Folder Title:	President Wolfensohn - Briefing Book for President's Meetings and Events - Robert Picciotto - Director General - Operations Evaluation Department [OED] - February 27, 1998
Folder ID:	30489565
Series:	Meeting and event briefing materials
Dates:	02/20/1998 – 02/27/1998
Subfonds:	Records of President James D. Wolfensohn
Fonds:	Records of the Office of the President
ISAD Reference Code:	WB IBRD/IDA EXC-13-10
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Meeting: Mr. Robert Picciotto
Director-General, OED

Friday, February 27, 1998
11:00 - 11:30 a.m.
JDW Office

Archive Management for the President's Office

Document Log

Reference # : Archive-02038

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A. CLASSIFICATION

- [x] Meeting Material
- [ ] Trips
- [ ] Speeches
- [ ] Annual Meetings
- [ ] Corporate Management
- [ ] Communications with Staff
- [ ] Phone Logs
- [ ] Calendar
- [ ] Press Clippings/Photos
- [ ] JDW Transcripts
- [ ] Social Events
- [ ] Other

B. SUBJECT: MEETING: MR. ROBERT PICCIOTTO, DIRECTOR-GENERAL, OED (B) (N) // TIME: 11:00 - 11:30 A.M. // VENUE: MC-12-750 (OFFICE) // CONTACT: ROSA MARIA WIEMAN @ 84569 // IN ATTENDANCE: JDW, PICCIOTTO, LUIGI // ADDED 2/24 MCALLISTER // NOTES: (12/10) LUIGI REQUESTED THAT REGULAR MTGS. BE SCHEDULED FOR OED W/ JDW AT 45 DAY INTERVALS-- INSTRUCTIONS: SCHEDULE FIRST TWO MEETINGS (FEB. / APRIL) FOR 45 MINUTES -- AND THE BALANCE FOR 30 MINUTES EACH. //(1/14) ITEM MOVED FROM FEB. 3 DUE TO EAP TRAVEL - ITEM CFMD. W/ ROSA // (2/23) ITEM MOVED FROM FEB. 26 TO FEB. 25 TO ACCOMMODATE PREBRIEF FOR CEOS' MTG - EMAIL SENT CONFIRMING THE CHANGE // (2/25) ITEM RESCHEDULED- JDW SICK
ADD. NOTES: MOVED FROM FEB. 3 - TO 6TH DUE TO EAP TRIP // MOVED FROM 11TH TO 26TH DUE TO DOM. REP. TRIP // (B) PICCIOTTO // DUE: FRIDAY, FEB. 20 // EXC: LP // ALI (12/11) // LFG (2/23)
Brief includes:
---Note to JDW from Robert Picciotto
---Charts
---Regional brief - Central America
---Sector brief - Financial Sector Reform

DATE: 03/02/98

C. VPU

Corporate

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- [ ] IMF
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E. COMMENTS:

File Location	Cleared By	Date:
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THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: February 20, 1998

TO: Mr. James D. Wolfensohn

FROM: Robert Picciotto

EXTENSION: 84569

SUBJECT: **Operations Evaluation Department - Business Planning**

I would like to focus this monthly meeting on the OED work program objectives for the next three years. I need your thoughts on evaluation priorities in light of your corporate governance needs.

Process

In keeping with the ongoing OED renewal, the business plan is being developed in consultation with our clients. Throughout the process, we have been meeting with the Network Heads and Regional Vice Presidents. The objective is to develop a fully integrated program of independent and self-evaluation supportive of your development effectiveness goals.

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OED's new business plan for FY99-01 reflects the basic strategic principles you and the Board endorsed last year :

- Move to a Higher Plane - shift the unit of account from the project to country and the sector;
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- Manage for Results - strengthen linkages between evaluation, strategy and resource allocation;
- Invest in Knowledge - inject OED lessons into the knowledge management system; and
- Participatory Evaluation and Capacity Building - develop more effective partnerships, strengthen evaluation alliances and promote evaluation capacity in developing countries.

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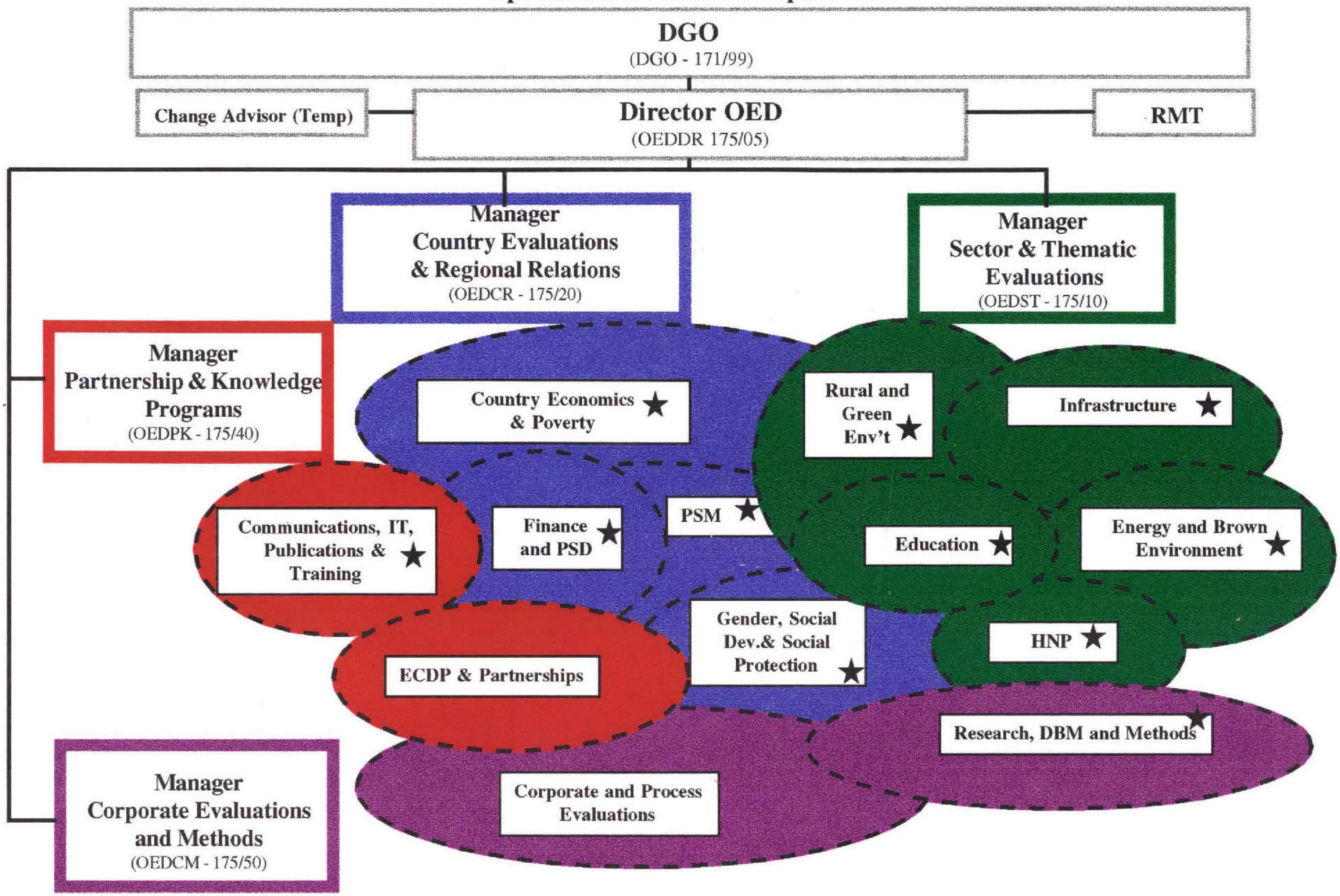
Audits and Sector Impacts to *Lead* products designed to have maximum impact at the institutional level.

The three attached charts show how the different elements of OED's work program fit together and complement one another.

Also attached are the two latest Fast Track Products, one addresses Financial Sector Reform, the other is a briefing for your upcoming trip to Central America.

Attachments

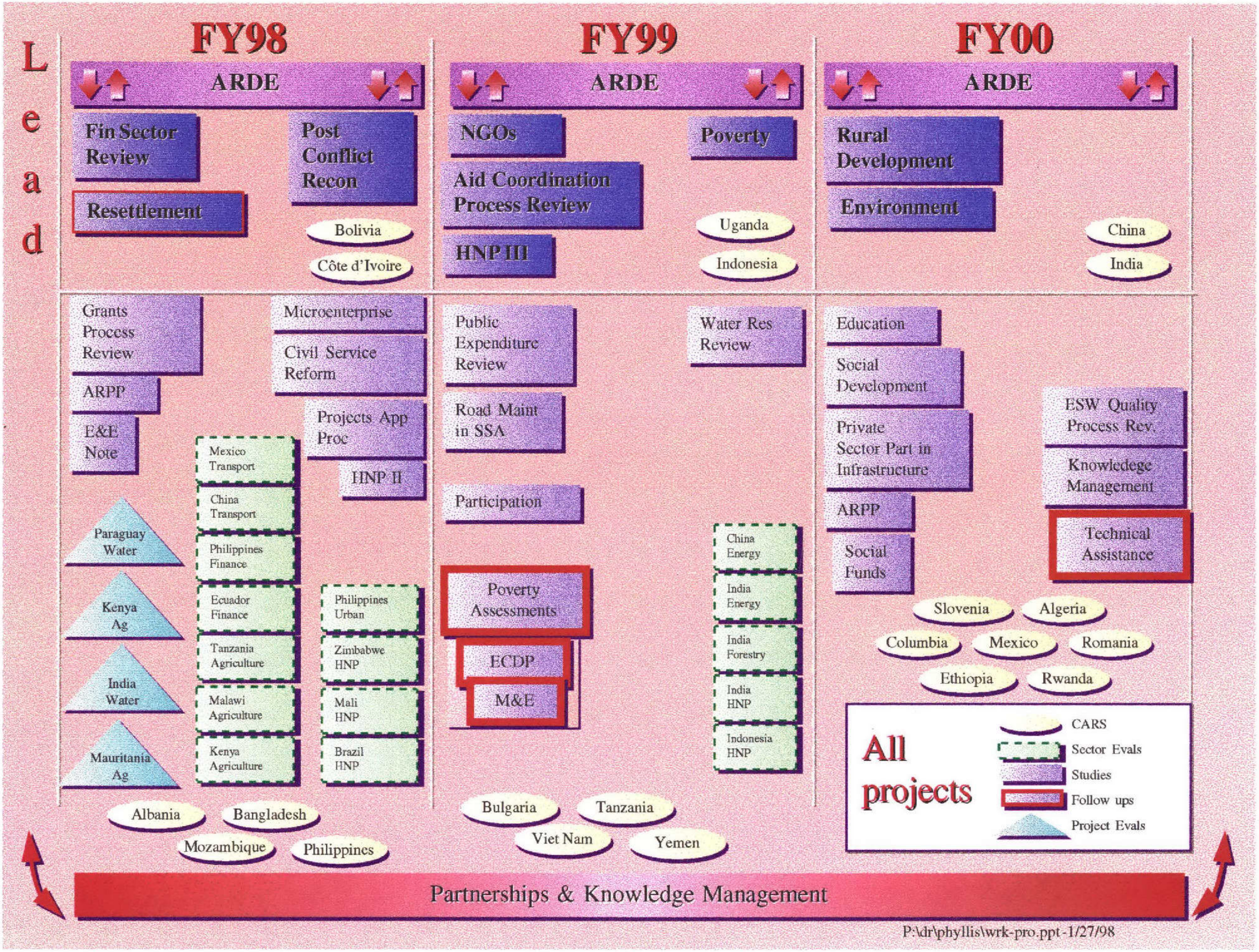
Operations Evaluation Department



Clusters are Interactive and Flexible ★= *Thematic & Regional Coordinators*

11-17 Staff assigned to managerial group and cluster

OEDDR 8/1/97



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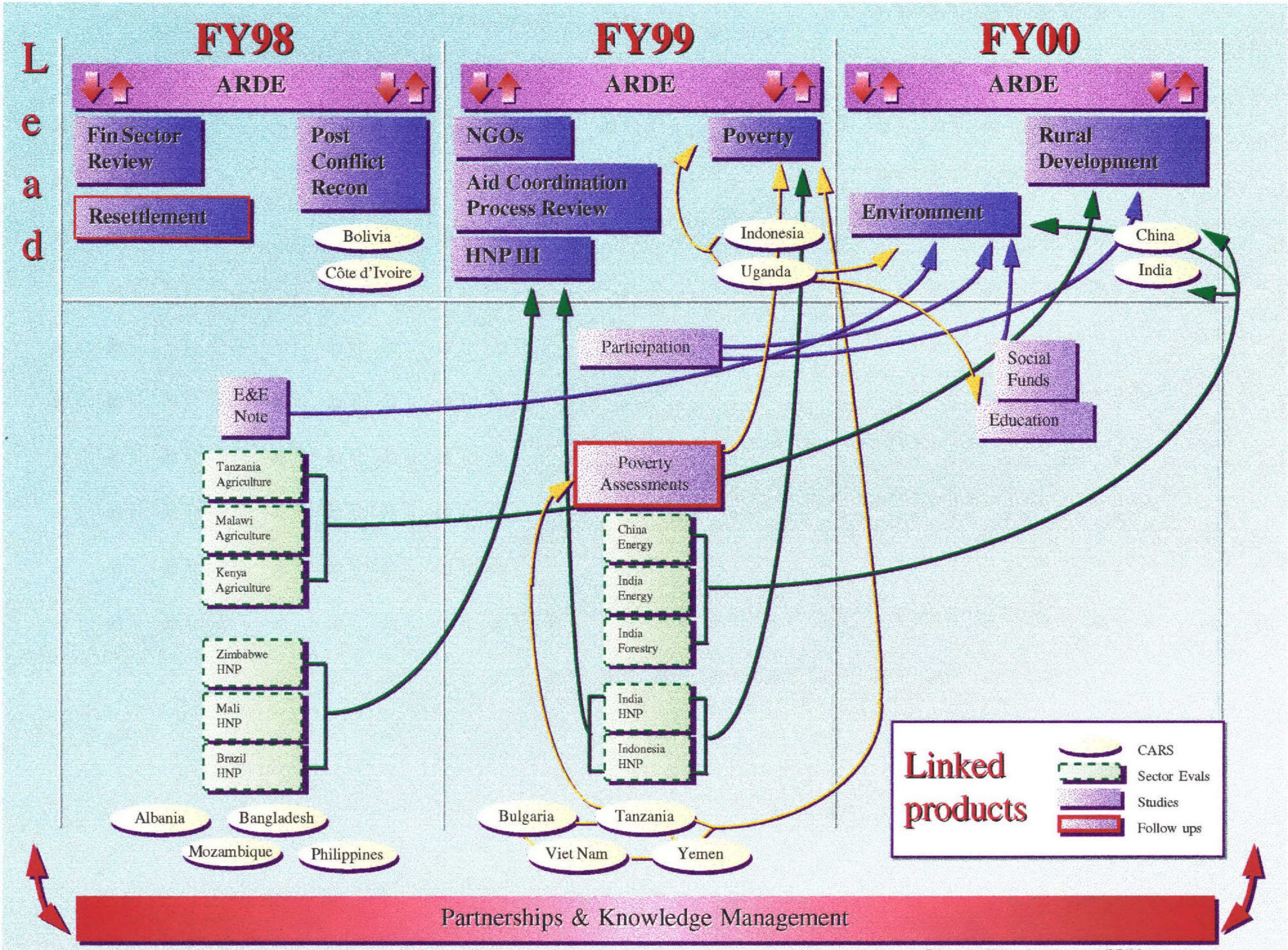

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Yemen
Linked products
CARS
Sector Evals
Studies
Follow ups
Partnerships & Knowledge Management

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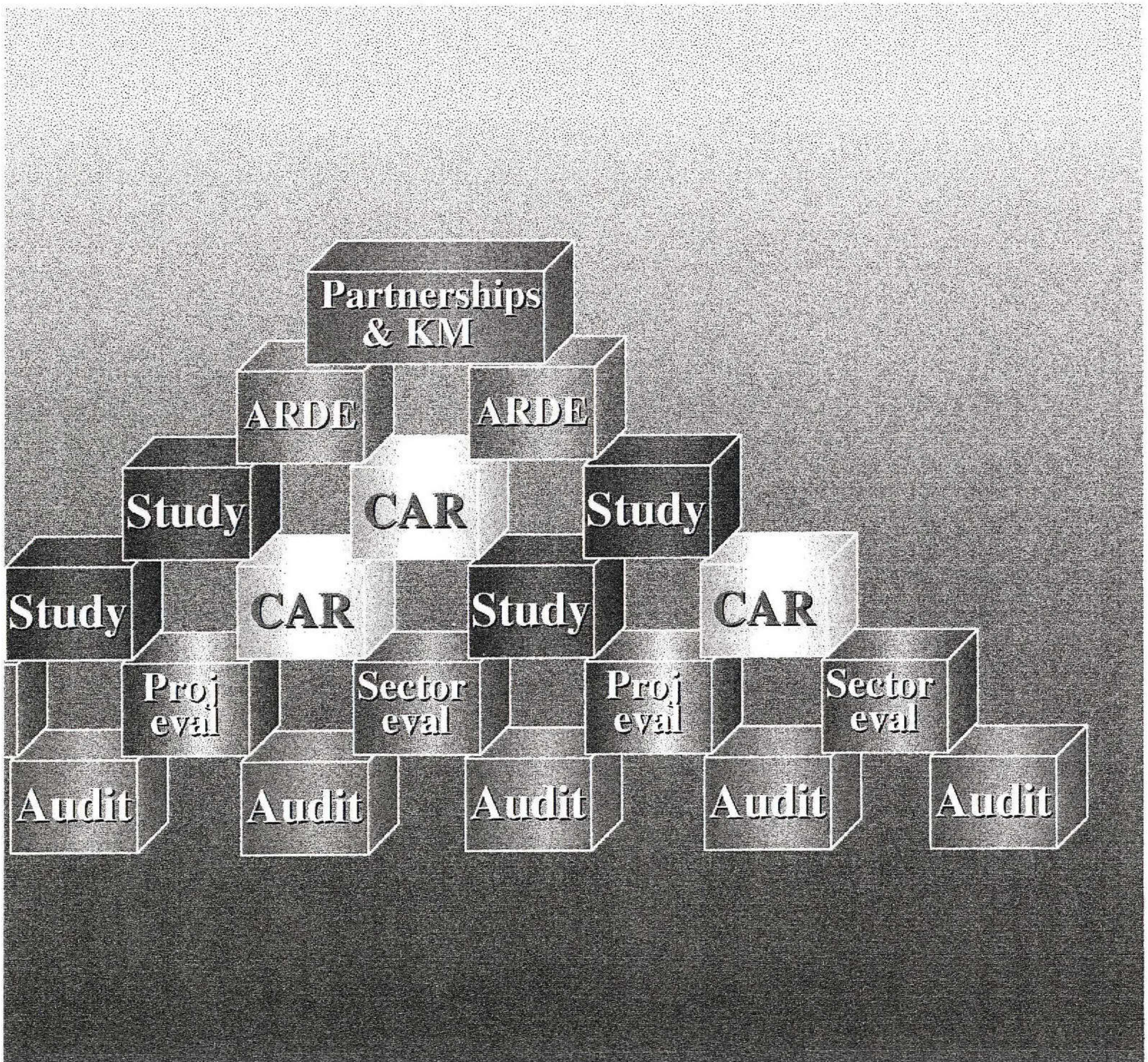
Operations Evaluation Department

Briefing for OED Meeting with Mr. Wolfensohn

Wednesday ~~Thursday~~, February 25 ~~26~~, 1998
5.30 pm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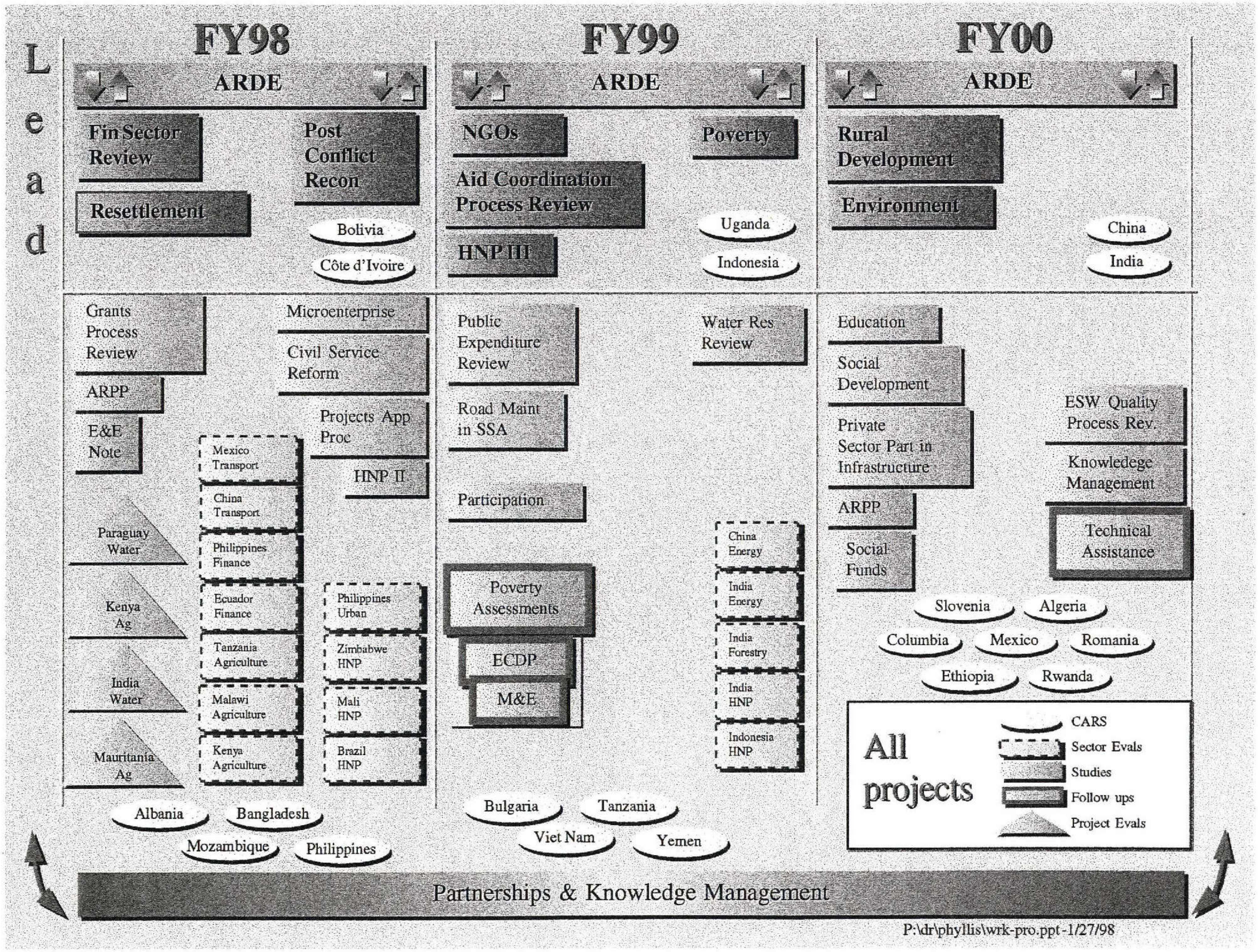

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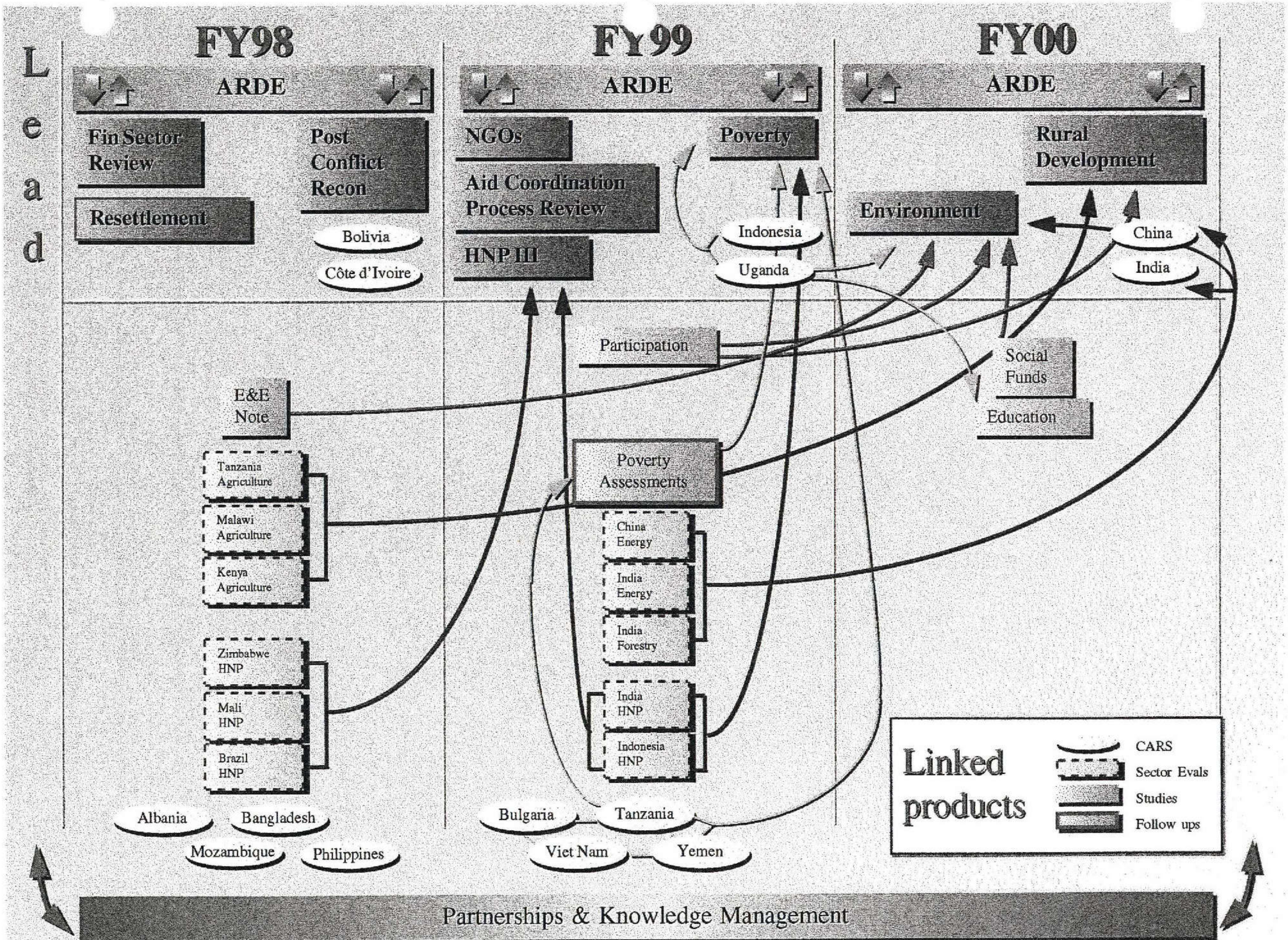

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REGIONAL BRIEF

EVALUATION EXPERIENCE FOR DEVELOPMENT EFFECTIVENESS

Operations Evaluation Department

VOLUME 1, NUMBER 6

To: **James D. Wolfensohn**
From: Robert Picciotto, DGO
Date: February 20, 1998
cc: Koch-Weser, Sandtröm, Lindbaek, Iida, Burki, Kassum, Jabre, Malloch Brown, Garg, Salop, Sierra

Central America

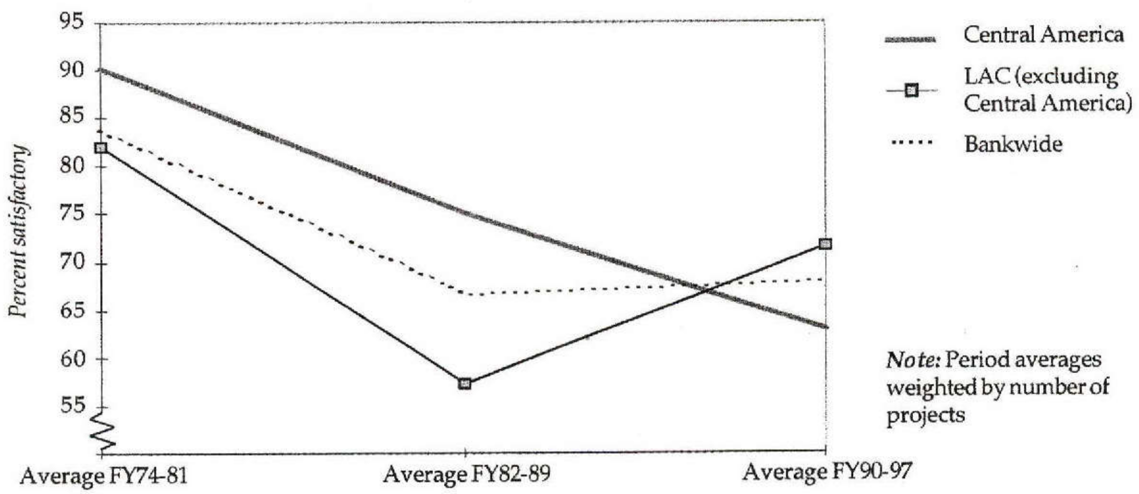
- Bank projects in Central America have not performed as well as the rest of the Latin America and Caribbean region. This is because of external factors, such as armed conflict, but also because of the Bank's own performance.

- The end of civil strife in several Central American countries provides the opportunity for recovery and growth, but the Bank needs to change its approach and work more closely with its partners in order to improve its development effectiveness in the region.

The outcomes of Bank-funded projects in Central America (CA) has worsened and is now below the average for Latin America and the Caribbean, in spite of the fact that the LAC region had the strongest improvement in overall performance in FY96 compared with the FY90-95 period (see graph).

There are now 42 ongoing projects in six CA countries for a total of $1.3 billion. Eight of these are currently at risk, according to the Quality Assurance Group. If confirmed, this would suggest a major turnaround in performance.

SATISFACTORY PROJECT OUTCOME RATINGS IN *CA, LAC* AND BANKWIDE (PERIOD AVERAGES, BY EXIT FY)



Note: Period averages weighted by number of projects

Borrower Performance

- *Lack of government commitment to reforms:* this is reflected in a poor record of compliance with conditions, inadequate provision of funds, and weak staffing for projects.

- *Civil strife* has made implementation very difficult, especially in rural areas where the bulk of the poor live.

- *Political instability:* democratization has lagged and high turnover in the public sector has prevented continuity and hindered commitment.

- *Weak institutions:* scarce human capital and lack of commitment to institutional development.

- *Corruption and lawlessness:* according to a Bank survey of local investors, lawlessness in Central America is the highest in the world, second only to the former Soviet Union.

Bank Performance

- The Bank has displayed poor performance due to pressure to lend and inadequate screening at entry.

- Bank staff have been chronically optimistic in assessing borrowers' implementation capacity and commitment to reform. Forecasts of borrower demand for nonlending services also appear to have been consistently overestimated.

- The recent establishment of resident missions should help improve participation and stakeholder involvement, and ensure that recent progress in implementation performance is sustained.

Operational Implications

- Focus on institutional capacity development. Make realistic assessments of capacity to prepare effective ID programs, even if this means delaying new lending.

- Be prepared to delay or forego lending if government commitment and ownership are not clearly present.

- Make stakeholder participation an essential element of project design, even if this delays new lending.

- Consider cost-effective ways of expanding further the Bank's presence in the field.

- Conceive multinational infrastructure projects (for transport, energy, telecom) to help regional integration.

- Coordinate closely with other donors, especially regional development banks, to avoid duplication and ensure synergy.

Post-conflict Reconstruction in El Salvador

- The Bank made a major (but mostly unrecognized) contribution to effective donor coordination for post-conflict reconstruction in El Salvador, according to an OED study.

- The Bank's re-engagement in El Salvador was very timely and made full use of its comparative advantage in support of economic policy and institutional reforms.

- Bank assistance contained the right combination of mandates, capacities and characteristics to a higher degree than other donors.

- The Bank was able to give structural adjustment assistance beyond what the IMF provided in terms of breadth of mandate, capacity and instruments.

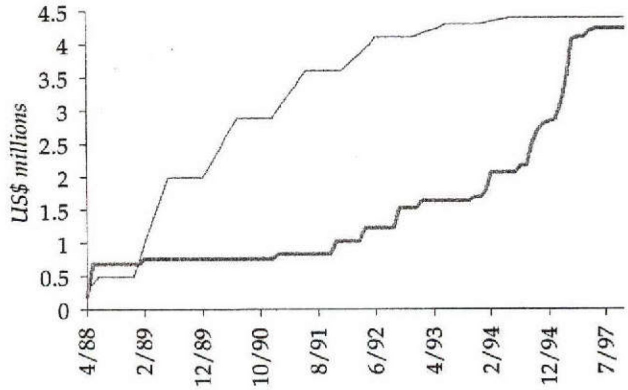
- The Bank provided the Cristiani administration with the international credibility which not even the U.S. (the largest donor) could give.

Six sample projects in Central America

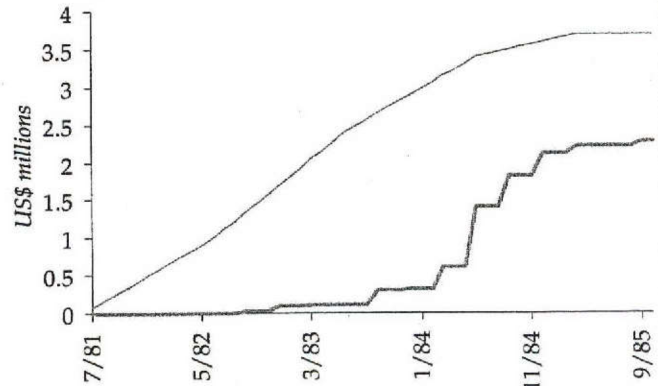
The graphs below illustrate how the actual pace of disbursements for each of the loans was much slower than what the Bank projected at the time of Board approval.

Actual disbursements — Estimated disbursements

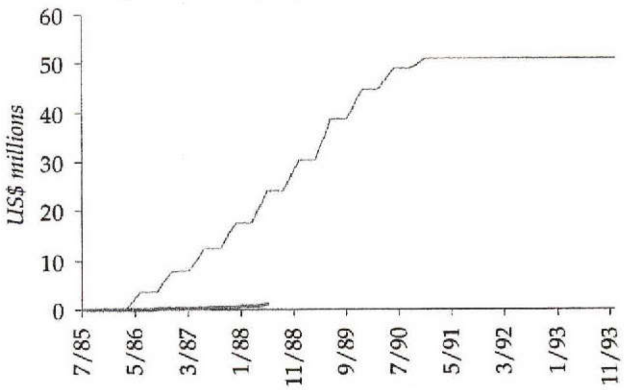
Honduras - rural primary education



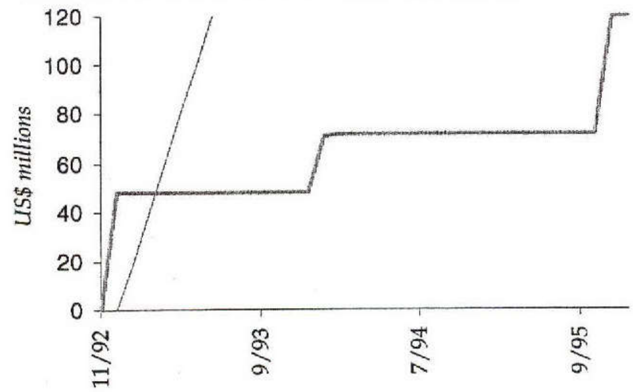
Nicaragua - water engineering project



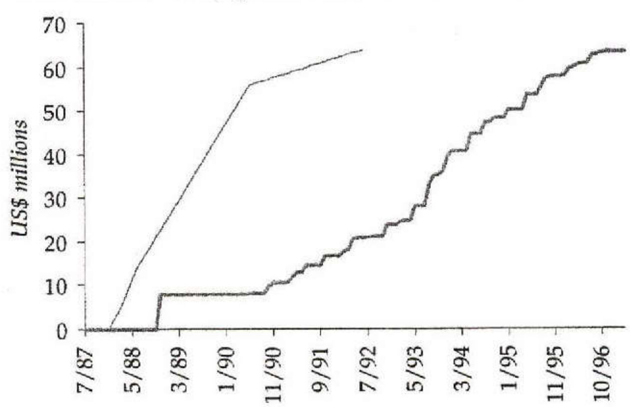
Panama - power VII project



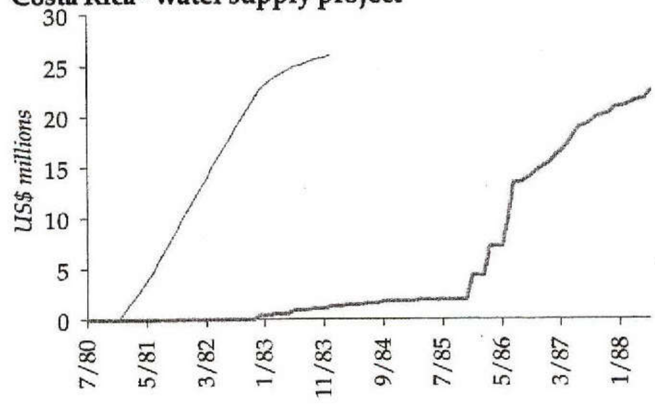
Guatemala - economic modernization loan



El Salvador - earthquake reconstruction loan



Costa Rica - water supply project



Julius Gwyer, OEDCR (202) 458-5430 • Luis Landau, OEDCR (202) 473-1662

Elizabeth McAllister, OEDDR (202) 473-4380 • Brief produced by OEDPK (202) 473-5365

OED

SECTOR BRIEF

Operations Evaluation Department

VOLUME 1, NUMBER 7

EVALUATION EXPERIENCE FOR DEVELOPMENT EFFECTIVENESS

To: **James D. Wolfensohn**
From: Robert Picciotto, DGO
Date: February 20, 1998

cc: Garg, Iida, Jabre, Kassum, Koch-Weser, Lindbaek, Malloch Brown, Rischard, Salop, Sandtröm

Financial Sector Reform

- Recent crises have revealed the fragility of financial systems in the context of globalization and macroeconomic governance. The Bank's learning process has been slow and serious concerns remain.
- The Bank now needs to address broader issues and processes related to institutional development reform in the financial sector and corporate governance.
- Most importantly, the Bank and its partners need to invest more in collecting and analyzing information that may help anticipate or prevent such crises in the future.

The Bank's performance in the financial sector deteriorated significantly in the first half of the 1990s (56 percent average satisfactory outcomes from FY90-95 compared with 71 percent from FY74-94) and the sector is now among the Bank's weakest. Financial sector reforms have had satisfactory outcomes in only 12 of 23 countries analyzed by OED. This represents a wasted opportunity, as financial sector policy and sound institutional reform contribute to higher growth.

Adjustment loans have been more effective than financial intermediation loans in meeting their respective institutional development objectives (71 percent against 43 percent satisfactory ID outcomes from FY82-92). In recent years the composition and level of Bank support for the sector has changed and now focuses more on adjustment and less on financial intermediary lending.

There is no blueprint for sequencing reforms, but some principles apply:

- prior economic and sector work is crucial to ensure that policy reforms are consistent with needs;
- macrostability is crucial for success;
- full interest rate deregulation should be pursued only with a stable macroeconomic situation, adequate information systems, competitive financial markets, and banks with positive net worth;
- without changes in managerial incentives or regulations, recapitalization of banks can be futile; and
- the pace of reforms should be tailored to the pace of institutional development.

Bank-supported policy reforms and initial conditions (percentage of reforms)

	Overall average	*Removing distortions*	*Promoting competition*	*Developing financial sector infrastructure*	*Strengthening institutions*
Hits	64	78	48	52	78
Misses	25	17	48	22	13
Overkills	11	4	4	26	9

Relevance

Almost two thirds of Bank-supported reforms in the financial sectors of the 23 countries were "hits" (they supported reforms in areas whose initial conditions were considered unsatisfactory) and 25 percent were "misses" (the Bank did not support reforms in unsatisfactory areas). There were also cases of "overkill" in which the Bank supported reforms in areas whose initial conditions were already considered satisfactory (see chart).

Assessing Fragility

OED developed two measures of financial fragility and applied them to Mexico and Venezuela. The results showed that, had such indices been used in a timely way, the urgency of reforms in the two countries would have become clearer sooner. OED does not suggest that these indices can predict crises but that they may be used as indicators of a system's susceptibility to crises.

Operational Implications

- **Policy.** Operations should use appropriate indicators of the strengths and weaknesses of the banking system.

- **Quality at entry.** Regions should ensure that all components of reform, especially concerning competition, are dealt with systematically and sequentially.

- **Sustainability.** Financial sector reform is sustainable only if it is comprehensive and penetrates institutions. Financial sector loans must address the central bank's governance, the payments system, accounting and auditing standards, and training programs in banking and accounting.

- Far too little data on financial sector performance has been systematically collected, processed and analyzed. More rigorous surveillance is needed to ensure full and timely exchange of information and early coordination with the IMF. In particular, the Bank should invest more resources to collect information on risk exposure and governance.

- Adaptable program loans that disburse according to the pace of institutional progress should be used to improve performance. At the same time, progress should be monitored using performance indicators that focus on structural changes and that are relevant to the program objectives.

- Provide technical assistance only under the following conditions:

  - need is clearly established, not only perceived;
  - the Bank has the resources to design and supervise assistance effectively; and
  - the government is committed to specific actions that will ensure the effectiveness of assistance.

"Financial Sector Reform: A Review of World Bank Assistance," by OED, forthcoming.
Nicolas Mathieu, OEDCR (202) 473-2923 • Elizabeth McAllister, OEDDR (202) 473-4380
Brief produced by OEDPK (202) 473-5365

Operations Evaluation Department

Briefing for OED Meeting with Mr. Wolfensohn

Wednesday 25
~~Thursday,~~ February ~~26,~~ 1998
5.30 pm

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

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FROM: Robert Picciotto

EXTENSION: 84569

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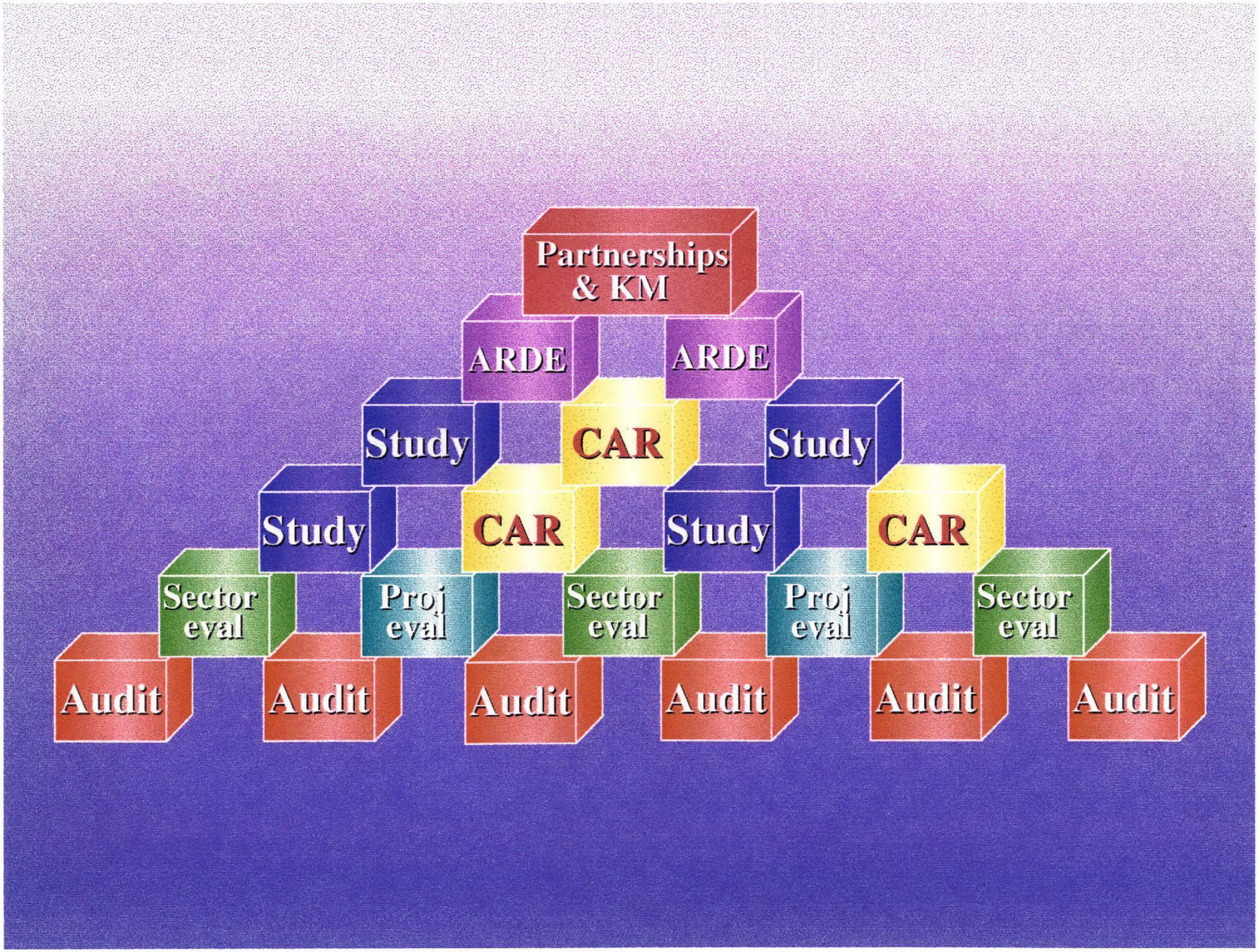
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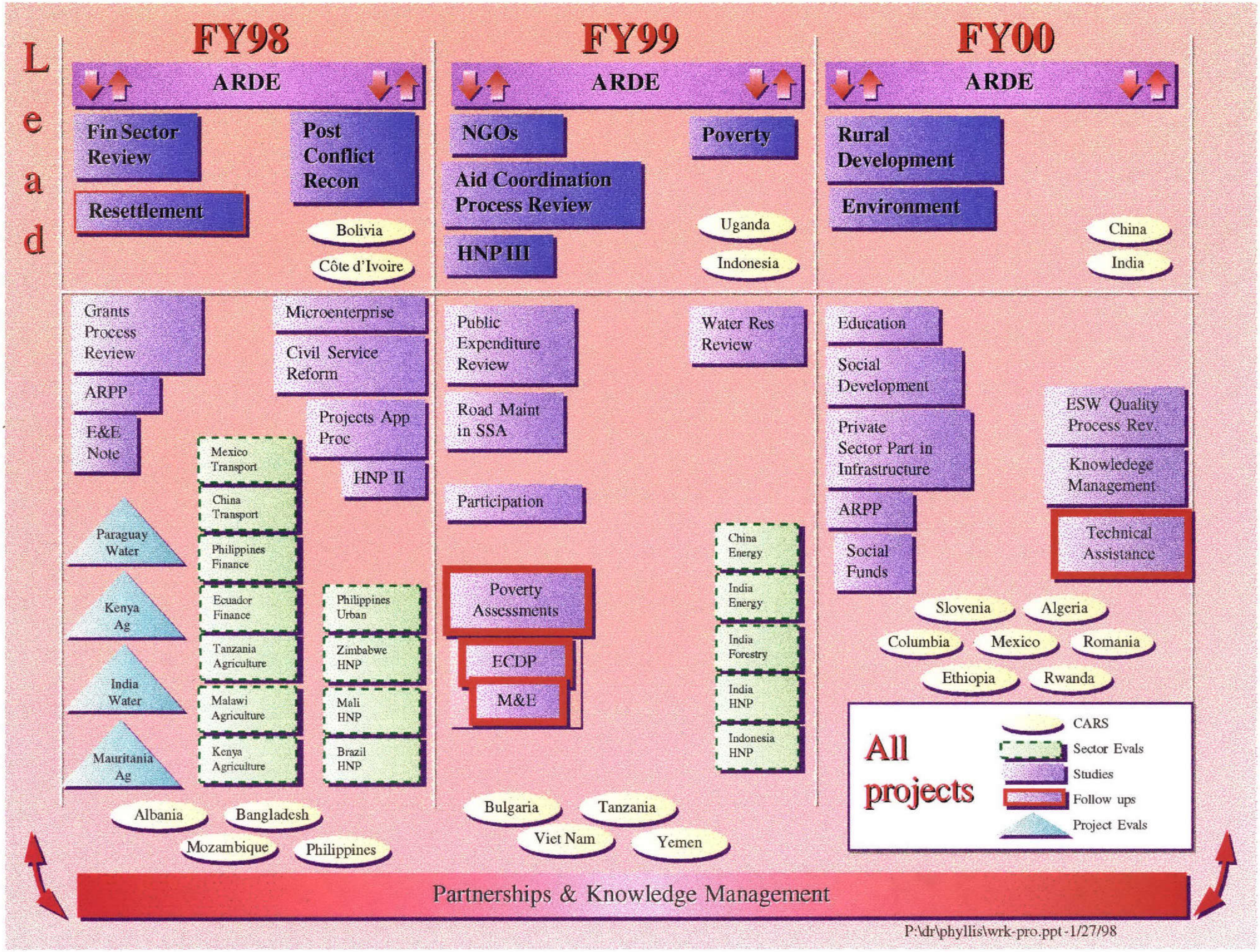
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Resettlement
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Côte d'Ivoire
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ARPP
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NGOs
Poverty
Aid Coordination Process Review
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Slovenia
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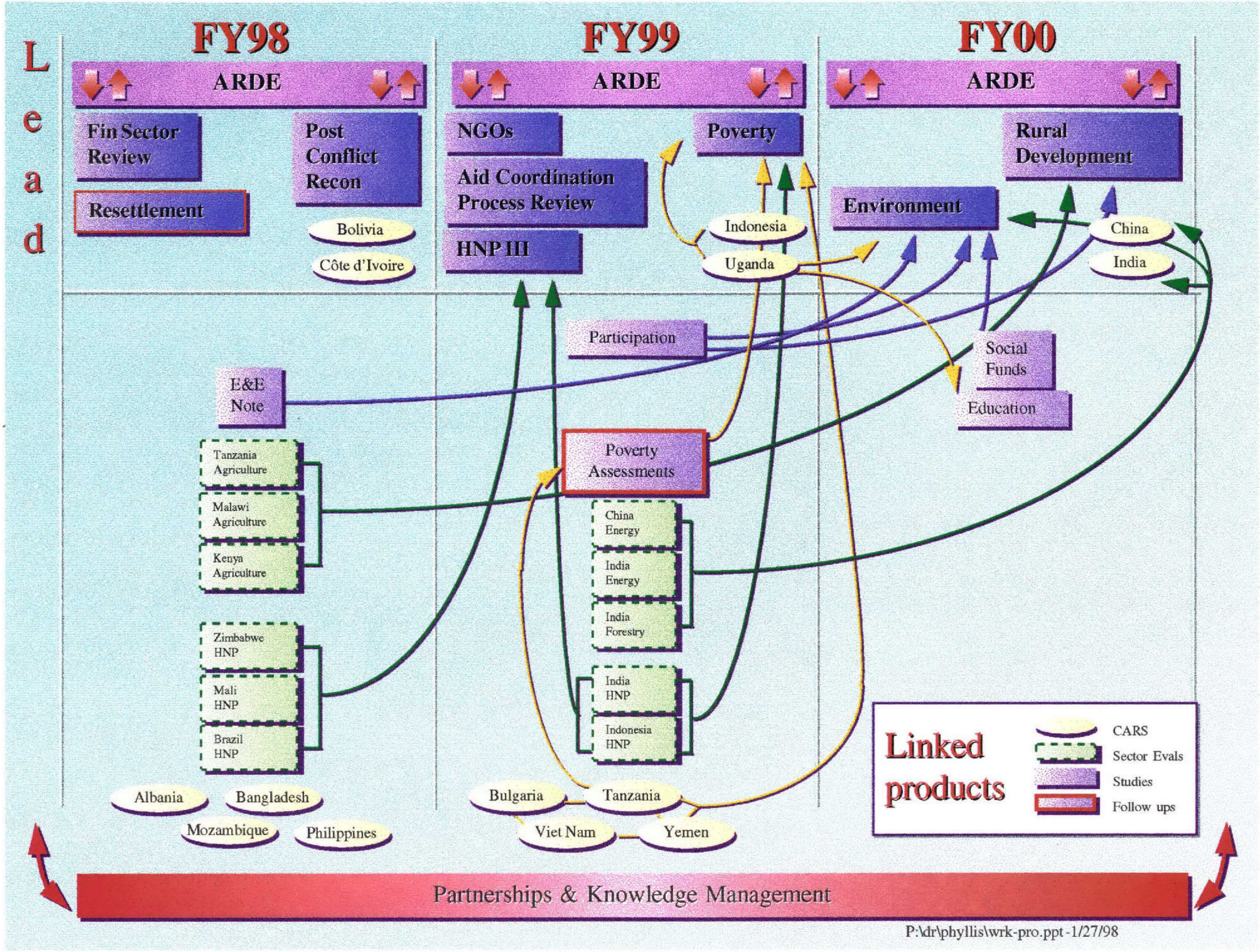

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NGOs
Poverty
Aid Coordination Process Review
HNP III
Indonesia
Uganda
Rural Development
Environment
China
India
Participation
Social Funds
Education
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Studies
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REGIONAL BRIEF
EVALUATION EXPERIENCE FOR DEVELOPMENT EFFECTIVENESS
Operations Evaluation Department
VOLUME 1, NUMBER 6

To: **James D. Wolfensohn**
From: Robert Picciotto, DGO
Date: February 20, 1998
cc: Koch-Weser, Sandtröm, Lindbaek, Iida, Burki, Kassum, Jabre, Malloch Brown, Garg, Salop, Sierra

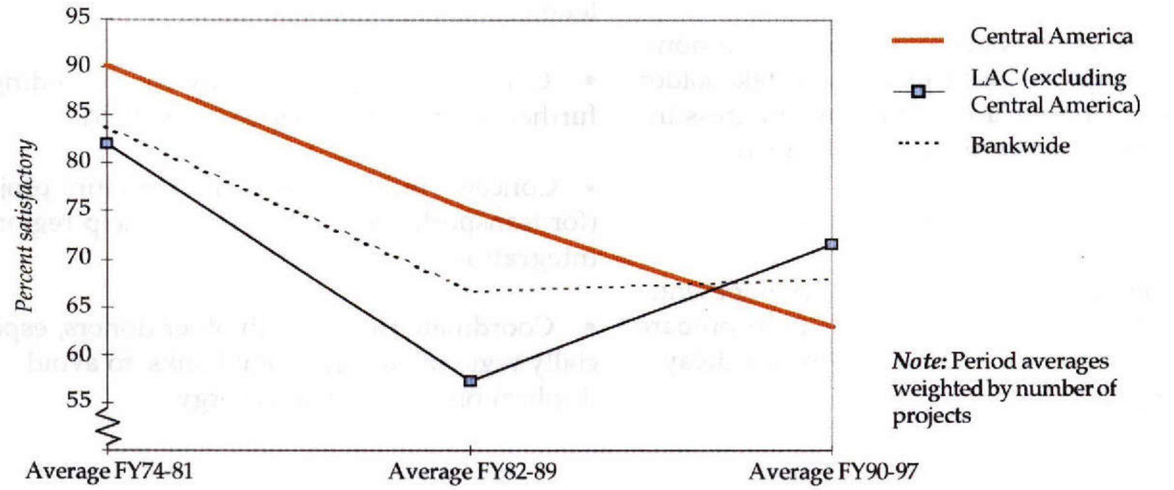
Central America

- Bank projects in Central America have not performed as well as the rest of the Latin America and Caribbean region. This is because of external factors, such as armed conflict, but also because of the Bank's own performance.
- The end of civil strife in several Central American countries provides the opportunity for recovery and growth, but the Bank needs to change its approach and work more closely with its partners in order to improve its development effectiveness in the region.

The outcomes of Bank-funded projects in Central America (CA) has worsened and is now below the average for Latin America and the Caribbean, in spite of the fact that the LAC region had the strongest improvement in overall performance in FY96 compared with the FY90-95 period (see graph).

There are now 42 ongoing projects in six CA countries for a total of $1.3 billion. Eight of these are currently at risk, according to the Quality Assurance Group. If confirmed, this would suggest a major turnaround in performance.

SATISFACTORY PROJECT OUTCOME RATINGS IN CA, LAC AND BANKWIDE (PERIOD AVERAGES, BY EXIT FY)



Borrower Performance

- *Lack of government commitment to reforms:* this is reflected in a poor record of compliance with conditions, inadequate provision of funds, and weak staffing for projects.

- *Civil strife* has made implementation very difficult, especially in rural areas where the bulk of the poor live.

- *Political instability:* democratization has lagged and high turnover in the public sector has prevented continuity and hindered commitment.

- *Weak institutions:* scarce human capital and lack of commitment to institutional development.

- *Corruption and lawlessness:* according to a Bank survey of local investors, lawlessness in Central America is the highest in the world, second only to the former Soviet Union.

Bank Performance

- The Bank has displayed poor performance due to pressure to lend and inadequate screening at entry.

- Bank staff have been chronically optimistic in assessing borrowers' implementation capacity and commitment to reform. Forecasts of borrower demand for nonlending services also appear to have been consistently overestimated.

- The recent establishment of resident missions should help improve participation and stakeholder involvement, and ensure that recent progress in implementation performance is sustained.

Operational Implications

- Focus on institutional capacity development. Make realistic assessments of capacity to prepare effective ID programs, even if this means delaying new lending.

- Be prepared to delay or forego lending if government commitment and ownership are not clearly present.

- Make stakeholder participation an essential element of project design, even if this delays new lending.

- Consider cost-effective ways of expanding further the Bank's presence in the field.

- Conceive multinational infrastructure projects (for transport, energy, telecom) to help regional integration.

- Coordinate closely with other donors, especially regional development banks, to avoid duplication and ensure synergy.

Post-conflict Reconstruction in El Salvador

- The Bank made a major (but mostly unrecognized) contribution to effective donor coordination for post-conflict reconstruction in El Salvador, according to an OED study.

- The Bank's re-engagement in El Salvador was very timely and made full use of its comparative advantage in support of economic policy and institutional reforms.

- Bank assistance contained the right combination of mandates, capacities and characteristics to a higher degree than other donors.

- The Bank was able to give structural adjustment assistance beyond what the IMF provided in terms of breadth of mandate, capacity and instruments.

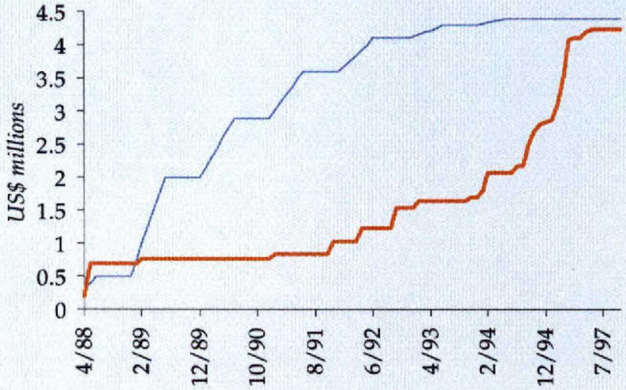
- The Bank provided the Cristiani administration with the international credibility which not even the U.S. (the largest donor) could give.

Six sample projects in Central America

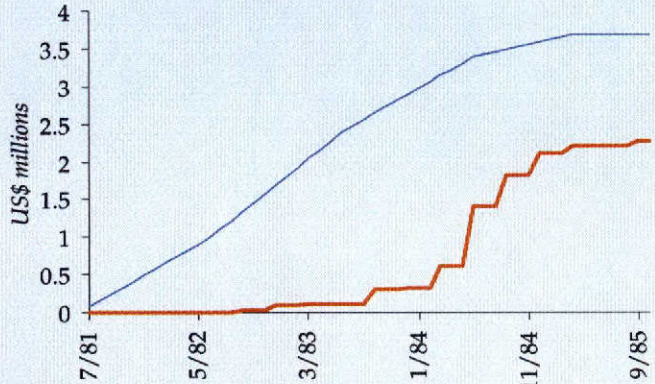
The graphs below illustrate how the actual pace of disbursements for each of the loans was much slower than what the Bank projected at the time of Board approval.

Actual disbursements — Estimated disbursements

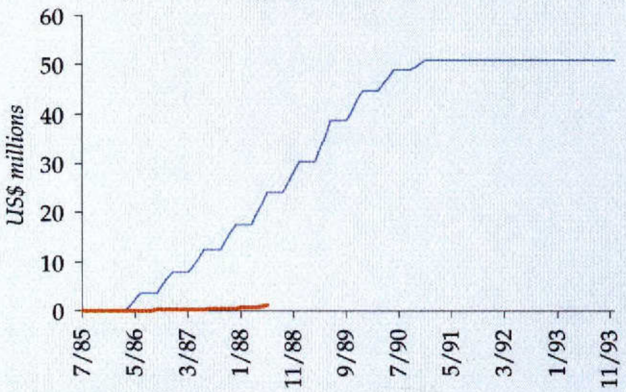
Honduras - rural primary education



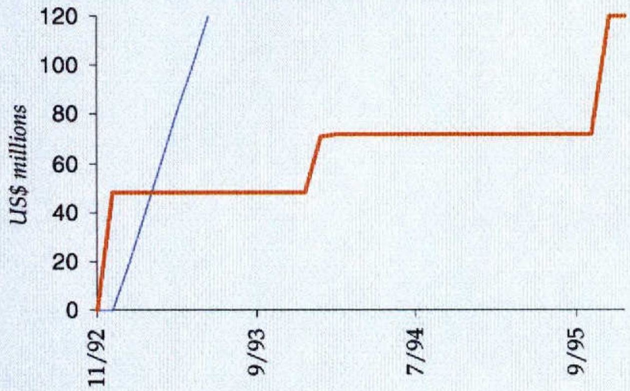
Nicaragua - water engineering project



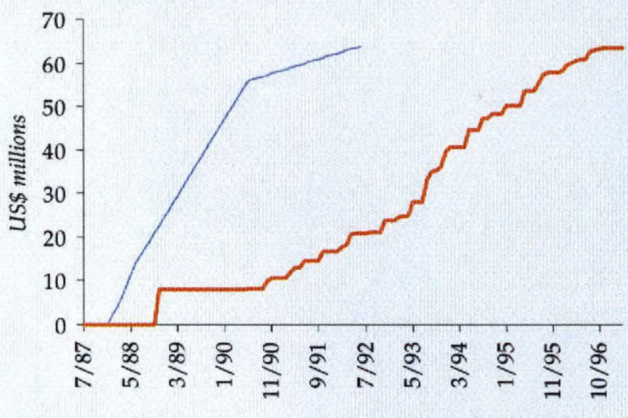
Panama - power VII project



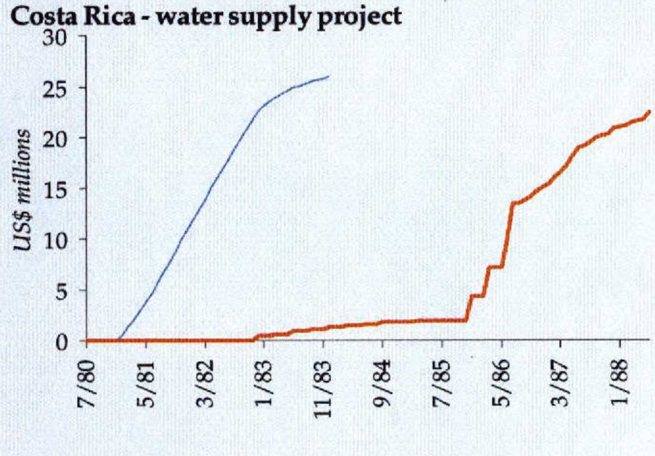
Guatemala - economic modernization loan



El Salvador - earthquake reconstruction loan



Costa Rica - water supply project



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SECTOR BRIEF
EVALUATION EXPERIENCE FOR DEVELOPMENT EFFECTIVENESS
Operations Evaluation Department
VOLUME 1, NUMBER 7

To: **James D. Wolfensohn**
From: Robert Picciotto, DGO
Date: February 20, 1998

cc: Garg, Iida, Jabre, Kassum, Koch-Weser, Lindbaek, Malloch Brown, Rischard, Salop, Sandtröm

Financial Sector Reform

- Recent crises have revealed the fragility of financial systems in the context of globalization and macroeconomic governance. The Bank's learning process has been slow and serious concerns remain.
- The Bank now needs to address broader issues and processes related to institutional development reform in the financial sector and corporate governance.
- Most importantly, the Bank and its partners need to invest more in collecting and analyzing information that may help anticipate or prevent such crises in the future.

The Bank's performance in the financial sector deteriorated significantly in the first half of the 1990s (56 percent average satisfactory outcomes from FY90-95 compared with 71 percent from FY74-94) and the sector is now among the Bank's weakest. Financial sector reforms have had satisfactory outcomes in only 12 of 23 countries analyzed by OED. This represents a wasted opportunity, as financial sector policy and sound institutional reform contribute to higher growth.

Adjustment loans have been more effective than financial intermediation loans in meeting their respective institutional development objectives (71 percent against 43 percent satisfactory ID outcomes from FY82-92). In recent years the composition and level of Bank support for the sector has changed and now focuses more on adjustment and less on financial intermediary lending.

There is no blueprint for sequencing reforms, but some principles apply:

- prior economic and sector work is crucial to ensure that policy reforms are consistent with needs;
- macrostability is crucial for success;
- full interest rate deregulation should be pursued only with a stable macroeconomic situation, adequate information systems, competitive financial markets, and banks with positive net worth;
- without changes in managerial incentives or regulations, recapitalization of banks can be futile; and
- the pace of reforms should be tailored to the pace of institutional development.

Bank-supported policy reforms and initial conditions (percentage of reforms)	*Overall average*	*Removing distortions*	*Promoting competition*	*Developing financial sector infrastructure*	*Strengthening institutions*
Hits	64	78	48	52	78
Misses	25	17	48	22	13
Overkills	11	4	4	26	9

Relevance

Almost two thirds of Bank-supported reforms in the financial sectors of the 23 countries were "hits" (they supported reforms in areas whose initial conditions were considered unsatisfactory) and 25 percent were "misses" (the Bank did not support reforms in unsatisfactory areas). There were also cases of "overkill" in which the Bank supported reforms in areas whose initial conditions were already considered satisfactory (see chart).

Assessing Fragility

OED developed two measures of financial fragility and applied them to Mexico and Venezuela. The results showed that, had such indices been used in a timely way, the urgency of reforms in the two countries would have become clearer sooner. OED does not suggest that these indices can predict crises but that they may be used as indicators of a system's susceptibility to crises.

Operational Implications

- **Policy.** Operations should use appropriate indicators of the strengths and weaknesses of the banking system.

- **Quality at entry.** Regions should ensure that all components of reform, especially concerning competition, are dealt with systematically and sequentially.

- **Sustainability.** Financial sector reform is sustainable only if it is comprehensive and penetrates institutions. Financial sector loans must address the central bank's governance, the payments system, accounting and auditing standards, and training programs in banking and accounting.

- Far too little data on financial sector performance has been systematically collected, processed and analyzed. More rigorous surveillance is needed to ensure full and timely exchange of information and early coordination with the IMF. In particular, the Bank should invest more resources to collect information on risk exposure and governance.

- Adaptable program loans that disburse according to the pace of institutional progress should be used to improve performance. At the same time, progress should be monitored using performance indicators that focus on structural changes and that are relevant to the program objectives.

- Provide technical assistance only under the following conditions:

  - need is clearly established, not only perceived;
  - the Bank has the resources to design and supervise assistance effectively; and
  - the government is committed to specific actions that will ensure the effectiveness of assistance.

"Financial Sector Reform: A Review of World Bank Assistance," by OED, forthcoming.

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Meeting: Mr. Robert Picciotto
Director-General, OED

Wednesday, February 25, 1998
3:00 p.m. - 3:45 p.m.
JDW Office