FIRST Consultative Group Meeting 2015
Rabat, Morocco
How FIRST is making impacts on the ground: Views from clients

June 9-10, 2015

Meeting Report

Executive Summary

The FIRST Initiative supports developing countries in building stable, diverse, and inclusive financial systems through technical assistance. Since inception, FIRST's objective has been to make impact on the ground by catalyzing bigger reforms through its limited interventions in the financial sector. To date, the FIRST Initiative has funded over 600 projects across the globe, worth more than $135 million in over 120 countries.

FIRST has been successful in delivering well-designed projects, high quality outputs and appropriate policy recommendations. Project completion reports, client surveys, and independent evaluations also point to a significant number of FIRST projects resulting in legal and regulatory reforms, institutional capacity building and a crowding-in effect of other donors to fund follow-up reforms.

The Consultative Group meetings have been critical to FIRST's success. Previous meetings[1] have provided key insights and recommendations that have enabled FIRST to improve its effectiveness and increase its impact; and informed the Governing Council's decision to launch the programmatic window.

The 4th Consultative Group (CG) meeting convened in June 2015 in Rabat, Morocco. This was the first Consultative Group meeting in the FIRST's Phase III operation. One key objective of FIRST's Phase III is to make greater impacts on the ground by supporting longer term and comprehensive reform programs in client countries and sharpen its results measurement framework by including specific targets in these programs. 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: from central bank governors, to heads of banking and insurance supervision; as well as high level officials from AFI, IAIS, CPMI, and MFW4A.

Topics for the discussion were selected based on, among others, past trends in demand for TA (e.g., financial stability), the uniqueness of products of FIRST (e.g., FSDS/FSDIP), and the likelihood of demonstrating tangible results (e.g., financial inclusion). In addition, although implementation has just begun, the CG was an opportunity to obtain feedback on the Programmatic Window, and inform the design of future programs.

During the Consultative Group meeting, participants provided feedback to FIRST on what has worked, what has not, and shared lessons on what it takes to implement reforms successfully. Overall, FIRST received positive feedback on the quality and relevance of technical assistance (TA) to the clients' development challenges; specifically, the CG highlighted the following:

- FIRST interventions had notable catalytic effects (i.e. motivating further reforms and attracting additional support) in both financial stability and financial inclusion.
- The quality of technical support has been high in program operations thus far.

[1] Past meetings were held in Bern-2004, Nairobi-2008 and London-2010.

- Country partners were supportive of including targets in FIRST programs because targets enable authorities to build local political buy-in.

While the majority of projects delivered high quality assistance, not all projects were successful in moving from outputs to outcome and outcomes to impact. The Consultative Group provided several suggestions on how FIRST could improve the quality of FIRST interventions going-forward, as well as key ‘lessons learned’ to share with their peers.

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

The Consultative Group also had some interesting ideas on how FIRST can strengthen partnerships with standard setting bodies (SSBs).

- FIRST could further collaborate with IAIS on guided-self assessment, knowledge products, and insurance capacity building.
- Before FIRST engages in guided self-assessment, coordinate with relevant SSBs to find out whether peer reviewed or other form of assessment has been conducted in that particular country.

In two days, the consultative group covered several challenges facing those working on the front lines to strengthen financial sectors, and shared practical knowledge and insights into implementing critical reforms across the globe. Starting from the global initiatives and local challenges to increase financial inclusion; to the trends in international reforms and their impacts on low-income countries; through a number of discussions on improving FIRST’s delivery model; and finally to a shared experience through a fun crisis simulation exercise. FIRST walked away with constructive feedback from key stakeholders, while participants gained key insights from their peers, and the entire group formed critical networks, through which they will continue to collaborate on financial development challenges and solutions.

Welcoming Remarks

Mr. Peter Le Poole, Chair of the FIRST Governing Council welcomed participants to the 4th Consultative Group Meeting, and thanked the Moroccan authorities for hosting the meeting. He also acknowledged the presence of high-level officials from many countries and thanked them for their participation. As a donor representative, Mr. Le Poole shared his excitement to be part of the FIRST Initiative, which yielded positive impacts in many countries in their efforts to strengthen and develop their financial systems. However, he also emphasized that FIRST clearly has room to improve in designing and delivering projects that reach their full potential in achieving positive impacts on the ground. Citing the Independent Evaluation of FIRST's Phase II conducted in 2014, which observed that a number of projects in the sample had met the stated objective, but fallen short with regard to outcomes, he challenged both the FIRST team and the country authorities to ensure that more projects meet their intended outcomes.

Keynote Addresses

During her keynote address on the first day, Ms. Faouzia Zaaboul, Head of Treasury, Ministry of Economy and Finance of Morocco, described the broad range of reforms Morocco has taken in the financial sector over the past decade. Morocco has received extensive support from FIRST in the past years with more than 10 projects, including from macro-prudential supervision, crisis preparedness, catastrophe insurance, covered bonds, and interest rate benchmarks, among others. Morocco is also implementing a FIRST Program on capital market development and SME finance. Ms. Zaaboul shared how these FIRST projects assisted, or are currently assisting, in reforming the financial sector in Morocco.

On the second day, Mr. Abdellatif Faouzi, Director General at the Banque Al-Maghrib (BAM), also addressed the CG. He illustrated the role of the central bank in the Moroccan banking system over the last years. Specifically, he described how the banks have weathered the global financial crisis, and how bank supervision has adopted reforms against this context. Mr. Faouzi also expressed gratitude for the two Crisis Simulation Exercises conducted in Morocco thanks to FIRST funding, and highlighted their importance in the BAM's decision-making process.

FIRST in Financial Inclusion

<u>**Session 1: Toward Universal Financial Access by 2020**</u>

Moderator: Mr. Peter Le Poole, Chair, **FIRST Governing Council**

Speakers:

- Ms. Gloria Grandolini, Senior Director, Finance and Markets Global Practice, **World Bank**
- Mr. Norbert Mumba, Deputy Executive Director, **Alliance for Financial Inclusion (AFI)**

Inclusive financial systems must work to accelerate access, enable usage, and ensure affordable services for both individuals and businesses, in order to promote savings, increase borrowing, and alleviate poverty. With the goal for Universal Financial Access by 2020 set in motion, many countries are embarking on expedited reforms. This panel discussed the international community's progress in enabling universal financial inclusion, and the future global efforts needed to achieve this objective by 2020.

Ms. Gloria Grandolini emphasized that Universal Financial Access 2020 is a priority agenda in the World Bank Group and as a result, WBG scaled up investment, financial and advisory services, knowledge sharing, including through increased engagement with key partners in financial inclusion. She also shared findings of recently published Findex 2014, which indicated that the net number of financially excluded dropped from 2.5 to 2 billion since 2011.

Ms. Grandolini also spoke about the role of FIRST Initiative in financial inclusion. She stated that FIRST is a critical mechanism for providing technical and knowledge support through leveraging WBG staff. Since 2007, FIRST has approved 89 projects worth US$ 18 million to support Financial Inclusion, which is 20% of FIRST's total commitments.

Based on the WBG experience, countries which have developed and implemented national financial inclusion strategies, have made more progress in increasing financial inclusion.

Mr. Norbert Mumba shared AFI's experience in expanding financial inclusion globally, working with 115 institutions in 96 countries. AFI has developed a unique peer-learning network through 6 working groups.

AFI members with measurable targets have increased financial inclusion more than countries without measurable targets. In the next 3-5 years, countries are expected to have comprehensive supply and demand-side data that is country-led and owned. Policymakers and regulators will use these data to set quantified targets and to inform policy. More data shared by the private sector will enhance impact measurement. Mr Mumba noted that based on Findex 2014, the number of unbanked adults dropped by 20% to 2 billion globally; however, gender gap remained persistent at 9%. Countries should focus on implementing policies and regulations that aim to close the gender gap.

Mr. Mumba also pointed out that there could be inherent tensions between the need to strengthen regulations and increase inclusion. He further outlined how the financial inclusion community is working with Standard-Setting Bodies (SSBs) to ensure implementation of proportionate regulations.

Discussion

During the Q&A, participants noted that increasing financial access in itself is not adequate, there is need to ensure usage, affordability and sustainability of financial services. Participants underscored the innovation that has taken place in the area of digital financial service is a fast evolving area and regulations play important roles in creating an enabling environment. Lastly, it is important to ensure that regulation encourages competition, and that regulations are proportionate to the level of services provided.

<u>Session 2: Achieving Financial Inclusion Goals - What clients have to say about FIRST's role</u>

Moderator: Ms. Susanne Dorasil, Head of Division Economic Policy, Financial Sector Division, **BMZ**

Speakers:

- Ms. Farida Peranginangin, Director, Payment Systems Policy and Oversight, Central Bank of **Indonesia**
- Mr. Abate Mitiku, Advisor to the Vice Governor, National Bank of **Ethiopia**
- Mr. Ernesto Velazquez, Board Member, Central Bank of **Paraguay**
- Dr. Jihad Khalil Al Wazir, Governor, **Palestine** Monetary Authority

In this session, speakers presented examples of FIRST intervention in their respective countries. The FIRST projects discussed highlight the different entry points that TA can take to target financial inclusion, e.g. through a strategy, through fundamental building blocks in financial infrastructure, or through new instruments and products, such as the use of electronic money or microinsurance. In addition, the session provided fertile ground for peer-to-peer exchanges on the latest developments in the sector.

In **Indonesia**, FIRST's work on strengthening payments systems in the areas of oversight, retail payments and the use of electronic money, has served as a catalyst for financial inclusion. Ms. Farida Peranginangin described how, as a result of improvements in regulations, the Central Bank was able to introduce electronic government-to-person (G2P) transfer system in 2014 as a means to provide social assistance to the poor. In addition, the TA led to a decision to implement the National Payment Gateway to process all electronic payments, thus increasing security, transaction easiness, and lowering costs, which Ms. Peranginangin cites as critical to improving inclusion.

In **Ethiopia**, FIRST was able to assist the client in several aspects of financial inclusion. Mr. Abate Mitiku highlighted FIRST's assistance in creating the main regulatory and supervisory framework for microinsurance, along with creating the enabling environment for companies to receive licenses and become active in this sector. In addition, Mr. Mitiku noted the impact of FIRST's assistance, which supported the process of standardization of checks online, rather than physical processing. Noting that these are important elements to spur further financial inclusion, more work is still needed for the country to fully achieve its financial inclusion objective, including: a financial inclusion strategy, a weather index insurance framework, and financial literacy training.

In **Paraguay**, achieving financial inclusion was considered a critical policy to lift people out of poverty. From this perspective, Mr. Ernesto Velasquez stressed the importance of FIRST's support in producing the comprehensive financial inclusion strategy, launched in December 2014. Backed by several technical notes, the strategy covers eight critical topics, and forms the main vehicle to help the client to take an action-focused approach on financial inclusion over the next couple of years.

The FIRST Initiative also played a critical role in **Palestine,** through work on legal provisions in payments systems—forming a key pillar of the entity's overall payments systems. This enhanced not only stability and efficiency, but as Dr. Jihad Al Wazir detailed, it also provided the much needed legal infrastructure for a financial system that operates within the constraints of a politically challenging situation. In this context of maximizing potential under constraints, the FIRST's work provided the technical support that catalyzed further financial inclusion activities that the monetary authority developed.

Discussion

The discussion proved a good opportunity for peer-to-peer exchanges of views and ideas in an area where technology plays an important role and is constantly in flux. For instance, the discussion revolved around how new technologies (in payments systems) can lower the costs per transaction—which is important as high costs can prohibit the inclusion of the underserved. Participants also discussed payment cards and the use of phones for payments. Given that there are more mobile phones than people in Paraguay, there is an obvious need to seize the opportunity and use these tools for financial inclusion. The discussion also touched on how new mobile operations can prompt the need for regulation and new licensing rules as mobile operators begin to provide other financial services beyond remittances, such as savings and loans. Such reforms however can potentially create tension between the new entrants that want to become like banks, and the more established market players. Moreover, Dr. Al Wazir provided practical examples of unconventional ways of keeping the payment and remittance system functioning in times of political fragility.

Key Takeaways in Financial Inclusion

Global Trend:

- Countries which developed and implemented a national financial inclusion strategy, had more impact in expanding financial inclusion.
- Countries which set measurable targets, increased financial inclusion more than those without measurable targets.
- Regulations for digital financial services should encourage competition and be proportionate to the level of services provided.

FIRST Operation:

- The FIRST portfolio in financial inclusion is growing as client countries' place improving financial inclusion as a priority agenda.
- FIRST interventions had notable catalytic effects for example through shaping digital financial services in Indonesia, payment systems in Palestine, microinsurance markets in Ethiopia and developing the financial inclusion strategy in Paraguay.

Session 3: Post-Crisis Regulatory Reform Agenda: What it means for Developing Countries

Moderator: Mr. S. Erik Oppers, Division Chief, Monetary and Capital Markets, **IMF**

Speakers:

- Mr. George Brady, Deputy Secretary General, **IAIS**
- Mr. Klaus Löber, Head of Secretariat Committee on Payments and Market Infrastructures, **CPMI Secretariat**
- Ms. Justine Bagyenda, Executive Director of Supervision, Bank of **Uganda**

Following the global financial crisis in 2008, the Financial Stability Board (FSB), together with financial standard setting bodies (SSBs), updated standards in respective areas to reflect lessons learned from the crisis. This panel presented how international financial standards have been reformed; the implementation progress to date; and the implications these changes would likely have on low-income countries.

Mr. George Brady shared the initiatives **IAIS** has taken post-crisis. IAIS has strengthened Insurance Core Principles (ICP) especially on governance, risk management, group-wide supervision. It established the notion of globally Systemically Important Insurers (G-SIIs) as part of global effort to end 'Too Big to Fail' and introduced policy measures to strengthening supervision, improving resolution and crisis management, and building higher loss absorbency. ICP's capital requirements for insurers were strengthened and Common Framework for the Supervision of Internationally Active Insurance Groups (IAIG) introduced.

Mr. Brady explained what this means for LICs: while G-SIIs and IAIGs are not as prevalent in LICs, some IAIGs have a growing presence in LICs and this brings the importance of home-host supervisory cooperation. Issues that might be of interest to LICs might be the guidelines being developed by IAIS on index-based insurance; Takaful / Microtakaful; and proportional approaches to actuarial services.

Mr. Brady suggested three areas for further collaboration with FIRST:

- Guided-self assessment which expands assessment tools available to their member countries;
- Knowledge product which enables better understanding of what works and what does not in insurance regulation and supervision; and
- Insurance capacity building to support member countries.

Mr. Klaus Löber outlined the new mandates of **CPMI** revised in September 2014, which is to promote the safety and efficiency of payment, clearing, settlement and related arrangements, thereby supporting financial stability and the wider economy.

Mr. Löber shared recent trends in payment systems where innovations are driving dynamic market, but those innovations tend to be at the national level. Clearly, the role of *non-banks* is increasingly driving the effort to expand financial inclusion. Regulation can be either driver or barrier and CPMI has issued guidelines, principles, policy and analytical reports in various aspects of retail payments aimed at ensuring that regulations support financial inclusion, while protecting safety and efficiency of payment systems.

Mr. Löber presented the highlights of the joint CPMI/World Bank task force on *Payments Aspects of Financial Inclusion* (PAFI) formed in November 2013. While the work is still in progress, the PAFI Task Force found that:

- Efficient, accessible, and safe retail payment systems and services are critical for greater financial inclusion; and
- Transaction accounts are a cornerstone for the provision of cashless retail payment services.

A guidance paper for authorities on augmenting financial inclusion by improving access to and usage of transaction accounts is expected to be published in late 2015.

Ms. Justine Bagyenda talked about the importance of Global Regulatory Standards, especially Basel III for Africa; whether the recent global reforms will improve banking sector soundness in Africa; and trade-off between financial inclusion and financial stability.

Ms. Bagyenda stated that these standards are applicable, and should be implemented in Africa for four key reasons:

- To reduce regulatory arbitrage
- International banks operate in Africa and they are expected to conform to these standards
- The public will lose confidence in the banking sector if they believe that our standards are poor
- They help to build political support for reform

Since the early 2000s, banking systems in Africa have become sounder, supported by better corporate governance and improved supervisory capacity. Most banks in Africa were not affected by the global financial crisis. However, the operating environment for banks in Africa is more risky compared to developed countries. The implication is that under Basel III, regulatory capital for banks in Africa should be higher than the Basel minimum. For example, in the East African Community (EAC), the minimum capital adequacy requirement has been set at 4% above Basel. Ms. Bagyenda noted that the region has made a good start on surveillance of systemic risks. However, important challenges remain, especially the need to strengthen capacity for modeling and stress testing and to address significant data gaps related to real estate prices, corporate and household data.

In terms of addressing FSB's 'too big to fail' proposals, the region has several concerns, such as:

- If these proposals are adopted, African subsidiaries of Global SIBs (Systemically Important Banks) should also be treated as material.
- It might be necessary to extend this approach beyond the 30 Global SIBs and apply it to regional SIBs e.g. Stanbic group in Africa.

- There is need to strengthen African cross border cooperation, consolidated supervision and resolution of regional cross border banks.

She also emphasized the importance of regional harmonization as financial integration in Africa e.g. EAC, SADC is increasing. The EAC has harmonized the minimum Basel III reforms but gaps remain for example on the resolution of regional banks.

Finally, on important issues of balancing financial stability and financial inclusion, both are important and it is possible to coordinate innovations within a framework that does not weaken standards and regulation. Indeed prudent regulation supports financial inclusion. Ms. Bagyenda gave an example of mobile money, which should be backed by the requirement that funds should be deposited on an escrow account in a bank to protect the users.

Mr. Erik Oppers presented a global picture of the Basel III Implementation level, which indicated that many countries including developed countries still have more work to do before fully complying with the Basel III requirements.

Discussion

The challenges faced in payment and settlement systems were discussed. For example, new innovations are coming to the market but settlement system does not always accommodate these new players. Also, there is a lack of interoperable system. CPMI acknowledged that their work has been more on traditional payment systems and that there is a need to address new innovative products.

A question was also raised on how SSBs are engaging with African countries. IAIS is closely working with regional bodies such as CIMA and SACD to gather feedback during the IAIS standard setting process.

Session 4: Strengthening Finance Sector Regulation and Supervision: Lessons from the Field.

Moderator: Ms. Rosmarie Schlup, Deputy Head, Macroeconomic Support Division, **SECO**

Speakers:

- Ms. Imelda Singzon, Executive Vice President, Examination and Resolution Sector, **Philippines** Deposit Insurance Corporation
- Mr. Vladimir Turcanu, Head of the Banking Regulation and Supervision Department, National Bank of **Moldova**
- Mr. Md. Mezbaul Haque, Deputy General Manager, Central Bank Strengthening Project Cell, **Bangladesh** Bank

The session provided an overview of FIRST's contribution to financial sector stability through strengthened regulatory and supervisory systems, institutional capacity and financial safety nets. Clients shared lessons on what worked well and what didn't, from their own country experience.

For **the Philippines**, Ms. Imelda Singzon focused on two FIRST-funded projects; reserve targeting and a bank failure prediction model. The first project started in 2011 and remedied a situation in which there was a static fund at the deposit insurer against the background of a dynamic economy, which was also raised as a concern in the FSAP. FIRST provided TA that helped develop a modern methodology for determining fund adequacy, e.g. recommending a target fund ratio of 5%, with the current ratio being 5.3%. The client noted that the project substantially improved the ability to anticipate claims and liabilities, to use and deploy the funds properly, and to maximize yields. The second project helped to deliver the bank failure prediction model in 2013, which helps to better predict the probability of bank failure, serves as input in bank examination, and contributed to comply with IADI Principles. In addition, the banks used to be evaluated manually, while the new model allows for an automated evaluation process that is faster and more accurate. This means that the department's workload has become considerably lighter.

On **Moldova**, Mr. Vladimir Turcanu focused on the work that FIRST did through the IMF window on inflation targeting. Given Moldova's background as a small and open economy, authorities had decided to adopt an inflation-targeting regime. Against this context, Mr. Turcanu noted that FIRST TA on inflation targeting and capacity development of staff in the Monetary Policy Department had several positive outcomes. Overall, he reported inflation results over the past three years that remained within the targeted bandwidth. In addition, the National Bank's monetary policy mechanism was enhanced, as was the information sharing between departments. In addition, the TA helped the National Bank of Moldova to better coordinate the monetary policy decision with the goal of financial stability and other policy decisions. It also contributed to coordination between the National Bank and the MoF. Mr. Turcanu also reported that, as a result of the project, a centralized database was created at the National Bank to enhance data dissemination and the sharing of information between departments.

Even though banks in **Bangladesh** weathered the global financial crisis well, the Bangladesh Bank (BB) still felt that it needed to focus on preparedness in bank supervision. In this regard, Mr. Mezbaul Haque highlighted two FIRST projects: contingency planning and financial projection modeling. The first project helped the Bangladesh Bank to develop a structured crisis preparedness framework that e.g. clarifies the lender of last resort function of the Bangladesh Bank vis-à-vis the role of the government in a crisis situation if a bank lacks adequate collateral. The regulatory framework to establish this has been formally adopted. The second project helped to develop a single financial projection model where the Bangladesh Bank used to have a set of different risk management tools. The model is officially in use since January 2014, to carry out stress testing of individual banks and the system as a whole, evaluating and assessing the risks posed by individual banks to the system, and using the results to influence policy decisions.

Discussion

The discussion centered on the impact of training in FIRST projects and the ability of FIRST projects to sustainably improve institutional capacity. In the case of the Philippines, capacity was clearly strengthened and the way this was brought about was through constant communication between the client and the project's consultant up to the point where the client was fully able to use the models properly. A challenge going forward is to update the models (due to e.g. changed market circumstances), and the capacity to do so. On the effects of training in countries such as Bangladesh, it was noted that staff sometimes rotate to gain a broader experience as part of the management philosophy—and that this may also affect capacity building needs.

Key Takeaways in Financial Stability

Global Trends:

- IAIS is developing guidelines on index-based insurance; Takaful / Microtakaful; and proportional approaches to actuarial services, which may be of interest to FIRST client countries.
- CPMI and the World Bank has formed a *Joint task force on payments aspects of financial inclusion* (PAFI) in order to address the regulation of no-banks who are increasingly driving the effort to expand financial inclusion.
- As the cross-border banking increases, there is need to strengthen cross border cooperation, consolidated supervision and resolution of regional cross border banks.
- Both financial stability and financial inclusion are important. Two can be balanced and even more important is to make them complementary by encouraging innovations within a framework that does not weaken standards and regulation.

FIRST Operation:

- FIRST could further collaborate with IAIS on guided-self assessment, knowledge products, and insurance capacity building.
- Globally implementation of Basel is still limited and FIRST has a role to help countries move that direction as appropriate for that country's context.
- FIRST interventions were catalytic in strengthening financial stability. For example, by developing a bank failure prediction model and strengthening reserve targeting at the deposit insurance corporation in the Philippines; by setting inflation target bandwidth, and helping to strengthen information sharing and monetary policy decision making in Moldova; and by developing financial projection model and a structured crisis preparedness framework in Bangladesh.

FIRST's Longer-Term Engagement

Session 5: The FIRST's Programmatic Approach: Implementation Progress.

Moderator: Mr. Peter Le Poole, Chair, **FIRST Governing Council**

Speakers:

- Ms. Consolate Rusagara, Senior Program Manager, **FIRST Secretariat**
- Mr. John Rwangombwa, Governor, National Bank of **Rwanda**
- Mr. Nouaman Al Aissami, Adjunct Director, Ministry of Economics and Finance, **Morocco**

For the first time since its launch in January 2013, FIRST reviewed its programmatic model and assessed the progress gained thus far. During this session, cases studies were presented from the first two TA Programs: Rwanda and Morocco.

Ms. Consolate Rusagara started with the rationale for introducing the programmatic window in FIRST. While catalytic projects, which are short-term and targeted in nature, have their own specific values, they are not suitable for addressing deeper and broader reform needs. Hence, FIRST adopted the programmatic approach to respond adequately to clients' more comprehensive reform needs aimed at achieving greater development impact. Examples of reforms for which a program is a good vehicle are comprehensive reforms such as implementing FSDS, post-FSAP reform, and other systematic reform needs. Ms. Rusagara provided further details on the programmatic window's three main pillars (financial stability, financial inclusion, and market development), approved program targets, and the use of the window so far. She emphasized that measuring impact is a critical component of program design and full commitment to agreed targets is expected.

For **Rwanda**, Mr. John Rwangombwa pointed out that the TA Program preparations started against the backdrop of the country's second FSDP. This plan focused on four pillars, one of which became the priority area that the TA Program would focus on financial stability while protecting consumers. The TA Program is organized around four pillars: banking, insurance, crisis preparedness, and supervisory capacity building. A concerted effort was made to ensure that the Program's design and targets fit in with the country's overall financial sector strategy and agendas concerning Basel II and III reforms. The program has thus far completed drafting three laws on Banking, the Bank of Rwanda, and on deposit insurance, while work on setting up a crisis management framework has commenced. Given that the US $2M program started in 2013 for a three-year period, the client expects to be able to report on measurable results at the end of 2016. The client commended the Program particularly for the high level and quality of technical support.

Mr. Nouaman Al Aissami illustrated how **Morocco** had been working with FIRST on a project by project basis around three main topics: financial stability, capital markets, and financial inclusion. This worked well as many of these reforms were specific and self-standing, and could be addressed within the limitations of a catalytic project. However, in order to address capital market development and SME finance, the necessary reforms would require a more comprehensive approach. Since Basel requirements instruct banks to maintain additional equity on their balance sheets, authorities identified the need to diversify local capital markets. Thus, the TA program addressed the need to develop new capital market instruments and improve SME finance. Mr. Al Aissami described how the dialogue with FIRST and the Bank to prepare the program helped with their own strategic approach, in terms of prioritization and sequencing. In addition, given the importance of measuring impact, the TA Program was one of the reasons why the MoF is now putting in place an impact evaluation unit at the ministry. One of the constraints of preparing a multi-year TA program however, is the identification of the full set of reforms in advance. New issues may emerge during implementation due to outside events, and there may be additional activities that turn out to be needed during implementation. From this perspective, FIRST may consider allowing some flexibility in future program design.

Discussion

The discussion centered on program requirements on (quantified) targets (e.g. are targets helping or hindering?), and the topic of measurability versus flexibility. In the case of **Rwanda**, Mr. Rwangombwa considered the program targets helpful, in term of sharpening focus, and are well aligned the country's own national targets. The Central Bank does not look at the targets as the World Bank's or FIRST's targets, but rather, as their own. **Morocco** agreed that targets must be aligned with local strategies. The MoF and industry stakeholders established the targets jointly. Mr. Al Aissami considered the targets to form a good roadmap, providing a clear path of what the Ministry wants to achieve. Acknowledging that selecting targets is not an exact science, there is also a need to be careful as other influencing factors may be at play. Impact will not always be achieved in the short-run, which means that a case can be made for more flexibility. In addition, Mr. Al Aissami called for the need to be both realistic and ambitious, and for the use of qualitative targets in addition to quantitative targets.

Key Takeaways in FIRST's Longer-Term Engagement

FIRST Operation:

- Reported quality of technical support has been high in program operations thus far.
- Program design may require flexibility because it is difficult to identify a full set of reform measures in advance and external factors could affect the progress. New reform needs may also arise during the program implementation.
- Client countries appreciated setting targets as they assist in spurring internal reforms and can provide a clear path of what the client wants to achieve. However, the targets need to be consistent with national strategies.
- The Program's targets need to be ambitious but realistic, and can be both qualitative and quantitative. The dialogue with FIRST and the World Bank to prepare the Program helped client country's own strategic approach in terms of prioritization and sequencing both in Rwanda and Morocco. In addition, given the importance of measuring impact in programs, Morocco is putting in place an impact evaluation unit at the MoF.

FIRST in Financial Sector Strategies

Session 6: Financial Sector Development Strategies (FSDS); a catalyst for comprehensive reforms.

Moderator: Mr. Mike Foster, Policy Adviser, **DFID**

Speakers:

- Mr. Gabriel Mambo, Advisor to the Minister , Ministry of Economy and Finance **Mozambique**
- Dr. Retselisitsoe Matlanyane, Governor, Central Bank of **Lesotho**
- Dr. McDonald Mwale, Director of Research, Reserve Bank of **Malawi**
- Mr. John Rwangombwa, Governor, National Bank of **Rwanda**

One of the key products of FIRST funded TA is a financial sector strategy. About 10-15% of FIRST commitments fall under this category. Comprehensive financial sector reforms tend to be more effective if they are implemented within a framework of a financial sector strategy that has significant buy-in from all the key stakeholders.

This panel discussed whether FIRST-funded financial sector strategies are catalyzing further reforms.

Dr. Matlanyane thanked the FIRST for its assistance over the past decade to strengthen **Lesotho**'s financial sector. FIRST interventions assisted the Central Bank to undertake a number of legal reforms in the financial sector since 2006. FIRST also supported developing Lesotho's FSDS, which was approved by the Cabinet in November 2013, and since then, it has catalyzed further reforms. This FIRST project was unique in that it involved joint support from the World Bank and the IMF to develop the FSDS.

Mr. Gabriel Mambo presented the range of financial sector reforms undertaken in **Mozambique** over the last decade. He detailed how the reforms contributed to the expansion of the financial sector, and as a result, to the economic growth. Despite considerable progresses achieved, the Government, with FIRST's support, drafted the Mozambique Financial Sector Development Strategy 2013-2022 to address outstanding challenges. Since its approval in April 2013, the MFSDS has initiated several reforms, and has benefited from financial and technical support from other donors and IFIs.

Mr. Mambo shared several key sources of success for the MFSDS. The FSDS ensured that its implementation sequence aligned well with the priorities of the Government, the Bank of Mozambique and other key sectors. Secondly, the consultative process with local stakeholders in defining and implementing reforms resulted in better ownership and commitment. Additionally, a flexible and functional structure for coordinating and monitoring implementation of the FSDS with an experienced technical team; the timely availability of budget resources for implementation of the strategy; and donor support to provide TA resources, were all critical to the strategy's success.

Mr. John Rwangombwa shared **Rwanda**'s experience with FIRST in developing FSDS I, and more recently FSDS II. Following FSDS I, Rwanda secured external resources in excess of $30 million to implement reforms. Implementation of FSDS I resulted in credit to the private sector to increase by 18%, which contributed to the economic growth. FSDS I also supported development of the capital market, and authorities are now trying to link the Rwandan stock market with other stock exchanges in East Africa. In 2007, bank asset to GDP was about 20%, but has now increased to about 42%. Access to finance has also dramatically improved. Mr. Rwangombwa mentioned that both FSDS I and FSDS II resulted in substantial reforms undertaken in Rwanda's financial sector.

Dr. McDonald Mwale shared that FIRST's engagement in **Malawi** goes back to 2004, and stated that FIRST has been instrumental in strengthening their regulatory and supervisory regime. FIRST supported the development of a 5-year FSDS (2010 – 2015), which resulted in the design of the US $28.2 M World Bank funded Financial Sector Technical Assistance Project (FSTAP). Dr. Mwale confirmed that the FIRST intervention has catalyzed many reforms. It laid the foundation for the transformation of financial sector supervision, especially bringing the focus on the importance of supervising NBFIs. Prior to FIRST reforms, supervision only focused on the banking sector. In addition, FSDS laid out a road map to deepen of the financial sector further, and to increase access to finance. The FSDS is providing strategic direction in developing the financial sector.

Discussion

The discussion focused on how to make FSDS a success. Governor Rwangombwa emphasized that having right technical staff who provide appropriate assessment within the context of national development is critical. Another factor is ownership by the government. Governor Matlanyane also emphasized the importance of getting the technical component in the FSDS right, especially the need to balance development of the financial sector with safeguarding and stability. Stronger legal and regulatory framework is important and this needs to be accompanied by enhanced skills for regulators and supervisors. Dr. Mwale followed that the financial sector strategy should support the country's economic development. He also raised the importance of political will and country ownership, not just by regulators, but also by all the relevant stakeholders.

Other issues discussed included donor effectiveness and whether it is too burdensome for countries to have different programs covering different aspects of the financial sector development. The panel responded that having different donors is not an issue but coordination is important. They also discussed the infrequency of FSAP assessments in low-income countries, and its effect on the countries' ability to develop financial sector strategies. The panel acknowledged that the FSAP is a very important diagnostic tool, on which countries can base financial strategies; however, other good diagnostics have been equally helpful.

Key Takeaways in Financial Sector Development Strategies

FIRST Operation and Outcome:

- About 10-15% of FIRST funding supports financial sector development strategies.
- FSDS was approved at the Cabinet level in each country presented
- FSDS catalyzed external resources including donor supports, IFI financial and technical supports, in millions of dollars.
- FSDS when successfully implemented led to major developments in the financial sector (for example, credit to the private sector increased by 18%, bank asset to GDP increased by 22% over several years in Rwanda)

Lessons Learned on FSDS

- FSDS is the blue print document providing strategic direction in developing the financial sector.
- Ownership by the government is a must.
- Having the FSDS's priority actions and implementation timing aligned with those of the Government is critical.
- Consultative process with stakeholders important to secure ownership and commitment by all.
- Ensuring budget resources for implementation of the strategy critical and securing donor support to provide TA useful.
- Having experienced technical staff who provide appropriate assessment within the context of national development is critical, in particular addressing the need to balance development of the financial sector with safeguarding and stability, and to develop the financial sector that supports the country's economic development needs.

FIRST Going Forward

Session 7: Going Forward – *How can FIRST maximize impacts?*

In the breakout session, participants formed three groups to focus on specific issues FIRST can address in order to maximize its impacts on the ground.

Group 1 on: How do you assess relevance, timeliness, quality and the delivery model of FIRST-funded Technical Assistance (TA)? What are the suggestions for improvement?

Moderated by Tim de Vaan, FIRST Initiative; Rapporteur by Mike Foster, DFID

Issues	Discussion	Action Item for FIRST
- Relevance of the FIRST TA: Is it supporting the country's reform agenda in the financial sector development? Is it well designed? Does a lack of consensus among national entities negatively impact the success of a FIRST TA?	- The link between the FIRST project and a national or sectoral strategy (also involving links with the associated M&E frameworks)—should always be ensured, taking into account the prioritization and sequencing of reforms. - Client countries did not face lack of consensus on project implementations; however if such exists, this should be clearly stated in the project document.	- Ensure that the project is directly linked to a national or sectoral strategy taking into account the prioritization and sequencing of reforms. - If there is a lack of consensus about the reform agenda, clearly state this in the project proposal and include it in the risk section.
- Timeliness: Is FIRST TA provided in a timely manner? How do you assess the time it takes from the initial TA request to the project approval? Does the current procedure ensure quality of the project design through multiple layers of reviews or should the process be simplified? Is FIRST TA being implemented according to the implementation schedules? If with delay, why and what can be done?	- Timeliness was generally considered to be sufficient. However, in one case, the client had to remind the consultant on the delivery schedule. The client felt somewhat left out when the Bank decided to allow the consultant for more time in order to make sure that quality was assured. - Some clients did not know of the option of contacting FIRST during TA implementation to	- Ensure that clients are aware of FIRST contact person. This is done in the proposal document and specifically stated in the project approval note to the client. However, FIRST project officers should check-in with clients especially for delayed or problematic projects.

	share updates or concerns on delay and deliverables.	
- Quality: Is the quality of FIRST TA satisfactory? Is it well customized for local circumstances?	- Quality was raised as a concern by two clients. While the majority of the projects had high quality, there were occasions where clients were presented with some deliverables that were cut and paste exercises by consultants—even showing the name of another country. - FIRST needs to be more vigilant with quality control, ensuring all documents are properly reviewed and revised. - Clients requested to be involved in consultant selection. - Clients agreed on the added value that local consultants can provide. - Some clients expressed the wish to be part of the quality control of consultant's initial drafts. At a minimum, the client should be given sufficient time to review documents before they are finalized.	- Ensure FIRST involvement in quality control by participating in quality review meetings. - Ensure that the technical leaders whose job it is to assure quality control on all consultant deliverables do a better job. - Ensure clients are given sufficient opportunities to review and provide feedback on deliverables. - Request TTL to consult with clients on consultant selection. - Survey clients during implementation on the quality of (draft) deliverables as might be required.

Group 2 on: What does it take to have reforms implemented timely and effectively? What can be done to improve impact of FIRST TA?

Moderated by Consolate Rusagara, FIRST Initiative; Rapporteur by Rosmarie Schlup, SECO

Issues	Discussion	Action Item for FIRST
- Measuring Impact: How can impact be measured? Is the current design of results framework and use of indicators in FIRST TA satisfactory and realistic to measure	- Countries were supportive of rigorous results framework and targets which serve as	- Continue to set rigorous targets and results framework which reflect country circumstances.

impacts? Should FIRST demand higher outcome/impact?	important guidelines for countries and can be used to spur internal reforms. - However it is important that these targets are country specific and aligned with country strategy.	
- Impediments: What are the impediments to timely and effective implementation of reforms? For example, additional resources and TA required, lack of speedy enactment of laws). What can be done to address the impediments?	- Leadership is key in implementing reforms and this needs to be supported by securing high political level support upfront. Stakeholder involvement is also important and they need to be on board early. - Setting a realistic time frame is important because the decision in parliament can take longer. Important to reach out to parliaments to raise awareness.	- Ensure stakeholder consultation is included and stakeholders are brought on board early in the project as appropriate in each project circumstance - Ensure results framework reflects realistic timeframe.
- Follow up: Are countries generally implementing advice and recommendations of FIRST TA? How do we know that they are implemented? What can be done to improve feedback mechanism? For example, annual client survey until after a few years of project completion? What else can be done?	- Generally recommendations out of FIRST TA are being implemented in a timely and effective manner. However, setting up a mechanism to facilitate this would be useful. For example, working group/secretariat should be designed to follow up on activities and monitor progress.	- Project design to include setting up of a working group and/or secretariat to follow up on implementation of recommendations as appropriate.
- Quality of TA (Consultants)	- Client countries stated that in some instances, consultants were not familiar with country circumstances and did not make efforts to understand the country context. Sometimes templates were given w/t changing country name. - This group mentioned that the use of local consultant is important because it helps the	- FIRST with WBG/IMF to enhance quality control of deliverables

	overall team to get the local context. Also legal drafting needs to reflect local system	

Group 3 on: How can FIRST collaborate with standard setting bodies to strengthen compliance with international standards?

Moderated by Emiko Todoroki, FIRST Initiative; Rapporteur by Raphael Kasonde, Central Bank of Zambia

Issues	Discussion	Action Item for FIRST
- Current FSAP environment: How does the current FSAP environment pose a challenge to LICs?	- Countries recognized that FSAP is a useful diagnostics tool. Even in the absence of an FSAP or ROSC assessment, they acknowledged the importance of complying with international standards, not for the sake of compliance but for achieving stable, efficient financial systems. - Countries however emphasized the importance of the proportionality principle applied to the standards.	N/A
- Initiatives by SSBs: what are the initiatives taken by SSBs to support their members to enhance compliance with standards? How can FIRST access information and build the project implementation on the diagnostic assessment?	- IAIS conducts peer reviewed assessment of specific ICPs. This is based on voluntary participation; however it gives useful picture of where a country stands on implementation of specific ICPs. Many developing countries have participated in this although somewhat weak participation from Africa. - CPMI also recently started a voluntary self-assessment program which so far had only participation of developed countries.	- When FIRST engages in guided self-assessment, contact relevant SSBs to check whether peer reviewed or other form of assessment has been conducted in that particular country.

	- When FIRST receives a request for guided-self assessment, it should contact SSBs to see if peer reviewed or other form of assessment has been conducted in a particular country.	
- Guided self-assessment: How useful are the guided self-assessment? Given the current FSAP environment, the demand for guided self-assessment may increase. Should FIRST support the guided self-assessment? Or should it be limited to exceptional cases? How can we ensure that guided self-assessment is not a backdoor to FSAP?	- In the absence of FSAPs, guided self-assessment serves as a mechanism to allow countries to understand where they stand with their supervisory and regulatory practice. Self-assessment is the first step but it alone tends to be over-rated, thus it has to be a guided one. - Peer review system is useful to enhance quality so if FIRST engages in guided self-assessment, it could work with SSBs to introduce the peer review mechanism. Peer reviewers can be identified in partnership with SSBs.	- When FIRST engages in guided self-assessment, consult with client country to introduce peer review mechanism. If this is agreed, work with SSBs to identify peer reviewers.
- Indicators for stability in the programs: are the current indicators useful, relevant and realistic in measuring impacts?	- This was a challenging issue and thus not much feedback was received. However, it was acknowledged that data is difficult in the stability area, so it is important to focus on outcome. From this perspective, the current indicators are useful but they might have limited use where there is no baseline.	- FIRST to continue to use international principles set by SSBs as targets for programs in the stability area. Where there is no baseline, consider using guided self-assessments.

Workshop Event

<u>Crisis Simulation Exercise</u>

This interactive workshop was a mini-version of the Financial Crisis Simulation Exercise (CSE) that the World Bank conducts for its clients, and the FIRST Initiative has funded in several countries. During this session, participants had the opportunity to role-play or observe the simulation, and discuss possible policy options during a crisis. Moroccan staff that had previously benefitted from two FIRST funded CSEs also acted as role-players.