2015 | FIRST ANNUAL REPORT

Strengthening Financial Sectors

MISSION STATEMENT

FIRST aims to support economic growth and poverty reduction in low- and middle-income countries by promoting robust and diverse financial sectors.

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

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FROM THE CHAIR OF THE GOVERNING COUNCIL

On behalf of FIRST's donors, I am happy to present the report on FIRST's accomplishments during the past year. FIRST is a donor-funded program offering technical assistance to low- and middle-income countries, implemented by the World Bank and the International Monetary Fund (IMF), and aimed at enabling financial stability, financial inclusion, and market development. The past year marked the transition for FIRST to full operations under Phase III (2013–2017), with a number of important innovations such as the introductions of the Programmatic Window, an improved results framework, and a new instrument under the Catalytic Window.

The global financial crisis continues to reverberate, and stability remains fragile in many countries. At the same time, although much progress is being made, there are still important gaps in access to finance in many underserved populations. This context continues to shape financial sector priorities, leading to an increasing call on FIRST for assistance. It is important that we avail ourselves of the right instruments to meet this demand: in this respect we are pleased that we added a new instrument under the Catalytic Window through which FIRST can assist authorities in drafting Financial Sector Development Implementation Plans. This new instrument is aimed at countries that cannot benefit from the IMF/World Bank Financial Sector Assessment Program (FSAP) but do need help to develop an integral vision and a road map for financial sector reform.

The FIRST Scorecard, introduced last year, has been further developed. It gives at one glance an impression of the results achieved in Phase III in a wide range of areas. We are truly proud of this scorecard and invite you to take note of it. Under the Programmatic Window we have established targets that are to be measured three to five years after completion of the activities. In developmental activities, targets are often used to help achieve concrete results and keep activities on the right track, but they can also assist authorities in winning support for policy reforms. Also, in the catalytic projects under Phase III, we have moved to stronger results measurement. This way we hope to contribute as much as we can to the achievement of the goal of universal financial access by 2020 and to increased resilience in low- and middle-income countries against internal and external shocks.

FIRST held its fourth FIRST Consultative Group meeting in Rabat, Morocco, on June 9 and 10, 2015; it included donors, recipient countries, international partners, and standard setters. We heard directly from recipient countries their perceptions of how FIRST is positioned, where we should adjust to enhance stakeholder participation and identify priority needs, and how we can ensure that FIRST TA is linked to national and sectoral strategies. We had a very useful discussion on how FIRST TA can lead to better follow-up in recipient countries. In the coming months we will follow up on the outcomes of the various sessions.

The most important aspect was that we all felt strengthened by the conviction that FIRST is a very valuable program, not least because of the importance of the financial sector in the achievement of the Sustainable Development Goals. To help FIRST realize its full potential, though, it will be necessary to broaden the donor base. We will make a concerted effort towards this goal.

I would like to thank FIRST's donors, its Governing Council members, the FIRST Secretariat, the World Bank and the IMF in sincere appreciation for their intensive efforts, collaboration, and collegiality.

Peter Le Poole
Chair of Governing Council
Senior Policy Advisor, Financial Sector Development
Netherlands Ministry of Foreign Affairs

FROM THE PROGRAM MANAGER

In FY2015, FIRST committed $16.8 million in technical assistance (TA) through its Catalytic and Programmatic windows, 65 percent of which was to low-income countries. In line with our strategy, the Africa region was the biggest beneficiary, with 43 percent of this assistance. One of the key drivers of demand for FIRST TA under the financial stability pillar has been a shift to tighter and more risk-based regulation of both the banking and the non-banking sectors, aimed at achieving greater resilience of the systems. Although significant progress has been made on this front, a lot remains to be done. Global financial systems remain fragile and new fault lines could emerge as a result of new economic shocks such as the current drop in commodity prices, making it imperative to step up financial sector reform efforts. Since its inception, FIRST has been at the forefront of support for such reforms across all the key thematic areas in the financial sector, as part of its mandate to implement FSAP recommendations or in response to other emerging client demands. This year was no exception.

During the last two years, global and national commitments to achieve universal financial access by 2020 were a major demand driver for FIRST work. A number of countries adopted financial inclusion strategies with measurable targets set to be achieved over the coming years. The FIRST programmatic approach supports these strategies through more comprehensive and tailored solutions that are better integrated into broader World Bank, IMF, and other donor operations. In the year under review, FIRST approved four programs: Development of Local Capital Markets and SME Finance in Morocco, Promoting Inclusive Insurance in Ethiopia, Increasing Access to Responsible Financial Services in Haiti, and Developing Diversified and Responsible Finance for MSMEs in Guatemala. Overall, FIRST intervention to support financial inclusion initiatives accounts for nearly 30 percent of all projects and programs approved in Phase III.

The FIRST brand is built on a strong partnership with its Consultative Group which includes donors, clients, and other key players in the financial sector such as standard-setting bodies. Through this partnership, FIRST is continually learning and adopting new ways to improve its effectiveness in delivering TA. This year's Consultative Group meeting was a great opportunity for peer-to-peer learning among FIRST clients as they shared their positive experience working with FIRST, their challenges, and lessons learned in the implementation of FIRST TA. It was also an opportunity for FIRST to hear firsthand from authorities in Morocco and Rwanda, the two countries that have pioneered the implementation of FIRST's programmatic approach, on the progress made so far.

FIRST continues to pursue a robust knowledge agenda, consistent with the Phase III strategy. In that regard, FIRST initiated its FIRST Lessons Learned series as a platform for harvesting and disseminating practical lessons on TA. In FY2015, in collaboration with the Finance and Market Global Practice, FIRST initiated the development of principles for partial credit guarantees. The principles are now being tested globally with various associations; once adopted, they will inform our TA work in this area and be a useful tool for our clients.

Two years after the closure of Phase II, the number of positive stories about development outcomes from FIRST interventions is quite impressive, demonstrating the catalytic effect of every dollar spent by FIRST donors on financial sector reforms. These results have been achieved thanks to the strong support of the FIRST Governing Council, the partnership with the IMF and the World Bank as implementing bodies, and the FIRST staff. Overall, this was a very successful year. So much was achieved in terms of reforms implemented, but a lot remains undone. I want to sincerely thank the FIRST Governing Council—particularly Chairperson Peter Le Poole, for his guidance throughout the year—and the staff of FIRST for their dedication to the mission of FIRST.

Consolate Rusagara
Senior Program Manager
Financial Sector Reform and Strengthening Initiative

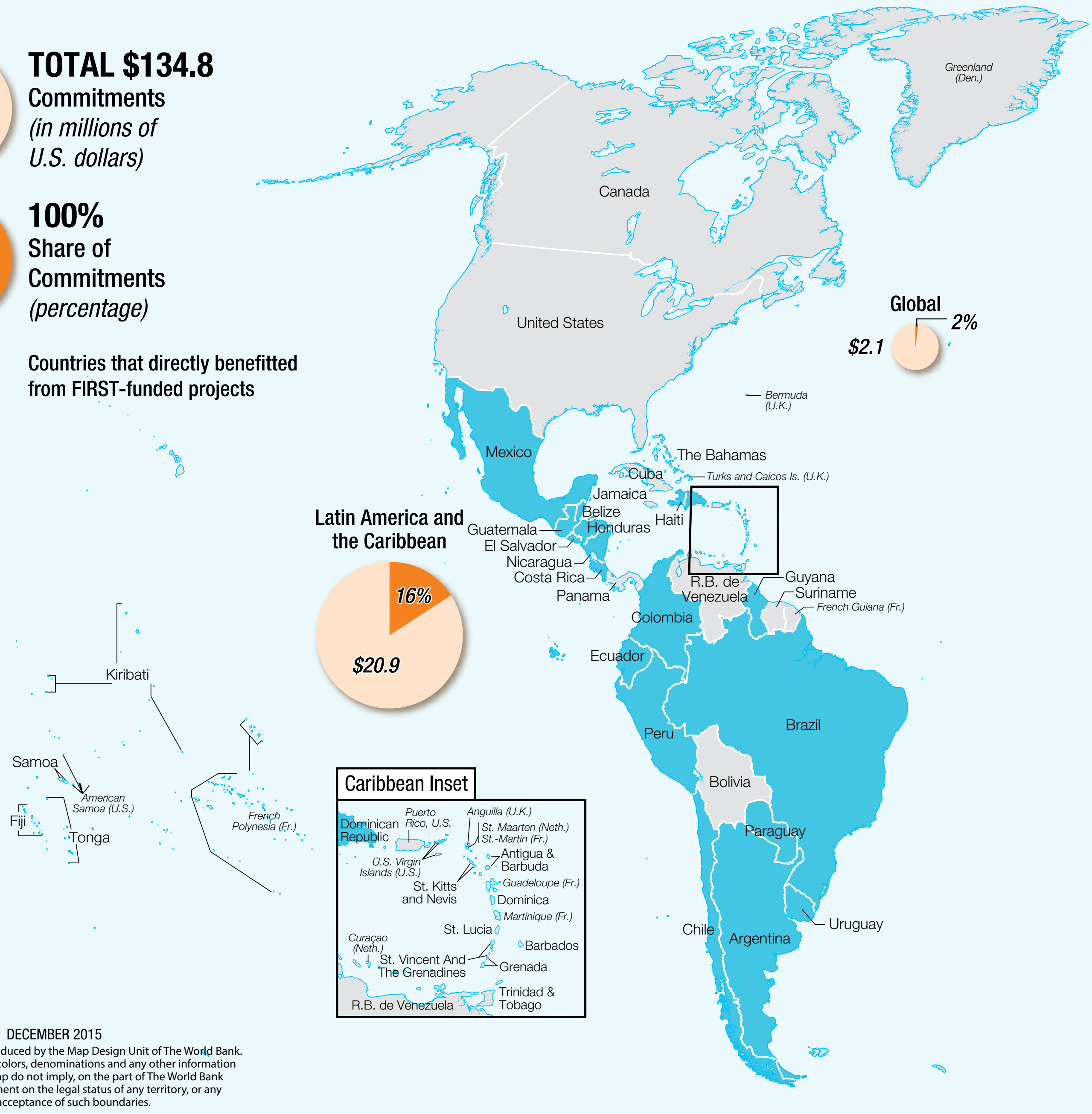
FIRST on the Map

CUMULATIVE PROJECT COMMITMENTS AS OF JUNE 30, 2015

TOTAL $134.8
Commitments
(in millions of U.S. dollars)

100%
Share of Commitments
(percentage)

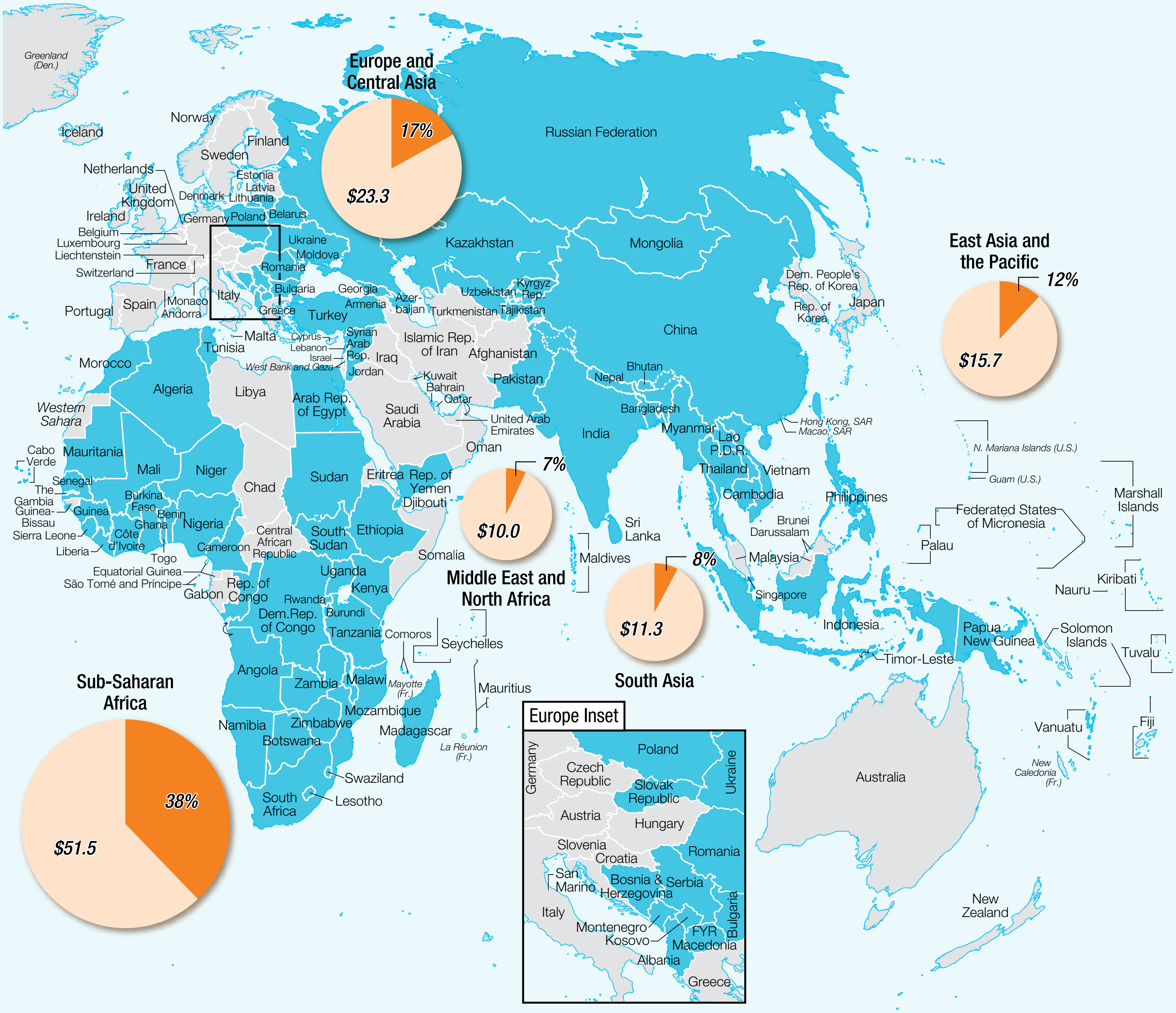
Countries that directly benefitted from FIRST-funded projects



IBRD 39204 | DECEMBER 2015

GSDPM Map Design Unit

This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.



Europe and Central Asia
17%
$23.3
East Asia and the Pacific
12%
$15.7
Middle East and North Africa
7%
$10.0
South Asia
8%
$11.3
Sub-Saharan Africa
38%
$51.5
Europe Inset
Greenland (Den.)
Iceland
Norway
Sweden
Finland
Netherlands
United Kingdom
Ireland
Denmark
Estonia
Latvia
Lithuania
Belgium
Luxembourg
Liechtenstein
Switzerland
Germany
Poland
Belarus
Ukraine
Moldova
Romania
Bulgaria
France
Portugal
Spain
Monaco
Andorra
Italy
Greece
Malta
Tunisia
Turkey
Georgia
Armenia
Azer-baijan
Cyprus
Lebanon
Israel
West Bank and Gaza
Syrian Arab Rep.
Iraq
Jordan
Russian Federation
Kazakhstan
Mongolia
Uzbekistan
Kyrgyz Rep.
Turkmenistan
Tajikistan
Islamic Rep. of Iran
Afghanistan
Pakistan
Kuwait
Bahrain
Qatar
Saudi Arabia
United Arab Emirates
Oman
Rep. of Yemen
Djibouti
Eritrea
Morocco
Algeria
Libya
Arab Rep. of Egypt
Western Sahara
Mauritania
Mali
Niger
Chad
Sudan
Cabo Verde
Senegal
The Gambia
Guinea-Bissau
Guinea
Sierra Leone
Liberia
Burkina Faso
Ghana
Benin
Togo
Côte d'Ivoire
Nigeria
Cameroon
Central African Republic
South Sudan
Ethiopia
Somalia
Equatorial Guinea
São Tomé and Principe
Gabon
Rep. of Congo
Uganda
Kenya
Rwanda
Burundi
Dem.Rep. of Congo
Tanzania
Comoros
Seychelles
Angola
Zambia
Malawi
Mayotte (Fr.)
Mauritius
Mozambique
Madagascar
La Réunion (Fr.)
Namibia
Zimbabwe
Botswana
Swaziland
South Africa
Lesotho
China
Dem. People's Rep. of Korea
Rep. of Korea
Japan
Nepal
Bhutan
Bangladesh
India
Sri Lanka
Maldives
Myanmar
Lao P.D.R.
Thailand
Vietnam
Cambodia
Hong Kong, SAR
Macao, SAR
Philippines
Brunei Darussalam
Malaysia
Singapore
Indonesia
Timor-Leste
Papua New Guinea
N. Mariana Islands (U.S.)
Guam (U.S.)
Marshall Islands
Federated States of Micronesia
Palau
Nauru
Kiribati
Solomon Islands
Tuvalu
Vanuatu
Fiji
New Caledonia (Fr.)
Australia
New Zealand
Poland
Czech Republic
Slovak Republic
Ukraine
Germany
Austria
Hungary
Slovenia
Croatia
Romania
San Marino
Bosnia & Herzegovina
Serbia
Italy
Montenegro
Kosovo
FYR Macedonia
Bulgaria
Albania
Greece

ONE | ABOUT FIRST

|| INTRODUCTION ||

The Financial Sector Reform and Strengthening Initiative (FIRST) is a multidonor program aimed at supporting low- and middle-income countries in building stable, more efficient, and inclusive financial systems. FIRST's technical assistance (TA) grants enable national policy-making and regulatory bodies to enhance their policies and build their capacity to regulate, supervise, and develop the financial sector in their country. In addition to supporting individual countries, FIRST also supports regional initiatives, taking advantage of its global reach, cross-sectoral focus, and ability to draw on solutions adopted in one country for application in others.

FIRST was created following the East Asian financial crisis and has since distinguished itself as an effective catalyst for broader reform programs through its targeted TA interventions, as well as the vital support to develop and implement financial sector strategies. Launched in 2002, **FIRST has funded more than 680 projects in about 120 countries, deploying over $135 million.**

FIRST is currently supported by five donors: the Department for International Development of the United Kingdom (DFID), Germany's Federal Ministry of Economic Cooperation and Development (BMZ), the Ministry of Finance of Luxembourg, the Ministry of Foreign Affairs of the Netherlands (MFA), and the State Secretariat for Economic Affairs of Switzerland (SECO), as well as the World Bank Group (WBG) and the International Monetary Fund (IMF).

|| OBJECTIVES ||

FIRST focuses on providing high-quality short- to medium-term TA. FIRST has established a distinctive role in financial sector development as a provider of customized and uniquely designed TA projects that have the ability to catalyze broader reforms and have strong potential for replication.

Since inception, FIRST's core mandate has been to support the implementation of recommendations of the joint World Bank–IMF Financial Sector Assessment Program (FSAP) and Reports on the Observance of Standards and Codes (ROSCs)—particularly in developing countries that may lack the resources or expertise to tackle difficult reforms. In addition, FIRST also supports other reform initiatives linked to countries' economic and financial sector strategies that contribute to sounder and deeper financial systems.

|| FIRST'S BASIC PRINCIPLES ||

FIRST's effectiveness in delivering TA is based on the following basic principles:

- A demand-driven approach

FIRST aims to be demand driven and to identify innovative and effective approaches to the delivery of TA. To this end, FIRST accepts TA requests from a wide range of sources for the benefit of client countries, with the World Bank Group and IMF as the designated implementing entities.

- Additionality

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

- A clear focus on development impact

FIRST's projects and programs are designed with clear intended development outcomes as well as indicators to track progress and a mechanism to systematically capture client feedback at completion, and to follow up during the postcompletion stage. The robust results measurement approach adopted by FIRST serves to enhance quality control and communication. Also, FIRST endeavors to promote learning and knowledge sharing in financial sector TA.

- Leveraging World Bank and IMF technical expertise

FIRST's business model is built on close collaboration between the World Bank Group and IMF, leveraging their presence on the ground and expertise in designing and implementing financial sector reforms. In that respect, policy reform recommendations are based on a sound analytical foundation, and deep country and financial sector knowledge.

|| ACTIVITIES AND IMPLEMENTATION ||

FIRST supports a broad range of financial sector reforms and interventions, mainly in banking, insurance, capital markets, pensions, crisis preparedness, payment systems, financial inclusion, and other areas, by providing TA to policy makers and regulatory bodies. Primary areas of activity:

- Financial sector reform strategy and policy advice
- Advisory services to strengthen regulatory and supervisory frameworks
- Financial sector market and product development
- Institutional and capacity building

|| ELIGIBLE BENEFICIARIES ||

Eligible beneficiaries of FIRST TA are government agencies, regulatory bodies, policy makers, and—in limited circumstances—quasi-public institutions such as self-regulating organizations from low- and middle-income countries.

Appendix III provides further details on eligible beneficiaries, selection criteria, and the application process.

|| FIRST'S WINDOWS OF OPERATIONS ||

FIRST operates through two "windows":

1. Catalytic: FIRST funds small-scale, short- to medium-term (6 to 24 months) projects (under $500,000) to tackle targeted TA needs based on country demand.

   The Catalytic Window operates through two trust funds, one for low-income countries (LIC Catalytic Window) and one for middle-income countries (MIC Catalytic Window).

2. Programmatic: Launched in 2013, the Programmatic Window funds larger engagements, across multiple subsectors, connected through a well-structured, typically multiyear reform agenda. The amount for program TA ranges from $1 million to $2 million, implemented over three years. The Programmatic Window operates through two trust funds, one for low-income countries (LIC Programmatic Window) and one for middle-income countries (MIC Programmatic Window).

|| ORGANIZATION STRUCTURE ||

FIRST operates under a two-tier structure consisting of the Governing Council and the Secretariat.

(i) The Governing Council provides strategic guidance, sets overall policies, and approves large projects and programs. It comprises one representative from each of FIRST's donors, as well as a representative from the World Bank Group and a representative from the IMF.

(ii) The Secretariat, headed by a program manager, manages day-to-day activities. It is located in Washington, D.C., within the World Bank Group's Finance and Markets Global Practice.

FIRST'S GOVERNING COUNCIL MEMBERS AND ALTERNATES (AS OF JUNE 30, 2015)		
Netherlands Ministry of Foreign Affairs	**Peter Le Poole** Senior Policy Advisor, Financial Sector Development	Chair of the Governing Council
	Bjorn Kuil Senior Policy Advisor, Financial Sector Development	Alternate
Department for International Development, UK	**Mike Foster** Financial Sector Specialist, Private Sector Department	Member
	Gail Warrander Head of Investment and Finance Team	Alternate
German Federal Ministry for Economic Cooperation and Development	**Susanne Dorasil** Head of Division Economic Policy, Financial Sector Division	Member
	Daniel Guenther Financial Systems Development	Alternate
International Monetary Fund	**Aditya Narain** Deputy Director, Monetary and Capital Markets Department	Vice-Chair
	Effie Psalida Division Chief, Institute for Capacity Development	Alternate
Luxembourg Ministry of Finance	**Miguel Marques** Alternate Director – Belgium/Luxembourg/Slovenia, European Bank for Reconstruction and Development	Member
	Arsene Jacoby Director, International Financial Institutions	Alternate
State Secretariat for Economic Affairs, Switzerland	**Monica Rubiolo** Head, Macroeconomic Support Division	Member
	Rosmarie Schlup Deputy Head, Macroeconomic Support Division	Alternate
World Bank Group	**Gloria Grandolini** Senior Director, Finance & Markets Global Practice	Member
	Peer Stein Director, Finance & Markets Global Practice	Alternate

|| DONOR AND PARTNER RELATIONSHIPS ||

FIRST works in close collaboration with donor agencies, multilateral development banks, international standard-setting bodies, and development organizations. As part of its due diligence process, FIRST shares project summaries with its donors and partners for two purposes: to avoid duplication, and to gather regional and technical feedback for refining project designs and eliminating redundancies.

TWO | KEY HIGHLIGHTS OF FY2015

FIRST continues to make significant strides toward achieving operational targets and advancing the knowledge agenda, in accordance with its 2011 strategy. In this fiscal year, a number of FIRST interventions achieved their intended development outcomes, as presented in detail in the Results section of this report. These concrete results illustrate how FIRST is making a real difference and playing a catalytic role in driving reforms in various countries and sectors. Some key highlights:

- Operations and Results: In fiscal year 2015, 66 percent of FIRST's commitments were channeled to low-income countries, in a concerted effort to rebalance its portfolio on two fronts: to be able to make two-thirds of its commitments to the low-income countries in need of financial sector reforms; and to intensify FIRST's regional commitments in Africa to 50 percent. The share of commitments to the Africa region in FY2015 increased to 42 percent, from 36 percent in FY2014. This year FIRST saw more approvals and requests for the programs under its Programmatic Window. FIRST approved four programs in Morocco, Guatemala, Ethiopia, and Haiti, and four others are in the pipeline.

- Consultative Group Meeting (June 2015): One of the significant highlights this fiscal year was the 4th Consultative Group Meeting, held in Rabat, Morocco, on June 9 and 10, 2015. The meeting theme, "How FIRST is making impacts on the ground: Views from clients," reflected the Phase III objective of making greater impacts on the ground by supporting longer-term and more comprehensive reform programs in client countries; and by sharpening the results measurement framework by including specific targets in these programs. It brought together FIRST's clients, peers, and donors to identify effective new ideas and concepts for the delivery of FIRST TA. The two-day meeting focused on sharing lessons and enabling peer-to-peer learning, and brought together a very geographically and technically diverse group of FIRST clients, peers, and donors. This included participants from central bank governors to heads of banking and insurance supervision, as well as high-level officials from the Alliance for Financial Inclusion, the International Association of Insurance Supervisors, the Committee on Payments and Market Infrastructures, and Making Finance Work for Africa.

The meeting proved to be a rewarding experience. FIRST received positive feedback on the quality and relevancy of its TA to clients' development challenges. Several participants shared similar opinions, conveying three main messages:

- FIRST interventions had notable catalytic effects on both financial stability and financial inclusion.
- The quality of technical support has been high in program operations thus far.
- Country partners support including targets in FIRST programs because targets enable authorities to obtain local political buy-in.

The Consultative Group provided several recommendations on how FIRST could further improve the quality of interventions going forward. The Group also had some interesting ideas on how FIRST can strengthen partnerships with standard-setting bodies.[1] The following are some of the key recommendations endorsed by the Group:

1. Ensure that FIRST intervention is linked to the national or sectoral strategy in the country; ownership by the government is a must.
2. Continue to set rigorous and ambitious targets, but also realistic ones, based on an analysis of country circumstances; these targets must also be consistent with national strategies.
3. Systematically engage all relevant stakeholders, and ensure that stakeholder consultation is coordinated early in the process.
4. Improve the quality of TA delivery; ensure FIRST is involved in quality review meetings.

1. A full report on the Consultative Group Meeting is available on the FIRST website.

- FIRST's *Lessons Learned Series:* This fiscal year also marked the launch of FIRST's Lessons Learned Series, knowledge notes that synthesize experiences and lessons from TA funded by FIRST over the past 12 years, focusing on documenting the real challenges, solutions, and lessons from FIRST's projects. Through this series FIRST aims to share information related to what works in different countries and different political economy environments, how to develop tailored products for particular target groups, what it would take to maximize impact of certain reforms, and how best to sequence policy actions.

  The first note, "How to Make Financial Sector Development Strategies Work: Successes and Failures,"[2] was published in May 2015. The production of other notes is under way.

- Principles for the Design, Implementation, and Evaluation of Public Credit Guarantee Schemes (CGSs): As part of FIRST's mandate to promote best practices and international standards in financial sector reform, as well as financial sector policy dialogue and knowledge dissemination, FIRST has partnered with the World Bank Finance and Markets Global Practice in an initiative to develop a set of voluntary, globally recognized principles for the design, implementation, and evaluation of public CGSs for small and medium-size enterprises (SMEs). Public CGSs have become a popular intervention to spur credit toSMEs since the global financial crisis. The principles are expected to underpin the design, implementation, and evaluation of public CGSs in emerging markets and developing economies, improving their efficiency and effectiveness, and ultimately contributing to increased access to bank finance for SMEs in these economies. This initiative was launched by convening a task force comprising representatives of regional associations of CGSs as well as financial institutions, in collaboration with the Institute of International Finance and other partners.

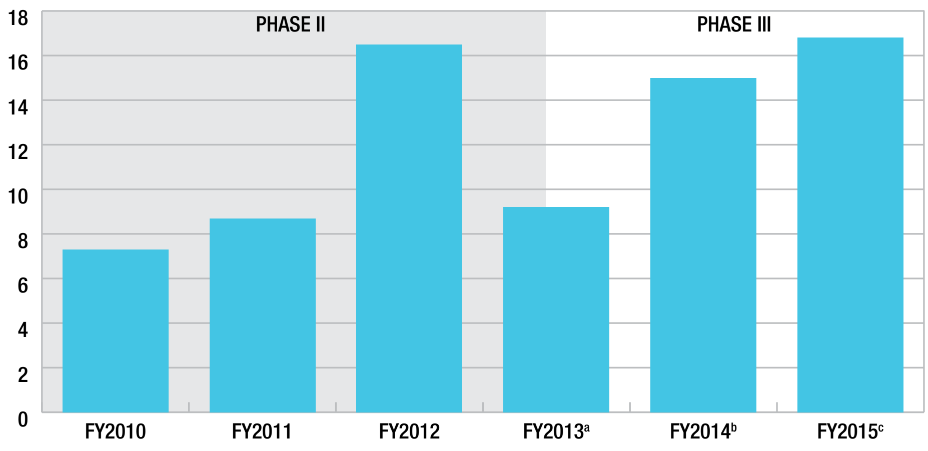
2. Todoroki, Emiko, and Francesco Strobbe. 2015. *How to Make Financial Sector Development Strategies Work: Successes and Failures*. Washington, DC: World Bank.

THREE | OPERATIONS IN FY2015

|| OVERALL COMMITMENTS ||

FIRST continued to expand its support for and presence in low- and lower-middle-income countries in FY2015, approving 34 new grants worth $16.8 million, of which four were for programmatic support in both low- and middle-income countries—a 12 percent increase from the previous year. Overall in Phase III, FIRST has approved 86 grants, representing commitments of $33.1 million (table 1). Figure 1 shows FIRST's annual commitments for the last six fiscal years (FY2010–FY2015). More detailed information regarding the projects approved in FY2015 and cumulatively in Phase III is provided in Appendix II.

FIGURE 1. FIRST COMMITMENTS, FY2010–FY2015
$ million



a. FY2013 was a transition year in which Phases II and III overlapped. Phase II project applications ended in December 2012, while approvals in the World Bank's system continued through early 2013. Phase III started in January 2013, with the first project activated in the system in February 2013. FY2013 data are split and presented accordingly.
b. Includes one program.
c. Includes four programs.

In FY2015, $10.1 million was approved under the Catalytic Window and $6.8 million under the Programmatic Window. Sixty-five percent of total commitments were made in low-income countries. FIRST approved 22 projects under the LIC Catalytic Window and 8 projects under the MIC Catalytic Window (table 1), consistent with FIRST's increased focus on supporting low-income countries.

Table 1. Number of Projects and Programs Approved, By Window Type

WINDOW TYPE	PHASE III			
	2013[a]	2014	2015	TOTAL
LIC Catalytic	1	15	22	38
LIC Programmatic		1	2	3
MIC Catalytic	4	31	8	43
MIC Programmatic			2	2
Total	5	47	34	86

a. FY2013 was a transition year in which Phases II and III overlapped. Phase II project applications ended in December 2012, while approvals in the World Bank's system continued through early 2013. Phase III started in January 2013, with the first project activated in the system in February 2013. FY2013 data are split and presented accordingly.

At the end of this fiscal year, the cumulative share of funding to such countries under Phase III stands at 52 percent. Table 2 shows FIRST's commitments under each of the window types in Phase III.

Table 2. Commitment Value of Projects and Programs Approved, By Window Type
$ million

WINDOW TYPE	PHASE III			
	2013[a]	2014	2015	TOTAL
LIC Catalytic	0.3	3.9	7.5	12.1
LIC Programmatic		2.0	3.4	5.4
MIC Catalytic	0.9	9.1	2.5	12.5
MIC Programmatic			3.3	3.3
Total	1.2	15.0	16.8	33.1

a. FY2013 was a transition year in which Phases II and III overlapped. Phase II project applications ended in December 2012, while approvals in the World Bank's system continued through early 2013. Phase III started in January 2013, with the first project activated in the system in February 2013. FY2013 data are split and presented accordingly.

|| PROGRAMMATIC WINDOW ||

Since the establishment of the Programmatic Window in 2013, FIRST has approved five programs with a total commitment of $8.7 million, of which $5.4 million was committed to low-income countries. In FY2015, four programs were approved for a total value of $6.7 million, covering all the three thematic areas of inclusion, stability and market development. Five programs have been approved so far:

1. Rwanda #P1: FIRST Financial Stability Program (FY2014)
2. Morocco #P3: Development of Local Capital Markets and SME Finance (FY2015)
3. Guatemala #P5: Developing Diversified and Responsible Finance for MSMEs (FY2015)
4. Ethiopia #P7: Promoting Inclusive Insurance (FY2015)
5. Haiti #P11: Increasing Access to Responsible Financial Services (FY2015)

|| IMF – OPERATIONS ||

Fifteen percent of all FIRST funding is reserved for IMF projects. In this fiscal year, four projects were approved for a total value of $ 1.8 million, to be implemented by the IMF. Overall in Phase III, seven IMF projects have been approved.

Table 3. Number of Projects and Programs Approved, World Bank and IMF Breakdown

SOURCE	PHASE III			
	2013[a]	2014	2015	TOTAL
IMF	2	1	4	7
World Bank	3	46	30	79
Total	5	47	34	86

a. FY2013 was a transition year in which Phases II and III overlapped. Phase II project applications ended in December 2012, while approvals in the World Bank's system continued through early 2013. Phase III started in January 2013, with the first project activated in the system in February 2013. FY2013 data are split and presented accordingly.

Table 4. Commitment Value of Projects and Programs Approved, World Bank and IMF Breakdown

$ million

SOURCE	PHASE III			
	2013[a]	2014	2015	TOTAL
IMF	0.5	0.1	1.8	2.4
World Bank	0.7	14.9	15.0	30.7
Total	1.2	15.0	16.8	33.1

a. FY2013 was a transition year in which Phases II and III overlapped. Phase II project applications ended in December 2012, while approvals in the World Bank's system continued through early 2013. Phase III started in January 2013, with the first project activated in the system in February 2013. FY2013 data are split and presented accordingly.

|| REGIONAL FOCUS ||

FIRST places strong emphasis on supporting low-income countries with the greatest needs for financial sector reforms and interventions. In this respect, Sub-Saharan Africa continues to be a top-priority region, with 43 percent of commitments during this fiscal year, compared with 36 percent in the preceding one (figure 2). So far in Phase III, Sub-Saharan Africa has received the largest share of commitments (40 percent), followed by the Middle East and North Africa (21 percent) and Latin America and the Caribbean (18 percent) (figure 3). FIRST's limited reach in East Asia and the Pacific and in Europe and Central Asia is mainly due to the availability of alternative sources of TA funding from the Korean Trust Fund and Vienna Centre, among others, and the dominance of upper-middle-income countries in those two regions.

FIGURE 2. FIRST PROJECT COMMITMENTS BY REGION, FY2015

%

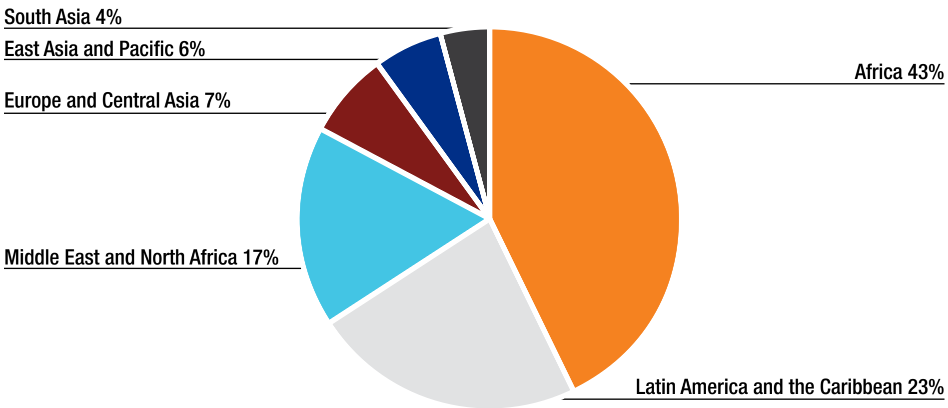
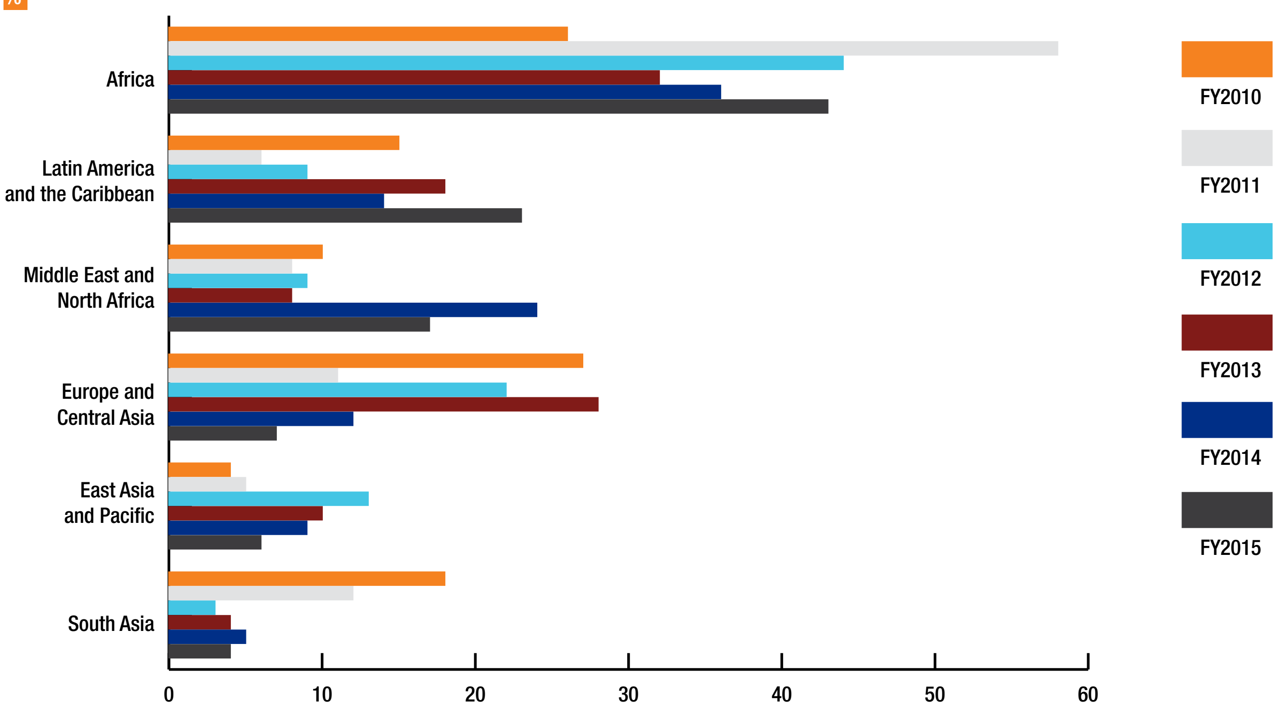


FIGURE 3. COMMITMENT TREND BY REGION, FY2010–FY2015

%

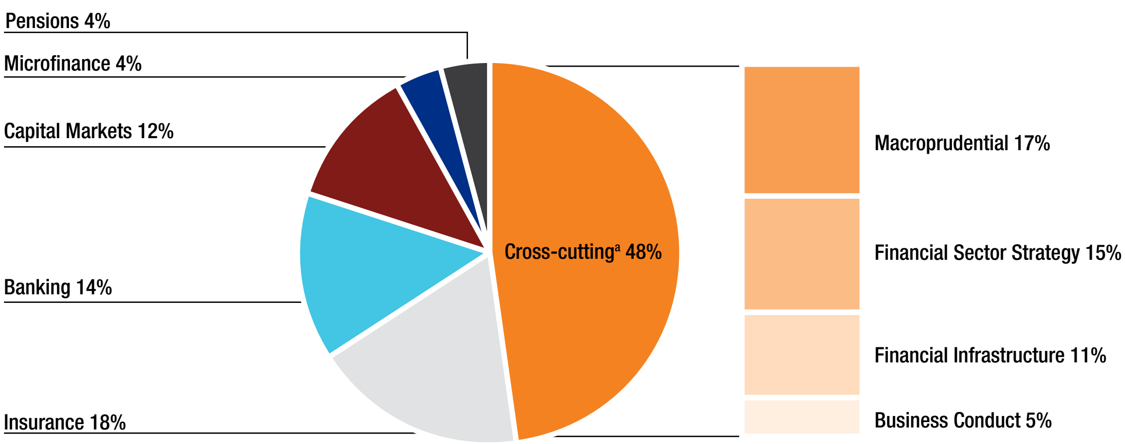


|| SECTORAL FOCUS ||

Demand for FIRST's TA continues to be diverse, spreading across a wide range of financial sector activities such as banking, insurance, capital markets, pensions, microfinance, and cross-cutting areas such as macroprudential issues, financial infrastructure, financial sector strategies, and business conduct regulation. However, as authorities continue to focus on postcrisis financial stability reform, there was a noticeable increase in commitments made to help countries address macroprudential challenges, which stood at 17 percent compared with 7 percent in FY2014. The financial sector in low- and middle-income countries tends to be dominated by the banking sector; as such, most FIRST projects in the macroprudential space (crisis preparedness, financial stability framework, and systemic risk analysis) focus mainly on the banking sector. FIRST's cumulative commitments in Phase III have been made primarily to the banking sector, followed by the insurance sector.

FIGURE 4. FIRST PROJECT COMMITMENTS BY SECTOR, FY2015

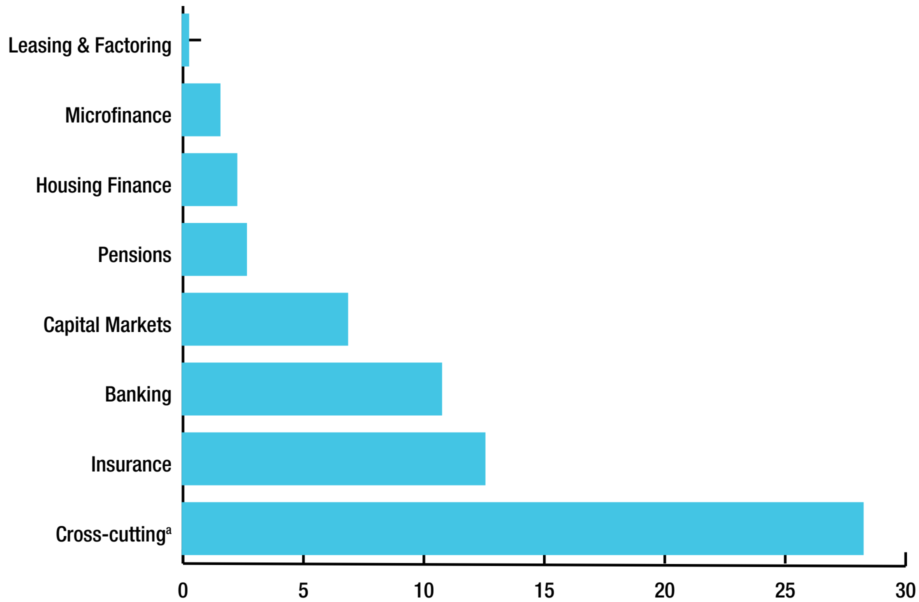
%



Note: Excludes programs, as they span various sectors.

a. Cross-cutting areas include macroprudential, financial infrastructure, financial sector strategy, and business conduct.

FIGURE 5. COMMITMENT TREND BY SECTOR, FY2010–FY2015
$ million



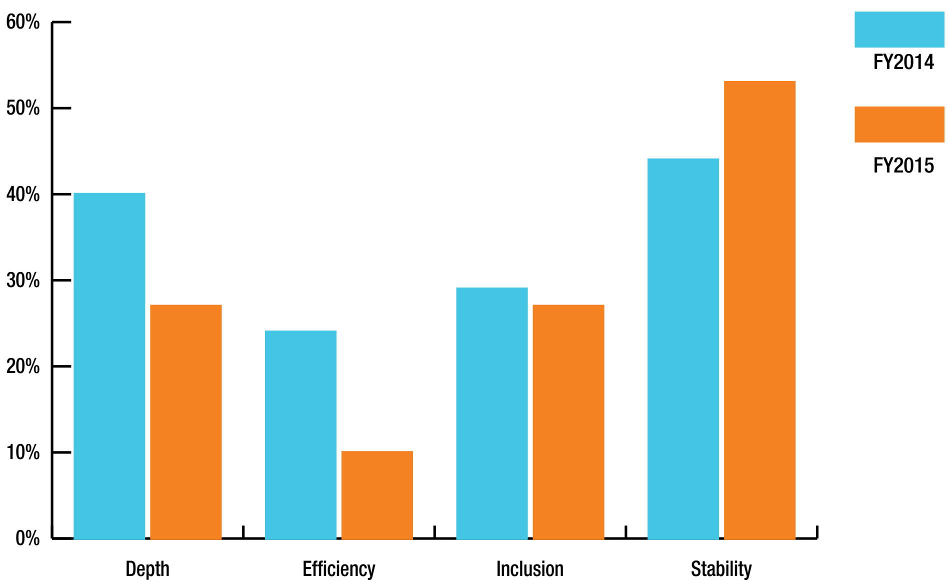
Note: Excludes programs, as they span various sectors.
a. Cross-cutting areas include macroprudential, financial infrastructure, financial sector strategy, and business conduct.

|| CONTRIBUTION TO FINANCIAL SECTOR GOALS ||

FIRST's interventions aim to contribute to the financial inclusion agenda by ensuring that at least 20 percent of projects approved will have financial inclusion outcomes. In that regard, 26 percent of projects approved in the Catalytic Window in Phase III are intended to help increase financial inclusion. Given the level of financial sector development in most FIRST country clients, demand for support to strengthen financial stability and depth remains steady. Figure 6 shows the distribution of the projects approved in Phase III (FY2014 and FY2015) by their intended financial sector outcomes or goals.

FIGURE 6. INTERVENTIONS BY CONTRIBUTION TO FINANCIAL SECTOR GOALS IN PHASE III

%



Note: The financial sector goals are as follows:
Financial Inclusion: Projects with expected increase in access to and usage of finance and/or financial services are classified as contributing to financial inclusion. Examples include warehouse receipt financing, credit guarantee schemes, credit reporting, housing finance, microfinance, microinsurance, payment systems (where they support retail, government, or innovative payments), and financial inclusion strategy development.
Financial Stability: Projects helping strengthening macroprudential and microprudential regulatory and supervisory frameworks and capacity are classified as contributing to financial stability. Specific topics include banking and non-banking sector regulation and supervision, deposit insurance, crisis preparedness and contingency planning, bank resolution, systemic risk monitoring, liquidity management, inflation forecast and policy analysis, and accounting and auditing.
Financial Depth: Projects contributing to financial deepening come from capital markets, insurance, and pension reforms. In capital markets, FIRST's projects work to improve the transparency and efficiency of government bond markets, helping with issuance strategies to establish benchmark yield curves, which can be used as references for non-government financial instruments. Some projects help improve market architecture to boost price dissemination. Some projects create incentives for institutional investors such as insurance and pension funds, thus helping intermediate long-term savings to business and economic needs. Projects in the insurance sector, if they help introduce or improve insurance products—for example, catastrophic insurance, motor third-party liability insurance—contribute to financial deepening. Projects in the pension sector that help introduce new pension schemes or strengthen the solvency and profitability of pension funds would contribute to financial deepening.
Financial Efficiency: Projects in payment systems are normally classified as contributing to financial efficiency. It is important to acknowledge that very often one project contributes to several financial dimensions; for example, payment system reforms are classified under both efficiency and inclusion if the reforms support the modernization of retail, government, or non-bank payment operations. Projects in capital markets would contribute to both efficiency and depth. FSDS/FSDIP projects contribute to all of these goals and therefore are excluded in this chart.

|| LOOKING AHEAD ||

FIRST TA is always demand driven, and priorities are shaped primarily by clients' reform needs and changes in the global financial sector landscape. Feedback from clients, donors, and partners during the Consultative Group meeting in Morocco confirmed that FIRST has optimized its impact on the ground by aligning its TA with client's national and sectoral strategies. In addition, FIRST continues to strengthen the quality of its TA—in particular its results management framework—striving to successfully move projects from achieving outcomes to fully realizing their intended development impact.

Strong and growing global political advocacy and country commitment to achieving universal financial access goals by 2020 will likely increase demand for FIRST support in this area. Given the multifaceted nature of financial inclusion, FIRST will continue supporting countries in building the enabling ecosystem, which may include developing financial inclusion strategies, introducing technology-enabled payment systems, or building robust financial infrastructure. During the 2015 Consultative Group meeting, clients specifically underscored the importance of ensuring the proportionality of regulations and the appropriateness of policy interventions to balance financial inclusion and stability. FIRST's mandate, which encompasses financial inclusion, financial stability, and market development, as well as working in partnership with the World Bank and IMF, puts FIRST in a unique position to deliver this comprehensive approach.

FIRST will focus on helping countries address clear barriers related to specific interventions and promote policies that are aimed at reducing the gender gap in financial inclusion, including strengthening the framework for measuring progress where relevant. Specific areas in the financial inclusion agenda remain a challenge for many FIRST client countries. While the 2014 Findex data show that significant progress has been made in increasing the number of adults who have a formal bank account—to 54 percent—in developing countries, the gender gap in financial inclusion remains stubbornly steady at 9 percent. It is therefore not surprising that gender is high on the agenda of the Sustainable Development Goals. With more than one-third of FIRST TA supporting financial inclusion and financial infrastructure initiatives, FIRST can play a role in reducing this gap and will continue to work with our partners to mainstream gender in FIRST TA.

A number of Sustainable Development Goal targets are very relevant to FIRST's mandate and are likely to drive client demand for TA. Financing for development will require building capacity for domestic resource mobilization, which remains a major bottleneck in many low-income countries. This is particularly challenging for high-risk areas such as agriculture and micro-, small, and medium-sized enterprises (MSMEs), both of which are very critical for job creation and poverty reduction in low-income countries. Demand for support in agribusiness-related TA picked up in 2015, with the approval of two projects supporting the development of warehousing receipts in Senegal and Malawi, and is likely to continue. Building capacity for domestic and external resource mobilization will also entail continuing to support countries in developing domestic debt markets and implementing other reforms that support the development of long-term finance. In the area of financial sector stability, FIRST will continue to focus on strengthening micro- and macroprudential regulation, supervision, and financial sector safety nets.

In 2015, in partnership with the World Bank's Finance and Markets Global Practice, FIRST embarked on a global initiative to establish a set of principles for the design, implementation, and evaluation of public credit guarantee schemes (CGSs) for small SMEs. It is intended for the principles to become generally accepted best practices for effectively and efficiently establishing and running public CGSs for SMEs. In FY2016 the principles will be disseminated through regional associations of financial guarantee schemes. The task force is also preparing a methodology to implement and conduct assessments using the principles and will conduct a global survey of the application of practices. The principles will be an important tool to identify opportunities to assist countries that are introducing or reforming public CGSs in order to expand access to finance in their MSME sectors.

FIRST will continue to focus on the development outcomes and impact of its TA in recipient countries through stronger results-based management practice, client surveys, and annual program reviews. Over the years FIRST has demonstrated its success in delivering well-designed projects, high-quality outputs, and appropriate policy recommendations. Results and insights gathered on a systematic basis will be used for developing lessons learned and strengthening project quality. The postcompletion monitoring practice will be further systemized to provide a better picture of the progress made on the ground and will help to inform FIRST's knowledge agenda.

Catalytic interventions remain the core business for FIRST, and demand for assistance through that window remains high, as evidenced by the highest level of commitments achieved in the last fiscal year. In the coming year, FIRST's capacity to intervene in middle-income countries through both the Catalytic and Programmatic windows will remain constrained. In that regard, fundraising efforts will continue in order to ensure that FIRST will effectively meet the growing demand for its catalytic interventions. In terms of programmatic operation, the focus will shift to implementation and monitoring of the portfolio.

FOUR | RESULTS MEASUREMENT

After a decade of operations (2002–2012), FIRST's technical support model was recognized by its clients and stakeholders because of the many positive changes it has made on the ground; however, FIRST's ability to systematically track tangible outcomes and valuable lessons remained inadequate. To promote a culture of enhanced accountability, learning and knowledge sharing, FIRST put in place a rigorous results measurement framework in 2013. The essence of this framework is to mainstream results measurement from the project design through the postcompletion stages; each project or program must have outputs and outcomes clearly identified, with measurable indicators and timelines clearly specified at the approval stage; the result chain concept is applied in every project and program; and client surveys are conducted at completion, as is outcome monitoring. The new framework has not only helped the project team to define the expected outcomes from the concept stage, but also to systemize the collection of results and lessons learned to be shared with FIRST's donors, clients, and interested development community members.

|| SCORECARD ||

The FIRST Scorecard was introduced in FY2014 as a tool to quantitatively depict FIRST's wide range of interventions and contributions to financial development and stability goals. The Scorecard contains projects and programs approved in Phase III only—that is, starting in January 2013—and will be updated annually. It is built on the logic that efficient (FIRST) operational performance will effectively strengthen the legal environment and supervisory capacity (clients), which will serve as foundations for better financial development and stability. The three building blocks, or tiers, of the Scorecard are briefly described below:

- **Tier 1:** *What difference does FIRST make for financial development and stability?* This reflects FIRST's long-term goals, which are measured by selected key numerical targets for the Programmatic Window, to be achieved over the horizon of three to five years after a program is completed. Projects from the Catalytic Window also contribute to financial development and stability goals; however, due to the small size of that window, hard targets are exempted at the project approval stage.

- **Tier 2:** *What difference does FIRST make in the legal and supervisory system to foster more financial development and stability?* This part of the Scorecard shows FIRST's direct contribution in strengthening the legal and supervisory environment as foundations for financial sector development. Helping a government to adopt a policy or strategy, to draft or amend a law or regulation, or to introduce new financial products are success measures of FIRST TA. This is the key difference between an activity or output-based measurement and the outcome-based measurement that FIRST has adopted since 2013.
- **Tier 3:** *How efficient is FIRST in meeting its strategic targets?* This part of the Scorecard tracks FIRST's operational progress toward its strategic targets, as approved for the Phase III Strategy. Only selected quantitative dimensions of FIRST's Strategy are included in the Scorecard, such as commitments to Africa, to low-income countries, and to financial inclusion, as well as the knowledge management agenda and operational pace.

Scorecard, January 2013–June 2015

TIER 1: FINANCIAL DEVELOPMENT AND STABILITY	
Key Indicators	**Phase III Cumulative Targets as of June 2015**
Contributing to Financial Inclusion	
Catalytic Window: Share of projects with financial inclusion outcomes	26%
Program Window: Programs approved in Financial Inclusion Pillar	3
MSMEs with a loan or a line of credit	462,000 by 2020 (Guatemala)
Adults with formal insurance policies	2.5 million by 2021 (Ethiopia)
Share of adults with a transaction account	24% by 2021; 34% by 2023 (Haiti)
Contributing to Financial Stability	
Catalytic Window: Share of projects with financial stability outcomes	51%
Program Window: Programs approved in Financial Stability Pillar	1
Improvement in compliance with international standards/principles	3 Basel Core Principles by 2015 (Rwanda)
Contributing to Financial Deepening	
Catalytic Window: Share of projects contributing to financial deepening	34%
Program Window: Programs approved in Market Development Pillar	1
Value of real estate investment trusts issued	\$360 million by 2017; \$600 million by 2019 (Morocco)
Value of *sukuk* (Islamic finance) issued	\$240 million by 2017; an additional \$240 million by 2019 (Morocco)

TIER 2: REGULATORY AND INSTITUTIONAL STRENGTHENING					
INSTITUTION	TARGET	ACTUAL	MARKETS, INFRASTRUCTURE, MACROPRUDENTIAL, SAFETY NET	TARGETS	ACTUALS
Banking			**Accounting & Auditing**		
Strengthened supervisory frameworks, manuals, tools adopted (number of agencies)	6	1[1]	Strengthened financial management functions in place (number of central banks)	1	
Laws, regulations, or policy plans improved or adopted	13	1[2]	Laws, regulations, or policy plans improved or adopted	1	
Credit Guarantee Schemes			**Business Conduct**		
New or improved financial products introduced	2		Laws, regulations, or policy plans improved or adopted	8	
Partial Credit Guarantee Funds established	2		**Macroprudential/Safety Net**		
Laws, regulations, or policy plans improved or adopted	1		Manuals, tools, methodologies for deposit insurance system adopted (number of agencies)	5	2[3]
Insurance			Strengthened macroprudential tools in place (number of central banks)	6	1[4]
Actuarial models and reserve setting methodologies adopted (number of agencies)	5		Strengthened Crisis Preparedness Frameworks in place	9	
MTPL Information Centers established/improved	3		Strengthened resolution frameworks in place	6	2[5]
New or improved financial products introduced	13		Strengthened liquidity forecasting frameworks in place (number of central banks)	1	
Strengthened supervisory frameworks, manuals, tools adopted (number of agencies)	10		Laws, regulations, or policy plans improved or adopted	5	1[6]
			Capital Markets		
Laws, regulations, or policy plans improved or adopted	32	2[7]	New or improved financial products introduced	6	
Pensions			New or improved market infrastructure (e.g., trading, clearing, market making) in place	6	
Strengthened supervisory frameworks, manuals, tools adopted (number of agencies)	5		Recommended debt issuance practice adopted (number of debt management agencies)	2	
Laws, regulations, or policy plans improved or adopted	11		Strengthened supervisory frameworks, manuals, tools adopted (number of agencies)	5	
Agrifinance			Laws, regulations, or policy plans improved or adopted	34	
New or improved financial products introduced	2				
Warehouses industry-wide operational guidelines and standards approved	2		**Payments**		
Laws, regulations, or policy plans improved or adopted	2		Strengthened oversight frameworks, policies, procedures, tools in place (number of agencies)	9	
Microfinance			Laws, regulations, or policy plans improved or adopted	20	1[8]
New or improved financial products introduced	1		**Credit Reporting**		
Strengthened supervisory frameworks, manuals, tools adopted (number of agencies)	3	1[9]	Credit Bureaus/registries established/ modernized	3	
Strengthened resolution frameworks in place	1		Strengthened oversight frameworks, policies, procedures, tools in place (number of agencies)	2	
Laws, regulations, or policy plans improved or adopted	4		Laws, regulations, or policy plans improved or adopted	3	
Housing Finance			**Secured Transactions**		
New or improved financial products introduced	4		Collateral registries established/modernized	2	
Strengthened supervisory frameworks, manuals, tools adopted (number of agencies)	1		New or improved financial products introduced	2	
Laws, regulations, or policy plans improved or adopted	5	1[10]	Laws, regulations, or policy plans improved or adopted	2	

TIER 3: FIRST OPERATIONS				
Selected Indicators	**Phase III Targets**	**FY2014**	**FY2015**	**Cumulative**
Strategic Focus				
Commitments to Africa (share of total commitments)	50%	36%	43%	40%
LIC/MIC distribution	67% to LICs	39%	65%	52%
Share of projects in Catalytic Window contributing to Financial Inclusion	20%	29%	27%	26%
Strategic Relevance				
Linkage to FSAP/ROSC (share of total approvals)	66%	51%	50%	51%
Local consultants/total consultant budgets	10%	13%	17%	15%
Operational Pace				
Projects approved per month in Catalytic Window	3	3	3	3
Programs approved per year in Programmatic Window	3	1	4	2
Response time for Catalytic Window (average, months)	6	5	6.4	5.7
Knowledge Management				
Lessons Learned published (once per quarter)	18	0	1	1
Impact Stories produced (at least 10 per year)	50	10	10	20

a. Bank of Sierra Leone. The project was implemented by the IMF during October 2013–October 2014. With the cooperation of the Banking Supervision Department, the long-term adviser was able to provide eight guidelines in accordance with the related international best practice (Corporate Governance, Credit Risk Management, Market and Interest Rate Risk Management, Liquidity Risk Management, Operational Risk Management, Internal Controls and Internal Audits of Banks, Strategic and Reputation Risk Management, Stress Testing). These guidelines will make the regulatory and supervisory expectations regarding risk management clear and explicit to the regulated institutions.
b. Restructuring plans for three state-owned banks were approved by boards of these banks in Tunisia.
c. Colombia's Deposit Insurance Fund for Cooperatives, FOGACOOP, increased coverage for savers at financial cooperatives to Col$20 million and eliminated coinsurance; Nepal's Deposit and Credit Guarantee Corporation accepted the Payout Manual.
d. Tools for systemic risk monitoring (e.g., criteria for identification of systemically important banks and financial institutions, the Contagion Matrix, network modeling, and the analytical framework for macroprudential analysis, Cobweb) have been put into a monthly analytical process by the Central Bank of Costa Rica.
e. The bank resolution framework, Contingency Manual for Dealing with Troubled Banks, was adopted by the Bank of Sierra Leone; the Nepal Problem Bank Resolution Framework was adopted.
f. Rwanda Program: The Law on the Organization and Functioning of Deposit Guarantee Fund for Banks and Microfinance Institutions (Law No. 31/2015 of 5/6/2015) was enacted.
g. Action plans for insurance reforms (following the guided self-assessments) were approved by Tunisia (General Insurance Committee Board) and West Bank and Gaza (Palestine Capital Markets Authority). Both authorities are in the process of developing new insurance codes to address recommendations in the action plans.
h. The National Payment Systems Development Strategy was approved by the government of Djibouti in 2015.
i. The supervisory framework was adopted by the National Commission of Microfinances, Nicaragua.
j. The government of Colombia issued a decree (Decreto 1058) that enables the use of residential leasing with savings schemes, to be eligible for national subsidies in June 2014.

Laws, Regulations, Policies, and Strategies Adopted in 2014–2015

This section presents laws, regulations, or policy plans adopted in the last two years. These are results from projects approved and implemented in Phase II.

ACCOUNTING & AUDITING

ARMENIA

Adoption of the Strategy and Action Plan for Enhancing Corporate Financial Reporting approved in June 2015

Armenia #10232: Enhancing Corporate Financial Reporting (2013–2014)

KYRGYZ REPUBLIC

Adoption of the Country Strategy and Action Plan and the implementation is under way, with potential support from SECO of $3.3 million

Kyrgyz Republic #9026: Corporate Financial Reporting (2010–2012)

BANKING/FINANCIAL SECTOR OVERSIGHT

BOTSWANA

A functional Financial Stability Department established with adequate guidelines, procedures, analysis framework, tools for analysis of financial risk assessment, and Financial Stability Report published

Botswana #10204 Establishing Financial Stability Function at the Bank of Botswana (IMF) (2011–2012)

CAMBODIA

Prakas (regulations) on Standing Liquidity Facility and Emergency Liquidity Assistance issued

Cambodia #10113: Crisis Preparedness (2011–2014)

CABO VERDE

Enhancement of (i) the banking supervision framework, (ii) the financial stability framework, (iii) the crisis management and resolution framework

Cabo Verde #10155: Enhancing Banking Supervision and Crisis Resolution (IMF) (2011–2012)

TUNISIA

Adoption of a State-Owned Banks Restructuring Plan

Tunisia #A002: State Owned Banks Restructuring (2013–2015)

MEXICO

Adoption of the Contingency Plan, protocols in intervening and resolving failing financial cooperatives, and communication protocols; successfully assisted authorities to in resolving three financial cooperatives through purchase and assumption method

Mexico #10288: Contingency Plan for Cooperatives Financial Institutions (2013-2014)

ZAMBIA

Adoption of a risk-based supervision framework (specifically, Integrated Risk Matrix and Risk Rating Scale put into use; other aspects of risk-based supervision under way)

Zambia #10084: Risk Based Supervision (2011–2014)

CAPITAL MARKETS

ARMENIA

"Feasibility Study for Selected Capital Market Products" implemented, resulting in amendments of the Law on Funded Pensions and Regulation to eliminate unreasonable limits regarding pension funds' investments in debt securities, including covered bonds

Enhanced market infrastructure (NASDAQ OMX Armenia) to process repossession transactions in dollar-denominated bonds

New products such as securitization (e.g., covered bonds) being introduced, on the basis of the recommendations of the feasibility study; actual implementation supported by United States Federal Reserve System

Armenia #10313: Supporting Capital Market Development (2013–2014)

BELARUS

Law on Securities Market adopted in January 2015, broadly consistent with International Organization of Securities Commissions (IOSCO) principles and EU directives

Belarus #9027: Post-FSAP Support for Securities Market Development (2010–2012)

BRAZIL

Covered Bond Law enacted in June 2015

Brazil #10157: Introduction of Covered Mortgage Bonds (2011–2013)

COSTA RICA

Capital Markets Road Map approved in 2014

Costa Rica #10275: Development of Capital Markets (2012–2014)

KENYA

Adoption of integrated settlement system for traded equities, corporate bonds, and government bonds through RTGS

Kenya #10212: Strengthening the Supervisory and Enforcement Capacity of the Capital Markets Authority of Kenya (IMF) (2011–2013)

WEST BANK AND GAZA

Adoption of two recommended Operational Manuals—Oversight Manual for Palestine Exchange and for the Centre for Deposit and Settlement and Custodian Banks, and the related Enforcement Manual

Regulation on margin finance instruction and management adopted

Regulation on audit instructions in securities companies adopted

Road map for introduction of a risk-based supervisory framework for the Palestine Capital Market Authority adopted, catalyzing the third project with FIRST, which is ongoing, focusing on implementation of risk-based supervision and development of regulations for investment funds

Palestine Capital Market Authority membership in IOSCO attained in 2014

West Bank Gaza #8128: Capital Market Development (2009–2011)

West Bank Gaza #10186: Capital Market Development Phase II (2012–2014)

CREDIT INFRASTRUCTURES

HONDURAS

Oversight Manual for conduct of on-site and off-site supervision adopted, helping to strengthen oversight for private credit bureaus in line with General Principles for Credit Reporting

Honduras #10236: Strengthening Credit Reporting (2012–2014)

MOLDOVA

Amended Pledge Law enacted in July 2014

Moldova #10151: Improving Access to Credit through Secured Transactions Reform (2012–2014)

SOUTH SUDAN

Action Plan, "Development and Implementation of a Credit Reporting System," approved; consultants (Creditinfo) hired by Central Bank to establish credit reporting system

South Sudan #10247: Credit Reporting (2012–2014)

FINANCIAL SECTOR STRATEGY

CABO VERDE

Financial Sector Development Strategy (FSDS) approved in November 2014

Cabo Verde #10179: Financial Sector Development Strategy (FSDS) (2011–2014)

CÔTE D'IVOIRE

Financial Sector Development Strategy (FSDS) approved in April 2014

Côte d'Ivoire #10217: Financial Sector Development Strategy (FSDS) (2012–2014)

PARAGUAY

Financial Inclusion Strategy approved in December 2014

Paraguay #A036: Financial Inclusion Strategy (2014–2015)

SEYCHELLES

Financial Sector Development Implementation Plan (FSDIP) approved in November 2014

Seychelles #A027: Financial Sector Development Implementation Plan (FSDIP) (2013–2015)

HOUSING FINANCE

ECUADOR

Adoption of the recommended government housing finance policy for the low-income population

Ecuador #10206: Improving Access to Housing Finance for Low-Income Groups (2012–2014)

SEYCHELLES

Housing finance "smart subsidy scheme" adopted; has catalyzed funding from World Bank of $7 million to support the implementation

Seychelles #10254: Housing Finance (2012–2014)

INSURANCE/PENSIONS

ALBANIA

Insurance and Reinsurance Law (52/2014) entered into force in July 2014

Follow-up project with FIRST approved ($423,270) in May 2014 to implement the law, support risk-based supervision, reform the motor vehicle third-party liability (MTPL) sector, and introduce earthquake insurance

Albania #7070: Insurance Supervision (2008–2010)

ARMENIA

Law on Funded Pensions adopted Regulations on pension investment regime and limits adopted

Regulations on life insurance and annuities contracts adopted

Regulations on conditions of annuity contracts for pensions, residual amount calculations, and transfer to insurance company adopted

Insurance Solvency Regime (Solvency II) with updated prudential standards adopted, with expanded list of assets for technical provisions

Guidelines on credit and operational risks as well as non-live underwriting risk adopted and in the testing process

Armenia #10316: Regulatory and Supervisory Framework for Funded Pensions and Life Insurance (2013–2014)

ARGENTINA

Road map and action plan for introduction of a risk-based supervisory and solvency regime approved (as reflected in the strategic insurance plan 2012–2020)

Argentina #10274: Insurance Risk Based Supervision along with Risk Based Capital (Solvency Modernization) (2012–2014)

ETHIOPIA

Microinsurance Providers Directive enacted in February 2015

Follow-up program ($1.8 million) with FIRST to scale up the microinsurance reform approved in 2015

Ethiopia #10108: Regulatory & Supervisory Framework for Microinsurance (2012–2013)

HAITI

Dedicated supervisory unit for insurance set up

Adoption of the recommended reporting framework, resulting in submission of returns by all of active insurers

Haiti #10227: Strengthening Insurance Regulation and Supervision (2012–2014)

INSURANCE/PENSIONS

INDIA

Weather Index-Based Crop Insurance products rolled out on a national scale during 2014–2015

India #579: Development of Crop Insurance (2007)

JORDAN

Information Center established and new reporting requirements adopted

Jordan #10202: Strengthening Solvency Supervision (2012–2014)

KYRGYZ REPUBLIC

Amendments to the Law on Organization of Insurance in the Kyrgyz Republic adopted in July 2014

Kyrgyz Republic #7062: Strengthening the Legal, Regulatory, Supervisory and Market Infrastructure Framework for Non-Bank Financial Institutions and Securities Markets (2007–2011)

LESOTHO

New regulations for supervising insurance institutions adopted

Lesotho #10099: Strengthening Insurance Supervision (IMF) (2011–2012)

LIBERIA

Insurance Act passed in December 2014

Regulation on new capital adopted and effective from third quarter of 2015

New reforms catalyzed:
i) New capital requirements for insurance company
ii) Compulsory MTPL scheme

Liberia #10055: NBFI Regulatory and Supervision Framework (2011–2013)

MACEDONIA, FORMER YUGOSLAV REPUBLIC OF

Adoption of policies for the calculation of the claim reserve, with the result that total gross claims reserves for MTPL for the total market increased by 18 percent as of December 2014

Commencement of implementation by the National Insurance Bureau of the new process of improving the software for MTPL data collection, which will produce consistent data, include more risk characteristics of policyholders and their vehicles, and also enable easier extraction of data from the database

Macedonia #10024: Liberalizing MTPL Insurance Market (2011–2013)

PAKISTAN

Micro-insurance Rules approved in 2014

Pakistan #10025: Microinsurance Regulation and Supervision (2011–2012)

SWAZILAND

A number of insurance regulations and directives and retirement funds regulations and directives issued

Swaziland #A014: Strengthening the Supervision of Insurance and Pension Funds (IMF) (2013–2014)

RWANDA

Law governing the organization of Pension Schemes enacted in May 2015

Rwanda #P1: Financial Stability Program (2014–2017)

TAJIKISTAN

Action Plan for Insurance Sector approved by the government in December 2014

Tajikistan #10133: Developing Insurance Market (2012–2014)

TURKEY

Adoption of the recommended Early Warning System, with IT software developed to support the new system

Turkey #10269: Strengthening Solvency Supervision (2012–2014)

MICROFINANCE

COLOMBIA

Adoption of a number of policies for the Cooperatives' Deposit Insurance:

- Eliminating coinsurance
- Increasing the deposit coverage of financial cooperatives to Col$20 million from previous limit of Col$8 million, eliminating some regulatory arbitrage so that financial cooperatives do not have an incentive to switch to FOGAFIN due to the earlier difference in coverage
- Increasing the deposit coverage of cooperatives to Col$12 million from Col$8 million

Colombia #A066: Strengthening Deposit Insurance for Cooperatives (2014–2015)

NICARAGUA

Supervision framework adopted

Nicaragua #A037: Strengthening Supervision of Microfinance (2014–2015)

SWAZILAND

Risk-based supervision framework adopted

Swaziland #10260: Strengthening the Supervision of the Deposit-Taking Saving and Credit Cooperatives (IMF) (2011–2013)

PAYMENT SYSTEMS

GEORGIA

"Payment transaction execution rules" adopted and entered into force from 1 March 2015

Implementation of Information Security standards ISO 27001 initiated

Georgia #10166: Modernizing Payment Systems Regulatory Framework (2012–2013)

INDONESIA

Bank Indonesia Regulation on Fund Transfer enacted

Bank Indonesia Circular on Fund Transfers enacted

Bank Indonesia Regulation on E-money enacted

Ban on exclusivity agreements in the remittance market adopted

$4.3 million from Gates Foundation catalyzed by project's analysis and technical notes, to support the government in implementing digital payments reform

Indonesia #10249: Payment Systems Strengthening (2012–2014)

TAJIKISTAN

National Payment Strategy adopted in 2014

National Processing Center (NPC) procured, based on the TA recommendations

Adoption of recommendation on replacing the RTGS with an automated transfer system and central securities depository (ATS-CSD) system, leading to a $10 million project financed by the World Bank under the Private Sector Competitiveness Project

Tajikistan #10074: Payment System Modernization (2011–2013)

UEMOA

New regulation on issuers of electronic money issued in May 2015

UEMOA #10265: Enhancing Retail Payment Services (2012-2014)

WEST BANK AND GAZA

Payment Systems Law adopted in November 2012

New oversight unit established in February 2013 with oversight policy and tools in place

New retail payment system (National Switch) launched in May 2015

West Bank and Gaza #10193: Building National Payments System (2011–2013)

FIRST Impact Stories from Regions

One of the main eligibility criteria for FIRST funding is the likelihood that a project will be implemented successfully and will achieve its intended objectives. FIRST has developed a robust results framework and a mechanism to track outcomes and impact. FIRST gathers impact stories, which are disseminated in the context of its knowledge-sharing agenda. Stories presented in this section are examples of the positive contribution FIRST TA makes in various sectors, in improving financial systems' legal, regulatory, and supervisory frameworks; in introducing new financial products; and in catalyzing further support for reforms for its client countries.

SUB-SAHARAN AFRICA

LIBERIA: Consistent Progress in a Challenging Environment

CHALLENGE:

After the protracted civil war ended in 2003, Liberia needed to rebuild the financial sector from the basics. The financial sector was narrow and underdeveloped, characterized by limited financial instruments, a low level of financial intermediation, and limited trust among the public. A number of systemic and institutional constraints had led to limited availability of financing for productive investment, particularly for SMEs, as well as rural-based agricultural industries. These constraints included a high volume of nonperforming loans (40 percent in 2006), ineffective judicial procedures for loan recovery, high intermediation costs (especially in rural areas), inadequate credit risk management systems, few adequately trained personnel, and non-transparent corporate governance practices.

FIRST'S ASSISTANCE:

TA provided under the FIRST Initiative in seven projects worth nearly $1.5 million, delivered by both the IMF and the World Bank, has focused on providing strategic direction for the reform and development of the financial sector and strengthening the capacity of the Central Bank of Liberia (CBL). Areas of assistance have included support to the Regulation and Supervision Department to develop and implement a financial stability and macroprudential surveillance capacity; developing and implementing a structured on-site examination approach including corporate governance, risk management, internal controls, and internal audit; and developing and implementing a legal and regulatory framework for risk-based consolidated supervision. TA included the following projects:

- 2008: Financial Sector Diagnostics Study (Project #8049, Revitalizing Financial Services), implemented by the World Bank
- 2008: Banking Supervision (Project #8061, Banking Supervision Reform), implemented by the IMF
- 2010: Capital Markets (Project #10056, Capital Markets Strategy & Legal and Regulatory Framework), implemented by the World Bank
- 2011: NBFIs (Project #10055, NBFI Insurance Regulatory and Supervision Framework), implemented by the World Bank

- 2012: Stress Testing (Project #10276, Developing Capacity for Stress Testing), implemented by the IMF
- 2014: Financial Sector Development Implementation Plan (Project #A052, Financial Sector Development Implementation Plan), implemented by the World Bank
- 2014: Liquidity Forecasting (Project #A048, Enhancing Liquidity Forecasting at the Central Bank of Liberia), implemented by the IMF

The Financial Sector Diagnostic Plan, developed under the FIRST Initiative in 2008, has helped guide authorities toward development of the government bond market, credit information systems, a strengthened payments system, risk-based supervision capabilities and reform of the insurance and microfinance sectors, among other elements. The Financial Sector Development Implementation Plan (FSDIP) that is now being developed will take stock of the past reforms and lay out the next generation of reforms needed.

Development partners, notably the IFC, the U.S. Agency for International Development, the United Nations Capital Development Fund, the African Development Bank, and the World Council of Credit Unions have also been active in assisting the government in the financial sector. Each of these partners assists in supporting a distinct area of financial sector development. The initiatives supported by FIRST have been valuable in complementing donor activities with a broad development plan for the sector, addressing cross-cutting issues.

RESULTS:

The Liberian authorities have been implementing reforms aimed at creating a stable, safe, efficient, and accessible banking sector. Banking (including microfinance) and insurance account for almost the entirety of financial sector assets (92 percent in 2014). The CBL has taken important steps toward sustaining the overall health of the banking system; strengthening the legal institutional framework and financial infrastructure; and consolidating its regulatory and supervisory capacity. Significant progress has also been made in promoting access to finance, including promoting mobile money services, establishing the Collateral Registry, reforming the credit union sector, as well as through other initiatives of the CBL and the government of Liberia.

Much progress has been made on the macroprudential side.[3] Stress testing capacity has been developed at the CBL: the staff now has the ability to conduct stress testing, monitor vulnerability, and provide advice to commercial banks as they move toward the adoption of their own stress tests. The CBL has started integrating stress testing in its macro- and microprudential analytical work as an additional tool for financial stability analysis and/or as an early warning indicator. The CBL has the framework in place as well as the necessary tools for the production of a financial stability report.

FIRST TA in the nonbank financial institution (NBFI) sector has assisted in the development of an insurance supervisory capacity and the adoption of modern risk-based methods for supervision and assessment of insurance companies' financial statements and has contributed to the preparation of the new **Insurance Act, promulgated in December 2014** together with new capital requirements. Several other prudential regulations have been developed and are expected to be issued soon to further strengthen the activities of insurance operators and the enabling environment.

"In our opinion, there would not have been a better way than the methodology used by the FIRST consultants. Most appreciatively, the consultants involved all stakeholders in every step of the way in drafting both the Insurance Act and Regulations and Guidelines."

Matthew J. Innis II, Assistant Director, Insurance, Central Bank of Liberia (Client Survey)

3. A full story on the TA on stress testing capacity was featured in FIRST's Annual Report for FY2014, available on the FIRST website at https://www.firstinitiative.org/.

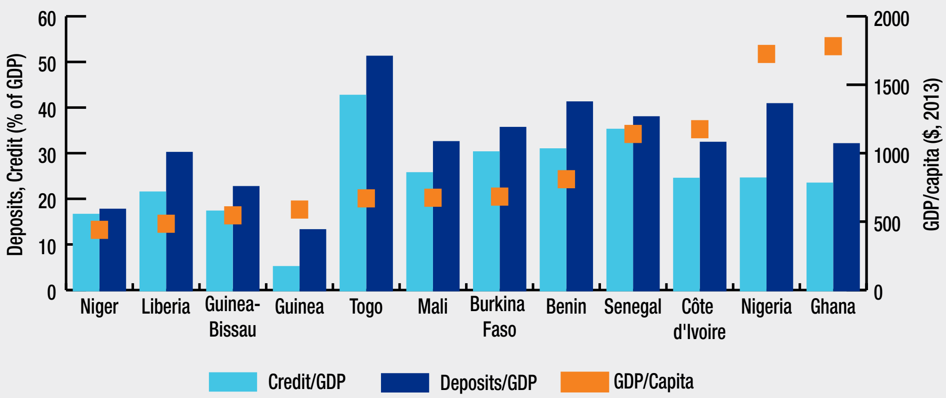
While microfinance remains very small in Liberia, with fewer than 25,000 active borrowers (supplemented by a much smaller number of credit union borrowers), it represents an important avenue for financial inclusion, particularly in rural areas. FIRST supported authorities in establishing regulations and guidelines for the development of the microfinance sector as well as for effective supervision of the sector. This included drafting **Prudential Regulations for Microfinance Deposit-Taking Institutions** and **Nonbank Financial Institutions** (which were enacted and subsequently resulted in the licensing of new institutions), field examination of a number of microfinance institutions, operational risk assessment, and computer-assisted examination techniques.

The CBL undertook several measures to strengthen the financial sector and, despite significant challenges, made significant progress in revitalizing the banking sector, as shown by the steady growth in bank credit to GDP and in several measures on which Liberia is now comparable with country peers in the Economic Community of West African States (ECOWAS), as depicted in figure 7.

“We found the application of best practices requirements in the two regulations—Microfinance Deposit-Taking Institutions and the Nonbank Financial Institutions very useful. The sequencing of the parts, sections, and issues in the regulations was done professionally and consistently.”

Michael B. Ogun, Deputy Director, Regulation and Supervision Department, Central Bank of Liberia (Client Survey)

FIGURE 7. BANK DEPOSITS AND CREDIT RELATIVE TO GDP, ECOWAS, 2013



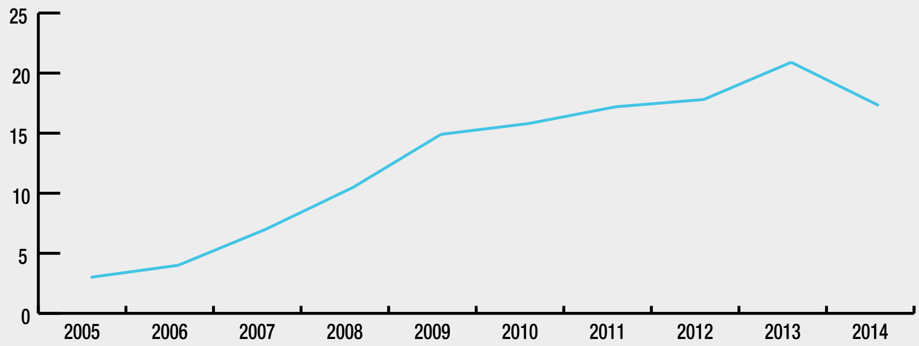
Source: IMF Financial Access Database.

Although the Ebola crisis has certainly adversely affected the financial sector, especially the smaller institutions and those serving the "bottom of the pyramid," it has been a testament to the strengthened regulation and oversight of the financial sector, led by the Central Bank of Liberia, that the banking and insurance sectors have remained well capitalized and liquid throughout the crisis and that confidence in the system has not wavered.

Liberia has followed a market-based approach to financial sector development, without state-owned institutions, allowing both domestic and local banks the opportunity to grow. Although nonperforming loans remain persistently high (slightly below 20 percent; up from 14.5 percent at the start of the Ebola crisis in May 2014), the level is a marked improvement from that seen in 2006 (40 percent). Credit to the private sector has grown significantly over this period.

FIGURE 8. NON-PERFORMING LOANS

%



Note: Data are approximate, from CBL and World Bank estimates.

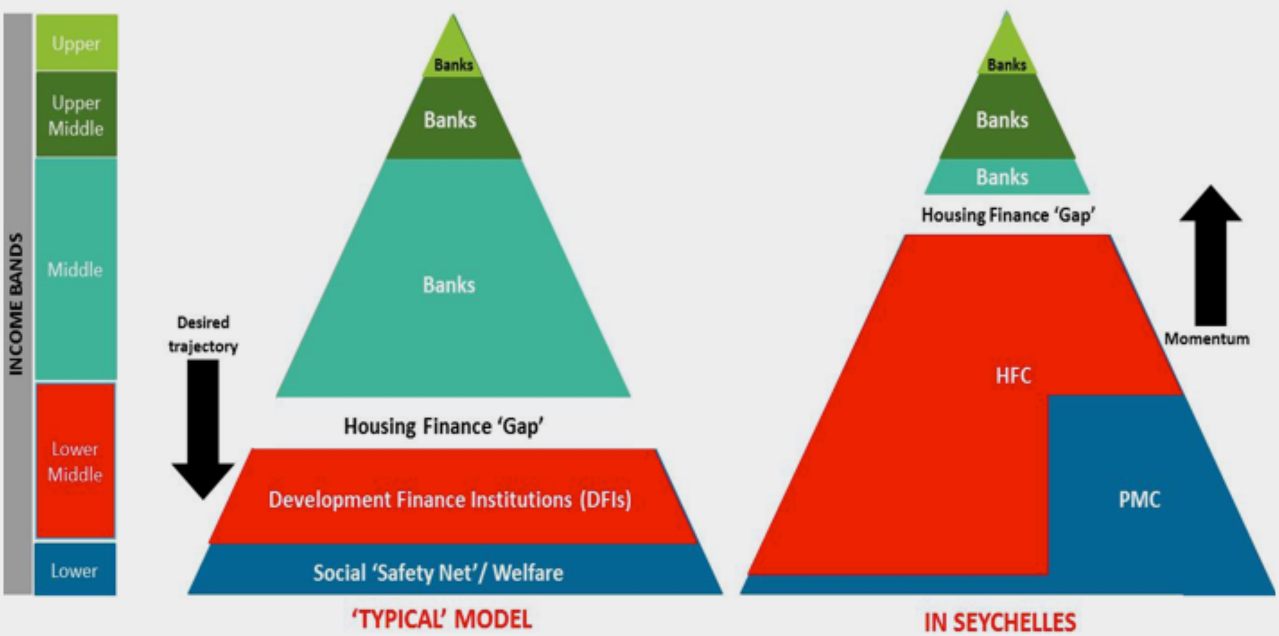
A sound financial sector will promote healthy competition among strong financial institutions in rendering diverse and appropriate financial products to the public. A more efficient financial sector will increase private sector credit and lower borrowing costs. A more inclusive financial sector will increase access to finance by MSMEs and low-income households, and support the eradication of poverty. The government of Liberia has taken important steps toward achieving these objectives in keeping with the Agenda for Transformation, which is the strategic development agenda for the country that is expected to make Liberia a middle-income country by 2030, and also help build an inclusive financial system for sustained economic growth and development.

SEYCHELLES: Shifting the Role of State in Housing Finance

? CHALLENGE:

In the typical housing finance market, the private sector (commercial banks) provides housing finance to upper- and middle- income segments, while lower-income segments of the housing market are served by development finance institutions or through some form of social welfare safety net. Usually challenges associated with access to housing finance relate to a housing finance gap, which normally occurs at the intersection where commercial banks are not comfortable to lend[4] and where development finance institutions believe there is no longer a need for the state to facilitate or subsidize market making. The Seychelles housing finance market displayed distinct differences from the typical construct (figure 10). The housing finance market was dominated by the state-owned Housing Finance Company (HFC), which provided well over 90 percent of all housing loans. Housing subsidies reached very high in the income distribution, well above the 70th percentile of the income distribution. Instead of appearing in the annual budget, these subsidies were opaque, fluctuated with financial market conditions, and impaired the growth of the financial system.

FIGURE 9. HOUSING FINANCE PYRAMID: COMPARISON BETWEEN A TYPICAL MARKET AND SEYCHELLES[5]



Note: HFC = Housing Finance Corporation, PMC = Property Management Corporation. The PMC was merged with HFC in 2009. PMC was responsible for managing the government's social rental housing program.

4. Either because banks perceive the inherent risks linked to the underlying collateral to be high (for example, because of the geographic location of the house) or because potential borrowers face affordability and repayment constraints (that is, where a borrower's ability and/or willingness to repay will potentially be compromised).
5. World Bank. 2014. Seychelles: Housing Finance – FIRST-Funded Project World Bank Technical Mission Aide Memoire. Washington, D.C.: World Bank Group.

FIRST'S ASSISTANCE:

The government of Seychelles needed to redefine HFC's mandate, introduce smart subsidies schemes, and find ways to engage the private sector in the provision of housing finance.

The FIRST TA project *Seychelles #10254: Housing Finance* was built on an earlier FIRST TA project, *Seychelles #9023: Review of Publicly Owned Financial Institutions*. The earlier project recommended reforms of HFC, among other publicly owned financial institutions.

To tackle the challenges, the Housing Finance Project focused mainly on three areas:

- A newly defined mandate for HFC
- A smart subsidies scheme
- Engagement of the private sector (including commercial banks) to encourage it to play a more prominent role in the provision of house financing

HFC required restructuring to operate in a commercial way while meeting its social mandate. The smart subsidies scheme aimed to separate subsidies from loans that are made at market rates. This would permit a public company like HFC (and future participating banks) to deliver targeted subsidies to qualified households without crowding out private.

The FIRST TA delivered by the World Bank shared international best practices and advised the government to introduce smart subsidies. Smart subsidies have an inverse relationship between the subsidy amount and the beneficiary's income level, with lower-income earners qualifying for higher subsidy amounts and vice versa. This promotes a greater opportunity for private sector lenders to reach out to upper-middle-income groups and upper-income groups, while focusing the developmental mandate of HFC to cover lower-income groups.

The private sector (including commercial banks) needs to play a more prominent role in the provision of housing finance. FIRST facilitated the engagement of the private sector by organizing policy dialogues with commercial banks. The discussion focused on how the private sector can reasonably provide the intended financial services on commercially sustainable terms and conditions, and what impediments to the provision of housing finance exist. Recommendations were made to provide financial incentives to commercial banks such as a housing savings scheme and a limited guarantee on defaults. The supply of housing is also important, and the development of multifamily housing for middle-income borrowers, through legal improvements and public-private partnerships, should be facilitated.

RESULTS:

The smart subsidy scheme has had an impressive start since it was rolled out in January 2014. HFC was responsible for 94 percent of approved subsidies by number, and 95 percent of subsidies by value. The remainder of the subsidies were accessed by the commercial banks, a share that needs to grow. Overall, the share of HFC in the provision of housing finance came down to 42 percent of total mortgage financing (by value) in October 2014[6] while the commercial banks contributed to 58 percent. The use of smart subsidies and the associated role of HFC enabled subsidies to be targeted more toward lower-income groups. The smart subsidy scheme enables first-time homeowners in the target group to "buy or build a residential dwelling of a value higher than the value they would have otherwise been able to afford in the absence of the subsidy."

Some of the recommendations from the project are being considered for implementation through a proposed World Bank development policy loan to Seychelles.

6. The Central Bank of Seychelles.

EUROPE AND CENTRAL ASIA

KYRGYZ REPUBLIC: Recovering from Crisis and Strengthening the Financial Sector

CHALLENGE:

The Kyrgyz banking sector has faced significant credit, funding, and liquidity risks since the 2008/2009 global crisis. Moreover, the April 2010 political crisis and the June 2010 violence had resulted in massive deposit outflows in the banking system ($240 million was withdrawn in a month). In response to the crisis, the National Bank of Kyrgyz Republic (NBKR) took measures to preserve financial stability. The NBKR took seven banks (accounting for 45 percent of the system's assets) under temporary administration, imposed direct supervision on 10 banks, and issued instructions to senior officials of 3 additional banks. There was an urgent need for the NBKR to strengthen its banking supervision and resolution framework.

In the area of NBFIs, the October 2006 World Bank/IMF Financial Sector Assessment Program (FSAP) update highlighted the substantial need for reforms in the legal, regulatory, supervisory, and infrastructure framework for NBFIs and securities markets.

In the area of Accounting & Auditing, the assessment of Kyrgyz's requirements and practices within the enterprise and financial sectors, conducted by the World Bank in November 2008, under the Bank's Accounting and Auditing Reports on the Observance of Standards and Codes (A&A ROSC) Program,[7] identified weaknesses in national financial reporting infrastructure. The assessment outlined a series of recommendations for improvements in the statutory framework, institutional capacity building, and strengthening accounting education and literacy in the Kyrgyz Republic.

FIRST'S ASSISTANCE:

Stabilizing the Banking Sector. Responding to the NBKR's request, FIRST provided TA (*Strengthening Bank Supervision and Resolution*) in 2010–2011 worth $119,000 to assist the NBKR in three main areas: (1) assessing banks, and identifying and preparing action plans for those that are or may be vulnerable; (2) strengthening the Prompt Remedial Actions Framework (PRAF); and (3) strengthening the legal and regulatory framework for bank resolution, to remove obstacles to dealing with problem banks.

The action plans, the PRAF, and the legal recommendations were adopted by the NBKR and led directly to the World Bank Financial Sector Development Project. The $8.9 million program[8] had one component worth $1.5 million that focused on strengthening the legal, regulatory, and supervisory framework for banks, and one component worth $5.5 million that focused on modernizing the postal bank network to expand financial services to remote areas, which was also informed by the feasibility study funded by FIRST in 2008.

7. http://www.worldbank.org/ifa/KyrgyzROSCFinal.pdf.
8. This program benefited from additional parallel funding mobilization from SECO of $3 million to support the Kyrgyz Republic's reforms in three areas: (i) strengthening the legal, regulatory, and supervisory framework for banks, microfinance organizations, and credit unions; (ii) enhancing financial services through the Kyrgyz Postal Offices network; and (iii) modernizing the secured transactions and debt resolution regime. The implementation time frame is 2012–2018.

Enhancing Corporate Financial Reporting Standards. The government's regulatory body, the Service for Regulation and Supervision of Financial Markets, approached FIRST for assistance in translating the ROSC's high-level recommendations into a detailed Country Strategy and Action Plan (CSAP) in order to have a systematic and phased approach to the proposed reforms. The CSAP was important for mobilizing political commitments for reforms in the country, as well as support from development partners for an effective implementation. The CSAP was finalized and presented to the government in June 2012. It supported the policy recommendations outlined in the A&A ROSC by further developing, prioritizing, and sequencing recommendations into a time-bound action plan agreed to by relevant stakeholders: the regulators, educators, professionals, and private sector. This document was approved by the Kyrgyz government in March 2014 as its official *Strategy for Developing Corporate Financial Reporting and Audit in the Kyrgyz Republic for 2014–2020*. The strategy document sets out the main objectives for accounting and audit reform in the country, and forms part of the Kyrgyz Government Sustainable Development Strategy 2013–2017.

Developing the Non-Bank Financial Sector. Responding to the request for TA to support the recommended reforms, FIRST approved a project (Strengthening the Legal, Regulatory, Supervisory and Market Infrastructure Framework for Non-Bank Financial Institutions and Securities Markets) worth $323,000. The project assisted the newly established NBFIs' regulatory and supervisory body, the Financial Market Supervision and Regulation Service, to draft several laws, regulations, amendments, and guidance related to insurance, securities markets, and private pensions.

RESULTS:

Stabilization of Banking Sector. With timely support from agencies including the World Bank, the European Bank for Reconstruction and Development, the IMF, the German Agency for International Cooperation, and FIRST, the banking sector was stabilized in early 2011. The country's efforts in this direction were further supported by FIRST under two TA projects related to a deposit protection system, which resulted in the **enactment of the Deposit Protection Law in 2008**, and subsequently strengthened institutional capacity. FIRST's support in strengthening banking supervision continues in a recent TA project approved in June 2015 to be implemented by the IMF.

Adoption of Corporate Financial Reporting Standards Reform. The commitment of the government to enhancing the corporate financial reporting standards, as evidenced by the adoption of the CSAP, has raised interests from development partners to support the implementation of the CSAP.[9] Successful implementation will raise the quality and availability of financial information in the market, thus contributing to the private sector's accountability and transparency, contributing to access to finance by SMEs.

New NBFIs Legal Framework. The NBFI legal and supervisory framework has been substantially strengthened, as evidenced by the adoption of important laws, regulations, and policies, including the following:

- The ***Law on Financial Market Supervision and Regulation Service*** was enacted in July 2009, reflecting recommendations provided by World Bank experts in line with international principles (those of IOSCO and the International Organization of Pension Supervisor, as well as International Accounting Standards).
- The ***Law on Securities Market*** was enacted in July 2009; it included mainly the World Bank recommendations.
- The ***Concept of Insurance Market Development for 2013–2017***, including an action plan, was adopted by the government in April 2013.
- The ***Amendments to the Law on Organization of Insurance***, adopted in July 2014, help define the types of insurance for the purpose of regulation and licensing.
- The ***Law on Non-State Pension Funds,*** adopted in December 2013, incorporates the World Bank's recommendations.

The good progress achieved over the past eight years in the Kyrgyz Republic is an example of the impact of FIRST TA in supporting the client in developing the financial sector in a challenging political environment. With the ongoing project on strengthening banking supervision (Kyrgyz Republic #B060 Strengthening Banking Supervision, 2015–2016), FIRST will continue to be a reliable partner for the government in strengthening and developing the financial sector to support the country's economic growth and poverty reduction agenda.

9. The $3.3 million TA from SECO is under discussion.

TAJIKISTAN: Promoting Reforms for Payments Systems

? CHALLENGE:

The National Bank of Tajikistan (NBT) department responsible for payment systems began preparing bidding documents and technical specifications for a centralized domestic center—a National Processing Center (NPC)—at the NBT to process retail card payments made throughout the country. The department did so in response to the perceived urgency of establishing a domestic processing capability for payment cards in view of (i) the inefficiency of having all payments cleared through service providers outside Tajikistan (mostly in Russia or Kazakhstan) and (ii) the fact that local banks were beginning to invest in their own systems, lead to lack of interoperability in the payment cards market. With assistance from the FIRST and a World Bank team, the NBT concluded that it was taking a somewhat ad hoc approach to procuring the NPC and, more generally, to developing Tajikistan's payment systems.

The NBT wished to adopt a more holistic and strategic approach to the reform of payments systems. Experience in other countries has shown that a well-coordinated, holistic approach to payments system reforms contributes not only to the success of individual projects under way but also the overall financial infrastructure and, eventually, the economy. This international experience also shows that countries embarking on payment systems reform benefit from adopting a comprehensive development framework or strategy for national payments systems.

In addition, the Tajik real-time gross settlement (RTGS) system, which was also the systemically important payment system (SIPS) in the country, was operational but lacked many of the features and functionality that are considered standard among modern settlement systems. Lastly, the NBT's oversight of the payments systems was not sufficient to monitor the anticipated growth of electronic payments. The NBT's role was limited to collecting data from banks, and no unit within the NBT was explicitly assigned the responsibility to supervise the payment system.

FIRST'S ASSISTANCE:

The NBT approached the FIRST Initiative and World Bank for advice. In 2011, FIRST approved the **Payment System Modernization** project to address the challenges. In particular, it produced a national payments system policy framework that prioritizes and addresses legal, regulatory, institutional, and infrastructure reforms required for the promotion of electronic payments in Tajikistan.

In addition, it focused on facilitating the upgrading of key NBT-owned elements of the payments infrastructure. In particular, the project provided technical inputs to further the procurement of an NPC that is consistent with best international practice and modern standards. Furthermore, the project provided an assessment of the RTGS with a view to upgrade it.

Finally, the project also helped to deliver oversight rules for the payments system and delivered an assessment of international remittances. It operated until 2014.

RESULTS:

The NPS policy framework, prepared under the TA project, was issued under a government resolution in October 2014. In 2012, the NPC was procured with significant TA from the FIRST project. It represents a substantial improvement in retail payments infrastructure and established a domestic processing capability for payment cards. Already, the NPC has been functioning well for over two years, allowing for processing of payments that would previously take place outside the country. In addition, the rules for payment system oversight delivered under the FIRST TA strengthened the NBT's oversight of the payment system.

The medium- to long-term objectives were to improve the safety and efficiency of Tajikistan's payment systems and to promote market confidence in the payment systems, and, thereby, in the financial sector and financial institutions, leading to greater deposit mobilization, among other benefits. Early indications are positive, as for the last two years deposits have been growing at about 20 percent per year.

Furthermore, the project's assessment of the RTGS has generated a significant catalytic effect. On the basis of this assessment, the NBT decided to embark on replacing the RTGS with a more modern automated transfer system (ATS) and a central securities depository (CSD). The financing of this investment is made through the World Bank's Private Sector Competitiveness Project, which allocates $2 million to replace the RTGS with an ATS and CSD. An international consultant has been recruited to prepare IT specifications for the tender and procurement of an ATS and CSD, which is expected to take place in late 2015 or early 2016.

LATIN AMERICA AND CARIBBEAN

COLOMBIA: Strengthening the Financial Sector Safety Net for Cooperatives

CHALLENGE:

Colombia has a broad range of cooperatives that offer different levels of financial services. These cooperatives are accredited deposit-taking institutions of two types: those that serve only their members, and those that offer financial services to nonmembers, which are called cooperativas financieras or financial cooperatives.

To serve all of Colombia's financial institutions, there are two deposit insurance schemes: the Guarantee Fund for Financial Institutions (FOGAFIN), and the Guarantee Fund for Cooperatives (FOGACOOP). FOGAFIN charges a premium of 30 basis points and covers up to $6,500 (Col$20 million) per person per institution. It covers 45 entities, all of which are supervised by the Superfinancieria. FOGACOOP is the deposit insurance scheme for all deposit-taking institutions. It covers 187 cooperatives, charges a premium between 50 and 55 basis points, and covers up to $2,600 (Col$8 million) per person, with coinsurance of 25 percent. Therefore, the financial sector safety net is not evenly applied across banks and cooperatives.

Cooperatives serve a large number of people with access to formal financial services in Colombia. Although small in terms of their assets, cooperatives serve a disproportionate share of those with access to financial services. It is estimated that although they account for only 5 percent of assets, cooperatives serve between 15 and 25 percent of those with access to financial services, or approximately just under 6 million members. The typical cooperative members can be defined as the poor and the almost-poor.

FOGACOOP had requested the assistance of the World Bank through the FIRST Initiative for international expertise to validate its approach to funding, in order to forecast its future financing needs more accurately. Specifically, it requested assistance in reviewing its reserve target fund size, its use of coinsurance for depositors, and whether the introduction of risk-based premiums was feasible or recommended. FOGACOOP acknowledged that the financial cooperative sector may be more vulnerable, as it is not as well regulated or supervised as the banking or insurance sectors.

FIRST'S ASSISTANCE:

FIRST provided a small, targeted TA project, Strengthening Deposit Insurance for Cooperatives, worth $72,000; it was implemented from March 2014 to March 2015. Together with FOGACOOP, the World Bank team conducted stress tests on the cooperative sector in order to understand FOGACOOP's balance sheet risks so as to inform the parameters for determining the target fund size, its use of coinsurance, and the range of sustainable premiums. Using the historical parameters (nonperforming loans, provisioning, speed of resolution, and an additional margin) from the cooperative sector crisis in 1996–1997, a contiguous two-year scenario was calibrated in order to gauge the strengthening of the insurance scheme.

The stress tests determined that the current deposit insurance fund size at FOGACOOP was likely larger than it needed to be. Benchmarking countries using the World Bank's 2014 database of worldwide deposit insurance suggested the same recommendation. Furthermore, because cooperative membership requires an equity contribution, the effective coinsurance in the event of a cooperative failure would sometimes be in excess of 40 percent. Research also showed that coinsurance had become less common around the world today than it was in 2003.[10] The main recommendations were, therefore, to eliminate coinsurance and increase the coverage level. This would serve to strengthen the financial sector safety net so that the poorer cooperative members were receiving more equitable coverage. This would prevent regulatory arbitrage—cooperatives migrating to become financial cooperatives for more favorable terms.

RESULTS:

The project team's findings and recommendations were well received by the FOGACOOP Board. In July 2015, FOGACOOP's Board adopted the recommendations, specifically:

1. Eliminating coinsurance
2. Increasing the deposit coverage of financial cooperatives from Col$8 million to Col$20 million (Colombian pesos)
3. Increasing the deposit coverage of members-only cooperatives from Col$8 million to Col$12 million

As most cooperative members in Colombia are from the lower socioeconomic strata, eliminating coinsurance and increasing the coverage limit will have significant positive impact on the poor in the event of a crisis. Increasing the insurance coverage for both types of cooperatives enables a higher percentage of depositors to be fully protected in the event of a failure. This would make the savings in cooperatives more attractive and thus increase savings in the financial system. The increased protection would also prevent the savers from withdrawing money in the event of crisis and thus promoting financial stability, and strengthen the financial sector safety net.

Currently, there are 1,600 cooperatives, which accept deposits without having deposit insurance, and thus pose risks to the stability of the financial system. Looking ahead, the team recommended focusing on expanding the number of institutions with deposit insurance subject to minimum eligibility criteria. This is important for expanding the financial system safety net in the long run.

10. Demirgüc-Kunt, Asli, Edward Kane, and Luc Laeven. 2014. Deposit Insurance Database. IMF Working Paper WP/14/118, World Bank, Washington, DC.

NICARAGUA: Strengthening the Microfinance Sector

CHALLENGE:

The explosive growth in Nicaragua's microfinance lending activities in the overall credit boom during 2006–2008 led to widespread over-indebtedness, which led to the "No-Payment Movement" (Movimiento No Pago) in 2009–2010. As a consequence, 19 microfinance institutions lost over $60 million in foreign financing and their credit portfolio in arrears skyrocketed to 17 percent from 3 percent before the crisis. Several microlenders went out of business or had to be heavily recapitalized. As the "No Pago" movement had brought abusive practices to light, the Nicaraguan authorities urgently needed to improve their financial consumer protection framework, and strengthen oversight of microfinance institutions.

FIRST'S ASSISTANCE:

In late 2010, Nicaragua's Superintendency of Banks and Other Financial Institutions (SIBOIF) had approached FIRST for TA to strengthen the legal, regulatory, and institutional frameworks for consumer protection with the focus on the banking, microfinance, and insurance sectors. With support from the World Bank and IMF, the Central Bank of Nicaragua enacted a new microfinance law (Law 769) and created the National Commission of Microfinance (CONAMI) as the regulator for non-deposit-taking institutions. In 2014, CONAMI approached FIRST for assistance in strengthening the supervision framework and its supervisory capacity. These two projects, delivered at different times to different supervisory agencies, both aimed to strengthen the country's microfinance sector.

The first project, **Financial Consumer Protection**, worth $217,000, was undertaken from 2011 to 2013. It assessed the legal, regulatory, and institutional frameworks for consumer protection. It gathered demand-side information about consumers' experiences with and concerns about financial consumer protection. Drawing on this context, a workshop was held to build consensus and develop an action plan for revisions to laws and regulations related to consumer protection.

The second project, **Strengthening Supervision of Microfinance**, worth $210,000, took place in 2014 and 2015. It entailed development of a manual for risk-based supervision, pilot tests, and training of supervisors in the use of the manual.

RESULTS:

The first TA, Financial Consumer Protection, resulted in the enactment of a new consumer protection law in June 2013, Law 842—"**Law for the Protection of Consumers' and Users' Rights.**" Subsequently, an office in charge of the implementation, application, and enforcement of Law 842 and its regulations was established under SIBOIF.

The second TA effort, Strengthening Supervision of Microfinance, was completed in August 2015 with CONAMI's adoption of the risk-based supervision framework. The president of CONAMI, **Jim Madriz**, in his feedback to FIRST, stated

Technical assistance in each of its stages and processes was extremely useful for the institution. With the Manual, from 2015, CONAMI will initiate the supervision based on risks.... Prior to the completion of the project, supervisions were carried out in strict compliance (rules-based). This method did not allow us to focus resources on the most pressing problems faced by the entities and led us to perform tasks for each regulated institution by diluting the attention we must have on the most important.... We would like to clarify that although we indicated that the final deliverables are the most important, we do not subtract importance of the process of how it was made, workshops and training, since they are the foundation of the reason for applying the manual and risk-based supervision.

FIRST's experience in Nicaragua exemplifies how small, targeted TA projects can synergize to reduce systemic risks and contribute to the development and stability of national financial sectors. In the long term, hundreds of thousands of borrowers and depositors (at present 150,000 borrowers and 70,000 depositors [11]) will have access to sustainable and responsible financial services provided by well-regulated microfinance institutions.

11. mixmarkets.org

EAST ASIA AND PACIFIC

INDONESIA: Enhancing Payment Systems' Interoperability and Removing Legal and Regulatory Restrictions to Accelerate Financial Access

CHALLENGE:

The rapid growth of retail payment transactions and large remittance inflows into Indonesia created challenges for the country's payment systems. In addition, institutional changes made with the establishment of the Indonesia Financial Services Authority, which has taken over the responsibility of regulating and supervising banks, put a clear mandate and authority for Bank Indonesia as the overseer of the payment systems, including nonbank remittance service providers. The lack of system interoperability and a conducive legal and regulatory framework constrained the introduction and uptake of innovative financial products, which proved to play a big role in the financial inclusion agenda. Indeed, data from Global Findex Surveys showed that the percentage of adults with a transaction account in Indonesia was just 20 percent, compared with the East Asia and Pacific regional average (developing countries only) of 55 percent in 2011, and 36 percent compared with 68 percent in 2014.

FIRST'S ASSISTANCE:

In 2012, Bank Indonesia sought FIRST's TA to develop a suitable legal, regulatory, and oversight framework in order to enhance the efficiency of the payment systems and support implementation of the country's National Strategy for Financial Inclusion.

FIRST's project, **Improving Payments Systems Oversight**, carried out during July 2012–June 2014, has provided Bank Indonesia with policy recommendations on the following aspects:

- The legal and regulatory framework for payment systems, including a technical note on key elements for a Payments and Settlement Systems Act and draft legislative provisions.
- Advice on the payment systems oversight framework, the Principles for Financial Markets Infrastructures, and the role of the Central Bank in payment systems oversight.
- Advice on e-money standardization and the development of the National Payment Gateway (NPG), which would unite the processing of ATM, mobile, Internet banking into one interface.
- Assessment and recommendations on developing the remittance market against the CPSS-World Bank General Principles for International Remittance Services.

Bank Indonesia acknowledged the usefulness of the TA in its feedback to FIRST. According to A. Donanto H. Wibowo, assistant director at Bank Indonesia:

The TA is very valuable to improve our capacity as payment system authority.... We found that experience sharing (and discussion) between consultants, us (authority) and the industry which took place in World Bank Jakarta [was most useful for us]. This specific event has broadened our perspective on the National Payment Gateway establishment as something that [is] achievable. And through this NPG, Indonesia's bargaining position indeed would significantly improve in the world of payments systems.

RESULTS:

Since completion of the TA, Bank Indonesia has achieved a number of tangible outcomes, including the following:

- Issuance of Bank Indonesia Regulation on Fund Transfers,[12] Bank Indonesia Circular on Fund Transfers,[13] and Bank Indonesia Regulation on E-money.[14]
- Improved payment systems oversight.
- Decision to implement the NPG, which would make every transaction, both debit and credit, using any payment method (ATM, mobile, Internet) within or outside the country united on the NPG interface, thus increasing security and transaction ease, and lowering costs (due to the connected network and global cooperation).
- A ban on exclusivity agreements in the remittance market, which could open up the market for more competition and thus reduce the costs for users.

This TA project led to follow-up requests for continued assistance from the World Bank's Payment Systems Development Group (PSDG) to Bank Indonesia and expanded support to the government for shifting to electronic payments. The World Bank PSDG has responded to the request with larger interventions, with financial support from the Gates Foundation ($4.3 million) under the Financial Inclusion Support Framework.

During FIRST's recent Consultative Group meeting in Morocco, Farida Peranginangin, director, Payment Systems Policy and Oversight, Central Bank of Indonesia, shared with the participants that

Bank Indonesia has received TA from FIRST in payment systems. We believe that payment systems is a catalyst for financial inclusion development… We have seen that the FIRST program was beneficial for us in reforming our legal and regulatory environment, as well as developed our capacity in oversight. In payment systems, for example, we have been fulfilling some drawbacks that the FSAP has identified. And also, we have developed some regulations…..

12. No. 14/23/PBI/2012
13. No. 15/23/DASP
14. No. 16/8/PBI/2014

SOUTH ASIA

INDIA: Making Financial Products Work for Farmers and Poor Households

CHALLENGE:

Improving livelihoods for the poor was a big challenge for the government of India during 2004–2009, when the poverty ratio was between 30 and 40 percent.[15] With two-thirds of the population dependent on agriculture for a livelihood, crop insurance is an important element of agricultural risk management. The government has historically focused on crop insurance to mitigate the natural risks of farming. In 1999, the government established the National Agricultural Insurance Scheme (NAIS) to reduce farmers' vulnerability to natural disasters. After four years of operations, the NAIS program covered only 15 percent of farmers, equivalent to 18 million farmers out of 120 million. During the period, the NAIS experienced loss ratios in excess of 350 percent of premiums charged on a flat rate basis, meaning that the program was not financially viable without heavy government subsidies. This system was not optimal for the government's budget management, and it delayed claims settlement, leading to distress among farmers and exposing farmers to a vicious debt cycle. The government has recently decided to reform the NAIS and to place it on an actuarial footing. Premiums will be set on a commercial basis and the government's support will provide up-front premium subsidies.

FIRST'S ASSISTANCE:

The Agriculture Insurance Company of India (AICI) sought FIRST TA in developing microinsurance products that would be both more affordable for small farmers and viable for the company. The project, India Development of Crop Insurance (2006–2007), aimed to develop an actuarially sound rating methodology and improve contract design to reduce delays in claim settlement; to propose design and rate making of new weather-indexed insurance products; to conduct pilots of new products; and to perform a risk assessment of the AICI's insurance portfolio and suggest cost-effective risk financing solutions (including reinsurance). This project built on the progress of the policy dialogue carried out by the World Bank and the Swiss Agency for Development and Cooperation in the earlier TA completed in 2006.

Under FIRST's TA, eight weather insurance pilots were conducted, based on which the consultants and AICI were able to build a new product design and rating methodology for the development of financially sustainable weather insurance products that do not require heavy government subsidies. The technical and operational aspects of weather insurance in developed countries (United States and Canada) and in middle-income countries (Mexico and Spain) were shared with the AICI. Focus group discussions, individual interactions with various stakeholders, and consultations with experts were conducted. The team also developed a software tool to help the AICI estimate the premium and payout parameters, and develop weather insurance contracts. The stakeholders operational manuals for each of eight pilot crops were developed, which would help the AICI in summarizing the key policies and procedures for implementation. The manual gives details of eligibility criteria, contract features and results, the underwriting process used, pricing (applicable for both historical and simulated weather data), enrollment, and the claim settlement process. In addition, a Microsoft Excel-based support application enabled the AICI to monitor contracts and settle claims quickly. Overall, the

15. http://data.worldbank.org/country/india

contracts and pricing of the weather insurance products were designed to be flexible enough for the AICI to replicate in other agro-climatic areas. The Reinsurance Strategy also addressed risk management challenges faced in the AICI's portfolio.

RESULTS:

In 2013, the government of India replaced the subsidized program, the NAIS, with the National Crop Insurance Program, which includes the Weather-Based Crop Insurance Scheme. As of May 2015, the AICI has introduced new schemes for 35 crops for over 30 million farmers in 19 states.[16]

It is worth noting another successful FIRST engagement with the Indian government in expanding financial services for low-income households, the two projects, Expanding Housing Finance Market and Expanding Access to Housing (Housing Finance Projects I & II).[17] These projects have helped the National Housing Bank of India to introduce new housing finance products and mobilize technical and funding supports from the World Bank, IFC, DFID, and other agencies to expand housing finance to millions of low-income households. According to Findex 2014, housing finance penetration has risen to 4 percent, helping 14 million more people to own a home than in 2007. FIRST's partnership with India has proved to be fruitful, as evidenced by tangible results from previous projects. The partnership would not have been effective without the commitments of India's counterparts, and the harmonization and timely cooperation of development partners.

16. www.aicofindia.com
17. The full story about India housing was featured in the FY2014 Annual Report.

PAKISTAN: Enabling Microinsurance Sector to Take Off

? CHALLENGE:

During the 2003–2007 period, Pakistan's GDP was growing at 6 percent annually on average,[18] but it deteriorated as a result of the global financial crisis, political turmoil, and the devastating floods in 2010 and 2011. In 2010, 20 percent of the population lived below the poverty line; the agriculture sector employed 44 percent of the work force and contributed 21 percent of GDP. The monsoonal rains, resulting in floods, have created havoc and had a dramatic impact on millions of lives. In 2012, the damage to agricultural land and infrastructure due to floods was estimated at Rs 250 billion, which became a major challenge for the government as well as the insurance industry. The destructive floods in 2010 and 2011 showed that in the absence of proper insurance coverage the economic losses suffered by the people can have a very adverse effect on their livelihoods.

Microinsurance products would have provided a risk management tool for the country's farmers if their crops and livestock were insured against natural calamities; however, the market for microinsurance in Pakistan was severely underdeveloped. The regulatory and supervisory system for insurance did not explicitly recognize microinsurance and hence did not address any of the special requirements needed to develop the microinsurance market. The lack of suitable, well-designed products and the lack of awareness about the potential benefits of microinsurance are other reasons contributing to the underdeveloped stage of the microinsurance market. As of 2012, only 2 percent of the poor had access to microfinance services.

The Securities and Exchange Commission of Pakistan (SECP), established in 1997 and operational as of 1999, regulates and supervises all companies and the corporate sector, except banks, including capital markets and insurance companies. The SECP issues insurance regulations and is responsible for licensing insurers and brokers. It has been working proactively with stakeholders to promote microinsurance through various policy reforms and approached FIRST for TA in developing a conducive legal and regulatory framework to enable the development of a formal microinsurance sector.

18. http://data.worldbank.org/country/pakistan

FIRST'S ASSISTANCE:

FIRST responded quickly with a $185,000 TA project, **Microinsurance Regulation and Supervision**, in 2011–2012. The project, implemented by the World Bank, delivered to the SECP the following:

- A Supply and Demand Analysis Report on the microinsurance market (the Diagnostic Study)
- An informal Insurance Core Principles Assessment of the insurance supervisory regime
- A Regulatory Framework Report on microinsurance, which included concrete draft microinsurance rules, a draft framework, and rules for specialized microinsurance providers

The SECP later organized working groups and roundtable meetings, and leveraged its website to gather inputs from key microinsurance stakeholders, discuss the Diagnostic Study, develop a national microinsurance strategy, and finalize the draft Microinsurance Regulatory Framework.[19]

RESULTS:

In February 2014, the SECP published the 2014 SEC (Microinsurance) Rules,[20] which put special focus on consumer protection, ade¬quate disclosure requirements, and transparent regulatory reporting by insurers, so as to enable growth of the microinsurance seg¬ment in a disciplined manner. The SECP acknowledged FIRST's contribution to this progress in its 2014 Annual Report:

> [T]his was made possible with the support of the World Bank FIRST Initiative. The rules were finalized by the private sector-led working group comprising of professionals from diverse backgrounds, including the insurers, insurance brokers, development organizations such as the Pakistan Poverty Alleviation Fund (PPAF) and UK Aid, microfinance banks and the Pakistan Microfinance Network (PMN), which is the association of all microfinance institutions in Pakistan.

FIRST's TA has provided inputs for the SECP to use in drafting a strategic framework for the development of the microinsurance sector, encompassing the following target areas:

- 200 percent growth of microinsurance outreach in five years, measured by number of policyholders and value of sum insured
- Institutionalization of diversified and sustainable microinsurance models
- Development of tailored microinsurance products to cater to multi-peril risks
- Development of client awareness and assurance of client protection of the target segment

Today, there are more than 6 million microinsurance policyholders and the number is growing.[21] Development of microinsurance as a means to enhance financial inclusion in the country has become one of the SECP's top priorities. Building on this momentum, the SECP has recently sought FIRST's TA in modernizing the legal framework for the whole insurance sector and moving to risk-based supervision.

19. The papers for public consultation are available on the SECP's website (for example, http://www.secp.gov.pk/corporatelaws/pdf/MI_Report_16102012.pdf).
20. http://www.secp.gov.pk/annualreport/2014/AnnualReport_2014.pdf
21. http://www.secp.gov.pk/annualreport/2014/AnnualReport_2014.pdf (p. 14)

MIDDLE EAST AND NORTH AFRICA

WEST BANK AND GAZA: Remarkable Progress in the National Payment System Reform

CHALLENGES:

Payment and settlement systems are a core component of the financial system underpinning its functioning. They allow financial markets to function smoothly and individuals, firms, and the government to receive payments and to pay for goods and services. Disruptions in these systems may cause disruptions in the financial markets, introduce inefficiencies all through the economy, impact the safety and soundness of the financial system; and affect public confidence in money. Inefficiencies in the national payments system (NPS) could increase costs for users and raise barriers to broader financial inclusion.

The Palestine NPS dating back to 2009 was inadequate, characterized by incomplete legal and regulatory frameworks, the absence of automated clearing and settlement systems, and a lack of dedicated oversight arrangements, which was detrimental to growth in electronic payment services such as prepaid cards, mobile payments, and e-money. Cash was the main important means of payment. The rudimentary settlement systems (that is, manual clearing, no encoding, no sorting, truncation, no interbank electronic switch, etc.) were inadequate to help the Palestine Monetary Authority (PMA) to ensure the safety and efficiency of settlement and payment transactions, to serve the needs of the financial sector and the development of the economy as a whole.

FIRST'S ASSISTANCE:

The PMA recognized the importance of modernization and oversight of the NPS as part of its broader monetary authority responsibility of ensuring financial stability and expanding financial inclusion, and approached the World Bank, among other agencies for assistance. With technical support from the World Bank's PSDG, the PMA adopted an NPS strategy reform consisting of nine pillars[22] to be implemented in a two-phase approach. Phase I focused on legal and regulatory reform and implementation of an RTGS system and automated clearinghouse system as an integrated platform called the Automated Transfer System (ATS). Phase II reforms focused on other elements of the NPS such as government payments, payment cards infrastructure, securities settlement, payment systems oversight, and cooperative arrangements.

Phase I, implemented during 2009–2011 with the TA project from the World Bank's PSDG and funding from the Arab Money Fund, resulted in the launch of the RTGS system, called BURAQ, in 2010 as the backbone of the payment system, as well as the draft Payment Systems Law which was submitted to the Prime Minister's Office for broader consultation and the establishment of a five-member Payment Systems Department under the PMA. Upon the completion of the World Bank project in November 2011, the PMA approached FIRST for TA to implement Phase II of the adopted NPS reform with a focus on (i) preparing the final packaging of the new Payment Systems Law by addressing comments received from the stakeholder consultation process, and developing enabling regulations and guidelines, including regulations

22. The nine pillars of Palestine's NPS are (i) legal framework; (ii) settlement mechanism for large-value and time-critical payments; (iii) retail payment systems; (iv) government payments; (v) cooperative framework; (vi) Interbank money markets; (vii) securities depository, clearance, and settlement; (viii) international remittances; and (ix) oversight framework. (Source: Report on Payment Systems Oversight, 2013, http://www.pma.ps).

on oversight and electronic funds transfer; (ii) developing the oversight function, oversight policy, and tools; and(iii) developing a detailed road map for Phase II, taking into account recent fast-growing developments in banking and payments activities. The TA was successfully delivered during the period from November 2011 to June 2013. Riyad Awwad, director of the Payment Systems Department, shared his satisfaction about the TA:

I think that the TA that we received from FIRST is very important and valuable in the core of our business. The TA assisted us in building the Road Map for establishing the oversight function in the payment system and built the policy framework for the oversight. The TA also helped in evaluating the payment systems reforms steps that PMA adapted over the last years to measure the weakness and the pending issues to make sure of full implementation for all the payment system pillars according to the road map. (Client Survey, March 2015)

RESULTS:

Phases I and II are widely accepted by the PMA and the industry as a success, and they have been instrumental in establishing a solid platform on which to further develop the financial infrastructure in the West Bank and Gaza. The establishment of Buraq has enabled the PMA to (i) manage the unique challenges faced in terms of the geographically separated territories; (ii) reduce reliance on cheques and hard currency, which require physical transporation across strictly controlled security crossings between Ramallah and Jersusalem; (iii) manage liquidity risks associated with the lack of any domestic currency and usage of four currencies—Israeli shekel, Jordanian dinar, U.S. dollar, and euro; and (iv) establish a mechanism for the PMA to rapidly issue a new currency and enable greater usage, when the situation is conducive.

FIRST's TA was timely and has filled its important catalytic role together with other funding and development agencies to assist the PMA in implementing the comprehensive NPS reform, ensuring continuity of the reforms. The specific outcomes include the following:

- The **Payment System Law** was approved in November 2012.
- The **Payment Systems Oversight Unit** was established in February 2013 to define legal and legislative frameworks, plan the policies and strategies of the PMA in managing risks in payment systems, expand payment services, provide a competitive environment for payment services, and coordinate with the banking system and payment providers.
- The **Road Map** for Phase II reforms was adopted and is being implemented and is already making remarkable progress. The **National Switch**, an electronic payment system launched in May 2015, is intended to harmonize the retail payment infrastructures in an integrated ATM–point of sale (POS) network with standardized specifications, enabling citizens to use payment cards issued by any bank to access services at ATMs belonging to any other bank, with affordable transaction fees. This is intended to be subsequently extended to usage at POS terminals, e-commerce, and mobile payments. Overall, the introduction of the National Switch will help the PMA to shift to more modern electronic payment methods. FIRST's role in catalyzing the implementation of the National Switch was acknowledged by Riyad Awwad in client survey as well.

The Road Map is expected to catalyze further reform implementation in government payments, international remittances, and mobile payments, among other important works, as laid out in the NPS reform framework. This will contribute to the further development of the Palestinian financial sector and economy. Phase III of the TA program is now being designed to support work on these areas with funding from the DFID-funded Harnessing Technology for Financial Inclusion (HiFi) trust fund.

Client Surveys

Implementing systematic client surveys is an important element of FIRST's enhanced results measurement and knowledge management agenda, which was adopted in FIRST's Phase III strategy. At the project completion point, FIRST sends email surveys to its TA recipients (clients) to gather their opinions about the quality, relevance, and usefulness of TA, as well as implementation progress. This helps FIRST to close the feedback loop and strengthen quality control for future projects.

In FY2015, the survey was sent to 71 clients for projects completed in 2013 and 2014; the survey garnered a response rate of 38 percent. Overall, clients' opinions about TA quality were very positive, evidenced by the high ratings: 4.1/5 for overall satisfaction, 4.3/5 for consultant performance, and 4.5/5 for the World Bank staff's performance. The progress of reform implementation is impressive, with 89 percent of clients reporting some level of implementation (partly or substantially). The catalytic results have been encouraging, with 56 percent of clients reporting that the TA has helped them initiate new reforms, which are being implemented by clients themselves and/or with support from the WBG and/or other development partners.

Clients also provided useful suggestions and recommendations on how to improve the effectiveness of the TA; for example, the importance of having adequate hands-on training for supervisors, and consulting a broad spectrum of stakeholders for legal reforms.

Another survey was conducted with 14 countries, with an FSDS delivered as of December 2014 to collect facts and findings as inputs for FIRST's Lessons Learned Series. The note "How to Make Financial Sector Development Strategies Work: Success and Failures" was published in May 2015.

Capital Markets:

"The guidance of experts is of high importance for the Central Bank of Armenia. In particular, the feasibility study for selected capital market products has led to new projects in the areas of securitization and covered bonds."

Karen Hakobyan, Head of Securities Market Regulation Division, Central Bank of *Armenia*

Insurance:

"We were pleased with the TA as a whole and we found most useful the analyses of insurance companies' financial statements."

Raoul Tribie, Coordinator, Unité de Contrôle et de Supervision des Assurances, Ministère de l'Economie et des Finances, *Haiti*

Payments:

"All the parts of TA were useful for us, but we would like to emphasize the importance of the TA on Business Continuity Planning. The successful completion of the project was followed by a very important project, ISO 27000, for Information Security. As a whole, it was great the endeavor of [the National Bank of Georgia] team and the support by FIRST ended up with great achievements."

Natalia Tchkoidze, Head of Payment Systems Department, National Bank of *Georgia*

Banking:

"The first-hand knowledge of a complex model building experience (Financial Projection Model) helps improve our aptitude and problem-solving capacity, helps us identify and assess issues and precisely forecast their impacts over future periods."

Mohammad Muzahidul Anam Khan, Deputy Director, *Bangladesh* Bank

APPENDIXES

Appendix I - Sources and Uses of Funds

DONOR CONTRIBUTIONS

All contributions received are converted into U.S. dollars at the time of receipt. As of June 30, 2015, a total of $83.2 million was pledged in trust fund (TF) agreements for Phase III, of which about $66.3 million had been paid until FY2015.

Table A1.1. Pledged Donor Contributions for Phase III

DONOR	LIC ($ MILLION)	MIC ($ MILLION)	LIC ($ MILLION)	MIC ($ MILLION)	AMOUNT ($ MILLION)	SHARE (%)
BMZ (Germany)	3.0	3.0	n.a.	n.a.	6.0	7.0
DFID (UK)	4.0	n.a	12.3	n.a.	16.3	20.0
Luxembourg	1.4	3.0	n.a.	1.1	5.5	7.0
Netherlands	9.7	1.9	13.1	3.8	28.5	34.0
SECO (Switzerland)	8.1	11.4	n.a.	7.4	26.9	32.0
Total Contributions	26.2	19.4	25.4	12.3	83.2	100.0

Note: All figures in this appendix are rounded off up to one decimal point.

USE OF FUNDS

Table A1.2 summarizes financial activity as of as of June 30, 2015. A total of $22.7 million was received in new cash contributions.

A total of $4.5 million was transferred to the Project Management Unit (PMU) TF and about $7.2 million was transferred to IMF in FY2015. The IMF transfers pertained to both contributions received before and during FY2015. A total refund amount of about $1 million pertaining to the exits of the Canadian International Development Agency and Swedish International Development Cooperation Agency was transferred to their donor balance accounts.

The Bank's disbursements totaled $9.7 million across the four windows. Details of IMF usage of funds are provided separately in table A1.4.

Table A1.2. Funds and Usage, FY2015

FUNDS AND USAGE		CATALYTIC		PROGRAMMATIC	
	TOTAL	LIC	MIC	LIC	MIC
Opening fund balance as of July 2014	44.8	20.8	8.6	11.8	3.7
Phase III contributions received in FY2015	22.7	7.3	7.8	6.3	1.3
Investment and other income	0.2	0.1	0.0	0.0	0.0
Total (A)	**67.7**	**28.1**	**16.4**	**18.1**	**5.0**
(-) minus uses of funds					
Phase III administration fee deducted[a]	0.5	0.1	0.2	0.1	0.0
Phase III transfer to IMF	7.2	3.2	1.6	1.8	0.6
Funds transferred to PMU TF	4.5	0.9	0.9	2.2	0.6
Phase III disbursements in FY2015	9.7	4.2	4.3	0.7	0.5
Refund to CIDA/SIDA	1.0	0.6	0.4	n.a.	n.a.
Total usage of funds (B)	**22.8**	**9.0**	**7.4**	**4.7**	**1.7**
Fund balance at FY2015 end (A – B)[b]	**44.9**	**19.1**	**9.1**	**13.4**	**3.3**

Note: All figures in this annex are presented as rounded off up to one decimal point.

a. Administration Fee: A 2 percent fee structure was established under the Programmatic Window from inception. This 2 percent fee also became applicable to the Catalytic Window contributions as of November 2014 when all donors finalized their agreement to revised terms. Prior to November 2014, contributions received in the Catalytic Window were subject to a 5 percent fee.
b. Out of the total fund balance ($44.9 million), $33.1 million has been committed to projects and programs approved in FY2015, under both the Catalytic and the Programmatic windows.

BASIS OF ACCOUNTING

The accompanying financial statement has been prepared on the cash receipts and disbursements basis of accounting, modified to record the share in the pooled cash and investments at fair value (modified cash basis of accounting). Accordingly, net investment income includes realized and unrealized investment income or loss.

The modified cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States (U.S. GAAP) or International Financial Reporting Standards (IFRS). Receipts, with the exception of net investment income as described above, are reported when collected rather than when pledged or earned, and disbursements are reported when paid. The International Bank for Reconstruction and Development (IBRD) is an international organization that conducts its operations in the currencies of all of its members. Contributions and disbursements in currencies other than the reporting currency of U.S. dollars, if applicable, are recorded at the market rates of exchange in effect on the transaction dates.

Transaction gains or losses, if any on disbursements, are borne by the IBRD. Amounts paid into the trust fund but not yet disbursed are managed by the IBRD as trustee which maintains an investment portfolio (the Pool) for all of the trust funds administered by the IBRD, the International Development Association, the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes (collectively, the World Bank Group). The IBRD maintains all trust fund assets separate and apart from the funds of the World Bank Group.

Table A1.3. Phase III Project Disbursement for FY2015

WORLD BANK REGION	CUMULATIVE ($ MILLION)
Africa	1.0
East Asia and Pacific	0.3
Europe and Central Asia	0.2
Global	0.1
Latin America and the Caribbean	0.3
Middle East and North Africa	0.3
South Asia	0.1
Total	2.4

Note: All figures in this annex, are rounded off up to one decimal point.

Table A1.4. Financial Summary Details on IMF Funds and Usage, FIRST Phase III, SFA Only, FY2015

ITEM	CATALYTIC		PROGRAMMATIC		
	LIC	MIC	LIC	MIC	TOTAL
Donor contributions based on current pledges	3.8	2.8	3.7	1.8	12.1
Expected transfer from FAA to SFA[a]	n.a.	0.7	0.5	n.a.	1.2
Total funding for Phase III	**3.8**	**3.5**	**4.2**	**1.8**	**13.3**
Funds transferred to the IMF	3.2	1.6	1.8	0.6	7.2
Approved IMF projects	0.9	1.0	0.0	0.0	1.9
Total project expenses	0.1	0.0	0.0	0.0	0.1
Balance that can be committed based on total funding	**2.9**	**2.5**	**4.2**	**1.8**	**11.4**

Note: In FY2015, IMF transferred management of FIRST resources into a subaccount under the Selected Fund Activities Framework Account. Upon the transfer, the prior Framework Administered Account for Technical Assistance Activities for FIRST TA was terminated. All figures in this appendix are rounded off up to one decimal point.

a. Due to the termination of the FAA instrument, effective April 30, 2015, projects approved in Phase III under the FAA instrument for $0.6 million have not been included in this table.

FIRST's administrative arrangements provide that the IBRD disburses to the IMF subaccount 15 percent of paid-in contributions for IMF-executed activities, net of administration fees. Transfers of $7.2 million were made in FY2015. The IMF has committed about $1.9 million to Phase III projects and disbursed $0.1 million.

PHASE II CLOSING AND ROLLOVER BALANCES

Under the World Bank catalytic windows, there is a total balance of $10.5 million rolling over from Phase II, which includes the investment income of about $3.9 million that was generated during Phase II. Excluding this investment income, the balance is about $6.6 million or about 8 percent of total contributions received during Phase II. This percentage of rollover balance is in line with expectations, because 5–6 percent is budgeted as contingency in each FIRST project, and a few projects closed after minimal or partial completion due to client circumstances or because the activities could not be completed before the December 31, 2014 deadline for Phase II disbursement. In addition, toward the end of Phase II during 2012, the PMU was in transition and staffed at less than half its capacity, resulting in a budget under-run.

Since the same catalytic TFs have continued from Phase II to Phase III, there is no accounting transfer of these funds, but these notional balances were calculated manually by separating contributions meant for Phase II, project disbursements, and PMU expenses from the Phase III items.

Table A1.5. Phase II Funds and Allocation

PHASE II FUNDS AND ALLOCATION	TOTAL	LIC	MIC
Donor contributions (Phase II)	81.6	57.7	23.9
(out of which Phase I transfers)	*26.6*	*19.6*	*7.0*
Reallocation of SECO funds		(1.7)	1.7
Contributions after reallocation		56.0	25.6
Investment and other income for Phase II	3.9	2.8	1.0
Total funds made available Phase II	**85.4**	**58.8**	**26.6**
(-) minus uses of fund			
Administration fee deducted (World Bank)	2.7	1.9	0.8
PMU Phase II expenses	11.3	8.3	3.0
Transfers to IMF	11.8	8.4	3.5
Total Phase II project disbursements	48.1	32.5	15.6
Refund to donor balance account (SIDA and CIDA)	1.0	0.6	0.4
Total usage of funds during Phase II	**74.9**	**51.6**	**23.3**
Notional balance left over from Phase II	**10.5**	**7.2**	**3.3**

Note: SIDA = Swedish International Development Cooperation Agency, CIDA = Canadian International Development Agency. All figures in this appendix are rounded off up to one decimal point.

Appendix II - Projects Approved in Phase III (FY2013–FY2015)

FISCAL YEAR	REGION	COUNTRY	PROJECT #	PROJECT NAME	COMMITMENTS ($)
2015	AFR	Angola	B032	Financial Sector Development Strategy (FSDS)	389,065
2015	AFR	Comoros	B018	Financial Sector Development and Implementation Plan (FSDIP)	360,910
2015	AFR	Ethiopia	A069	Developing and Structuring MTPL Insurance	397,912
2015	AFR	Ethiopia	P7	Promoting Inclusive Insurance	1,870,083
2015	AFR	Kenya	A068	Strengthening and Deepening of Capital Markets	473,554
2015	AFR	Lesotho	B062	Insurance & Pensions	369,614
2015	AFR	Madagascar	B054	Strengthening Microfinance Supervision	370,860
2015	AFR	Malawi	B063	Warehouse Receipts Financing	239,034
2015	AFR	Mozambique	B042	Crisis Simulation	261,460
2015	AFR	Nigeria	A045	Strengthening Deposit Insurance Reserve Targeting	179,140
2015	AFR	Regional	B023	CIMA: Improving Insurance Regulation and Supervision	382,261
2015	AFR	Sao Tome and Principe	B008	Financial Sector Development and Implementation Plan (FSDIP)	355,476
2015	AFR	Senegal	B036	Warehouse Receipts Financing	250,721
2015	AFR	Sudan	B031	Credit Information and Collateral Registry	417,656
2015	AFR	Sudan	A071	Financial Stability (IMF)	454,908
2015	AFR	Zimbabwe	B035	Bank Resolution and Crisis Management Strengthening	452,035
2015	EAP	Mongolia	A065	Payment Systems Strategy and Oversight Framework	287,928
2015	EAP	Myanmar	B037	Strengthening Central Bank of Myanmar Financial Management (IMF)	376,020
2015	EAP	Papua New Guinea	B020	Financial Sector Development Strategy (FSDS)	378,950
2015	ECA	Albania	B005	Strengthening Government Bond Market and related Public Debt Management	370,436
2015	ECA	Kyrgyz Republic	B060	Strengthening Banking Supervision (IMF)	462,067
2015	ECA	Turkey	B006	Pension Supervision, Regulation and Development	367,803
2015	LAC	Colombia	A051	Strengthening Supervision of Conglomerates	198,586
2015	LAC	El Salvador	B039	Bond market development	215,025
2015	LAC	Guatemala	P5	Developing diversified and responsible finance for Micro, Small, and Medium-sized Enterprises (MSMEs)	1,322,113
2015	LAC	Guyana	B048	Supervisory Capacity Building and Consumer Protection	477,988
2015	LAC	Haiti	P11	Increasing Access to Responsible Financial Services	1,562,912
2015	LAC	Paraguay	B016	Strengthening Financial Stability Framework	109,763
2015	MNA	Lebanon	B017	Strengthening Insurance Sector Regulation and Supervision	391,849
2015	MNA	Morocco	P3	Development of Local Capital Markets and SME Finance	2,025,672
2015	MNA	West Bank and Gaza	B046	Capital Market Development Phase III	179,913
2015	MNA	West Bank and Gaza	B049	Strengthening Insurance Supervision	297,374
2015	SAR	India	B057	Financial Stability Data Management (IMF)	466,103

FISCAL YEAR	REGION	COUNTRY	PROJECT #	PROJECT NAME	COMMITMENTS ($)
2015	SAR	Nepal	B043	Bank Resolution Capacity Building	123,322
2014	AFR	Ethiopia	A038	Payment Systems Oversight Framework and A Retail Payments Strategy	316,009
2014	AFR	Liberia	A052	Financial Sector Development Implementation Plan	393,455
2014	AFR	Liberia	A048	Development of a Liquidity Forecasting Framework (IMF)	102,400
2014	AFR	Mauritius	A028	Strengthening Insurance Sector Regulation and Supervision	331,145
2014	AFR	Mozambique	A041	Debt Markets Development	409,395
2014	AFR	Namibia	A004	Developing Central Securities Depository and Enhancing Payment Systems Oversight	375,425
2014	AFR	Rwanda	P1	Strengthening Financial Stability – Part 1	84,139
2014	AFR	Rwanda	P1	Strengthening Financial Stability – Part 2	1,995,707
2014	AFR	Seychelles	A026	Secured Transactions and Collateral Registry	300,264
2014	AFR	Seychelles	A027	Financial Sector Development Strategy	336,408
2014	AFR	South Sudan	A015	Strengthening Accounting and Auditing Legal Framework	124,823
2014	AFR	Swaziland	B003	Financial Sector Development Implementation Plan	287,488
2014	AFR	Uganda	A063	Motor Third-Party Liability (MTPL) Insurance	353,839
2014	EAP	Indonesia	A058	Constructing Robust Mortgage Markets	421,880
2014	EAP	Indonesia	A059	Developing Housing Microfinance	174,115
2014	EAP	Philippines	A019	Crisis Preparedness Framework II	280,027
2014	EAP	Vietnam	B001	Government and Corporate Bond Market Development	488,879
2014	ECA	Albania	B004	Pension Supervision and Coverage Expansion	262,962
2014	ECA	Albania	B007	Insurance Market Reform	423,270
2014	ECA	Kazakhstan	A057	Catastrophe Insurance	499,971
2014	ECA	Serbia	A013	Strengthening Mortgage Insurance	292,658
2014	ECA	Ukraine	A025	Improving Sustainability and Capacity of Ukraine Deposit Guarantee Fund	409,530
2014	LAC	Colombia	A006	Improving Access to Housing Finance for Low-Income and Informally Employed Segments	244,220
2014	LAC	Colombia	A056	Strengthening Self-Regulatory Organizations (SROs) Framework	124,208
2014	LAC	Colombia	A066	Strengthening Deposit Insurance for Cooperatives	118,156
2014	LAC	Colombia	A064	Pensions Reform	338,725
2014	LAC	Costa Rica	A010	Systemic Risk Framework Analysis	123,322
2014	LAC	Costa Rica	A030	Risk-Based Supervision for Pensions	296,236
2014	LAC	Mexico		Strengthening Bank Supervision	283,276
2014	LAC	Nicaragua	A037	Strengthening Supervision of Microfinance	200,910
2014	LAC	Paraguay	A036	Development of National Strategy for Financial Inclusion (NSFI)	323,840
2014	MNA	Djibouti	A034	Modernization of Payments Systems and Credit Reporting Systems	249,420
2014	MNA	Djibouti	A047	Operationalization of MSME Credit Guarantee Fund	245,565
2014	MNA	Jordan	A020	Payment Systems Reforms	223,707
2014	MNA	Lebanon	A031	Capital Markets Regulation and Development	475,365
2014	MNA	Lebanon	A012	Development of a National Payment Systems Strategy	183,317

FISCAL YEAR	REGION	COUNTRY	PROJECT #	PROJECT NAME	COMMITMENTS ($)
2014	MNA	MNA Region	A007	Strengthening Insurance Supervision in the MENA Region	407,793
2014	MNA	Morocco	A032	Oversight and Regulation of Nonbank Payment Service Providers	199,663
2014	MNA	Morocco	A061	Capital Market Development & Regulation	360,324
2014	MNA	Morocco	A062	Supervision of Financial Conglomerates & Crisis Simulation	305,595
2014	MNA	Tunisia	A033	Restructuring MTPL Insurance	328,358
2014	MNA	Tunisia	A053	Banking Laws Modernization & Crisis Preparedness	107,659
2014	MNA	Yemen, Republic of	A017	Improving Financial Infrastructure	325,752
2014	MNA	Yemen, Republic of	A049	Improving Bank Supervision	202,955
2014	SAR	Bhutan	A060	Financial Sector Development Implementation Plan	347,058
2014	SAR	Pakistan	A021	Strengthening Insurance Regulation and Supervision	331,958
2013	AFR	Sierra Leone	A005	Banking Supervision and Financial Stability (IMF)	334,132
2013	AFR	Swaziland	A014	Strengthening the Supervision of Insurance and Pension Funds (IMF)	169,734
2013	MNA	Tunisia	A001	Tunisia Establishment of an Asset Management Company	113,538
2013	MNA	Tunisia	A002	State Owned Banks Restructuring	232,073
2013	SAR	Sri Lanka	A003	Implementation of Risk-Based Supervision	386,243

Note: FY2013 was a transition year in which Phases II and III overlapped. Phase II project applications ended in December 2012, while approvals in the World Bank's system continued through early 2013. Phase III started in January 2013, with the first project activated in the system in February 2013. FY2013 data are split and presented accordingly. FIRST projects from Phase I and Phase II can be found on the website.

Appendix III - Applying for FIRST Funding, Sectors and Areas for FIRST Funding

The Financial Sector Reform and Strengthening Initiative (FIRST) is a multidonor facility that finances World Bank– and IMF-delivered short- and medium-term technical assistance (TA) to promote sounder and more inclusive financial systems in LICs and MICs in all regions. FIRST uses the World Bank Group's classification of low- and middle-income countries.[23] Applicants' countries must be classified by the World Bank as low- or middle-income countries. Low-income countries are those defined as eligible to receive low- or no-interest loans and grants from the International Development Association (IDA). Middle-income countries are those defined as eligible to receive loans from the International Bank for Reconstruction and Development (IBRD).

FIRST TA supports the broader development agenda of a country, including to promote inclusive growth and help alleviate poverty, and to promote greater financial stability.

FIRST operates through two windows:

1. Catalytic: FIRST funds small-scale projects (with an average size of $250,000), implemented over 6 to 24 months, to tackle targeted, short-term needs, based on country demand.
2. Programmatic: FIRST funds larger programmatic TA engagements aiming at long-term targets for longer-term reforms in effective prudential supervision in banking and insurance, financial inclusion, and market development. Programs average $2 million in size, with an average implementation period of three years. These programs provide funding across multiple projects connected through a well-structured, typically multiyear reform program.

AREAS ELIGIBLE FOR FUNDING

- Banking
- Capital Markets
- Insurance
- Pensions
- Leasing and Factoring
- Microfinance
- Financial and Information Infrastructures (Accounting and Auditing, Collateral Registries, Credit Reporting, Payment, Settlement and Remittance Systems)
- Housing Finance
- Business Conduct (Corporate Governance, Consumer Protection)
- Macroprudential (Financial Stability Framework, Liquidity Management, Monetary and Exchange Rate Policies, Systemic Assessment Framework, Crisis Preparedness, Bank Resolution, Deposit Insurance)
- Financial Sector Development Strategy
- Agricultural Finance

ELIGIBLE BENEFICIARIES

Eligible beneficiaries are government agencies, regulatory bodies, policy makers, and—under limited circumstances—quasi-public institutions such as self-regulatory organizations and industry associations.

23. http://data.worldbank.org/about/country-and-lending-groups#Low_income.

FIRST gives preference to projects with the following characteristics:

- Demonstrate client ownership and are demand driven
- Likely to achieve the stated project objectives and successful implementation
- Show strong elements of additionality (the absence of overlap and conflict with other sources of funding)
- Catalytic; that is, show a capacity to lead to further financial sector strengthening
- Short- to medium-term nature (6–24 months)

MAIN THEMES OF ASSISTANCE

- Financial sector reform strategy and policy advice (in particular, financial sector development plans following a Financial Sector Assessment Program, or FSAP*[24])
- Advisory services to strengthen legal, regulatory, and supervisory frameworks
- Financial sector market and product development
- Institutional and capacity building

AREAS EXCLUDED FROM FUNDING

- TA cannot be provided for the purpose of strengthening single private or public sector entities, with the exception of financial regulators.
- FIRST cannot provide "core funding," the sole or primary source of funding of a start-up or an up and running organization.
- FIRST does not fund stand-alone training that is not part of a broader implementation-related project.
- FIRST does not provide information technology advice, software, or hardware.

FIRST is supported by five donors that are involved in financial sector development around the world: the Department for International Development of the United Kingdom (DFID), the Ministry of Foreign Affairs of the Netherlands, the State Secretariat for Economic Affairs of Switzerland (SECO), Germany's Federal Ministry of Economic Cooperation and Development (BMZ), and the Ministry of Finance of Luxembourg. FIRST works in close collaboration with the World Bank, where it is housed, and with the IMF.

HOW TO APPLY

FIRST encourages country authorities to apply for funding through the FIRST website, www.firstinitative.org.

As a first step, an applicant sends an inquiry (available online) with a brief project description. FIRST reviews the inquiry to determine whether the proposal is generally eligible for funding. If deemed eligible, FIRST assists the recipient in developing and submitting a project proposal.

24. FSAP is a joint program of the International Monetary Fund and the World Bank that identifies financial system vulnerabilities and develops appropriate policy responses for participating countries.

FIRST DONORS AND PARTNERS

Department for International Development of the United Kingdom
www.dfid.gov.uk

German Federal Ministry of Economic Cooperation and Development
www.bmz.de

International Monetary Fund
www.imf.org

Ministry of Finance of the Grand Duchy of Luxembourg
www.gouvernement.lu

Ministry of Foreign Affairs of The Netherlands
www.minbuza.nl

State Secretariat for Economic Affairs of Switzerland
www.seco.admin.ch

The World Bank Group
www.worldbank.org

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