mobilized. This output was rated as *partially achieved*.

4.5 **The majority of the completed grants took longer than planned and most grants require more than 18 months to complete.** Fifteen percent of the completed grants, or five out of the 34, took more than two years to complete. An analysis of all Phase II grants, including those still under implementation, shows that almost one-half of the grants (23 out of 49) require more than 18 months (Table 7, last column), and a significant portion (at least 40 percent), require at least two years. When crisis simulation exercises – which typically take no more than a few months to plan and implement – are excluded, these figures are even higher.

Table 7: Time required for implementation of Bank-executed grants

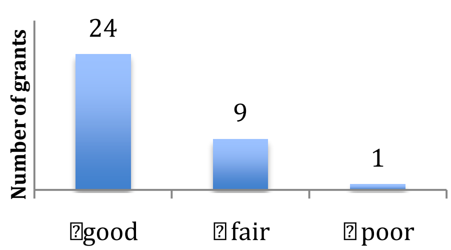
Approved by:	***end-June 2008***	***end-Dec 2008***	***end-June 2009***	***Total***
Number of grants approved, of which:	23	17	9	49
Completed by end-Dec. 2010	15	5	6	26
On-going as of end-Dec. 2010	8	12	3	23
	Implementation period			
	>2 ½ years	***>2 years***	***>1 ½ years***	
On-going grants as % of approved grants	35%	71%	33%	

Note: figures for IMF-executed grants are similar, except for grants approved by June 2009: 2 out of 2 grants are on-going.
Source: FIRST PMU data

Consultant performance: evidence from client survey and PCERs

4.6 **Consistent with the findings above on outputs, the client survey results point to strong consultant performance.** Between 80 and 93 percent of those responding to four survey questions agreed that the consultants were well qualified, provided relevant, timely, and practical advice, and treated the clients with respect. There may, however, be room for improvement on the practicality of consultants' advice: 12 percent disagreed that the consultants included "how to" advice. It would be appropriate for consultants' terms of reference to include an explicit reference to including practical guidance on implementing recommendations. Several clients also commented that that the consultant should speak the local language of the country.

Figure 6 Consultant performance



4.7 **The review of the 34 completed Bank-executed grants is consistent with client responses on consultants' performance.** The average rating for the 34 grants was 1.32 (out of a possible 3, where 1 is very good and 3 is poor), along with outputs, the best of the average ratings across seven dimensions. Over two-thirds of consultants' performance was rated very good (Figure 6); in several cases the consultants delivered more than was initially expected in response to a specific client request. This finding is similar to that of Phase I.[16]

4.8 **The average rating on consultant performance for the six IMF-executed grants was 1.00, the highest of the seven dimensions rated.** Only the three country grants were rated in this dimension; the conferences were not.

4.9 **Because FIRST primarily finances consultants, its impact can ultimately be only as good as the quality of the consultants.** The client survey results, the average rating, and the distribution of ratings all point to a program that is supplying well-qualified consultants who deliver as expected. A few observations on the *process* of hiring are discussed below.

Consultant selection: further considerations

4.10 **Several FIRST-funded consultants were hired for multiple grants.** One FIRST financed consultant played a significant role in four grants and one firm a significant role in four other grants. The same individual and the firm are also being funded by FIRST for other, on-going Phase II grants. Other individuals and firms had a major role in more than one grant.

4.11 **FIRST should make an effort to avoid concentrating its use of the same consultants in multiple grants.** While many tasks require highly specialized experience and knowledge, adding a wider range of well-qualified specialists could serve to: (i) avoid situations where consultants have market power in highly specialized areas and FIRST may be dependent on their services; (ii) broaden the pool of qualified consultants which could further strengthen the selection process; and (iii) help to avoid any appearance of repeatedly financing a narrow group of consultants. FIRST already funds local consultants in some projects, which is good practice, and expanding the hiring of local consultants brings important local perspective to the work and ensures that consultants have appropriate language skills.

4.12 **In at least five completed grants, FIRST financed consultants from either the client country, or from neighboring client countries, which is good practice.** These consultants' performances were rated highly, reflecting in some cases local knowledge and language capabilities. FIRST is making an effort to expand this approach.

4.13 **Terms of reference should specify deliverables**. This was not the case with all terms of reference, some of which included only "attending meetings, providing policy advice". FIRST should ensure that consultants' terms of reference require them to deliver reports, to the client and to FIRST, on the content of the policy advice and recommendations.

4.14 **In two of the 34 grants the evaluation identified possible conflicts of interest,[17] which, if confirmed, are against Bank guidelines for hiring consultants.** It is outside the scope of this evaluation to audit these grants, so the team submitted separate notes on the two grants to FIRST management and to the appropriate units in the Bank.

[16] The 30 Phase I completed grants had an average consultant performance rating of 1.43. The difference with Phase II average rating for consultant performance is not statistically significant.
[17] The conflicts concerned the consultants, not FIRST staff.

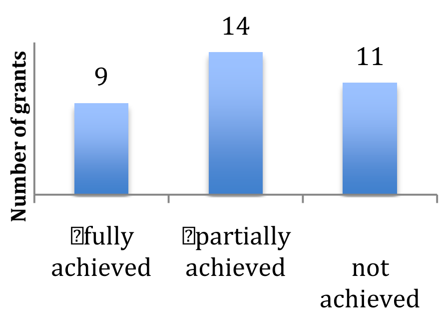
V. Outcomes of grants, risks, FIRST as catalyst, and country-level results

Grant outcomes

5.1 **Outcome ratings are considerably weaker than outputs for the 34 Bank-executed completed grants.** The average outcome rating is 2.06, with only nine grants considered to have fully achieved their outcomes. Another 14 grants partially achieved their objectives, and 11 did not achieve them (Figure 7). These findings are almost the same as in Phase I in terms of both the average outcome rating and the distribution of grants across the ratings. For IMF-executed grant outcomes, see Box 5.

5.2 **In all but one of the nine grants rated "1" for outcome, ownership was strong.** Because ownership was assessed in part (but not exclusively) by evidence that the client was involved in following up on the recommendations of a grant, and follow up by the client was also used as evidence that the grant was achieving its objectives, it is not surprising that the two are correlated.

Figure 7 Outcome ratings



5.3 **In half of the grants that did not achieve their objectives, ownership was weak.** The grant to *Colombia* on strengthening the supervision of financial conglomerates ran into both capacity constraints of the supervisory authority and political resistance when it came time to implement actions to reduce the opacity of financial groups. In *South Asia*, participating countries were initially enthusiastic about the grant to improve the regional payments systems, but changes in central bank personnel and political developments dimmed their interest. In addition, the large disparities among the countries in the region and difficult conditions in some (like Afghanistan) weakened the rationale for undertaking a regional approach. In the event, payment and remittance systems were not improved. In the *Kyrgyz Republic*, neither the previous nor the current government appeared committed to the privatization of Aiyl Bank, which has not happened.

5.4 **The strength of client ownership alone, however, did not determine whether outcomes were achieved.** In nine grants where ownership was strong, outcomes were only partially achieved; and in half of the grants where outcomes were not achieved, ownership was moderate (see Table 8).

Table 8: Ownership and Outcomes

	Strong ownership	Moderate ownership	Weak ownership
Fully achieved outcomes	9		
Partially achieved "	10	5	
Not achieved "		5	5

Note: correlation coefficient between ownership and outcomes was .78

5.5 **Most of the grants that fully achieved their outcomes had modest objectives that were realistically linked to the outputs.** For one crisis-related workshop and two crisis-related grants, the objectives were to identify weaknesses in crisis management and raise awareness;

success was defined modestly as the client's taking follow up actions to address weaknesses. In the two grants with more ambitious objectives of improving crisis management, outcomes were only partially achieved (See Box 2). The grant to the *Association of African Development Finance Institutions* (AADFI) aimed to test the applicability of standards and guidelines with volunteer DFIs – this was successfully carried out, and thus it achieved its outcome. The AADFI secretariat has further reported that follow up by DFIs has continued, but the challenge remains of providing capacity building to member DFIs to enable them to make use of the prudential standards. In general, more ambitious outcomes that depended on implementation of actions had a longer results chain and more steps required than covered by the grant. In some cases, the initiative would have needed inputs not financed by FIRST – such as software or diagnosis – in order to reach the desired outcomes (eligibility for FIRST funding is discussed in Chapter VI).

Box 4 Crisis-related grants: good to moderate outcomes

Seven completed grants related to crisis-preparedness were assessed for this evaluation. Three were Regional crisis workshops, and four were country specific grants.

The objectives of the Regional workshops were to raise awareness among participants about the issues and potential weaknesses in crisis management and to inform them of the availability of FIRST funding to address the weaknesses. Outcome was assessed based on evidence of follow up by the country on crisis management, with FIRST funding getting "extra-credit" (as that was one of the stated objectives).

In *South Africa*, following the workshop attended by representatives of 13 countries, six countries requested FIRST funding to work on crisis management (of which five were approved), although two requests came more than a year and a half after the workshop, so the link for those two to the workshop is tenuous. Nevertheless, this grant was rated as "1". In *South America (Montevideo)*, however, of the 11 attending countries, three had already undertaken either Bank or FIRST-funded crisis work prior to the workshop, and only one country requested a grant related to crisis management after the workshop. The workshop in *Armenia* was attended mostly by junior staff from ten countries; there is evidence that three clients followed up, although not with FIRST funding. The outcomes of these two regional workshops were rated as partially achieved.

Grants in *Morocco* and *Guatemala* funded a crisis simulation exercise (CSE). The outcomes in the grant proposal were really the outputs, so outcomes were assessed based on whether the countries followed up in addressing the weaknesses identified in the CSE. Both did so with subsequent FIRST funding, and both of these grants were considered to have achieved their modestly defined objectives. The more challenging issue will be whether subsequent efforts manage to successfully correct the areas of weakness.

By contrast, the grant in *Colombia* for strengthening crisis-preparedness was a follow up to earlier crisis simulation exercise, and thus more ambitious in its objectives. Similarly, the grant to *Zambia* included strengthening inter-agency coordination; problem bank resolution framework; financial modeling capacity, and improving laws. In both of these countries, the objectives were partially achieved. More time and effort, and, in Zambia, probably external support, will be needed to fully achieve them.

5.6 **Size of the grants is not correlated with fully achieved outcomes.** Three of the grants with fully achieved outcomes were relatively modestly sized, at $50-60,000 (*Guatemala; SADC;* and *Sierra Leone*, first grant); three were on the higher end of grant sizes, at more than $200,000 (*Chile*, pensions; *Sierra Leone*, second grant; and *Syria*); and the others were in-between.

5.7 **Weak capacity, political obstacles, and/or additional time needed to implement recommendations hindered achievement of objectives.** In *Albania*, for example, the grant aimed to strengthen supervision of the insurance sector. Although improved supervision tools and a draft law were prepared, staff turnover, lack of expertise, and weak overall capacity impeded the supervisor's ability to deploy the supervision tools effectively. In *Peru* the grant's objectives were to improve the quality of accounting for listed companies and for small and medium enterprises, and to improve securities regulation through improved transparency and disclosure. During the two and a half years of implementation, all manuals and a country action plan were prepared and workshops held, but at the time of this review, the authorities had not yet formally adopted the action plan and implementation had not yet begun.

5.8 **Financing of short-term TA without complementary components is generally inadequate to realize outcomes.** In *Albania* and *Peru*, as noted above, although the outputs were delivered as expected, longer-term capacity building is required to ensure that the manuals and action plans are put to use. Short-term TA is insufficient to bring this about. The example of *Montenegro* is instructive, where the client was unable to proceed in the absence of software, which FIRST cannot fund. In *Syria*, by contrast, other donors provided hardware and training, allowing the stock exchange to begin functioning. Survey respondents also noted their frustration at not being able to follow up recommendations in the absence of continued TA and training.

5.9 **The need for additional support was a consistent theme in both PCERs and responses to the client survey.** Virtually all survey respondents who expressed a view on whether they needed additional support agreed that they did. Only one disagreed (although some 24 percent said it was too soon to tell or the question wasn't relevant). One client commented, "The key lesson from this project is that implementation and training should always be part of the project." and "The effectiveness of the FIRST project was negatively impacted by the fact that [agency] could not proceed with the implementation of the recommendations from the project."

Box 5 Outcomes of IMF-executed grants

Three of the six IMF-executed grants were not rated. The three unrated *Africa regional* grants were conferences whose objective was to increase the participants' understanding of the subject matters (macro management, monetary and foreign exchange policy, FSAP recommendations). In the absence of a baseline test prior to and following the conference to measure the participants' understanding, it is not possible to assess whether their understanding did increase.[18] The evaluation recommends that for the future, to ensure the evaluability of conferences whose objective is to increase understanding of a subject, the grants include a simple before and after test of the participants that could measure achievement.

The remaining three completed IMF-executed grants had an average outcome rating of 2.33. Support to the *Philippines* for improving problem bank resolution specified five objectives; although much was accomplished under the grant, two of the objectives were not; outcomes were considered partially achieved (rating=2). In a grant for four *African countries* (Botswana, Namibia, Seychelles, Swaziland), country-specific objectives were specified to improve payment systems, and while progress was made in each country, it fell short of full achievement (rating=2). In the *Kyrgyz Republic*, the grant for retail payment system was aimed at moving from a cash economy to a non-cash basis, but implementation was derailed by political upheaval, and once stability returned to the country, it was not revived. In addition, there had been uncertainty about the role the central bank ought to play. Outcomes were not achieved (rating = 3).

5.10 **The presence of other donors, or close follow up by FIRST, was key in almost all of the nine grants that fully achieved their outcomes.** Three of the crisis-related grants that fully achieved their outcomes had strong involvement of the Bank (*SADC; Guatemala; and Morocco* – see Box 4) and, for SADC, the Toronto Centre. In *Papua New Guinea*, a relatively modest-sized

[18] On this point, see discussion in "Personal Benchmark Evaluation: Assessing the Contribution of Training to Development Capacity", PhD Dissertation by Aliza Belman Inbal, submitted to George Washington University, January 2011

grant for improving insurance sector reporting and supervision was a follow up to a previous FIRST grant, and linked to an FSAP.

5.11 **Involvement of other donors was particularly important for achieving objectives in the case of financial sector development strategies.** In *Sierra Leone*, putting in place a short-term roadmap for developing a financial sector strategy was a criterion for access to IMF funding and was accomplished; the second grant aimed to develop the strategy which could be used as the basis for further donor assistance. These outcomes were met, although implementation of the strategy has not yet begun (IDA funding is at an advanced stage of preparation). By contrast, in *Liberia*, the grant to produce a roadmap for a financial sector strategy was expected to lead to a more ambitious phase to develop a comprehensive strategy (as it had in Sierra Leone), but two years after the completion of the grant, no donors have come forward to provide support. Perhaps significantly, and except for supervising the grant, neither the IMF nor the Bank was engaged in this process.

5.12 **The Malawi and Nigeria country case studies also highlighted that absence of close follow up (and adequate documentation) are compounded by weak institutional memory.** Even with a relatively strong counterpart, the impact of individual grants is greatly reduced or eliminated if the grants' outputs are not both well-documented and followed up quickly.

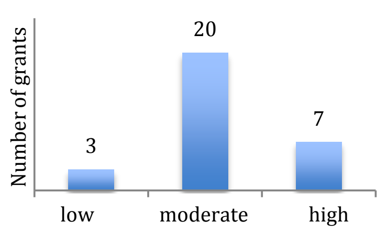
5.13 **Box 6 presents an interesting example of the extent of follow up and additional donor support required for a Phase I grant to Peru.** The innovative approach to supporting small and medium enterprises took a long time to bear fruit, but it is finally having an impact on access to long-term finance for these firms and is considered very successful.

Box 6 Phase I grant to Peru comes to fruition some five years later

An innovative Phase I FIRST grant to Peru, approved in June 2005, aimed at developing a bundled and securitized receivables scheme from micro and small enterprises (MSEs), which would enable MSEs to access improved financing from the capital market. The study confirmed the viability of the concept for a new investment vehicle, a factoring scheme, and described the necessary legal, regulatory, financial, operational and informational dimensions. The grant was critical in funding the early stages of development and allowed for continued Bank involvement to search for sources of funding. A Peruvian development bank, Cofide, found the scheme appropriate and committed up to US$10 million, which is expected to reach 50,000 MSEs. After almost six years of effort, the initiative has been widely recognized as a success. It recently won an award and financial backing from the G-20 countries, which will allow implementation of the scheme in other countries. Colombia has already indicated willingness to implement the scheme.

Risks to development outcomes

Figure 8 Risk to outcomes



5.14 **Risks to development outcomes were rated high.** The average risk rating was 2.13, the highest of all the dimensions rated.[19] The assessment of risk was based on a judgment on whether the client was likely to follow up on the actions recommended or steps required to achieve the objectives. As discussed in the last section, most grants would have required follow up to realize their objectives, most survey respondents thought that they

[19] This dimension was not rated in Phase I, so no comparable rating available.

needed further support to follow up, and there was considerable uncertainty in many situations of whether that would occur. The evaluation found that the majority of completed grants carries at least some risk that outcomes will not be fully realized within the near to medium future. In several grants, it was difficult to assess the risks; these included the three regional workshops on crisis preparedness.

5.15 **Risks to the outcomes of IMF-executed completed grants were mixed.** This aspect was not rated for the conferences, because no outcomes could be assessed. Risk was rated as low for the grant to *the Philippines* and the one to the four *African countries*, and risk was rated as high due to political factors for the *Kyrgyz Republic* retail payment system grant.

Does FIRST act as a catalyst to development programs?

5.16 **The evaluation found instances of donor support following FIRST grants, where the grants could be considered catalytic.** In both *Morocco* and *Zambia*, following crisis simulation grants, the Bank approved a fast-disbursing lending operation in each country, which included, inter alia, measures to strengthen banking supervision. The loan to Morocco, prepared in parallel with one from the African Development Bank, covered non-banking areas that were addressed by other, on-going FIRST grants. In *West Bank and Gaza*, the work on deposit insurance formed the basis of a component of a subsequent IDA grant. In *Malawi*, the FIRST-funded work on a financial sector strategy became a key input into a subsequent multi-donor TA credit and in *Sierra Leone*, the grants that funded the formulation of the financial sector strategy became the basis of coordinated donor intervention. Finally, in *Nigeria*, the Bank was involved in the financial sector mainly through the two FIRST grants that it supervised, which, among other things, provided the information base for a large, fast-disbursing Bank lending operation in 2009.

5.17 **Several crisis-related grants had a catalytic effect on clients.** Following the regional workshop on crisis preparedness in *Armenia*, several countries pursued follow up actions to strengthen banking supervision. These included Russia, with support from the Toronto Centre, Lithuania, and Armenia, which received TA from the IMF. In addition, work in *Guatemala* on a CSE spurred the superintendent of banks to urge the Central American Superintendent of Banks to request a CSE for Central American countries, which took place with FIRST funding.

5.18 **FIRST has also supported credit reporting in Latin America through CEMLA** (regional association of Latin American and Caribbean central banks). A grant in Phase I funded eight country assessments and a second grant in Phase II, completed at end-December 2010, covered additional countries. The assessments are being followed up in client countries as input to FSAPs and to identify needed legal reforms or capacity building, and several countries are considering options for hiring TA to address the identified areas. The grants have had a catalytic effect in some of the client countries on improving credit reporting, which is significant not only for improving access to credit but also for enhancing competition among banks.

5.19 **In the majority of cases (24 out of 34), however, the evaluation did not find examples of FIRST being a catalyst for larger development initiatives.** Unless donors were already active in the sector, most FIRST grants were not followed by additional activities clearly prompted or catalyzed by the FIRST grant. *Liberia* serves as a cautionary example: the Bank had not been active in the financial sector in Liberia for some years when FIRST approved a relatively modest grant (~$72,000) to define a roadmap, which in turn was expected to be followed by a more ambitious grant (~$300,000) to develop a comprehensive financial sector strategy plan. The second phase has not materialized, and those interviewed about this grant ascribe the lack of follow up to the continued absence of the Bank as an active partner in Liberia's financial sector.

Results in a country context

5.20 **The PCERs' enumeration of all FIRST grants (past, on-going, completed, and proposed) to a country showed that the grants are quite diverse within client countries and address a number of (unrelated) areas; they tend not to form a coherent program.** This is not a criticism of FIRST, but a consequence of FIRST's model of funding short-term TA in response to client demand. In the 27 countries and regional agencies where the completed grants were implemented (excluding regional workshops), 15 countries had pairs of related grants and 12 countries had no linkages among their grants. For example, of the 11 grants made to the Kyrgyz Republic – including Phase I grants – two were related to Aiyl Bank, two to deposit insurance, and the others were unrelated.

5.21 **Grants' specific outcomes were not reflected in financial sector indicators.** Except for one of the 34 grants, it was not possible to identify quantifiable indicators, and even where quantifiable indicators could theoretically be identified, the results chain leading to those indicators was very long and subject to many other influences. In the four crisis-related grants to countries, theoretical country-level indicators would be objective but descriptive – legislative changes, use of stress testing, formal agreements on interagency cooperation. In the four countries (*Liberia*, *Nigeria*, *Rwanda*, and *Sierra Leone*) where the grants supported developing or implementing sector strategies, the results would be unlikely to be measureable even in the medium term, because of the extensive number of actions required and the time needed to implement them. In the three grants that supported accounting and auditing (*Malawi*, *Montenegro*, and *Peru*), expected country level outcomes include greater transparency and perhaps a better investment climate, that could in turn encourage both more bank lending and foreign investments, but such impacts would be long-term and influenced by many other factors, so a linkage is at best indirect. The same is true for grants that sought to strengthen banking, insurance, and pension supervision – in *Chile*, *Colombia* (supervision of financial conglomerates), *Georgia*, and *Indonesia* – country level indicators of financial sector soundness would take years to appear, even if all the grants had been fully successful, which most of them were not.

5.22 **One exception to this generalization was the creation of a stock exchange in *Syria*.** There was no stock market activity prior to its creation; turnover and capitalization were measureable after its creation, at an increasing, albeit still very modest, scale. Nevertheless, the ultimate objective was that creation of the stock market would lead to its growth and provide an impetus to private sector development. That will take some time.

Conclusion: towards better outcomes

5.23 **Most of the completed grants needed more time, more effort, and more support than that provided by short-term technical assistance to achieve their outcomes.** Evidence from the client survey, the review of completed grants, and the country case studies underlined the importance of additional inputs, including continued advice from international specialists, training, manuals, software, hardware, on-going dialogue and review, consensus-building, and other elements for realizing targeted reforms. This is consistent with literature on capacity building, which cites its multi-dimensional nature, and the need to take into account the capacity of individuals, the organizational resources, and internal and external incentives for developing institutions.[20]

5.24 **The most significant factor in successful grants, other than ownership, which is very difficult to ensure, was the presence of other donors, providing complementary assistance and/or close supervision of the grant and follow up.**

5.25 **In light of these findings, and to achieve better outcomes, it is recommended that FIRST:**

(i) **Develop integrated work programs with donors active in client countries.** The IMF modality is one example, where the IMF makes use of FIRST funding to supplement or expand existing TA programs to client countries. FIRST should consider a similar arrangement with the Bank, where FIRST would commit support to Regions and anchor (centralized) units that have programs of non-lending TA to eligible countries. The specific initiatives could be identified for a one-year work cycle and an agreement reached for funding the TA and associated items as appropriate for those initiatives. Examples of how this approach is used in one trust fund and in one Bank Region are in Box 7. If experience with the Bank proves satisfactory in terms of the quality of the grants and reporting on implementation and results, FIRST could develop similar arrangements with other multi-lateral development banks, especially the African Development Bank (AfDB), which would be consistent with the strategic focus on Africa, or other regional agencies and bilateral donors that provide non-lending TA to client countries.

Box 7 Examples of integrated work programs

Energy Sector Management Assistance Program (ESMAP) provides lump sum funding to each of the six Regional energy units to carry out analytic and advisory work or to provide technical assistance that is integrated into the Bank's policy dialogue with clients. The activities are identified and planned in the context of each client country's Country Assistance Strategy. A 2009 quality review found both improved access to ESMAP funds and improved predictability of funding for the client countries.

The East Asia and Pacific Region has issued guidelines for integrating Bank-executed trust funds (BETF) into the Region's regular business and budget process. These include: (i) incorporating all BETF activities, including planned expenditures, into the Work Program Agreements, which are prepared in advance of the fiscal year; (ii) ensuring that the use of each trust fund is aligned with the larger assistance strategies for the clients; (iii) providing monthly and semi-annual reports on usage of the trust funds and progress in implementation.

Sources: Trust Fund Support for Development: An Evaluation of the World Bank's Trust Fund Portfolio, Independent Evaluation Group, World Bank, 2011; and FY10 East Asia and Pacific Trust Fund Portfolio, October 2010

(ii) **Adopt a phased, longer-term framework for individual grants that envisages the phases needed to achieve outcomes.** At the outset of a proposed initiative, it would be important to identify likely follow up actions and activities required to realize intended outcomes. FIRST should conditionally agree to phase its support, provided satisfactory implementation of earlier phase(s), through to the final steps.

(iii) **Full disbursement of a grant should not be a prerequisite for funding a subsequent phase**, as that could lead to significant funding gaps and loss of momentum.

[20] "Using Training to Build Capacity for Development: An Evaluation of the World Bank's Project-Based and WBI Training", Independent Evaluation Group, World Bank, 2008, page 6.

(iv) **For individual grants, establish a longer time frame than the current 18 months.** As the analysis in the last chapter shows, at least 40 percent of the grants require at least two years to carry out all planned activities. FIRST should establish a normal implementation time limit of at least two years.

VI. Management of FIRST funds

6.1 **For a number of reasons, it is difficult to allocate "performance" between the FIRST PMU and the Bank or the IMF.** Although FIRST's charter, adopted in 2007, specifies the respective roles of the Governing Council, the PMU, the Bank, and the IMF, a number of administrative roles and management are the result of teamwork. For example, identifying and developing grant proposals, regardless of where the request originated from, are often the product of consultations and close coordination between PMU and Bank staff. The task team leader (TTL) supervising grant implementation may be in either the PMU or in the Bank (or IMF) at the outset, but that can change during the course of implementation. Technical leaders in the Bank may play a key role in supervision, rather than the TTL, so even the locus of the TTL may not indicate where accountability lies. Both FIRST PMU and the supervising unit share accountability for reporting on grant results.

6.2 **In addition, many clients interviewed by the evaluation team, particularly in the country case studies, thought that the FIRST grants were Bank or IMF projects.** Except for the individuals most closely associated with the grants (such as the Central Bank governor in the Kyrgyz Republic), most other officials did not have strong FIRST "name recognition". In the Kyrgyz Republic, all of the Phase II grants were developed with the Bank or the IMF and in all three country case studies, the Bank has been pro-active and visible in supervising the grants. The Nigeria case study noted that many documents financed by FIRST made few references to FIRST as the source of funding. Donor representatives met during the country missions also generally perceived FIRST grants as part of World Bank financial sector activities. In addition to the visibility of Bank staff in connection with these grants, staff turnover in both donor representative offices and in client agencies contributes to limited institutional memory about the funding source of grants. This limited name recognition of FIRST complicates the interpretation of the client survey that asked questions about "FIRST performance". It is possible that the respondents were referring to their interactions with Bank staff working on the FIRST grants.[21]

"FIRST performance"

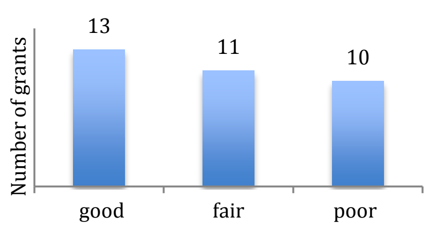
6.3 **The client survey was quite positive about FIRST as a donor.** Client views of FIRST as a donor were most positive on the aspect of FIRST's helpfulness in the project concept and design stage and least positive on the speed of FIRST's response to the initial request for funding (reviewed below). Several clients commented that delays in project start up had affected their ability to implement the project because the situation had changed in the interim. FIRST got mixed reviews on the efficiency and effectiveness with which they handled problems in implementation. Although the evaluation found only a couple of FIRST projects with implementation problems, the fact that several clients thought that FIRST did not handle them quickly and effectively points to an area for attention, and may relate to the resources available for grant supervision. Overall, however, FIRST compared favorably in the client survey to other donors.

[21] The report on the client survey notes that the low response rate from IMF-executed grants (12 percent, compared to 46 percent for Bank-executed grants) may be due to a lack of awareness that the funds come from FIRST. The email sent by the survey instrument was from a World Bank address, with the FIRST name prominent in the email's subject, and it is possible that the IMF-grant recipients in particular, being familiar only with the TA furnished by the IMF, were disinclined to open it.

6.4 **FIRST performance in the 34 completed grants had an average rating of 1.91 (where 1 is very good and 3 is poor).** FIRST performance was rated very good in 13 of the 34 grants and fair in another 11 grants (Figure 9). Performance was rated on the quality at the time of approval of the grant (i.e., relevance and realism of objectives, expected outputs, specification of deliverables, and expected outcomes), additionality of funding and coordination with other donors, supervision of consultants, involvement in follow up, and quality of reporting. Examples of very good performance include several crisis-related grants, including *Colombia* (strengthening crisis preparedness), *Morocco*, and *Zambia*, where the grants were relevant and timely, ownership was strong, there was active supervision, and support for issues raised in the crisis work was included in follow up Bank loans. Other examples are *Papua New Guinea* and *Chile*, where relevance and ownership were strong, and the grants were each a follow-on from an earlier FIRST grant. The average rating on FIRST performance was not statistically significant from the rating under Phase I.

6.5 **Examples of performance rated as 3 include grants to the *Kyrgyz Republic* and to *Colombia* (financial conglomerates).** In the former, the grant for the privatization of Aiyl Bank had both weak relevance and weak ownership. In Colombia, the grant for supervision of financial conglomerates had weak ownership, was overambitious in design given institutional capacity, in expected time frame (implementation was to take one year and took more than two), and in expectations on outcomes and indicators.

Figure 9 FIRST performance

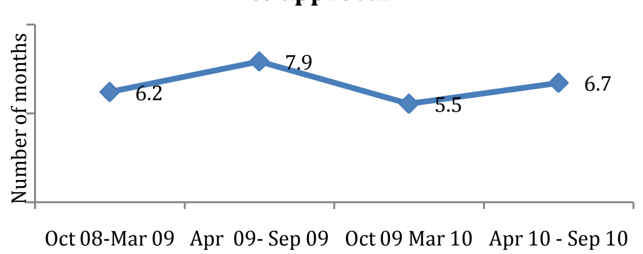


6.6 **Issues identified in the client survey, PCERs, and country case studies include: speed of FIRST response, eligibility criteria for funding, budgetary resources for grant proposals and administration, reporting, and availability of information.** Each of these is discussed in the following paragraphs.

Speed of response

6.7 **While the majority of clients and Bank staff thought that FIRST responded promptly to funding requests, a minority expressed frustration with the speed of FIRST's response.** Data on time elapsed from initial inquiry to final grant approval show that for the past two years, it has varied between 5.5 to some 8 months, with a slight downward (i.e., improving) trend in the more recent period (Figure 10). These include outliers, which can distort averages. Because data are not available for earlier periods, it is impossible to know how these figures compare to Phase I or to the first part of Phase II, but the average of 6.6 months for the last two years appears to be a reasonable elapsed time.[22]

Figure 10 Speed of response: grant inquiry to approval



source: FIRST data

[22] The 2009 evaluation tried, and was unable, to establish a benchmark to measure FIRST data on response time against other Bank-executed trust funds.

Eligibility criteria

6.8 **Bank staff were, for the most part, positive about their experience in helping clients to obtain FIRST funding, although a number of staff expressed frustration at what seemed to be inconsistencies in the application of eligibility criteria.** The confusion may be due to evolving criteria over time, so that when staff learn that FIRST does not fund studies, for example, or support to individual financial institutions, it appears to be inconsistent with what was funded in the fairly recent past. It would be helpful to clarify, for example, that funding assessments or diagnostics must be closely linked to implementation of actions, and that other "studies" that are not so clearly linked will not be funded; that support to individual financial entities will only be financed where such support has potentially wider impact on the sector.

6.9 **Grant implementation or follow up was occasionally hindered by FIRST's inability to fund complementary inputs**. In the *Montenegro* grant for insurance, mentioned above, unavailability of FIRST funds for software was a problem; in *Papua New Guinea*, other donors are being sought for follow up, because it involves a study that FIRST can't fund. This points either to desirability of broadening the criteria of what can be funded or the importance of partnering closely with other donors that are willing to finance the complementary activities.

6.10 **The 2009 revisions to FIRST strategy propose narrowing potential sub-sectors to achieve higher quality and greater impact, but this evaluation sees disadvantages.** Except for the effort to avoid overlap with other donors that may have a comparative advantage in selected financial sector subjects, FIRST may want to offer clients a wide menu of options, for both sectors and for activities and items eligible for funding, which would provide the client and FIRST more flexibility in formulating grants that respond to clients' needs. By contrast, narrowing the eligible sectors increases the likelihood of supply-driven grants (as noted in para. 2.15), where clients will request FIRST funding based on the menu of options available to them, rather than on their own priorities.

Resources for preparing proposals and supervising grants

6.11 **FIRST does not systematically provide funding for Bank staff for proposal development.** When Bank staff do this work, they usually charge it to other projects or make no charge for it, essentially working in their free time. Several Bank staff interviewed noted that they would not make use of FIRST funding in the future unless they had budgetary resources for preparing a proposal. FIRST management notes that most proposals are now prepared within the PMU. While this approach may address the budgetary issue on development of grant proposals (although that is not the motivation for the approach), it means that care needs to be exercised to ensure that subsequent supervision of the grant by a Bank unit is well-integrated into that unit's work program.[23]

6.12 **For supervision, each FIRST grant includes funding up to 15 percent of the basic grant cost to be covered by FIRST funding.** In a number of completed FIRST grants reviewed here, this allowance was inadequate to finance proper supervision, and the inadequacy was more pronounced in countries with high travel costs. In a number of instances, Bank staff have been instructed by the FIRST PMU to repost any time above the fixed amount to another product, which shows FIRST's effort to ensure that budgetary limits are respected. Because the full

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[23] As opposed to a situation where the grant proposal emerges from client-Bank dialogue in the context of an on-going Bank work program.

supervision cost is not charged to FIRST, however, the true cost of supervising grant-funded activities is understated, by an unknown amount.[24]

6.13 **Issues of the adequacy of funding for grant proposals and grant supervision are not unique to FIRST.** A recent evaluation of Bank-managed trust funds found that underfunding the full administrative costs of grants was a common feature of these trust funds.[25]

Reporting and Availability of Information

6.14 **The timeliness, completeness, and accuracy of reporting on completed grants needs improvement.** Reporting on completed grants was not good. When this evaluation started in October 2010, finalized completion reports were available for about one-third of the Bank-executed and for none of the IMF-executed grants completed at least six months earlier. As of March 2011, with the help of PMU, many of the missing reports were obtained, but two completion reports were still missing and eight were available only in draft form (out of 34 Bank-executed grants; all six IMF-executed completion reports had been received). In addition, some final completion reports were missing basic information, like amount of funding disbursed, correct names of consultants, and implementation dates. Although the accuracy of selected information on completed grants is expected to improve with the adoption in July 2010 of a new Bank-wide completion reporting system for trust funds, not all quality issues have been addressed by this new Bank-wide system.[26] Good completion reporting is important for distilling lessons and disseminating knowledge, as well as for accountability.

6.15 **FIRST has a newly revamped website that includes useful information about FIRST, although there is still room for improvement in the amount of information available about FIRST's past and on-going grants.** Additional succinct project information, such as on the project's objectives, its year of approval, its status (on-going or completed), would be valuable to include for interested clients, donors, and other stakeholders.

6.16 **Reporting weaknesses are common among other Bank-administered trust funds.**[27] These weaknesses hinder full access to information and accountability for results.

Recommendations

6.17 **Unless other agencies have a clear comparative advantage in specific sub-sectors or functional areas, this evaluation recommends leaving a broad menu of options available to clients.** Funding should be determined by the needs of the client in the context of the grant's objectives, rather than on overly narrow eligibility criteria. In addition, FIRST should clarify the kinds of "studies" or diagnostic work it can and cannot fund. Finally, addressing reforms for individual financial institutions can be relevant for dealing with larger, systemic issues and capacity development; if other sources of funding are not available to deal with them, FIRST should (continue to) consider funding inputs to deal with problematic individual financial institutions.

[24] This issue was not raised by IMF – perhaps because the model is different.
[25] Trust Fund Support for Development: An Evaluation of the World Bank's Trust Fund Portfolio, Independent Evaluation Group, World Bank, February 2011, pp. 48-49; 66.
[26] The new grant reporting and monitoring (GRM) system lacks a results framework, and does not require reporting on outputs and objectives as against objectives.
[27] Op. cit., pp. 49-50

6.18 **FIRST grants should include funding for supervision, based on a costed plan from the TTL instead of a uniform percentage**. Close supervision typically requires staff to be present at some point when the consultants are carrying out their assignments, to interact with the clients, to address problems if they arise, and to pursue follow up to the completed grant. This approach would take account of variations in cost due to location of the task team leader, complexity of the activities, and travel costs.

6.19 **Reporting needs to be improved in timeliness and quality, for both on-going and completed grants.** Weaknesses in the new Bank-wide reporting system for trust funds need to be addressed at a Bank-wide level, not by FIRST, but FIRST and Bank management should monitor the quality of completion reporting in the existing system, to ensure that it is timely, complete, and as accurate as possible. Succinct information on completed and on-going grants - objectives, objectives, year of approval, status (on-going or completed) - should be made available on FIRST's website. This evaluation should also be posted on the website in a timely way.

VII Conclusions and recommendations

Conclusions

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

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

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

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

7.5 **Short-term technical assistance alone proved insufficient in most of the completed grants to achieve their outcomes.** The importance of additional inputs – such as on-going advice from international specialists, training, manuals, software, hardware, dialogue and review, and consensus-building – for realizing capacity building and reforms cannot be over-stated.

7.6 **Grants' specific outcomes were not reflected in financial sector indicators.** In all but one of the 34 grants, it was not possible to identify quantifiable indicators, and even where quantifiable indicators could theoretically be identified, the results chain leading to those indicators was long, required significant time, and was subject to many other influences.

7.7 **These findings are important for FIRST's strategy and mode of operation**. A key objective of FIRST is to have a strong link between its technical assistance and outcomes that lead to increased financial sector stability, efficiency, and inclusiveness. This evaluation has highlighted some constraints to achieving that objective.

Recommendations

Improving outcomes

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

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

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

Strengthening relevance of objectives

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

Improving implementation and consultant selection

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

7.13 **FIRST should avoid concentrating its use of the same consultants in multiple grants.** While many tasks require highly specialized experience and knowledge, adding a wider range of well-qualified specialists could serve to avoid situations where consultants have market power; to broaden the pool of qualified consultants; and help to avoid any appearance of financing a narrow group of consultants. FIRST already funds local consultants in some projects, which is good practice, and further efforts in this direction would both bring local perspective to the work and ensure that consultants have appropriate language skills.

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

Improving supervision

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

Improving reporting, evaluation, and transparency

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

Strengthening FIRST's strategy

7.17 **FIRST's various strategic objectives, areas of focus, and initiatives may be difficult to achieve simultaneously.** FIRST should examine potential difficulties in achieving targets for LICs and Africa on the one hand, and FSAP linkages on the other; and the extent to which continuing to fund crisis-related grants may affect reaching targets for LIC and Africa. In addition, if other initiatives or areas of focus are added, the implication for achieving existing strategic objectives and targets should be examined.

7.18 **Expectations of financial-sector outcomes attributable to FIRST funding (as articulated in FIRST's strategy) should be realistic and future evaluations should focus on more modest objectives**. Attempts to find evidence of linkages between FIRST funded activities and financial sector outcomes have not proved successful. Given the relatively modest scope of FIRST grants, their objectives should be realistically tailored to the expected outputs.

Annex 1

May 2011

Evaluation Framework

Inputs

FIRST program: **focus of grants; operational efficiency; dissemination; M&E**

Outputs of grants

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

Intermediate Outcomes of grants

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

Outcomes at a country level

Links between grant outcomes and stronger financial infrastructure, regulation, and supervision **Links between grant outcomes and indicators of financial sector depth and access**

Impact at a country level

Economic growth; poverty reduction; reduced inequality; financial stability

Note: Highlighted boxes indicate the scope of the current evaluation. The evaluation does not include impact at a country level in terms of economic growth, etc.

Annex 2

May 2011

Executive Summary of 2010/11 Client Survey

A. Client survey, 2010

A client survey was carried out in December 2010 – January 2011 for Phase II FIRST grants. A web-based survey was sent out to a total of 102 clients, and the response rate was 40 percent (41 clients returned completed surveys). There was no difference in the response rate between completed and on-going grants, with about one-third of the responses from completed projects, the remaining two-thirds from on-going projects. There was, however, a large difference between Bank-executed and IMF-executed response rates: 46 percent (or 39 surveys) of Bank-executed grants responded, while only 12 percent (or 2 surveys) of IMF-executed grants responded. The large difference may be due to a lack of awareness on the part of the IMF-executed grant recipients that the funds come from FIRST; if that is the case, then being unfamiliar with FIRST, these recipients may have been disinclined to read the email coming from FIRST that contained the survey.

Because so few IMF-executed grants responded to the client survey, the report's analysis does not distinguish between the responses from Bank-executed and IMF-executed grants.

The survey was designed to be as similar as practical to the previous client survey carried out in 2008. Although several questions were changed to avoid client confusion, most questions were identical in wording and placement to the 2008 client survey and, to a lesser extent, the 2004 client survey. The responses were thus compared to the previous surveys wherever possible, looking for trends. Both the 2004 and 2008 surveys covered Phase I grants.

B. Main messages from the 2010 survey

The main messages emerging from the client survey are that clients are generally quite pleased with most aspects of FIRST funding, but there are several areas that deserve attention. Clients largely agreed that the projects were high priority for their governments and well-designed, although there were comments that more time and resources were needed to meet project objectives.

Clients were particularly positive on the quality of consultants, **consultants' advice, and their manner of interacting with the client**. Over 90 percent agreed with statements on the consultants' qualifications, the timeliness and relevance of their advice, and the extent to which the consultants were responsive to the clients' needs and treated them with respect. There were a few dissenting voices on these points, including a somewhat less positive finding on the extent to which consultants' recommendations were practical. Although a significant minority, more than one-third, of clients thought that they didn't have adequate input into consultant selection, given the high ratings the consultants received, it is not clear that changing the way the consultants are recruited would result in a better consultant performance.

Most respondents also agreed that implementation went or was going well, although several clients noted that delays in project start-up had caused problems, and several noted that implementation of the recommendations emerging from the project would require additional resources and/or assistance.

Among the clients who felt the project was far enough along to give a view on the project outputs and results, their perceptions were mixed. While a large majority of respondents (80 percent) expressing an opinion agreed that the deliverables had been produced as expected, a significant minority (20 percent) did not agree. Nevertheless, and somewhat surprisingly, a higher percentage of respondents (91 percent) expressing a view were satisfied with the project's results, even some of the clients who didn't agree that the project had produced all expected deliverables. A high proportion of the respondents (93 percent of those who expressed a view) also agreed that they have been able to follow up on the recommendations emerging from the project, although virtually all of the survey respondents – except one – who expressed a view noted that they needed additional support to follow up.

The need for additional support was a constant theme throughout the survey. Both in response to specific statements and in comments, clients agreed that they needed further support to implement recommendations and to follow up on the deliverables from the project. This finding is similar to that in the 2008 survey and points to a need for FIRST to plan for longer-term support to its clients than is currently the case.

Client views of FIRST as a donor were most positive on the aspect of FIRST's helpfulness in the project concept and design stage and least positive on the speed of FIRST's response to the initial request for funding. Several clients commented that delays in project start up had affected their ability to implement the project because the situation had changed in the interim. FIRST got mixed reviews on the efficiency and effectiveness with which they handled problems in implementation. Although only a small proportion of FIRST projects seem to experience problems, the fact that a small number of clients thought that FIRST did not handle them quickly and effectively points to an area for FIRST's attention.

Finally, fewer than half of the respondents saw FIRST as providing projects that could not be obtained from other donors, which was a sharp drop from the results of the 2008 survey. This suggests that there are more donors or other actors providing technical assistance in the financial sector than was the case several years ago. This may mean that FIRST has both more competition in the field and more opportunities for synergies and cooperation.

C. Recommendations based on survey results

The main recommendation emerging from the analysis of the survey findings is that FIRST should adopt a longer-term, phased approach to funding projects. This recommendation is based on both responses and written comments found throughout the different sections of the survey. Virtually all clients noted the need for additional support to follow up on the project, and a number of clients underlined this issue in their comments.

In its initial assessment of a proposed project, FIRST should assess the full range of actions and measures needed to realize expected outcomes, including follow up actions that are likely to be required. Examples include support for implementing recommended actions, including setting up or reorganizing an agency; disseminating the implications for the main stakeholders of a new law or regulation; training for an agency to implement a new law, regulation, or standards; and support for carrying out priority steps identified in an action plan.

If FIRST funding is potentially available for the full range of needed support, then FIRST could adopt a phased approach to a project, identifying the scope of subsequent phases, without committing up front to finance all phases. Examples of this approach already exist in a number of client countries. Subsequent phases of FIRST funding would be conditional on satisfactory progress in the earlier phases, although it would be important to process the subsequent phase while the earlier phase is under implementation, to avoid a hiatus in funding and a halt to the momentum for reform. An alternative approach would be to identify other donors who might support subsequent phases of the project.

Terms of reference for consultants should include explicit coverage of practical guidance on implementing recommendations. This appears to be one of the weaker areas of consultant performance among otherwise highly positive ratings, and could be addressed at the outset through clear terms of reference.

FIRST should examine the resources available to Bank staff for monitoring projects. Projects do sometimes have problems, and it is important that FIRST and Bank staff respond quickly and effectively to resolve them. This will be further explored in the on-going evaluation.

For the future, FIRST should ensure it gives adequate weight to local language skills in assessing the suitability of consultants. Although views of the consultants' qualifications were generally high, several clients noted that the inability of their consultant to speak the local language (French and Russian) was a constraint on the consultants' effectiveness. This was also an issue for several clients in the 2008 survey as well (where the languages were Spanish and Portuguese). There may sometimes be a trade-off between the consultants' experience and knowledge of highly specialized areas and language skills, and it is difficult to argue that speaking the local language should always trump expertise and experience. Nevertheless, FIRST should make an effort to expand its pool of consultants to try to find consultants who have all of these desirable characteristics.

Future surveys should not be sent to clients who have already responded to the 2010 survey. An exception could be made for those clients who answered only half of the survey or who answered "too soon to tell" because the project either was not yet underway or had just gotten underway. The list of projects whose clients responded to the survey is in Annex 3, along with information on the projects in early stages that could be included in another survey several years from now.

Annex 3

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Detailed tables

Table 1: FIRST grants by income level, Phases I and II

	Phase I (FY03-07)			*Phase II (FY08-1st half FY11)*		
	# grants	*Commitment amount (US $m)*	*Percent of total commitment*	*# grants*	*Commitment amount (US $m)*	*Percent of total commitment*
LIC	132	21.37	**53%**	83	19.40	**65%**
MIC	79	14.4	**36%**	48	9.38	**31%**
Blend	28	4.71	**12%**	5	1.14	**4%**
Total	239	40.48		136	29.91	

Note: Results are similar when number of grants is used instead of commitments.
Source: FIRST PMU data

Table 2: FIRST grants by region, Phases I and II

	Phase I (FY03-07)			*Phase II (FY08-1st half FY11)*		
Region	*# grants*	*Commitment amount (US$m)*	*Percent of total commitment*	*# grants*	*Commitment amount (US$m)*	*Percent of total commitment*
Africa	95	15.02	**37%**	56	11.99	**40%**
East Asia and Pacific	24	5.79	**14%**	11	2.54	**9%**
Europe and Central Asia	44	7.16	**18%**	25	6.33	**21%**
Latin America and Caribbean	39	6.64	**16%**	18	3.88	**13%**
Middle East and North Africa	12	1.65	**4%**	12	2.10	**7%**
South Asia	20	3.14	**8%**	13	3.07	**10%**
Worldwide	5	1.08	**3%**	1	-	**-**
Total	**239**	**40.48**		**136**	**29.91**	

Note: Results are similar when number of grants is used instead of commitments.
Source: FIRST PMU data

Table 3: FIRST grants, Phases I and II, linked to FSAP/ROSC, Bank and IMF combined

	Phase I	**Phase II (through 12/31/2010)**
	FY03-07	*FY08-1st H FY11*
FSAP/ROSC linked	68	65
Total grants	239	136
Percent FSAP linked	**28%**	**48%**

Table 4: Phase II grants linked to FSAP/ROSC, Bank and IMF

Bank executed grants			
	FY08-09	*FY10-2nd Q FY11*	*Total*
FSAP linked	30	22	52
Non-FSAP linked	22	35	57
TOTAL	52	57	109
Percent FSAP linked	**58%**	**39%**	**48%**
IMF executed grants			
FSAP linked	6	7	13
Non-FSAP linked	8	6	14
TOTAL	14	13	27
Percent FSAP linked	**43%**	**54%**	**48%**

Source: FIRST PMU data

Table 5: Changes in sectors, FIRST grants, Phase I and II

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May 2011

Selected sectors, in order of importance in Phase II:	*Percent of total commitment* *Phase I FY03-FY07*	*Percent of total commitment* *Phase II FY08-mid-FY11*	*Change from Phase I to Phase II*
Banking (incl. deposit protection, credit info bureaus)	13	25	**+12**
Multi-sector, Other	6	15	**+9**
Crisis preparedness/management	0	13	**+13**
Insurance	16	13	-3
Accounting and auditing	4	9	+5
Capital markets (incl. debt instruments)	21	9	**-12**
Housing finance	6	5	-1
Pensions and CIS	9	4	-5
Payment systems	3	4	+1
Microfinance + SME finance	6	2	-4
NBFI	10	<1	**-9**
AML/CFT	5	0	-5

Notes: Total may not sum to 100% due to rounding. Bank and IMF shown together; IMF grants are concentrated in Banking and Payment systems.
Source: FIRST PMU data

Annex 4

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FSAP linkage to FIRST grants

The analysis covered the linkage in two dimensions:

- **The number of years elapsed between the most recent FSAP, FSAP update, or ROSC mission and the approval of the FIRST grant.**[28] While there may be differences of opinion on what constitutes an "acceptable" time lag, common sense suggests that if the most recent FSAP or ROSC was carried out a long time ago, say more than eight years prior to the grant approval, one might expect to find intervening diagnostic work or dialogue by the Bank or IMF (or other donor active in the financial sector) that attests to the continued relevance of the FSAP's findings. If such diagnostic or dialogue has taken place, it would suggest that the linkage to the FSAP could be less relevant than the more recent diagnostic work. If there has been no intervening diagnosis, it is difficult to know whether the FSAP findings and the grant's linkage to those findings are still valid.

- **Whether the objectives of the FIRST grant appear in the summary of FSAP.** The IMF produces a summary of the FSAP called a Financial System Stability Assessment (FSSA); the Bank produces a summary of the FSAP called a Financial Sector Assessment (FSA); and ROSCs produce reports. The FSSA and the FSA contain both the main FSAP findings and the recommendations and often prioritize the recommendations. If either the FSSA or the FSA includes a recommendation that is taken up by a FIRST grant, the linkage is direct and obvious. If the grant's objective is not found among the recommendations but is nevertheless discussed in the text of either the FSA or the FSSA as an issue in need of attention, this was also considered a close linkage. If the grant's objective was not considered important enough to discuss in either the FSSA or the FSA, the nature of the linkage between the FIRST grant and the referenced FSAP was considered weak.

Findings on FSAP linkage

For the majority of Phase II FIRST grants to countries, the relevant FSAP or ROSC was carried out quite close in time to the FIRST grant approval. Almost 70 percent of the Phase II grants with FSAP linkage were carried out within three years of the most recent FSAP, FSAP update, or ROSC; the average time lag was 3.1 years. In several cases, the FIRST grant was a second phase, and thus the time lag between the FSAP and the grant overstates the time elapsed (for example, two grants to Rwanda followed an earlier grant which in turn was a direct response to a 2005 FSAP). In addition, the time lag is measured between the FSAP mission and FIRST grant approval; the initial request for the grant was often made some three to six months prior to grant approval, sometimes more. Thus the time lag is somewhat overstated in all cases.

The distribution of time lags is similar for Bank- and IMF-executed grants, although IMF grants tend to have a slightly longer average time lag. Figure 2.1 shows the distribution of Bank and IMF grants by number of years between the grant and the associated FSAP/ROSC: 72 percent of Bank grants were approved within three years of the FSAP/ROSC, while some 62 percent of IMF grants were approved within this time frame. The average time lag for Bank grants is 2.8 years, against 3.4 years for IMF grants.[29]

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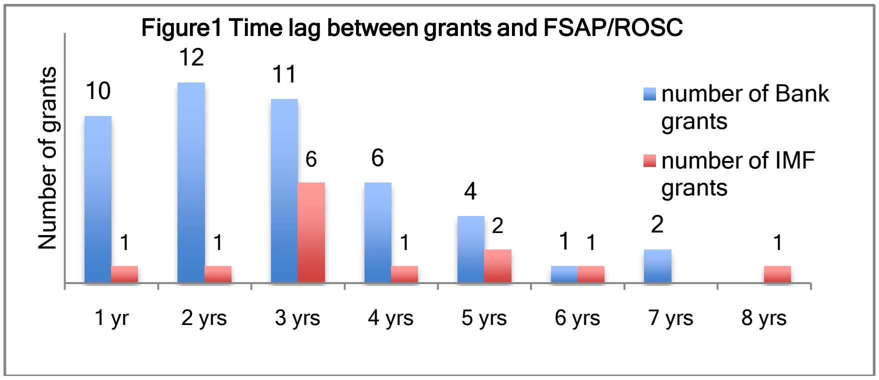
[28] The evaluation also reviewed whether a FIRST grant was being carried out in anticipation of and to prepare for an upcoming FSAP. No instances of this were found.

[29] Analysis of the six Regional grants was more complicated, and the timeliness of the FSAP was weaker, than for the grants to countries. The linkage was in terms of the FSAPs of the participating countries



Note: Phase II grants approved through September 30, 2010.
Sources: FSAP PMU data, FIRST grant proposals and FSAP summaries

The objective of the grant typically figured prominently in the FSAP summaries. In many cases, the objective of the grant could be found in the executive summary of the FSA or FSSA and often in a box highlighting the main recommendations of the FSAP. Thus, in almost all cases, the linkage between the grant and the FSAP was direct and obvious.

In two grants the FSAP linkage was weak or questionable, because the FSAP summaries contained no mention or no recommendation related to the issue. In one country, the (Bank-executed) grant pursued the development of bonds to be issued by banks because of a maturity mis-match between the banks' assets and liabilities, while the FSAP did not indicate that the mis-match was cause for concern nor make any recommendation on the subject. In the other (IMF-executed) grant, the FSAP summary described the difficulty the central bank faced in predicting liquidity and foreign exchange needs because the government did not systematically inform the central bank of its plans and the central bank lacked authority to get this information; the issue was thus political and to some extent legal (authority of central bank). The FIRST grant nevertheless supported the establishment of a technical unit in the central bank to predict liquidity needs. In both of these cases, the linkage to the FSAP seems weak.

In summary, the review found for the vast majority of grants that stated a linkage with an FSAP or ROSC had a close and direct linkage between the objective of the grants and the most recent FSAP or ROSC.

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participating, except for one, where a Regional FSAP was referenced. For the five Regional grants that cited country FSAPs, about half of the participating countries had FSAPs, and the average (and median) time lag was 5 years for three of the six Regional grants and three years for the other two. The time lag between the Regional grant and the Regional FSAP was three years.

Annex 5

May 2011

Project Completion Evaluation Reports (PCERs)

Project Completion Evaluations were carried out all grants that had been approved in Phase II and completed by June 30, 2010. The two main objectives of the exercise were to have an independent review of the quality and results of the grants and to derive practical lessons for FIRST for in the future. By examining grants that had been closed for at least six months by the time of the evaluation, the evaluation would be able to assess whether any follow up actions had taken, or seemed likely, to take place.

Forty grants were reviewed, of which 34 were Bank-executed and 6 were IMF-executed. A brief project completion evaluation report (PCER) was written on each completed grant and sent to FIRST management.

The evaluation reviewed the following dimensions; those that were rated are indicated in parentheses:

Relevance: whether the objectives were high priority for development of the financial sector, or could be expected to lead to further critical steps in that development (rated).
Ownership: the extent to which the project was demand driven (rated).
Outputs: whether deliverables identified in the project submission were delivered according to the terms of reference, in a reasonably timely manner (rated).
Outcomes: whether the goals identified at the time of the project submission were achieved (rated).
Risks to development outcomes: how significant are the obstacles to sustaining outcomes in the future (rated)
Synergies with other donors or with government efforts: whether there was evidence in the project submission or in subsequent documents that the project contributed to a larger donor effort.
Performance of consultants: whether the consultants delivered outputs as expected and the outputs were assessed to be of good quality (rated).
Performance of FIRST: quality at entry of the grant (see details next section), efficient approval and consultant selection; pro-active and effective supervision; and quality of the completion report (rated).
Lessons: The extent to which the experience under the project highlighted positive aspects to be emulated in the future or illustrated things to avoid or improve in the future.

Except for four grants in the country case studies, the exercise was a desk study. The evaluation team examined all available relevant documents and spoke FIRST, Bank, and IMF staff, clients, and consultants, and made use of responses to a 2010-11 client survey where relevant.

Seven dimensions were rated on a scale of 1 to 3 for relevance, ownership, outputs, outcomes, risks, consultants' performance, and FIRST performance. A rating of 1 was the best (meaning fully achieved for outputs and outcomes; high for relevance; strong for ownership; low for risks; very good for consultant and FIRST performance); 2 was partial or moderate; and 3 was the lowest rating (not achieved for outputs and outcomes; low for relevance; weak for ownership; high for risks, poor for consultant and FIRST performance).

The criteria for rating each dimension were:

Annex 5

Relevance: whether the objectives of the grant were highlighted in a recent Financial Sector Assessment Program (FSAP) report or a Report on Standards and Codes, or a recent diagnosis or assessment of the financial sector; or if the objectives sought to align the client with international good practice. Relevance of design was also considered, or the extent to which the design of the grant was consistent with the objectives and realistic in terms of the time and financing available.

Ownership: evidence of government and specific agency ownership, typically through active participation or decisions during the course of project or at the conclusion of an early phase, or through follow up on recommendations or suggested actions.

Outputs: whether the deliverables were made as planned, according to the terms of reference, on time, and within budget; whether they were assessed to be thorough and relevant to the needs of the client.

Outcome: whether the project led to the achievement of the stated project objectives, including evidence that the client was following up on recommendations produced by the grant.

Risks to development outcome: how significant are political, institutional, or capacity constraints that the outcomes (if achieved) will persist and be followed up in the future

Consultants' performance: whether the consultants produced the deliverables as expected, according to the terms of reference, within the expected timeframe and budget, whether it was well received by the client, and whether the deliverables were considered to be of good quality, by the evaluator and by the client.

FIRST performance: (i) quality at entry of the grants: relevance and realism of objectives; ensuring that the grant's objectives were supported by stakeholders and that FIRST funding was additional to other funding; sound assessment of ownership; realistic scope of the work for the budget and timeframe; specification of deliverables; outcomes realistically related to outputs; (ii) efficient project approval and consultant selection; (iii) pro-active oversight of consultants, to ensure timely delivery of outputs, taking into account client comments; and (iv) good quality completion report.

The details by grant are in the Appendix to this Annex. Average ratings for the 34 Bank-executed and the 6 IMF-executed grants are in Table 5.1, and compared to the average ratings for Phase I grants, analyzed in a 2009 evaluation report.

Table 5.1 Ratings on completed grants, Phase I and II

		Relevance	***Ownership***	***Outputs***	***Outcomes***	***Risks***	***Consultants' performance***	***FIRST performance***
	# of grants				***Phase II***			
Bank-executed	34	1.65	1.62	1.35	2.06	2.13	1.35	1.91
IMF-executed	6	1.83	1.33	1.33	2.33	1.67	1.00	1.40
Phase I grants	30	na	1.63	1.53	2.07	na	1.43	1.77

Notes: not all IMF-executed grants were rated: for ownership, outcome, risks, and consultant performance, only 3 grants were rated; the others were conferences.
The differences in average ratings between Phase I and Phase II grants were not statistically significant.

Appendix

PHASE II, Bank-executed

Proj #	Name	Project	PCER Ratings						
			relevance	ownership	outputs	outcomes	risk	consultant performance	FIRST performance
7090	Africa	Development and Implementation of Risk Management Framework	2	1	2	2	2	2	2
7005	Africa	Pilot Implementation of AADFI Prudential Standards and Guidelines	1	1	1	1	2	1	1
7070	Albania	Development of Effective Insurance Supervision	2	1	2	2	2	1	2
9054	Armenia (ECA)	Regional Crisis Preparedness Workshop	1	2	1	2		1	2
7061	Bosnia & Herzegovina	Avisory Services to Stock Exchange	3	2	1	3	3	1	3
7016	Chile	Implementation of Risk-Based Supervision Model for Insurance Industry	1	1	1	2	1	2	2
7025	Chile	Risk-Based Regulation of Pension Funds	1	1	1	1	1	2	1
7008	Colombia	Supervision of Financial Conglomerates	2	3	2	3	2	1	3
8088	Colombia	Strengthening Crisis Preparedness Framework	1	1	1	2	2	1	1
7043	East Africa	EAC: Regional IOSCO Principles Assessment	2	2	2	3	3	2	3
8084	Georgia	Strengthening Financial Sector Supervision	2	1	2	2	2	2	1
8109	Guatemala	Financial Crisis Preparedness and Financial Projection	1	1	1	1	2	1	2
7012	Indonesia	Life Insurance Sector Reform	2	2	1	3	2	1	1
8054	Kenya	Shelter Afrique Capacity Building for Housing Finance	2	2	2	2	2	2	3
8106	Kyrgyz Republic	Pre-Privatization Advice for Ayl Bank	3	3	2	3		2	3
8049	Liberia	Revitalizing Financial Services	1	2	1	3	2	1	1

Annex 5 Appendix

7068	Malawi	Developing Country Action Plan for ROSC Accounting and Auditing	2	2	1	2	2	1	2
8020	Montenegro	Regulatory and Analytical Tools for Assesment of Banks' Risk Profiles	2	2	2	3	3	1	3
7096	Montenegro	Country Action Plan for Accounting and Auditing	2	3	2	3	3	3	2
8087	Morocco	Financial Crisis Simulation Program	1	1	1	1	2	1	1
7063	Nigeria	Financial Sector Strategy 2020 - Phase II	1	2	1	2	2	1	1
8016	Papua New Guinea	Enhancing Statistical Analysis and Public Reporting in the Insurance Sector	1	1	1	1	2	1	1
7088	Peru	Strengthening Private Sector Accounting and Auditing	1	1	1	2	2	1	2
7064	Rwanda	Financial Sector Development Program II	2	1	2	2	2	2	3
8127	SADC	SADC Region Crisis Preparedness Workshop	1	1	1	1		1	1
8019	Sierra Leone	Post FSAP Strategic Roadmap	1	1	1	1	1	1	1
8045	Sierra Leone	Financial Sector Development Plan	2	1	1	1	2	2	2
7082	South Asia	Strengthening Payment, Remittances and Securities Settlement Systems	2	3	2	3	2	1	3
7052	Syria	Development of Damascus Securities Exchange	1	1	1	1	2	1	2
7010	Uganda	Expanding Access to Housing Finance	2	3	1	3	3	1	3
7023	Uruguay	Housing Finance Policy Reform	3	2	2	3	3	1	3
9030	Uruguay	Regional Crisis Preparedness Workshop	1	1	1	2		1	1
8140	West Bank Gaza	Establishment of a Deposit Insurance Scheme	3	1	1	2	3	1	2
9004	Zambia	Strengthening Contingency Planning	1	1	1	2	2	1	1
		AVERAGES FROM PHASE II	1.65	1.59	1.35	2.06	2.13	1.32	1.91
		AVERAGES FROM PHASE I		1.63	1.53	2.07		1.43	1.77
		T-TEST FOR SIGNIFICANT DIFFERENCE		0.81	0.20	0.97		0.45	0.47
		correlation betw ownership & outcome		0.78					

Annex 5 Appendix

PHASE II, IMF-executed

Proj #	Name	Project	relevance	ownership	outputs	outcomes	risk	consultant performance	FIRST performance
8023	Africa	Advice on Macroeconomic Management and Financial Sector Issues	2		1				1
8108	Kyrgyz Republic	Retail Payment System	2	2	2	3	3	1	1
7093	Sub Saharan Africa	Financial Sector Strengthening Through Monetary and Foreign Exchange Policy Training	2		1				2
8031	Africa	CEMAC Conference	3		2				
8142	Africa	Strengthening Payment Systems, Phase II	1	1	1	2	1	1	1
9028	Philippines	Improving Problem Bank Resolution	1	1	1	2	1	1	2
		AVERAGES FROM PHASE II	1.83	1.33	1.33	2.33	1.67	1.00	1.40

Annex 6

May 2011

Summary of recommendations from 2009 Evaluation

Recommendations:

FIRST should consider using a programmatic approach in a country, where FIRST involvement would occur in phases, each subsequent phase dependent on the successful implementation of the preceding phase. An alternative to FIRST's making such a longer-term commitment would be to ensure that FIRST's involvement is part of a larger reform effort, as discussed in the next paragraph.

FIRST projects should be linked to the extent possible to a larger on-going program or involvement in some form by other donors. Whether or not FIRST adopts more of a country-focused, programmatic approach to making grants, FIRST should, at a minimum, ensure that its intervention is part of a larger reform program. It is unrealistic to expect a relatively modest amount of technical assistance over a relatively short period of time to bring about significant change in a sub-sector without follow up and sustained efforts.

Prior to agreeing to finance a project, FIRST should draw on the views and rely on the judgment of other donors and/or stakeholders active in the sub-sector to assess both the relevance of the project for the country and ownership of the objectives. Relevance can in particular be difficult to judge, especially in countries where many challenges exist to the development of the financial sector. A justification can usually be found for why the proposed project is important for addressing one or several of those challenges.

Ownership should be carefully assessed. The same is true for judging the extent of government's and the implementing agency's commitment to the proposed project's objectives – donor agencies that have been working in the country may be able to give a balanced view of whether the program which FIRST is being asked to support is truly a high priority for the government.

FIRST should insist on written deliverables (even if the deliverables are not to be publicly available) and an appropriate level of reporting on project progress and completion in all projects. FIRST should also be monitoring the timeliness and quality of these reports.

FIRST may want to narrow its published criteria for selecting projects. This could serve the dual purpose of helping FIRST to concentrate on countries and in areas where it is likely to have greater success and would also provide more guidance to applicants on likelihood of acceptability of their proposals. It should also clearly define the nature of the linkage between FSAP and FIRST projects. For example, within what period of time following the FSAP mission or report can a project proposal be considered follow up; and whether the proposed project objectives need to have received prominent treatment in the FSAP?

FIRST might want to develop a simple scoring system**, **which could also be made public and which would show weightings for different aspects of funding proposals. These could include, for example, country, sub-sector, functional area, presence of other donors, evidence of country ownership, evidence of strength of priority for sector development, cost considerations, anticipated outcome, risks.

FIRST should follow the guidelines on consultant selection. Consultants providing terms of reference for projects should be disqualified from bidding on or being selected for implementing the projects. Following Bank guidelines should help avoid conflicts of interest and may also help to ensure greater client ownership of the projects.

FIRST should develop and publicize more detailed guidance on PCRs. The PCR should be produced within three to four months of project completion and the Task Team Leader should be responsible for producing it; his or her name should appear on the report.

FIRST Project management unit should introduce a quality control process for the PCRs. At a minimum, the quality control should ensure that adequate evidence is presented to support the findings and that the ratings on output, consultant performance, and FIRST performance are consistent with the findings.

For evaluation:

To use a country focus for evaluation, the next round of PCERs could randomly select either five projects from the data base, and evaluate the full range of related projects in the countries of the selected projects, or randomly select five countries from among the client countries. If FIRST is also interested in comparing success rates across sectors and functional areas, more than 30 projects or 10 countries should be selected for evaluation.

Project Ratings should still be used (even if the country is the unit of account) and put into a project database.

The next full Evaluation Report is scheduled for the fall of 2011, at which time Phase II of FIRST will be drawing to a close. Topics that could be covered include:

(i) assessing outcomes of Phase II projects, and comparing them to those of Phase I.
(ii) FIRST's operational processes: funding decisions (e.g., whether there is adequate consultation with other donors; efficiency and transparency of the funding decisions, based both on FIRST's data and on perceptions of task managers in the IMF and Bank); consultant recruitment (e.g., efficiency and transparency; and resulting quality of consultants based on their performance in project deliverables and client feedback); oversight of on-going projects; quality of contact with clients; and completion reporting;
(iii) awareness and usefulness of FIRST's knowledge dissemination, particularly its newly introduced newsletter.
(iv) if there is agreement by the Governing Council on the recommendations of this report, the next evaluation could examine the extent to which this report's recommendations have been implemented.

FIRST should make a decision by early 2010 on the focus for the next evaluation among the options listed above.