FIRST Initiative: Offerings and Opportunities for Partnership
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1. FIRST Overview
FIRST Overview

• The **Financial Reform and Strengthening (FIRST) Initiative** is a global partnership designed to promote sound, stable, and inclusive financial systems in low- and middle-income countries.
  
  • It is the WB’s and IMF’s flagship joint global program providing financial sector technical assistance and supported by 5 development partners.
  
  • Launched in 2002, it is now entering its Phase IV: FIRST 2.0.
Objectives and Conceptual Framework

FIRST’s Overarching Objective:
To build conducive enabling environments for financial market development in low- and middle-income countries to support:

• private sector development,
• inclusive economic growth,
• employment generation, and
• poverty reduction.

Thematic Pillars:
FIRST is built upon 3 interconnected pillars:

• Financial Stability,
• Financial Inclusion, and
• Financial Market Development.
FIRST’s Key Features and Added Value

- The key features below have been central to FIRST’s success since 2002.
- FIRST 2.0 will build on these features and focus on emerging trends and challenges in the financial sector.
FIRST: 16 Years of History

- Financial sector development remains central to today’s economic and poverty reduction challenges facing low and middle income countries.

- FIRST has adapted its focus to address emerging challenges.

**Phase I (2002 – 2006)**
- Following the Asian Crisis in 1997.
- Supported clients to implement FSAP and ROSC recommendations, including international standards and codes.

**Phase II (2007 – 2012)**
- The Global Financial Crisis heightened the need to strengthen macro and micro-prudential regulations and supervision, financial safety nets, crisis preparedness.
- Bank resolution.
- Supported clients to address reforms recommended by FSAP and ROSC.

**Phase III (2013 – 2017)**
- In the post-crisis and post-Arab Spring era, supported clients to implement longer-term reforms to achieve gender mainstreaming.

**Phase IV (2018 – 2022)**
- Supports clients to implement long-term reforms while focusing on new challenges:
  - Maximizing Finance for Development.
  - Financial foundations in FCV countries.
  - SME Finance for Jobs.
  - Women’s Entrepreneurship.
2. The Strategic Context:
Financial Sector Development Challenges
Financial Stability: Impact on Growth and Poverty

**Financial Crises**

- **Income loss** (job loss, reduced hours and earnings)
- **Erosion of savings** (lower interest rates, reduced deposits, failing asset values)
- **Private: Reduced spending** on food, health, education
- **Public: reduced spending on social welfare**, e.g., education, infrastructure, health

**Short-term Social Implications:**
- Increased poverty
- Poor nutrition, low investment in health, education
- Loss of social/family cohesion

**Long-term Social Implications:**
- Regression of development indicators
- Poverty traps
- Reversal of progress in attainment of MDGs

**Effects of the 2008 crisis:**
- GDP growth in developing countries fell to 2.7 percent in 2009 after an average growth rate of 7.5 over 2003 – 2007; global output contracted by 0.5 percent
- Unemployment rose by 7 percent in 4 years; hardest hit were LAC and ECA
- 100 million people were pushed into poverty

Source: WDR 2014 team; Calvo 2013; Feyen 2009

Source: WB-IMF Global Monitoring Reports
Financial Stability: New Risks and Vulnerabilities

- Near- and medium-term risks have remained elevated
- Tightening of financial conditions in advanced economies
- Escalating trade tensions
- Rising inflation
- Build-up of vulnerabilities from easy financial conditions

Cybersecurity
Rapid development of FinTech and crypto-assets markets poses threat of cyberattacks; bigger challenges for authorities to safeguard investors and consumers

Money Laundering and Illicit Financial Flows
Risks from money laundering and terrorism financing have led to de-risking by international financial institutions, posing threats for both financial stability and financial inclusion

Climate Change
Threats from climate change which causes more frequent and extreme natural disasters push millions of people back into poverty
Financial Inclusion: Gender Gaps and SME Exclusion

1.7 billion adults globally remain unbanked

56% of them are women

<10% of adults in FCV countries are banked (e.g., Burundi, Chad, Congo, Guinea, Sudan, Togo)

SMEs remain excluded from access to finance

22% of firms in Sub-Saharan Africa have access to a bank loan. It is 27-28% in South Asia, MENA, and EAP
Long-Term Finance: Huge Finance Gap

$1.3 trillion per year – estimated investment needed to close gaps in infrastructure financing in developing countries.

3 billion people will need housing and basic infrastructure by 2030

<1/3 of elderly worldwide have pensions

Capital markets, insurance, and pensions sectors in most developing countries do not function effectively for long-term investments and savings.
3. What FIRST Offers: Scope and Priorities
FIRST’s Product Offerings

A. TECHNICAL ASSISTANCE AND CAPACITY BUILDING

Technical Assistance

• Short-, medium-, or long-term TA projects focusing on range of financial sector development issues and challenges
• Direct recipients: Country’s regulatory and policy-making authorities
• Ultimate beneficiaries: Financial institutions, the private sector, firms, households, and the public at large

Capacity Building

• Training for bank and non-bank supervisors, e.g., FinTech policy training

B. FINANCIAL SECTOR DIAGNOSTICS

Country-Level Diagnostics

• Analyses of financial sector legal frameworks
• Assessments against key international standards
• Assessments of efficiency of the financial system, market infrastructure, and impediments to financial inclusion
• Identification of a prioritized set of reforms and action plans

C. GLOBAL KNOWLEDGE

Flagship Reports

• Lessons from international best practices in financial sector reform
• Example: “Principles for Public Credit Guarantee Schemes for SMEs” flagship

Country Specific Analyses

• Lessons learned series
• Impact studies
• Conferences and multiplatform knowledge products, e.g., videos and infographic
Focus Areas

Financial Stability
- Financial sector legal, regulatory, and supervisory frameworks
- Banking sector development
- Crisis preparedness
- Central bank organization, accounting, and auditing
- Liquidity and reserve management
- Inflation targeting
- AML/CFT regulation and supervision

Financial Inclusion
- Financial infrastructure: payments, credit bureaus, and collateral registries
- Consumer protection and financial literacy
- Housing finance
- Microfinance (including microinsurance)
- SME finance
- Gender--addressing gender gaps in access to finance
- Access to finance for youth, marginalized and excluded groups

Long-Term Finance
- Capital markets development
- Government bond market development
- Insurance regulation and supervision
- Pension funds and collective investment vehicles
- Infrastructure finance
“We have worked with FIRST to build our legal and regulatory framework, and reform it ... not only focusing on stability, but also focusing on inclusion.... FIRST has supported us in two main areas—building our legal and regulatory framework and building the capacity of our staff. We are happy that FIRST supported us. All this really helps us to stabilize and build the financial sector in Rwanda.” - John Rwangombwa, Governor, National Bank of Rwanda

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<tr>
<th>Financial Stability</th>
<th>Financial Inclusion</th>
<th>Long-term Finance</th>
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Financial Development Plan II (2011-2014)
Lao PDR: Expanding MicroFinance

- 2003: only 3 small government-run credit unions and a non-functioning banking system.
- 2004-06: FIRST TA
  - Supply & demand diagnostics
  - Policy dialogue
  - New laws and regulations for MFIs and credit unions
  - Catalyzed ADB $10 million program with “prior actions”
- 2017:
  - Regulated MFIs and CUs: 123
  - Villages served: >2,600
  - Clients: 274,000
  - Loan portfolio: $88 million
FIRST 2.0: New Strategic Priorities

- FIRST 2.0 continues to offer a holistic approach to help its clients establish the necessary foundation to mobilize private sector solutions and financing for achieving SDGs.

FIRST 2.0 New Focus Areas

- Financial Stability
  - FinTech
  - Green Finance

- Financial Inclusion
  - Finance for jobs
    - Women entrepreneurs
    - FCV
    - MSME access
  - FinTech Innovations

- Long-Term Finance
  - Maximizing Finance for Development
FIRST 2.0: Maximizing Finance for Development

Creating the enabling environment for private sector investment and equitable growth

- Strengthening the legal framework
- Expanding and diversifying the investor base
- Modernizing the financial infrastructure
- Developing government bond markets
- Developing investment vehicles and demonstration transactions

MAXIMIZING FINANCE for DEVELOPMENT
Project Example: MFD in Kenya

FIRST’s Support for MFD in Kenya

- 3-year program on Infrastructure Finance:
  - Strengthen the government bond market
  - Diversify the domestic institutional investor base
  - Create a capital market financing vehicle
  - Capacity building through a demonstration transaction

- 2 years from start: a consortium of 10 pension funds was formed, the Kenya Pension Fund Investment Consortium, creating a vehicle of $2 billion assets which can be invested in infrastructure or housing-PPP type projects
FIRST 2.0: Support FinTech Agenda

**FinTech Opportunities:**

- Reducing costs and frictions
- Increasing efficiency and competition
- Narrowing information asymmetries
- Broadening access to financial services—especially for underserved populations

**FinTech Risks:**

- Cybersecurity, money laundering, terrorism financing
- Financial integrity

**Challenges faced by authorities:**

- Consumer and investor protection
- Clarity and consistency of regulatory and legal frameworks
- Adequacy of existing financial safety nets

**FIRST supports FinTech:**

- Digital Finance Landscape Assessment Tool
- National Financial Inclusion Strategy
- Enabling policy, legal, regulatory framework (e.g., sandbox mechanism, e-insurance, e-money, digitization of government payments, SME platform)
- Modification and adaptation of regulatory frameworks to contain risks of arbitrage, while recognizing that regulation should remain proportionate to the risks
- Develop robust financial infrastructure to be resilient of disruptions (e.g., cyber-attacks)
FIRST 2.0 supports clients to “green” the financial sector by:

- establishing appropriate regulations and standards for banks and other financial institutions to assess and disclose environmental risks of their operations
- demonstrating the business case for green finance and supporting green finance champions
- promoting the adoption of appropriate environment and social performance standards by pension funds, banks, and capital markets
- providing diagnostic underpinnings for climate credit lines to the financial sector
- providing TA to clients to build the pipeline in climate sectors
- developing a performance framework to assess the level of greening of the whole financial system and its contribution to climate change
- supporting enabling regulations and capacity building to develop and deploy asset-backed, project, and other new classes of green bond issuances
**Challenges faced by SMEs:**
- Inadequacy of types of collateral accepted by lenders
- High transaction costs for small loans and perception of high risk
- Total estimated credit gap is US$1 trillion per year

**FIRST’s Support:**
- Create enabling legal environment for new financial products: public credit guarantees, movable assets-based lending, leasing, factoring, warehouse receipts financing, start-up online financing platform
- Strengthen credit infrastructure: collateral registry, credit registry, online financing platform where start-up and young firms can interact with investors
FIRST 2.0: Jobs Creation – Women’s Entrepreneurship

• FIRST started mainstreaming gender equality into projects in 2015; 26 projects have focused on gender issues to date

• Gender gap in developing countries remains unchanged at 9 percentage points since 2011; in some economies, gender gaps have deepened, for example Bangladesh, Pakistan, Jordan, Nigeria

• Gender-focus instruments:
  • Diagnostics and action plans (e.g., National Financial Inclusion Strategy)
  • Product development: micro-insurance, pensions, electronic payments
  • Pilot gender-centric products and access channels
  • Data disaggregation by gender (Secured Transactions, M&E)
FIRST 2.0 Results Framework

**OUTPUTS**
- Sound financial sector strategies or policies
- Robust legal, regulatory frameworks in line with international principles/standards
- Analytical tools, operational, supervisory frameworks, and capacity building for government agencies and regulatory bodies
- Technical advice in strengthening financial infrastructures
- Technical advice in developing new financial products for under-served/un-served MSMEs and individuals/women
- Stakeholder consultations and dissemination to catalyze support to implement reforms/strategies

**OUTCOMES**
- Sound legal, regulatory frameworks in line with international best practices
- Strengthened institutional capacity
- New financial products developed
- Modernized financial infrastructures established

**IMPACTS**
- Safe and sound financial systems (Financial Stability)
- Greater and equal access to financial services for individuals and businesses (Financial Inclusion)
- Increased mobilization of long-term finance (Long-Term Finance)
- Leveraging the Private Sector

**Sustainable Development Goals (SDGs)**
- 1. No Poverty
- 5. Gender Equality
- 8. Decent Work and Economic Growth
- 9. Industry, Innovation and Infrastructure
- 10. Reduced Inequalities
- 13. Climate Action

**Key Assumptions**
- Government’s commitments to reform
- Favorable macroeconomic conditions; Private Sector commitments
Robust M&E System Promotes Results on the Ground

Since its inception, FIRST has achieved robust results on the ground.

“FIRST is implementing a sophisticated M&E system, which is as advanced as any in use by other international financial institutions”

Independent Evaluation, 2014

<table>
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<tr>
<th>Key Outcomes</th>
<th>Results</th>
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<tbody>
<tr>
<td>Laws and regulations enacted</td>
<td>203</td>
</tr>
<tr>
<td>New financial products introduced</td>
<td>43</td>
</tr>
<tr>
<td>New financial infrastructure modernized</td>
<td>26</td>
</tr>
<tr>
<td>Reforms catalyzed</td>
<td>163</td>
</tr>
<tr>
<td>Value of funding catalyzed</td>
<td>$1.2 billion</td>
</tr>
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Portfolio: Regional breakdown

- Since inception, FIRST has implemented more than 778 TA projects in 120 countries, deploying over $181 million
- 44% for Sub-Saharan Africa
- 23% for FCV (Phase III)

*Global: knowledge products*
Portfolio by Sector

- Funds flexible TA, from gap-filling under $500k to deeper programs ($1-2 million)
- TAs cover the breadth of financial sector challenges across 3 pillars
- Leveraging on WB and IMF expertise
4. Opportunities to Partner
FIRST: Platform for Partnership

The Governing Council (Represented by Donors, WB, and IMF)
- High-level, strategic guidance
- Forum for coordinating, streamlining aid

The Program Management Unit (housed in the WB and supervised by a Program Manager)
- Day-to-day operations
- Accountable to GC and WB management

Project Implementation
- Execution by WB or IMF experts & consultants
- Partnership with country authorities
FIRST 2.0: How to Partner

• FIRST aims to raise $100 million for Phase IV, 2018-2022 (FIRST 2.0)

• This is based on successful deployment of $98.7 million in Phase III

• Minimum $2 million contribution

• FIRST 2.0 offers a number of ways for donors to contribute:
  • Low-Income Country Window
  • Middle-Income Country Window
For further information on partnering:

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